



HDFC securities

Equity
Research

Pick_{of the}
week

RETAIL DESK

Industry	CMP	Recommendation	Add on dips to	Sequential Targets	Time Horizon
Power/Diversified	Rs. 1040	Buy at CMP and add on declines	Rs. 940-950	Rs. 1170-1238	4-6 Quarters

CESC, the flagship company of RP-Sanjiv Goenka group, is a vertically integrated power utility engaged in generation, transmission and distribution of electricity to the consumers in Kolkata and Howrah covering an area of 567 sq.km. and catering to over 3 mn customers. It has a combined generation capacity of 2365 MW of thermal power, wind mills of 146 MW and solar power plant of 18 MW. Besides this CESC has power distribution licenses in Kota, Bharatpur, Bikaner and Noida. It is also into organised retail (Spencer's), business process management (Firstsource Solutions) and real estate (Quest mall).

Investment Rationale

- Substantial value unlocking expected from the proposed demerger
- Core business showing strong improvement
- Significant improvement in Spencer's – likely to turn EBITDA positive
- Improving margins at Firstsource Solutions (FSL)

Concerns

- Continued non-core diversification in future could impact valuations
- Higher than expected losses in retail business or larger turnaround time
- Significant delay in securing PPA at Chandrapur
- Cut in regulated ROE and tighter norms

View and Valuation

CESC is one of the most efficiently managed integrated private power utility company in India. Besides power generation the company is also engaged in distribution business, organized retail, business process management and real estate. Over the last 1 year all the business segments have shown significant improvement. The company is now looking to demerge its businesses into separate entities so that it can have a simplified and concentrated portfolio which would drive value unlocking. While the generation and distribution entities earn strong cash flows, financial support lent to the retail business has been a drag.

The proposed restructuring should result in re-rating of the core business and the improving performance of the other entities would further add value to the current consolidated stock.

We have valued the company on SOTP basis feel investors could buy the stock at the CMP and add on dips to Rs. 940-950 band for sequential targets based on SOTP value discussed below of Rs 1170 and Rs 1238 in 4-6 quarters.

HDFC Scrip Code	CESLTDEQNR
BSE Code	500084
NSE Code	CESC
Bloomberg	CESC IN
CMP Sep 01 2017	Rs. 1039.80
Equity Capital	132.56
Face Value (Rs)	10.0
Eq- Share O/S (mn)	132.6
Market Cap (Rs bn)	137.8
Book Val (FY17-Rs)	1000.1
Avg.52 Wk Volume	630000
52 Week High	1050.5
52 Week Low	539.1

Shareholding Pattern % (June 30, 17)	
Promoters	49.9
Institutions	40.9
Non Institutions	9.2
Total	100.0

FUNDAMENTAL ANALYST

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KEY HIGHLIGHTS

- ***CESC is the flagship company of the RP-Sanjiv Goenka Group with interests in power generation, organised retail, business process management and infrastructure sectors.***
- ***Proposed demerger and restructuring of business would create four distinct entities and substantial value unlocking for investors***
- ***Spencer's Retail which has been the company's weak point has achieved cash breakeven and likely to achieve PAT breakeven by FY19.***
- ***FSL margins have been improving and with recent order from Sky in US it is expected to do well.***

Financial Summary – Standalone :

Particulars (Rs mn)	Q1FY18	Q1FY17	YoY-%	Q4FY17	QoQ-%	FY16	FY17	FY18E	FY19E
Net Sales	21840	20120	16.9	19,130	6.9	66,080	74,102	76,125	79,794
EBITDA	6070	5110	19.7	5,450	44.9	17,441	18,113	17,355	18,127
PAT	1780	1740	32.7	2,950	52.1	8,451	8,629	9,100	9,604
Diluted EPS (Rs)	13.4	13.1		22.2	52.1	63.4	64.8	68.3	72.1
P/E (x)						16.4	16.1	15.2	14.4
EV / EBITDA (x)						10.2	10.2	10.4	9.8
RoE (%)						6.5	6.6	6.7	6.7

Source: (Company, HDFC sec)

Company Profile:

CESC Ltd (CESC), is the flagship company of the RP-Sanjiv Goenka Group. It is a fully integrated power utility engaged in the business of generation and distribution of electricity across 567 sq.km. of its licensed area in Kolkata and Howrah, West Bengal. It supplies quality power to over 3.1 million customers — both consumer households and commercial establishments. Apart from spearheading the Group's interest in the power sector, it has been active so far in renewable and thermal power generation, organised retail, business process management and infrastructure sectors.

Currently, on a standalone basis, CESC owns and operates four thermal power plants generating 1,125MW power. These are the Budge Budge generating station (750 MW), Southern generating station (135 MW) and Titagarh generating station (240MW). On a consolidated basis, CESC owns a total capacity of 2530 MW as it added 1200 MW thermal capacity (viz. 600 MW Chandrapur plant- Dhariwal Infrastructure and 600 MW Haldia project), 146 MW of wind mills, 18 MW solar power project and 40 MW coal reject based power plant. More than 80% of its customer's electricity requirement is met from its own generating plants while the balance electricity is purchased from outside. About 50% of the coal requirement is sourced from captive mines. CESC owns and operates the T&D system, which comprises 474 km circuit of transmission and 85 distribution stations.

The business works on a regulated return model. CESC's operating area is regulated by the West Bengal Electricity Regulatory Commission (WBERC), which typically sets return and operating norms for a period of three years. CESC is assured post- tax equity return of 15.5% in generation and 16.5% in distribution on normative equity. However, CESC has generated RoE of ~18-20% on normative equity over FY10-17. The top-up is from incentives and savings from efficient operations (performing better than the normative level set by the regulator).

