

BUY

Price	Rs479
Target Price	Rs643
Investment Period	12 months

Stock Info

Sector	Power
Market Cap (Rs cr)	6,016
Beta	1.0
52 WK High / Low	715 / 320
Avg Daily Volume	103379
Face Value (Rs)	10

BSE Sensex	16752
Nifty	4958

BSE Code	500084
NSE Code	CESC
Reuters Code	CESC.BO
Bloomberg Code	CESC IN

Shareholding Pattern (%)

Promoters	52.5
MF/Banks/Indian FIs	13.4
FII/ NRIs/ OCBs	23.9
Indian Public/Others	10.3

Abs.	3m	1yr	3yr
Sensex (%)	(1.2)	21.4	157
CESC (%)	(4.7)	26.8	160

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Performance Highlights

- Topline grew 16.8%:** CESC grew its Top-line by 16.8% to Rs638cr (Rs546cr) in 4QFY2008, while overall for FY2008 it posted a growth of 11.8% to Rs2,777cr. Topline grew primarily due to improved PLF to 97.3% (94.2%) in FY2008, which is excluding the new Cossipore generation capacity, which is used as a peaking station, and pruning T&D losses. The Budge Budge plant was operating at above 100% PLF, which proves that the company is one of the most efficient power producers in India. CESC also recorded higher generation and sales of 7,978 million units (MU) and 7,387MU of power during FY2008, respectively.
- Higher Fuel cost impacts Margins:** Operating Margin fell by 190bp to 19.7% in 4QFY2008 as against 21.6% in 4QFY2007, on account of increase in fuel costs and higher cost of purchased power. However, EBITDA grew moderately by 7% to Rs126cr (Rs118cr) in 4QFY2008. We expect CESC to improve Margins to 22% and 23.8% in FY2009 and FY2010 respectively, partially aided by price increase and incentives due to higher PLF.
- Lower Interest and higher Other Income boosts Bottomline:** CESC recorded a yoy 14% decline in Interest costs to Rs31cr (Rs36cr). The company's Bottomline grew 41% yoy to Rs86cr. Adjusted PAT in FY2008 stood at Rs331cr (Rs298cr), a growth of 11%. In FY2008, Other Income increased to Rs121cr (Rs93cr), which boosted the Bottom-line.
- Capacity addition on track:** The company is expanding its power generation capacity by 4,150MW from the current 975MW by FY2013. For most of the projects the expansion is on track. The company expects the 250MW Budge Budge plant to operate from September 2009. On a conservative basis we have assumed only three month numbers in our FY2010 projections.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	2,484	2,777	2,952	3,217
% chg	-	11.8	6.3	8.9
Adj. Net Profit	298	331	352	404
% chg	68.0	11.1	6.3	14.7
OPM (%)	23.1	20.0	22.0	23.8
EPS (Rs)	35.4	28.1	28.0	32.2
P/E (x)	13.5	17.0	17.1	14.9
P/BV (x)	2.0	2.1	1.9	1.7
RoE (%)	15.1	12.1	11.0	11.4
RoCE (%)	9.8	7.7	8.3	9.1
EV/Sales (x)	2.2	2.5	2.5	2.4
EV/EBITDA (x)	9.4	12.5	11.4	9.9

Source: Company, Angel Research

Key Developments

Operational highlights

In FY2008, CESC's total power generation stood at 7,978 million units as compared to 7,702 million units in FY2007. The average tariff for 2007-08 determined by WBERC was Rs3.75/Kwh. However, the tariff has been provisionally increased by 10 paise/Kwh with effect from February 1, 2008 to cover the increase in fuel prices.

Developments in FY2008

- Progress on the 250MW third unit at Budge Budge has been satisfactory and loan disbursements for the project are continuing.
- The company exported 441 million units of power at higher Margins compared to last year.
- During the year, the company raised Rs600cr Equity via QIP route to fund its expansion plans.
- During FY2008, the holding company of Spencer Retail was merged with CESC. The Retail Division currently operates 1.14mn sq ft of trading area and hopes to increase this to almost 3mn sq ft by FY2010.
- The company has acquired 70% of the land to be used for Phase I of the Haldia Project (600MW). Coal linkage has also been obtained. The company is in the process of complying with the terms of reference to obtain the final environmental clearance.
- Joint allocation of the coal block (110mt) was obtained in Jharkhand for setting up a 1,000MW merchant power plant. The company is also exploring opportunities both in and outside West Bengal for more merchant power plants.
- The property company, a 100% subsidiary, is also gearing up its activities. Development work on the shopping mall is also in progress. New locations in and out of Kolkata are also being identified for development.

Exhibit 1: Generation – Capacity Expansion from 975MW to 5,000MW					
Location	Purpose	Size	Cost (Rs cr)	Year of Commissioning	Remarks
Budge Budge (West Bengal)	License Area	250MW	1,200	2009-10	Under implementation; commissioning in Sep'09
Haldia Phase 1	License Area	600MW	2,600	2010-11	70% Land acquired; long term linkage obtained Evacuation & Railways feasibility study completed; NOC obtained for Water drawal.
Dumka, Jharkhand	Merchant	1,000MW	4,000	2011-12	110mt coal block allocated; MoU signed with Jharkhand Govt. Land acquisition process initiated.
Dhenkanal, Orissa	Merchant	1,000MW	4,000	2012-13	MoU signed; land acquisition process initiated; Coal allocation being pursued
Thermal/Hydel power plants in WB and other states	Merchant	1300-1,500MW	6,000	2012-13	
		4,150-4,350MW	17,800		

Source: Company

Outlook and Valuation

We remain positive on the domestic Power Sector and expect it to grow in line with the country's GDP growth. Our positive stance stems from the fact that peak power demand in excess of 13% gives immense opportunity to players like CESC, who are in a position to tap this huge opportunity on account of their vast experience. Further, with the company also having huge expansion plans which are on track, we believe rapid growth would continue going ahead.

