



CESC

STOCK INFO. BLOOMBERG
BSE SENSEX: 19,724 CESC IN
REUTERS CODE
S&P CNX: 5,866 CESC.BO

1 November 2007

Neutral

Previous Recommendation: Neutral

Rs578

		YEAR	NET SALES	PAT	EPS*	EPS*	P/E*	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	115.3	03/07A	24,843	2,257	20.6	-4.3	28.0	2.9	13.5	12.2	3.1	13.5
52-Week Range	613/277	03/08E	26,782	2,848	24.7	19.7	23.4	3.4	13.9	11.2	2.9	14.5
1,6,12 Rel. Perf.(%)	-4/9/33	03/09E	28,378	2,949	25.6	3.6	22.6	3.0	12.7	11.1	2.9	14.2

* Excl impact of Budge Budge plant capital account adjustment; fully diluted

- Robust 2QFY08 performance:** During 2QFY08, CESC's reported net profit of Rs930m, up 34.7% YoY, better than our expectations of Rs741m. Revenues stood at Rs7,300m, better than our expectations of Rs6,953m, while EBIDTA stood flat at Rs1.4b. The reported numbers include income in respect of disposal of old plants of Rs120m, adjusted for which, net profit stood at Rs820m, up 34.8% YoY. As per the recent WBERC Tariff order approved, average tariff for FY08 was at Rs3.75/kwh, vs Rs3.74/kwh for FY07.
- Spencer retail - expansion on track:** We expect Spencer to expand retail space from 0.6m sq ft currently to 1.5m sq ft by Mar 08, 3mn sq ft by Mar 09 and 4.5mn sq ft by Mar 10. The company has already tied up for 1.5mn sq ft to be commissioned in the coming 12-15 months. We expect the company to break even at the EBIDTA level in FY10 and net profit break even during FY12.
- Capacity expansion plans on track, recent mine allocation to aid growth further:** The 250 MW Budge Budge capacity expansion is expected to be completed by Sept 09. For 600MW Phase 1 of Haldia project (1900MW), land acquisition has been completed and coal linkage has been received. The project is expected to be commissioned by FY11. Recently, CESC (70% stake) in consortium with Jas Infrastructure (30%) has been allotted Mahuagarhi coal mine with estimated reserves of 220m ton, which should facilitate setting up of 1500MW power project.
- Valuation and view:** We expect CESC to report a net profit of Rs2,848m in FY08 and Rs2,949m in FY09. On fully diluted basis, EPS stands at Rs24.7/sh for FY08 and Rs25.6/sh in FY09. At the CMP of Rs578, the stock quotes at PER of 23.4x FY08E and 22.6x FY09E. Our current SOTP valuations does not factor in possible upsides from 250MW Budge Budge expansion, 600MW Haldia Phase 1 and recent mine allocation.

QUARTERLY PERFORMANCE										(Rs Million)	
Y/E MARCH	FY07				FY08				FY07	FY08E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
Sales	6,740	6,750	5,930	5,470	7,170	7,300	6,360	5,953	24,890	26,782	
Change (%)	0.0	0.4	2.6	-6.3	6.4	8.1	7.3	8.8	-0.8	7.6	
EBITDA	1,360	1,400	1,250	1,170	1,300	1,410	1,397	1,267	5,180	5,374	
Change (%)	-9.9	-9.1	-6.0	-18.8	-4.4	0.7	11.7	8.3	-11.0	3.7	
As of % Sales	20.2	20.7	21.1	21.4	18.1	19.3	22.0	21.3	20.8	20.1	
Depreciation	410	410	410	410	410	400	440	445	1,640	1,695	
Interest	540	420	370	360	390	340	375	387	1,690	1,492	
Other Income	210	220	220	290	290	260	225	389	940	1,164	
Extraordinary Income/(Expense)	0	0	0	0	140	120	0	0	0	0	
PBT	620	790	690	690	930	1,050	807	824	2,790	3,350	
Tax	70	100	80	80	110	120	97	99	390	503	
Effective Tax Rate (%)	11.3	12.7	11.6	11.6	11.8	11.4	12.0	12.0	14.0	15.0	
Reported PAT	550	690	610	610	820	930	710	725	2,400	2,848	
Adjusted PAT	550	690	610	610	697	820	710	725	2,400	2,848	
Change (%)	34.1	21.1	64.9	38.6	26.7	34.8	16.4	18.8	34.1	18.7	

