

Estimate change	↔↔
TP change	↔↔
Rating change	↔↔

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Bloomberg	CESC IN
Equity Shares (m)	133
M.Cap.(INRb)/(USDb)	100.3 / 1.3
52-Week Range (INR)	871 / 553
1, 6, 12 Rel. Per (%)	-9/16/-11
12M Avg Val (INR M)	380

#### Financials & Valuations (INR b)

Y/E MARCH	FY21	FY22E	FY23E
Sales	116.4	117.0	121.0
EBITDA	36.1	35.8	36.7
Adj. PAT	13.3	13.8	14.8
EBITDA Margin (%)	31.0	30.6	30.4
Cons. Adj. EPS (INR)	100.1	104.1	111.1
EPS Gr. (%)	2.4	4.1	6.7
BV/Sh. (INR)	742.3	799.2	848.6

#### Ratios

Net D:E	1.2	1.0	0.9
RoE (%)	13.7	13.5	13.5
RoCE (%)	9.2	9.4	9.5
Payout (%)	45.0	45.4	44.7

#### Valuations

P/E (x)	7.6	7.3	6.8
P/BV (x)	1.0	0.9	0.9
EV/EBITDA(x)	6.2	5.9	5.5
Div. Yield (%)	5.9	6.2	6.6

#### Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	49.9	49.9	49.9
DII	23.6	38.6	23.8
FII	13.4	0.0	17.9
Others	13.1	11.5	8.4

FII Includes depository receipts

**CMP: INR756 TP: INR890 (+18%) Buy**

#### S/A miss on higher-than-expected expenses

##### DFs' performance improves; Dhariwal remains profitable

- CESC's S/A 1Q results highlight a modest profitability improvement. Volumes for S/A improved 23% YoY (on a low base), but S/A PAT was up just 3% YoY. Consol. PAT, on the other hand, rose 37% YoY on lower losses in its Distribution Franchise (DF) business.
- Dhariwal has turned profitable and DFs are showing signs of a turnaround. CESC's integrated business in Kolkata is high RoE and generates strong cash flows. Even as we factor in the tightening of norms at Haldia and S/A, the stock trades attractively at 7.3/6.8x FY22/FY23 P/E. Maintain Buy, with TP of INR890/sh based on 8x FY23EPS.

##### S/A profitability below expectations

- S/A PAT rose just 3% YoY to INR1.4b (29% lower v/s our estimate: INR2.0b). The large miss was on account of 1) higher O&M and other expenses and 2) a marginally lower than expected rise in volumes amid the impact of the second COVID wave.
- As per the co., the previous year had seen certain cost measures being implemented, which were unsustainable. Other expenses at S/A were up to INR2.7b v/s INR1.5b in the previous year.
- Sales volumes rose 22.5% YoY to 2.6BU (on a low base; 1QFY21: -31% YoY). S/A other income for the quarter was lower at INR0.1b (v/s INR0.3b in the previous year).
- Consol. PAT was up 37% YoY to INR2.7b in 1Q, led by lower losses in its DF business.

##### DFs' performance improves on lower T&D losses, better demand

- DFs in Rajasthan reported loss of INR110m v/s loss of INR330m in 1QFY21. This was on the back of improved demand and lower T&D losses for the business. The co.'s recently acquired Malegaon DF reported profit of INR20m in 1Q (v/s loss of INR310m in 1QFY21). T&D losses have come down to 35% v/s 50% at the time of takeover in Mar'20.
- Dhariwal reported profit of INR250m (v/s INR240m in 1QFY21). Numbers continue to show the benefit of the pass-through of higher coal cess in tariff and higher PPA quantum. Dhariwal had signed a 185MW PPA with Maharashtra in 3QFY20, and the same has been extended up to Oct'21.
- Crescent and Surya reported profit of INR70m v/s INR120m in 1QFY21.
- Profits at Haldia improved to INR900m in 1QFY22 v/s INR850m in 1QFY21.
- Profitability at Noida improved to INR290m v/s INR90m in the previous year, led by an increase in stake in the entity.

##### FCF generation strong; maintain Buy

- Subdued power demand has impacted profitability for CESC's businesses. However, Dhariwal has turned profitable, and the performance of DFs is improving as the co. gains a better understanding of the circles and leverages from its experience in Kolkata.

