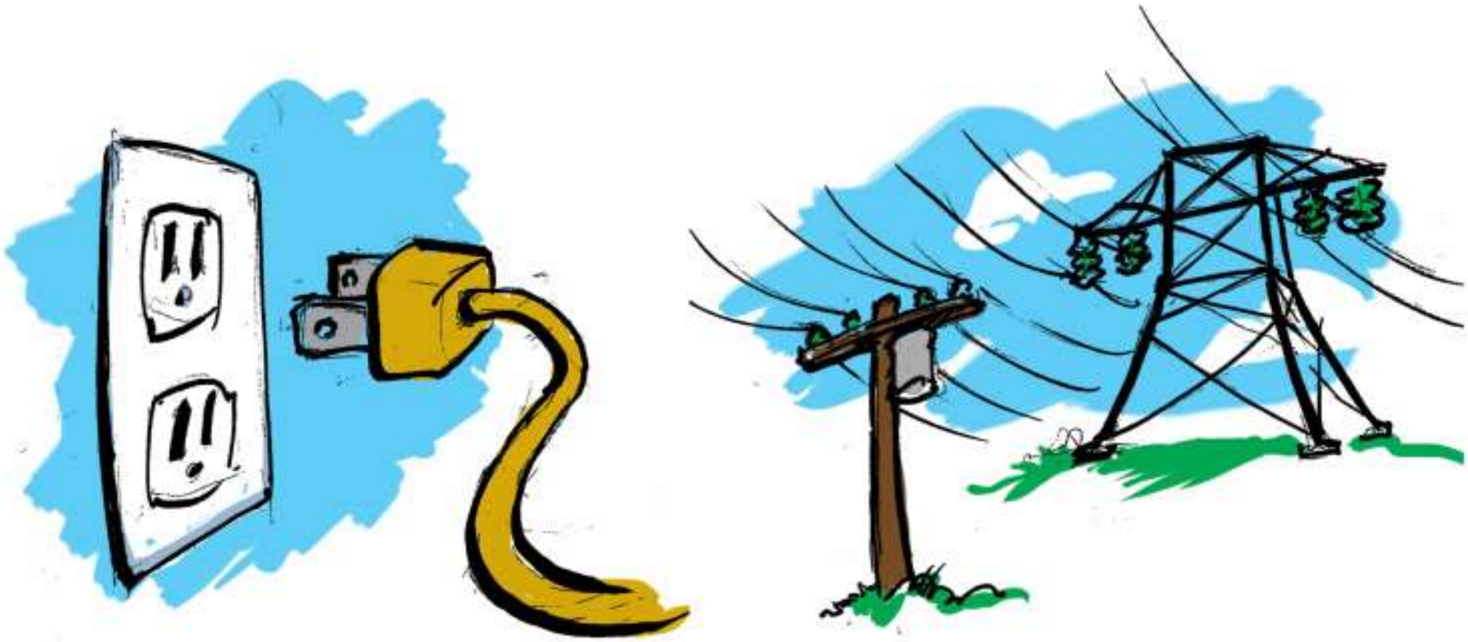
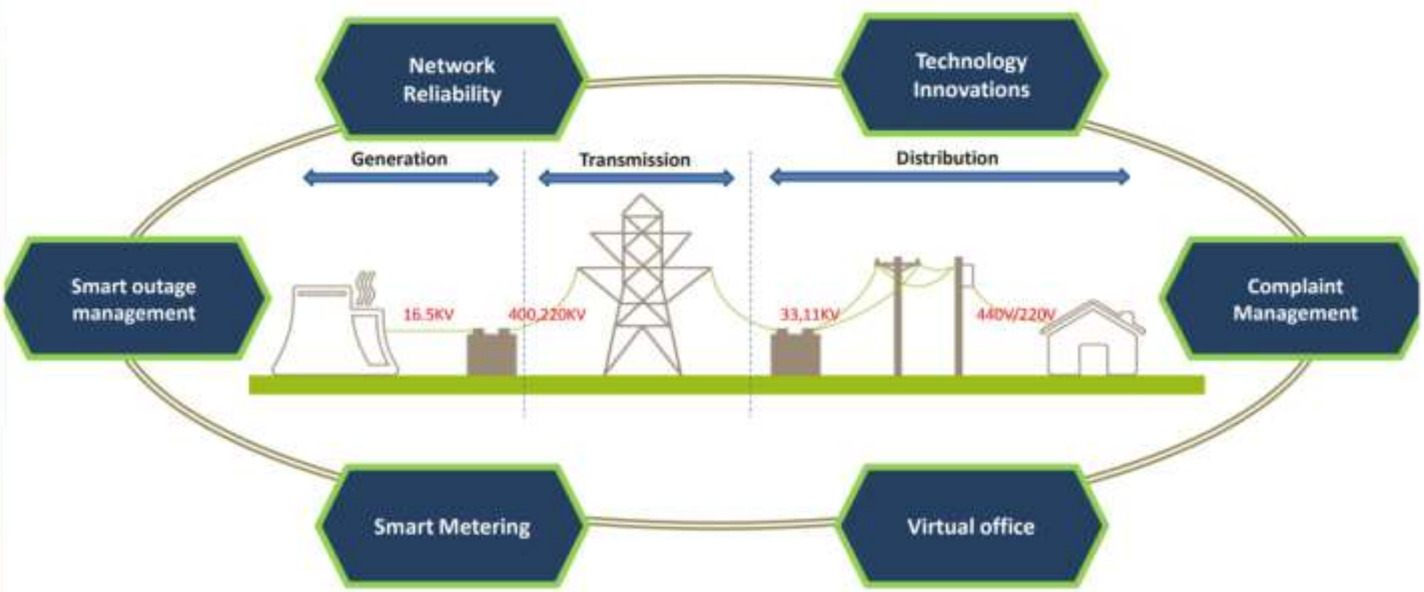
Initiating Coverage Report

13th May 2019

CESC





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Brief Overview

CMP (INR) (As on 10th May 2019)	675
Target (INR)	910
Upside(%)	35
Recommendation	**Strong Buy**

BSE Code	500084
NSE Code	CESC
Reuters Ticker	CESC.BO
Bloomberg Ticker	CESC IN

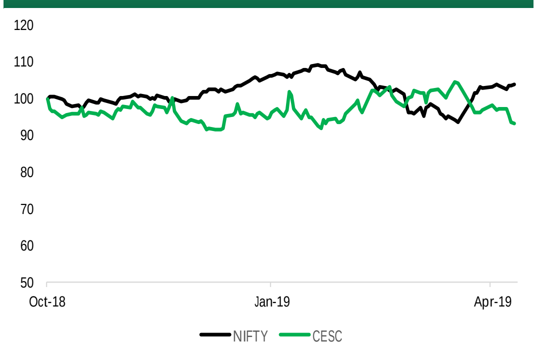
Stock Scan

Market cap (INR Cr.)	8841
Outstanding Shares (Cr.)	13.26
Face Value (INR)	10
Dividend Yield(%)	1.80
P/E (x)	9.7
Industry P/E (x)	11.8
Debt/Equity (x)	1.73
Beta vs. Sensex	1.23
52 Week High/ Low (INR)	1092/631
Avg. Daily Volume (NSE)/1yr	531120

Shareholding Pattern (%)

	Mar-2019	Dec-2018	Sep-2018
Promoters	49.92	49.92	49.92
Institutions	38.37	36.77	36.77
Non-Institution	11.71	13.31	13.31

Stock vs. Nifty (Relative Returns)



Source: Company Data, SMIFS Research, NSE

CESC Ltd : Powering your Wealth

We initiate a coverage on CESC Ltd with a Strong BUY rating. CESC Ltd is engaged in power generation and distribution in the state of West Bengal. CESC Ltd is a fully integrated power utility with its operations spanning the entire value chain: right from mining coal to generating power and distribution of power. The Company currently on its own and through subsidiaries operates power plants generating 2539 MW of power in the thermal as well as renewable space. CESC Ltd operates with in Kolkata & its suburbs with minimum regulated ROE of 16% - making it a relatively less risky business. Moreover, clean and successful demerger of retail business has created an opportunity to unlock more value from the Power generation & Distribution business.

- **Regulated business: A cash cow to the company:** The regulated business generates strong earnings and cash flow every year with steady demand from the regulated circle of operation.
- **Privatization:** Given the huge accumulated losses with SEB's and high AT&C losses in their operation, it is expected that privatization of operations through IBDF (Input Based Distribution Franchisee) model would be the new way of business in this sector going forward. Players like CESC with rich experience in generation as well as distribution would be highly benefitted from this new model of doing business.
- **Turnaround in subsidiaries:** The management is actively looking for Long Term agreement for one unit of 300MW in Dhariwal Infrastructure Ltd. This would enable the unit to achieve higher operating leverage and improve its profitability. Also, subsidiaries in Distribution Franchisee (DF) business is expected to come out of losses with falling T&D losses.

Considering the steady cash flow in regulated business and turnaround in subsidiaries we expect the stock to be re-rated going forward. We have done a SOTP based valuation and arrived at a **Target Price of INR910**, by independently valuing the CESC standalone business and its individual material subsidiaries.

