

# CESC (CESC)

₹227

## Rating Matrix

Rating	: Buy
Target	: ₹302
Target Period	: 12 – 15 months
Potential Upside	: 33%

## YoY Growth (%)

	FY09	FY10	FY11	FY12E	FY13E
Revenues	14.4	3.8	17.6	14.5	17.8
EBITDA	-36.1	79.2	65.3	34.8	9.8
Net Profit	-71.0	102.9	75.9	42.2	4.3

## Current & target multiple

	FY09	FY10	FY11	FY12E	FY13E
P/E (x)	37.1	18.3	10.4	7.3	7.0
P/Adj.BV	1.0	0.9	0.8	0.8	0.7
EV/EBITDA (x)	17.2	11.5	7.7	7.2	8.6
RONW (%)	1.7	3.5	5.9	8.0	7.9
ROCE(%)	3.5	5.2	7.4	8.0	7.4

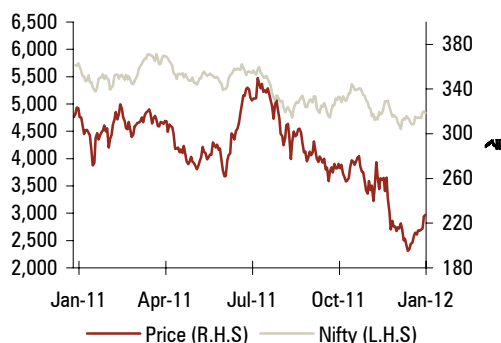
## Stock Data

Bloomberg/Reuters code	CESC.IN/ CESC.BO
Sensex	16189
Average volume	191040
Market Capitalisation	2860
EV (₹ crore)	5211
52 week H/L	367/186
Equity capital (₹ crore)	126
Face value (₹)	10
DII (%)	16.8
FII (%)	18.3

## Comparative return matrix (%)

	1M	3M	6M	12M
CESC	2.3	-15.4	-21.6	-36.4
Tata Power	6.2	-2.6	-22.1	-28.6
NTPC	-0.4	-4.3	-7.7	-12.0
Reliance Power	13.3	5.8	-23.2	-39.8
JSW Energy	6.2	-12.2	-37.2	-52.3
Adani Power	11.7	-3.6	-27.3	-34.8

## Price movement



## Analyst's name

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## Value play...

CESC is a unique distribution franchise play with back ended capacity additions. Robust cash flows from the distribution business compensate for the misadventure of diversification in retail (Spencer's). The operational capacity of CESC stands at 1225 MW with no merchant power exposure. The company plans to double its capacity (FY14-15) backed by fuel security. Unlike other power utilities, CESC is immune to the deteriorating financial health of SEBs since it buys power from them (to meet increasing demand for its distribution business). We believe the current market price reflects a negative valuation of the retail venture (Spencer's). However, current valuations at ~ 0.8x trailing adjusted book value fail to assign any value to 1) turnaround in Spencer's, FDI in retail (key catalyst), 2) capacity additions in FY14-15 & 3) possibility of acquiring a distribution franchise (that can increase RoEs). Hence, we are initiating coverage on the stock with a BUY rating and a target price of ₹ 302.

### Base business: A cash flow machine to fund growth plans

An integrated utility model supported by a 2.5 million customer base in Kolkata that generates ₹ 800-1000 crore of cash flow every year in the standalone business. This is sufficient to support the loss making retail venture and fund the upcoming projects of 1200 MW.

### Visible turnaround in retail business to re-rate perception

Various initiatives taken by CESC's management have helped the loss making retail business (Spencer's) to turn around consistently at the store level. Though the management expects an overall turnaround by FY14, we believe the same will happen by FY16 with reported EBITDA at ₹ 51 crore in FY16. This will be a big boon from an investor's perspective towards CESC.

## Valuations

Valuations at 0.8x and 0.7x FY12E and FY13E adjusted book value, respectively, seem unjustified given the presence of a solid integrated utility business, visible turnaround in the loss making retail venture and upcoming power capacity. Hence, we are initiating coverage on the stock with a BUY rating and a target price of ₹ 302 (based on SOTP valuations).

