

<b>BSE Sensex</b> 19,561	<b>S&amp;P CNX</b> 5,923
Bloomberg	CESC IN
Equity Shares (m)	125.6
M.Cap. (INR b)/(USD b)	39.8/0.7
52-Week Range (INR)	346/243
1,6,12 Rel. Perf. (%)	3/-/7/3

**CMP: INR317**

**TP: INR444**

**Buy**

**Financials & Valuation (INR b)**

Y/E March	2013E	2014E	2015E
Sales	51.5	58.3	64.3
EBITDA	12.0	13.2	13.8
Net Profit	5.8	6.5	7.1
Adj. EPS (INR)	46.5	51.9	56.6
EPS Gr. (%)	5.3	11.7	9.0
BV/Sh (INR)	427.4	473.6	524.5
RoE (%)	11.4	11.5	11.3
RoCE (%)	10.1	10.1	10.1
Payout (%)	12.9	13.5	14.1
<b>Valuation</b>			
P/E (x)	6.8	6.1	5.6
P/BV (x)	0.7	0.7	0.6
EV/EBITDA (x)	5.2	4.6	4.2
Div. Yield (%)	1.9	2.2	2.5

- CESC's reported PAT was significantly lower than our estimate led by lower revenue recognition/fixed charge recovery due to lower demand, given the severe winter season. Also, the tariff hike accounting in 3QFY13 is deferred to 4Q, as truing up order is finalized post December. Management retained its guidance of PAT increase by INR300-350m in FY13 on a full year basis, over FY12 PAT.
- Total number of units sold during the quarter was 1,961MU, down 2.2% YoY, due to lower demand (at 2.2BUs, down 2.9% YoY) due to severe winter. This impacted volume growth, which in turn had a bearing on the recovery of fixed charges for CESC.
- For 9MFY13, Spencer's average revenue growth stood at 13% YoY, while same stores sales grew by robust 16% YoY. Also, stores level EBITDA stood at INR51/sq.ft/month in 3QFY13. This is however marginally lower than INR57/sq.ft/month in 2QFY13, despite the festive season in 3Q.
- CESC completed the open offer for First Source Ltd (FSL), which saw tendering of ~7.4% stake by shareholder. This takes the total stake in FSL to 56.8% and total investment commitment at INR4.5b. This is proposed to be financed through a mix of debt (INR3b) and equity (INR1.5b).
- We expect CESC to report standalone net profit of INR5.8b in FY13E (up 4.6% YoY) and INR6.5b in FY14E (up 11.6% YoY). Stock quotes at PER and P/B of 6.1x and 0.7x FY14E on standalone basis. **Buy**.

**Quarterly Performance - Standalone (excl Spencers Retail)**

(INR Million)

Y/E March	FY12				FY13				FY12	FY13E	FY13 3QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Sales	11,830	12,410	10,320	13,790	14,200	13,440	10,400	14,216	45,930	51,541	12,942	-20
Change (%)	7.9	12.3	9.9	57.6	20.0	8.3	0.8	3.1	12.2	12.2	25.4	
EBITDA	2,671	2,600	2,130	4,320	2,900	3,110	2,660	4,026	11,570	12,856	3,530	-25
Change (%)	4.3	-18.2	-15.8	75.6	8.6	19.6	24.9	-6.8	7.8	11.1	65.7	
As of % Sales	22.6	21.0	20.6	31.3	20.4	23.1	25.6	28.3	25.2	24.9	27.3	
Depreciation	710	720	750	720	770	760	770	788	2,900	3,088	810	
Interest	700	750	660	650	780	890	860	897	2,760	3,427	910	
Other Income	130	290	200	380	210	240	240	270	1,000	960	310	
PBT	1,391	1,420	920	3,330	1,560	1,700	1,270	2,611	6,910	7,301	2,120	-40
Tax	280	280	180	670	310	340	260	554	1,410	1,464	445	
Effective Tax Rate (%)	20.1	19.7	19.6	20.1	19.9	20.0	20.5	21.2	20.4	20.0	21.0	
Reported PAT	1,111	1,140	740	2,660	1,250	1,360	1,010	2,057	5,500	5,837	1,674	-40
Adjusted PAT	1,111	1,140	740	2,510	1,250	1,360	1,010	2,057	5,500	5,837	1,674	-40
Change (%)	1.0	-15.6	-32.7	124.1	12.5	19.3	36.5	-18.0	17.8	6.1	126.3	

