

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
33,371	10,350
Bloomberg	CESC IN
Equity Shares (m)	133
M.Cap.(INRb)/(USDb)	130.4 / 2.0
52-Week Range (INR)	1080 / 539
1, 6, 12 Rel. Per (%)	-9/-9/45
Avg Val, INRm/ Vol m	608
Free float (%)	50.1

#### Financials & Valuations (INR b)

Y/E Mar	FY17	FY18E	FY19E
Net Sales	139.0	148.3	157.7
EBITDA	31.6	36.7	38.5
PAT	6.9	11.8	13.2
EPS (INR)	51.9	88.9	99.3
Gr. (%)	14.7	71.4	11.7
BV/Sh (INR)	797.4	874.3	961.6
RoE (%)	6.5	10.6	10.8
RoCE (%)	7.3	8.4	8.6
P/E (x)	19.0	11.1	9.9
P/BV (x)	1.2	1.1	1.0

Estimate change



TP change



Rating change


**CMP: INR991 TP: INR1,360(+38%)**
**Buy**

### In-line results; Spencer's sales weak, EBITDA positive

#### Demerger process on track; maintain Buy

■ CESC's standalone PAT grew 2.1% YoY to INR2.47b, marginally below estimate. T&D loss (provisional) declined 100bp YoY (30bp QoQ) to 10.8%. Sales grew 4% YoY to 2.75BU. Realization was up 2.8% YoY to INR7.57/kWh. The tariff for FY18 is pending regulatory approval, delaying cost and capex recovery. However, this was offset by impressive reduction in T&D losses (drives incentive income) and power exports.

■ **Spencer – sales down, but EBITDA positive on efficiency gains:** Average sales declined 5% while same-store sales declined 1% YoY, as it continues to face GST-led disruption. The change in liquor license policy in AP and Telengana, and renovations at a couple of larger format stores were additional drags. EBITDA was, however, positive (negative margin of 1.3% in FY17) on various cost initiatives. Store count and area were unchanged QoQ at 124 and 1,186ksf, respectively. Sales have recovered from October and licensing issue is resolved in one state. The target is to achieve positive PAT in 4QFY18.

■ **Dhariwal – operations stable:** Dhariwal (600MW) operated at PLF of 43.81%. The capacity under PPA is operating as expected.

#### Demerger to unlock value; maintain Buy

The NCLT-directed shareholder meeting for approval of the demerger is scheduled on December 15, 2017. The demerger into four separate businesses would drive value through unlocking the potential of the distribution and retail businesses. Distribution business will get re-rated on reduced volatility in earnings and cost of equity. Spencers too will command better valuation after expected turnaround in FY18. CESC has already received exchange and SEBI approval for demerger. Listing is likely sometime in March/April 2018. The SOTP value is INR1,360/share. Buy.

#### Quarterly Performance (Standalone) – INR million

Y/E March	FY17				FY18						FY18	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY17	FY18E	2QE	(%)
<b>Sales</b>	<b>20,120</b>	<b>20,160</b>	<b>16,200</b>	<b>15,720</b>	<b>21,840</b>	<b>20,880</b>	<b>16,368</b>	<b>14,236</b>	<b>72,200</b>	<b>73,324</b>	<b>18,869</b>	<b>11</b>
Change (%)	18.1	13.8	5.3	6.3	8.5	3.6	1.0	-9.4	12.2	1.6	-6.4	
<b>EBITDA</b>	<b>5,110</b>	<b>5,910</b>	<b>3,150</b>	<b>2,040</b>	<b>6,070</b>	<b>5,050</b>	<b>3,975</b>	<b>4,513</b>	<b>16,210</b>	<b>19,607</b>	<b>5,253</b>	<b>-4</b>
Change (%)	32.4	34.9	5.7	-57.1	18.8	-14.6	26.2	121.2	1.4	21.0	-11.1	
As of % Sales	25.4	29.3	19.4	13.0	27.8	24.2	24.3	31.7	22.5	26.7	27.8	
Depreciation	960	990	980	1,160	1,050	1,080	1,028	1,134	4,090	4,292	1,039	4
Interest	1,150	1,160	1,080	1,090	1,210	1,260	1,197	1,299	4,480	4,966	1,286	-2
Other Income	260	320	300	590	400	350	275	322	1,470	1,347	293	19
Regulatory (inc)/exp	620	600	-960	-3,410	1,940	-90	0	-1,850	-3,150	0	0	
<b>PBT</b>	<b>2,640</b>	<b>3,480</b>	<b>2,350</b>	<b>3,790</b>	<b>2,270</b>	<b>3,150</b>	<b>2,024</b>	<b>4,252</b>	<b>12,260</b>	<b>11,696</b>	<b>3,222</b>	<b>-2</b>
Tax	900	1,060	830	840	490	680	445	958	2,380	2,573	709	
Effective Tax Rate (%)	34.1	30.5	35.3	22.2	21.6	21.6	22.0	22.5	19.4	22.0	22.0	
<b>Reported PAT</b>	<b>1,740</b>	<b>2,420</b>	<b>1,520</b>	<b>2,950</b>	<b>1,780</b>	<b>2,470</b>	<b>1,579</b>	<b>3,294</b>	<b>9,880</b>	<b>9,123</b>	<b>2,513</b>	<b>-2</b>
<b>Adjusted PAT</b>	<b>1,740</b>	<b>2,420</b>	<b>1,520</b>	<b>2,950</b>	<b>1,780</b>	<b>2,470</b>	<b>1,579</b>	<b>3,294</b>	<b>8,630</b>	<b>9,123</b>	<b>2,513</b>	<b>-2</b>
Change (%)	14.5	24.1	35.7	19.0	2.3	2.1	3.9	11.7	22.1	5.7	3.8	