Financial Performance at a glance (Consolidated)

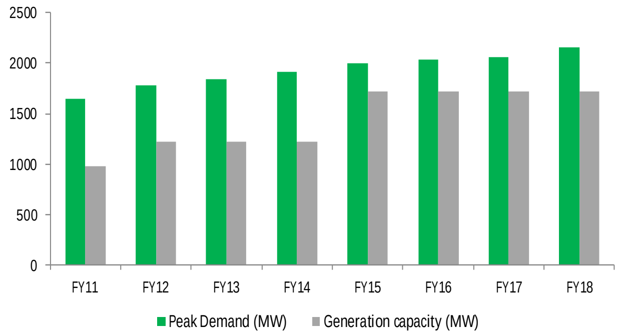
Particulars (INR Cr)	FY17	FY18	FY19E*	FY20E	FY21E
Net Sales	13,983	13,183	11113	12052	12542
Growth %	15.3%	-5.7%	-15.7%	8.4%	4.1%
EBITDA	2,982	3,101	3278	3442	3728
EBITDA Margin (%)	21.3%	23.5%	29.5%	28.6%	29.7%
Net Profit	762	926	1164	1356	1584
Net Profit Margin (%)	5.4%	7.0%	10.5%	11.3%	12.6%
EPS	57.47	69.82	87.81	102.31	119.49
BVPS	800.39	635.15	668.38	722.06	789.65
P / E (x)	11.7	9.7	7.7	6.6	5.6
P / BV (x)	0.8	1.1	1.0	0.9	0.9
ROE (%)	7%	10%	13.1%	14.2%	15.1%
ROCE(%)	10%	11%	9.2%	9.7%	10.1%

**figures adjusted after demerger*

Source: Company Data, SMIFS Research

Investment Rationale

Steady increase in Peak demand



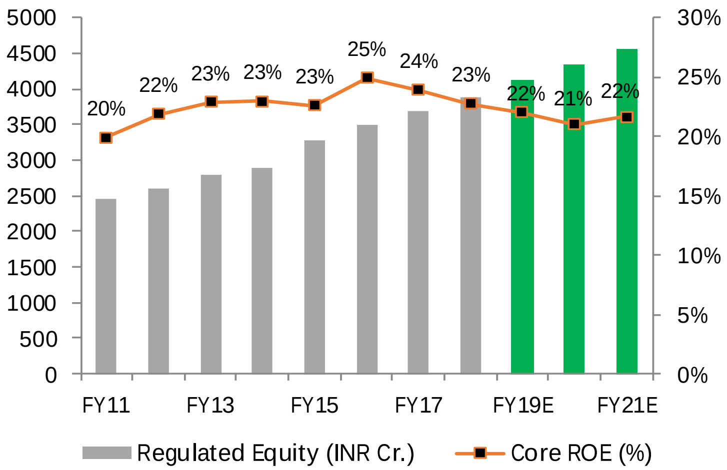
Source: Company Data, SMIFS Research

Steady and Growing Cash Flow from Regulated business

The Kolkata generation and distribution is a cash cow for the company—assured returns with strong cash flow. CESC is a fully integrated electrical utility generating and distributing to over 3.2 million consumers across its licensed areas of Kolkata and Howrah.

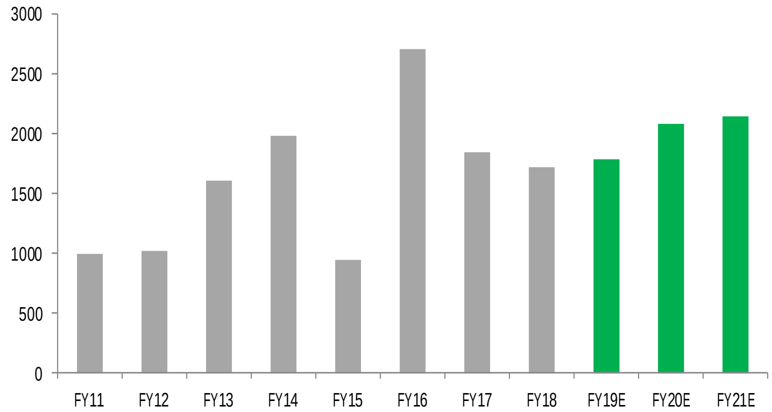
Currently, the company has its own capacity of 1125MW with assured ROE of 15.5% on Generation and 16.5% on Distribution Assets. These are regulated by WBERC (West Bengal Electricity Regulatory Commission). As per 2017-18 WBERC Tariff Order, the company has a Regulated Equity base of INR38.5bn and has been growing at a rate of 5-6% every year.

Gradual growth in Regulated Equity every year



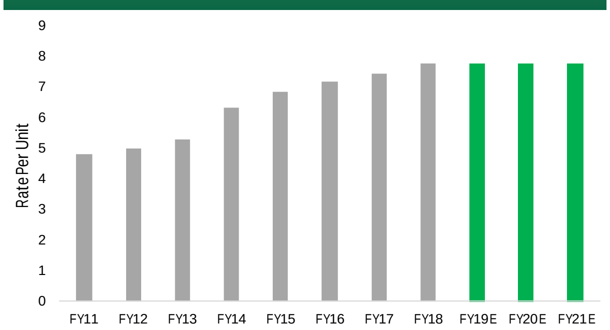
Source: Tariff Order 17-18, Company Data, SMIFS Research

Steady cash generation from operation activities (INR Cr.)



Source: Company Data, SMIFS Research

Improvement in Tariff rates with rising coal prices



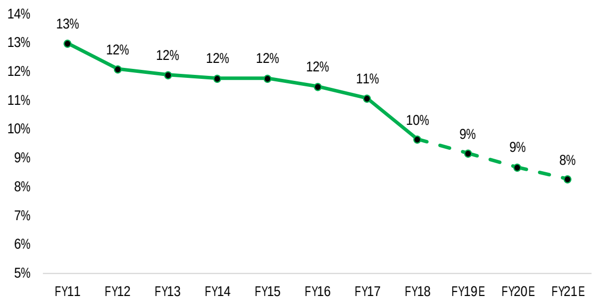
Source: Company Data, SMIFS Research

However, over the years CESC has managed to surpass the regulated ROE mark and has earned an actual ROE of over 20% on Regulated Equity base on account of: - 1) minimizing T&D losses from 12% in FY12 to 9.6% in FY18 and thus substantially increasing efficiency; 2) consistently operating at higher PLF; and 3) timely revision of tariffs.

The company has over the years consistently invested in better distribution facilities to reduce T&D loss. It also regularly upgrades its tangible as well as intangible infrastructure to achieve higher efficiency levels. These helps the company to earn T&D and other incentives. Going ahead the company would need at least INR600-700 crore capex every year (Equity portion attributes to 30% i.e. INR180-210 crore). Thus, we estimate that the Regulatory equity

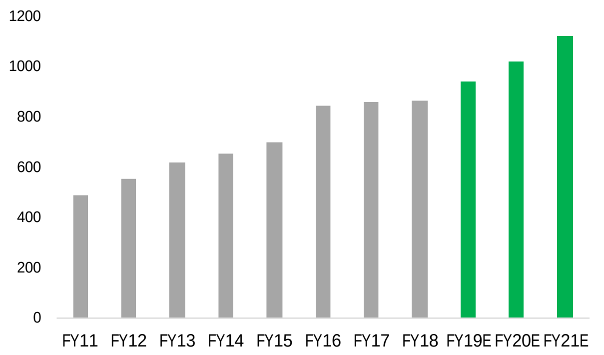
Investment Rationale

Gradual decrease in T&D losses (%)



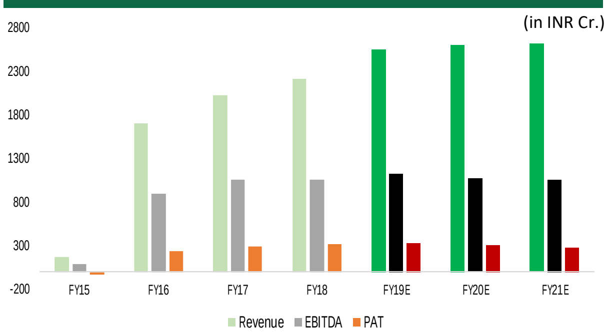
Source: Company Data, SMIFS Research

Steady increase in Net Income (INR Cr.)



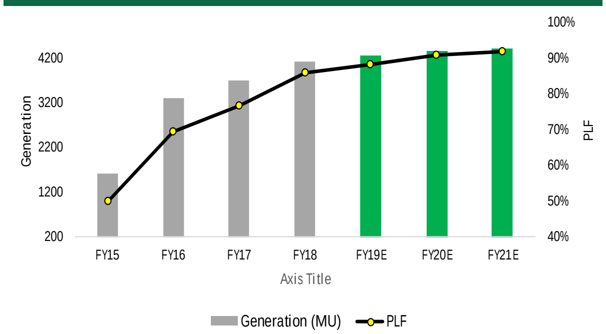
Source: Company Data, SMIFS Research

Strong consistent performance of Haldia



Source: Company Data, SMIFS Research

Increasing PLF aiding to operational efficiency



Source: Company Data, SMIFS Research

base will continue to grow at historical rates of 5-6% going forward.

PLF for CESC Budge Budge (750 MW) and Haldia (600 MW) Plant have been consistently improving. Due to higher in house cost of power, the company has stopped generating from its Titagarh (240MW) & New Cossipore (100MW) plant. The management also indicated, generation from Southern Plant (135MW) would also be reduced going forward. The shortfall is well compensated from CESC's 100% subsidiary Haldia Energy Ltd (HEL), 68% subsidiary Crescent Power Ltd, National Power Grid and State Electricity Boards.

Overall the company is well positioned to generate earnings of INR900 crore and strong CFO of INR1800 crore every year going forward.

