

BUY
CMP: Rs. 700.25

12 Months
TARGET: Rs. 827

CESC Limited



Initiating Coverage

As on 04/01/2008

Market Price	700.25
Market Cap. (Rs. Cr.)	8748.92
Book Value per Share	209.27
Market Cap/Sales (TTM)	1.27
52 Week High/Low	715.00/291.05
Face Value	10.00

Codes

BSE Code	500084
ISIN No	INE486A01013
NSE Symbol	CESC
Bloomberg Code	CESC IN
Reuters Code	CESC.BO

Key Ratios

EPS (Rs.)	22.92
P/E Ratio	30.55
P/BV	3.35
EV/EBITDA	7.09
ROE	16.50
Debt-Equity	1.38

RELATIVE TO SENSEX



CESC Ltd. is expected to see good times in future as there would be considerable value creation mainly due to (i) massive power generation capacity addition, (ii) significant value unlocking from the development of its Land Assets and (iii) rapid growth in Organized Retailing Business. At the CMP of Rs 700, CESC stock is trading at FY08E and FY09E P/BV of 3.10x and 2.80x respectively, which is at a discount to its industry peers. Going forward, with progress on new projects we expect CESC's valuation gap vis-a-vis peers to narrow. The stock is trading at 24.11x and 21.64x its FY08 & FY09 earnings and appears fairly valued. We initiate coverage With a "BUY" recommendation and 12-month Target Price of Rs. 827.

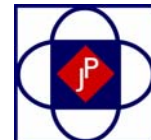
Financial Snapshot

(Rs. Crs.)

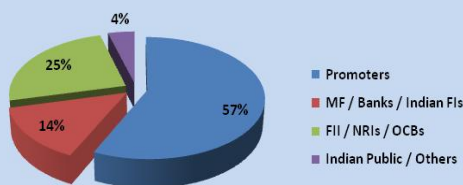
Particulars	FY06	FY07	FY08E	FY09E
Revenue	2516.00	2484.00	2654.80	2865.40
EBITDA	663.00	667.00	703.85	787.75
PAT	177.00	301.00	325.25	362.50
EPS	21.04	34.79	28.20	31.43
P/E	16.32	10.86	24.11	21.64
P/BV	1.73	1.62	3.10	2.80

Investment Rationale:

- CESC Limited a fully Integrated power Utility from the RPG Group, has growth plans to expand its power generation capacity by **more than 5 times to 5125 MW from current 975 MW** by year 2012. The company has **Capex plan of Rs. 54 billion** to be spend in next 4 years.
- CESC has been **allocated coal block at Mahuagarhi in Jharkhand**. The said mine has a reserves of more than 220 million tonnes, CESC will have a **50% stake i.e. 110 million tonnes** which is capable of supporting 1000 MW power plant. This plant will be operated on merchant basis.
- CESC will be pursuing **3000 MW generation capacity via merchant market route** which will enable it to earn considerably **higher profits as returns on such plants are not regulated**.
- CESC is witnessing strong demand growth for power in its licensed area of 567 Sq. Km. covering Kolkata, Howrah and its surrounding areas.



Shareholding Pattern



- During FY07, the **combined PLF for all plants was over 94%**. Budge Budge Plant achieved a **PLF of 99.77%** which ranks among the very best ever achieved by any thermal power station in India.
- CESC has floated 100% subsidiary **CESC Properties Ltd.** to exploit its huge untapped land reserves as well other acquired land. Initially CESC is developing **Central Stores** which will be a state-of-the-art shopping mall in the heart of the city. The company will be **monetizing 3 of its properties** in Kolkata and also other surplus land as and when identified. Overall value unlocking will be substantial once all the properties are developed.
- CESC has merged **Spencer's Retail Ltd.** a RPG Group company, with itself by picking up 94% stake in the company. Spencer's Retail will expand the tradable area from **0.6 million sq. ft. currently to over 4 million sq. ft. by FY 2010.**

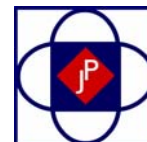
Valuation

PE - EPS Valuation			
NAME OF COMPANY:	CESC Ltd.		
as on	4/1/2008		
Current Market Price	INR 700.25		
Sector P/E	48.64		
F. Y.	EPS	% Increase	BV
31/03/2006	21.04		198.91
31/03/2007	34.79	65.35%	233.13
31/03/2008	28.20	-18.94%	232.88
31/03/2009	31.43	11.45%	259.62
CAGR in EPS		-12.52%	

