



CESC

BSE SENSEX 17,463
S&P CNX 5,226

Rs272

Buy

Bloomberg CESC.IN
Equity Shares (m) 125.6
52-Week Range (Rs) 433/263
1,6,12 Rel. Perf. (%) -16/-27/-40
M.Cap. (Rs b) 34.2
M.Cap. (US\$ b) 0.7

YEAR	NET SALES	PAT	EPS*	EPS*	P/E*	P/BY	ROE	ROCE	EYI	EVI
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/10A	32,928	4,333	34.5	17.7	7.9	1.1	13.8	10.8	1.6	6.8
03/11E	39,702	4,742	37.8	9.4	7.2	1.0	13.3	12.8	1.2	4.5
03/12E	41,416	4,874	38.8	2.8	7.0	0.9	12.2	11.9	1.2	4.9
03/13E	45,010	4,969	39.6	2.0	6.9	0.8	11.2	11.3	1.1	5.1

- 3QFY11 PAT in-line:** During 3QFY11, CESC reported net profit of Rs1.1b (up 8% YoY), in-line with our estimates, while revenue was higher on account of increased fuel charges (pass through by way of tariffs). Power purchase cost for 3QFY11 declined to Rs980m, due to lower demand/ additional generation from 250MW Budge Budge project. Power imported declined to 229MUs (down 43% YoY and 55% QoQ) and power purchase cost was Rs4.3/ unit. Power exports in 3QFY11 stood at 149MUs, down from 297MUs in 2QFY11. The decline is due to lower merchant prices as the power export is during off-peak hours, where the rates were lower.
- Power generation: commissioning of 2.5GW capacity by FY15/FY16:** 2.5GW of generation projects are at advanced stages of development / have entered the construction phase, with all initial clearances (water, environment, etc) and land acquisition largely in place. These comprise of 600MW project each at Haldia and Chandrapur and 1.3GW project in Orissa. In addition, project pipeline stands at 3.3GW, comprising of (1) 1GW in Jharkhand, with captive coal mine; land acquisition has just commenced, (2) 1GW in Bihar, where land acquisition has just commenced, and (3) 1.3GW expansion in Haldia is in initial stages with TOR approved recently. In terms of project commissioning, Chandrapur project unit-1 is expected by August 2013, Haldia Unit-1 in 2014 and Orissa in 2015.
- Spencer - Revenue growth continues:** In 3QFY11, total area under operations has declined by 2% QoQ to 0.86msf, vs 0.876 as at Sep-10. Sales have improved to Rs1048/sq.ft in Dec-10 due to festive season and improvement in same stores sales, vs Rs906/sq.ft in 1QFY11. This is a positive surprise and has led to improved performance. Same stores revenue growth was 17% in December 2010 and 14% for YTD FY11 [combination of 7% volume growth and 7% inflation].
- Valuations and view:** We expect CESC to report standalone net profit of Rs4.7b in FY11E (up 9% YoY), Rs4.9b in FY12E (up 3% YoY) and Rs5b in FY13E (up 2% YoY). Stock quotes at PER of 7x FY12E and 6.9x FY13E on standalone basis. Maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	8,090	9,490	7,970	7,540	10,820	10,900	9,390	8,592	32,910	39,702
Change (%)	3.3	25.7	6.0	1.8	33.7	14.9	17.8	14.0	8.6	20.6
EBITDA	1,900	2,100	1,880	1,840	2,420	3,030	2,530	2,157	7,540	10,137
Change (%)	55.7	12.3	24.5	21.1	27.4	44.3	34.6	17.2	23.2	34.4
As of % Sales	23.5	22.1	23.6	24.4	22.4	27.8	26.9	25.1	22.9	25.5
Depreciation	480	490	490	520	670	640	690	717	1,980	2,717
Interest	430	460	420	470	670	770	690	623	1,780	2,753
Other Income	280	360	260	360	290	320	220	412	1,440	1,242
PBT	1,270	1,510	1,230	1,210	1,370	1,940	1,370	1,229	5,220	5,909
Tax	220	250	210	210	270	390	270	237	890	1,167
Effective Tax Rate (%)	17.3	16.6	17.1	17.4	19.7	20.1	19.7	19.3	17.0	19.8
Reported PAT	1,050	1,260	1,020	1,000	1,100	1,550	1,100	992	4,330	4,742
Adjusted PAT	1,050	1,260	1,020	1,000	1,100	1,350	1,100	1,192	4,330	4,742
Change (%)	27.3	34.0	4.1	6.4	4.8	7.1	7.8	19.2	17.5	9.5