E: MOSL Estimates

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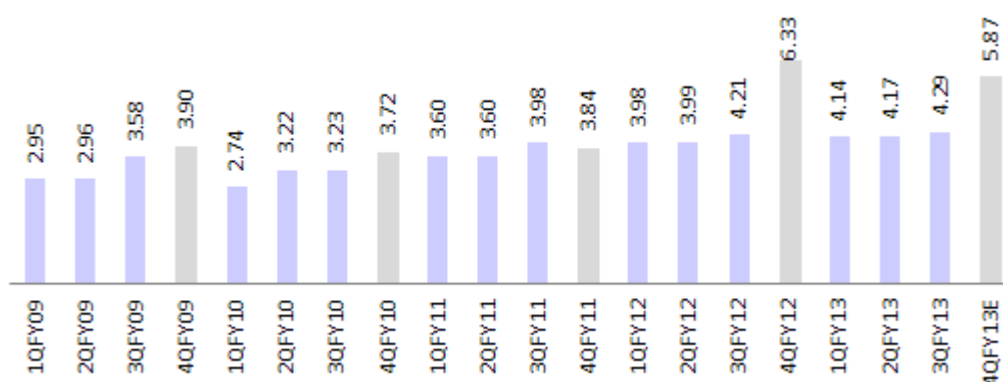
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### 3QFY13 performance below estimate due to lower recovery, deferring tariff hike accounting to 4Q

- CESC reported 3QFY13 revenues at INR10.4b (vs est of INR12.8b), EBITDA of INR2.7b (vs est of INR3.5b) and PAT of INR1.0b (vs est of INR1.7b). Key reason for slippages in performance is on account of lower sales/demand volume owing to severe winter season impacting the recovery of fixed charge for 3QFY13. Management indicated that lower sales volume at 1.96BUs in 3Q, vs average of 2.4BUs in 1HFY13 lead to lower absolute recovery. However, the fixed charge recovery on full year basis remains intact, and will thus be adjusted in 4Q. We note that average realization for 4Q is typically higher.
- Also, we were expecting a gain of INR300-350m in 3QFY13, over 2QFY13 given the tariff order (TO) approval (increase of INR0.09/unit). Management suggested that while the TO was approved, the order for truing up for FY13E was not received/ finalised in 3QFY13 (received in January 2013), which led to deferment of tariff hike accounting to 4Q now.
- On full year basis thus, management maintained its guidance of increase in PAT by INR300-350m in FY13E, over FY12. We expect standalone PAT for CESC at INR5.8b in FY13E, vs INR5.5b in FY12.
- During 3QFY13, realization for the company stood at INR5.3/unit (v/s INR5.1/unit YoY) and fuel cost for CESC stood at INR1.9/unit (v/s INR2.0/unit YoY).