E: MOST Estimates, Standalone Numbers (excl Spencers Retail)

2QFY08 performance boosted by extraordinary income

During 2QFY08, CESC's reported net profit of Rs930m, up 34.7% YoY, better than our expectations of Rs741m. Revenues stood at Rs7,300m, better than our expectations of Rs6,953m, while EBIDTA stood flat at Rs1.4b. The muted growth in EBIDTA is due to lower depreciation rates permitted by West Bengal Electricity Regulatory Commission (WBERC) Tariff Order. Since CESC is a power utility, with earnings determined based on 14% ROE, any reduction in operating expenses (including depreciation) is a pass through, which has resulted in lower EBIDTA. The reported numbers include income in respect of disposal of certain discarded old plant of Rs120m. Adjusted for which, the net profit stood at Rs820m, up 34.8% YoY.

Excellent operational performance

Power generation stood at 2082m units during 2QFY08, up 1% YoY. PLF improved to 97.2% during 2QFY08 vs 95.8% during 2QFY07. T&D losses declined to 15.0% during the quarter as compared to 15.6% in 2QFY07. Power export stood at 68MUs during 2QFY07, which also led to better than estimated performance.

TREND IN OPERATING PERFORMANCE

	FY07				FY08	
	1Q	2Q	3Q	4Q	1Q	2Q
Generation (MUs)	2,041	2,061	1,885	1,716	2,061	1,885
Budge Budge	1,115	1,141	1,138	976	1,141	1,138
Titagarh	498	506	430	403	506	430
Southern	289	278	212	231	278	212
New Cossipore	139	136	105	106	136	105
PLF (%)	95.9	95.8	87.6	94.2	97.6	97.2
T&D Loss (%)	15.7	15.6	15.2	14.7	15.4	15.0
Power Exp. (MUs)	79	68	141	170	79	68

Source: Company

Capacity expansion plans on track, recent mine allocation to boost scalability

CESC has already started work on its 250 MW Budge Budge expansion with environment clearance now in place.

The plant is expected to be commissioned by September 2009. For 600MW Phase 1 of Haldia project (1900MW), land acquisition has been completed and coal linkage has been received. The project is expected to be commissioned by FY11. The Phase 1 of Haldia project would be to cater to CESC's own distribution area requirement and the returns would be governed by CERC norms (ROE of 14%). It is awaiting the environmental clearance for the project and project is expected to get commissioned by FY2011. The Phase 2 and 3 would be developed over a period of time with a possibility of tie-up/acquisition of mines overseas to meet the requirement of the coal for the project.

The company has signed MoU with the government of Jharkhand to implement 2000MW power project, with Phase 1 capacity of 500MW. Similar MoU has been signed with the government of Orissa to setup 2000 MW power project (Phase 1, 1000MW). Besides this, CESC plans to bid for ultra mega power projects and also plans to acquire distribution circles and participate in the SEB privatization process.

Recently, CESC (70% share) in consortium with Jas Infrastructure (30%) has been allotted Mahuagarhi with an estimated reserves of 220m ton. This would further aid to the on-going expansion plans of the company, as the reserves for CESC's share (150m ton) can support 1500MW power project.

Spencer retail – fast track expansion

Mr Amnish Agarwal, our Retail Sector Analyst expects Spencer to expand retail space from 0.6m sq ft currently to 1.5m sq ft by Mar 08, 3mn sq ft by Mar 09 and 4.5mn sq ft by Mar 10. The company has already tied up for 1.5mn sq ft to be commissioned in the coming 12-15 months. We expect the company to break even at the EBIDTA level in FY10 and net profit break even during FY12.

