

RESULTS

REVIEW

## CESC Ltd.

Performance on track

BUY

Analyst

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Nifty: 5,226; Sensex: 17,463

CMP	Rs270
Target Price	Rs419
Potential Upside/Downside	+55%

## Key Stock Data

Sector	Power Generation
Bloomberg/Reuters	CESC IN/CESC.BO
Shares o/s (mn)	124.9
Market cap. (Rs mn)	33,764
Market cap. (US\$ mn)	741
3-m daily average vol.	16,416

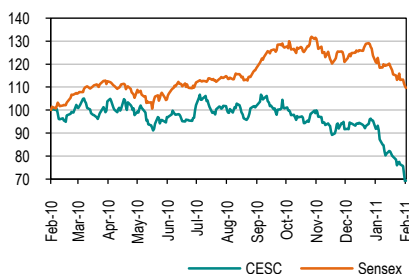
## Price Performance

52-week high/low	Rs433/263
	-1m -3m -12m
Absolute (%)	(25) (31) (31)
Rel to Sensex (%)	(16) (15) (41)

## Shareholding Pattern (%)

Promoters	52.5
FII/IRIs/OCBs/GDR	19.5
MFs/Banks/FIs	16.6
Non Promoter Corporate	5.8
Public & Others	5.6

## Relative to Sensex



## Summary

CESC Ltd. (CESC) recorded a healthy YoY revenue growth of 18% at Rs9.2 bn vs. our estimate of Rs8.9 bn and consensus Rs10.1 bn. EBITDA stood at Rs2.5 bn, a YoY growth of 35%. However, EBITDA margin disappointed at 27% vs. our estimate of 34% for Q3FY11 on account of 66% YoY increase in fuel cost (vs. our estimate of 59%). Depreciation and interest income increased by 41% and 64% YoY on back of new capacity commissioning. PAT stood at Rs 1.1 bn, below our estimate of Rs1.2 bn, registering a muted YoY growth of 8%.

CESC's current installed capacity stands at 1225MW; further 1200MW capacity expansion is in full swing. The company is distributing power in Kolkata region and bidding for more circles for distribution. Retail subsidiary, Spencer's, monthly run rate of losses declined sequentially to Rs115-120 mn in Q3FY11 compared to Rs120-130 mn in Q2FY11 and is progressing well towards achieving break even by FY13E.

At CMP of Rs270, the stock is trading at 0.6x FY11E and FY12E book value; 6.5x FY11E and 6.0x FY12E EPS. We have reduced our SOTP based target price to Rs419 vs. earlier Rs500 per share on the back of higher discounting rate (15.5% vs. earlier 14.5%). Our SOTP based value for CESC stands at Rs419. Kolkata licensed business along with Haldia-I translate into Rs320 per share. Chandrapur project of 600MW contributes Rs75 per share and Spencer's is valued at Rs23 per share based on Mcap/sales multiple of 0.3x (50% discount to Pantaloon's Mcap/sales multiple). **Maintain BUY.**

## Result Highlights

## ■ Core business performance intact

CESC generated 2.1BUs, up 14.6% YoY, against 1.9BUs during Q3FY10. For the 9MFY11, the company has generated 6.9BUs compared to 5.9BUs for the corresponding period last year on account of 250MW additional capacity in operation. The company operated at an average PLF of 83%, which is tad below our assumption of 85% for Q3FY11. CESC has cut its T&D losses by 30bps to 13.6% at the end of Q3FY11. Company's outside power purchase declined by ~37% YoY to 229MUs backed by the new Budge-Budge II unit in operation during the reporting quarter.

Figure: Plant wise unit generation

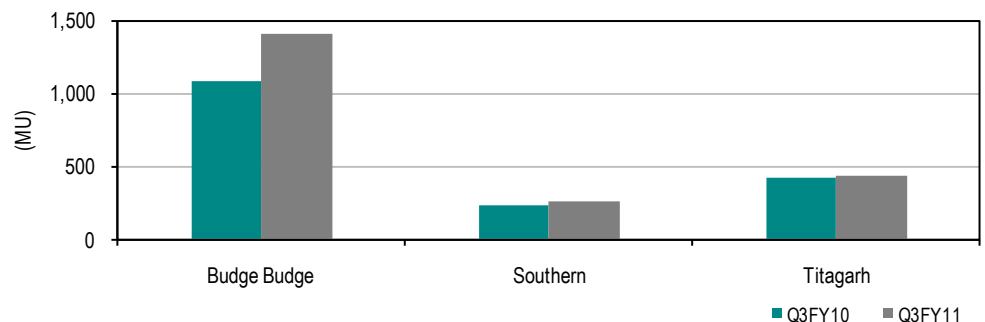


Table: Financial snapshot

	(Rs mn)										
Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	BV (Rs)	PE (x)	PBV (x)	RoE (%)	RoCE (%)	
FY09	30,313	6,107	20.1	4,097	32.8	390.2	8.3	0.7	8.7	5.6	
FY10	32,928	7,497	22.8	4,333	34.7	415.4	7.9	0.7	8.6	6.1	
FY11E	39,573	11,232	28.4	5,260	42.1	453.4	6.5	0.6	9.7	8.7	
FY12E	40,095	11,803	29.4	5,661	45.3	494.0	6.0	0.6	9.6	8.7	

Source: Company; IDBI Capital Research

### ■ Upcoming power projects on schedule

Chandrapur 600MW (300x2) is under construction and on schedule to get commissioned by FY13E. Haldia-I 600MW (300x2) project's International Competitive Bidding has been completed and in principal approval has been achieved from WBERC. The project is expected to commission by FY14E. CESC is scouting for coal linkage for Orissa project (1320MW). Jharkhand project (1000MW) has got joint allocation of coal block (110MT) and land acquisition process has commenced.