Dhruv Muchhal – Research Analyst (Dhruv.Muchhal@MotilalOswal.com); +91 22 6129 1549

Sanjay Jain – Research Analyst (SanjayJain@MotilalOswal.com); +91 22 6129 1523

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**Exhibit 1: Standalone – operating metrics**

		1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Units sold	MU	2,562	2,566	2,239	2,097	2,782	2,654	2,090	1,994	2,853	2,759
change yoy	%	0.2	-1.0	13.9	15.2	8.6	3.4	-6.7	-4.9	2.6	4.0
Realization	INR/kWh	6.6	6.8	6.8	7.0	7.1	7.4	7.5	7.9	7.7	7.6
T&D loss	%	11.8	11.8	11.8	10.5	12.1	11.8	11.8	0.0	11.1	10.8
Gross generation	MU	2,074	1,976	1,598	1,340	1,912	1,716	1,170	1,215	1,736	1,738
change yoy	%	-14.3	-19.6	-20.4	-21.7	-7.8	-13.2	-26.8	-9.3	-9.2	1.3
Generation fuel cost	INR/kWh	2.0	2.1	2.2	1.1	2.3	2.1	2.2	2.4	2.2	2.2
Power purchase	MU	1,034	1,125	1,047	1,025	1,409	1,398	1,290	1,049	1,605	1,509
Power purchase cost	INR/kWh					4.9	5.0	5.1	5.5	4.8	5.1

Source: MOSL, Company

**Exhibit 2: Spencer – operating metrics**

		1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Store count	x	118	120	121	118	118	119	124	124	124	124
Hyper	x	34	36	38	36	36	37	39	39	38	38
Super	x	13	13	13	12	13	14	17	17	18	19
Daily (small format)	x	71	71	70	70	69	68	68	68	68	67
Store area	k.sq.f	1,056	1,116	1,166	1,083	1,086	1,112	1,189	1,176	1,185	1,186
Hyper	k.sq.f	797	857	911	839	839	856	908	895	891	880
Super	k.sq.f	98	98	98	87	92	102	129	129	142	156
Daily (small format)	k.sq.f	161	161	157	157	155	154	152	152	152	150
Sales - avg	INR/sq.f.m	1,477	1,471	1,492	1,246	1,578	1,588	1,714	1,612	1,530	1,507
Sales - like-for-like	INR/sq.f.m	1,540	1,539	1,623	1,501	1,584	1,682	1,790	1,813	1,615	1,588
Store EBITDA	INR/sq.f.m	92	83	89	69	97	108	121	90	94	