F. Y.	Forward P/E at CMP	P/E			
		20.00	25.00	27.00	30.00
31/03/2007	20.13	695.80	869.75	939.33	1043.70
31/03/2008	24.83	564.00	705.00	761.40	846.00
31/03/2009	22.28	628.60	785.75	848.61	942.90
Upside Potential in Rs.				826.81	
Upside Potential in %				INR 126.56	18.07%

F. Y.	P/BV at Curr. Price	P/BV at Target of
31/03/2007	3.00	3.55
31/03/2008	3.01	3.55
31/03/2009	2.70	3.18
Sector P/BV	4.80	

The PE – EPS valuation gives a 12 month target of Rs. 827, an upside of Rs. 127 i.e. 18.07% rise from current CMP of Rs. 700.25. The target is derived by giving 25% weightage to the FY08 target and 75% weightage to FY09 target. The share will rise to around Rs. 761.40 for FY08, up by 8.77% from current price. Further, the stock has a potential to rise to the target price as the company has good growth prospects in the long term considering its (i) power generation capacity addition, (ii) significant value unlocking from the development of its land assets and (iii) rapid growth in Organized Retailing.

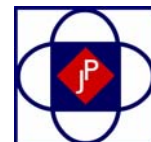


Ratio Analysis

	FY06	FY07	FY08E	FY09E
Valuation (x)				
EPS	21.04	34.79	28.20	31.43
BVPS	198.91	233.13	232.88	259.62
P/E	16.32	10.86	24.11	21.64
P/BV	1.73	1.62	3.10	2.80
EV/EBIDTA	7.05	7.09	13.50	11.50
Profitability (%)				
EBITDA Margin	28.36	27.90	26.51	27.49
Net Margin	7.99	11.88	12.25	12.65
ROE	13.92	16.50	14.00	12.95
ROCE	11.78	12.68	11.45	11.25
Leverage Ratio				
Debt /Equity	1.73	1.38	0.57	0.59
Efficiency Ratio				
Current Ratio	1.42	1.44	1.17	1.06

Relative Valuation

Company	EPS	P/E	P/BV	EV/EBIDTA	EBITDA Margins (%)	RONW (%)
CESC	22.92	30.55	3.35	7.09	27.90	16.50
Neyveli Lignite	4.13	63.66	5.30	4.18	64.81	6.94
NTPC	9.86	27.56	4.55	10.39	39.51	14.50
Reliance Energy	38.48	65.24	6.29	11.03	23.62	10.23
Tata Power Co.	33.24	48.94	4.94	11.55	21.59	12.03
Torrent Power	3.67	68.26	4.37	21.82	15.37	5.38



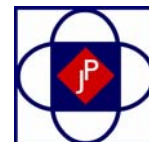
Stock Returns

Date	Closing Price	Stock Return (%)			
		1 Month	3 Months	6 Months	1 Year
04/01/2008	700.25	12.07	23.72	79.16	122.66
03/01/2008	679.2	7.54	20	73.78	113.82
02/01/2008	660.35	5.33	12.29	71.39	108.28
01/01/2008	634.55	0.88	17.27	66.92	98.42
31/12/2007	628.2	0.22	23.62	67.27	97.8
28/12/2007	607.45	3.57	24.69	62.83	91.26
27/12/2007	597.6	2.66	22.67	60.19	93.49
26/12/2007	614.35	3.35	26.63	69.57	96.25
24/12/2007	602.9	2.18	22.08	69.52	94.48
20/12/2007	584.45	-1.46	15.64	66.94	92.32

Quarterly Analysis

	(Rs. Crs.)		
	Q2 FY08	Q2 FY07	% chng.
Net Sales	730.00	675.00	8.15
Other Income	38.00	21.00	80.95
Total Income	768.00	696.00	10.34
Total Expenditure	589.00	534.00	10.30
EBITDA	141.00	140.00	0.71
Interest	34.00	42.00	-19.05
Depreciation	40.00	41.00	-2.44
Tax	12.00	10.00	20.00
Profit After Tax	93.00	69.00	34.78

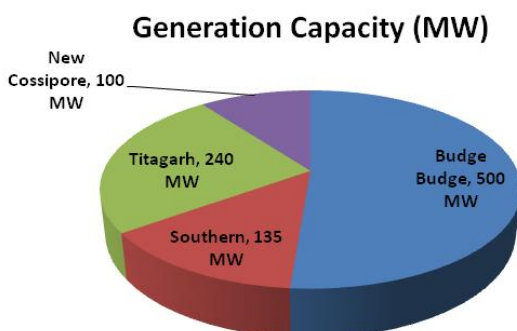
- CESC has reported 8% growths in revenues to Rs 730 crore in the quarter-ended Sep'07.
- Thermal power generation of the company has reported growth of 1% to 2082.4 MU.
- The EBITDA has declined by 160 basis points to 19.3% of sales.
- Due to fall in margins the operating profits have remained flat at Rs 141 crore.
- However due to increase in other income, decline in interest & depreciation and extraordinary income of Rs 12 crore net profit of the company was up by 35% to Rs 93 crore.