Non-core businesses
Firstsource Solutions

Spenn Liq Private Limited, a wholly owned subsidiary of CESC, purchased a majority stake in Firstsource Solutions Ltd (FSL) in 2012-13. FSL (owned ~55% by CESC) is in the business of providing Business Process Management (BPM) services in

customer management, transaction processing and collections to Fortune 500 and FTSE 100 companies in the USA and the UK as well as to companies in India in the healthcare, telecom and media, banking, financial services and insurance and the mortgage sectors.

Spencer's Retail

Spencer's Retail Limited (SRL) is the flagship company of CESC in retail with 124 stores, including 39 hypermarkets, across India under the Spencer's brand name (as of March 2017). These stores cater to all family needs: groceries, home and personal care products, apparel and accessories, consumer durables and lifestyle products. In FY17 SRL has improved its performance significantly reducing its EBITDA loss from Rs 528 mn in FY16 to Rs 171 mn in FY17. In the last quarter of FY17, it launched a new range of apparel under the brand name "2Bme". It has also started online sales and plans to roll out 11 new stores (including 5 hypermarkets) in FY18.

Quest Properties

Quest Properties India Limited (QPIL), a wholly owned subsidiary of CESC, launched Kolkata's first upscale shopping mall, the Quest in November 2013. It has been a huge success deriving annual footfall of about 12 million and a combined gross sale of around Rs 5.8 bn by all retailers. QPIL is implementing a residential project in Haldia to cater to the housing requirement of some large corporate houses and individual residents in the port township. The project will be spread across 3.5 acres of land and will be carried out in phases. Contracts for Phase I which includes a saleable area of 0.2 million square feet have already been executed. Construction is in progress as per the schedule, and the handover is expected to take place in 2018-19.



Financial Performance of Key Subsidiaries – FY`16-17

	Revenue (Rs. Crs)	EBIDTA (Rs. Crs)	PAT (Rs. Crs)
CESC (standalone)	7367	2031	863
Haldia Energy	2045	930	297
Dhariwal Infrastructure (not fully functional)	509	75	(484)
Crescent Power	171	91	48
Noida Power Company (Associate)	1115	250	98
Spencer`s Retail	2021	(17)	(108)
Firstsource Solutions	3456	438	280
CESC (consolidated)	14202	3417	691

Investment Rationale:

Substantial value unlocking expected from proposed demerger

CESC’s proposed demerger plan will lead to substantial value unlocking. The move would bring with it benefits like (1) Isolation of cash flows of the Power vertical from other businesses (one of the investors’ key concerns) and (2) The opportunity to invest in a pure-play power distribution business, with steady cash flows and growth. The demerger also signifies management’s confidence in a sustainable turnaround in Spencer’s operations. Post the demerger, several assets (stake in Noida Power, renewables and others) would get their fair value which was not the case in the conglomerate structure.

Restructuring of business to create 4 distinct entities

CESC	CESC Genco –	Spencer’s Retail	CESC Ventures
<ul style="list-style-type: none"> • Electricity Distribution to 3 mn consumers over 567 sq km of Kolkata and Howrah. • Electricity Distribution spanning 335 sq km area of Greater Noida • Distribution Franchisee in 3 cities (Rajasthan) Kota, Bharatpur and Bikaner 	<ul style="list-style-type: none"> • 1125 MW Thermal Power plant incl Budge Budge, Southern and Titagarh generating station alongwith other facilities • 600 MW Haldia TPP • [all catering to Kolkata license area] • 600 MW Chandrapur TPP • 40 MW rejects based power plant • Around 190 MW renewable energy portfolio 	<ul style="list-style-type: none"> • PAN India Organized Retail player with 1 mn+ sqft area and 124 stores spread over 35+ cities 	<ul style="list-style-type: none"> • Firstsource Solutions Ltd: Business Process Management (BPM) company in India. • “Quest” Shopping Mall in Kolkata with 4,15,000 sq.ft retail area. • FMCG business

(Source: Company)

The business would be divided into four distinct parts in the restructuring process – (i) distribution (Kolkata and franchisee assets), (ii) generation (Kolkata, Chandrapur and Haldia), (iii) retail (Spencers and Music World) and other ventures (First Source and Quest Mall). All the four entities would be eventually listed on the stock exchanges and shareholding would be a mirror image and does not entail any change in ownership structure, with extant shareholders in CESC holding the same percentage of share in the newly formed entities. We view the re-structuring positively, as it will prevent future cash support from the stable and growing power business to incubate non-related business ventures within the group.