RETAIL SPACE (M SFT)

	FY07	FY08E	FY09E	FY10E
Food Vertical				
Hyper	0.2	0.6	0.8	1
Super	0	0.1	0.2	0.5
Daily	0.3	0.5	1.3	2.1
Specialty Vertical				
Express	0	0.2	0.3	0.4
Music	0.1	0.1	0.2	0.2
Books	0	0	0.2	0.3
Total	0.6	1.5	3.0	4.5

Source: Company/Motilal Oswal Securities

Based on our current estimate, we expect Spencer to break even at the cash level in FY10 and net profit level in FY12. We expect revenues for Spencer to grow from Rs4.7b in FY07 to Rs11.6b in FY08 (up 144.3% YoY), and Rs27.6b in FY09 (up 138.4% YoY). We have estimated an equity infusion of Rs6b over FY07-11 in our earnings forecast. We value Spencer at Rs16.7b on DCF basis and apply a holding company discount of 20% to arrive at a value of Rs13.3b for CESC, or Rs116/sh.

SPENCER FINANCIALS (RS M)

	FY07	FY08E	FY09E
Total Area (m sft)	0.6	1.5	3.4
Revenues	4,745	11,593	27,642
Gross Profit	833	2,227	5,422
EBIDTA	(303)	(362)	(56)
EBIDTA Margin (%)	-6.4	-3.1	-0.2
PAT	(443)	(979)	(1,315)

Source: Motilal Oswal Securities

Real estate development plans

CESC has announced formation of a subsidiary to carry out the real estate development. The company has exited out of its joint venture with Godrej Projects and would be developing retail mall on 3 acres of land (constructed area

of 0.4m sq ft) on its own. The expected average rental is Rs100-120/sq ft/month, which translates into annual rental income of Rs400-600m. WBERC norms permits the company to retain two third of the non tariff income, thus entailing CESC's share at Rs160-240m.

Apart from this, the company also has substantial real estate through at its existing plants situated at Mulajore and New Cossipore, in Kolkatta. Mulajore plant (43 acres, ~2.5m sq ft) is closed since 2004 and is located on river Ganges. The management is working on a plan to develop this as an IT park (5 acres), housing (30 acres) and sub stations of CESC (8 acres). New Cossipore (23 acres) plant would be shut down by June 2009, post commissioning of the 250MW Budge Budge unit. Currently, the plant produces just peaking power. Further, the plant is located in the city of Kolkatta, and thus the potential value unlocking could be substantial.

FY08 tariff order provides tariff hike of Rs0.01 paisa/unit

Recently, the tariff order for the FY08 for the company was approved by WBERC and tariff was revised upwards to by Rs0.01 paisa/unit. This leads to addition of ~Rs67m to its bottom line. We have revised our earning to factor in the higher tariff rate for FY08.

Valuation and view

We expect CESC to report a net profit of Rs2,848m in FY08 and Rs2,949m in FY09. On fully diluted basis, EPS stands at Rs24.7/sh for FY08 and Rs25.6/sh in FY09. At the CMP of Rs578, the stock quotes at PER of 23.4x FY08E and 22.6x FY09E. Our current SOTP valuations does not factor in possible upsides from 250MW Budge Budge expansion, 600MW Haldia Phase 1 and recent mine allocation.

GAMMON INDIA: SOTP TABLE

	BUSINESS SEGMENT	METHOD	VALUATION MULTIPLE	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
Core business	Power Generation & Distribution	FY09E PER (x)	15	44,241	384	At par to industry average
Real Estate	Real Estate	NPV, Land bank valuation	-	4,018	35	NPV of Mall project, Rest land bank valued on per acre basis
Spencer retail	Retail Chain	DCF	-	13347	116	-
Total				61,606	534	

Note: Ignoring the upside from 250MW Budge Budge expansion, 600 MW Haldia project and recent mine allocation

CESC: an investment profile

Company description

CESC has an integrated utility business model with a presence in generation, mining and distribution. The company supplies power to about 2m customers covering 567 sq. kms. in Kolkata, Howrah and the adjoining areas. At 6.4b units, its own generation accounts for ~89% of the energy input in its distribution network. Also, Integrated Coal Mines Limited (26% owned by CESC), produces 2.2m ton of coal (50% of its coal requirement).