## Exhibit 1: Key financials (Consolidated)

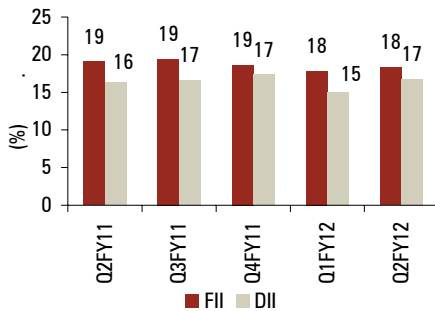
(₹ Crore)	FY10	FY11	FY12E	FY13E
Net Sales	4204	4943	5657	6666
EBITDA	455	753	1015	1114
Net Profit	157	277	393	410
EPS (₹)	12.4	22.1	31.4	32.8
PE (x)	18.1	10.3	7.2	7.0
EV/EBITDA (x)	11.4	7.6	7.1	8.2
P/Adj.BV (x)	0.9	0.8	0.8	0.7
RoNW (%)	3.5	5.9	8.0	7.9
RoCE (%)	5.2	7.4	8.0	7.4

Source: Company, ICICIdirect.com Research

**Shareholding pattern (%) (September 2011)**

Shareholder	Holding (%)
Promoters	52.5
Institutional investors	35.9
General public	11.6
Others	0.1

**FII & DII holding trend (%)**



**Company background**

CESC is a fully integrated power utility engaged in the generation and distribution of electricity across 567 sq km of licensed area in Kolkata, West Bengal since 1899 serving 2.5 million consumers. This includes domestic, industrial and commercial users.

CESC owns and operates four thermal power plants generating 1,225 MW power. These are the Budge Budge generating station (750 MW), Southern generating station (135 MW), Titagarh generating station (240 MW) and New Cossipore generating station (100 MW). CESC owns and operates the T&D system, which comprises 474 km circuit of transmission and 85 distribution stations; 3,837 km circuit of high tension (HT) lines further linking distribution stations with low tension (LT) substations, large industrial consumers and 9,867 km circuit of LT lines connecting the LT substations to LT consumers.

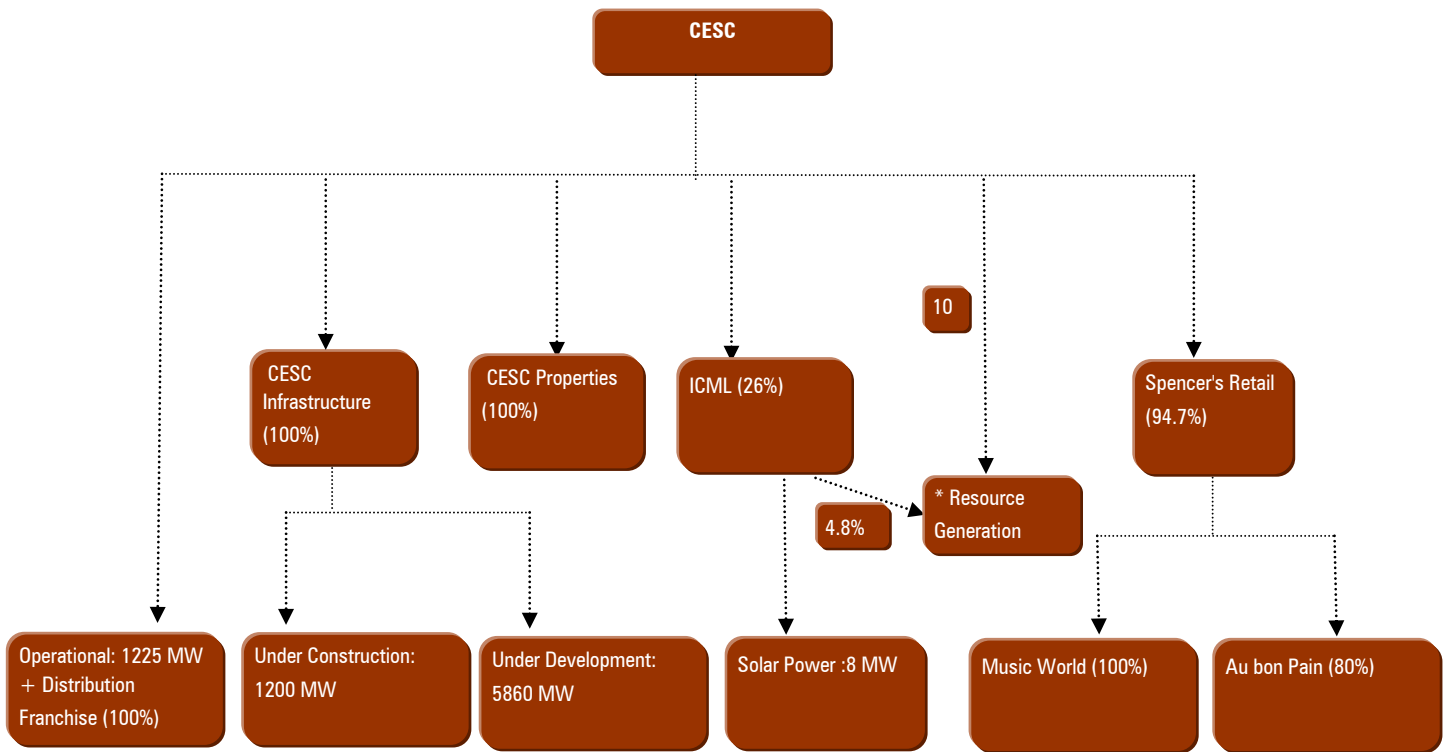
Besides power generation and distribution, the company ventured into organised retail via Spencer's Retail. As on September 2011, the company owns 195 stores spanning 9,96,000 sq ft. Music World Retail is a wholly owned subsidiary of Spencer's Retail having 92 stores across India selling all genres of music albums, movies and books. Au Bon Pain, another subsidiary of Spencer's Retail, caters to the retail and fast food segment. It is a master franchise of ABP Corporation, US.