Subsidiaries to show improved performance

Haldia Plant to add to steady performance

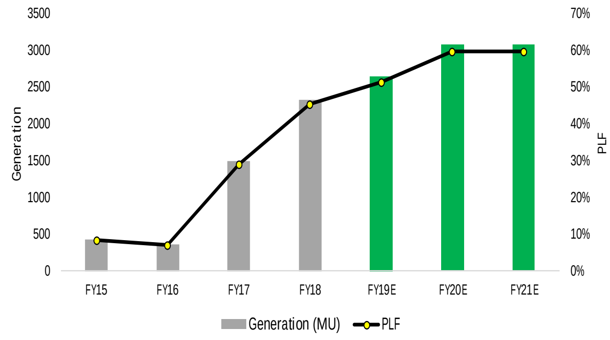
The company has set up Generating station (600MW) at Haldia, West Bengal through a 100% subsidiary - Haldia Energy Ltd (HEL). HEL currently supplies 100% power to CESC Kolkata through long term PPA. The project is a coal-based thermal power plant and has been fully approved by WBERC. The plant comprises of two units, each generating 300MW.

HEL has entered into a Fuel Supply Agreement with Mahanadi Coalfields Limited, a subsidiary of CIL to source the power plant. The Company is fully linked to steady CESC Kolkata business and is contributing annual earnings of around INR350 crore per year.

With CESC Kolkata business growing at a steady rate, we expect Haldia plant to achieve higher PLF and lower T&D losses going forward.

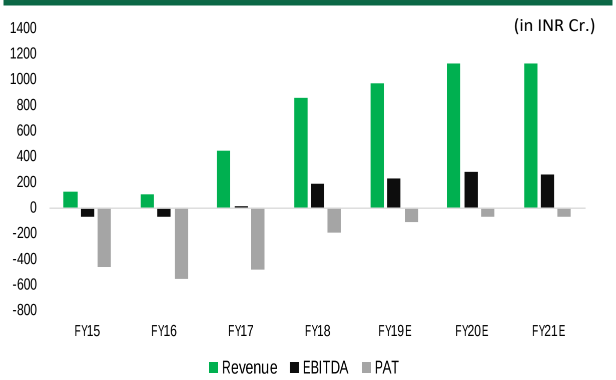
Investment Rationale

Expected to increase units generated on the possibility of new long term agreement



Source: Company Data, SMIFS Research

Higher generation would accrue higher operating leverage benefits



Source: Company Data, SMIFS Research

Turnaround in Dhariwal Infrastructure Ltd

Dhariwal Infrastructure Limited (DIL), a 100% subsidiary of CESC Ltd, a 2x300MW thermal project located in Chandrapur district of Maharashtra. DIL has a Fuel Supply Agreement (FSA) with South Eastern Coal Fields Limited for capacity linked to Long term PPA.

Unit I was commissioned in 2013-14 and Unit II was commissioned in 2014-15. For power evacuation, Unit I is connected to the state grid and Unit II to the central grid. This provides for flexibility in the sale of power to customers from both within and outside the state.

Currently for Unit II, running at 89% PLF, DIL has Power Purchase Agreements (PPAs) for supply of 100 MW to Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) and 170 MW to the Noida Power Company Limited (49.75% JV with CESC Ltd). DIL has entered into a short term arrangement for Unit -I (300MW) for a period of 45 days with Maharashtra State Power Generation Company Limited (MSPGCL) for supply of 185 MW commencing from 15th March 2018.

The absence of long term PPA for Unit I has been keeping the earnings negative from DIL. The company is exploring multiple options to tie up long term PPAs' with SEB's or even convert current short term agreements into long term. We expect some positive developments to occur only after the election dust settles down. As on 2017-18, DIL has reported loss of around INR200 crore because of running at low PLF of 49% levels.

However, for FY19 this subsidiary is expected to reduce its losses by another INR100 crores given the recent ramp up in PLF in both the Units.

Distribution Franchisee business: a new era of power supply model

CESC is among the few companies in India with rich experience in generation as well as distribution could highly benefit from this model of doing business.

State distribution companies (DISCOMs) are using the distribution franchisee (DF) route to partially privatise operations and improve their financial health. CESC is among the few companies in India with experience in generation as well as distribution. Hence, the company could highly benefit from this model of doing business in the power sector going ahead.

Distribution Franchisee: An Overview

Distribution Franchisee is an agent which works on the behalf of the Distribution Licensee (DISCOM) in the designated area to manage its power distribution business including supply and billing of electricity to the consumers. It is an arrangement based on the principles of "Public Private Partnership" (PPP) wherein specific functions for a demarcated area within the total licensed area of distribution is franchised out by the distribution utility to a private sector entity, while the state retains the ownership of assets. It can be seen that areas where high AT&C losses persists or high investments are required for infrastructure, SEB's are taking the DF route. For a DF – 1) the asset ownership is with the SEB; 2) the tariff is set by the State power regulator; 3) the profitability is linked to how efficiently it reduces the T&D losses.

Distribution Franchisee overview

Task	Function
Scope of Work	As per agreement - Typically to distribution of power, collection from consumers, upgradation of infrastructure.
Tariff agreement	No separate Tariff petition required, tariff determined by SEB
Profitability	Depends on efficient operation in bringing down T&D losses, collection efficiency
Ownership of Assets	Lies with the SEB
Cost of energy purchased	As per the agreement

Rajasthan DISCOM awarded four franchisees in FY17-18 three of which were won by CESC. This includes Kota, Bharatpur and Bikaner circles.

Rajasthan DISCOM awarded four franchisees in FY17-18 three of which were won by CESC. This includes Kota, Bharatpur and Bikaner circles. Kota and Bharatpur became operational in FY17 and Bikaner became operational in FY18. After take over by CESC, it has invested around INR200 crore in the upgradation of distribution network, installation of transformers and substation, IT support etc.

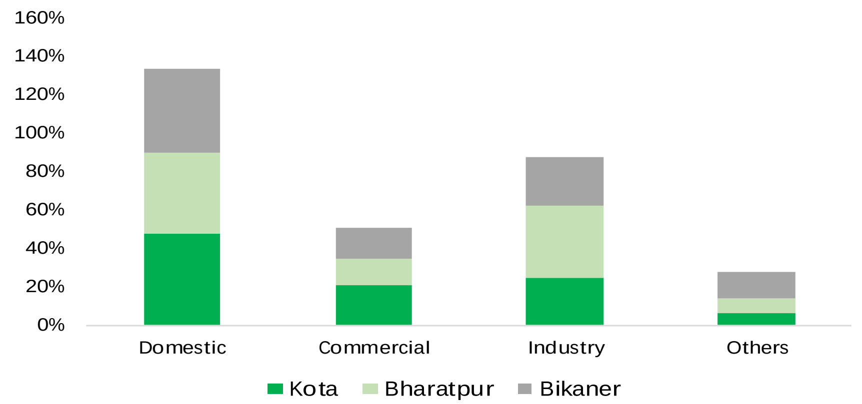
Investment Rationale

Particulars	Kota	Bharatpur	Bikaner
Area (sq. km.)	176	50	155
Population (Nos. lakh)	11.76	2.52	6.44
Cosumer count (Nos. lakh)	2.28	0.63	1.79
DF Handover date	1st Sept 2016	1st Dec 2016	16th May 2017
Peak Load (MW)	230	50	130

Source: Company Data, SMIFS Research

In just 2.5 years these circles witnessed massive transformation in terms of improved quality & services, impressive reduction in T&D losses (from 32-33% to 22-24% levels) and improved infrastructure. The company has further plans to invest another INR200-300 crore in the next 4 years to further improve efficiency and operations.

Sales Mix



Source: Company Data, SMIFS Research

Kota Circle

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Energy Input (MU)	634	1223	1302	1374	1443
Energy Sold (MU)	423	896	988	1097	1210
ABR (INR/unit)	7.79	7.79	7.79	7.79	7.79
Revenue (INR Cr)	329	698	769	855	942
EBITDA (INR Cr)	-27	-72	-51	-9	37
Net Income (INR Cr)	-35	-85	-65	-23	23

Source: Company Data, SMIFS Research

Kota Circle

- The Kota circle DF was awarded by JVNL (Jaipur Vidyut Vitaran Nigam Limited). CESC under its 100% subsidiary Kota Electricity Distribution Limited (KEDL) started operations from Sept 2016.
- Current consumer count is around 2.28 lakh with peak load of 230MW.
- No. of units sold increased from 423 MU to 896MU as on FY18. Further, T&D losses were reduced from 33% to 27%.
- However, loss per unit has increased in FY18; it is expected to decrease going forward and turn profitable from FY21.

Bharatpur Circle

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Energy Input (MU)	84	272	279	286	293
Energy Sold (MU)	63	225	238	250	262
ABR (INR/unit)	7.5	7.5	7.5	7.5	7.5
Revenue (INR Cr)	47	169	179	188	196
EBITDA (INR Cr)	-3	-1	4	7	11
Net Income (INR Cr)	-4	-4	0	4	7

Source: Company Data, SMIFS Research

Bharatpur Circle

- Bharatpur Electricity Services Limited (BESL), a wholly owned subsidiary of CESC, was formed to take over the operations in Bharatpur, Rajasthan on 1 December 2016 after the signing of Distribution Franchisee Agreement with JVVNL.
- Current consumer count is around 0.63 lakh with peak load of 50MW.
- During FY18, 272MU was sold to consumers with T&D losses coming down from 24% to 16%.
- We expect PAT break even in FY19 and turn profitable from FY21.