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

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3QFY11 PAT in-line, Spencer revenues higher/losses under control, Buy

- During 3QFY11, CESC reported revenues of Rs9.4b (up 18% YoY), EBIDTA of Rs2.5b (up 35% YoY) and net profit of Rs1.1b (up 8% YoY). Reported net profit is in-line with our estimates, while revenue was higher on account of increased fuel charges (pass through by way of tariffs).
- Power purchase cost for 3QFY11 declined to Rs980m (vs Rs1.3b in 3QFY10) given lower power exchange prices. Also, additional generation from 250MW Budge Budge project commissioned in February 2010 had led to lower external power purchases. Power imported declined to 229MUs (down 43% YoY and 55% QoQ) and power purchase cost was Rs4.3/unit, lower Rs4.8/unit in 2QFY11. Power procured by CESC is largely during peaking hours and thus, the rates are relatively higher than average lower rates prevailing in spot/UI markets.
- Power exports in 3QFY11 stood at 149MUs, down from 297MUs in 2QFY11. The decline is due to lower merchant prices as the power export is during off-peak hours, where the rates were lower.
- Fuel cost increased by 30% YoY to Rs3.5b on account of increased coal prices, largely from Coal India and for imports. CESC sources 60% of its coal requirement from CIL, ~30-35% is sourced from captive mines and balance is imported.

PLF declines 13pp YoY given lower power demand

- Power generation stood at 2,147m units during 3QFY11, up 15% YoY due to addition of 250MW Budge Budge in Feb 2010, while PLF was lower at 83.1% (down 13 pps YoY).
- Sales volume stood at 1,935m units, as compared to 2,224m units in 2QFY11 indicating lower demand and led to lower PLF. Lower realizations in merchant market also led to power exports not very profitable, impacting the PLF.
- T&D losses declined to 13.6% during 3QFY11 as compared to 14% in 2QFY11.

Operating parameters

	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Generation (MUs)	1912	1883	1979	2036	1872	1949	2443	2344	2147
PLF (%)	93.5	92.5	92.9	98.4	96.3	92.8	95.3	98.2	83.1
Auxiliary consumption (%)	-5.5	-7.6	5.7	1.3	-5.6	-14.4	-5.0	-5.1	-9.9
Sales (MUs)	1806	1740	2092	2062	1768	1668	2321	2224	1935
Realization (Rs/unit)	4.16	4.26	3.87	4.60	4.51	4.52	4.66	4.90	4.85