Retail Business

The company has chalked out huge expansion plans for its Retail business and is increasing its tradable area at a brisk pace. CESC's Retail business is currently in losses but it is expected to turn profitable by FY2010. Hence, we have valued the company's Retail business at a discount to its peers at 0.7x FY2010E sales, which gives us a value of Rs118 per share.

Exhibit 2: Revenue growth in Spencer's retail

Spencer's Retail	FY2007	FY2008E	FY2009E	FY2010E
Sales (cr)	496	850	1,539	2,244
Store (No)	124	400	720	1,050
Trading area (Sq ft)	5,64,000	11,40,000	20,52,000	29,92,500
Avg size/store(Sq ft)	4,548	2,850	2,850	2,850
Avg sales/Sq ft	8,794	7,456	7,500	7,500
Market cap/Sales 0.7x (FY2010)				1,571
Per share				125
CESC stake in Spencer's (94%)				118

Source: Company, Angel Research

Real Estate

CESC is required to share one-third of the gains from its Real Estate business with its consumers as mandated by the regulator. Thus, the company's mall project is structured in such a way that CESC Properties would earn income from the project and pay rental for the land to CESC. Thus, out of the rental, one-third will be passed by the parent company to its utility customers. We have valued the company's mall at Central Kolkata and the land at Mulajore (35 acres) on NPV basis. We have arrived at Rs30 per share for CESC's Real Estate business.

Exhibit 3: Valuation of CESC Properties

	35 acre land at Mulajore.	4lac sq ft of mall to be developed
Sq ft	15,24,600	4,00,000
FSI of 1x	15,24,600	
Permitted Developable Area	15,24,600	4,00,000
Developed Area (Disc)	12,19,680	
Occupancy	9,14,760	3,40,000
Rate/month	40	100
Avg yearly revenue	43.9	40.8
Capatilisation Rate (%)	10	10
Capital Value	439.1	408.0
NAV (Rs cr)	326.3	303.2
NAV/Per share	25.9	24.1
Capital value of Property	50.0	
CESC stake @ 60%	30.0	

Source: Company, Angel Research

Going forward, we expect expansion of Spencer's Retail and implementation of the company's Real Estate project to further augment its Profits.

Exhibit 4: Relative Valuation (FY2010E)

Company	Sales (Rs cr)	PAT (Rs cr)	P/E (x)	P/B (x)	RoE (%)
NTPC	45,769.0	9,305.0	17.0	2.5	15.0
Tata Power	7,804.7	849.3	34.5	3.3	9.7
CESC	3,216.5	404.0	15.2	1.7	11.4
REL	8,759.7	1,264.0	26.3	2.2	9.6

Source: Bloomberg, Angel Research

We expect CESC to record a CAGR growth of 7.6% in Top-line over FY2008-10, while Bottomline would grow at a CAGR of 10.4% in the mentioned period. At the CMP, the stock is trading at 14.9x FY2010E EPS and 1.7x FY2010E P/BV. We have introduced our FY2010 estimates. We have also assigned a lower FY2010 P/BV multiple to the company's existing Power business at 1.75x (earlier 2.5x FY2009E) owing to drop in relative valuations. Hence, we revise our SOTP Target Price to Rs643 (Rs723). Nonetheless, considering that the company is inexpensive in terms of P/BV on FY2010E basis, **we maintain a Buy on the stock.**

Exhibit 5: Sum-of-the- Parts Valuation

Business Portfolio	Methodology	Value/Share (Rs)
Existing Power plant	1.75 * FY2010E BV	495
Retail- Spencer's (94% stake)	0.7 * FY2010E Sales	118
Real Estate	NAV	30
Total		643

Source: Angel Research

Exhibit 6: FY2008 Performance

Y/E March (Rs cr)	4QFY2008	4QFY2007	chg (%)	FY2008	FY2007	chg (%)
Net Sales	638	546	16.8	2,777	2,484	11.8
Other Income	42	28	50.0	121	93	30.1
Total Income	680	574	18.5	2898	2,577	12.5
Expenditure						
(a) Fuel Cost	211	179	17.9	863	843	2.4
(b) Personnel Cost	83	71	16.9	310	278	11.5
(c) Power Purchase	53	37	43.2	379	268	41.4
(e) Other Expenditure	165	141	17.0	669	521	28.4
Total Expenditure	512	428	19.6	2221	1910	16.3
Operating Profit (EBITDA)	126	118	6.8	556	574	(3.1)
OPM (%)	19.7	21.6	(8.6)	20.0	23.1	(13.4)
Depreciation	40	41	(2.4)	164	158	3.8
EBIT	86	77	11.7	392	416	(5.8)
Interest	31	36	(13.9)	137	168	(18.5)
PBT	97	69	40.6	376	341	10.3
Exceptional Income	0	0		25	0	
Profit Before Tax	97	69	40.6	401	341	17.6
Tax	11	8	37.5	47	40	17.5
Profit After Tax	86	61	41.0	354	301	17.6
Eq. Capital	126	85		126	85	

Source: Company, Angel Research



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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)