Investment Rationale

Bikaner Circle

Particulars	FY18	FY19E	FY20E	FY21E
Energy Input (MU)	644	663	683	704
Energy Sold (MU)	509	559	593	625
ABR (INR/unit)	7.72	7.72	7.72	7.72
Revenue (INR Cr)	398	437	464	489
EBITDA (INR Cr)	-22	4	16	27
Net Income (INR Cr)	-32	-6	6	16

Source: Company Data, SMIFS Research

Bikaner Circle

- CESC won the bid floated by Jodhpur Vidyut Vitaran Nigam Limited (JdVVNL) for Bikaner circle. It has commenced operation from May 2017.
- Current consumer counts—1.5 lakh consumers with peak load of 130MW.
- During FY18, 509MU was sold to consumers with T&D losses at 18%.
- We expect this unit to reduce losses sharply to INR6cr in FY19 and turn profitable from FY20.

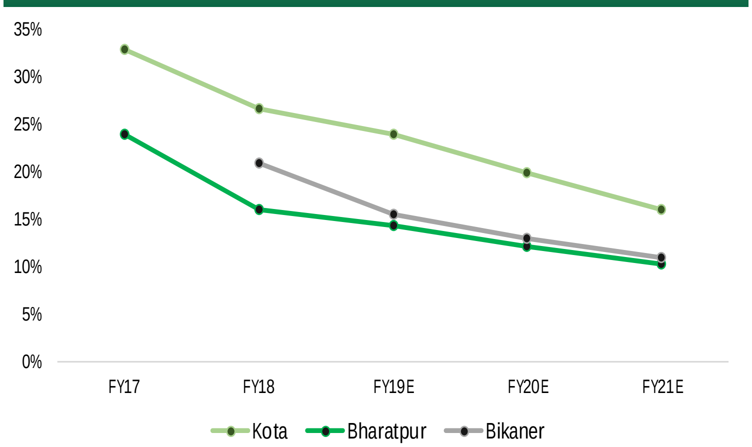
The three distribution franchisees — Kota, Bharatpur and Bikaner, currently have a combined customer base of 4.2 lakh and an annual energy consumption of around 1800 MU, which translates into a revenue of approximately INR1,400 cr pa.

Rajasthan Circle Summary

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Total Energy Sold (MU)	486	1630	1785	1941	2097
Revenue (INR Cr)	334	1287	1409	1854	2054
EBITDA (INR Cr)	-30	-95	-44	-8	120
Net Income (INR Cr)	-40	-121	-70	-46	80

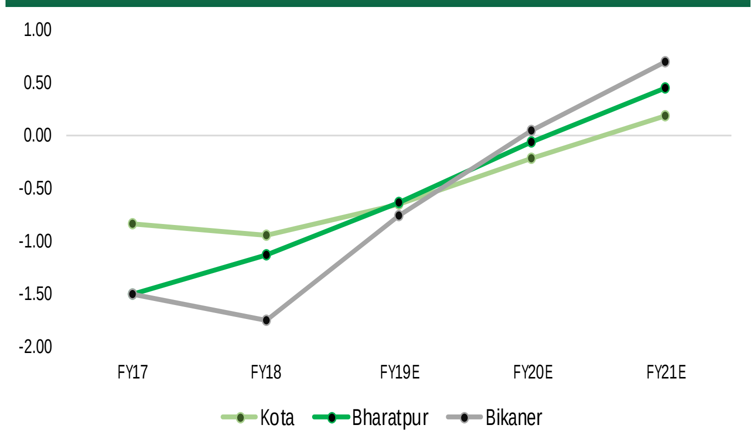
Source: Company Data, SMIFS Research

Rajasthan Circle T&D loss (%) going forward



Source: Company Data, SMIFS Research

Loss per unit to turn into profit per unit in Rajasthan



Source: Company Data, SMIFS Research

Malegaon Circle	
Area (sq. km.)	25
Population (Nos. lakh)	4.71
Cosumer count (Nos. lakh)	1
DF Handover date	Apr-19

Source: Company Data, SMIFS Research

Malegaon Circle: New hunt

Recently in FY19, Maharashtra DISCOM privatized two circles – Malegaon and Shil, Mumbra & Kalwa circle, won by CESC and Torrent Power respectively. Malegaon circle, a relatively smaller circle compared to Rajasthan circles has consumers near about 1 lakh and current T&D loss of about 45%.

Investment Rationale

Malegaon Circle expected to break even in FY21E

Particulars	FY20E	FY21E
Energy Input (MU)	900	918
T&D Losses (%)	45%	33%
Energy Sold (MU)	497	615
Revenue (INR Cr)	322	398
EBITDA (INR Cr)	-23	45
Net Income (INR Cr)	-33	35

Source: Company Data, SMIFS Research

Key initiatives adopted after take over

Loss Reduction Initiatives

• Defective meters replaced

• Regular billing for consumers

• Accuracy testing on High-end consumer meters

• Working with local authorities to regularize unauthorized drawl of power

• Distribution-wise Transformer Energy Audit

Network Reliability

•Centralized Command Station

• Diesel Gen Sets on stand-by for area with expected prolonged power failures

• Systematic maintenance of network assets

• Reducing supply outages

• Ensuring electrical safety

Soft value enhancement for customers

•New connection within a day

• Outage calls attended in <1 hour

• Smart metering and working hours extension

• Refurbishing of Distribution Transformers and Pillar Box

• Behavioral training for Customer Care executives

Since Malegaon circle has proportionately more Industrial & commercial consumers (around 83%), power demand is expected to be steadily growing going forward and Power density to stay higher than Rajasthan circles. Also, power theft, collection efficiency and political risk could be less worrisome in such circles.

The Malegaon circle has been awarded for a 20-year agreement. The management has an aggressive capex plan of INR20 cr in 3 years to improve current infrastructure and reduce the T&D Losses to optimum level.

Privatisation: Most likely option for State Discoms

State discoms continue to make losses despite multiple bailouts. The combined losses of state-owned power discoms by end of FY 2017-18 were INR40,295 crore. Discoms continue to face power theft (published aggregate technical and commercial, or AT&C, losses being nearly 20%), billing inefficiencies and regulatory delays in tariff increases, resulting in financial losses.

The accumulated debt of power discoms was INR45,952 crore. The banking sector still faces the possibility of an estimated INR175,000 crore worth of non-performing assets due to the power sector.

Hence, privatization can be a possible solution to overcome the sector's commercial challenges. Operational autonomy is one of the biggest potential advantages of privatization. Profit motive also creates a more efficient value chain, and private companies, unlike governments, do not assess investments in five-year windows.

We believe after the election gets over and a steady Govt. settles in, the privatization in this sector is going to gradually pick up. From the market point of view, the potential is huge and consists of only few established players, like – CESC, Torrent Power, Adani and Tata Power. With CESC's huge experience, strong Balance Sheet and past record in reducing T&D losses, the company can easily capitalize on the upcoming huge opportunity in this field.

Investment Rationale

List of recently awarded Distribution Franchisee

Location	State	Discom	Awarded to	Award Date
Bhiwandi	Maharashtra	MSEDCL	Torrent Power	20-Dec-06
Nagpur city	Maharashtra	MSEDCL	SNDL	28-Apr-10
Agra Circle of DVV	Uttar Pradesh	DVVN	Torrent Power	18-May-09
Kota	Rajasthan	JVVNL	CESC	17-Jun-16
Bharatpur	Rajasthan	JVVNL	CESC	17-Jun-16
Bikaner	Rajasthan	JdVVNL	CESC	14-Mar-17
Ajmer	Rajasthan	AVVNL	Tata Power	21-Apr-17
Sagar	Madhya Pradesh	MPPuKVVCL	Essel Utilities	10-May-12
Gwalior	Madhya Pradesh	MPMKVVCL	Essel Utilities	10-May-12
Kalwa, Mumbra and Shil	Maharashtra	MSEDCL	Torrent Power	3-Jan-19
Malegaon	Maharashtra	MSEDCL	CESC	3-Jan-19
Dewas	Madhya Pradesh	MPPMCL	FEDCO	29-May-17
Indore rural	Madhya Pradesh	MPPMCL	FEDCO	29-May-17
Jabalpur rural	Madhya Pradesh	MPPMCL	FEDCO	29-May-17

Source: Industry, SMIFS Research

Potential New Distribution Franchisee circles

Location	State	Discom
Jeypore	Odisha	NESCO
Baripada	Odisha	NESCO
Aska	Odisha	SOUTHCO
Bhanjanagar	Odisha	SOUTHCO
Bargarh	Odisha	WESCO
Bolangir	Odisha	WESCO
Usthi CCC, South 24 Pgn	West Bengal	WBSEDCL
Bhangar CCC, Bidhannagar	West Bengal	WBSEDCL
Muraroi CCC, Birbhum	West Bengal	WBSEDCL
Kirnahar CCC, Birbhum	West Bengal	WBSEDCL
Nalhati CCC, Birbhum	West Bengal	WBSEDCL
Patashpur CCC, Purba Midnapur	West Bengal	WBSEDCL
Amlagora CCC, Paschim Midnapur	West Bengal	WBSEDCL
Anandapur CCC, Paschim Midnapur	West Bengal	WBSEDCL
Panchthupi CCC, Murshidabad	West Bengal	WBSEDCL
Nabagram CCC, Murshidabad	West Bengal	WBSEDCL
Kotputli subdivision	Rajasthan	JVVNL

Source: Industry, SMIFS Research

Company Overview

RP - Sanjiv Goenka Group

Source: Company Data, SMIFS Research

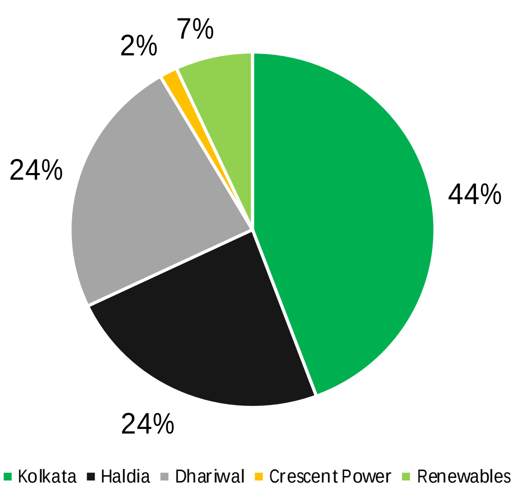
CESC Limited is a flagship company of RP-Sanjiv Goenka Group. The group has interests across business sectors -Power & Natural Resources, Infrastructure, Carbon Black, Retail and Media & Entertainment.