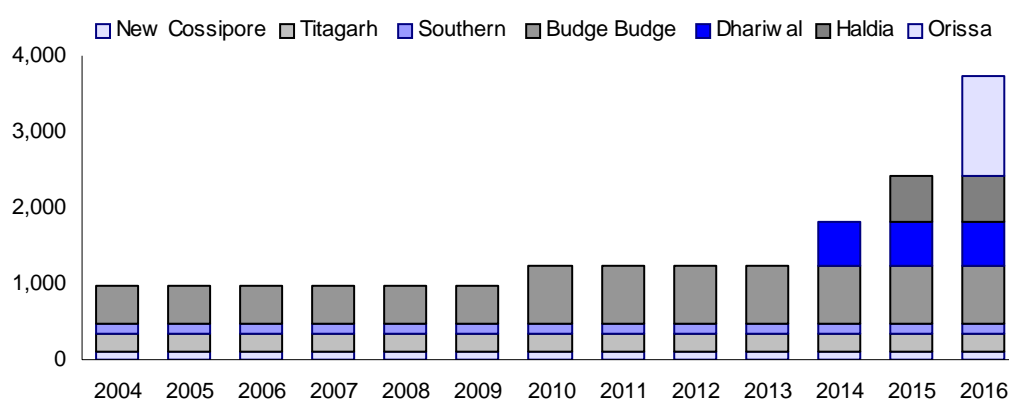
Source: Company/MOSL

Power generation: commissioning of 2.5GW capacity by FY15/FY16

- 2.5GW of generation projects are at advanced stages of development / have entered the construction phase, with all initial clearances (water, environment, etc) and land acquisition largely in place. These comprise of 600MW project each at Haldia and Chandrapur and 1.3GW project in Orissa.
- In addition, project pipeline stands at 3.3GW, comprising of (1) 1GW in Jharkhand, with captive coal mine; land acquisition has just commenced, (2) 1GW in Bihar, where land acquisition has just commenced, and (3) 1.3GW expansion in Haldia is in initial stages with TOR approved recently.
- Fuel linkages are available for Haldia and Chandrapur, while Orissa project has score of 90 out of 100, as appraised by CEA and thus has higher chances for getting linkages in next meeting of standing linkages committee (SLC) for 12th plan.

- Additionally, CESC has invested 10% in Resources Gen, which is developing mines in South Africa and potentially provides access to 2mtpa of coal. Phase-1 mine development is expected to be completed by 2013, with production of 6mtpa.
- Equipment order for Chandrapur project has been already placed, and international competitive bidding (ICB) is completed for Halida project. West Bengal Electricity Regulatory Commission (WBERC) has already accorded in-principal approval for the project.
- In terms of project commissioning, Chandrapur project unit-1 is expected by August 2013, Haldia Unit-1 in 2014 and Orissa in 2015.
- As at Dec 2010, the company has invested ~Rs1.2b (v/s Rs500m as at Sep-09) towards Haldia project and Rs3.25b towards Chandrapur project (excluding acquisition cost).

Trend in capacity addition (MW)



Source: Company/MOSL

Projects under development / construction: To be commissioned till FY16

Plant	Remarks
Chandrapur	<p>FC achieved (DER 75:25), linkages received from SECL.</p> <p>Coal linkage received from South Eastern Coal Fields.</p> <p>Land has been acquired (455 acres), Environment clearance received, etc.</p> <p>EPC contract for the project is awarded in 2 packages: Balance of Plant (BoP) to Punj Lloyd and BTG sets to Sanghai Electric, China.</p> <p>300MW on merchant, 300MW on CERC tariffs.</p>
Haldia	<p>Entire 345 acres required for the project is acquired.</p> <p>Financial closure achieved</p> <p>Fuel requirement through linkages (granted from MCL), additional cushion from import (Possible through acquisition of stake in Resource Gen)</p> <p>Will sign PPA agreement with CESC for supply of 450MW on PPA basis</p> <p>CESC has invited BTG equipment tender and expects to award projects by Sept-10</p>
Dhenkanal, Orissa	<p>Large part of the land has also been acquired [678 acres of the 1094 acres required]</p> <p>As per prioritization for coal linkages, the project has secured 90 marks out of 100</p> <p>Terms of Reference for the project have been approved and the Environmental Impact Assessment studies have been completed</p>