- CESC's existing Distribution business is high RoE and delivers steady growth. Generation assets generate healthy FCF. Even as earnings visibility at Dhariwal improves, and we factor in the tightening of norms at Haldia and S/A in FY23E, the stock trades attractively at 7.3/6.8x FY22/FY23 P/E.
- CESC has recently emerged as the highest bidder for the takeover of the Chandigarh circle. Pending details on the plan (initial regulated equity base, capitalization outlook, AT&C norms and incentives) and the actual takeover itself, we do not bake this into our estimates.
- Untied generation capacity and scale-up in DFs have the potential to boost earnings. We value the stock at 8x FY23 P/E. Maintain Buy, with TP of INR890/sh.

#### Quarterly performance (standalone) – INR m

Y/E March	FY21				FY22E				FY21	FY22E	FY22	Var. (%)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE					
<b>Sales</b>	<b>15,850</b>	<b>19,890</b>	<b>16,590</b>	<b>16,880</b>	<b>19,310</b>	<b>21,403</b>	<b>17,401</b>	<b>16,714</b>	<b>69,210</b>	<b>74,828</b>	<b>18,257</b>	<b>6</b>	
<b>EBITDA</b>	<b>2,280</b>	<b>3,380</b>	<b>2,990</b>	<b>3,100</b>	<b>3,110</b>	<b>5,654</b>	<b>4,606</b>	<b>6,671</b>	<b>11,750</b>	<b>20,041</b>	<b>4,933</b>	<b>-37</b>	
Change (%)	-48.4	-27.0	7.9	23.5	36.4	67.3	54.0	115.2	-18.0	70.6	116.3		
As of % Sales	14.4	17.0	18.0	18.4	16.1	26.4	26.5	39.9	17.0	26.8	27.0		
Depreciation	1,170	1,130	1,160	1,170	1,180	1,149	1,179	1,199	4,630	4,706	1,189	-1	
Interest	1,360	1,210	1,170	1,280	1,270	1,462	1,414	1,920	5,020	6,065	1,643	-23	
Other Income	340	140	280	1,040	140	117	234	1,013	1,800	1,504	284	-51	
Regulatory (inc)/exp	-1,450	-810	-1,140	-1,170	-950	0	0	950	-4,570	0	0		
<b>PBT</b>	<b>1,540</b>	<b>1,990</b>	<b>2,080</b>	<b>2,860</b>	<b>1,750</b>	<b>3,161</b>	<b>2,247</b>	<b>3,616</b>	<b>8,470</b>	<b>10,774</b>	<b>2,384</b>	<b>-27</b>	
Tax	200	-290	260	160	370	569	405	596	330	1,939	429		
Effective Tax Rate (%)	13.0	-14.6	12.5	5.6	21.1	18.0	18.0	16.5	3.9	18.0	18.0		
<b>Reported PAT</b>	<b>1,340</b>	<b>2,280</b>	<b>1,820</b>	<b>2,700</b>	<b>1,380</b>	<b>2,592</b>	<b>1,843</b>	<b>3,020</b>	<b>8,140</b>	<b>8,834</b>	<b>1,955</b>	<b>-29</b>	
<b>Adjusted PAT</b>	<b>1,340</b>	<b>2,280</b>	<b>1,820</b>	<b>2,700</b>	<b>1,380</b>	<b>2,592</b>	<b>1,843</b>	<b>3,020</b>	<b>8,140</b>	<b>8,834</b>	<b>1,955</b>	<b>-29</b>	
Change (%)	-38.2	-17.1	3.4	8.0	3.0	13.7	1.2	11.8	-11.3	8.5	45.9		

Source: Company, MOFSL

#### Exhibit 1: Standalone – operating metrics

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	
Units sold	MU	3,057	2,931	2,188	2,107	2,118	2,603	2,157	2,229	2,594
change yoy	%	7.6	2.0	3.5	-8.0	-30.7	-11.2	-1.4	5.8	22.5
Realization	INR/kWh	7.7	7.7	7.5	7.5	7.5	7.6	7.7	7.6	7.4
Gross generation	MU	1,718	1,713	1,224	1,483	1,329	1,540	1,209	1,435	1,545
change yoy	%	0.5	-1.1	-10.3	-0.7	-22.6	-10.1	-1.2	-3.2	16.3
Generation fuel cost	INR/kWh	2.7	2.7	2.4	2.3	2.5	2.5	2.2	2.4	2.2
Power purchase	MU	1,774	1,657	1,267	933	1,091	1,465	1,267	1,052	1,453
Power purchase cost	INR/kWh	5.0	5.1	5.3	6.0	5.7	5.2	5.3	5.6	5.2