Registered in 1897, CESC is fully integrated electrical utility generating and distributing electrical power in Kolkata, Howrah, Hooghly, North & South 24 parganas. CESC distributes electricity across 567 sq km of licensed area in Kolkata and Howrah (West Bengal), serving 3.2 million consumers including domestic, industrial and commercial users.

The company owns & operates the Transmission & Distribution System through which the company supplies electricity to consumers. This system comprises of 474 km circuit of transmission lines linking the company's generating & receiving stations with 105 distribution stations, 8,211 circuit km of HT lines further linking distribution stations with LT substations, large industrial consumers and 12,269 circuit km of LT lines connecting the LT substations to LT consumers.

The Company, through its subsidiaries, is also active, inter alia, in the renewable, thermal power generation and in the distribution franchisee space. The Company currently on its own and through subsidiaries operates power plants generating 2539 MW of power in the thermal as well as renewable space. More than 80% of electricity requirement is met from its own & subsidiary generating plants, balance electricity is purchased from third parties. About 50% of the coal requirement is sourced from captive mines.

Generation Capacity Mix (%)



Source: Company Data, SMIFS Research

Renewable Energy projects

Project	Plant Type	Capacity (MW)	PPA with	Type of Power Sale
Dangri, Rajasthan	Wind	24	JVVNL	LT PPA
Surendranagar, Gujarat	Wind	26	GUVNL	LT PPA
Nipaniya, MP	Wind	36	MPPMCL	LT PPA
Rojmal, Gujarat	Wind	70	GUVNL	LT PPA
Neeravi, Tamil Nadu	Solar	18	TNG&DCL	LT PPA

Source: Company Data, SMIFS Research

Generation Overview

Plant	Capacity	PLF YTD Dec 18	Offtake Arrangement	Fuel Security
BBGS	750 MW	92	• 100% Long term PPA - Kolkata Area	• CIL Linkage • Coal Mine • E-auction
SGS	135 MW	28	• 100% Long term PPA - Kolkata Area	• CIL Linkage
TGS	240 MW	-	• 100% Long term PPA - Kolkata Area	• CIL Linkage
Crescent Power	40 MW	99.6	• Short Term Supply -	• Coal Washery Rejects
Haldia	600 MW	92	• 100% Long term PPA - Kolkata Area	• CIL Linkage • E-auction
Dhariwal	600 MW	67	• 100 MW Long term PPA to TANGEDCO • 187 MW Long term PPA to NPCL • 185 MW Short Term PPA MAHAGENCO + Merchant market from time to time	• CIL Linkage • Coal Mine • E-auction
Renewables	174 MW	20	• 100% Long term PPA @ tariff of more than Rs 5/ unit	• Wind & Solar

Source: Company Data, SMIFS Research

Company Overview

The company also has 49.55% JV with Noida Power Company Ltd (NPCL), regulated distribution entity in Greater Noida, near Delhi in Uttar Pradesh, which is being developed as an industrial hub and urban settlements. NPCL reaches out to a population of about 7 lakh spread across hamlets, villages and a new township spanning an area of 335 sq. km.

Noida Power Company Ltd (49.55% JV)

Started operations December 1993	**Distribution Area** Greater Noida in Uttar Pradesh	**JV** with Greater Noida Industrial Development Authority	**Power Procurement** Dhariwal Infrastructure/ Short Term/ Renewables
Area 335 sq.km. (equivalent to Mumbai)	**Population** 7 lakh	**No. of consumers** 82,231	**Peak Demand** 350+ MW
Units sold 1668 MU (2018)	**T&D Loss** 8% (2018)	**Credit rating** Long Term "AA-" Short Term "A1+"	**Assured post-tax equity return** 16% approved by UPERC

Source: Company Data, SMIFS Research

Revenue and profitability to stay strong and steady for NPCL

Particulars	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Revenue (INR Cr)	785	879	981	1193	1366	1436	1493	1538
EBITDA (INR Cr)	226	182	255	455	419	444	461	475
Net Income (INR Cr)	89	50	129	98	100	195	201	208

Source: Company Data, SMIFS Research

Key Management Team

- **Mr. Sajiv Goenka—Chairman**

With an asset base of over USD 4.3 billion, the RP-Sanjiv Goenka Group has Sanjiv Goenka as its Chairman. The Group has over 50,000 employees and over a hundred thousand shareholders with annual revenues of up to USD 2.6 billion.. The Group's businesses spanning across six sectors – Power & Natural Resources, Carbon Black, Retail, Media & Entertainment and IT & Education, include flagship companies such as CESC Limited, Firstsource Solutions Ltd, Phillips Carbon Black Ltd and Saregama India Ltd.

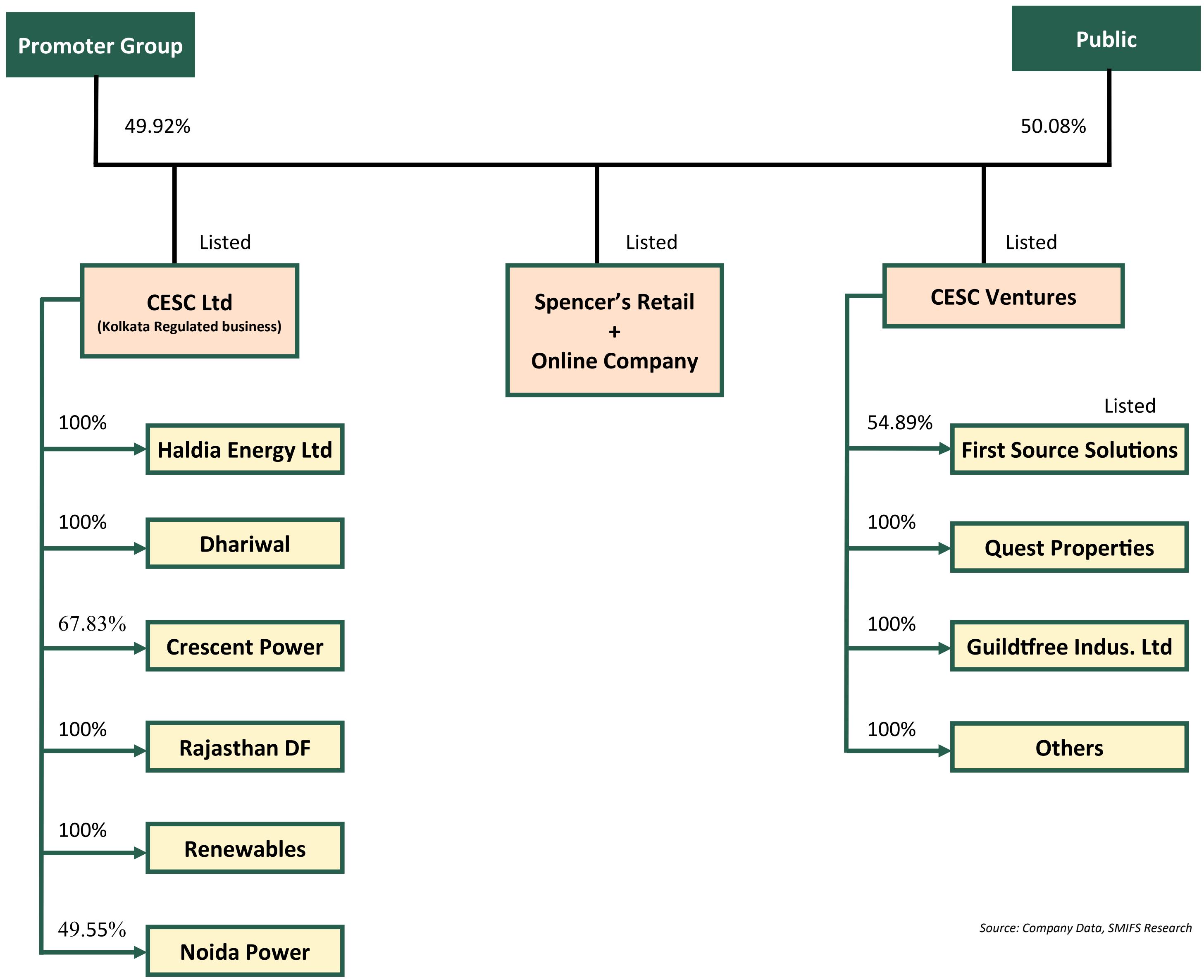
- **Mr. Debasish Bannerjee— Managing Director (Distribution)**

Mr. Debasish Banerjee, is an Electrical Engineer with proficiency in Business Management, having 34 years of rich and diverse industry experience. He has started his career from Areva and moved onto Crompton Greaves and Schneider Electric, heading Business Operations in Utilities, Industry Dealer Domain. In the last stint as CEO of Reliance Energy, he has contributed to improving Operational Efficiency through Business Processes Reengineering & Automation, thus improving bottom line and customer delight, while optimizing cost. In pursuit of his passion to deploy technology for radical change, he is continually engaged in disruptive Technological Innovations, for delivering a real time, digital experience, riding the new waves of mobility, loT, big data analytics & artificial intelligence.