Source: MOSL, Company

**Exhibit 3: Target price derivation**

	Stake	Reg. Equity	RoE	CoE	Gr	P/BV	Equity value	Norm. Debt	EV
	%	INR m	%	%	%	x	INR m	INR m	INR m
<b>a. Distribution</b>		<b>6,840</b>							<b>135,496</b>
Kolkata	100.0	29,985	20.9	10.2	5.0	3.0	91,227	30,698	121,926
Noida	49.6	2,243	25.0	10.2	7.0	5.6	12,463		12,463
Franchisee									@ 7x FY19E EBITDA 1,107
<b>b. Generation</b>									<b>112,315</b>
Kolkata	100.0	12,618	20.9	11.9	0.0	1.8	22,121	1,763	23,884
Haldia	100.0	11,305	22.0	11.9	0.0	1.8	20,819	24,928	45,746
Dhariwal reg. (300MW)	100.0	5,823	19.0	11.9	0.0	1.6	9,261	10,694	19,956
Dhariwal merchant									300MW @ INR 50m/MW 15,000
Crescent Power	67.8	2,648	15.3	11.9		1.3	3,391	-164	3,227
RE									@ 7x FY19E EBITDA 4,502
<b>c. Spencer</b>									<b>@ 1x FY19E sales 26,216</b>
<b>d. Others</b>									<b>24,407</b>
Firstsource	55.5						17,883	2,275	20,158
Mall									@ 9x FY19E EV/EBITDA 4,249
<b>Consolidated value (a+b+c+d)</b>									<b>298,434</b>
Less: Debt									117,238
<b>Market value</b>									<b>181,195</b>
No. of shares									133
<b>Target price</b>									<b>1,360</b>

Source: MOSL, Company

## Financials and Valuations

### Income Statement

(INR Million)

Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>Net Sales</b>	<b>75,567</b>	<b>101,109</b>	<b>110,666</b>	<b>121,242</b>	<b>139,035</b>	<b>148,260</b>	<b>157,688</b>	<b>166,329</b>
Change (%)	28.3	33.8	9.5	9.6	14.7	6.6	6.4	5.5
<b>EBITDA</b>	<b>12,661</b>	<b>16,226</b>	<b>18,945</b>	<b>29,792</b>	<b>31,574</b>	<b>36,667</b>	<b>38,511</b>	<b>39,982</b>
EBITDA Margin (%)	16.8	16.0	17.1	24.6	22.7	24.7	24.4	24.0
Depreciation	3,645	4,714	5,889	7,665	8,164	8,507	8,891	9,266
<b>EBIT</b>	<b>9,016</b>	<b>11,512</b>	<b>13,056</b>	<b>22,128</b>	<b>23,410</b>	<b>28,160</b>	<b>29,621</b>	<b>30,716</b>
Interest	4,304	5,660	9,565	14,943	14,972	14,058	13,745	13,431
Other Income	1,437	1,734	1,490	2,637	2,987	2,381	2,673	2,906
Extraordinary items	418	0	0	-40	-5	0	0	0
<b>PBT</b>	<b>6,567</b>	<b>7,585</b>	<b>4,981</b>	<b>9,781</b>	<b>11,421</b>	<b>16,483</b>	<b>18,549</b>	<b>20,191</b>
Tax	1,758	1,856	1,992	3,130	3,810	3,875	4,283	4,656
Tax Rate (%)	26.8	24.5	40.0	32.0	33.4	23.5	23.1	23.1
Min. Int. & Assoc. Share	215	813	1,004	666	706	766	1,033	1,139
<b>Reported PAT</b>	<b>4,594</b>	<b>4,916</b>	<b>1,985</b>	<b>5,985</b>	<b>6,905</b>	<b>11,842</b>	<b>13,234</b>	<b>14,396</b>
<b>Adjusted PAT</b>	<b>4,176</b>	<b>4,916</b>	<b>1,985</b>	<b>6,024</b>	<b>6,909</b>	<b>11,842</b>	<b>13,234</b>	<b>14,396</b>
Change (%)	53.8	17.7	-59.6	203.5	14.7	71.4	11.7	8.8

### Balance Sheet

(INR Million)

Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	1,256	1,256	1,332	1,332	1,332	1,332	1,332	1,332
Reserves	50,180	55,094	58,958	104,705	104,895	115,138	126,773	139,570
<b>Net Worth</b>	<b>51,436</b>	<b>56,350</b>	<b>60,290</b>	<b>106,037</b>	<b>106,227</b>	<b>116,470</b>	<b>128,105</b>	<b>140,902</b>
Debt	96,608	119,164	142,020	148,676	156,266	152,022	147,297	143,656
Consumer Security Deposits	0	0	0	0	0	0	0	0
Deferred Tax	285	332	832	38,307	38,873	38,873	38,873	38,873
<b>Total Capital Employed</b>	<b>155,753</b>	<b>184,925</b>	<b>213,146</b>	<b>303,939</b>	<b>313,466</b>	<b>320,706</b>	<b>329,180</b>	<b>340,069</b>
<b>Net Fixed Assets</b>	<b>86,189</b>	<b>119,719</b>	<b>186,270</b>	<b>243,065</b>	<b>246,156</b>	<b>269,774</b>	<b>273,093</b>	<b>275,691</b>
Investments	976	737	735	3,537	4,224	4,698	5,229	5,823
<b>Current Assets</b>	<b>51,937</b>	<b>50,798</b>	<b>65,858</b>	<b>93,781</b>	<b>104,646</b>	<b>110,149</b>	<b>116,483</b>	<b>125,929</b>
Inventory	4,342	5,383	6,625	6,967	8,454	8,331	8,796	9,258
Debtors	16,201	15,302	17,066	14,132	15,596	19,104	19,964	20,759
Cash & Bank	14,314	12,422	16,453	17,894	22,931	25,049	30,058	38,247
Loans & Adv, Others	17,081	17,692	25,714	54,788	57,665	57,665	57,665	57,665
<b>Curr Liabs &amp; Provns</b>	<b>57,383</b>	<b>64,838</b>	<b>66,235</b>	<b>63,993</b>	<b>65,585</b>	<b>67,834</b>	<b>69,544</b>	<b>71,293</b>
Curr. Liabilities	57,383	64,838	66,235	63,993	65,585	67,834	69,544	71,293
Provisions	0	0	0	0	0	0	0	0
<b>Net Current Assets</b>	<b>-5,446</b>	<b>-14,040</b>	<b>-377</b>	<b>29,789</b>	<b>39,061</b>	<b>42,315</b>	<b>46,939</b>	<b>54,636</b>
<b>Total Assets</b>	<b>155,753</b>	<b>184,925</b>	<b>213,146</b>	<b>303,939</b>	<b>313,466</b>	<b>320,706</b>	<b>329,180</b>	<b>340,069</b>

## Financials and Valuations

### Ratios

Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>33.2</b>	<b>39.1</b>	<b>14.9</b>	<b>45.2</b>	<b>51.9</b>	<b>88.9</b>	<b>99.3</b>	<b>108.1</b>
Cash EPS	62.3	76.7	59.1	102.8	113.1	152.7	166.1	177.6
Book Value	409.5	448.6	452.6	796.0	797.4	874.3	961.6	1057.7
DPS	7.0	8.0	9.0	10.0	10.0	10.0	10.0	10.0
Payout (incl. Div. Tax.)	21.1	20.4	60.4	22.1	19.3	11.2	10.1	9.3
<b>Valuation(x)</b>								
P/E	8.0	12.8	40.4	10.5	19.0	11.1	9.9	9.1
Cash P/E	4.3	6.5	10.2	4.6	8.7	6.4	5.9	5.5
Price / Book Value	0.6	1.1	1.3	0.6	1.2	1.1	1.0	0.9
EV/Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	9.7	11.0	11.4	6.9	8.8	7.4	6.8	6.3
Dividend Yield (%)	2.6	1.6	1.5	2.1	1.0	1.0	1.0	1.0
<b>Profitability Ratios (%)</b>								
RoE	8.4	9.1	3.4	7.2	6.5	10.6	10.8	10.7
RoCE	6.8	6.7	6.3	8.4	7.3	8.4	8.6	8.7
<b>Turnover Ratios (%)</b>								
Asset Turnover (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors (No. of Days)	78	55	56	43	41	47	46	46
Inventory (No. of Days)	21	19	22	21	22	21	20	20
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	1.4	1.6	1.8	1.1	1.1	1.0	0.8	0.7

### Cash Flow Statement

(INR Million)