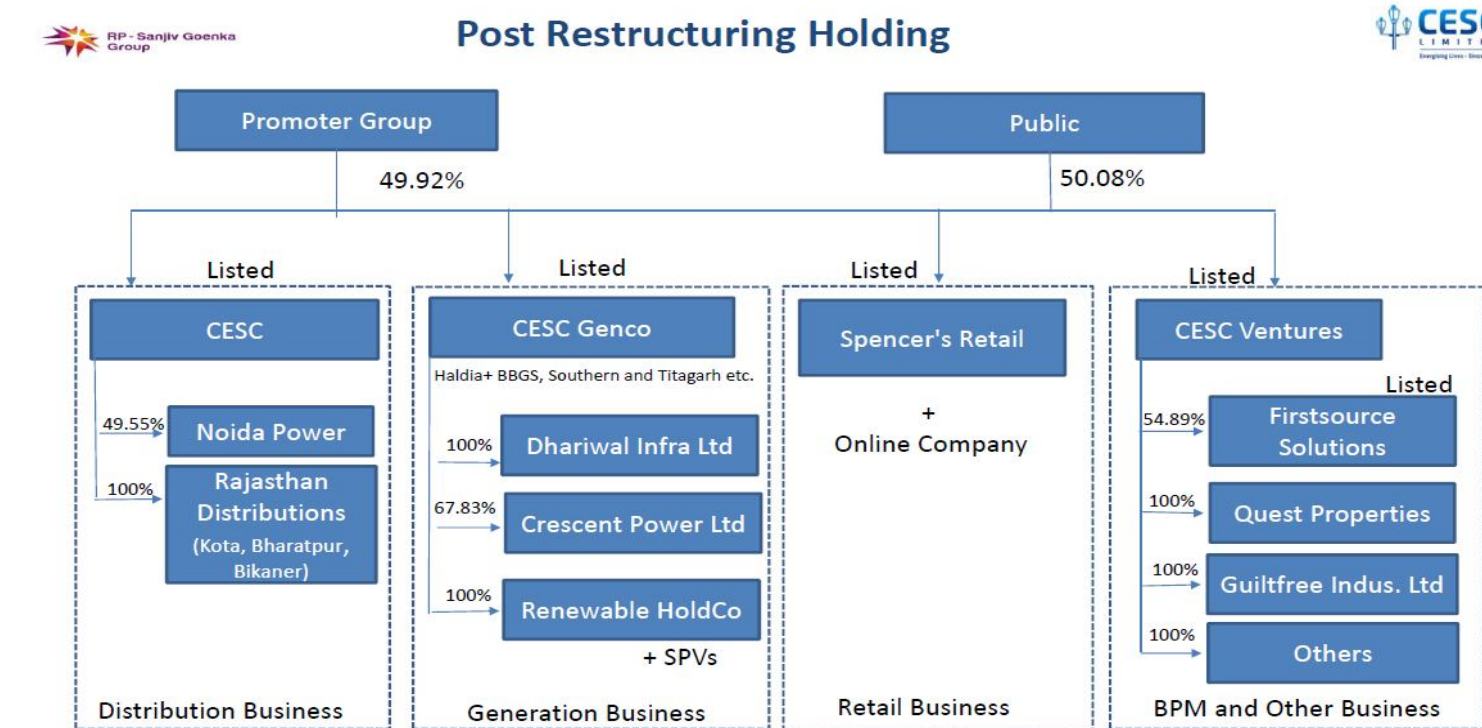
The exercise will result in increased focus on the individual businesses to enhance efficiencies, accelerate growth and facilitate access to capital. Each business has varied risk and return profile and different working capital requirements.

CESC is awaiting National Company Law Tribunal (NCLT) approval for its demerger (which will happen after following due process of approvals from shareholders/creditors etc) and has appointed 1st October 2017 as the effective date for segregation of accounts of the proposed demerged companies. All regulatory approvals may be obtained within the next 3-4 months and listing of the demerged entities could happen by the end of Q4FY18 or Q1FY19.

Demerger Share allotment ratios

- CESC: For every 10 shares of Rs.10 each held in CESC, 5 shares of CESC Distribution of Rs.10 each
- CESC Genco: For every 10 shares of Rs.10 each held in CESC, 5 shares of CESC Genco of Rs.10 each
- Spencer's Retail: For every 10 shares of Rs.10 each held in CESC, 6 shares of Spencer's Retail of Rs.5 each
- CESC Ventures: For every 10 shares of Rs.10 each held in CESC, 2 shares of CESC Ventures of Rs.10 each

Post restructuring structure



(Source: Company)

Re-structuring may help alleviate concerns on investments in non-power business

CESC has invested a significant amount over the last few years in non-core business like organized retail which was merged with the company, followed by investing in Firstsource and buying up a cricket team in most recent times. These investments have not been value accretive and therefore not been well received by the investor fraternity. The proposed re-structuring wherein all the businesses would be separated and listed in due course would provide an exit opportunity to investors who may prefer to invest in a particular segment of the business and not in other. It is also likely to alleviate concerns on the investments made in non-power businesses.

Core business showing strong improvement

CESC owns and operates three thermal plants in standalone entity - Budge Budge (750 MW), Southern (135 MW) and Titagarh (240 MW) - generating 1125 MW of power. Despite a 13.4% decrease in generation to 6053 mn units, revenues of the standalone book increased by 6.4% to Rs 7367 cr. On a consolidated basis the company has a total thermal capacity of 2325 MW as it added 600 MW in Chandrapur plant – Dhariwal Infrastructure and 600 MW in Haldia plant. Besides CESC also has 18 MW solar power, 146 MW wind mills and 40 MW coal reject based power plant. The Haldia plant has a long term PPA with the holding company for selling the entire power generated. In FY17 it had a PAF of over 95% and PLF of 76.7%.

The Chandrapur plant is Supplying 100 MW to TANGEDCO under long term PPA. The Chandrapur plant's performance is likely to improve as the company is trying to convert short term PPA of 270MW unit with the Maharashtra government to a long term one. The Chandrapur plant's PLF has improved from ~28% in FY17 to 54% in Q1FY18 as 187MW power supply to Noida Power has commenced, in addition to 100MW power supply and merchant market sales. It is actively seeking buyers for tying up Chandrapur's remaining 300MW capacity. Improved utilisation at Chandrapur will lower plant-level losses which would boost CESC's consolidated earnings.