In FY10, the company entered the real estate business through CESC Properties. Through this subsidiary, CESC is currently developing a 0.4 million sq ft luxury mall on a 3 acre land parcel in Central Kolkata. The mall is being constructed by Larsen & Toubro.

In September 2010, an affiliate company of power producer CESC Ltd inked an offshore coal procurement contract with Resource Generation (RGL) to purchase 37 million tonne (MT) of coal over 20 years from RGL's Boikarabelo mine in South Africa. Integrated Coal Mining Ltd (ICML) will purchase 1 MT of thermal coal per annum for three years and two MTPA for a further 17 years. This was recently increased to 139 MT over 38 years – 73 MT in phase-I and 66 MT in phase-II. CESC currently holds 11.6% in RGL. The coal will feed future greenfield projects in Haldia in Bengal and Chandrapur in Maharashtra of RPG flagship CESC.

The company has 1200 MW under construction and 3240 MW under development while ~5860 MW is under the planning stage.

**Exhibit 2: Overview of CESC**



Source: Company, ICICIdirect.com Research

\* CESC recently acquired 4.6% in resource directly. Effectively stake of CESC directly and via ICML is 11.6%

**Exhibit 3: Profile of senior management team**

Name	Designation	
Sumantra Banerjee	Managing Director	Mr Banerjee is a B Tech (Hons), MS (US) and MBA (US). He has 38 years of experience in India and abroad in manufacturing, engineering, finance, marketing, retail and general management functions. He has been the company's Managing Director since 1993. He is also the President and Chief Executive of Spencer's Retail
Anup Bhargav	President , New Business Development	He is a power and utility professional with over 24 years experience in Asia Pacific. Before joining CESC, he was the Asia Commercial Director - GE Power and Water, based in Singapore
Subrata Talukdar	ED, Finance	He is a qualified chartered accountant and alumni of Kellogg School of Management, US. He has over 28 years of experience in project finance and has played a key role in financing Budge Budge units 1, 2 and 3, DIL and HEL. He joined the group in 1985 and is a core member of the corporate strategy team
Jayanta Chakrabarty	ED, Projects	He has over 30 years of experience in project and general management. He joined the group in 1970 and has successfully implemented the 250 MW 3rd unit at Budge Budge. Currently, he is in-charge of the new power and related projects in West Bengal
Utpal Bhattacharyya	ED, Corp. Ser and System Operation	He has 30 years of experience in various fields of power. He joined the group in 1980 and is currently in charge of all regulatory affairs including the company's interface with state/central commissions. He is also in charge of system operations (load dispatch), coal procurement and the legal department

Source: Company, ICICIdirect.com Research

## Investment Rationale

The power sector in India is grappling with a lot of difficulties ranging from shortages of fuel linkage for new upcoming power plants, increasing cost of imported coal, deteriorating financial health of SEBs and subsequent back downs, delay in getting various clearances (land & environmental clearances), financial closure of new projects and deteriorating economics for merchant utilities. This has turned investors highly cautious on the sector and on the companies operating within it.

