

CESC

Performance Highlights

Y/E March (₹ cr)	3QFY2011	2QFY2011	% chg qoq	3QFY2010	% chg yoy
Net revenue	939	1,105	(15.0)	779	20.5
Operating profit	253	318	(20.4)	170	48.8
OPM (%)	26.9	28.8	(184)bp	21.8	512bp
Net profit	110	155	(29.0)	102	7.8

Source: Company, Angel Research

For 3QFY2011, CESC recorded healthy 7.8% yoy growth in standalone net profit, primarily on account of a 48.8% surge in operating profit. During the quarter, operating profit increased due to higher power generation (up 14.6% yoy to 2,147MU) and lower power purchase. The monthly per sq. ft. sales of Spencer's, CESC's 94% retail subsidiary, rose by 22.7% yoy to ₹1,048 in December 2010. EBITDA/sq. ft. for Spencer's has turned positive since June 2010. **We continue to maintain our Buy recommendation on the stock.**

OPM up 512bp yoy aided by higher power generation: CESC registered 20.5% yoy growth in its standalone top line to ₹939cr, aided by 7.1% higher sales volumes and better realisations. However, top-line growth was affected by lower power purchase at 229MU (v/s 366MU in 3QFY2010). OPM expanded by 512bp yoy to 26.9% on account of a 14.6% yoy increase in generation due to the commencement of 250MW Unit III Budge-Budge plant, resulting in 48.8% growth in operational profit. However, net profit rose only by 7.8% yoy on account of higher interest (up 64.3% yoy) and depreciation expenses (up 40.8% yoy).

Valuation: Going ahead, we expect CESC's growth to be driven by the timely execution of its projects. We expect the company's standalone top line and bottom line to grow at CAGR of 16.9% and 13.5%, respectively, over FY2010–12E. We expect Spencer's to take another 12–15 months to breakeven at the corporate level. At the CMP, the stock is trading at 6.7x FY2012E EPS and 0.8x FY2012E P/BV. We maintain our Buy recommendation on the stock with a revised SOTP-based Target Price of ₹468 (₹474).

Key financials (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	3,098	3,355	4,160	4,588
% chg	9.5	8.3	24.0	10.3
Adj. net profit	410	432	508	558
% chg	19.1	5.5	17.6	9.7
OPM (%)	21.9	22.9	24.8	24.2
EPS (₹)	32.6	34.5	40.5	44.4
P/E (x)	9.0	8.6	7.3	6.7
P/BV (x)	1.1	1.0	0.8	0.8
RoE (%)	12.9	12.0	12.4	12.1
RoCE (%)	8.1	7.8	9.5	9.2
EV/Sales (x)	1.9	1.9	1.6	1.8
EV/EBITDA (x)	8.9	8.2	6.5	7.2

Source: Company, Angel Research

BUY

CMP	₹295
Target Price	₹468

Investment Period	12 Months
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Stock Info	
Sector	Power
Market Cap (₹ cr)	3,689
Beta	0.8
52 Week High / Low	433/263
Avg. Daily Volume	36844
Face Value (₹)	10
BSE Sensex	17,729
Nifty	5,310
Reuters Code	CESC.BO
Bloomberg Code	CESC@IN

Shareholding Pattern (%)	
Promoters	52.5
MF / Banks / Indian Fls	22.4
FII / NRIs / OCBs	19.5
Indian Public / Others	5.6

Abs. (%)	3m	1yr	3yr
Sensex	(13.9)	9.8	6.6
CESC	(24.3)	(25.2)	(40.8)

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Exhibit 1: 3QFY2011 performance