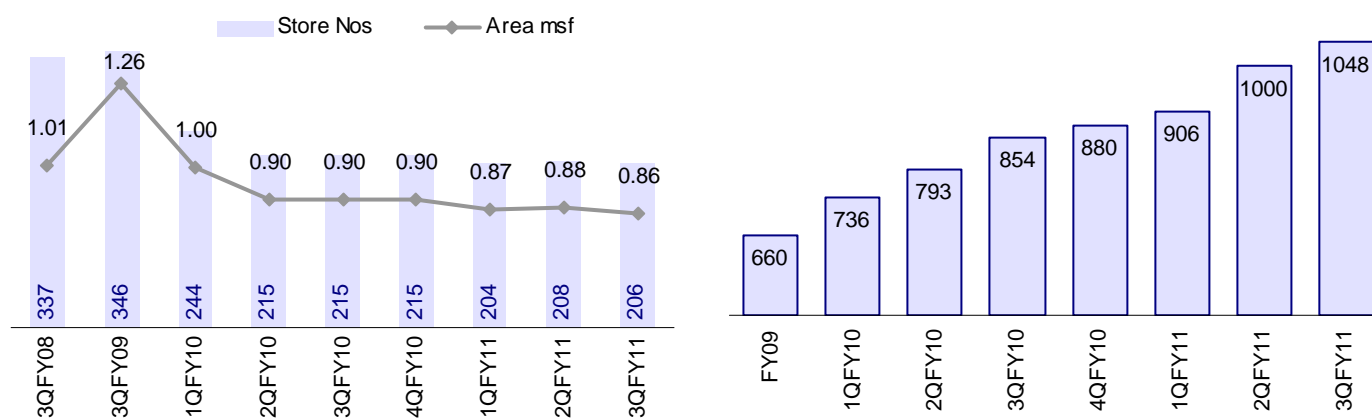
Source: Company

Spencer: Revenue growth continues

- In 3QFY11, total area under operations has declined by 2% QoQ to 0.86msf, vs 0.876 as at Sep-10. Spencer operated 206 Stores in 3QFY11 vs 208 stores in 2QFY11 and 215 stores in 3QFY10 (down by 4% YoY).
- Over the past 18 months, Spencer has rationalized overall area under operations by closure of small format Daily and Express stores, down 16% YoY to 158 stores. Sales have improved to Rs1048/sq.ft in Dec-10 due to festive season and improvement in same stores sales, vs Rs906/sq.ft in 1QFY11. This is a positive surprise and has led to improved performance.
- Same stores revenue growth was 17% in December 2010 and 14% for YTD FY11 [combination of 7% volume growth and 7% inflation].

Spencer: area under operations

Spencer: sales per sq ft per month



Source: Company/MOSL

Valuations and view

We expect CESC to report standalone net profit of Rs4.7b in FY11E (up 9% YoY), Rs4.9b in FY12E (up 3% YoY) and Rs5b in FY13E (up 2% YoY). Stock quotes at PER of 7x FY12E and 6.9x FY13E on standalone basis. Maintain **Buy**.

CESC: an investment profile

Company description

CESC, an RPG Group Company is one of the oldest integrated power utilities in India with presence in mining, generation, and distribution of power. Installed generation capacity stands at 1.2GW and distribution network encompasses 2.3m consumers in Kolkata and Howrah region. 1.2GW of generation projects are under construction and additional 4.3GW of projects are in pipeline. CESC has presence in retail business "Spencer" which has 0.9msf area under operations.

Key investment positives

- Assured return from existing generation / distribution business provides steady cash flows (regulated profit at Rs3b+ pa)
- 600MW project in Maharashtra has achieved financial closure, equipment award, etc. Part capacity can be retained on merchant basis, which would boost overall project returns.
- Consolidation and restructuring at Spencers has led to reduction in operational losses to Rs1.5b in FY10, vs Rs3.5b earlier. Further reduction in losses/value unlocking opportunity is possible.
- Project pipeline of 4GW provides growth opportunity going forward.

Key investment risk

- Continued losses at Spencer retail and funding through standalone cashflows of CESC (contributed Rs7.7b as at March 2010).
- Fuel availability for Chandrapur project and partially for Haldia project.

