

Stock Update

Demerger process on track, to unlock value

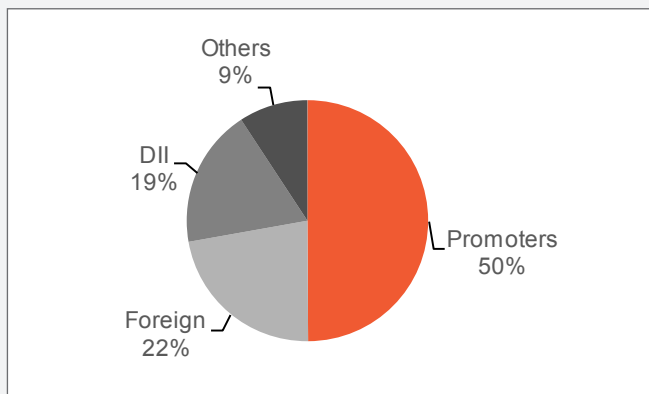
CESC

Reco: Buy | CMP: Rs1,021

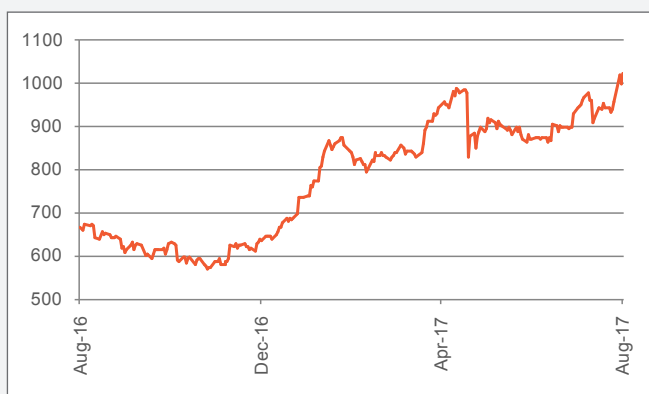
Company details

Price target:	Rs1,165
Market cap:	Rs13,487 cr
52-week high/low:	Rs1038/539
NSE volume: (No of shares)	7.6 lakh
BSE code:	500084
NSE code:	CESC
Sharekhan code:	CESC
Free float: (No of shares)	6.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.7	14.3	21.5	57.7
Relative to Sensex	11.9	11.6	9.3	39.3