Y/E March (₹ cr)	3QFY2011	2QFY2011	% chg qoq	3QFY2010	% chg yoy	9MFY11	9MFY10	% chg
Net sales	939	1,105	(15.0)	779	20.5	3,140	2,581	21.7
Consumption of RM	451	654	(31.0)	403	11.9	1,665	1,355	22.9
(% of Sales)	48	59		52		53	52	
Staff costs	95	147	(35.4)	95	-	339	274	23.7
(% of Sales)	10	13		12		11	11	
Other expenses	140	(14)	(1,100.0)	111	26.1	309	338	(8.6)
(% of Sales)	15	(1)		14		10	13	
Total expenditure	686	787	(12.8)	609	12.6	2,313	1,967	17.6
Operating profit	253	318	(20.4)	170	48.8	827	614	34.7
OPM (%)	26.9	28.8		21.8		26.3	23.8	
Interest	69	77	(10.4)	42	64.3	213	131	62.6
Depreciation	69	64	7.8	49	40.8	200	146	37.0
Other income	22	17	29.4	44	(50.0)	54	64	(15.6)
PBT (incl. Extr. Items)	137	194	(29.4)	123	11.4	468	401	16.7
(% of Sales)	15	18		16		15	16	
Provision for Taxation	27	39	(30.8)	21	28.6	93	68	36.8
(% of PBT)	20	20		17		20	17	
Reported net profit	110	155	(29.0)	102	7.8	375	333	12.6
PATM (%)	12	14		13		12	13	
Equity shares (cr)	12.6	12.6		12.6		12.6	12.6	
EPS (₹)	8.7	12.3		8.1	(27.2)	29.8	26.4	

Source: Company, Angel Research

Exhibit 2: 3QFY2011 – Actual v/s Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	1,105	1,162	(4.9)
Operating profit	318	279	14.2
OPM (%)	26.9	28.6	(170)bp
Net profit	155	125	23.8

Source: Company, Angel Research

Operational highlights

During 3QFY2011, CESC's total power generation stood at 2,147MU (1,873MU), up 14.6% yoy. Overall PLF excl. New Cossipore plant stood at 83.1% (92.6%) during the quarter, down by 950bp yoy due to the lower PLF of 250MW Budge-Budge Unit-III. Power purchased by the company reduced by 37.4% yoy during the quarter to 229MU (366MU).

Exhibit 3: Plant-wise operational performance (3QFY2011)

Plant	PLF (%)		Generation (MU)	
	3QFY11	3QFY10	3QFY11	3QFY10
Budge-Budge ^	85.2	97.1	1,411	1,084
Titagarh	79.3	83.3	420	442
Southern	77.8	88.7	232	264

Source: Company; Note: ^ 3QFY2011 numbers include volume from Unit III not operational in 3QFY2010

Investment arguments
Power business being scaled up

CESC's huge expansion plans to increase its generation capacity to 5,745MW from the current 1,125MW are expected to propel its growth going ahead. This includes having a national footprint and 3,750MW of capacity via different routes such as regulated return, merchant market and competitive bidding. Currently, CESC enjoys assured returns from its operations in Kolkata-licensed area. Going ahead, we expect the company's merchant-based plant at Chandrapur (600MW) to be operational in 2QFY2014. The EPC and BTG orders for the Chandrapur plant have been placed with Punj Lloyd and Shanghai Electric Group. CESC has already acquired 90% of the land required for the Haldia project and has obtained coal linkage and environmental clearances. We believe the proposed expansion would drive the company's growth going ahead.

Exhibit 4: Capacity addition

Location	Purpose	Size (MW)	Cost (₹ cr)	Exp comm. date	Remarks
Haldia Phase 1	License Area	600	2,600	FY2015	Coal linkage obtained, environmental clearances received; ICB has been completed; In principal approval received from WBERC
Dumka, Jharkhand	PPA & Merchant	1,000	4,000	FY2016	110mt coal block allocated; MoU signed with Jharkhand government; Land acquisition process initiated. The company has acquired prospecting license for mine
Dhenkanal, Orissa	PPA & Merchant	1,000	4,000	FY2016	Land acquisition has been completed; All major approvals has been received; Coal allocation is being pursued
Chandrapur	PPA & Merchant	600	2,600	2QFY2014	EPC and BTG orders have been placed; Construction has begun
Thermal/Hydel power plants in WB and other states	PPA & Merchant	1,300-1,500	6,000	FY2016	Projects are in initial stages
Total		4,500-4,700	19,200		

Source: Company, Angel Research

Leading private sector player with a proven track record

CESC is one of the oldest utility companies in India. The company has been generating and distributing power in Kolkata since 1897. CESC is a fully integrated power player with presence in power generation, distribution and coal mining. As of FY2009, the company had a customer base of about 2.3mn customers in Kolkata and Howrah. CESC's existing plants have enjoyed high PLFs with the Budge-Budge plant in particular reporting PLFs in excess of 99% over the last four years. The company's efficiency has improved in the distribution front as well with AT&C losses reducing to 13.3% in FY2009 from 18.8% in FY2003. CESC, which is involved in distribution only in Kolkata, is now looking at entering into power distribution in other cities as well. Further, the company has tied up with SP Global Solutions, a subsidiary of Singapore Power, to improve reliability of its distribution system, which could aid further reduction in losses.