Key investment arguments

- ✍ CESC plans to increase generation capacity at Budge Budge by 250 MW, completed in FY09.
- ✍ The regulatory uncertainty is now a thing of the past. A firm mechanism has been put in place that enables the company to earn permitted regulatory returns.
- ✍ The RPG group intends to transform itself from a regional to a national player. Accordingly, it has drawn up growth plans for CESC through the SPV route

Key investment risk

- ✍ Ability to transform itself from a Kolkata-centric regional player to a national one.

Recent developments

- ✍ CESC (70% share) in consortium with Jas Infrastructure (30%) has been allotted Mahuagarhi with an estimated reserves of 220m ton.

Valuation and view

- ✍ At the CMP of Rs578, the stock quotes at PER of 23.4x FY08E and 22.6x FY09E. **Buy.**

Sector view

- ✍ Indian power sector offers significant growth potential. Incumbents, enjoy growth optionality, which could be in multiples of the current size. Private companies and CPSUs have announced significant expansion projects.

COMPARATIVE VALUATIONS

		CESC	REL	TATA POWER
P/E (x)	FY08E	23.4	42.3	39.3
	FY09E	22.6	43.1	38.2
RoE (%)	FY08E	13.9	10.7	8.9
	FY09E	12.7	10.7	7.6
P/BV (x)	FY08E	3.4	4.3	3.8
	FY09E	3.0	4.0	3.6

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	40.9	40.9	39.5
Domestic Inst	15.9	13.6	14.3
Foreign	29.8	31.7	28.8
Others	13.4	13.8	17.4

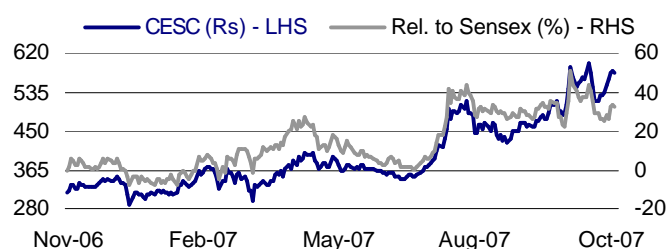
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	24.7	26.6	-7.2
FY09	25.6	29.4	-12.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
578	-	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Total Revenues	23,212	25,159	24,843	26,782	28,378	
Cost of Energy purchased	2,257	2,518	2,679	3,250	4,200	
Cost of fuel	7,605	8,396	8,427	9,677	10,161	
Stores & spares	1,038	1,136	1,498	1,558	1,620	
Employee Expenses	2,528	2,625	3,078	3,201	3,329	
SG&A Expenses	3,329	4,504	3,423	3,723	3,320	
EBITDA	6,454	5,979	5,739	5,374	5,748	
% of Total Revenues	27.8	23.8	23.1	20.1	20.3	
Depreciation	2,915	2,539	1,579	1,695	1,763	
Interest	2,646	2,124	1,679	1,492	1,681	
Other Income	659	736	927	1,164	1,166	
Extra-ordinary Expenses	37	79	750	0	0	
PBT	1,552	2,053	3,407	3,350	3,470	
Tax	129	200	400	503	520	
Rate (%)	8.3	9.7	11.7	15.0	15.0	
Reported PAT	1,423	1,853	3,007	2,848	2,949	
Adjusted PAT	1,386	1,775	2,257	2,848	2,949	
Change (%)	60.6	28.0	27.2	26.2	3.6	
Dividend (Inc. tax)	212	235	240	325	336	
Distributable Profits	1,174	1,540	2,017	2,523	2,613	
Change (%)	135.7	31.2	31.0	25.1	3.6	

