

BSE SENSEX	S&P CNX
40,286	11,872
Bloomberg	CESC IN
Equity Shares (m)	133
M.Cap.(INRb)/(USDb)	100.7 / 1.4
52-Week Range (INR)	855 / 631
1, 6, 12 Rel. Per (%)	-8/9/-3
12M Avg Val (INR M)	325
Free float (%)	50.1

Financials & Valuations (INR b)

Y/E Mar	FY19	FY20E	FY21E
Net Sales	106.6	104.8	106.8
EBITDA	33.9	32.9	33.1
PAT	11.8	12.2	13.3
EPS (INR)	88.9	91.9	99.5
Gr. (%)	43.1	3.4	8.2
BV/Sh (INR)	673.6	741.5	813.4
RoE (%)	13.6	13.0	12.8
RoCE (%)	9.1	8.9	8.9
P/E (x)	8.6	8.3	7.7
P/BV (x)	1.1	1.0	0.9

Estimate change

TP change

Rating change

CMP: INR760
TP: INR957 (+26%)
Buy
S/A gen. muted; Noida up on carrying cost recovery
FCF generation increasing; Reiterate Buy

S/A PAT grew ~2% YoY to INR2.8b (in-line). Sales were up just ~2% YoY to 2.9BU. T&D losses are estimated at ~9%. Consol. PAT was up ~13% YoY to INR3.6b in the quarter on carrying cost recovery at Noida (~INR150-200m). For 1HFY20, PAT was up 8% YoY to INR4.9b.

- Profits at Noida rose YoY to INR790m (v/s est. INR450m) on favorable order leading to carrying cost recovery.
- Distribution franchisees' net loss was slightly higher YoY at INR30m (v/s est. INR20m). This was largely on account of flood-like situation at Kota.
- Crescent and Surya (RE)'s PAT was higher YoY at INR170m (v/s est. INR160m).
- Dhariwal's net loss stood at INR250m. While YoY (INR630m loss in 2QFY19), the loss may appear lower; the company has noted that it is on account of re-classification and possible adjustments in the previous year. Generation at Dhariwal was 14% lower YoY at 504MUs.

FCF generation increasing; Maintain Buy

Dhariwal has signed a PPA with Maharashtra for 170MW supply of power from Nov'19 for a one-year period. We expect performance of DFs to also improve as it gains better understanding of the circles and leverages its experience in Kolkata. CESC's existing distribution business is high RoE and is delivering steady growth. Generation assets are generating healthy FCF. Untied generation capacity and scale-up of DFs have a potential to boost earnings. The stock trades attractively at ~8x FY21E P/E even as visibility of earnings at Dhariwal and DFs improve, and factoring in the tightening of norms at Haldia and S/A. We roll forward and value the stock at 10x 1-year forward P/E at INR957/share. Maintain **Buy**.

Quarterly Performance (Standalone) – INR m

Y/E March	FY19				FY20				FY19	FY20	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Sales	21,650	22,200	17,070	16,620	23,590	22,460	17,769	14,793	77,540	78,612	21,151
EBITDA	4,960	5,110	2,010	1,500	4,420	4,630	3,919	6,621	13,576	19,590	5,441
Change (%)	-18.3	1.2	-36.0	-28.2	-10.9	-9.4	95.0	341.4	-17.5	44.3	6.5
As of % Sales	22.9	23.0	11.8	9.0	18.7	20.6	22.1	44.8	17.5	24.9	25.7
Depreciation	1,100	1,110	1,090	1,030	1,090	1,080	1,131	1,187	4,326	4,488	1,151
Interest	1,200	1,200	1,170	1,090	1,300	1,270	1,154	877	4,664	4,601	1,184
Other Income	200	280	450	720	230	450	460	628	1,649	1,769	298
Regulatory (inc)/exp	500	-370	-2,000	-3,830	-500	-480	0	980	-5,700	0	0
PBT	2,360	3,450	2,200	3,930	2,760	3,210	2,094	4,206	11,935	12,270	3,405
Tax	520	740	480	840	590	460	300	858	2,574	2,209	592
Effective Tax Rate (%)	22.0	21.4	21.8	21.4	21.4	14.3	14.3	20.4	21.6	18.0	17.4
Reported PAT	1,840	2,710	1,720	3,090	2,170	2,750	1,794	3,347	9,361	10,061	2,813
Adjusted PAT	1,840	2,710	1,720	3,090	2,170	2,750	1,794	3,347	9,361	10,061	2,813
Change (%)	3.4	9.7	11.7	9.2	17.9	1.5	4.3	8.3	6.5	7.5	3.8