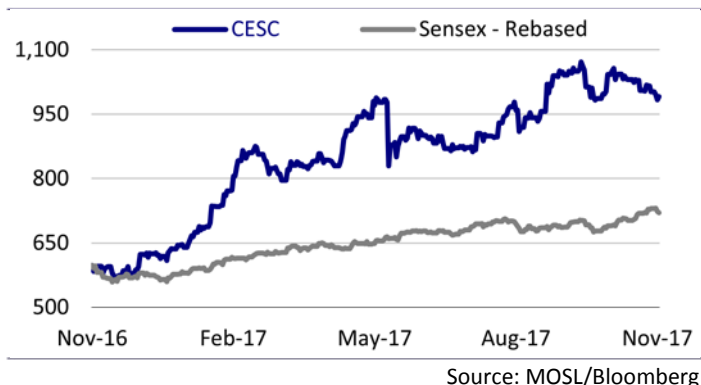
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Adjusted EBITDA	12,661	16,226	18,945	29,792	31,574	36,667	38,511	39,982
Non cash opr. exp (inc)	1,968	1,125	2,729	4,128	4,387	0	0	0
(Inc)/Dec in Wkg. Cap.	5,406	7,301	-10,274	-5,805	-5,868	-1,136	385	492
Tax Paid	-1,479	-2,141	-2,506	-3,311	-3,618	-3,875	-4,283	-4,656
Other operating activities	0	0	0	0	0	0	0	0
<b>CF from Op. Activity</b>	<b>18,556</b>	<b>22,511</b>	<b>8,895</b>	<b>24,804</b>	<b>26,475</b>	<b>31,656</b>	<b>34,614</b>	<b>35,817</b>
(Inc)/Dec in FA & CWIP	-36,148	-34,209	-19,509	-12,675	-14,720	-12,019	-12,210	-11,864
<b>Free cash flows</b>	<b>-17,591</b>	<b>-11,698</b>	<b>-10,614</b>	<b>12,129</b>	<b>11,755</b>	<b>19,638</b>	<b>22,404</b>	<b>23,953</b>
(Pur)/Sale of Invt	0	0	0	0	0	0	0	0
Others	-1,776	1,582	1,337	1,096	-142	2,381	2,673	2,906
<b>CF from Inv. Activity</b>	<b>-37,924</b>	<b>-32,627</b>	<b>-18,172</b>	<b>-11,580</b>	<b>-14,862</b>	<b>-9,637</b>	<b>-9,536</b>	<b>-8,958</b>
Inc/(Dec) in Net Worth	10	37	5,021	117	158	0	0	0
Inc / (Dec) in Debt	24,494	19,282	20,980	6,390	8,622	-4,245	-4,725	-3,641
Interest Paid	-5,465	-11,134	-11,978	-15,303	-15,036	-14,058	-13,745	-13,431
Divd Paid (incl Tax) & Others	359	40	-714	-3,014	-1,336	-1,599	-1,599	-1,599
<b>CF from Fin. Activity</b>	<b>19,399</b>	<b>8,225</b>	<b>13,309</b>	<b>-11,809</b>	<b>-7,592</b>	<b>-19,901</b>	<b>-20,068</b>	<b>-18,670</b>
<b>Inc/(Dec) in Cash</b>	<b>31</b>	<b>-1,891</b>	<b>4,031</b>	<b>1,415</b>	<b>4,021</b>	<b>2,118</b>	<b>5,009</b>	<b>8,189</b>
Add: Opening Balance	14,283	14,314	12,422	16,453	17,894	22,931	25,049	30,058
<b>Closing Balance</b>	<b>14,314</b>	<b>12,422</b>	<b>16,453</b>	<b>17,868</b>	<b>21,915</b>	<b>25,049</b>	<b>30,058</b>	<b>38,247</b>

## Corporate profile

### Company description

CESC, an RPG-SG Group Company is one of the oldest integrated power utilities in India with presence in mining, generation, and distribution of power. Installed generation capacity stands at 1.2GW and distribution network encompasses 2.3m consumers in Kolkata and Howrah region. CESC has presence in retail business "Spencer" which has ~1.17msf area under operations.

### Exhibit 1: Sensex rebased



### Exhibit 2: Shareholding pattern (%)

	Sep-17	Jun-17	Sep-16
Promoter	49.9	49.9	49.9
DII	22.1	40.9	19.0
FII	16.4	0.0	23.2
Others	11.5	9.2	7.9

Note: FII Includes depository receipts

Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
Hdfc Trustee Company Limited-Hdfc Equity Fund	4.4
Hdfc Trustee Company Limited - Hdfc Top 200 Fund	2.1
BNK Capital Markets	1.9
Hdfc Trustee Company Limited - Hdfc Prudence Fund	1.7
LIFE INSURANCE CORPORATION OF INDIA	1.7

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
Sanjiv Goenka	Chairman
Aniruddha Basu	Managing Director
Subhasis Mitra	Company Secretary

Source: Capitaline

### Exhibit 5: Directors

Name	Name
Brij Mohan Khaitan	Chandra Kumar Dhanuka
K Jairaj	PRADIP KUMAR KHAITAN
Pratip Chaudhuri	Rekha Sethi

\*Independent

### Exhibit 6: Auditors

Name	Type
Lovelock & Lewes	Statutory
S M Gupta & Co	Secretarial Audit
S R Batliboi & Co LLP	Statutory
Shome & Banerjee	Cost Auditor

Source: Capitaline

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	88.9	77.1	15.4
FY19	99.3	94.9	4.7
FY20	108.1	106.4	1.6

Source: Bloomberg

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