### ■ Spencer's recovery slow but steady

During the reporting quarter, Spencer's launched two super stores - one in Indrapuram and other in Allahabad - which takes the company's total super stores from 8 to 10. The company closed the quarter with total trading area of 0.9mnsqft. The sales per sq ft. improved to Rs1,000 for Q3FY11 compared to Rs850 for Q3FY10. Monthly run rate of loss declined QoQ; for Q3FY11 on an average monthly run rate of loss was at Rs115-120 mn compared to Rs120-130 mn for Q2FY11.

## Outlook and Valuation

CESC's current installed capacity stands at 1225MW; further 1200MW capacity expansion is in full swing. The company is distributing power in Kolkata region and bidding for more circles for distribution. Retail subsidiary, Spencer's, monthly run rate of losses declined sequentially to Rs115-120 mn in Q3FY11 compared to Rs120-130 mn in Q2FY11 and is progressing well towards achieving break even by FY13E.

At CMP of Rs270, the stock is trading at 0.6x FY11E and FY12E book value; 6.5x FY11E and 6.0x FY12E EPS. We have reduced our SOTP based target price to Rs419 vs. earlier Rs500 per share on the back of higher discounting rate (15.5% vs. earlier 14.5%). Our SOTP based value for CESC stands at Rs419. Kolkata licensed business along with Haldia-I translate into Rs320 per share. Chandrapur project of 600MW contributes Rs75 per share and Spencer's is valued at Rs23 per share based on Mcap/sales multiple of 0.3x (50% discount to Pantaloon's Mcap/sales multiple). **Maintain BUY.**

Table: Quarterly snapshot (standalone)

(Rs mn)

	Q3FY10	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
<b>Income from operations</b>	<b>7,790</b>	<b>10,900</b>	<b>9,210</b>	<b>18.2</b>	<b>(15.5)</b>
Other operating income	180	150	180	-	20.0
<b>Total Income</b>	<b>7,970</b>	<b>11,050</b>	<b>9,390</b>	<b>17.8</b>	<b>(15.0)</b>
Fuel cost	2,710	4,110	4,510	66.4	9.7
Personnel expenses	1,320	2,430	950	(28.0)	(60.9)
Power purchase	950	1,470	-	-	-
Other expenses	1,110	(140)	1,400	26.1	-
<b>Total expenses</b>	<b>6,090</b>	<b>7,870</b>	<b>6,860</b>	<b>12.6</b>	<b>(12.8)</b>
<b>EBITDA</b>	<b>1,880</b>	<b>3,180</b>	<b>2,530</b>	<b>34.6</b>	<b>(20.4)</b>
<i>Margin (%)</i>	24	29	27		
Depreciation	490	640	690	40.8	7.8
EBIT	1,390	2,540	1,840	32.4	(27.6)
Other income	260	170	220	(15.4)	29.4
Interest	420	770	690	64.3	(10.4)
<b>PBT</b>	<b>1,230</b>	<b>1,940</b>	<b>1,370</b>	<b>11.4</b>	<b>(29.4)</b>
Taxation	210	390	270	28.6	(30.8)
<b>PAT</b>	<b>1,020</b>	<b>1,550</b>	<b>1,100</b>	<b>7.8</b>	<b>(29.0)</b>
<i>Margin (%)</i>	13	14	12		
<b>EPS (Rs)</b>	<b>8.1</b>	<b>12.3</b>	<b>8.7</b>	<b>7.8</b>	<b>(29.0)</b>

Source: Company; IDBI Capital Research

## Financial Summary (Standalone)

### Profit & Loss Account

(Rs mn)

Year-end: March	FY09	FY10	FY11E	FY12E
<b>Net sales</b>	<b>30,313</b>	<b>32,928</b>	<b>39,573</b>	<b>40,095</b>
Growth (%)	9.2	8.6	20.2	1.3
Operating expenses	(24,206)	(25,431)	(28,341)	(28,292)
<b>EBITDA</b>	<b>6,107</b>	<b>7,497</b>	<b>11,232</b>	<b>11,803</b>
Growth (%)	10.6	22.8	49.8	5.1
Depreciation	(1,749)	(2,056)	(2,920)	(2,920)
<b>EBIT</b>	<b>4,358</b>	<b>5,441</b>	<b>8,312</b>	<b>8,883</b>
Interest paid	(1,410)	(1,782)	(3,287)	(3,123)
Other income	1,700	1,562	1,718	1,890
<b>Pre-tax profit</b>	<b>4,649</b>	<b>5,221</b>	<b>6,743</b>	<b>7,650</b>
Tax	(552)	(888)	(1,484)	(1,989)
Effective tax rate (%)	11.9	17.0	22.0	26.0
<b>Net profit</b>	<b>4,097</b>	<b>4,333</b>	<b>5,260</b>	<b>5,661</b>
<b>Adjusted net profit</b>	<b>4,097</b>	<b>4,333</b>	<b>5,260</b>	<b>5,661</b>
Growth (%)	15.3	5.8	21.4	7.6
Shares o/s (mn nos)	125	125	125	125

