

CESC Ltd

Recommendation	Hold
CMP (19/11/2012)	Rs. 276
Target Price	Rs. 331
Sector	Power Utility

Stock Details

BSE Code	500084
NSE Code	CESC
Bloomberg Code	CESC IN
Market Cap (Rs cr)	3448
Free Float (%)	47.5
52- wk HI/Lo (Rs)	345/186
Avg. volume BSE (Quarterly)	114162
Face Value (Rs)	10
Dividend (FY 12)	50%
Shares o/s (Cr)	12.5

Relative Performance	1Mth	3Mth	1Yr
CESC	-11.8%	-10.2%	13.9%
Sensex	-1.4%	3.7%	9.1%



Shareholding Pattern	30 th Sep 12
Promoters Holding	52.48%
Institutional (Incl. FII)	34.26%
Corporate Bodies	8.00%
Public & others	5.26%

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Year	Net Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	EBITDA Margin (%)	PAT (Rs cr)	PAT Margin (%)	EPS	P/E (x)	P/B (x)
FY 11A	5179	23	865	16.7	278	5.2	22.1	11.6	1.0
FY 12A	5892	14	972	16.5	246	4.1	19.7	14.0	0.9
FY 13E	9203	56	1296	14.1	312	3.4	25.0	11.0	0.7
FY 14E	10979	19	1809	16.5	363	3.3	29.0	9.5	0.7

CESC's Q2FY13 performance was inline with expectations with revenue growing by 8%, YoY and PAT growing 19%, YoY aided by margin expansion at operating level. We however downgrade the stock from Buy to Hold due to its recent foray into ITeS with the acquisition of Firstsource Solutions Ltd (FSL).

Revenue grew by 8%, YoY to Rs 1344 cr. This was helped by higher PLFs across its plants.

EBITDA at Rs 311 cr was up by 20%, YoY. EBITDA margin for the quarter was 23.1% as compared to 21% in Q2FY12. Improvement in margin was due to lower T&D losses (12.5% for Q2FY13 as compared to 12.8% in Q2FY12) and higher PLFs across its plants.

PAT for the quarter was Rs 136 cr, up by 19%, YoY. PAT margin was at 9.9% for the quarter which saw an improvement of 97 bps YoY.

Spencer's average sales increased from Rs 1066/sqft in H1FY12 to Rs 1218/sqft in H1FY13. Same stores sales have increased from Rs 1089/sqft in H1FY12 to 1270/sqft in H1FY13 registering a growth of 16%.

CESC recently acquired 49.5% stake in Firstsource Solutions Ltd (FSL). CESC will infuse Rs 275 cr in Firstsource by acquiring 34.5% fresh equity. The company has also entered into a separate agreement to acquire an additional 15% of FSL's diluted equity from 3 different shareholders (ICICI Bank, Metavante Investments Ltd and Aranda Investments Ltd). This will require another Rs. 120 cr from CESC.

Valuation & Recommendation

We feel that the unrelated nature of business acquisition will add strain to the company's finances. CESC's standalone cash balance of Rs 860 cr as on FY12 will witness a sharp drop which will put a strain on funding for its upcoming power projects in Haldia and Chandrapur. The company has to invest ~Rs 800 cr into its regulated business, Haldia & Chandrapur and its Retail arm over 2 years. It might have to resort to external funding which will weaken the balance sheet or dilute stake in some its projects which we feel is a negative. However we don't expect FSL to require cash like Spencer's.

Considering significant investments into a non core business and capital intensive projects coming up leading to stretched balance sheet, we downgrade our rating to Hold with a revised target price of Rs 331.