#### Higher realisation in 4QF as compared to 1st 3 quarters (INR/unit)

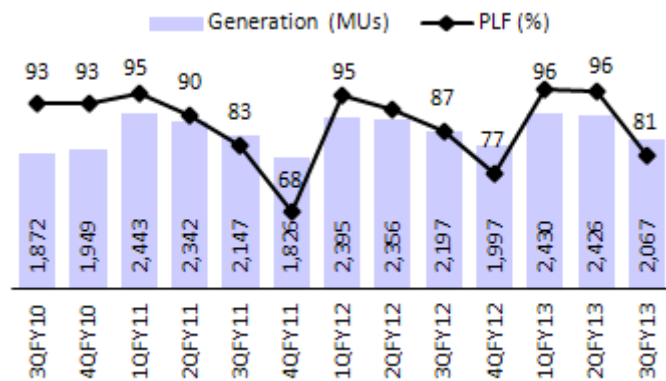


Source: Company, MOSL

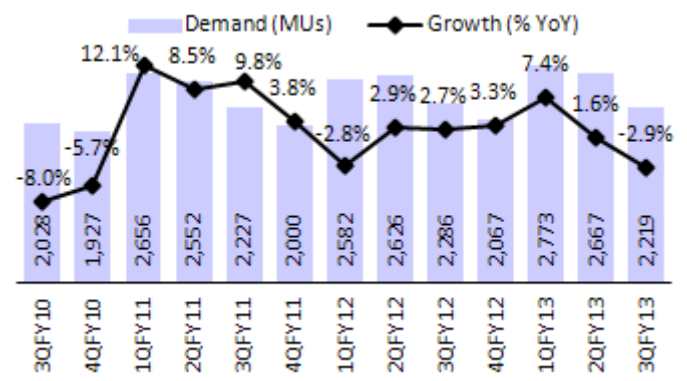
### Operating performance strong, power demand de-grew due severe winter season

- During 3QFY13 Power generation stood at 2,067MUs, down 6% YoY, while average PLF for the units stood at 81.1%, vs 86.5% YoY.
- Total units sold during the quarter were 1,961 MU down 2.2% YoY, owing to lower demand (at 2.2BUs, down 2.9% YoY) due to severe winters. This hampered volume growth, which in turn had a bearing on the recovery of fixed charges for CESC.

Generation/PLF moved dipped



Winter season impacts power demand growth

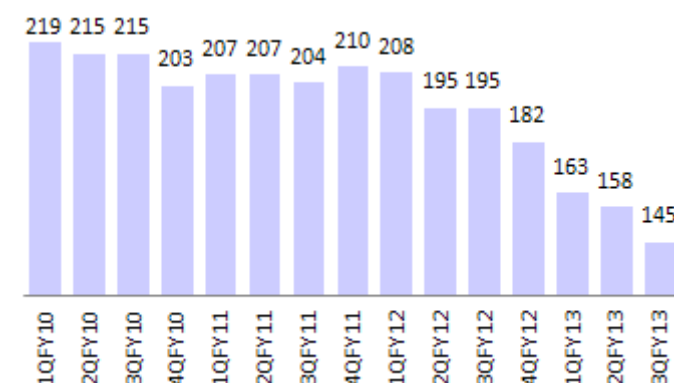


Source: Company, MOSL

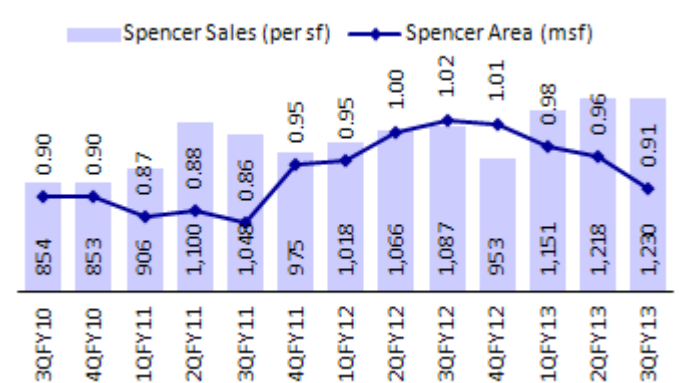
**Spencer: 3QFY13 store EBIDTA lower QoQ, despite festive season; revenue growth however remains strong**

- For 9MFY13, Spencer reported average revenue of INR1,230/sq.ft/month, a growth of 13% YoY. Also, the same store sales (SSS) growth grew at robust 16% YoY to INR1,303/sq.ft/month (vs INR1,124/sq.ft/month). We calculate Spencer revenues at INR10.2b for 9MFY13, up 9% YoY, despite down/right-sizing of operations.
- The consolidation on the number of stores thus continued even in 3QFY13. Total operating stores came down to 145, vs 158 QoQ and 195 YoY. The clear trend is hive-off / closing of Spencer daily formats, where number of stores has reduced from 145 in Dec-11 to 105 as at Dec-12. Total area under operations has thus come down to 0.91m sq.ft, vs 1.01m sq.ft YoY.
- We also note that a large part of reduction in total area under operations is in the Western region - down to 0.06m sq.ft as at Dec-12, vs 0.120m sq.ft. Similarly, the South -1 & 2 region has witnessed down/right sizing. Northern region is the only area where expansion is being carried out - area under operations at 0.24m sq.ft as at Dec-12, vs 0.225m sq.ft YoY. Eastern region operations/stores have been steady.
- Store level EBIDTA have continued to remain healthy with 3QFY13 EBIDTA at INR51/sft/mth v/s INR35/sft/month YoY. However, the number is lower than stores EBIDTA of INR57/sq.ft/month achieved in 2QFY13, despite festive season in 3Q.