Exhibit 1: Standalone – operating metrics

		1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Units sold	MU	2,853	2,759	2,345	2,393	2,840	2,873	2,295	2,291	3,057	2,923
change yoy	%	2.6	4.0	12.2	20.0	-0.5	4.1	-2.1	-4.3	7.6	1.7
Realization	INR/kWh	7.7	7.6	7.3	7.5	7.6	7.7	7.4	7.3	7.7	7.7
T&D loss	%	11.1	10.8	10.8	5.5	9.7	9.7	9.8	6.9	9.7	9.0
Gross generation	MU	1,736	1,738	1,357	1,506	1,709	1,732	1,365	1,493	1,718	1,713
change yoy	%	-9.2	1.3	16.0	24.0	-1.6	-0.3	0.6	-0.9	0.5	-1.1
Generation fuel cost	INR/kWh	2.2	2.2	2.3	2.2	2.3	2.5	2.5	2.6	2.7	0.0
Power purchase	MU	1,605	1,509	1,322	1,202	1,608	1,603	740		1,774	1,657
Power purchase cost	INR/kWh	4.8	5.1	5.5	5.7	5.2	5.1	10.0		5.0	5.1

Source: MOSL, Company

Exhibit 2: Consolidated PAT break-up – INR m

	2QFY19	2QFY20
Standalone	2,710	2,750
Haldia	900	910
Dhariwal	-630	-250
Crescent & Surya	160	170
DFs	-20	-30
Noida	140	330
Others	-10	-220
Minority	-20	-20
Consolidated PAT	3,230	3,640

Source: MOSL, Company

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Net Sales	101,109	110,666	121,242	83,634	102,749	106,641	104,764	106,809
Change (%)	33.8	9.5	9.6	-31.0	22.9	3.8	-1.8	2.0
EBITDA	16,226	18,945	29,792	27,845	29,991	33,867	32,890	33,053
EBITDA Margin (%)	16.0	17.1	24.6	33.3	29.2	31.8	31.4	30.9
Depreciation	4,714	5,889	7,665	7,148	7,515	7,638	7,856	8,033
EBIT	11,512	13,056	22,128	20,697	22,477	26,230	25,034	25,020
Interest	5,660	9,565	14,943	13,724	13,030	13,247	12,613	11,871
Other Income	1,734	1,490	2,637	2,300	2,520	2,043	2,263	2,642
Extraordinary items	0	0	-40	0	0	0	0	0
PBT	7,585	4,981	9,781	9,273	11,967	15,025	14,684	15,791
Tax	1,856	1,992	3,130	3,210	3,562	3,737	2,880	2,908
Tax Rate (%)	24.5	40.0	32.0	34.6	29.8	24.9	19.6	18.4
Min. Int. & Assoc. Share	813	1,004	666	710	129	-552	-444	-371
Reported PAT	4,916	1,985	5,985	5,354	8,276	11,840	12,248	13,254
Adjusted PAT	4,916	1,985	6,024	5,354	8,276	11,840	12,248	13,254
Change (%)	17.7	-59.6	203.5	-11.1	54.6	43.1	3.4	8.2

Balance Sheet							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	1,256	1,332	1,332	1,332	1,332	1,332	1,332	1,332
Reserves	55,094	58,958	104,705	104,895	82,870	88,406	97,457	107,034
Net Worth	56,350	60,290	106,037	106,227	84,202	89,738	98,789	108,366
Debt	119,164	142,020	148,676	155,994	145,778	144,721	136,713	128,436
Consumer Security Deposits	0	0	0	0	0	0	0	0
Deferred Tax	332	832	38,307	38,873	36,410	39,404	39,404	39,404
Total Capital Employed	184,925	213,146	303,939	313,194	267,083	274,684	275,877	277,328
Net Fixed Assets	119,719	186,270	243,065	266,262	238,535	236,485	236,296	235,932
Investments	737	735	3,537	4,224	6,673	6,724	7,319	7,841
Current Assets	50,798	65,858	93,781	104,322	82,499	89,859	89,609	91,433
Inventory	5,383	6,625	6,967	8,454	5,826	7,005	6,490	6,588
Debtors	15,302	17,066	14,132	15,596	15,374	17,389	13,875	14,243
Cash & Bank	12,422	16,453	17,894	22,931	17,003	15,437	19,370	20,727
Loans & Adv, Others	17,692	25,714	54,788	57,340	44,296	50,029	49,875	49,875
Curr Liabs & Provns	64,838	66,235	63,993	65,533	62,791	60,000	58,961	59,492
Curr. Liabilities	64,838	66,235	63,993	65,533	62,791	60,000	58,961	59,492
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	-14,040	-377	29,789	38,789	19,708	29,860	30,649	31,940
Total Assets	184,925	213,146	303,939	313,194	267,083	274,684	275,877	277,328