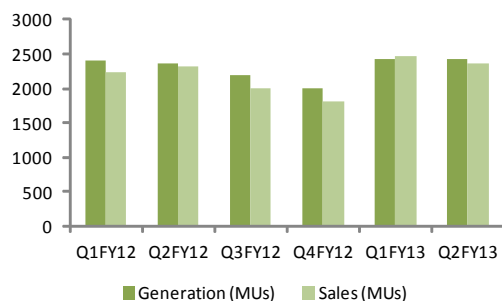
CESC Ltd

Q2FY13 – Result Update

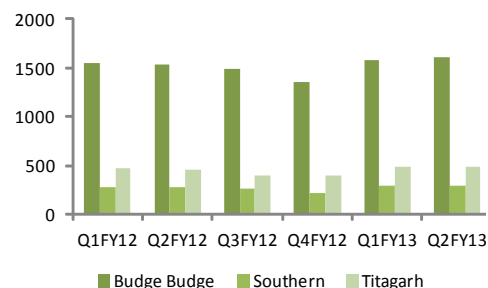
	Q2FY13	Q1FY13	Q-o-Q	Q2FY12	Y-o-Y
Net Revenue	1,344	1,420	-5%	1,241	8%
Operating Exp.	1,033	1,130	-9%	981	5%
EBITDA	311	290	7%	260	20%
EBITDA (%)	23.1%	20.4%	272 bps	21.0%	219 bps
Depreciation	76.0	77.0	-1%	72.0	6%
EBIT	235.0	213.0	10%	188.0	25%
EBIT (%)	17.5%	15.0%	249 bps	15.1%	234 bps
Interest	89	78	14%	75	19%
Other Income	24.00	21.00	14%	29	-17%
Exceptional Items	0	0	NA	0	NA
PBT	170	156	9%	142	20%
Tax Provision	34	31	10%	28	21%
Tax Rate (%)	20.0%	19.9%	13 bps	19.7%	28 bps
Reported PAT	136	125	9%	114	19%
PAT (%)	9.9%	8.7%	127 bps	9.0%	97 bps
EPS	10.8	9.9	9%	9	20%

Source: Company, Nirmal Bang Research

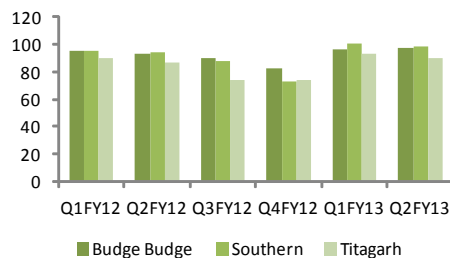
Total Generation



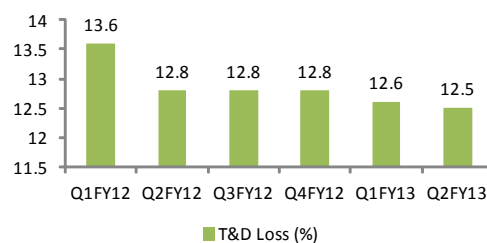
Plant wise Generation



Plant wise PLFs



T&D Loss



Source: Company, Nirmal Bang Research

CESC Ltd

Business Updates

The company announced that it has won a tender for providing technical service in networking planning, to Port Harcourt, a government owned, power distribution company in Nigera. According to the deal, CESC will earn \$2.5 million every year for the next five years.

The company also said it was weighing options like demerger from the parent company, initial public offering, and induction of a strategic investor for listing of Spencer's Retail.

Details about FSL Acquisition

CESC's wholly owned subsidiary, Spen Liq, entered into an agreement with Firstsource Solutions Ltd (FSL) to subscribe to 34.5% of FSL's expanded paid-up share capital. CESC will infuse Rs 275 cr in Firstsource by acquiring 34.5% fresh equity.

The company has also entered into a separate agreement to acquire an additional 15% of FSL's diluted equity from 3 different shareholders (ICICI Bank, Metavante Investments Ltd and Aranda Investments Ltd). This will require another Rs. 120 cr from CESC.

The acquisition will trigger an open offer for additional 26% of FSL's diluted equity for which CESC has announced an open offer price of Rs. 12.2. This will require ~Rs 240 cr assuming the open offer is fully accepted. This will take the company's stake in FSL to 75.5% with a total outgo of Rs 637 cr.

Of the total proceeds, Rs 275 cr would be used to repay FSL's outstanding FCCBs. FSL has a cash balance of ~Rs 700 cr and outstanding FCCBs of ~Rs 1000 cr. After the repayment FSL would still be left with a net debt of ~Rs 1500 cr.