Plant-wise: Capacity, Generation and PLF (FY17)

Plant	MW	Generation	PLF	Remarks
Budge Budge	750	5411	82.4%	
Southern	240	410	34.6%	
Titagarh	135	233	11.1%	
Kolkata Total	1135	6053	61.4%	Regulated PPA with Kolkata discom
Haldia	600	3701	76.7%	Regulated PPA with Kolkata discom; Includes a transmission line
Chandrapur	600	1410	29.3%	100MW tied up with Tangedco; 187MW with NPCL
Crescent Power	40	NA	NA	Coal reject based power plant; CESC owns 67.83% stake
Surya Vidyut	165	NA	NA	150MW Wind and 15MW Solar
Total	2530			

Opportunity to invest in a pure-play discom

CESC's distribution entity will comprise discoms of Kolkata and Noida, and franchises of Kota, Bharatpur and Bikaner. Of the above, Kolkata and Noida discoms are matured assets, with several years of sustained profitability and cash flows. In

the Noida discom, CESC holds 49.55% stake, which was bought for a sum of Rs 300mn in FY15. The stake was purchased from CESC's promoters at face value (Rs 10 per share). Importantly, NPCL reported PAT of Rs 970mn in FY17. The Noida discom has been present for over 24 years, and caters to customers in Greater Noida. It has expanded its customer base from ~4.7k in 1993 to ~76k in 2017. While large and heavy industries constitute ~59% of its energy sales, rural, institutional and smaller industrial consumers constitute the balance 41%. Despite concerns of power theft and substantial use of electrical gadgets in rural areas with a reluctance to pay, the company has been able to maintain T&D losses at a very efficient level of ~8%.

Noida Power: Key Financial highlights

Particulars (Rs mn)	FY15	FY16	FY17
Regulated Equity	2,408	2,923	3,609
PAT (regulated + unregulated)	504	1,204	970
Other income	142	160	NA
Networth	5,512	6,623	NA
Debt (long term + short term)	4,271	3,273	NA
Other long term liabilities	1,523	1,623	NA
Gross Fixed asset	9,212	10,627	NA

CESC was awarded distribution franchise for Kota, Bharatpur and Bikaner in Rajasthan which have become operational. CESC's power business has one of the best operating matrices in the country. The distribution franchise business is quite an asset-light model, wherein the capex would be employed only in strengthening of existing infrastructure (replacement of transformers, meters and cables). As per management, all three franchises together would have a capex of ~Rs 4bn over the next three years. As against this, FY18E cumulative revenue is slated to be ~Rs 11 to 12bn (~3x the total capex).

The AT&C losses currently stand at 29% in Kota, while it is 27.0/24.5% at Bharatpur/Bikaner. The company expects to reduce these to ~15% over the next three years. Reduction in AT&C losses would be one of the key drivers of profitability in the franchise model. The company expects all the three franchises to be profitable in 18 months from the date of commencement of operations. Based on our calculations, we estimate the payback period of 24-36 months, as against the franchise period of 20 years.

Its core business Power distribution will be the first distribution entity to be listed in India.

Details of three Discom Franchise

Franchise	COD	Area (sq km)	Registered consumers	AT&C losses	Capex (Rs mn)	Ann. revenue FY18E (Rs mn)
Kota Electricity Distribution Ltd	Sep-16	150	176,000	29.0%	2,500	7,000
Bharatpur Electricity Services Ltd	Dec-16	50	52,000	27.0%	500	2,000
Bikaner	May-17	155	142,000	24.5%	1,150	3,500

Significant improvement in Spencer's – likely to turn EBITDA positive

Spencer's Retail has been the company's weak point for quite some time dragging down the consolidated valuation. Until now, CESC has made a total investment of ~18bn in the retail business. Although the company is yet to break-even on operating levels, its performance has improved significantly. After several rounds of restructuring operations, Spencer's has finally reached cash breakeven in FY17.

Over the last five years, Spencer's has grown its same-store sales at an average of 8.5%. Gross margin has improved from 14.9% in FY10 to 20.6% in FY17. Over the same period, EBITDA margin has improved from -25.1% to -1.3% in FY17. Spencer's has been doing well with the share of apparel sale steadily going up thereby contributing higher margin. Over the last five to six years, Spencer's has closed several loss-making stores. It has focused more on large format stores (Hypers: more than 15,000 sqft) than the small format ones (Dailies: less than 3,000 sqft). In addition to this, it also exercised strict cost control measures in its corporate overheads. A confluence of all these factors led to a gradual improvement in the performance of Spencer's. Consequently, the company has almost doubled its revenues despite a similar number of stores.

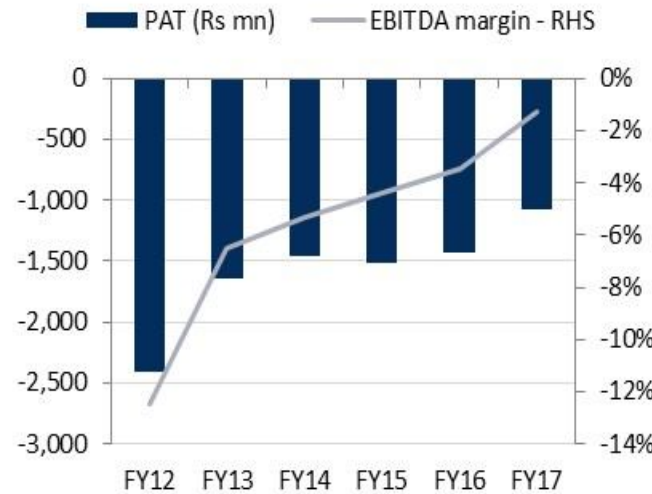
Spencer's Retail is steadily expanding its omni-channel presence and is planning to cover 10-12 cities in hyper delivery model for online orders. The retail chain launched its online channel in 2016 and is available across Hyderabad, Chennai, Kolkata, Delhi-NCR region and Vishakhapatnam. As of FY17 Spencer's operates 124 stores with a cumulative floor space of 1.18mn sqft. It plans to add ~0.2mn sqft every year (largely in the hyper format) over the next two years. For its new stores, the company would continue to follow variable rentals model, thereby targeting a store-level breakeven of just three months.

