

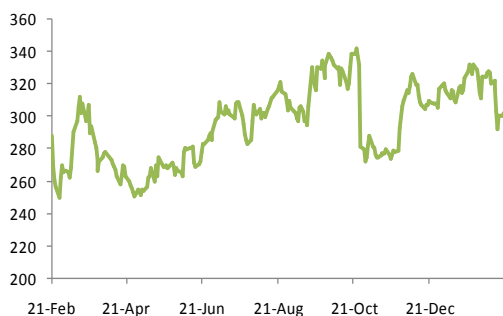
CESC Ltd.

Recommendation	HOLD
CMP	Rs. 300
Target Price	Rs. 331
Sector	Power Utility

Stock Details

BSE Code	500084
NSE Code	CESC
Bloomberg Code	CESC IN
Market Cap (Rs cr)	3,748
Free Float (%)	47.5
52- wk HI/Lo (Rs)	345/243
Avg. volume BSE (Quarterly)	59,175
Face Value (Rs)	10
Dividend (FY 12)	50%
Shares o/s (Cr)	12.6

Relative Performance	1Mth	3Mth	1Yr
CESC	-7.7%	10.4%	5.0%
Sensex	-2.3%	7.1%	6.6%

Shareholding Pattern 31st Dec'12

Promoters Holding	52.5%
Institutional (Incl. FII)	33.6%
Corporate Bodies	7.3%
Public & Others	6.6%

Shraddha Shah (+91 22 3926 8174)
shraddha.shah@nirmalbang.com

Sunil Jain, HOR (Retail) (+91 22 3926 8196)
sunil.jain@nirmalbang.com

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	13.6	1.09
FY 12A	5892	14	972	16.5	246	4.1	19.7	15.2	1.02
FY 13E	9203	56	1296	14.1	312	3.4	25.0	12.0	0.81
FY 14E	10979	19	1809	16.5	363	3.3	29.0	10.3	0.76

PAT below expectations; continue to maintain Hold

CESC's Q3FY13 performance was below expectations with revenue growing by 5.8% yoy and PAT growing 36.5% yoy aided by margin expansion at operating level. Firstsource Solutions' open offer has been completed and management is optimistic about the company based on its improved sales figures and margins.

Revenue grew by 5.8% yoy to Rs 1,040 cr led by higher realizations which was partly offset by lower PLFs as severe winter impacted demand.

EBITDA at Rs 266 cr was up by 24.9% yoy. EBITDA margin expanded 390bps to 25.6% as compared to 21.7% in Q2FY12 due to lower raw materials costs and lower T&D losses (12.0% for Q3FY13 as compared to 12.8% in Q3FY12).

PAT for the quarter was Rs 101 cr, up by 36.5% yoy. PAT margin was at 9.5% for the quarter which is significant improvement from 7.4% in Q3FY12.

CESC has taken tariff hike of 8 paise in January 2013 which should aid margin growth in the coming quarter.

Spencer's average sales have increased from Rs 1087/sq ft in 9mFY12 to Rs 1230/sq ft in 9mFY13, a growth of 13.2%. Same stores sales grew from Rs 1124/sq ft in 9mFY12 to Rs 1303/sq ft in 9mFY13, registering a growth of 16%. Spencer's has made a store level EBITDA of Rs 51/sq ft per month in Q3FY13. Management expects Spencer to breakeven by Q4FY14.

CESC has won the distribution franchisee for Ranchi, Jharkhand via a competitive bidding. Formal handover would take place over next 6 months. The Ranchi distribution circle currently has an annual revenue Rs 400 cr and around 3 lakh consumers. CESC will earn from bringing down the T&D losses (which are currently ~50%).

Management has said that Firstsource Solutions (FSL) sales are looking better than expected and margins are also looking better than what they had estimated.

Valuation & Recommendation

Stable earnings from standalone business, improvement in performance of Spencer Retail and upcoming commissioning of Chandrapur power project should support the stock price in the near term.

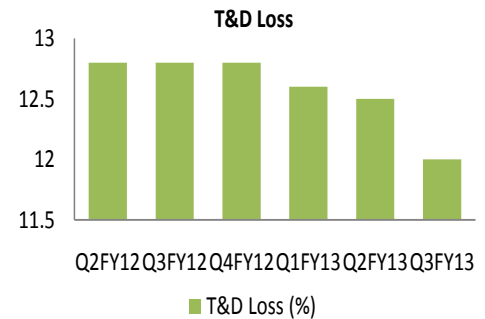
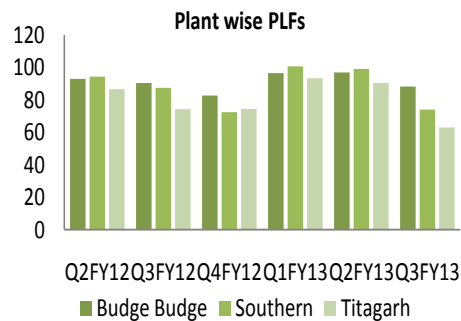
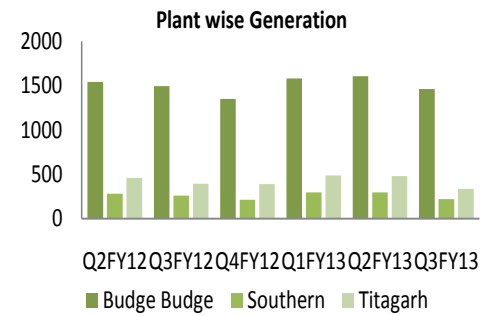
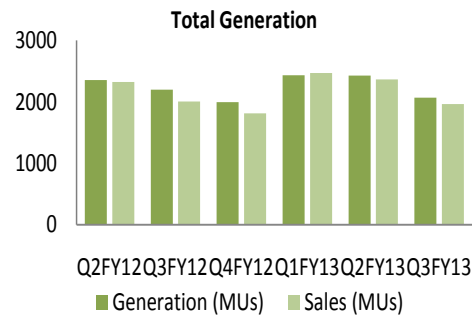
At the CMP, the stock trades at 0.76x its FY14E book value per share. We have valued the stock on SOTP basis with its Kolkata regulated business valued at 1.1x its FY14E regulated equity for Rs 263, Haldia & Chandrapur valued at 0.8x equity invested for Rs 52, Real estate business at Rs 10 and FSL at Rs 6, to arrive at our target price of Rs 331. We recommend investors to **HOLD** the stock for a potential upside of 11%.