Revised Target Price

Business	Method	Price
Regulated Business	P/Bv	263
Haldia & Chandrapur	Book Value of Equity Invested	52
Real Estate	NPV	10
FSL	EV/EBITDA	6
Target		331

CESC Ltd

Financials

Profitability (Rs. Cr)	FY11A	FY12A	FY13E	FY14E	Financial Health (Rs. Cr)	FY11A	FY12A	FY13E	FY14E
Y/E - March					Y / E - March				
Revenues - Net	5179.0	5891.7	9203.4	10978.8	Share Capital	126	126	126	126
% change	23%	14%	56%	19%	Reserves & Surplus	3308	3561	4515	4805
EBITDA	865.3	972.2	1295.5	1808.8	Net Worth	3434	3686	4641	4931
Depreciation	316.5	340.1	450.2	628.9	Total Loans	4128	5787	8697	9895
Other Income	114.9	132.3	113.9	131.9	Minority Interest	2	3	352	352
EBIT	663.7	764.4	959.3	1311.8	Other Liabilities	2228	2609	2934	3235
Exceptional Item	21.2	25.7	27.0	28.3	Total Liabilities	9792	12085	16625	18412
Interest	312.1	345.1	445.2	729.3	Net Fixed Assets	6795	7114	11998	14289
PBT	330.4	393.6	487.1	554.1	CWIP	561	2454	2309	1509
Tax	53.0	149.2	155.9	177.3	Deferred Tax Assets	322	322	311	311
PAT	277.4	244.5	331.2	376.8	Investments	417	256	256	256
Minority Int	1.0	1.4	-19.1	-13.9	Inventories	408	408	501	611
PAT after Minority Int	278.4	245.9	312.2	362.9	Sundry Debtors	576	994	1514	1810
EPS	22.1	19.7	25.0	29.0	Cash	1229	1263	579	641
Dividend	50.0	62.5	62.8	62.8	Loans & Advances	578	743	958	1135
DPS	4.0	5.0	5.0	5.0	Other Current Asset	54	77	285	343
					Current Liab & Prov	1148	1546	2085	2492
					Total Assets	9792	12085	16625	18412
					Cash Flow (Rs. Cr)	FY11A	FY12A	FY13E	FY14E
Quarterly (Rs. Cr)*	Dec-12	Mar-12	Jun-12	Sep-12	Operating				
Revenue	983.0	1379.0	1420.0	1344.0	Operating Income	865	972	1296	1809
EBITDA	213.0	432.0	290.0	311.0	Change in WC	-114	-208	-497	-234
Interest	66.0	65.0	78.0	89.0	Taxes Paid	-53	-149	-156	-177
Dep	75.0	72.0	77.0	76.0	Other Adj	-198	348	258	300
Other Inc.	20.0	38.0	21.0	24.0	Minority Int	1	0	350	0
Extraordinary	0.0	0.0	0.0	0.0	CF from Operation	502	963	1251	1698
PBT	92.0	333.0	156.0	170.0	Investment				
Tax	18.0	67.0	31.0	34.0	Capex	-842	-2598	-2095	-2120
PAT	74.0	266.0	125.0	136.0	Other Investment	20	241	0	0
EPS (Rs.)	5.9	21.1	9.9	10.8	Total Investment	-822	-2357	-2095	-2120
					Financing				
Operational Ratio	FY11A	FY12A	FY13E	FY14E	Dividend Paid	-58	-73	-73	-73
EBITDA margin (%)	16.7%	16.5%	14.1%	16.5%	Share Capital	0	0	0	0
PAT margin (%)	5.2%	4.1%	3.4%	3.3%	Premium / Reserve	49	80	-208	-14
Price Earnings (x)	11.6	14.0	11.0	9.5	Borrowing	609	1659	799	1197
Book Value (Rs.)	274.8	295.1	371.4	394.7	Interest	-312	-345	-445	-729
ROE (%)	8.1%	6.6%	7.1%	7.6%	Other Income	115	132	114	132
ROCE (%)	6.8%	6.3%	5.8%	7.1%	Total Financing	381	1427	160	485
Debt Equity Ratio (x)	1.2	1.6	1.9	2.0	Net Chg. in Cash	61	34	-684	62
Price / Book Value (x)	1.0	0.9	0.7	0.7	Cash at beginning	1168	1229	1263	579
					Cash at end	1229	1263	579	641

Source: Company, Nirmal Bang Research

* Standalone Figures

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