CESC expects the all initiatives including change in product mix to boost margins and expects Spencer's to reach EBITDA breakeven in FY18 and PAT breakeven in FY19.

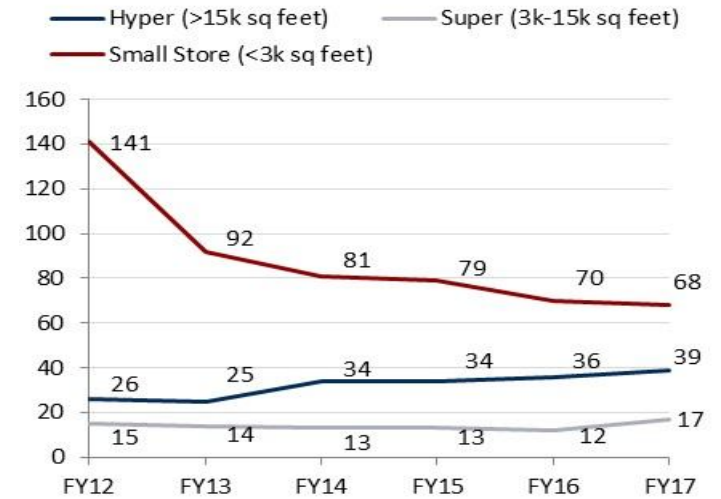
Spencer's Performance over the last 5 years

(Rs mn)	FY13	FY14	FY15	FY16	FY17
Revenues	13,378	14,513	16,657	17,965	20,124
<i>Growth yoy %</i>	<i>11.6%</i>	<i>8.5%</i>	<i>14.8%</i>	<i>7.9%</i>	<i>12.0%</i>
Purchases	10,810	11,692	13,460	14,292	15,982
Gross Profit	2,568	2,821	3,197	3,673	4,142
<i>Gross margin%</i>	<i>19.2%</i>	<i>19.4%</i>	<i>19.2%</i>	<i>20.4%</i>	<i>20.6%</i>
Other Direct Expenses	2,022	2,165	2,431	2,621	2,852
Store Level EBITDA	546	656	766	1,052	1,290
Corporate Overheads	1,417	1,425	1,498	1,668	1,550
EBITDA	-871	-768	-733	-617	-260
<i>EBITDA margin%</i>	<i>-6.5%</i>	<i>-5.3%</i>	<i>-4.4%</i>	<i>-3.4%</i>	<i>-1.3%</i>

Profitability trend

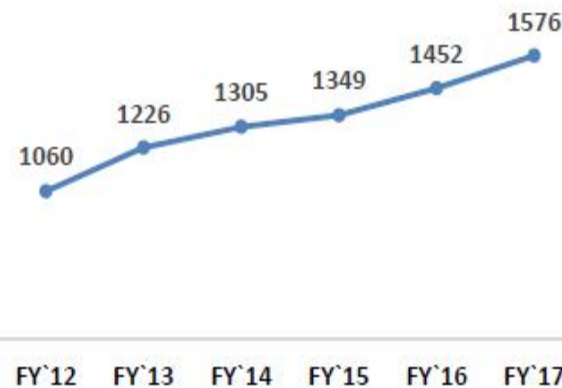


Increased focus on large format stores

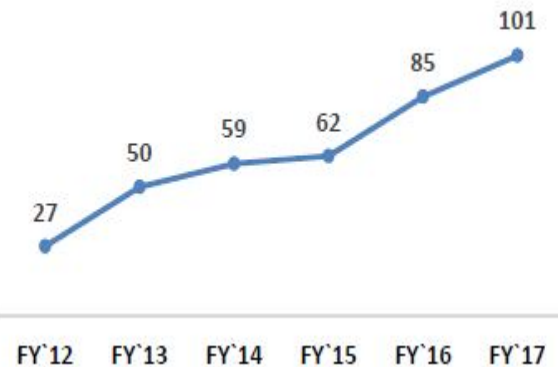


(Source: Company, HDFC Sec)

Sales/sqft (Rs/month)



Store EBITDA/sqft (Rs/month)



(Source: Company, HDFC Sec)

Improving margins at Firstsource Solutions (FSL)

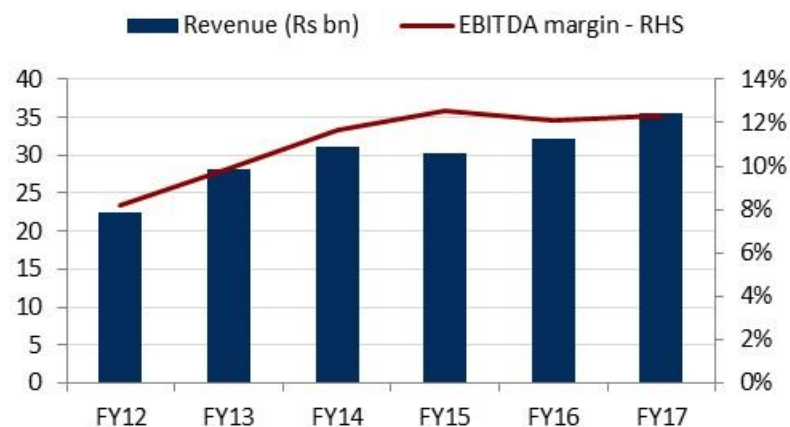
FSL provides a comprehensive range of services to clients across the customer lifecycle. It delivers innovative and value added business process management services through a combination of deep domain knowledge, strategic alliances and

internal competence building, backed by the right technology. It is among the leading BPM providers (USD 530mn revenue), with a presence across verticals such as Healthcare (38.1% of revenue), Telecom & Media (33.4% of revenue) and BFSI (28.5% of revenue). Among geographies, North America contributes 55.3% to the revenue followed by UK (38.0% of revenue) and the rest of the world (6.7% of revenue). Account concentration is heavy, with FSL's top account contributing 24% to the revenue and the top-5 contributing 42.6%. FSL's employee base stands at 25,871 (1,985 added in FY17), with 15,446 located in India delivery centres at a seat utilisation of 79%.

