

31 May 2024

India | Equity Research | Q4FY24 results review

**CESC**

Power/Mining

**Tariff delayed is not tariff denied; Jumping onto the RE wagon**

Tariff hike in the largest distribution area of CESC has been delayed owing to the delay in approval. However, we expect the tariff hike to come through as past expenses are allowed in new orders in due course of time. As a result, we expect the profit from distribution area (contributes 60% to consol. Profit) to improve after all past expenses are recognised. Also, the cashflow may improve as regulator allows new tariffs. Additionally, the company is looking to build its renewables (RE) arm. It is targeting 3GW capacity in medium term. It is in the process of building a team and is looking to start bidding for PPAs in next four-six months. It is the cheapest stock in our coverage universe. We resume coverage on CESC with **BUY** rating and TP of INR 180 per share.

**Tariff has been delayed, but expect normalcy to resume**

There has been delay in approval of tariffs for Kolkata License area. State regulator is yet to approve the past expenses. We estimate annual revenue of INR 1.5bn has not been recognised. In addition, we estimate an under-recovery of INR 25bn for past period (akin to cash).

**Rest of the assets are doing well**

CESC is operating four distribution franchisees and two power plants of ~1.2GW. Profit contribution from balance assets has improved from INR 5.5bn to INR 6.6bn in FY24. We estimate contribution to improve going forward.

**Steady set of result**

As a result, CESC reported profit of INR 13.8bn in FY24 - profit from Kolkata License area (standalone) declined to INR 7.8bn (vs INR 8.4bn). Assets operating under subsidiaries grew profit by 20% to INR 6.5bn.

**Sowing the seeds for RE**

CESC is building a team for developing a portfolio of renewables asset. It is targeting capacity of 3GW in medium term. It is looking to tender 500-600MW for its own license area. We are baking in INR 6bn/INR 9bn EBITDA by the end of FY26E from renewables.

**Resume coverage with BUY and TP of INR 180/share**

Resume coverage with **BUY** rating and SoTP-based target price of INR 180/share.

**Financial Summary**

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,55,225	1,70,500	1,78,592	2,00,111
EBITDA	34,254	38,830	41,523	50,222
EBITDA Margin (%)	22.1	22.8	23.2	25.1
Net Profit	13,428	13,759	15,927	19,474
EPS (INR)	10.1	10.3	12.0	14.6
EPS % Chg YoY	(0.5)	3.5	14.4	21.7
P/E (x)	13.6	13.2	11.5	9.4
EV/EBITDA (x)	8.9	7.9	8.1	7.1
RoCE (%)	9.0	9.7	9.0	9.6
RoE (%)	12.6	12.4	13.0	14.0

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**Market Data**

Market Cap (INR)	189bn
Market Cap (USD)	2,273mn
Bloomberg Code	CESC IN
Reuters Code	CESC.BO
52-week Range (INR)	158 /69
Free Float (%)	47.0
ADTV-3M (mn) (USD)	10.6

**Price Performance (%)**

	3m	6m	12m
Absolute	12.6	47.0	106.1
Relative to Sensex	10.7	36.7	88.8

## Outlook and valuation

CESC is India's first fully integrated electrical utility in operation since 1899 generating and distributing power in Kolkata and Howrah. CESC is involved in power sector value chain with assets in generation, transmission and distribution of power as well as coal mining.

Moreover, it owns a 600MW thermal power (Chandrapur) plant in Maharashtra and a 40MW atmospheric fluidised bed combustion power plant (Crescent power). While Chandrapur TPP has PPA tie ups with CESC, crescent power operates in merchant market.

Apart from these, CESC has a distribution licence in Noida and four distribution franchisees in Rajasthan (Kota, Bikaner, Bharatpur) and Maharashtra (Malegaon).

CESC is looking to set up one RE capacity to meet the RE obligations for licence areas and is also looking to set up one RE platform to develop RE assets.