### Balance Sheet

(Rs mn)

Year-end: March	FY09	FY10	FY11E	FY12E
Net fixed assets	68,824	75,110	82,690	87,270
Investments	3,104	6,786	5,786	5,286
<b>Current assets</b>	<b>29,643</b>	<b>28,839</b>	<b>29,890</b>	<b>35,696</b>
Inventories	2,120	2,383	2,710	2,746
Sundry Debtors	4,027	4,999	5,963	6,042
Cash and Bank	12,747	11,198	8,748	14,275
Loans and advances	10,327	10,105	12,468	12,633
<b>Total assets</b>	<b>101,571</b>	<b>110,735</b>	<b>118,365</b>	<b>128,252</b>
<b>Shareholders' funds</b>	<b>48,750</b>	<b>51,897</b>	<b>56,643</b>	<b>61,720</b>
Share capital	1,256	1,256	1,256	1,256
Reserves & surplus	47,573	50,712	55,387	60,464
Total Debt	24,218	28,117	27,269	31,154
Secured loans	22,361	27,490	27,269	31,154
Unsecured loans	1,857	627	-	-
Other liabilities	35,806	41,549	41,162	45,507
<b>Curr Liab &amp; prov</b>	<b>18,246</b>	<b>18,516</b>	<b>22,148</b>	<b>22,826</b>
Current liabilities	17,015	17,289	20,561	21,025
Provisions	1,231	1,227	1,587	1,801
<b>Total liabilities</b>	<b>52,821</b>	<b>58,838</b>	<b>61,722</b>	<b>66,532</b>
<b>Total equity &amp; liabilities</b>	<b>101,571</b>	<b>110,735</b>	<b>118,365</b>	<b>128,252</b>
<b>Book Value (Rs)</b>	<b>390</b>	<b>415</b>	<b>453</b>	<b>494</b>

### Cash Flow Statement

(Rs mn)

	FY09	FY10	FY11E	FY12E
Net profit after tax	4,097	4,333	5,260	5,661
Depreciation	2,922	3,050	2,920	2,920
AAD	1,397	1,091	460	460
Change in working capital	(2,266)	(471)	(229)	185
<b>Cash flow from operation (a)</b>	<b>5,609</b>	<b>7,401</b>	<b>8,481</b>	<b>9,226</b>
Acquisition of fixed assets	(6,853)	(19,350)	(2,783)	(7,500)
CWIP	(6,601)	10,014	(7,717)	-
Acquisition of investments	2,593	(3,682)	1,000	500
<b>Cash flow from investing (b)</b>	<b>(10,862)</b>	<b>(13,018)</b>	<b>(9,500)</b>	<b>(7,000)</b>
Inc. / (Dec.) loan	7,930	3,899	(848)	3,885
Inc. / (Dec) in consumer security deposit	790	753	-	-
Dividend paid including taxes	(585)	(585)	(583)	(585)
<b>Cash flow from financing (c)</b>	<b>8,136</b>	<b>4,067</b>	<b>(1,430)</b>	<b>3,300</b>
<b>Net Cash (a+b+c)</b>	<b>2,883</b>	<b>(1,549)</b>	<b>(2,450)</b>	<b>5,527</b>

### Financial Ratios

Year-end: March	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	32.8	34.7	42.1	45.3
Adj EPS growth (%)	9.1	5.8	21.4	7.6
EBITDA margin (%)	20.1	22.8	28.4	29.4
Pre-tax margin (%)	15.3	15.9	17.0	19.1
ROE (%)	8.7	8.6	9.7	9.6
ROCE (%)	5.6	6.1	8.7	8.7
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	0.3	0.3	0.3	0.3
Leverage factor (x)	2.0	2.1	2.1	2.1
Net margin (%)	13.5	13.2	13.3	14.1
Net Debt/Equity (x)	0.2	0.3	0.3	0.3
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	26	26	25	25
Receivable days	48	55	55	55
Payable days	36	38	35	35

### Valuation

Year-end: March	FY09	FY10	FY11E	FY12E
PER (x)	8.3	7.9	6.5	6.0
Price / Book value (x)	0.7	0.7	0.6	0.6
PCE (x)	5.8	5.3	4.2	4.0
EV / Net sales (x)	1.5	1.5	1.3	1.3
EV / EBITDA (x)	7.4	6.8	4.7	4.3
Dividend Yield (%)	1.5	1.5	1.5	1.5



# Notes

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## Key to Ratings

### Stocks:

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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