Financials and Valuations

Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)								
EPS	39.1	14.9	45.2	40.2	62.1	88.9	91.9	99.5
Cash EPS	76.7	59.1	102.8	93.8	118.5	146.2	150.9	159.8
Book Value	448.6	452.6	796.0	797.4	632.0	673.6	741.5	813.4
DPS	8.0	9.0	10.0	10.0	12.0	17.5	20.0	23.0
Payout (incl. Div. Tax.)	20.4	60.4	22.1	24.9	19.3	19.7	21.8	23.1
Valuation(x)								
P/E	12.8	40.4	10.5	20.9	12.3	8.6	8.3	7.7
Cash P/E	6.5	10.2	4.6	9.0	6.4	5.2	5.1	4.8
Price / Book Value	1.1	1.3	0.6	1.1	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	11.0	11.4	6.9	9.2	7.7	6.8	6.7	6.4
Dividend Yield (%)	1.6	1.5	2.1	1.2	1.6	2.3	2.6	3.0
Profitability Ratios (%)								
RoE	9.1	3.4	7.2	5.0	8.7	13.6	13.0	12.8
RoCE	6.7	6.3	8.4	6.4	7.4	9.1	8.9	8.9
Turnover Ratios (%)								
Asset Turnover (x)	0.5	0.5	0.4	0.3	0.4	0.4	0.4	0.4
Debtors (No. of Days)	55	56	43	68	55	60	48	49
Inventory (No. of Days)	19	22	21	37	21	24	23	23
Leverage Ratios (%)								
Net Debt/Equity (x)	1.6	1.8	1.1	1.1	1.5	1.4	1.2	1.0

Cash Flow Statement

(INR Million)

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Adjusted EBITDA	16,226	18,945	29,792	27,845	29,991	33,867	32,890	33,053
Non cash opr. exp (inc)	1,125	2,729	4,128	3,081	4,393	2,019	0	0
(Inc)/Dec in Wkg. Cap.	7,301	-10,274	-5,805	-918	-6,336	-9,779	3,144	65
Tax Paid	-2,141	-2,506	-3,311	-3,457	-3,727	-3,168	-2,880	-2,908
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	22,511	8,895	24,804	26,552	24,321	22,939	33,154	30,210
(Inc)/Dec in FA & CWIP	-34,209	-19,509	-12,675	-14,720	-8,944	-8,317	-7,666	-7,670
Free cash flows	-11,698	-10,614	12,129	11,832	15,377	14,622	25,488	22,540
(Pur)/Sale of Invt	0	0	0	0	0	0	0	0
Others	1,582	1,337	1,121	804	-6,815	2,615	2,263	2,642
CF from Inv. Activity	-32,627	-18,172	-11,554	-13,915	-15,760	-5,702	-5,403	-5,028
Inc/(Dec) in Net Worth	37	5,021	117	158	22	0	0	0
Inc / (Dec) in Debt	19,282	20,980	6,390	8,622	854	-1,246	-8,008	-8,278
Interest Paid	-11,134	-11,978	-15,303	-15,036	-13,828	-13,336	-12,613	-11,871
Divd Paid (incl Tax) & Others	40	-714	-3,014	-1,343	-1,537	-2,790	-3,197	-3,677
CF from Fin. Activity	8,225	13,309	-11,809	-7,599	-14,490	-17,373	-23,819	-23,825
Inc/(Dec) in Cash	-1,891	4,031	1,441	5,037	-5,928	-135	3,933	1,357
Add: Opening Balance	14,314	12,422	16,453	17,894	22,931	17,003	15,437	19,370
Closing Balance	12,422	16,453	17,894	22,931	17,003	16,868	19,370	20,727

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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