However, even in a such a grim situation, opportunities exist for investors to take exposure to power utilities, which possess an integrated business model (has generation, transmission and distribution assets housed together under one roof), have minimal exposure to merchant capacity, least exposure to SEBs, have secured fuel supplies for existing projects as well as those under construction (either via linkage or captive coal block) and possess all necessary legal and environmental clearances. Hence, this ensures timely execution of the projects under implementation. *We believe CESC is one such utility that scores well on the parameters discussed above.*

**Rock solid base business: A cash flow machine to support future growth**

**Exhibit 4: Profile of the existing generation assets in Kolkata.**

Location	(MW)	Off take agreement	Comments
Budge Budge	750	Integrated business model	3rd plant of 250 MW was recently commissioned in FY10. The plant recorded a PLF of 83% in FY11
Titagarh	240	Integrated business model	4X60 MW capacity plant recorded a PLF of 89% in FY11.
Southern	135	Integrated business model	in FY10
New Cossipore	100	Integrated business model	It is a 61 year old plant which is used as peaking power plant
Total	1225		

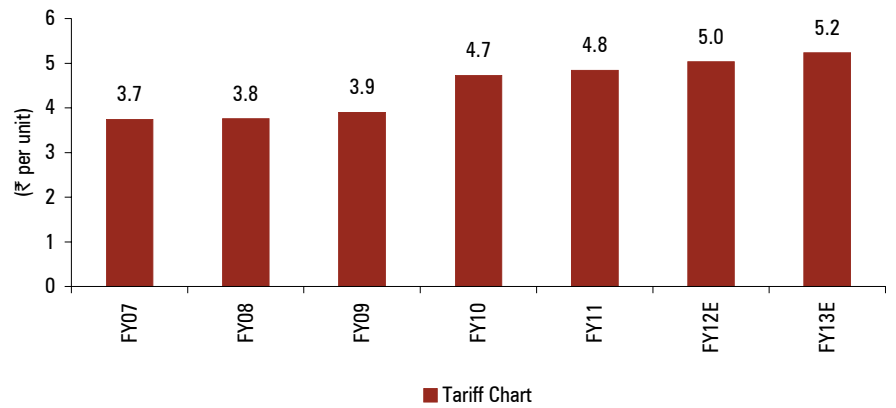
Source: Company, ICICIdirect.com Research

Integrated business model; RoE of 20-25% from standalone business due to higher PLFs, reduction in AT & C losses

The integrated utility model, therefore, places CESC in a very favourable position as the regulated business gets an assured RoE of 14% after tax for the generation assets and an RoE of 15% after tax for the transmission and distribution (T&D) business as these assets are regulated by the West Bengal Electricity Regulatory Commission (WBERC). However, the core RoEs for the integrated business ranged between 20% and 25% over FY07-FY11 on account of 1) consistently operating at better PLFs, 2) timely revision of tariffs, 3) steady growth in volume off take and 4) optimum reduction in T&D losses from 13.9% in FY08 to 12.9% in FY11.

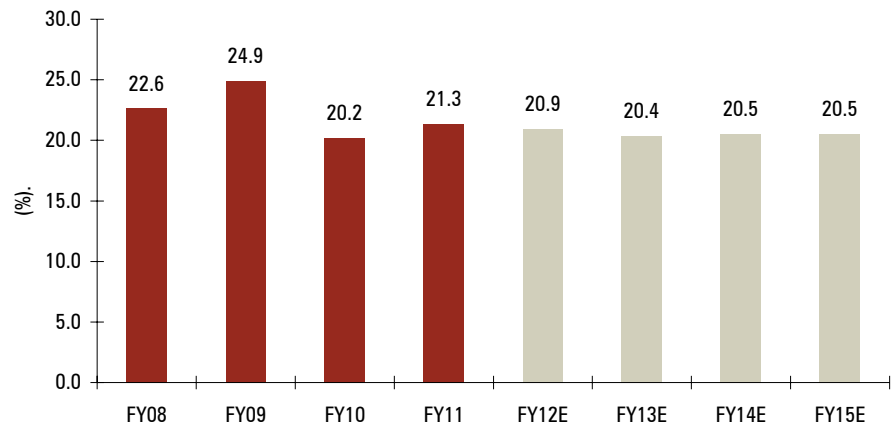
**Exhibit 5: Steady improvement in tariffs going forward**