CESC Ltd.

Q3FY13 – Result Update

	Q3FY13	Q2FY13	Q-o-Q	Q3FY12	Y-o-Y
Net Revenue	1,040	1,344	-23%	983	6%
Operating Exp.	774	1,033	-25%	770	1%
EBITDA	266	311	-14%	213	25%
EBITDA (%)	25.6%	23.1%	244 bps	21.7%	391 bps
Depreciation	77	76	1%	75	3%
EBIT	189	235	-20%	138	37%
EBIT (%)	18.2%	17.5%	69 bps	14.0%	413 bps
Interest	86	89	-3%	66	30%
Other Income	24	24	0%	20	20%
Exceptional Items	0	0	NA	0	NA
PBT	127	170	-25%	92	38%
Tax Provision	26	34	-24%	18	44%
Tax Rate (%)	20.5%	20.0%	47 bps	19.6%	91 bps
Reported PAT	101	136	-26%	74	36%
PAT (%)	9.5%	9.9%	-45 bps	7.4%	211 bps
EPS	8.0	10.8	-26%	5.9	36%

Source: Company, Nirmal Bang Research



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CESC Ltd.

Project Updates

- Chandrapur power project (300x2 MW): CoD of 1st unit is expected as scheduled in April 2013 and of 2nd unit by July 2013
- Haldia power project (300x2 MW): The project is under construction stage and is expected to be commissioned by September 2014
- CESC Properties' Shopping Mall project is expected to be operational by June 2013 (from earlier April 2013 guideline)

Open Offer for Firstsource Solutions Ltd

CESC via its wholly owned subsidiary, SpenLiq has also completed the mandatory open offer for FSL wherein a total of 4,84,60,289 shares were tendered amounting to 7.36% of equity share capital of FSL for Rs 59.12 cr. Post the open offer, SpenLiq holds 56.9% stake in Firstsource Solutions Limited.

Total outflow till date for acquiring 56.9% stake in Firstsource Solutions has been to the tune of Rs 450 cr.

CESC Ltd.

Financials (Consolidated)

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
Cash EPS	47.1	46.4	62.0	79.8	Loans & Advances	578	743	958	1135
					Other Current Asset	54	77	285	343
					Current Liab & Prov	1148	1546	2085	2492
					Total Assets	9792	12085	16625	18412
Quarterly (Rs. Cr)*	Mar-12	Jun-12	Sep-12	Dec-12	Cash Flow (Rs. Cr)	FY11A	FY12A	FY13E	FY14E
Revenue	1379.0	1420.0	1344.0	1040.0	Operating				
EBITDA	432.0	290.0	311.0	266.0	Operating Income	865	972	1296	1809
Interest	65.0	78.0	89.0	86.0	Change in WC	-114	-208	-497	-234
Dep	72.0	77.0	76.0	77.0	Taxes Paid	-53	-149	-156	-177
Other Inc.	38.0	21.0	24.0	24.0	Other Adj	-198	348	258	300
Extraordinary	0.0	0.0	0.0	0.0	Minority Int	1	0	350	0
PBT	333.0	156.0	170.0	127.0	CF from Operation	502	963	1251	1698
Tax	67.0	31.0	34.0	26.0	Investment				
PAT	266.0	125.0	136.0	101.0	Capex	-842	-2598	-2095	-2120
EPS (Rs.)	21.1	9.9	10.8	8.0	Other Investment	20	241	0	0
					Total Investment	-822	-2357	-2095	-2120
Operational Ratio	FY11A	FY12A	FY13E	FY14E	Financing				
EBITDA margin (%)	16.7%	16.5%	14.1%	16.5%	Dividend Paid	-58	-73	-73	-73
PAT margin (%)	5.2%	4.1%	3.4%	3.3%	Share Capital	0	0	0	0
Price Earnings (x)	13.6	15.2	12.0	10.3	Premium / Reserve	49	80	-208	-14
Book Value (Rs.)	274.8	295.1	371.4	394.7	Borrowing	609	1659	799	1197
ROE (%)	8.1%	6.6%	7.1%	7.6%	Interest	-312	-345	-445	-729
ROCE (%)	6.8%	6.3%	5.8%	7.1%	Other Income	115	132	114	132
Debt Equity Ratio (x)	1.2	1.6	1.9	2.0	Total Financing	381	1427	160	485
Price / Book Value (x)	1.09	1.02	0.81	0.76	Net Chg. in Cash	61	34	-684	62
					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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Nirmal Bang Research (Division of Nirmal Bang Securities PVT LTD)

B-2, 301/302, Marathon Innova,
Opp. Peninsula Corporate Park
Off. Ganpatrao Kadam Marg
Lower Parel (W), Mumbai-400013
Board No. : 91 22 3926 8000/8001
Fax. : 022 3926 8010