Source: Company, MOFSL

#### Exhibit 2: Consolidated PAT breakup – INR m

INR m	1QFY21	1QFY22
Standalone	1,340	1,380
Haldia	850	900
Dhariwal	240	250
Crescent & Surya	120	70
Rajasthan DFs	-330	-110
Malegaon	-310	20
Noida	90	290
Others	0	0
Minority	-20	-90
<b>Consolidated PAT</b>	<b>1,980</b>	<b>2,710</b>

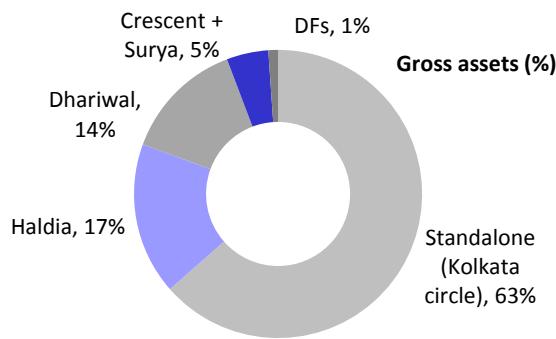
Source: Company, MOFSL

## Valuation and view

- Subdued power demand has impacted the profitability of CESC's businesses. However, Dhariwal has turned profitable, and the performance of DFs is improving as the co. gains a better understanding of the circles and leverages from its experience in Kolkata.
- CESC's existing Distribution business is high RoE and delivers steady growth. Generation assets generate healthy FCF. Even as earnings visibility at Dhariwal improves, and we factor in the tightening of norms at Haldia and S/A in FY23E, the stock trades attractively at 7.3/6.8x FY22/FY23 P/E.
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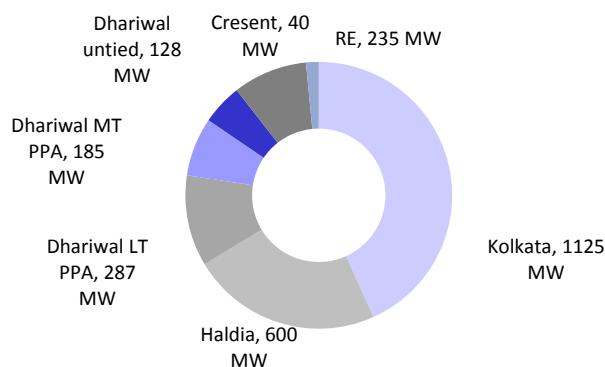
## Story in charts