Retail business showing signs of recovery

Currently, Spencer's has 206 outlets spread across the country and operates 18 hyper stores and 10 super stores with total area of 431,000 sq. ft. and 64,000 sq. ft., respectively. In December 2010, per sq. ft. sales of Spencer's rose by 22.7% to ₹1,048 from ₹854 in December 2009. As a result, EBITDA/sq. ft. has turned positive at the store level. We expect the retail business to breakeven at the corporate level as well in another 12–15 months.

Tapping the unexplored land bank

CESC Properties, a 100% subsidiary of CESC, plans to develop a 0.4mn sq. ft. shopping mall in Central Kolkata. Going ahead, CESC Properties also has plans to monetise its 35-acre land at Mulajore.

Outlook and valuation

At the CMP, the stock is trading at 6.7x FY2012E EPS and at 0.8x FY2012E P/BV. We have assigned 1.15x FY2012E blended P/BV multiple to the company's existing power business, considering its lower RoE and higher cash component. Thus, the total value of the power business works out to ₹446/share. We have valued Spencer's on mcap/sales basis, after considering the mcap/sales of peers such as Pantaloon Retail, Shopper's Stop and Trent. On one-year forward mcap/sales basis, peers of Spencer's are trading broadly in the range of 0.5–0.7x. Due to the low-margin business model and cash losses, we have assigned Spencer's mcap/sales ratio of 0.15x FY2012E sales, which is at a significant discount to the average of its peers. Thus, the total value of its retail business works out to ₹12/share. We have valued CESC's mall in Central Kolkata and land in Mulajore (35 acres) on NAV basis and have arrived at a price of ₹10/share for its real estate business. **We maintain our Buy recommendation on the stock with a revised SOTP-based Target Price of ₹468 (₹474).**

Exhibit 5: SOTP valuation

Business portfolio	Methodology	Value/Share (₹)
Existing power plants and cash	1.15 X FY2012E BV	446
Retail – Spencer's (94% stake)	0.15 X FY2012E Sales	12
Real estate – CESC Properties	NAV	10
Total		468

Source: Company, Angel Research

Exhibit 6: Change in estimates

(₹ cr)	FY11E			FY12E		
	Earlier	Revised	Variation (%)	Earlier	Revised	Variation (%)
Net sales	4,375	4,160	(4.9)	4,820	4,588	(4.8)
Operating exp.	3,322	3,130	(5.8)	3,663	3,478	(5.1)
Operating profit	1,053	1,031	(2.1)	1,157	1,110	(4.1)
Depreciation	268	277	3.4	275	262	(4.7)
Interest	277	287	3.6	286	286	0.0
PBT	677	635	(6.2)	738	695	(5.8)
Tax	135	127	(5.9)	146	138	(5.5)
PAT	542	508	(6.3)	593	558	(5.9)

Source: Angel Research

Exhibit 7: Key assumptions

	Earlier estimates		Revised estimates	
	FY11E	FY12E	FY11E	FY12E
Installed capacity (MW)	1,225	1,225	1,225	1,225
Growth (%)	-	-	-	-
Sales volume (MU)	9,192	9,818	8,335	8,743
Growth (%)	22.2	6.8	10.8	4.9
Realisation (₹/unit)	4.7	4.8	4.9	5.1
Growth (%)	5	3	10	5

