

CESC

Performance Highlights

CESC recorded a 2.1% yoy growth in net sales to Rs770cr in 4QFY2010, aided by a 1.7% yoy increase in the sales volume. The growth in the Top-line is expected to be aided by a higher tariff of Rs4.57/unit charged by the company in 4QFY2010 (Rs3.91/unit in 4QFY2009) in the regulated area. During FY2010, the Top-line grew by 8% to Rs3,351cr. The company's OPM improved by 409bp yoy to 26% during the quarter, aided by a substantial reduction in other expenses. The net profit rose by 6.4% yoy to Rs100cr during the quarter. The stock trades at a P/E of 7.4x and at a P/BV of 1.0x, according to its FY2012E estimates. **We maintain our Buy recommendation.**

Bottom-line up by 6.4% yoy, aided by robust operating performance: CESC's Top-line grew by a marginal 2.1% yoy during the quarter to Rs770cr (Rs754cr). The sales volumes increased by 1.7% yoy to 1,668MU. On the operating front, the company clocked a 21.2% growth in profit to Rs200cr. The company's OPMs improved inspite of the increase in its power purchase costs. CESC clocked a net profit of Rs100cr during the quarter, up by 6.4% yoy. Spencer's Retail (Spencer's), the retail arm of CESC, has clocked a turnover of close to Rs900cr in FY2010. The company's sales per sq ft, which stood at Rs660 per sq ft in March 2009, increased to Rs811/sq ft in March 2010.

Outlook and Valuation

The stock trades at a P/E of 7.4x and at a P/BV of 1.0x, according to its FY2012E estimates. On the valuation front, we have valued CESC on an SOTP basis, by assigning a 1.1x FY2012E blended P/BV multiple to the company's existing Power business (considering its lower ROE and higher cash component). We have valued Spencer's Retail using the Market Cap/Sales method and have arrived at a fair value of Rs460. **We maintain our Buy recommendation.**

BUY

CMP	Rs406
Target Price	Rs460
Investment Period	12 Months

Stock Info

Sector	Power
Market Cap (Rs cr)	5,073
Beta	0.9
52 WK High / Low	452/238
Avg. Daily Volume	75358
Face Value (Rs)	10
BSE Sensex	17,558
Nifty	5,278
Reuters Code	CESC.BO
Bloomberg Code	CESC@IN

Shareholding Pattern (%)

Promoters	52.5
MF/Banks/Indian FIs	23.3
FII/NRIs/OCBs	18.7
Indian Public	5.5

Abs. (%)	3m	1yr	3yr
Sensex	7.5	54.2	26.8
CESC	3.6	74.0	3.7

Key Financials (Standalone)

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	3,098	3,291	4,166	4,887
% chg	9.5	6.2	26.6	17.3
Adj. Net Profit	410	433	540	689
% chg	19.1	5.6	24.8	27.5
OPM (%)	21.9	22.9	23.7	23.9
EPS (Rs)	32.6	34.5	43.0	54.8
P/E (x)	12.4	11.8	9.4	7.4
P/BV (x)	1.5	1.3	1.2	1.0
RoE (%)	12.9	11.9	13.2	14.8
RoCE (%)	8.1	7.5	9.3	8.8
EV/Sales (x)	2.4	2.2	2.0	2.4
EV/EBITDA (x)	10.9	9.5	8.5	10.0