Key points

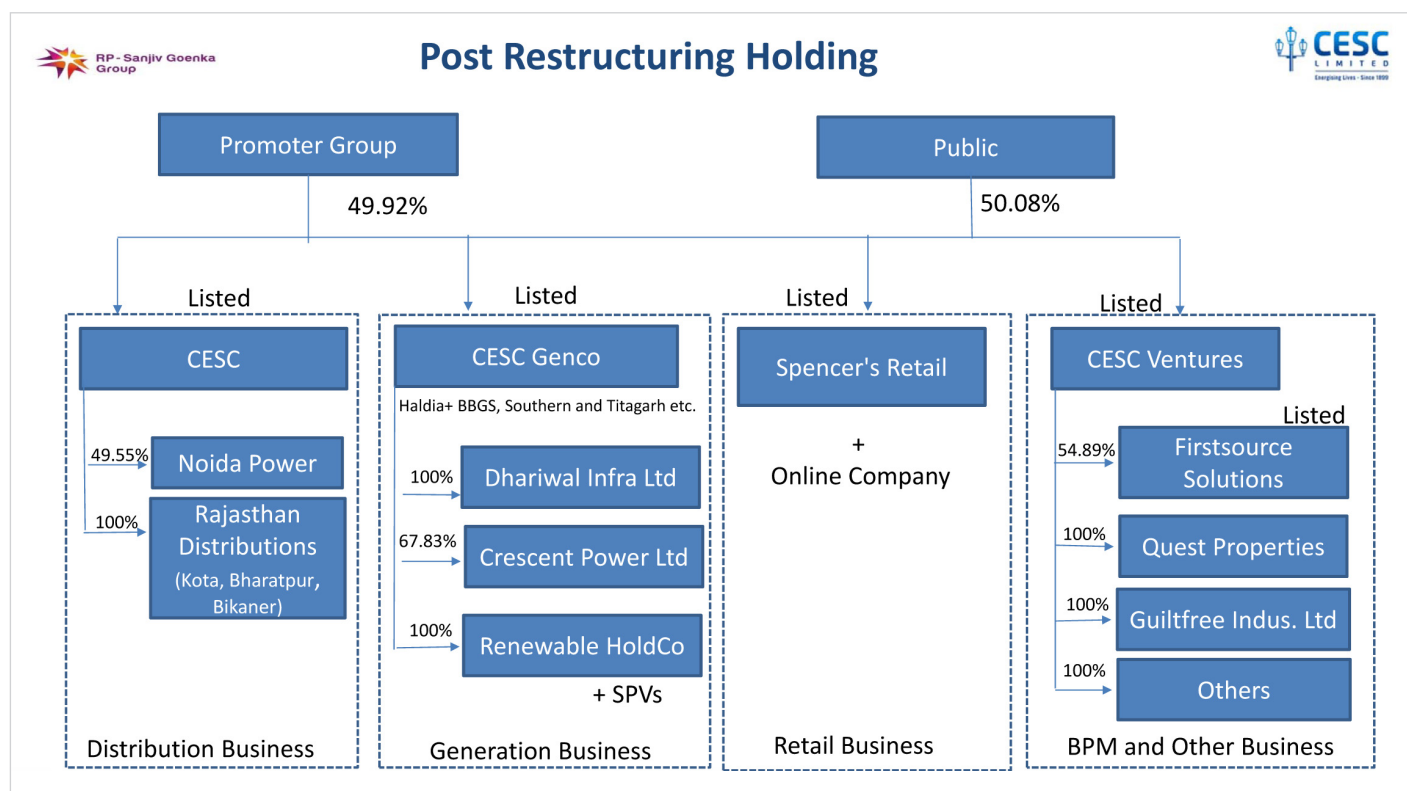
- ♦ **Demerger process on track:** CESC has plans to restructure its business. The company is currently awaiting National Company Law Tribunal (NCLT) approval for its demerger and has appointed 1st October 2017 as the date for segregation of accounts of the proposed demerged company. CESC expects all regulatory approvals within the next 3-4 months and plans to list the demerged entities by the end of Q4FY2018 or Q1FY2019. The existing shareholders of CESC having 10 shares will get five shares of power generation, five shares of power distribution, six shares of retail and two shares of IT outsourcing.
- ♦ **Losses to reduce significantly going forward:** CESC's Chandrapur plant operated at 54% PLF and supplied 650 MU power to the Tamil Nadu State Utility (TANGEDCO), Noida Power (NPCL) and the open market. Further, the supply of full contracted capacity of 187MW power to NPCL has already commenced in Q4FY2017, aiding volume growth. CESC is actively participating in bids for the balance 300MW power sale, which would reduce the losses substantially. On the other hand, Spencer's is on the recovery path. It showed modest reduction in losses in FY2017 at Rs.141 crore (down by 1% YoY). Despite GST, Spencer's showed improvement in performance in Q1FY2018. CESC expects the change in product mix to boost margins and expects Spencer's to cash breakeven in FY2018 and PAT breakeven in FY2019.
- ♦ **Demerger to unlock value for minority shareholders; Maintain Buy with a revised PT of Rs.1,165:** We believe the restructuring exercise is positive for minority shareholders, as it will unlock value in the cash flow-rich power distribution business and enable CESC to sell or bring in a strategic partner into the loss-making retail subsidiary (Spencer's), which is on the recovery path. Further, improvement in Chandrapur plant (higher PLF) will reduce the losses substantially. Hence, we continue to maintain our Buy rating with a revised price target (PT) of Rs.1,165 on SoTP basis.

Valuations (standalone)

	Rs cr				
Particulars	FY15	FY16	FY17	FY18E	FY19E
Net Sales	6,189	6,608	7,410	8,211	8,799
EBITDA	1,549	1,744	1,811	1,896	2,020
EBITDA margin (%)	25.0	26.4	24.4	23.1	23.0
Net Profit	698	845	862	935	1,018
EPS (Rs)	52.4	63.4	64.7	70.2	76.4
EPS Growth (%)	7.0	21.1	2.1	8.4	9.0
PER (x)	19.5	16.1	15.8	14.6	13.4
P/BV (x)	1.7	1.0	1.0	1.0	1.0
Price/sales(x)	2.2	2.1	1.8	1.7	1.5
EV/EBITDA (x)	11.1	9.9	9.9	9.4	9.0
Dividend Yield (%)	0.9	1.9	1.0	1.0	1.0
RoCE (%)	7.9	6.6	5.5	5.6	5.8
RoE (%)	9.2	8.0	6.6	6.9	7.3

Valuations

SoTP Valuation	Rs /share	Valuation method
Existing power business	959	1x FY19 BV
Chandrapur power plant	61	15% discount on invested equity
Haldia power plant	86	On Equity invested
CESC property	19	On Equity invested
Spencer's & others	(58)	Discount for loss making retail Business
First Source Ltd	90	20% holding discount to current market value for FSL
Rajasthan Distribution	20	On Equity invested
IPL	(10)	Potential losses over two years
Total	1,165	



Source: Company

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Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-61150000; For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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