FSL's revenue and earnings have grown at 4.6% and 13% CAGR over FY14-17. In FY17, revenue growth stood at 7.5% (in USD terms) and 10.1% in rupee terms, net profit growth was 6.3%. EBITDA% has increased from 11.7% in FY14 to 12.3% in FY17. At CMP, FSL trades at 9.3x FY17 EPS with RoE at 14.7% and net debt/equity at 0.36x.

FSL continues to do well and recently has got a big order from Sky in the United States.

Improving margins at FSL



(Source: Company, HDFC Sec)

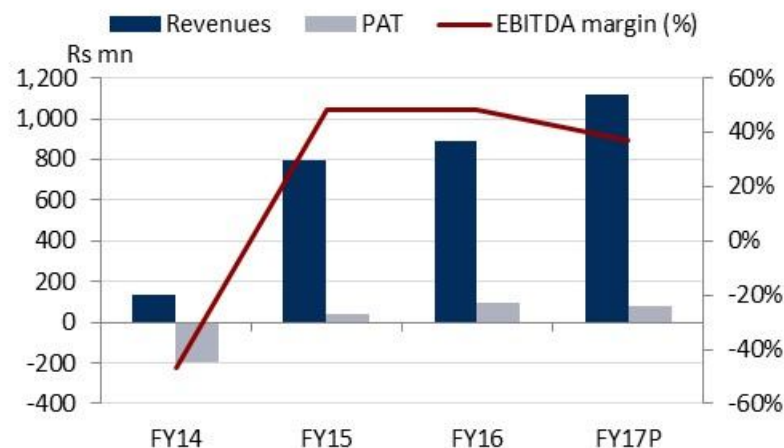
Steady income from real estate

Quest mall is one of the prime malls of Kolkata with a rentable area of 4.15 lakh sqft. Launched in Nov-2013, it has been a huge success deriving annual footfall of about 12 million and a combined gross sale of around Rs 580 cr by all retailers. CESC has so far invested Rs 259 cr in Quest Properties. This investment provides a continuous stream of revenues (rentals on leased land), coupled with other recurring (car parking receipts) and non-recurring (event based fees) receipts. FY17 revenues stood at Rs 1.1bn (26% YoY) and the PAT stood at Rs 81mn (-14% YoY).

QPIL is implementing a residential project in Haldia to cater to the housing requirement of some large corporate houses and individual residents in the port township. The project will be spread across 3.5 acres of land and will be carried out in

phases. Contracts for Phase I which includes a saleable area of 0.2 million square feet have already been executed. Construction is in progress as per the schedule, and the handover is expected to take place in 2018-19.

Revenues, PAT and EBITDA margin trend of Quest Mall



(Source: Company, HDFC Sec)

Q1FY18 Results Review

Net revenues of the company increased by 8.5% yoy to Rs 21.8 bn driven by higher power sales in the Kolkata license area and commencement of full contracted supply from Shariwal to NPCL. Power sales in the Kolkata license area increased 3% yoy to 2,853 MUs while T&D loss declined to 11.1% vs. 12.1% in 1QFY17. Standalone generation (excluding Haldia and Dhariwal) during the quarter stood at 1,736 MUs, down 9.2% yoy on account of lower generation at Titagarh (nil vs. 168 MUs in 1QFY17) and Southern (down 45% yoy), partly offset by increased generation at Budge Budge (up 5% yoy). EBIDTA increased by 18.8% yoy to Rs 6.0 bn while EBITDA margin rose to 27.8% in Q1FY18 vs. 25% in 1QFY17. PAT grew by 2.3% yoy to Rs 1.8bn, as growth in regulated equity was offset by the impact of negative bid for the captive coal block.

(Rs mn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Net Sales	21,840	20,120	8.5	15,720	38.9
Operating Costs	15,770	15,010	5.1	13,680	15.3
EBIDTA	6,070	5,110	18.8	2,040	197.5
EBIDTA Margin (%)	27.8	25.4	-	13.0	
Other Income	400	260	53.8	590	(32.2)
Interest	1,210	1,150	5.2	1,090	11.0
Depreciation	1,050	960	9.4	1,160	(9.5)
Profit Before Tax	4,210	3,260	29.1	380	1007.9

Tax	490	520	(5.8)	840	(41.7)
Tax Rate (%)	11.6	16.0	-	221.1	
Regulatory (income)/expense	(1,940)	(1,000)	2.3	3,410	0.0
Reported PAT	1,780	1,740	8.5	2,950	(39.7)

Concerns

Continued non-core diversification

CESC has time and again diversified into non-core activities which has not gone down well with investors as it has pulled down its return ratios. Any more such diversification could result into further negative perception.

Higher than expected losses in retail business

The organized retail business has achieved cash break-even on account of the restructuring undertaken by the company and improving sales. However, any downturn in retail sales can once again lead to value erosion.

Significant delay in securing PPA

CESC is looking to tie-up the capacity for its 300 MW Unit I of Chandrapur plant. Delays in securing PPA could result in lower revenue growth and impact its profitability.

Cut in regulated ROE and tighter norms

Core business of generation is regulated and receives a fixed RoE. Any decrease in regulated RoE or tighter norms might adversely sway the company's performance.

Delay in process of demerger

Delays in the demerger process could result in the process requiring more management time and higher costs and value unlocking may get postponed / diluted.