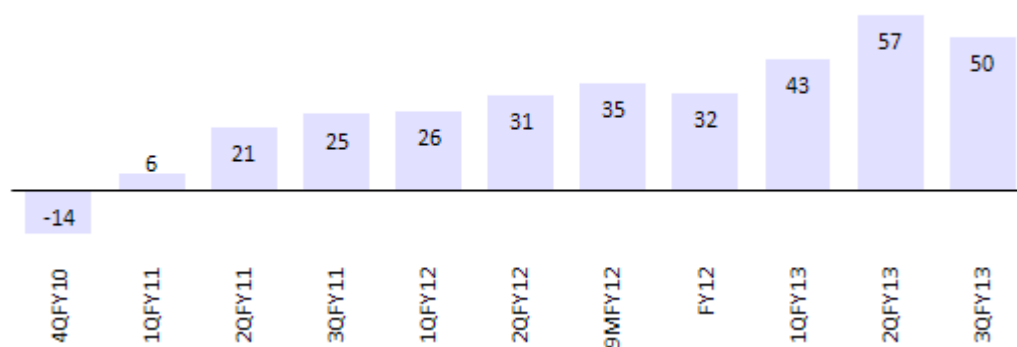
Consolidation: Closure of Stores Continues (Nos)



3QFY13 Sales stood higher at INR1,230/sft/mth



Source: Company, MOSL

**Store EBITDA marginally trend lower (INR/sft/mth)**

Source: Company, MOSL

**First Source open offer tendering at 7.4%, stake of CESC at ~57%**

CESC indicated that the open offer to the shareholders of First Source Limited (FSL) was completed the total tendering was to the tune of ~7.4% stake. This, along with its earlier acquisition of 49.5% stake in FSL takes its holding to 56.8%. Stake in FSL is owned through wholly owned subsidiary Spen Liq Private Limited. Total investment made by CESC for acquisition of stake in FSL now stands at INR4.5b. This was proposed to be financed by INR1.5b of equity investment, and balance through debt.

**Valuations and view**

We expect CESC to report standalone net profit of INR5.8b in FY13 (up 4.6% YoY) and INR6.5b in FY14 (up 11.6% YoY). The stock trades at PER and P/B of 6.1x and 0.7x FY14E on standalone basis. Maintain **Buy**.

## CESC: an investment profile

### Company description

CESC, an RPG 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. 1.2GW of generation projects are under construction and additional 6GW of projects are in pipeline. CESC has presence in retail business "Spencer" which has 0.91msf area under operations.

### Key investment positives

- Assured return from existing generation / distribution business provides steady cash flows (regulated profit at ~INR5b pa)
- 1.2GW project has entered construction phase expected to commission during FY14/15.
- Consolidation and restructuring at Spencers has led to reduction in operational losses.
- Project pipeline of 6GW provides growth opportunity going forward.

### Key investment risk

- Capital misallocation through unrelated diversification.

- Capacity at Chandrapur project yet to be tied up.

### Recent development

- Open offer for First Source Ltd led to tendering of 7.4% stake, increasing the total holding of CESC to 56.8% now.
- Consolidation continues at Spencer where-in in 3QFY13 Spencer has closed 12 more Small Express Stores and 1 hyper store.

### Valuation and view

- We expect CESC to report standalone net profit of INR5.8b in FY13 (up 4.6% YoY) and INR6.5b in FY14 (up 11.6% YoY). The stock trades at PER and P/B of 6.1x and 0.7x FY14E on standalone basis. **Buy.**

### Sector view

- Power sector has begun to witness several initiatives by authorities to address concerns on SEBs, fuel supply pacts and PPAs. It would however take a while before clarity on several issues emerges. In this environment, we continue to prefer CPSUs which are relatively better positioned on these fronts.

