



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141439

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BUY

Current Price	1017
Target Price	1341
Upside	32%
52 Week Range	812/1189

Key Share Data

Market Cap (Rs.bn)	125.38
Market Cap (US\$ mn)	1932
No of o/s shares (mn)	13.25
Face Value	10
Monthly Avg. Vol(BSE+NSE) Nos ('000)	360
BSE Code	500084
NSE Code	CESC
Bloomberg	CESC:IN

Price performance



We conducted concall with management of CESC Ltd. Following are key takeaways:

CESC is a flagship company of the Sanjiv Goenka RPG Group, and was incorporated in 1978. It is the sole distributor of power in Kolkata. CESC's business is organised across four main verticals: 1) power generation and distribution; 2) retail business; 3) real estate; and 4) IT. CESC's power business generates and distributes 1.8GW power annually to 3.1mn consumers in Kolkata and Howrah. Additionally, the company operates a 600MW plant in Maharashtra. The company operates 1.1mn sqft retail area across India through its 100% subsidiary, Spencer Retail. Further, it operates Quest, a high-end luxury mall in Kolkata with retail area of 0.4mn sqft. It also owns a controlling stake (55%) in Firstsource Solution (FSOL), a leading global BPO company.

CESC is on track to demerge its businesses into four verticals: generation, distribution, retail, and other investments. The NCLT, approved CESC's demerger process and it is likely to secure WBERC approval for continuation of PPA between the generation and distribution entities.

Distribution segment: Cash cow: The existing operations of power distribution in Kolkata in West Bengal and Greater Noida in Uttar Pradesh. CESC received franchisee for three circles of Rajasthan (Kota, Bharatpur and Bikaner). Existing circles are growing at 3-4% while management expects growth to be driven by three new circles. The key driver of profitability for these circles would be reduction in AT&C losses to 15% vs. the current level of 25-30%. This division is cash cow and generates cash flows of Rs10-12bn annually. Management is bidding for new contracts and expects annual capex of Rs7bn for this division. Base ROE for the segment is 15-16% however, with incentives the segment earns ROE of 20%.

Generation segment: turnaround at Chandrapur remains key: The company would comprise operational power-generating assets of 2.5GW consisting of 2,365MW of coal-based projects and 165MW of renewable assets. Of the total, 1.7GW (1.1GW of Kolkata units +600MW of Haldia units) or 75% of total capacity is on a regulated model which earns 14-16% post-tax ROE and incentives for efficient operations. Out of Chandrapur's 600MW PPA has been signed for 300MW. Of the remaining 300MW short term PPA signed with Maharashtra govt for 175MW. This is likely to reduce loss from this division from Rs483cr posted in FY17 to Rs211cr in FY18E and to Rs173cr in FY19E. The segment generates FCF of Rs7bn and is not expected to incur any capex.

% Shareholding	Dec-17	Sept-18
Promoters	49.92	49.92
Institutions	38.80	38.80
Others	11.28	11.28
Total	100	100

Spencer: Growth driver: The company operated 124 stores and had 1.18mn sq. ft. of retail space under operations. Spencer's losses have reduced due to strategic initiatives taken like closure of loss-making stores, focus on large-format stores, cost optimisation, and introduction of private labels are the reasons for pruning of losses. The segment has achieved break-even at EBITDA level and is expected to improve margin by 100-150bps each year. Management expects the company to grow 15-18% annually and post margin of 5% by FY20E.

Consolidated Financials (In INR Mn)

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY17	139,035	14.6	32,216	23%	6,980	14.5	51.9	19.3	9.5	10.1
FY18E	168,330	21.1	37,188	22%	9,375	34.3	70.4	14.3	12.2	10.9
FY19E	179,131	6.4	39,031	22%	11,300	20.5	84.9	11.8	13.0	11.3
FY20E	190,147	6.1	40,646	21%	12,450	10.2	93.5	10.7	13.3	11.6

Source: Dalal & Broacha Research



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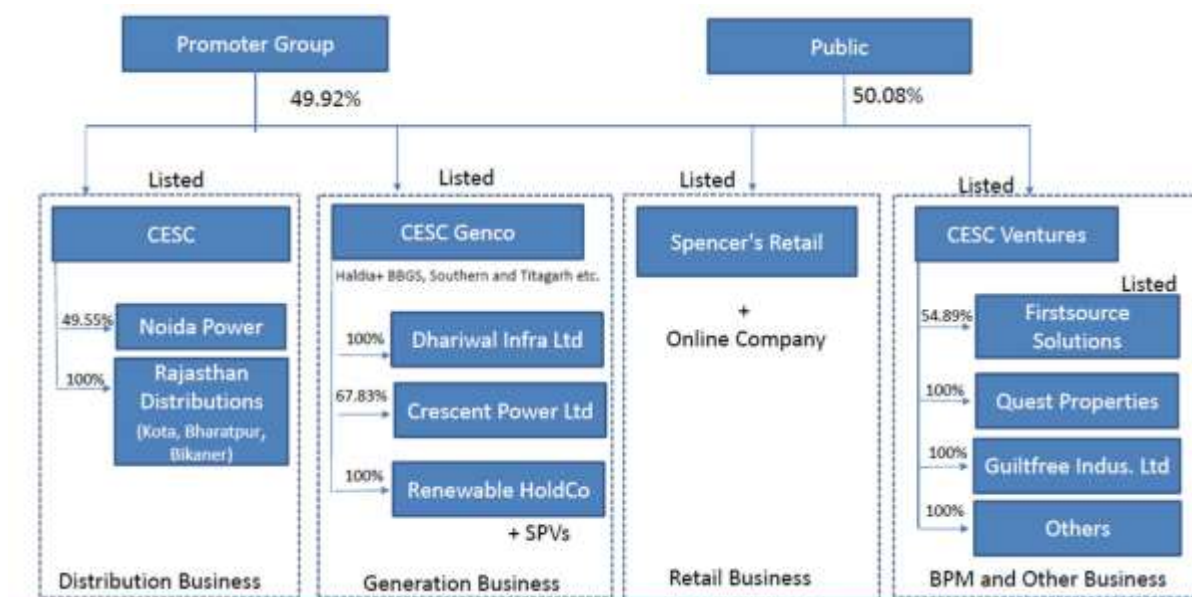
Valuation:

Valuing distribution business at 12x FY19E earnings, in-line with NTPC valuation and retail at 1x P/S the fair value of the company works out at Rs1341 per share.

Sum of the Parts Valuation	Multiple	MCAP (Rs Mn)	RS/share	Comments
Power Distribution business	12	83184	625	In-line with NTPC valuation
Rajasthan Franchisee	8	3200	24	
Power Generation business	12	51600	388	
Retail (Sales)	1	27000	203	Valued at P/S of 1x
Other businesses				
FSOL			98	20% hold-co discount to CMP
Mall	4	40	3	
Fair value			1341	

CESC De-merger

For every 10 shares of CESC shareholders are likely to get 5 shares of CESC distribution, 5 shares of CESC generation, 6 shares of Spencer Retail and 2 shares of IT and other businesses.





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