Concentration and Forex risk in FSL

FSL's top account contributes 24% to the revenue and the top-5 contribute 42.6%. Loss of any of the top client could disrupt its earning in the short term. Since a major portion of FSL revenues comes from overseas clients if faces the risk of rupee appreciation on the unhedged portion of income.

Distribution companies' ATC losses reduction is delayed or not achieved

Delays in ATC (Aggregate technical and commercial losses) reduction is likely to impact the profitability of the distribution companies.

View and Valuation

CESC is one of the most efficiently managed integrated private power utility company in India. Besides power generation the company is also engaged in distribution business, organized retail, business process management and real estate. Over

the last 1 year all the business segments have shown significant improvement. The company is now looking to demerge its businesses into separate entities so that it can have a simplified and concentrated portfolio which would drive value unlocking. While the generation and distribution entities earn strong cash flows, financial support lent to the retail business has been a drag.

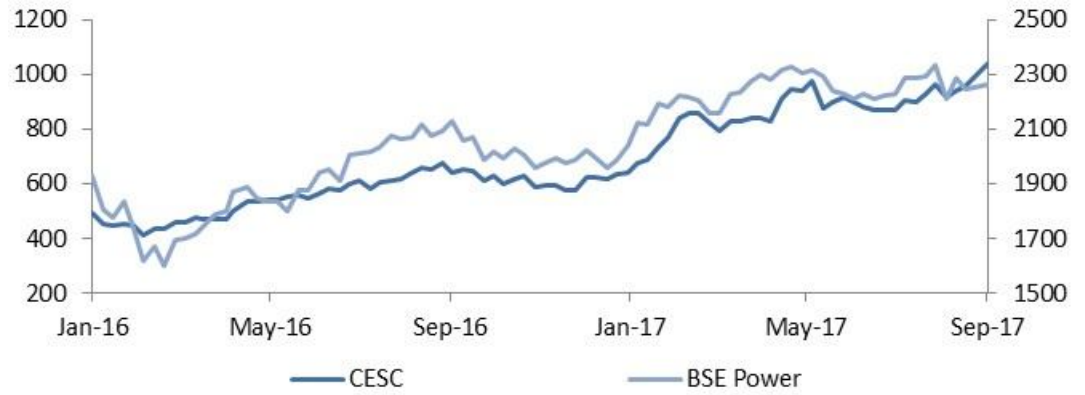
The proposed restructuring should result in re-rating of the core business and the improving performance of the other entities would further add value to the current consolidated stock.

We have valued the company on SOTP basis feel investors could buy the stock at the CMP and add on dips to Rs. 940-950 band for sequential targets based on SOTP value discussed below of Rs 1170 and Rs 1238 in 4-6 quarters.

SOTP Valuation

Particulars	Earnings/ Book value	Multiple	Others	Valuation	Remarks
Kolkata	30,250	2.00		60,500/69,575	2x/2.3x FY19 Regulated equity
Noida (49.55% stake)	4,122	1.50	4,000	5,045	1.5x FY19 Regulated equity + O/s regulated asset;
Three Discom Franchises	6,905	1.00		6,905	FCFE based valuation with 13% CoE
Distribution Entity				72,450/81,525	
Kolkata	12,731	2.0		25,462	2.0x Mar-19 regulated equity
Haldia	11,500	2.0		23,000	2.0x of invested equity capital
Chandrapur	NA	NA		6,045	FCFE; CoE @ 13%
Surya Vidyut	1,579	1.0		1,579	1x P/B of FY19E
Crescent Power (67.83% stake)	720	1.0		488	1x P/B of FY19E
Generation Entity				56,574	
Retail	835	10.0		8,350	FY20E P/E of 10x
Firstsource Solutions	14,286	20%		11,429	CMP and 20% holdco discount
Mall	2,834	1.0		2,834	1x P/B of FY19E
Other Ventures				14,263	
C&CE (ex-AAD)				4,209	
SOTP Valuation				155,846/164,921	
Value per share				1,170/1,238	

Price Chart of last 6 quarters



Financial Statements
Income Statement: Standalone

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	61,888	66,080	74,102	76,125	79,794
Growth (%)	12.3	6.8	12.1	2.7	4.8
Material Expenses	36,659	38,757	44,331	46,444	48,661
Employee Expenses	6,941	7,074	7,798	8,249	8,700
SG&A Expenses	2,800	2,808	3,861	4,077	4,306
Total Expenses	46,400	48,639	55,989	58,770	61,667
EBITDA	15,489	17,441	18,113	17,355	18,127
EBITDA Margin (%)	25.0	26.4	24.4	22.8	22.7
EBITDA Growth (%)	8.1	12.6	3.9	(4.2)	4.5
Depreciation	3,431	3,695	4,088	3,308	3,454
EBIT	12,058	13,746	14,025	14,047	14,673
Other Income (Incl. EO Items)	848	1,277	1,466	1,539	1,616
Interest	4,079	4,562	4,478	3,919	3,976
PBT	8,827	10,461	11,013	11,667	12,313
Tax (Incl Deferred)	1,850	2,009	2,384	2,567	2,709
RPAT	6,977	8,451	8,629	9,100	9,604
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	6,977	8,451	8,629	9,100	9,604
APAT Growth (%)	7.0	21.1	2.1	5.5	5.5
Adjusted EPS (Rs)	52.4	63.4	64.8	68.3	72.1
EPS Growth (%)	0.9	21.1	2.1	5.5	5.5