Company Overview

CESC Ltd. is 110 year old fully Integrated power Utility from the RPG Group. The company generates and distributes power to 2.2 million consumers in its licensed area of 567 Sq. Km. covering Kolkata, Howrah and its surrounding areas. CESC at present has four generating stations:

Generating Station	Capacity (MW)
Budge Budge	500
Southern	135
Titagarh	240
New Cossipore	100
Total	975

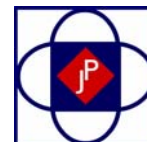


CESC meets 88% of its energy requirement from its own sources while the peak energy shortfall is imported. CESC holds 26% stake in another RPG Group company Integrated Coal mining Ltd (ICML) which provides around 50% of CESC's total coal requirement (4.8 MT). Remaining coal requirement is sourced from Coal India Ltd. and from imported coal.

New Businesses

CESC has floated 100% subsidiary "CESC Properties Ltd" to develop real estate projects by utilizing idle company assets for additional income generation and Capital appreciation.

The company has also diversified into organised retail business by merging group company, Pathik Foods Private Limited with which holds around 94% stake in "Spencer Retail Ltd".



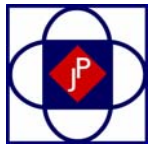
Future Growth Plans

Power Business

Growth Plans for Kolkata – Rs. 54 billion

Segment	Cost	Status
250 MW 3 rd unit - Budge Budge	Rs. 11.75 billion	EPC Contract awarded to BHEL Construction work started Target completion by Sept '09
600 MW Haldia Project (Phase I)	Rs. 26 billion	70% land acquired Long Term fuel linkage obtained Evacuation feasibility study completed Target completion by 2011
Additional interfaces to receive 700 MW peak power Additional transmission capacity Network reorganization Connectivity to National grid	Rs. 4.50 billion	Project planning complete Equipment procurement initiated Work to commence shortly Target completion by 2011
Rs. 3 bn+ expenditure on routine distribution capex for new connections - Next 4 years	Rs. 12 billion	Annual Planning done regularly Regulatory approvals taken

- CESC Limited growth plans to expand its power generation capacity by more than 5 times to 5125 MW from current 975 MW by year 2012. The company has Capex plan of Rs. 54 billion to be spend in next 4 years.
- CESC has been allocated coal block at Mahuagarhi in Jharkhand. The said mine has a reserves of more than 220 million tonnes, CESC will have a 50% stake i.e. 110 million tonnes which is capable of supporting 1000 MW power plant. This plant will be operated on merchant basis.
- 250 MW Budge Budge plant has been implemented. EPC contract for the project has been awarded to BHEL. Total cost of the project will be Rs. 11.75 billion and it is expected to be commissioned by September 2009.
- Land has been acquired and coal linkage has been obtained for the 600 MW Haldia project (phase I). Total cost of the project will be Rs. 26 billion and is expected to be commissioned by FY11. Environmental clearance for the project is has been cleared.
- CESC will be spending Rs. 450 billion towards additional interface to receive 700 MW peak power, additional transmission capacity etc and Rs. 3 billion towards routine distribution capex.



National Footprint Projects

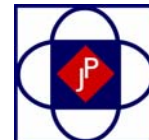
Project	Initiatives
Haldia – 1,000 - 1,300 MW Phase II	Land acquisition process on Pursuing Coal Allocation Pre-feasibility studies nearing completion
Jharkhand – 1000 MW	MoUs signed Coal block allocation for 110 MT at Mahuagarhi received
Orissa – 1000 MW	MoUs signed Pre-feasibility studies on

- CESC will be pursuing 3000 MW generation capacity via merchant market route which will enable it to earn considerably higher profits as returns on such plants are not regulated.
- For this national footprint projects CESC has signed a MoU with the government of Jharkhand to implement a 2000MW power project, of which 1000MW would be commissioned with the Mahuagarhi coal mine allocation.
- MoU has also been signed with the government of Orissa to set up a 2000MW power project (phase I, 1000MW) and pre - feasibility studies are on.