Given the improved regulatory outlook, likely tariff hikes (last given in 2020) in the medium, which may help in liquidating regulatory assets, and its venture in RE generation, we expect the profitability to improve to INR 20bn in FY26E vs INR 13bn in FY24. **Thus, we resume coverage on the stock with BUY rating and an SoTP-based target price of INR 180/share.**

**Key risks – 1) Delay in tariff hikes; 2) Delay in RE capacity addition**

### Exhibit 1: SoTP-based target of INR 180/share

Summary of Valuation	Methodology	INR m	INR/Share
KLA License Area Business	DCF	102,041	77
Value to Shareholders (core power business)	DCF	<b>102,041</b>	<b>77</b>
Regulated Business/Regulated equity		2.2	
Add: Cash		4,145	3
Add: Value of Dhariwal	DCF	33,339	25
Add: Value of Haldia	DCF	32,274	24
Add: Value of Crescent Power	DCF	4,246	3
Add: Distribution Franchisee	DCF	2,657	2
Noida Power	DCF	14,833	11
Renewables	EV/EBITDA	46,377	35
<b>Total Value to CESC shareholders</b>		<b>239,912</b>	<b>180</b>
No. of Shares		1,330	1,330

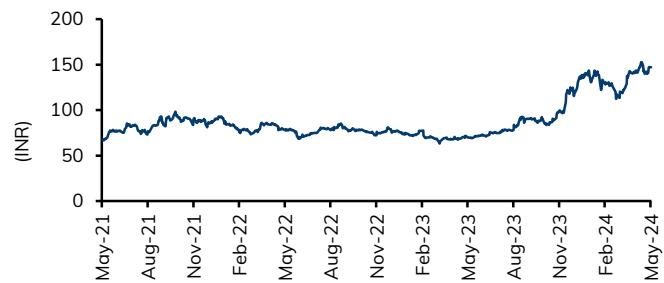
Source: I-Sec research

### Exhibit 2: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	52.1	52.1	52.1
Institutional investors	33.2	33.4	34.0
MFs and others	15.7	16.1	15.2
FIs/Banks	0.0	0.0	0.0
Insurance	4.4	5.3	5.9
FIs	13.1	12.0	12.9
Others	14.7	14.5	13.9

Source: Bloomberg

### Exhibit 3: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>1,55,225</b>	<b>1,70,500</b>	<b>1,78,592</b>	<b>2,00,111</b>
Operating Expenses	11,892	13,081	14,390	15,829
<b>EBITDA</b>	<b>34,254</b>	<b>38,830</b>	<b>41,523</b>	<b>50,222</b>
EBITDA Margin (%)	22.1	22.8	23.2	25.1
Depreciation & Amortization	8,779	12,170	11,397	12,842
<b>EBIT</b>	<b>25,476</b>	<b>26,660</b>	<b>30,126</b>	<b>37,380</b>
Interest expenditure	11,172	12,340	11,335	14,066
Other Non-operating Income	3,088	2,510	3,129	3,129
<b>Recurring PBT</b>	<b>17,391</b>	<b>16,830</b>	<b>21,920</b>	<b>26,442</b>
<b>Profit / (Loss) from Associates</b>	-	-	-	-
Less: Taxes	3,418	2,361	5,363	6,289
<b>PAT</b>	<b>13,973</b>	<b>14,469</b>	<b>16,556</b>	<b>20,153</b>
Less: Minority Interest	(545)	(710)	(630)	(679)
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>13,973</b>	<b>14,469</b>	<b>16,556</b>	<b>20,153</b>
<b>Net Income (Adjusted)</b>	<b>13,428</b>	<b>13,759</b>	<b>15,927</b>	<b>20,153</b>