The regulator has approved tariff increases every year in line with increase in coal costs



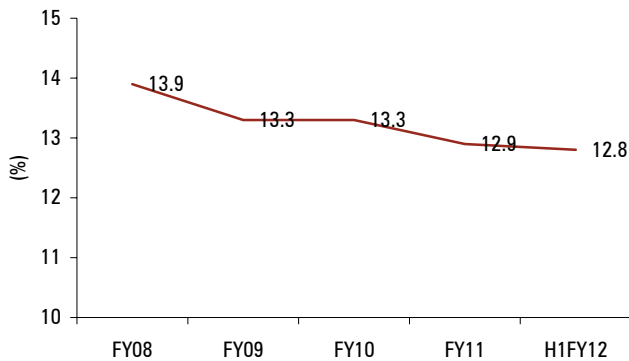
Source: Company, ICICIdirect.com Research

**Exhibit 6: Trend in regulated RoE in standalone business robust as...**



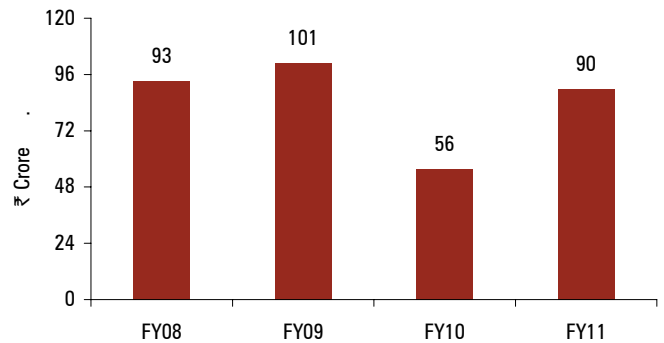
Source: Company, ICICIdirect.com Research

**Exhibit 7: ...continuous improvement in AT&C losses...**



Source: Company, ICICIdirect.com Research

**Exhibit 8: ... has enabled CESC to earn robust incentives**

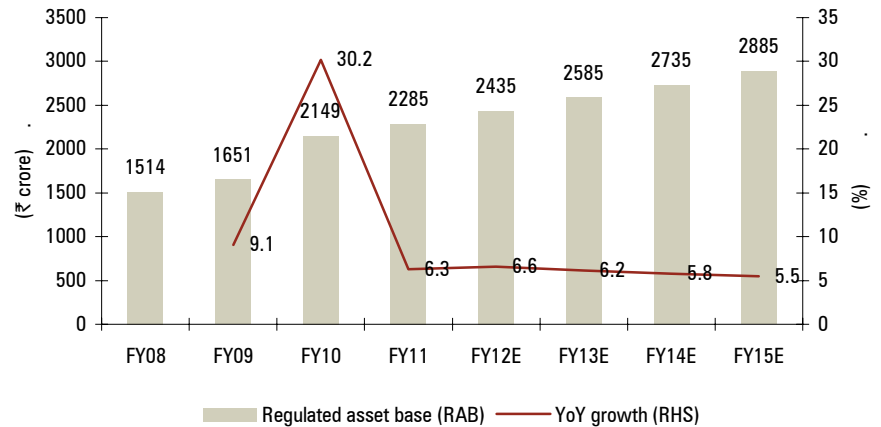


Source: Company, ICICIdirect.com Research

Regulated asset base is expected to grow at 6.3% over next 2 years. The company would incur a capex of ₹ 500 crore every year for next 2 years

Also, the 1.5x rise in regulated assets, from ₹ 1584 crore in FY08 to ₹ 2285 crore in FY11, is clearly indicative of the fact that CESC has consistently invested in creating efficient capacity in the distribution side of the business in order to pare down T&D losses and, in turn, earn incentives. Going ahead, the management has indicated that CESC would be incurring a capex of ₹ 500 crore every year, mainly on the distribution, side (equity contribution of ₹ 150 crore). We estimate the regulated asset base will increase at a CAGR of 6.3% over FY11-FY13E to ₹ 2585 crore.

**Exhibit 9: Regulated asset base to grow at a CAGR of 6.3% over FY11-13E**



Source: Company, ICICIdirect.com Research

### Generation assets have secured fuel supply

CESC's generation assets are supported by a diversified source of fuel, including access to captive generation, linkage fuel (from Coal India subsidiary) and imports. We do not perceive fuel supply to be a high risk for the regulated business. Geographical composition of fuel sourcing for the generation assets from domestic and imported stands at 91% and 9% respectively. The company's yearly requirement is 5.7 million tonne (MT). Of these, 3 MT comes from captive coal blocks (owned by the promoter group), 2.2 MT from Coal India while the balance is imported.