Recent development

- Financial closure for Halida power project and ICB is completed.
- CESC has emerged as the preferred bidder for Patna distribution circle, pending award
- by the state government.

Valuation and view

- We expect CESC to report standalone net profit of Rs4.7b in FY11E (up 9% YoY), Rs4.9b in FY12E (up 3% YoY) and Rs5b in FY13E (up 2% YoY).
- Stock quotes at PER of 7x FY12E and 6.9x FY13E on standalone basis. Maintain **Buy**.

EPS: Most forecast v/s Consensus (Rs)

	Most Forecast	Consensus Forecast	Variation (%)
FY11	37.8	28.6	31.8
FY12	38.8	33.2	16.8

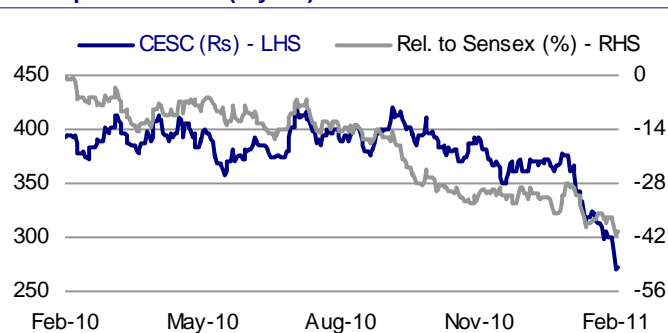
Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	52.5	52.5	52.5
Domestic Inst	16.6	16.3	18.9
Foreign	19.5	19.2	17.7
Others	11.4	12.1	10.9

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
272	-	-	Buy

Stock performance (1 year)



Financials and Valuations

INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Total Revenues	30,313	32,928	39,702	41,416	45,010	
Cost of Energy purchased	4,125	6,370	4,532	4,888	6,375	
Cost of fuel	9,447	10,770	16,339	17,156	18,013	
Stores & spares	2,450	2,273	2,364	2,600	2,860	
Employee Expenses	3,702	4,260	4,431	4,874	5,361	
SG&A Expenses	4,464	1,759	1,900	2,090	2,299	
EBITDA	6,125	7,497	10,137	9,810	10,102	
% of Total Revenues	20.2	22.8	25.5	23.7	22.4	
Depreciation	1,749	2,056	2,717	2,920	3,090	
Interest	1,410	1,782	2,753	1,996	1,834	
Other Income	1,682	1,562	1,242	1,180	1,014	
Extra-ordinary Expenses	415	0	0	0	0	
PBT	4,649	5,221	5,909	6,074	6,192	
Tax	552	888	1,167	1,200	1,223	
Rate (%)	11.9	17.0	19.8	19.8	19.8	
Reported PAT	4,097	4,333	4,742	4,874	4,969	
Adjusted PAT	3,682	4,333	4,742	4,874	4,969	
Change (%)	24.6	17.7	9.4	2.8	2.0	
Dividend (Inc. tax)	585	494	541	556	566	
Distributable Profits	3,097	3,839	4,201	4,318	4,403	
Change (%)	30.6	24.0	9.4	2.8	2.0	