Balance Sheet: Standalone

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	1,332	1,332	1,332	1,332	1,332
Reserves	1,26,732	1,28,678	1,31,905	1,38,343	1,45,138
Total Shareholders Funds	1,28,065	1,30,011	1,33,238	1,39,676	1,46,470
Long Term Debt	31,829	29,662	37,882	38,763	39,644
Short Term Debt	20,515	23,652	21,972	21,972	21,972
Total Debt	52,344	53,314	59,854	60,735	61,616
Net Deferred Taxes	34,340	35,059	35,551	35,551	35,551
Long Term Provisions & Others	13,776	15,545	16,776	17,776	18,776
TOTAL SOURCES OF FUNDS	2,28,525	2,33,928	2,45,419	2,53,738	2,62,414
APPLICATION OF FUNDS					
Net Block	1,46,439	1,49,149	1,48,690	1,52,993	1,56,539
CWIP	3,782	2,550	2,610	2,000	2,000
Investments	48,671	52,684	63,128	63,128	63,128
LT Loans & Advances	13,046	11,884	14,270	14,270	14,270
Total Non-current Assets	2,11,938	2,16,266	2,28,698	2,32,390	2,35,936
Inventories	4,055	3,165	3,786	4,171	4,372
Debtors	13,901	9,664	9,685	10,428	10,931
Other Current Assets	5,789	6,419	6,063	7,300	7,651
Cash & equivalents	12,290	13,382	14,306	18,220	23,199
Total Current Assets	36,034	32,630	33,841	40,119	46,153
Creditors	17,325	12,560	14,149	15,642	16,396
Other Current Liabilities & Provns	2,122	2,409	2,970	3,128	3,279
Total Current Liabilities	19,448	14,968	17,119	18,770	19,675
Net Current Assets	16,587	17,662	16,721	21,348	26,478
TOTAL APPLICATION OF FUNDS	2,28,525	2,33,928	2,45,419	2,53,738	2,62,414

Cash Flow Statement: Standalone

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Reported PBT	8,827	10,461	11,013	11,667	12,313
Non-operating & EO items	(848)	(1,277)	(1,466)	(1,539)	(1,616)
Interest Expenses	4,079	4,562	4,478	3,919	3,976
Depreciation	3,431	3,695	4,088	3,308	3,454
Working capital change	(16,751)	2,948	710	287	849
Tax Paid	(1,850)	(2,009)	(2,384)	(2,567)	(2,709)
Other operating items	27,530	(2,405)	(786)	-	-
OPERATING CASH FLOW (a)	24,418	15,974	15,654	15,075	16,267
Capex	(4,487)	(6,958)	(6,219)	(7,000)	(7,000)
Free Cash Flow	19,931	9,016	9,435	8,075	9,267
Investments	(5,422)	(4,013)	(10,444)	-	-
Non-operating Income	848	1,277	1,466	1,539	1,616
INVESTING CASH FLOW (b)	(9,061)	(9,695)	(15,197)	(5,461)	(5,384)
Debt Issuance/(Repaid)	(5,442)	970	6,541	881	881
Interest	(4,079)	(4,562)	(4,478)	(3,919)	(3,976)
FCFE	10,410	5,424	11,498	5,037	6,172
Share Capital Issuance	76	-	-	-	-
Dividend	(1,436)	(1,596)	(1,596)	(2,662)	(2,809)
FINANCING CASH FLOW (c)	(10,880)	(5,188)	467	(5,700)	(5,904)
NET CASH FLOW (a+b+c)	4,476	1,092	924	3,914	4,979
Closing Cash & Equivalents	12,290	13,382	14,306	18,220	23,199

Key Ratios: Standalone

	FY15	FY16	FY17	FY18E	FY19E
PROFITABILITY %					
GPM	40.8	41.3	40.2	39.0	39.0
EBITDA margin	25.0	26.4	24.4	22.8	22.7
APAT margin	11.3	12.8	11.6	12.0	12.0
RoE	7.0	6.5	6.6	6.7	6.7
Core RoCE (RoIC)	7.2	6.6	6.5	6.4	6.6
RoCE	5.4	5.2	5.1	4.9	4.9
EFFICIENCY					
Tax Rate (%)	21.0	19.2	21.6	22.0	22.0
Fixed Asset Turnover (x)	0.4	0.4	0.5	0.5	0.5
Inventory (days)	23.9	17.5	18.6	20.0	20.0
Debtors (days)	82.0	53.4	47.7	50.0	50.0
Other Current Assets (days)	34.1	35.5	29.9	35.0	35.0
Payables (days)	102.2	69.4	69.7	75.0	75.0
Other Current Liab & Provns (days)	12.5	13.3	14.6	15.0	15.0
Cash Conversion Cycle (days)	25.3	23.6	11.9	15.0	15.0
Debt/EBITDA (x)	3.4	3.1	3.3	3.5	3.4
Net D/E (x)	0.3	0.3	0.3	0.3	0.3
Interest Coverage (x)	3.0	3.0	3.1	3.6	3.7
PER SHARE DATA (Rs)					
EPS	52.4	63.4	64.8	68.3	72.1
CEPS	78.1	91.2	95.5	93.1	98.0
Dividend	9.0	10.0	10.0	17.1	18.0
Book Value	961.3	975.9	1,000.1	1,048.5	1,099.5
VALUATION					
P/E (x)	19.9	16.4	16.1	15.2	14.4
P/BV (x)	1.1	1.1	1.0	1.0	0.9
EV/EBITDA (x)	11.5	10.2	10.2	10.4	9.8
EV/Revenues (x)	2.9	2.7	2.5	2.4	2.2
OCF/EV (%)	13.7	9.0	8.5	8.3	9.2
FCF/EV (%)	11.2	5.1	5.1	4.5	5.2
FCFE/Mkt Cap (%)	7.5	3.9	8.3	3.6	4.5
Dividend Yield (%)	0.9	1.0	1.0	1.6	1.7

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