

14 November 2024

India | Equity Research | Q2FY25 results review

CESC

Utilities

RE takes up growth baton

CESC is building its renewables platform. While the company has been a late entrant, it is gaining ground by: 1) setting up a team from leading RE developers; 2) securing equipment orders; and 3) acquiring companies with land and transmission connectivity. In Q2FY25, it finalised a PPA of 300MW and acquired companies with land and connectivity worth 750MW. It is targeting 3.2GW RE capacity by FY29E. CESC has already ordered 3.2GW of wind equipment from OEMs. In Q2FY25, it reported consol. revenue of INR 48bn (+2% YoY), EBITDA of INR 10bn (flat YoY) and profit of INR 3.7bn (+2% YoY). It also received tariff order for Kolkata License area, but the regulator has not allowed any tariff hike; however, CESC has begun recovering fuel and power purchase cost, leading to slow build-up of regulatory assets. We maintain **BUY**, as we roll forward our TP to FY27E, at **INR 215** (earlier INR 207).

Expanding RE portfolio

CESC is expanding its RE portfolio, targeting 3.2GW RE capacity by FY29E. It has acquired assets with land and transmission connectivity in Rajasthan and has onboarded an experienced team from leading RE developers. CESC signed agreements for equipment supply, EPC and O&M for wind projects planned over the next 3-4 years. It has also secured PPA for 300MW of RE capacity in Q2FY25.

Easing build-up of regulatory assets

CESC has received tariff order for Kolkata licence area for FY24–26 period, wherein the regulator has not allowed a tariff hike. However, the company is collecting its under-recovery through fuel and power-purchase cost. This is leading to a slow build-up of regulatory assets.

Muted Q2FY25

CESC reported muted Q2FY25 numbers. Consolidated revenue grew to INR 48bn in Q2FY25 (+2% YoY). Lower regulatory income is due to the company collecting under-recovery through fuel and power-purchase cost; it has been charging 5.7% surcharge for the same, starting Jun'24. EBITDA remained flat YoY at INR 10bn, while PAT was at INR 3.7bn, up 2% YoY.

Maintain BUY; TP revised to INR 215

We reiterate **BUY** with a SoTP- based revised TP of INR 215 (earlier INR 207).

Financial Summary

Y/E Mar-31 (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	1,70,500	1,79,600	1,98,169	2,24,389
EBITDA	38,830	42,161	48,070	60,283
EBITDA Margin (%)	22.8	23.5	24.3	26.9
Net Profit	13,759	15,834	18,596	23,819
EPS (INR)	10.3	11.9	14.0	17.9
EPS % Chg YoY	3.5	14.0	16.9	27.1
P/E (x)	16.1	14.1	12.1	9.5
EV/EBITDA (x)	9.0	9.1	8.5	7.0
RoCE (%)	9.7	9.2	9.2	10.5
RoE (%)	12.4	13.3	14.0	15.6

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Market Data

Market Cap (INR)	232bn
Market Cap (USD)	2,749mn
Bloomberg Code	CESC IN
Reuters Code	CESC.BO
52-week Range (INR)	213 /89
Free Float (%)	47.0
ADTV-3M (mn) (USD)	17.4

Price Performance (%)	3m	6m	12m
Absolute	(0.4)	24.9	94.1
Relative to Sensex	1.2	18.1	74.5

ESG Score	2023	2024	Change
ESG score	67.2	NA	NA
Environment	52.8	NA	NA
Social	72.0	NA	NA
Governance	73.6	NA	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Previous Reports

12-08-2024: [Q1FY25 results review](#)

31-05-2024: [Q4FY24 results review](#)

Outlook and valuation

CESC is India's first fully-integrated electrical utility in operation since 1899, generating and distributing power in Kolkata and Howrah. CESC is involved in power sector value chain with assets in generation, transmission and distribution of power as well as coal mining.

Moreover, it owns a 600MW thermal power (Chandrapur) plant in Maharashtra and a 40MW atmospheric fluidised bed combustion power plant (Crescent Power). While Chandrapur TPP has PPA tie ups with CESC, Crescent Power operates in merchant market.

Apart from these, CESC has a distribution licence in Noida and four distribution franchisees in Rajasthan (Kota/Bikaner/Bharatpur) and Maharashtra (Malegaon).

The company has received the awaited tariff order for Kolkata licence area for FY24–26 period, wherein the regulator has allowed for any tariff hike. Nonetheless, CESC is collecting under-recovery of fuel and power-purchase cost, which will likely lead to slower build-up of regulatory assets.

CESC is looking to scale up its RE platform and is targeting 3.2GW RE capacity by FY29E under the first phase; it is progressing well in terms of PPAs for the RE capacity, equipment orders for wind capacity and acquiring assets with land and transmission connectivity. In phase two, the company plans to expand its RE capacity to 10GW.