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Share Capital	750	873	850	1,160	1,160	
Reserves	14,641	36,059	37,302	39,825	42,438	
Net Worth	15,392	36,932	38,152	40,985	43,598	
Loans	21,672	19,100	17,983	16,579	18,677	
Consumer's Security Dept	4,440	5,596	6,521	6,847	7,189	
Capital Employed	41,473	61,627	62,655	64,411	69,464	
Gross Fixed Assets	62,054	82,610	84,696	87,196	89,796	
Less: Depreciation	24,597	28,267	31,795	33,490	35,252	
Net Fixed Assets	37,457	54,344	52,901	53,706	54,543	
Capital WIP	970	1,314	2,657	6,157	11,551	
Investments	314	314	2,414	2,611	2,611	
Curr. Assets	10,216	13,072	15,424	12,644	11,411	
Inventory	1,423	1,713	1,673	1,834	1,944	
Debtors	5,692	5,224	4,151	3,075	3,499	
Cash & Bank Balance	1,651	3,959	7,314	5,449	3,684	
Loans & Advances	1,380	1,426	1,770	1,770	1,770	
Deferred Payments	69	750	515	515	515	
Current Liab. & Prov.	7,591	7,517	10,834	10,791	10,730	
Other Liabilities	6,791	6,761	9,972	9,921	9,851	
Provisions	800	756	862	870	879	
Net Current Assets	2,625	5,555	4,591	1,852	681	
Misc Expenses	107	100	93	86	79	
Application of Funds	41,473	61,627	62,655	64,411	69,464	

E: MOST Estimates

RATIOS						
Y/E MARCH	2005	2006	2007	2008E	2009E	
Basic (Rs)						
EPS *	18.6	21.6	20.6	24.7	25.6	
CEPS (Rs)	58.3	53.4	39.8	39.4	40.9	
Book Value	161.0	189.2	199.5	167.8	190.5	
DPS	2.5	2.5	1.8	2.5	2.6	
Payout (incl. Div. Tax.)	14.9	11.1	7.0	10.0	10.0	
Valuation (x)						
P/E		26.8	28.0	23.4	22.6	
EV/EBITDA		13.7	13.5	14.5	14.2	
EV/Sales		3.2	3.1	2.9	2.9	
Price/Book Value		3.1	2.9	3.4	3.0	
Dividend Yield (%)		0.4	0.3	0.4	0.4	
Profitability Ratios (%)						
RoE	10.9	10.8	13.5	13.9	12.7	
RoCE	9.9	10.4	12.2	11.2	11.1	
Turnover Ratios						
Debtors (Days)	54	53	38	40	45	
Inventory (Days)	21	25	23	25	25	
Asset Turnover (x)	0.5	0.5	0.4	0.4	0.4	
Leverage Ratio						
Debt/Equity (x)	1.7	0.6	0.5	0.4	0.5	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
PBT before EO Items	1,552	2,053	3,407	3,350	3,470	
Add: Depreciation	2,915	2,539	1,579	1,695	1,763	
Interest	2,646	2,124	1,679	1,492	1,681	
Less: Direct Taxes Paid	129	200	400	503	520	
(Inc)/Dec in WC	1,327	-622	4,320	873	-594	
CF from Operations	8,312	5,893	10,585	6,907	5,799	
Extra-ordinary Items	37	79	750	0	0	
CF from Op. incl EOI	8,275	5,814	9,835	6,907	5,799	
(Inc)/dec in FA	-992	-1,508	-1,479	-6,000	-7,994	
(Pur)/Sale of Investments	-13	1	-2,100	-197	0	
CF from Investments	-1,006	-1,507	-3,579	-6,197	-7,994	
(Inc)/Dec in Networth	458	1,745	-790	318	7	
(Inc)/Dec in Debt	-4,421	-2,572	-1,117	-1,403	2,097	
(Inc)/Dec in Customer Sec	677	1,186	926	326	342	
Less: Interest Paid	2,646	2,124	1,679	1,492	1,681	
Dividend Paid	212	235	240	325	336	
CF from Fin. Activity	-6,144	-1,999	-2,900	-2,576	430	
Inc/Dec of Cash	1,125	2,308	3,355	-1,866	-1,765	
Add: Beginning Balance	527	1,651	3,959	7,314	5,449	
Closing Balance	1,651	3,959	7,315	5,449	3,684	

* Excl impact of Budge Budge plant capital account adjustment and Fully Diluted



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

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3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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