- **Mr. Rabi Chowdhury—Managing Director (Generation)**

Mr. Rabi Chowdhury is a Bachelor of Electrical Engineering from Jadavpur University in the year 1982. He joined CESC in the year 1984. Prior to that, he was employed with Steel Authority of India Limited. He has vast experience of over 32 years in operation and maintenance of Thermal Power Generating Station – commissioning of 2 x 250 MW Budge Budge Generation Station of the Company, project development, engineering, execution and commissioning of CESC's x 250 MW Budge Budge III Unit and played a key role in erection and commissioning of 600 MW power plant of the Company's subsidiary Haldia Energy Limited where he is also acting as the Managing Director.

Post Demerger – Current Structure

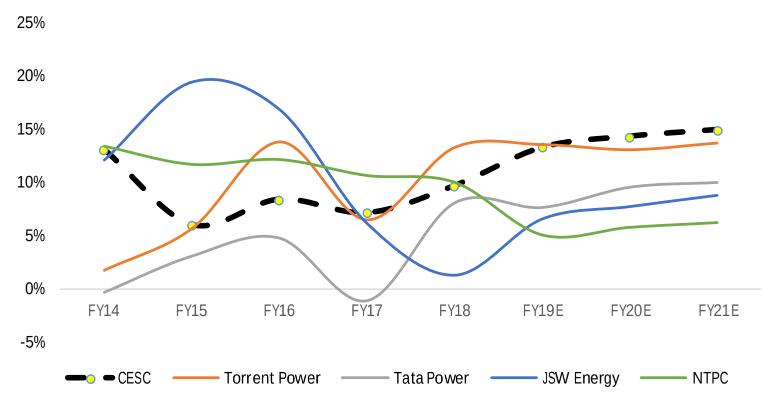


Source: Company Data, SMIFS Research

The management of CESC Ltd approved a restructuring plan and got appointed w.e.f. 1st Oct 2017. The purpose was to demerge the whole into separate functional lines— i) Power Generation & Distribution; ii) Retail; and iii) IT and Others. The rationale behind this plan was to unlock shareholder value, provide greater flexibility in accessing capital and to prepare focused strategies for growth across the different entities. The demerger also provides any investor to participate in the individual business separately where growth opportunities and market potentials are different at different point of times. After the successful demerger, the structure got more simplified along with clean accounts.

Peer Comparison

CESC Ltd ROE steady and strong among its peers



Source: Industry, Company Data, SMIFS Research

CESC Ltd has the most strong and steady ROE(%) amongst its peers. It is expected that the current trend to continue on the back of strong performance in the regulated business as well as significant loss reduction in subsidiaries.

AT&C Losses among Private & Public Discoms

Discom	Current AT&C Loss
CESC	10%
WBSEDCL	24%
Torrent Power- Ahmedabad	6%
Torrent Power- Surat	4%
BSES Delhi	11%
Tata Power- Delhi	10%
APSPDCL	9%
GUVNL	12%
BESCOM	15%
TSSPDCL	15%
UPCL	35%
All India average	18%

Source: Industry, Company Data, SMIFS Research

AT&C Losses among the best in the country after Torrent Power. Continuous Investments in infrastructure upgradation has led to decreasing AT&C losses over the years.

Consolidated Net Debt-Equity among Peers

Entity	FY18 Net Debt-Equity (x)
CESC	1.5x
Torrent Power	1.1x
Tata Power	3.1x
JSW Energy	1.0x
NTPC	1.2x

Source: Industry, Company Data, SMIFS Research

Due to recent wining of Distribution circles in Rajasthan and distressed subsidiary— Dhariwal Infrastructure Ltd, consolidated Debt has increased. It is however, expected to improve going forward after the subsidiaries turn profitable going forward.

SWOT Analysis

Strength

- Steady and strong earnings with no input risk
- Operation spanning the entire value chain: right from mining coal, generating power and distribution of power.
- Rich Experience in Power generation as well as distribution.

Weakness

- Absence of Long term PPA for Dhariwal Infrastructure Ltd.
- Inadequate profitability of subsidiaries are drag to overall profitability.

Opportunities

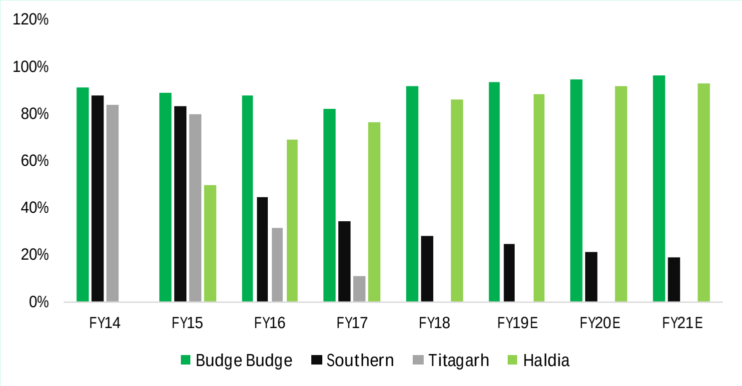
- Privatisation of operations in power sector would create huge opportunities going ahead.
- Renewable energy projects could create new growth opportunities in future.
- Clean demerger could unlock more value to Power generation & Distribution business.

Threats

- High Competition in upcoming DF business can lead to reduction in profitability.
- Highly exposed to regulation risk.

Key Performance Indicators

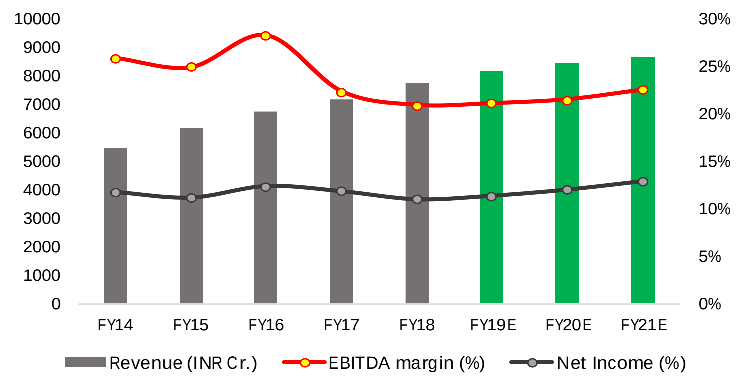
PLF (%)



Source: Company Data, SMIFS Research

Higher PLF would accrue operating leverage befits. The management has indicated that generation from Southern Plant (135MW) would also be reduced going forward. The shortfall is well compensated from CESC's 100% subsidiary Haldia Energy Ltd (HEL), 68% subsidiary Crescent Power Ltd, National Power grid and State Electricity Boards.

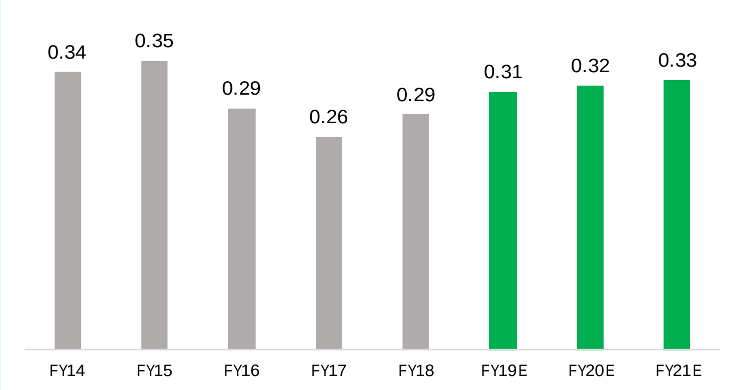
Profitability Margins



Source: Company Data, SMIFS Research

Revenue generation to stay strong going forward. Also margins are expected to improve on the back of higher volume sold and lower T&D losses.

Asset Turnover (x)



Source: Company Data, SMIFS Research

Continuous spending on both tangible and intangible infrastructure would improve the Asset Turnover ratio going forward.

Outlook

Government's focus on the manufacturing sector and largescale infrastructure projects such as smart cities programme and electrification of railways is expected to provide further boost to demand.

The demand for power in India has been growing at a stable rate of 6% to 7%. This is despite the impact of energy efficient technologies such as LEDs and increase in captive power generation, including solar capacities not connected to the grid. The growth in demand is expected to continue with efforts towards complete electrification and provision of uninterrupted electricity for all. Equally, the government's focus on the manufacturing sector and largescale infrastructure projects such as smart cities programme and electrification of railways is expected to provide further boost to demand.

The financial health of State Discom continues to be under huge pressure. UDAY (Ujwal Discom Assurance Yojana), which was approved by the Union Cabinet in November 2015, sought to financially stabilize discoms by allowing them to convert their debt into state government bonds, subject to certain conditions. This allowed SEB's to reduce their interest burden by INR17000 crore. However, according to Crisil, while discoms enjoyed the benefit of debt reduction, structural reforms have been slow to come by. Shortage of coal at power plants, inadequate tariff hikes and rising operational costs after the 7th Pay Commission have been putting additional pressure on already hard-pressed electricity discoms. We expect the financial stress with SEB's is likely to continue going forward.