We maintain our rating on the stock as **BUY**. Rolling forward our valuation to FY27E, our SoTP-based target price works out to **INR 215** per share (INR 207 earlier).

Key risks: 1) Delay in RE capacity addition; and 2) Higher build-up of regulatory assets.

Exhibit 1: SoTP-based target price of INR 215/share

Summary of Valuation	Methodology	INR mn	INR/Share
KLA License Area Business	DCF	1,31,556	99
Value to Shareholders (core power business)	DCF	1,31,556	99
Regulated Business/Regulated equity		2.8	
Add: Cash		14,040	11
Add: Value of Dhariwal	DCF	31,256	24
Add: Value of Haldia	DCF	32,971	25
Add: Value of Crescent Power	DCF	3,980	3
Add: Distribution Franchisee	DCF	2,657	2
Noida Power	DCF	21,206	16
Renewables	EV/EBITDA	47,926	36
Total Value to CESC shareholders		2,85,593	215
No. of Shares (mn)		1,330	1,330

Source: I-Sec research

Exhibit 2: Quarterly financials – standalone

P&L (INR mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% chg. QoQ	% chg. YoY
Net sales	27,350	27,370	23,090	23,210	34,210	27,480	(19.7)	0.4
EBITDA	5,540	6,120	5,520	5,400	6,350	6,180	(2.7)	1.0
OPM (%)	20.3	22.4	23.9	23.3	18.6	22.5	21.2	0.6
Other inc.	210	470	220	330	210	450	114.3	(4.3)
Interest	1,810	1,760	1,770	2,050	2,070	2,150	3.9	22.2
Depreciation	1,790	1,780	1,800	1,830	1,750	1,690	(3.4)	(5.1)
PAT	1,700	2,300	1,700	2,050	1,920	2,180	13.5	(5.2)
Reported PAT	1,700	2,300	1,700	2,050	1,920	2,180	13.5	(5.2)
EPS (Rs)	12.8	17.3	12.8	15.4	14.4	16.4	13.5	(5.2)

Source: I-Sec research, Company data

Exhibit 3: Quarterly financials – consolidated

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% chg. QoQ	% chg. YoY
Net sales	45,740	47,160	38,040	39,590	55,520	48,190	(13)	2.2
EBITDA	9,880	10,100	9,060	9,820	10,600	10,150	(4)	0.5
OPM (%)	22	21	24	25	19	21	10	(1.7)
Other inc.	590	620	570	730	550	700	27	12.9
Interest	3,080	3,050	2,960	3,250	3,220	3,280	2	7.5
Depreciation	3,000	3,030	3,030	3,110	3,010	2,950	(2)	(2.6)
PBT	4,390	4,640	3,640	4,190	4,920	4,620	(6)	(0.4)
PAT	3,680	3,660	3,010	4,150	3,880	3,730	(4)	1.9
Minority Interest	210	150	200	150	100	200	100	33.3
PAT after MI	3,470	3,510	2,810	4,000	3,780	3,530	(7)	0.6
EPS (INR)	3	2.8	2.3	3.1	2.9	2.8	(4)	1.9
Subsidiary-wise revenue								
Haldia	5,390	5,370	4,280	4,960	4,810	5,550	15	3.4
Dhariwal	5,160	5,300	3,700	5,170	5,260	5,370	2	1.3
Crescent	510	460	530	580	470	550	17	19.6
Noida Power	6,360	7,120	5,570	5,730	7,550	8,020	6	12.6
Rajasthan DF	5,700	5,900	3,970	3,790	6,490	6,320	(3)	7.1
Subsidiary-wise profit								
Haldia	620	660	480	770	840	740	(12)	12.1
Dhariwal	790	680	420	940	1,120	810	(28)	19.1
Crescent	200	150	210	240	110	160	45	6.7
Noida Power	540	370	480	310	370	530	43	43.2
Rajasthan DF	170	(21)	1	(20)	60	10	(83)	-147.6

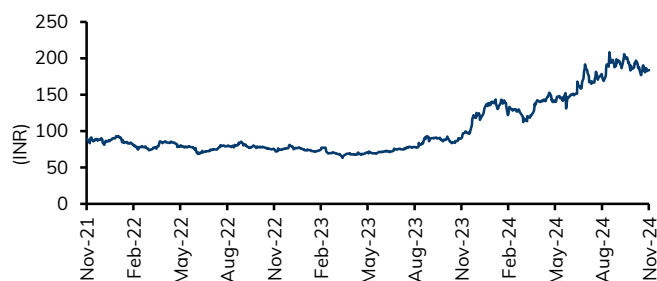
Source: I-Sec research, Company data

Exhibit 4: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	52.1	52.1	52.1
Institutional investors	34.0	36.3	36.0
MFs and others	15.2	17.2	17.3
FIs/Banks	0.0	0.0	0.0
Insurance	5.9	5.5	5.4
FIIIs	12.9	13.6	13.3
Others	13.9	11.6	11.9