### EPS: Most forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	46.5	45.8	1.5
FY14	51.9	48.1	8.0

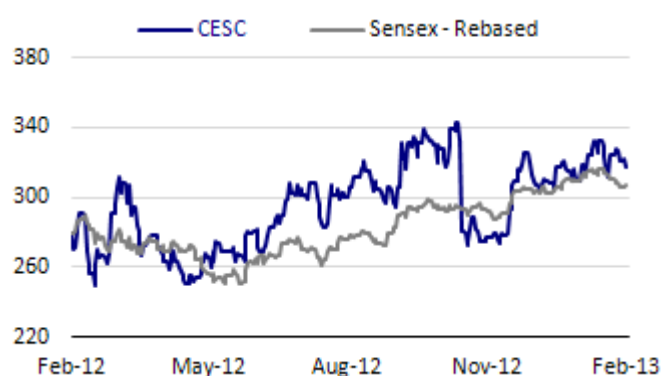
### Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
317	444	40.1	Buy

### Shareholding pattern (%)

	Dec-12	Sep-12	Dec-11
Promoter	52.5	52.5	52.5
Domestic Inst	17.0	15.7	16.6
Foreign	17.3	18.6	18.2
Others	13.2	13.2	12.8

### Stock performance (1 year)





## Financials and valuations

Income Statement		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
<b>Total Revenues</b>	<b>46,050</b>	<b>51,541</b>	<b>58,262</b>	<b>64,309</b>	
Cost of Energy purchased	6,361	8,500	11,250	13,950	
Cost of fuel	17,620	17,873	18,869	19,812	
Stores & spares	2,881	2,953	3,248	3,573	
Employee Expenses	4,710	5,416	5,958	6,553	
SG&A Expenses	3,657	4,818	5,778	6,642	
<b>EBITDA</b>	<b>10,822</b>	<b>11,981</b>	<b>13,159</b>	<b>13,778</b>	
% of Total Revenues	23.5	23.2	22.6	21.4	
Depreciation	2,900	3,088	3,323	3,518	
Interest	2,758	3,427	3,874	3,919	
Other Income	1,769	1,835	2,193	2,551	
<b>PBT</b>	<b>6,933</b>	<b>7,301</b>	<b>8,156</b>	<b>8,892</b>	
Tax	1,390	1,464	1,635	1,783	
Rate (%)	20.0	20.0	20.0	20.0	
Reported PAT	5,543	5,837	6,521	7,110	
<b>Adjusted PAT</b>	<b>5,543</b>	<b>5,837</b>	<b>6,521</b>	<b>7,110</b>	
Change (%)	18.7	5.3	11.7	9.0	

\* Excl Spencers; fully diluted

Balance Sheet		(INR Million)			
Y/E March	2012	2013E	2014E	2015E	
Share Capital	1,256	1,256	1,256	1,256	
Reserves and Surplus	47,304	52,425	58,230	64,624	
Revaluations Reserves	11,558	10,980	10,431	9,909	
<b>Share Holder Funds</b>	<b>60,118</b>	<b>64,661</b>	<b>69,917</b>	<b>75,789</b>	
LT Borrowings	21,671	36,766	36,973	38,498	
Advance against Depreciation	5,660	5,660	5,660	5,660	
Consumer Security Deposits	10,509	11,034	11,586	12,165	
Other LT Liabilities	7,997	7,997	7,997	7,997	
LT Provisions	893	1,027	1,129	1,242	
<b>Non Current Liabilities</b>	<b>46,730</b>	<b>62,484</b>	<b>63,345</b>	<b>65,563</b>	
ST Borrowings	4,328	4,111	3,700	3,330	
Trade Payables	2,910	3,449	3,898	4,303	
Other Current Liabilities	12,305	13,092	14,046	14,912	
ST Provisions	884	989	1,118	1,234	
<b>Current Liabilities</b>	<b>20,427</b>	<b>21,641</b>	<b>22,762</b>	<b>23,780</b>	
<b>Total Equity &amp; Liabilities</b>	<b>127,274</b>	<b>148,786</b>	<b>156,024</b>	<b>165,132</b>	
Fixed Assets	80,915	83,783	86,926	89,908	
Non Current Investments	10,482	16,699	17,878	18,649	
LT Loan and Advances	695	695	695	695	
Other Non Current Assets	50	50	50	50	
<b>Non Current Assets</b>	<b>92,142</b>	<b>101,227</b>	<b>105,550</b>	<b>109,302</b>	
Current Investments	850	850	850	850	
Inventories	2,947	2,972	2,981	2,973	
Trade Receivables	9,770	12,003	12,770	12,686	
Cash and Bank Balance	8,598	17,478	18,508	22,856	
ST Loan and Advances	12,215	13,415	14,415	15,415	
Other Current Assets	752	841	951	1,050	
<b>Current Assets</b>	<b>35,132</b>	<b>47,559</b>	<b>50,474</b>	<b>55,829</b>	
<b>Total Assets</b>	<b>127,274</b>	<b>148,786</b>	<b>156,024</b>	<b>165,132</b>	