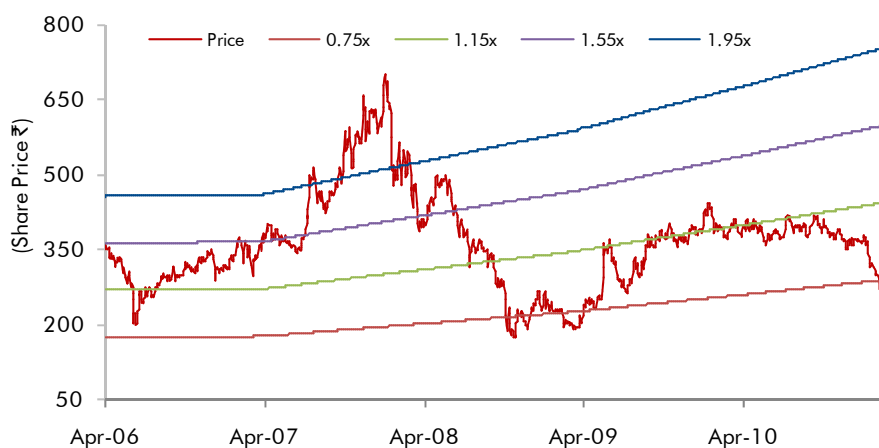
Source: Angel Research

Exhibit 8: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	FY2012E P/BV (x)	FY2012E P/E (x)	FY2010-12E EPS CAGR (%)	FY2012E RoCE (%)	FY2012E RoE (%)
CESC	Buy	295	468	58.5	0.8	6.7	13.5	9.2	12.1
GIPCL	Buy	87	135	54.5	0.9	6.8	34.9	9.9	13.8
NTPC	Buy	176	230	30.5	1.9	15.5	3.2	10.2	13.0

Source: Company, Angel Research

Exhibit 9: One-year forward P/BV band



Source: Company, Angel Research

Profit & Loss Statement (Standalone)

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Total operating income	2,530	2,829	3,098	3,355	4,160	4,588
% chg	(0.9)	11.8	9.5	8.3	24.0	10.3
Total Expenditure	1,927	2,255	2,419	2,586	3,130	3,478
Net Raw Materials	958	1,089	1,356	1,569	1,747	1,972
Other Mfg costs	662	828	735	600	925	1,020
Personnel	307	337	328	418	458	486
EBITDA	603	574	679	769	1,031	1,110
% chg	(2.6)	(4.8)	18.3	13.2	34.1	7.7
(% of Net Sales)	23.8	20.3	21.9	22.9	24.8	24.2
Depreciation & Amortisation	158	168	170	206	277	262
EBIT	445	406	509	563	753	848
% chg	21.8	(8.9)	25.5	10.6	33.8	12.6
(% of Net Sales)	17.6	14.3	16.4	16.8	18.1	18.5
Interest & other Charges	207	182	140	236	287	286
Other Income	103	179	96	195	169	134
(% of PBT)	30.4	45.7	20.6	37.4	26.5	19.2
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	338	392	465	521	635	695
% chg	51.5	15.8	18.7	12.1	21.8	9.5
Extraordinary Expense/(Inc.)	(2)	(11)	-	(1)	-	-
PBT (reported)	341	403	465	522	635	695
Tax	40	48	55	89	127	138
(% of PBT)	11.7	11.8	11.8	17.0	19.9	19.8
PAT (reported)	301	355	410	433	508	558
ADJ. PAT	298	344	410	432	508	558
% chg	46.7	15.4	19.1	5.5	17.6	9.7
(% of Net Sales)	11.8	12.2	13.2	12.9	12.2	12.2
Basic EPS (₹)	35	28	33	34	41	44
Fully Diluted EPS (₹)	35	28	33	34	40	44
% chg	69.7	(20.0)	15.4	5.7	17.3	9.7

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	85	126	126	126	126	126
Reserves & Surplus	1,908	2,847	3,267	3,697	4,249	4,747
Shareholders' Funds	1,993	2,972	3,392	3,823	4,374	4,872
Total Loans	2,551	2,569	3,557	3,708	3,958	5,208
Deferred Tax Liability	-	-	9	-	-	-
Total Liabilities	4,544	5,541	6,958	7,531	8,333	10,080
APPLICATION OF FUNDS						
Gross Block	6,648	7,129	7,938	9,990	9,906	10,197
Less: Acc. Depreciation	3,179	3,534	3,826	4,131	4,408	4,671
Net Block	3,468	3,595	4,112	5,859	5,497	5,526
Capital Work-in-Progress	266	620	1,280	278	1,486	3,059
Goodwill	-	-	-	-	-	-
Investments	241	570	310	679	679	679
Current Assets	1,625	2,089	2,936	3,034	3,297	3,459
Cash	731	986	1,251	1,120	957	868
Loans & Advances	311	611	1,084	1,026	1,456	1,605
Other	582	491	601	888	885	986
Current liabilities	1,065	1,341	1,688	2,176	2,627	2,642
Net Current Assets	560	748	1,248	708	671	817
Mis. Exp. not written off	9	9	8	7	-	-
Total Assets	4,544	5,541	6,958	7,531	8,333	10,080