Source: Company, Angel Research

Rupesh Sankhe

Tel: 022 – 4040 3800 Ext: 319

E-mail: rupeshd.sankhe@angeltrade.com

V Srinivasan

Tel: 022 – 4040 3800 Ext: 330

E-mail: v.srinivasan@angeltrade.com

Exhibit 1: 4QFY2010 Performance

Y/E March (Rs cr)	4QFY10	4QFY09	% chg	FY10	FY09	% chg
Net Sales	770	754	2.1	3,351	3,103	8.0
Consumption of RM	353	286	23.4	1,708	1,357	25.9
(% of Sales)	46	38		51	44	
Staff Costs	87	73	19.2	361	328	10.1
(% of Sales)	11	10		11	11	
Other Expenses	130	230	(43.5)	468	734	(36.2)
(% of Sales)	17	31		14	24	
Total Expenditure	570	589	(3.2)	2,537	2,419	4.9
Operating Profit	200	165	21.2	814	684	19.0
OPM	26	22		24	22	
Interest	47	37	27.0	178	141	26.2
Depreciation	52	42	23.8	198	175	13.1
Other Income	20	21	(4.8)	84	97	(13.4)
PBT (incl. Extr. Items)	121	107	13.1	522	465	12.3
(% of Sales)	16	14		16	15	
Provision for Taxation	21	13	61.5	89	55	61.8
(% of PBT)	17	12		17	12	
Reported PAT	100	94	6.4	433	410	5.6
PATM	13	12		13	13	
Equity shares (cr)	12.6	12.6		13	13	
EPS (Rs)	7.9	7.5		34.5	32.6	

Operational Highlights

CESC's total power generation during FY2010 stood at 7,836MU (7,901MU), a decline of 0.8% as compared to FY2009. The overall PLF stood at 92.8% (97.3%), during the year, resulting in a decline of 450bp. The power purchased by the company increased by 26.4% during FY10 to 1,775MU (1,404MU). The company's T&D losses during the year remained flat at 13.3%.

Exhibit 2: Plant-wise PLF and Generation data

	PLF (%)		Generation (MU)	
	FY09	FY10	FY09	FY10
Budge Budge	100.5	94.1	4,403	4,123
Titagarh	92.0	89.8	1,933	1,889
Southern	94.6	93.1	1,119	1,101
Cossipore*	50.8	44.6	445	391

Source: Company; Note: * used only as a peaking station

Key Developments

CESC commenced operations at the 250MW third unit of the Budge Budge plant. With the commissioning of this plant, the company's total power generation capacity increased to 1,225MW.

The company is planning to revive the 600MW Balagarh plant in West Bengal, which was shelved in the mid 1990's, by investing Rs3,200cr.

Construction work has commenced on the shopping mall at Park Circus (being developed by CESC Properties).

Exhibit 3: Generation – Capacity Expansion from 975MW to 5,125MW by FY2013

Location	Purpose	Size (MW)	Cost (Rs cr)	Planned Year of Commissioning	Remarks
Budge Budge (West Bengal)	Licence Area	250	1,200	FY2010	Commercial operations began in 4QFY2010
Haldia Phase 1	Licence Area	600	2,600	FY2011	80% land acquired; Coal Linkage linkageobtained, Environmental clearances received
Dumka, Jharkhand	Merchant	1,000	4,000	FY2012	110mt coal block allocated; MoU signed with Jharkhand Govt. Land acquisition process initiated.
Dhenkanal, Orissa	Merchant	1,000	4,000	FY2013	MoU signed; land acquisition process initiated; Coal allocation being pursued
Thermal/Hydel power plants in WB and other states	Merchant	1,300-1,500	6,000	FY2013	
Total		4,150-4,350	17,800		

Source: Company, Angel Res

Retail Business on recovery path

Spencer's Retail (Spencer's), the retail arm of CESC, has clocked a turnover of close to Rs900cr in FY2010. The company's sales per sq ft, which stood at Rs660 per sqft in March 2009, increased to Rs811/sq ft in March 2010. Further, the cost-optimisation measures taken by the company resulted in savings of Rs100cr in FY2010. The company currently has a total of 218 outlets spread across 42 cities, with a total area of 927,000 sq ft. The company is planning for selective opening of Hyper and Super stores in FY2011E, and a special focus on the southern states for growth. We expect Spencer's to break-even over the next 12-15 months.

Exhibit 4: Spencer's Outlets

Format	Nos.	Total Area ('000 sq ft)
Hypers	18	454
Supers	9	53
Dailies	188	390
BHPC and others	7	7
Total	218	904

Source: Company, Angel Research

Real Estate

The company's 100% Real Estate subsidiary, CESC Properties, is required to share one-third of its gains from its Real Estate business with its utility consumers (as mandated by the Regulator). Thus, the company's mall project is structured such that CESC Properties earns income from the project and pays CESC a rental for its land. Thus, out of the Rental received by CESC, one-third would be passed by it to its utility customers.