Exhibit 3: CESC has a diversified portfolio



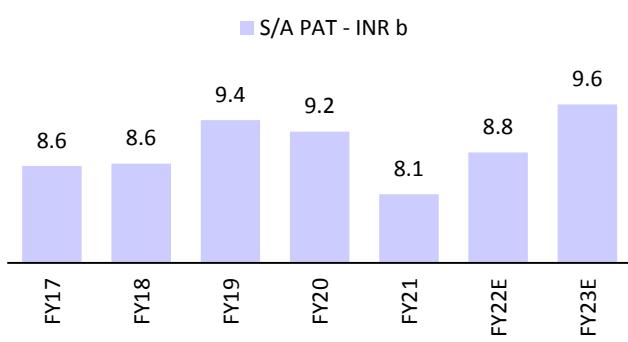
Source: MOFSL, Company

Exhibit 4: Recent tie-ups for Dhariwal improve PPA share



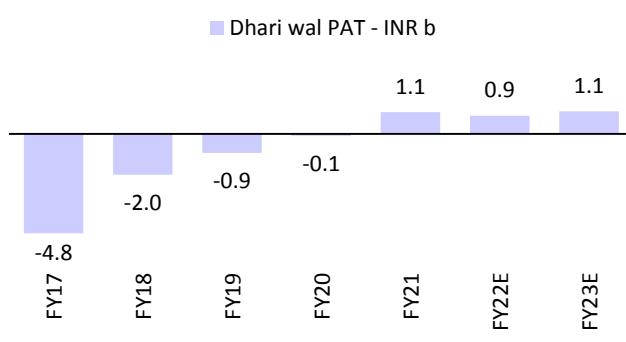
Source: MOFSL, Company

Exhibit 5: Expect S/A performance to rebound as demand recovers



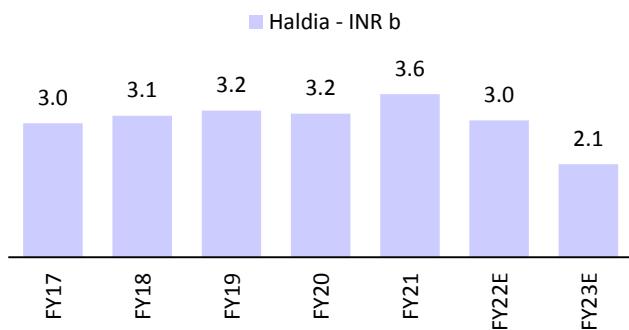
Source: MOFSL, Company

Exhibit 6: Performance at Dhariwal sees turnaround



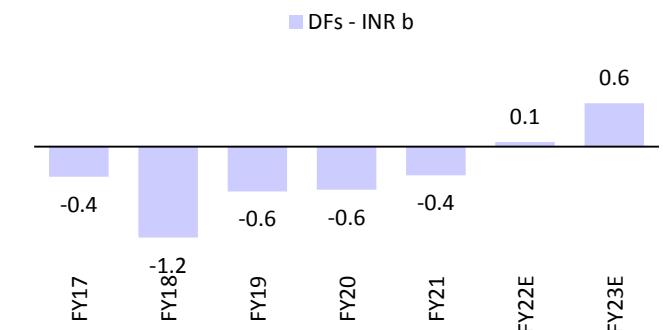
Source: MOFSL, Company

**Exhibit 7: We build in cuts in norms for Haldia in FY23, thereby impacting profits**



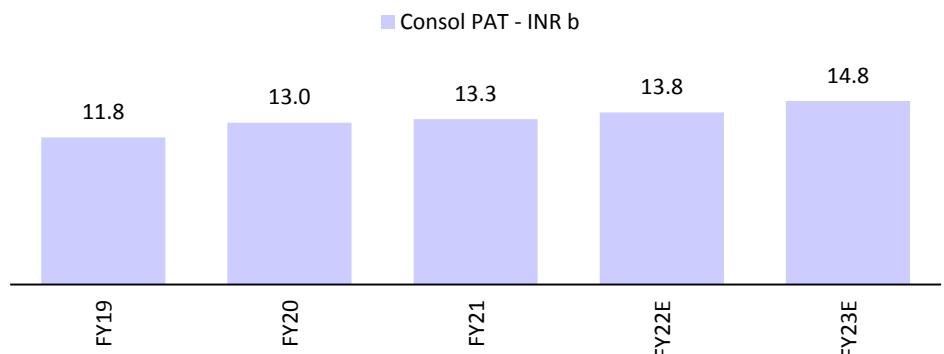
Source: MOFSL, Company

**Exhibit 8: Expect DFs to turn profitable**



Source: MOFSL, Company

**Exhibit 9: Expect consol PAT to rise at 5% CAGR over FY21–23**



Source: MOFSL, Company

## Financials and valuations

Income Statement									(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	
<b>Net Sales</b>	<b>83,634</b>	<b>1,02,749</b>	<b>1,06,641</b>	<b>1,10,146</b>	<b>1,16,390</b>	<b>1,16,985</b>	<b>1,20,958</b>	<b>1,28,271</b>	
Change (%)	-31.0	22.9	3.8	3.3	5.7	0.5	3.4	6.0	
<b>EBITDA</b>	<b>27,845</b>	<b>29,991</b>	<b>33,867</b>	<b>35,355</b>	<b>36,100</b>	<b>35,753</b>	<b>36,748</b>	<b>38,083</b>	
% of Net Sales	33.3	29.2	31.8	32.1	31.0	30.6	30.4	29.7	
Depn. & Amortization	7,148	7,515	7,638	7,814	8,670	8,125	8,792	9,461	
<b>EBIT</b>	<b>20,697</b>	<b>22,477</b>	<b>26,230</b>	<b>27,541</b>	<b>27,430</b>	<b>27,628</b>	<b>27,956</b>	<b>28,622</b>	
Net Interest	13,724	13,030	13,247	13,574	12,260	12,556	11,694	10,714	
Other income	2,300	2,520	2,043	2,025	2,350	2,285	2,076	2,031	
EO expense	0	0	0	0	0	0	0	0	
PBT after EO	9,273	11,967	15,025	15,992	17,520	17,357	18,339	19,938	
Tax	3,210	3,562	3,737	3,627	3,890	3,202	3,229	3,571	
Rate (%)	34.6	29.8	24.9	22.7	22.2	18.4	17.6	17.9	
<b>Reported PAT</b>	<b>6,063</b>	<b>8,405</b>	<b>11,288</b>	<b>12,365</b>	<b>13,630</b>	<b>14,155</b>	<b>15,110</b>	<b>16,367</b>	
Minority and Associates	-710	-129	552	655	-320	-305	-337	-369	
<b>Adjusted PAT</b>	<b>5,354</b>	<b>8,276</b>	<b>11,840</b>	<b>13,021</b>	<b>13,310</b>	<b>13,850</b>	<b>14,773</b>	<b>15,998</b>	
Change (%)	-11.1	54.6	43.1	10.0	2.2	4.1	6.7	8.3	