Real Estate Business

Being a 110 year old utility CESC has a huge unexplored land bank. CESC has floated a 100% subsidiary “**CESC Properties Ltd.**” to develop this land bank. This company will be mainly engaged in utilizing idle company assets for additional income generation and Capital appreciation.

- Initially the company focus is on developing **3 acres** of land at central Kolkata. CESC Properties has planned to develop a **4 million sq. ft** International standard premium shopping mall along with 900+ car parking. Work is to commence in Dec '07 and is likely to be completed by FY10.
- CESC Properties will be developing **35 acres of idle Land at Mulajore** Generating Station, which was sixty years old and was closed down, as it was not found techno economically viable to continue operation there.
- The company also plans to **monetize its 27 acres of land at New Cossipore plant** which would be shut down by Sept '09, post commissioning of the 250MW Budge Budge unit.
- The subsidiary is also in the process of identifying other surplus land besides acquiring land for development.









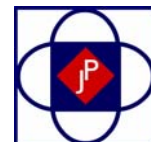
Retail Business

In FY07 CESC entered Retail business by **merging RPG Group Company Pathik Food** with itself. Pathik Foods holds **94% stake in Spencer's Retail Ltd.**

- Spencer has a range of format stores like "Daily", "X-Press", "Super" and "Hyper" to cater to different customer segments.
- Spencer's Retail will expand the tradable area from 0.6 mn sq. ft. currently to **1.5 mn sq. ft. by FY08 and to over 4 mn sq. ft. by FY10.**
- Spencer's Retail is currently making losses; company management expects to turn it profitable by FY10.

Spencer's - Retail Formats

	Area in Sqft	Assortment Mix
 Convenience store	3000 - 5000	Fruits & Vegetables, Beverages, Staples, Ready to eat, Processed Foods, Takeaways, Bakery, Home & Personal care, Fish, Meat, etc.,
 Convenience store	1400 - 1800	Store Next Door With essential SKU's from above
 Convenience store	10000-18000	Full offering of Daily's + Home, Brown Goods, Select Apparel
 Destination store	30000-75000	Full Offering of Super's + Full range HWP & Apparel, White Goods, Electronics & Electricals
Specialty Verticals  		



Cash Flow Summary	FY07	FY06
Cash at Beginning of the year	395.93	165.14
Net Cash from Operating Activities	1063.26	722.79
Net Cash Used in Investing Activities	-554.85	-192.95
Net Cash Used in Financing Activities	-172.9	-299.05
Cash at End of the year	731.44	395.93

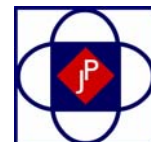
Profit and Loss Statement

	(Rs. Cr.)			
	FY06	FY07	FY08E	FY09E
Net Sales	2516.00	2484.00	2654.80	2865.40
Other Income	74.00	93.00	113.45	106.05
Total Income	2590.00	2577.00	2768.25	2971.45
Total Expenditure	1927.00	1910.00	2064.40	2183.70
EBITDA	663.00	667.00	703.85	787.75
Interest	212.00	168.00	164.20	171.30
EBDT	451.00	499.00	539.65	616.45
Depreciation	254.00	158.00	170.05	204.50
Tax	17.25	40.00	44.35	49.45
Profit After Tax	177.00	301.00	325.25	362.50

Balance sheet

	(Rs. Cr.)			
	FY06	FY07	FY08E	FY09E
SOURCES OF FUNDS				
Share Capital	82.98	84.98	116.00	116.00
Reserves Total	3605.87	3730.18	3982.50	4243.80
Total Shareholders Funds	3688.85	3815.16	4098.50	4359.80
Total Debt	2469.50	2550.83	2342.60	2586.60
TOTAL LIABILITIES	6158.35	6365.99	6441.10	6946.40
APPLICATION OF FUNDS				
Gross Block	8261.00	8469.58	8719.60	8979.60
Less: Accumulated Depreciation	2826.65	3179.49	3349.00	3525.20
Net Block	5434.35	5290.09	5370.60	5454.40
Capital Work in Progress	131.44	265.68	615.70	1155.10
Investments	31.37	241.37	261.10	261.10
Current Assets, Loans & Advances	1338.86	1624.76	1264.40	1141.10
Less: Current Liabilities and Prov.	787.68	1065.21	1079.30	1073.20
Net Current Assets	551.18	559.55	185.10	67.90
Miscellaneous Exp not w/off	10.01	9.30	8.60	7.90
TOTAL ASSETS	6158.35	6365.99	6441.10	6946.40

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