* Excl Spencers; fully diluted

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Share Capital	1,263	1,263	1,263	1,263	1,263	
Reserves	47,573	50,712	54,913	59,232	63,634	
Net Worth	48,836	51,975	56,176	60,494	64,897	
Loans	23,981	28,126	20,816	19,106	17,567	
Consumer's Security Dep.	8,212	8,965	9,592	10,264	10,982	
Capital Employed	81,028	89,065	86,584	89,864	93,446	
Gross Fixed Assets	94,289	113,640	119,056	124,470	130,431	
Less: Depreciation	38,261	41,311	44,029	46,949	50,039	
Net Fixed Assets	56,028	72,328	75,027	77,521	80,392	
Capital WIP	12,796	2,783	2,866	2,952	3,041	
Investments	3,104	6,785	5,433	10,533	16,558	
Curr. Assets	29,268	28,839	29,893	27,069	24,556	
Inventory	2,120	2,383	2,719	2,837	3,083	
Debtors	3,889	4,999	5,982	6,241	6,782	
Cash & Bank Balance	12,510	11,198	9,231	4,730	373	
Loans & Advances	10,327	10,105	11,805	13,106	14,163	
Deferred Payments	422	155	155	155	155	
Current Liab. & Prov.	20,253	21,756	26,714	28,282	31,163	
Other Liabilities	19,022	20,530	25,463	27,006	29,861	
Provisions	1,231	1,227	1,251	1,276	1,302	
Net Current Assets	9,015	7,083	3,179	-1,213	-6,607	
Misc Expenses	86	86	79	71	62	
Application of Funds	81,029	89,065	86,584	89,864	93,446	

E: MOSL Estimates

RATIOS		(RS MILLION)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Basic (Rs)						
EPS *	29.3	34.5	37.8	38.8	39.6	
CEPS (Rs)	46.5	50.9	59.4	62.1	64.2	
Book Value	215.8	240.8	274.3	308.7	343.9	
DPS	4.0	3.5	3.8	3.9	4.0	
Payout (incl. Div. Tax.)	12.2	10.0	10.0	10.0	10.0	
Valuation (x)						
P/E	9.3	7.9	7.2	7.0	6.9	
EV/EBITDA	7.5	6.8	4.5	4.9	5.1	
EV/Sales	1.5	1.6	1.2	1.2	1.1	
Price/Book Value	1.3	1.1	1.0	0.9	0.8	
Dividend Yield (%)	1.5	1.3	1.4	1.4	1.5	
Profitability Ratios (%)						
RoE	13.0	13.8	13.3	12.2	11.2	
RoCE	11.0	10.8	12.8	11.9	11.3	
Turnover Ratios						
Debtors (Days)	47	55	55	55	55	
Inventory (Days)	23	22	25	25	25	
Asset Turnover (x)	0.4	0.4	0.5	0.5	0.5	
Leverage Ratio						
Debt/Equity (x)	0.4	0.5	0.3	0.4	0.4	

CASH FLOW STATEMENT		(RS MILLION)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
PBT before EO Items	4,649	5,221	5,909	6,074	6,192	
Add : Depreciation	1,749	2,056	2,717	2,920	3,090	
Interest	1,410	1,782	2,753	1,996	1,834	
Less : Direct Taxes Paid	552	888	1,167	1,200	1,223	
(Inc)/Dec in W/C	-869	619	1,938	-109	1,036	
CF from Operations	6,387	8,791	12,150	9,681	10,929	
Extra-ordinary Items	415	0	0	0	0	
CF from Op. incl EOI	5,972	8,791	12,150	9,681	10,929	
(Inc)/dec in FA	-12,281	-8,343	-5,500	-5,500	-6,050	
(Pur)/Sale of Investments	2,593	-3,681	1,352	-5,100	-6,025	
CF from Investments	-9,689	-12,024	-4,148	-10,600	-12,075	
(Inc)/Dec in Networth	-126	-701	7	8	9	
(Inc)/Dec in Debt	7,693	4,145	-7,310	-1,710	-1,539	
(Inc)/Dec in Customer Secu	790	753	628	671	718	
Less : Interest Paid	1,410	1,782	2,753	1,996	1,834	
Dividend Paid	585	494	541	556	566	
CF from Fin. Activity	6,362	1,921	-9,969	-3,582	-3,212	
Inc/Dec of Cash	2,646	-1,312	-1,967	-4,501	-4,358	
Add: Beginning Balance	9,864	12,510	11,198	9,231	4,730	
Closing Balance	12,510	11,199	9,231	4,730	373	

* Fully Diluted

N O T E S



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CESC

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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