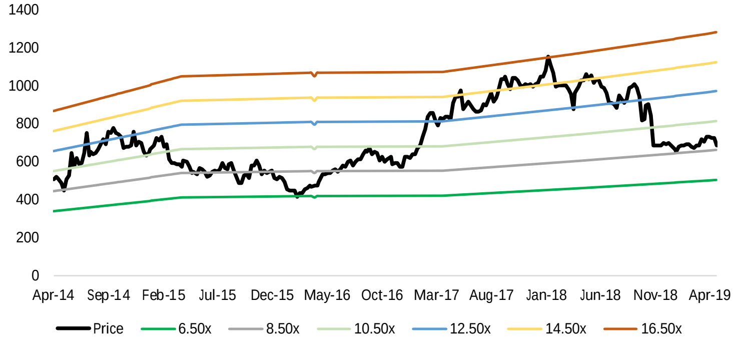
Hence, we prefer companies with stable operating cash flows and strong balance sheet such as CESC ltd. Currently, the company is trading at a discount to its FY20E consolidated Book Value. In our estimates we have considered significant loss reduction in Dhariwal Infrastructure Ltd on the back of active short term agreements for one unit of 300MW and also DF business to turn profitable in FY21E. We expect re-rating in the stock when these developments materialize. Also, high cash balance of INR1200 cr could indicate a possible buy-back, repayment of debt or higher dividend payout ratio.

Shortage of coal at power plants, inadequate tariff hikes and rising operational costs after the 7th Pay Commission have been putting additional pressure on already hard-pressed electricity discoms.

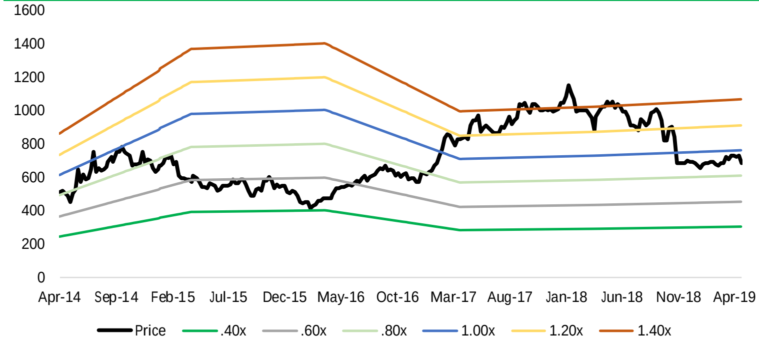
We have done a SOTP based valuation and arrived at a **Target Price of INR910**, by independently valuing the CESC standalone business and its individual material subsidiaries.

Valuation

Price—Earnings Band



Price—Book Value Band



CESC Ltd Standalone Valuation

Transaction	Multiple	FY21E	Equity Value	Weight	Final Equity Value per share
Price -Earnings	8	85	677	25%	169
Price - Book Value	0.9	796	716	25%	179
Price - Op. Cash Flow	4.5	162	729	25%	182
EV/EBITDA	6.5	1962	659	25%	165
Standalone Equity Value Per Share					695

CESC Ltd Consolidated Valuation

Sl. No	Entity	Transaction	Multiple	FY21E	Value	Weight	Final Value
1	CESC Standalone				695	100%	695
2	Distribution Franchisee	P/E	5	6.1	30	80%	24
3	Haldia Energy Ltd	P/E	5	21.3	117	80%	93
4	Noida Power Company Ltd (	P/E	5	17.5	43	80%	35
5	Crescent Power (68%)	P/E	5	3.0	15	80%	12
6	Surya Vidyut	P/E	5	1.4	7	80%	5
7	Dhariwal Infrastructure Ltd *				91	50%	45
	Consolidated Equity Value Per Share						910

** since Dhariwal Infrastructure has Long term PPA for 300MW out of total 600 MW, we value this subsidiary at 50% of total book value of investment i.e INR2400 crore (2400*0.5—divided by 13.26 cr. no. of shares). We expect the unit to improve its overall PLF and substantially reduces losses going forward*

Peer Comparison

Peers	P/E			P/CF			P/B			ROE (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
CESC Ltd	7.7	6.6	5.6	5.0	4.3	4.2	0.9	0.9	0.8	14.3	15.5	16.1
NTPC	12.0	10.2	9.0	7.3	6.5	5.4	1.2	1.1	1.1	5.2	5.9	6.3
Tata Power	15.0	10.8	9.4	3.7	3.9	4.2	15.0	10.8	9.4	7.7	9.6	10.1
JSW Energy	15.3	11.7	10.7	6.5	5.2	5.0	1.0	1.0	0.9	6.5	7.5	8.2
Torrent Power	11.1	10.1	9.2	5.3	5.0	4.3	1.4	1.2	1.2	13.6	13.1	13.8

Source: Company Data, SMIFS Research

Key Risks

- **Regulatory Risk** - Power is a highly regulated sector. This exposes the Company to risks with respect to changes in policies and regulations. Besides, given the nature of the industry, there is a risk of more stringent policies and norms aimed at addressing environmental concerns. Any adverse change in policies will negatively impact the operations of the business.

- **Delay in winning Long term PPA for Dhariwal** - The management has been actively looking for Long term agreement for Unit-1 of 300MW in Dhariwal. Meanwhile, the unit is already supplying power under Short term agreements but the profitability is comparatively low and exposed to high volatility in tariff rates. Thus, any delay in winning Long term agreement for unit-1 could be drag in the overall profitability.

- **Inadequate Supply of coal from Coal India** - The company is highly dependent on coal supply from Coal India Ltd. Any supply inadequacy would make the company to import coal from International market at a less favourable price.

- **Competition Risk** - High Competition especially in the bidding of privatization scheme could eat away the profitability of the projects and in turn delay in break-even.

- **Political Risk—**The standalone business of the company (contributing 75% to consolidated revenue) operates under the West Bengal laws & regulations. Any adverse policies relating to politics could create burden on operations as well as profitability. Similarly, adverse political strategies in other states where the company operates could negatively impact the company.

Financial Details

Income Statement (Standalone)					INR Cr.
Particulars (Y/E March)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenue	7220	7786	8207	8466	8668
Operating Expenses	5599	6151	6468	6637	6706
EBITDA	1621	1635	1739	1829	1962
Depreciation & Amortisation	401	426	473	518	563
Other Income	137	168	124	136	147
EBIT	1357	1377	1390	1446	1546
Interest Cost	448	484	467	442	426
Regulatory Income	190	209	283	308	319
PBT	1099	1102	1206	1312	1439
Tax expense	238	238	265	289	317
PAT	861	865	941	1024	1122

Balance Sheet (Standalone)					INR Cr.
Particulars (Y/E March)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	133	133	133	133	133
Reserves & Surplus	13190	9315	9577	9966	10415
Networth	13322	9447	9709	10099	10548
Long term Borrowings	4534	4654	4259	3964	3712
Other Non-Current Liabilities	5481	5493	5675	5805	5995
Short term Borrowings	1435	1292	1299	1371	1440
Other Current Liabilities	1465	3306	3598	3643	3642
Regulatory deferral balance (Cr.)	2193	1836	1561	1326	1131
Total Equity & Liabilities	28431	26028	26101	26209	26468
Net Tangibile Asset	14596	14594	14677	14734	14778
CWIP	188	127	193	176	171
Other Non Current Assets	6989	4770	4648	4645	4639
Inventories	379	387	396	395	373
Current Investments	506	506	262	262	262
Trade Receivables	968	1041	1254	1293	1324
Cash and Cash Equivalents	925	721	770	802	873
Other Current assets	261	360	371	298	319
Regulatory deferral balance (Dr.)	3619	3521	3530	3603	3728
Total Assets	28431	26028	26101	26209	26468

Source: Company Data, SMIFS Research

Financial Details

Cash Flow Statement (Standalone)					INR Cr.
Particulars (Y/E March)	FY17	FY18	FY19E	FY20E	FY21E
PBT	1099	1102	1206	1312	1439
Depreciation & Amortisation	401	426	473	518	563
Interest earned	-30	-7	-8	-11	-10
Interest expense	448	484	467	442	426
(Increase)/Decrease in CA	22	-180	-232	35	-31
Increase/(Decrease) in CL	46	107	186	80	86
Taxes Paid	218	161	287	286	312
Cash Flow from Operating Activities	1852	1723	1789	2090	2147
Capital Expenditure	-687	-727	-754	-732	-725
Interest & Dividend Received	30	25	24	24	24
Cash Flow from Investing Activities	-1685	-809	-485	-708	-702
Increase/(Decrease) in Borrowings	638	-23	-389	-222	-183
Cash Flow from Financing Activities	31	-698	-1255	-1064	-1088
Net Cash Flow	198	215	49	318	358
Closing Balance	925	721	770	802	873

Key Ratios (Standalone)					
Particulars (Y/E March)	FY17	FY18	FY19E	FY20E	FY21E
Margins					
Gross Margin	63.8%	62.0%	61.6%	61.8%	62.4%
EBITDA Margin	22.5%	21.0%	21.2%	21.6%	22.6%
PBT Margin	15.2%	14.2%	14.7%	15.5%	16.6%
PAT Margin	11.9%	11.1%	11.5%	12.1%	12.9%
Per Share Data					
BVPS	1,005.03	712.69	732.46	761.86	795.71
EPS	64.96	65.23	70.99	77.22	84.67
Cash EPS	139.72	129.99	134.96	157.67	161.99
DPS	10.00	12.00	25.00	25.00	30.00
No. of Shares	13.26	13.26	13.26	13.26	13.26
Profitability Ratios					
RoE	6.5%	7.6%	9.8%	10.3%	10.9%
ROCE	5.7%	6.2%	7.1%	7.3%	7.7%
RoA	3.1%	3.2%	3.6%	3.9%	4.3%
Valuation Ratios(x)					
P/E	10.4	10.3	9.5	8.7	8.0
P/BV	0.7	0.9	0.9	0.9	0.8
P/CFS	4.8	5.2	5.0	4.3	4.2