E: MOSL Estimates; \* Fully Diluted

Ratios					
Y/E March	2012	2013E	2014E	2015E	
<b>Basic (INR)</b>					
EPS *	44.1	46.5	51.9	56.6	
CEPS	67.2	71.1	78.4	84.6	
Book Value	386.6	427.4	473.6	524.5	
DPS	5.0	6.0	7.0	8.0	
Payout (incl. Div. Tax.)	11.3	12.9	13.5	14.1	
<b>Valuation (x)</b>					
P/E	7.2	6.8	6.1	5.6	
EV/EBITDA	5.2	5.2	4.6	4.2	
EV/Sales	1.2	1.2	1.0	0.9	
Price/Book Value	0.8	0.7	0.7	0.6	
Dividend Yield (%)	1.6	1.9	2.2	2.5	
<b>Profitability Ratios (%)</b>					
RoE	12.1	11.4	11.5	11.3	
RoCE	10.6	10.1	10.1	10.1	
<b>Turnover Ratios</b>					
Debtors (Days)	82	85	80	72	
Inventory (Days)	67	61	58	55	
Asset Turnover (x)	0.6	0.7	0.7	1.6	
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.5	0.8	0.7	0.6	

Cash Flow Statement		(INR Million)			
	2012	2013E	2014E	2015E	
<b>PBT before EO Items</b>	<b>6,933</b>	<b>7,301</b>	<b>8,156</b>	<b>8,892</b>	
Add : Depreciation	2,900	3,088	3,323	3,518	
Interest	2,758	3,427	3,874	3,919	
Less : Direct Taxes Paid	1,390	1,464	1,635	1,783	
(Inc)/Dec in WC	-1,336	-3,669	-4,433	-4,423	
<b>CF from Operations</b>	<b>9,865</b>	<b>8,684</b>	<b>9,284</b>	<b>10,124</b>	
<b>CF from Op. incl EOI</b>	<b>9,865</b>	<b>8,684</b>	<b>9,284</b>	<b>10,124</b>	
(Inc)/dec in FA	-3,561	-2,868	-3,143	-2,982	
(Pur)/Sale of Investment:	-1,939	-6,217	-1,180	-770	
<b>CF from Investments</b>	<b>-5,499</b>	<b>-9,085</b>	<b>-4,323</b>	<b>-3,752</b>	
(Inc)/Dec in Net Worth	-690	0	0	0	
(Inc)/Dec in Debt	-1,174	-15,095	-207	-1,526	
(Inc)/Dec in Customer Ser	-1,154	-525	-552	-579	
Less : Interest Paid	2,758	3,427	3,874	3,919	
Dividend Paid	716	716	716	716	
<b>CF from Fin. Activity</b>	<b>-4,156</b>	<b>9,281</b>	<b>-3,931</b>	<b>-2,023</b>	
<b>Inc/Dec of Cash</b>	<b>210</b>	<b>8,880</b>	<b>1,030</b>	<b>4,348</b>	
Add: Beginning Balance	8,388	8,598	17,478	18,508	
<b>Closing Balance</b>	<b>8,598</b>	<b>17,478</b>	<b>18,508</b>	<b>22,857</b>	

**N O T E S**

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