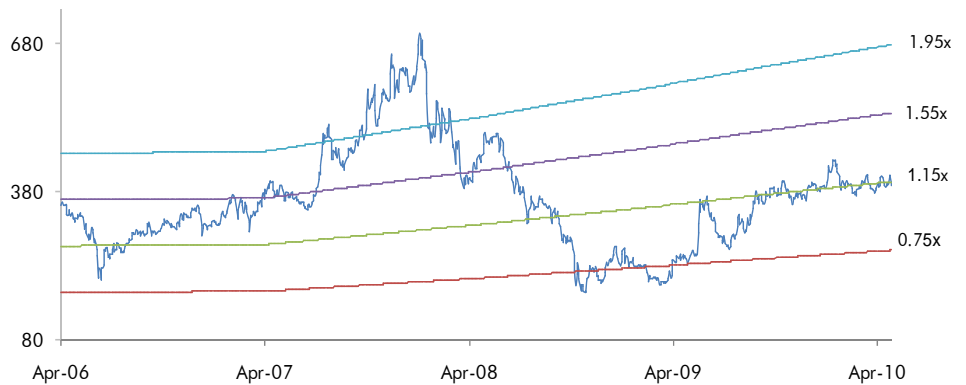
Outlook and Valuation

At Rs406, the stock is trading at 7.4x FY2012E EPS and at 1.0x FY2012E P/BV. We have assigned a 1.1x FY2012E blended P/BV multiple to the company's existing power business, considering its lower ROE and higher cash component. The total value of the power business works out to Rs425/share. We have valued Spencer's Retail using the Market cap/Sales method, after considering the Market cap/Sales of peers like Pantaloon Retail, Shopper's Stop and Trent. On a one-year forward Market cap/Sales basis, the peers are trading broadly in the range of 0.3-0.6x. Due to the low Margin business model and cash losses, we have assigned Spencer's a Market cap/Sales ratio of 0.2x its FY2012E Sales, which is at a significant discount to the average of its peers. The total value of the Retail business works out to Rs23/share for CESC. We have valued the company's mall at Central Kolkata and the land at Mulajore (35 acres) on an NAV basis, and have arrived at a price of Rs12/share for CESC's Real Estate business. **Hence, we have arrived at an SOTP Target Price of Rs460. We maintain a Buy on the stock.**

Exhibit 5: SOTP Valuation

Business Portfolio	Methodology	Value/Share (Rs)
Existing Power plants & cash	1.1 * FY2012E BV	425
Retail- Spencer's (94% stake)	0.2 * FY2012E Sales	23
Real Estate	NAV	12
Total		460