Balance Sheet									(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	
Share Capital	1,332	1,332	1,332	1,332	1,330	1,330	1,330	1,330	
Reserves	1,04,895	82,870	88,406	94,942	97,400	1,04,966	1,11,532	1,18,839	
<b>Net Worth</b>	<b>1,06,227</b>	<b>84,202</b>	<b>89,738</b>	<b>96,274</b>	<b>98,730</b>	<b>1,06,296</b>	<b>1,12,862</b>	<b>1,20,169</b>	
Minority Interest	12,101	694	821	858	3,970	4,275	4,612	4,981	
Total Loans	1,55,994	1,45,778	1,44,721	1,39,909	1,40,119	1,31,785	1,22,204	1,11,372	
Deferred Tax Liability	38,873	36,410	39,404	40,053	41,590	41,590	41,590	41,590	
<b>Capital Employed</b>	<b>3,13,194</b>	<b>2,67,083</b>	<b>2,74,684</b>	<b>2,77,094</b>	<b>2,84,409</b>	<b>2,83,946</b>	<b>2,81,269</b>	<b>2,78,112</b>	
Gross Block	2,67,642	2,68,271	2,76,618	2,86,327	3,01,102	3,08,776	3,16,454	3,24,137	
Less: Accum. Deprn.	21,486	29,736	40,132	50,462	59,132	67,256	76,048	85,509	
<b>Net Fixed Assets</b>	<b>2,46,156</b>	<b>2,38,535</b>	<b>2,36,485</b>	<b>2,35,866</b>	<b>2,41,970</b>	<b>2,41,520</b>	<b>2,40,406</b>	<b>2,38,628</b>	
Capital WIP	3,919	2,166	1,614	1,468	1,340	1,340	1,340	1,340	
Goodwill	20,106	0	0	0	0	0	0	0	
Investments	4,224	6,673	6,724	6,703	1,400	1,400	1,400	1,400	
<b>Curr. Assets</b>	<b>1,04,322</b>	<b>82,499</b>	<b>89,859</b>	<b>99,685</b>	<b>1,13,910</b>	<b>1,13,102</b>	<b>1,11,383</b>	<b>1,11,203</b>	
Inventories	8,454	5,826	7,005	7,184	5,970	5,727	5,856	6,256	
Account Receivables	15,596	15,374	17,389	18,818	23,150	18,490	16,745	17,872	
Cash and Bank Balance	22,931	17,003	15,437	18,060	20,270	24,354	24,251	22,545	
Others	57,340	44,296	50,029	55,623	64,520	64,531	64,531	64,531	
<b>Curr. Liability &amp; Prov.</b>	<b>65,533</b>	<b>62,791</b>	<b>60,000</b>	<b>66,627</b>	<b>74,211</b>	<b>73,415</b>	<b>73,260</b>	<b>74,459</b>	
Account Payables	7,890	6,907	6,778	6,568	9,390	8,539	7,780	8,266	
Provisions & Others	57,642	55,884	53,222	60,058	64,821	64,876	65,480	66,193	
<b>Net Curr. Assets</b>	<b>38,789</b>	<b>19,708</b>	<b>29,860</b>	<b>33,058</b>	<b>39,699</b>	<b>39,686</b>	<b>38,122</b>	<b>36,744</b>	
<b>Appl. of Funds</b>	<b>3,13,194</b>	<b>2,67,083</b>	<b>2,74,684</b>	<b>2,77,094</b>	<b>2,84,409</b>	<b>2,83,946</b>	<b>2,81,269</b>	<b>2,78,112</b>	