Source Company data, I-Sec research

### Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,26,948	1,46,661	1,48,463	1,71,021
of which cash & cash eqv.	25,883	27,110	17,102	24,531
Total Current Liabilities & Provisions	30,462	34,220	30,195	26,476
<b>Net Current Assets</b>	<b>96,486</b>	<b>1,12,441</b>	<b>1,18,268</b>	<b>1,44,545</b>
Investments	770	569	519	519
Net Fixed Assets	2,28,259	2,21,310	2,20,349	2,46,701
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,404	1,740	34,240	34,240
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	-	-	-	-
<b>Total Assets</b>	<b>3,26,919</b>	<b>3,36,060</b>	<b>3,73,376</b>	<b>4,26,005</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>1,40,625</b>	<b>1,43,630</b>	<b>1,62,123</b>	<b>1,92,333</b>
<b>Deferred Tax Liability</b>	-	-	-	-
provisions	-	-	-	-
other Liabilities	72,404	72,580	76,209	80,019
Equity Share Capital	1,332	1,330	1,330	1,330
Reserves & Surplus	1,07,772	1,13,120	1,28,314	1,46,922
<b>Total Net Worth</b>	<b>1,09,104</b>	<b>1,14,450</b>	<b>1,29,644</b>	<b>1,48,252</b>
Minority Interest	4,787	5,400	5,400	5,400
<b>Total Liabilities</b>	<b>3,26,919</b>	<b>3,36,060</b>	<b>3,73,376</b>	<b>4,26,005</b>

Source Company data, I-Sec research

### Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>33,767</b>	<b>24,428</b>	<b>27,082</b>	<b>32,024</b>
Working Capital Changes	(157)	(14,551)	(12,206)	(15,038)
Capital Commitments	(5,261)	(5,557)	(42,936)	(39,194)
<b>Free Cashflow</b>	<b>39,028</b>	<b>29,985</b>	<b>70,018</b>	<b>71,218</b>
<b>Other investing cashflow</b>	-	-	-	-
Cashflow from Investing Activities	(5,261)	(5,557)	(42,936)	(39,194)
Issue of Share Capital	-	(2)	-	-
Interest Cost	(11,172)	(12,340)	(11,335)	(14,066)
Inc (Dec) in Borrowings	(6,764)	3,006	18,493	30,211
Dividend paid	(599)	(599)	(733)	(866)
Others	(16,581)	(7,708)	(580)	(679)
Cash flow from Financing Activities	(35,118)	(17,644)	5,846	14,600
<b>Chg. in Cash &amp; Bank balance</b>	<b>(6,611)</b>	<b>1,227</b>	<b>(10,008)</b>	<b>7,429</b>
Closing cash & balance	25,883	27,110	17,102	24,531

Source Company data, I-Sec research

### Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	10.5	10.9	12.4	15.1
Adjusted EPS (Diluted)	10.1	10.3	12.0	14.6
Cash EPS	16.7	19.5	20.5	24.3
Dividend per share (DPS)	0.0	0.0	0.0	0.0
Book Value per share (BV)	81.9	85.9	97.3	111.3
Dividend Payout (%)	0.0	0.0	0.0	0.0
<b>Growth (%)</b>				
Net Sales	16.9	9.8	4.7	12.0
EBITDA	(6.3)	13.4	6.9	21.0
EPS (INR)	(0.5)	3.5	14.4	21.7
<b>Valuation Ratios (x)</b>				
P/E	13.6	13.2	11.5	9.4
P/CEPS	8.6	7.3	7.0	5.9
P/BV	1.7	1.7	1.5	1.3
EV / EBITDA	8.9	7.9	8.1	7.1
P / Sales	1.2	1.1	1.1	1.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Operating Ratios</b>				
Gross Profit Margins (%)	29.7	30.4	31.3	33.0
EBITDA Margins (%)	22.1	22.8	23.2	25.1
Effective Tax Rate (%)	19.7	14.0	24.5	23.8
Net Profit Margins (%)	9.0	8.5	9.3	10.1
NWC / Total Assets (%)	21.6	25.4	27.1	28.2
Net Debt / Equity (x)	1.0	1.0	1.1	1.1
Net Debt / EBITDA (x)	3.3	3.0	3.5	3.3
<b>Profitability Ratios</b>				
RoCE (%)	9.0	9.7	9.0	9.6
RoE (%)	12.6	12.4	13.0	14.0
RoIC (%)	9.0	9.7	9.0	9.6
Fixed Asset Turnover (x)	0.7	0.8	0.8	0.9
Inventory Turnover Days	22	20	53	53
Receivables Days	56	51	53	54
Payables Days	28	29	29	29

Source Company data, I-Sec research

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