Exhibit 6: One-year forward P/BV band



Source: Company, Angel Research

Profit & Loss Statement (Standalone)						(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Gross sales	2,530.3	2,828.9	3,098.0	3,291.0	4,165.6	4,887.3
Less: Excise duty	-	-	-	-	-	-
Net Sales	2,530.3	2,828.9	3,098.0	3,291.0	4,165.6	4,887.3
Other operating income	-	-	-	-	-	-
Total operating income	2,530.3	2,828.9	3,098.0	3,291.0	4,165.6	4,887.3
% chg	(0.9)	11.8	9.5	6.2	26.6	17.3
Total Expenditure	1,927.1	2,254.9	2,419.0	2,537.0	3,178.9	3,721.3
Net Raw Materials	957.7	1,088.9	1,356.0	1,708.0	1,828.7	2,137.2
Other Mfg costs	423.3	588.5	735.0	468.0	925.8	1,086.2
Personnel	307.1	337.1	328.0	361.0	424.4	497.9
Other	239.1	240.5	-	-	-	-
EBITDA	603.2	574.0	679.0	754.0	986.7	1,166.0
% chg	(2.6)	(4.8)	18.3	11.0	30.9	18.2
(% of Net Sales)	23.8	20.3	21.9	22.9	23.7	23.9
Depreciation & Amortisation	157.9	168.5	170.0	198.0	229.1	219.4
EBIT	445.2	405.5	509.0	556.0	757.6	946.6
% chg	21.8	(8.9)	25.5	9.2	36.3	24.9
(% of Net Sales)	17.6	14.3	16.4	16.9	18.2	19.4
Interest & other Charges	207.4	181.8	140.0	178.0	270.5	303.0
Other Income	102.8	179.2	96.0	144.0	134.0	124.0
(% of PBT)	30.4	45.7	20.6	27.6	21.6	16.1
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	338.2	391.7	465.0	522.0	621.1	768.5
% chg	51.5	15.8	18.7	12.3	19.0	23.7
Extraordinary Expense/(Inc.)	(2.5)	(11.2)	-	-	-	1.0
PBT (reported)	340.7	402.9	465.0	522.0	621.1	767.5
Tax	40.0	47.6	55.0	89.0	80.7	79.7
(% of PBT)	11.7	11.8	11.8	17.0	13.0	10.4
PAT (reported)	300.7	355.4	410.0	433.0	540.4	687.8
ADJ. PAT	298.2	344.2	410.0	433.0	540.4	688.8
% chg	46.7	15.4	19.1	5.6	24.8	27.5
(% of Net Sales)	11.8	12.2	13.2	13.2	13.0	14.1
Basic EPS (Rs)	35.4	28.3	32.6	34.5	43.0	54.8
Fully Diluted EPS (Rs)	35.4	28.3	32.6	34.5	43.0	54.8
% chg	65.4	(20.0)	15.4	5.6	24.8	27.3

Balance Sheet (Standalone)						(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	85.0	125.6	125.6	125.6	125.6	125.6
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	1,908.4	2,846.6	3,266.7	3,740.8	4,222.4	4,850.4
Shareholders Funds	1,993.4	2,972.2	3,392.3	3,866.4	4,348.0	4,976.0
Minority Interest	-	-	-	-	-	-
Total Loans	2,550.8	2,568.9	3,556.9	3,912.0	4,162.0	7,927.0
Deferred Tax Liability	-	-	9.0	-	-	(1.0)
Total Liabilities	4,544.2	5,541.1	6,958.3	7,778.4	8,510.0	12,902.0
APPLICATION OF FUNDS						
Gross Block	6,647.8	7,129.2	7,938.3	9,402.9	10,414.1	12,861.3
Less: Acc. Depreciation	3,179.5	3,533.9	3,826.1	4,024.1	4,253.2	4,472.6
Net Block	3,468.3	3,595.3	4,112.2	5,378.8	6,160.9	8,388.6
Capital Work-in-Progress	265.7	619.6	1,279.6	376.1	916.6	2,214.5
Goodwill	-	-	-	-	-	-
Investments	241.4	569.7	310.4	310.4	310.4	310.4
Current Assets	1,624.8	2,089.2	2,935.8	3,701.2	3,221.0	4,131.0
Cash	731.4	986.4	1,251.0	1,833.5	856.8	1,357.2
Loans & Advances	310.9	611.4	1,083.9	1,151.4	1,457.4	1,709.9
Other	582.5	491.4	600.8	716.4	906.7	1,063.8
Current liabilities	1,065.2	1,341.3	1,687.6	1,988.1	2,098.9	2,141.5
Net Current Assets	559.6	748.0	1,248.1	1,713.1	1,122.1	1,989.5
Mis. Exp. not written off	9.3	8.6	7.9	-	-	(1.0)
Total Assets	4,544.2	5,541.1	6,958.3	7,778.4	8,510.0	12,902.0