Source: Bloomberg

Exhibit 5: Price chart



Source: Bloomberg

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Net Sales	1,70,500	1,79,600	1,98,169	2,24,389
Operating Expenses	13,081	14,390	15,829	17,411
EBITDA	38,830	42,161	48,070	60,283
EBITDA Margin (%)	22.8	23.5	24.3	26.9
Depreciation & Amortization	12,170	11,465	12,197	14,366
EBIT	26,660	30,696	35,873	45,917
Interest expenditure	12,340	12,087	13,694	17,941
Other Non-operating Income	2,510	2,610	3,149	3,149
Recurring PBT	16,830	21,218	25,328	31,125
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,361	4,726	6,053	6,621
PAT	14,469	16,493	19,275	24,504
Less: Minority Interest	(710)	(659)	(679)	(685)
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	14,469	16,493	19,275	24,504
Net Income (Adjusted)	13,759	15,834	18,596	23,819

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	1,46,661	1,51,410	1,71,242	1,94,743
of which cash & cash eqv.	27,110	19,373	25,863	31,228
Total Current Liabilities & Provisions	34,220	30,232	26,497	22,896
Net Current Assets	1,12,441	1,21,178	1,44,745	1,71,847
Investments	569	519	519	519
Net Fixed Assets	2,21,310	2,20,251	2,47,248	2,69,265
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,740	34,240	34,240	34,240
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	-	-	-	-
Total Assets	3,36,060	3,76,188	4,26,752	4,75,871
Liabilities				
Borrowings	1,43,630	1,71,623	2,00,646	2,22,944
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	72,580	76,209	80,019	84,020
Equity Share Capital	1,330	1,330	1,330	1,330
Reserves & Surplus	1,13,120	1,21,627	1,39,357	1,62,177
Total Net Worth	1,14,450	1,22,957	1,40,687	1,63,507
Minority Interest	5,400	5,400	5,400	5,400
Total Liabilities	3,36,060	3,76,188	4,26,752	4,75,871

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	24,428	27,201	31,899	39,074
Working Capital Changes	(14,551)	(12,844)	(13,267)	(17,737)
Capital Commitments	(5,557)	(42,906)	(39,194)	(36,383)
Free Cashflow	29,985	70,107	71,093	75,457
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	(5,557)	(42,906)	(39,194)	(36,383)
Issue of Share Capital	(2)	-	-	-
Interest Cost	(12,340)	(12,087)	(13,694)	(17,941)
Inc (Dec) in Borrowings	3,006	27,993	29,023	22,298
Dividend paid	(5,995)	(7,327)	(866)	(999)
Others	(2,312)	(609)	(679)	(685)
Cash flow from Financing Activities	(17,644)	7,969	13,785	2,673
Chg. in Cash & Bank balance	1,227	(7,737)	6,489	5,365
Closing cash & balance	27,110	19,373	25,863	31,228

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	10.9	12.4	14.5	18.4
Adjusted EPS (Diluted)	10.3	11.9	14.0	17.9
Cash EPS	19.5	20.5	23.1	28.7
Dividend per share (DPS)	0.0	0.0	0.0	0.0
Book Value per share (BV)	85.9	92.3	105.6	122.7
Dividend Payout (%)	0.0	0.0	0.0	0.0
Growth (%)				
Net Sales	9.8	5.3	10.3	13.2
EBITDA	13.4	8.6	14.0	25.4
EPS (INR)	3.5	14.0	16.9	27.1
Valuation Ratios (x)				
P/E	16.1	14.1	12.1	9.5
P/CEPS	9.0	8.5	7.6	6.1
P/BV	2.0	1.9	1.7	1.4
EV / EBITDA	9.0	9.1	8.5	7.0
P / Sales	1.4	1.3	1.2	1.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	30.4	31.5	32.2	34.6
EBITDA Margins (%)	22.8	23.5	24.3	26.9
Effective Tax Rate (%)	14.0	22.3	23.9	21.3
Net Profit Margins (%)	8.5	9.2	9.7	10.9
NWC / Total Assets (%)	25.4	27.1	27.9	29.5
Net Debt / Equity (x)	1.0	1.2	1.2	1.2
Net Debt / EBITDA (x)	3.0	3.6	3.6	3.2
Profitability Ratios				
RoCE (%)	9.7	9.2	9.2	10.5
RoE (%)	12.4	13.3	14.0	15.6
RoC (%)	9.7	9.2	9.2	10.5
Fixed Asset Turnover (x)	0.8	0.8	0.8	0.9
Inventory Turnover Days	20	53	53	52
Receivables Days	51	53	54	55
Payables Days	29	29	29	28

Source Company data, I-Sec research

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