Source: Company Data, SMIFS Research

Financial Details

Du-Pont Analysis (Standalone)					
Particulars	FY17A	FY18A	FY19E	FY20E	FY21PE
PBT Margin	15.2%	14.2%	14.7%	15.5%	16.6%
Asset Turnover(x)	0.26	0.29	0.31	0.32	0.33
Financial Leverage(x)	2.12	2.39	2.72	2.64	2.55
Tax Burden	21.6%	21.6%	22.0%	22.0%	22.0%
ROE	6.5%	7.6%	9.8%	10.3%	10.9%

Kota					
Particulars	FY17	FY18	FY19E	FY20E	FY21E
Enegy Input (MU)	634	1223	1302	1374	1443
T&D Losses (%)	33%	27%	24%	20.0%	16.0%
Unit Sold (MU)	423	896	988	1097	1210
Avg Biiling Rate	7.8	7.8	7.8	7.8	7.8
Revenue	329	698	769	855	942
Others	4	20	22	24	27
Total Revenue	334	718	791	879	969
Cost of electricity	327	727	775	817	858
Per unit cost	*5.2*	*5.9*	*5.9*	*5.9*	*5.9*
Other cost	33	63	68	71	73
EBITDA	-27	-72	-51	-9	37
EBITDA margin(%)	*-8.1%*	*-10.0%*	*-6.5%*	*-1.0%*	*3.9%*
Dep,Int exp	8.4	12.5	13.2	13.8	14.5
PAT	-35	-85	-65	-23	23
PAT margin (%)	*-10.6%*	*-11.8%*	*-8.2%*	*-2.6%*	*2.4%*
Profit Per Unit	*-0.84*	*-0.94*	*-0.65*	*-0.21*	*0.19*

BharatPur					
Particulars	FY17	FY18	FY19E	FY20E	FY21E
Enegy Input (MU)	84	272	279	286	293
T&D Losses (%)	24.0%	16.0%	14.4%	12.2%	10.4%
Unit Sold (MU)	63	225	238	250	262
Avg Biiling Rate	7.5	7.5	7.5	7.5	7.5
Revenue	47	169	179	188	196
Others	1	2	2	2	2
Total Revenue	48	171	181	190	199
Cost of electricity	45	154	158	162	166
Per unit cost	*5.3*	*5.7*	*5.7*	*5.7*	*5.7*
Other cost	6	18	19	21	22
EBITDA	-3	-1	4	7	11
EBITDA margin(%)	*-6.1%*	*-0.5%*	*2.1%*	*3.9%*	*5.3%*
Dep,Int exp	1	3	3	4	4
PAT	-4	-4	0	4	7
PAT margin (%)	*-8.8%*	*-2.4%*	*0.2%*	*2.1%*	*3.4%*
Profit Per Unit	*-0.67*	*-0.18*	*0.02*	*0.16*	*0.26*

Source: Company Data, SMIFS Research

Financial Details

Bikaner				
Particulars	FY18	FY19E	FY20E	FY21E
Enegy Input (MU)	644	663	683	704
T&D Losses (%)	21.0%	15.5%	13.0%	11.0%
Unit Sold (MU)	509	559	593	625
Avg Biiling Rate	7.7	7.7	7.7	7.7
Revenue	393	432	458	483
Others	5	5	6	6
Total Revenue	398	437	464	489
Cost of electricity	382	393	405	417
Per unit cost	*5.9*	*5.9*	*5.9*	*5.9*
Other cost	38	40	42	44
EBITDA	-22	4	16	27
EBITDA margin(%)	*-5.6%*	*0.9%*	*3.5%*	*5.5%*
Dep,Int exp	10	10	11	11
PAT	-32	-6	6	16
PAT margin (%)	-8.0%	-1.4%	1.3%	3.3%
Profit Per Unit	*-0.63*	*-0.11*	*0.10*	*0.26*

Malegaon		
Particulars	FY20E	FY21E
Enegy Input (MU)	900	918
T&D Losses (%)	44.8%	33.0%
Unit Sold (MU)	497	615
Avg Biiling Rate	6.47	6.47
Revenue	322	398
Cost of electricity	315	321
Per unit cost	*3.5*	*3.5*
Other cost	30	32
EBITDA	-23	45
EBITDA margin(%)	*-7.3%*	*11.3%*
Dep,Int exp	10	11
PAT	-33	35
PAT margin (%)	*-10.4%*	*8.7%*
Profit Per Unit	*-0.7*	*0.6*

Source: Company Data, SMIFS Research

Financial Details

Noida Power Company (50% JV)					
Particluars	FY17	FY18	FY19E	FY20E	FY21E
Energy Input (MU)	1600	1831	1923	2019	2120
T&D Losses (%)	8.0%	8.0%	7.9%	7.5%	7.1%
Unit Sold (MU)	1457	1668	1753	1848	1949
Avg Biiling Rate	8.2	8.2	8.2	8.2	8.2
Total Revenue	1193	1366	1436	1514	1596
Cost of electricity pur	649	838	880	924	969
Per unit cost	*4.1*	*4.6*	*4.6*	*4.6*	*4.6*
Other cost	90	109	111	119	125
EBITDA	455	419	444	471	503
EBITDA margin(%)	*38.1%*	*30.7%*	*31.0%*	*31.1%*	*31.5%*
Dep,Int exp	122	89	93	98	103
Fixed Assets	*868*	*964*	*1002*	*1042*	*1084*
Borrowings	*155*	*0*	*0*	*0*	*0*
Net movement in Regulatory Bal	-210	-79	-82	-87	-92
Other Income	7	9	9	10	10
PBT	129	260	279	296	318
Taxes	31	160	84	89	96
Rate of Tax (%)	24%	62%	30%	30%	30%
PAT	98	100	194	206	222
PAT margin (%)	*8.2%*	*7.3%*	*13.5%*	*13.6%*	*13.9%*
Minority Share (50.45%)	49	50	98	104	112
Shareholder's PAT (49.55%)	49	50	96	102	110

Dhariwal Infrastructure (100%)					
Particluars	FY17	FY18	FY19E	FY20E	FY21E
Generation Capacity -1 (MW)	300	300	300	300	300
Generation Capacity -2 (MW)	300	300	300	300	300
PLF-1	52%	71%	71%	75%	75%
PLF-2	6%	20%	32%	45%	45%
Units generated (MU)	1500	2339	2648	3082	3082
T&D Loss and Internal consumption	6.0%	6.0%	6.0%	6.0%	6.0%
Unit Sold (MU)	1410	2199	2489	2897	2897
Avg Biiling Rate	3.2	3.9	3.9	3.9	3.9
Total Revenue	445	860	973	1133	1133
Cost of Fuel	323	512	580	675	675
Per unit cost	*2.2*	*2.2*	*2.2*	*2.2*	*2.2*
Other cost	111	155	167	181	195
EBITDA	11	193	226	277	263
EBITDA margin(%)	*3%*	*22%*	*23%*	*24%*	*23%*
Borrowings	3257	3366	3331	3318	3338
Finance Cost	456	323	327	325	325
Depreciation	103	104	104	104	104
Other Income	64	37	91	77	91
PBT	-483	-198	-114	-74	-75
Taxes	0	0	0	0	0
PAT	-483	-198	-114	-74	-75
PAT margin (%)	*-109%*	*-23%*	*-12%*	*-7%*	*-7%*
Profit Per Unit	*-3.4*	*-0.9*	*-0.5*	*-0.3*	*-0.3*

Source: Company Data, SMIFS Research

Financial Details

Haldia Energy Ltd (100%)					
Particluars	FY17	FY18	FY19E	FY20E	FY21E
Generating Capacity	600	600	600	600	600
PLF(%)	77%	86%	89%	92%	93%
Unit Sold (MU)	3701	4147	4262	4431	4479
Avg Biiling Rate	5.5	5.9	6.0	5.9	5.9
Total Revenue	2032	2222	2557	2614	2620
Cost of Fuel	824	952	1184	1293	1317
Per unit cost	*2.0*	*2.1*	*2.6*	*2.7*	*2.7*
Other cost	147	210	242	248	248
EBITDA	1062	1060	1131	1073	1055
EBITDA margin(%)	*52.2%*	*47.7%*	*44.2%*	*41.1%*	*40.3%*
Borrowings	3789	3980	3884	3884	3916
Finance Cost	393	386	391	386	388
Rate of Interest	*11.0%*	*9.9%*	*9.9%*	*9.9%*	*9.9%*
Depreciation	160	162	160	161	161
Other Income	13	38	30	38	34
Regulatory movement	-145	-142	-163	-167	-167
PBT	377	408	447	397	373
Taxes	80	95	112	99	91
Rate of Tax	21%	23%	25%	25%	24%
PAT	297	313	335	298	282
PAT margin (%)	*14.6%*	*14.1%*	*13.1%*	*11.4%*	*10.8%*
Profit Per Unit	*0.80*	*0.76*	*0.79*	*0.67*	*0.63*

Source: Company Data, SMIFS Research

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