Cash Flow Statement (Standalone)

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profit before tax	341	403	465	522	635	695
Depreciation	158	168	170	206	277	262
Change in Working Capital	763	495	105	641	5	(260)
Less: Other income	103	179	96	195	169	134
Direct taxes paid	40	48	55	89	127	138
Cash Flow from Operations	1,119	840	589	935	622	426
(Inc)/ Dec in Fixed Assets	(559)	(835)	(1,469)	(900)	(1,123)	(1,864)
(Inc)/ Dec in Investments	(210)	(328)	259	(368)	-	-
Other income	103	179	96	195	169	134
Cash Flow from Investing	(667)	(984)	(1,114)	(1,074)	(955)	(1,730)
Issue of Equity	43	622	0	-	-	-
Inc./ (Dec.) in loans	81	18	988	151	250	1,250
Dividend Paid (Incl. Tax)	35	58	58	58	59	59
Others	207	182	140	236	-	-
Cash Flow from Financing	(117)	400	790	(143)	191	1,191
Inc./ (Dec.) in Cash	336	255	265	(131)	(142)	(113)
Opening Cash balances	396	731	986	1,251	1,120	957
Closing Cash balances	731	986	1,251	1,120	957	868

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	11.0	13.7	11.9	11.2	7.3	6.7
P/CEPS	7.2	9.3	8.4	7.6	4.7	4.5
P/BV	1.7	1.6	1.4	1.3	0.8	0.8
Dividend yield (%)	1.0	1.2	1.2	1.2	1.6	1.6
EV/Sales	2.0	2.3	2.3	2.2	1.6	1.8
EV/EBITDA	8.5	11.2	10.6	9.7	6.5	7.2
EV / Total Assets	1.1	1.2	1.0	1.0	0.8	0.8
Per Share Data (₹)						
EPS (Basic)	35.4	28.3	32.6	34.5	40.5	44.4
EPS (fully diluted)	35.4	28.3	32.6	34.5	40.5	44.4
Cash EPS	54.0	41.7	46.2	50.9	62.6	65.3
DPS	4.1	4.7	4.7	4.7	4.7	4.7
Book Value	234.6	236.6	270.1	304.4	348.3	387.9
DuPont Analysis (%)						
EBIT margin	17.6	14.3	16.4	16.8	18.1	18.5
Tax retention ratio	88.3	88.2	88.2	83.0	80.1	80.2
Asset turnover (x)	0.7	0.7	0.6	0.6	0.6	0.6
ROIC (Post-tax)	10.4	8.5	8.7	7.7	8.8	8.2
Cost of Debt (Post Tax)	7.3	6.3	4.0	5.4	6.0	5.0
Leverage (x)	1.1	0.7	0.6	0.7	0.7	0.8
Operating ROE	13.8	10.2	11.6	9.3	10.6	10.7
Returns (%)						
ROCE (Pre-tax)	10.3	8.0	8.1	7.8	9.5	9.2
Angel ROIC (Pre-tax)	12.5	10.8	12.2	10.8	12.5	14.1
ROE	16.4	13.9	12.9	12.0	12.4	12.1
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.4	0.4	0.4	0.4	0.4	0.5
Inventory / Sales (days)	24	22	23	24	23	24
Receivables (days)	68	47	41	48	49	52
Payables (days)	175	195	229	273	280	276
WC cycle (ex-cash) (days)	(1)	(26)	(14)	(14)	(31)	(13)
Solvency ratios (x)						
Net debt to equity	0.9	0.5	0.7	0.7	0.7	0.9
Net debt to EBITDA	3.0	2.8	3.4	3.4	2.9	3.9
Interest Coverage (EBIT / Int.)	2.1	2.2	3.6	2.4	2.6	3.0

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Disclosure of Interest Statement

	CESC
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	