Cash Flow Statement (Standalone)						(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Profit before tax	340.7	402.9	465.0	606.0	621.1	767.5
Depreciation	157.9	168.5	170.0	198.0	229.1	219.4
Change in Working Capital	763.4	495.2	104.9	309.8	(115.1)	(65.0)
Less: Other income	102.8	179.2	96.0	144.0	134.0	124.0
Direct taxes paid	40.0	47.6	55.0	89.0	80.7	79.7
Cash Flow from Operations	1,119.3	839.8	588.9	880.8	520.3	718.2
(Inc)/ Dec in Fixed Assets	(559.4)	(835.3)	(1,469.2)	(561.0)	(1,551.7)	(3,745.1)
(Inc)/ Dec in Investments	(210.0)	(328.3)	259.3	-	-	-
Other income	102.8	179.2	96.0	144.0	134.0	124.0
Cash Flow from Investing	(666.5)	(984.4)	(1,113.9)	(417.0)	(1,417.7)	(3,621.1)
Issue of Equity	43.3	621.9	0.0	-	-	-
Inc./(Dec.) in loans	81.3	18.1	988.0	355.1	250.0	3,765.0
Dividend Paid (Incl. Tax)	34.5	58.5	58.5	58.5	58.8	58.8
Others	207.4	181.8	140.0	178.0	270.5	303.0
Cash Flow from Financing	(117.2)	399.6	789.5	118.6	(79.3)	3,403.2
Inc./(Dec.) in Cash	335.5	255.0	264.6	582.4	(976.7)	500.4
Opening Cash balances	395.9	731.4	986.4	1,251.0	1,833.5	856.8
Closing Cash balances	731.4	986.4	1,251.0	1,833.5	856.8	1,357.2

Key Ratios						
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	11.5	14.4	12.4	11.8	9.4	7.4
P/CEPS	7.5	9.7	8.8	8.1	6.6	5.6
P/BV	1.7	1.7	1.5	1.3	1.2	1.0
Dividend yield (%)	1.0	1.1	1.1	1.1	1.2	1.2
EV/Sales	2.1	2.4	2.4	2.2	2.0	2.4
EV/EBITDA	8.7	11.6	10.9	9.5	8.5	10.0
EV / Total Assets						
Per Share Data (Rs)						
EPS (Basic)	35.4	28.3	32.6	34.5	43.0	54.8
EPS (fully diluted)	35.4	28.3	32.6	34.5	43.0	54.8
Cash EPS	54.0	41.7	46.2	50.2	61.3	72.2
DPS	4.1	4.7	4.7	4.7	4.7	4.7
Book Value	234.6	236.6	270.1	307.8	346.2	396.2
Dupont Analysis (%)						
EBIT margin	17.6	14.3	16.4	16.9	18.2	19.4
Tax retention ratio	88.3	88.2	88.2	83.0	87.0	89.6
Asset turnover (x)	0.7	0.7	0.6	0.6	0.6	0.5
ROIC (Post-tax)	10.4	8.5	8.7	7.9	9.7	8.8
Cost of Debt (Post Tax)	7.3	6.3	4.0	4.0	5.8	4.5
Leverage (x)	1.1	0.7	0.6	0.6	0.6	1.0
Operating ROE	13.8	10.2	11.6	10.3	12.2	13.4
Returns (%)						
ROCE (Pre-tax)	10.3	8.0	8.1	7.5	9.3	8.8
Angel ROIC (Pre-tax)	12.5	10.8	12.2	11.1	12.3	11.8
ROE	16.4	13.9	12.9	11.9	13.2	14.8
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.4	0.4	0.4	0.4	0.4	0.4
Inventory / Sales (days)	24.4	22.2	22.9	24.2	22.4	23.1
Receivables (days)	67.6	47.1	41.5	48.8	48.8	50.5
Payables (days)	175.5	194.8	228.5	264.4	234.6	208.0
Working capital cycle (ex-cash) (days)	(1.2)	(26.5)	(14.2)	(6.8)	6.3	33.5
Solvency ratios (x)						
Net debt to equity	0.9	0.5	0.7	0.5	0.8	1.3
Net debt to EBITDA	3.0	2.8	3.4	2.8	3.3	5.6
Interest Coverage (EBIT / Interest)	2.1	2.2	3.6	3.1	2.8	3.1

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Disclosure of Interest Statement	CESC
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel and its Group companies.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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**Address: Acme Plaza, 'A' Wing, 3rd Floor, M.V. Road, Opp. Sangam Cinema, Andheri (E), Mumbai - 400 059.
Tel : (022) 3952 4568 / 4040 3800**

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