## Financials and valuations

Cash flow statement									(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	
<b>EBITDA</b>	<b>27,845</b>	<b>29,991</b>	<b>33,867</b>	<b>35,355</b>	<b>36,100</b>	<b>35,753</b>	<b>36,748</b>	<b>38,083</b>	
WC	-918	-6,336	-9,779	1,580	-2,000	4,096	1,461	-328	
Others	3,081	4,393	7,731	2,185	1,520	0	0	0	
Direct taxes (net)	-3,457	-3,727	-3,168	-2,461	-3,200	-3,202	-3,229	-3,571	
<b>CF from Op. Activity</b>	<b>26,552</b>	<b>24,321</b>	<b>22,939</b>	<b>30,033</b>	<b>28,180</b>	<b>36,647</b>	<b>34,981</b>	<b>34,183</b>	
Capex	-14,720	-8,944	-8,317	-7,410	-6,750	-7,674	-7,679	-7,683	
Interest income	375	311	340	315	340	0	0	0	
Investments	-634	568	0	0	0	0	0	0	
Others	1,064	-7,695	845	984	-2,050	2,285	2,076	2,031	
<b>CF from Inv. Activity</b>	<b>-13,915</b>	<b>-15,760</b>	<b>-7,133</b>	<b>-6,112</b>	<b>-8,460</b>	<b>-5,390</b>	<b>-5,602</b>	<b>-5,652</b>	
Share capital	158	22	0	0	0	0	0	0	
Borrowings	8,622	854	-1,246	-4,892	210	-8,334	-9,581	-10,832	
Finance cost	-15,036	-13,828	-13,336	-13,306	-11,780	-12,556	-11,694	-10,714	
Dividend	-1,599	-1,902	-2,790	-3,188	-5,940	-6,284	-6,973	-7,303	
Others	256	365	0	86	0	0	-1,234	-1,388	
<b>CF from Fin. Activity</b>	<b>-7,599</b>	<b>-14,490</b>	<b>-17,373</b>	<b>-21,299</b>	<b>-17,510</b>	<b>-27,174</b>	<b>-29,482</b>	<b>-30,237</b>	
<b>(Inc)/Dec in Cash</b>	<b>5,037</b>	<b>-5,928</b>	<b>-1,566</b>	<b>2,623</b>	<b>2,210</b>	<b>4,084</b>	<b>-103</b>	<b>-1,706</b>	
Opening balance	17,894	22,931	17,003	15,437	18,060	20,270	24,354	24,251	
<b>Closing balance</b>	<b>22,931</b>	<b>17,003</b>	<b>15,437</b>	<b>18,060</b>	<b>20,270</b>	<b>24,354</b>	<b>24,251</b>	<b>22,545</b>	

Ratios								
	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>40.2</b>	<b>62.1</b>	<b>88.9</b>	<b>97.7</b>	<b>100.1</b>	<b>104.1</b>	<b>111.1</b>	<b>120.3</b>
Cash EPS	93.8	118.5	146.2	156.4	165.3	165.2	177.2	191.4
BV/Share	797.4	632.0	673.6	722.7	742.3	799.2	848.6	903.5
DPS	10.0	12.0	17.5	20.0	45.0	47.3	49.6	52.1
Payout (%)	24.9	19.3	19.7	20.5	45.0	45.4	44.7	43.3
Dividend yield (%)	1.3	1.6	2.3	2.6	5.9	6.2	6.6	6.9
<b>Valuation (x)</b>								
P/E	18.8	12.2	8.5	7.7	7.6	7.3	6.8	6.3
Cash P/E	8.1	6.4	5.2	4.8	4.6	4.6	4.3	4.0
P/BV	0.9	1.2	1.1	1.0	1.0	0.9	0.9	0.8
EV/EBITDA	8.8	7.7	6.8	6.3	6.2	5.9	5.5	5.1
Dividend Yield (%)	1.3	1.6	2.3	2.6	5.9	6.2	6.6	6.9
<b>Return Ratios (%)</b>								
RoE	5.0	8.7	13.6	14.0	13.7	13.5	13.5	13.7
RoCE (post-tax)	6.4	7.4	9.1	9.4	9.2	9.4	9.5	9.7
RoIC (post-tax)	5.2	6.3	8.0	8.5	8.3	8.7	9.0	9.3
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Asset Turnover (x)	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Debtor (Days)	68	55	60	62	73	58	51	51
<b>Leverage Ratio (x)</b>								
Net Debt/EBITDA	4.8	4.3	3.8	3.4	3.3	3.0	2.7	2.3
Debt/Equity	1.1	1.5	1.4	1.3	1.2	1.0	0.8	0.7

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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