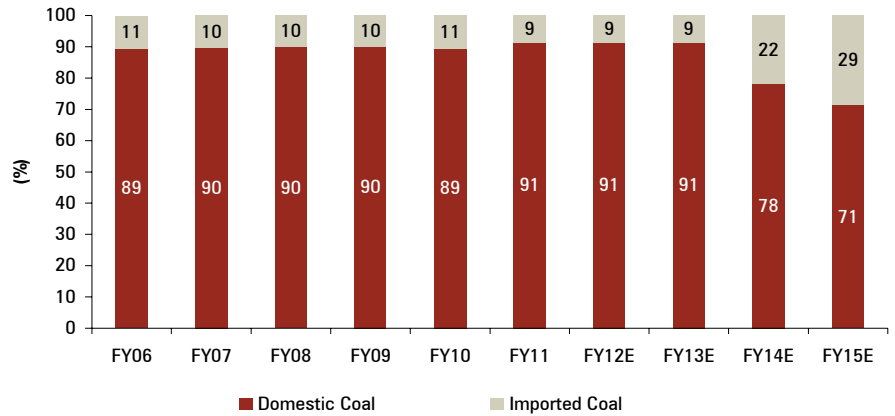
With capacity addition in FY14, we expect the share of imported coal to rise from the current 9% to >20% from FY14E onwards. Though the company has obtained a letter of assurance (LoA) from Coal India, recent developments of private IPPs (Independent Power Producers) have shown that in the best case the company would be getting 50% of 80% PLF from Coal India. As a result, the share of imported coal is expected to increase from FY14 onwards.

In order to meet future fuel requirements, the company has signed an agreement for offshore coal procurement contract with **Resource Generation (RGL) to purchase 139 MT of coal over 20 years from RGL's Boikarabelo mine in South Africa.** – 73 MT in phase-I and 66 MT in phase-II.

Higher operational PLFs due to captive mines and supply from Coal India

Investment in Resource Generation to mitigate fuel security risk for upcoming power projects

**Exhibit 10: Fuel mix of CESC - between domestic and imported**



Share of imported coal to increase in FY14, as capacity addition kicks in

Source: Company, ICICIdirect.com Research

**Exhibit 11: Imported coal sources (million tonnes)**

	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E	FY15E
Imported Coal	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	1.9	3.2
Open market purchases	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.9	2.2
Long term contract	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0

Source: Company, ICICIdirect.com Research

**Exhibit 12: Fuel source for current and upcoming projects (million tonnes)**

	Kolkata Utility	Chandrapur - 600 MW	Haldia - 600 MW
Total Requirement	5.7	2.7	2.7
Domestic Coal	5.2	1.4	1.4
Imported Coal	0.5	1.4	1.4
<i>Open market purchase</i>	0.5	0.4	1.4
<i>Long term contract</i>	0.0	1.0	0.0

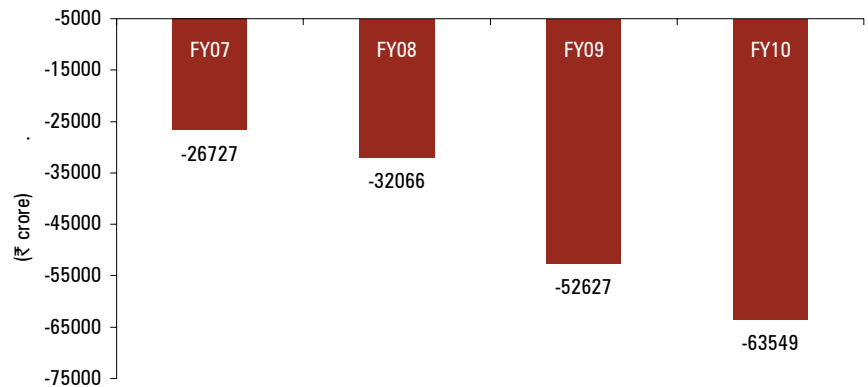
Source: Company, ICICIdirect.com Research

**Exposure to West Bengal SEB & Regulator: A positive in tough times**

SEBs have remained in the headlines as the swelling losses of these utilities are creating a lot of hurdles for the power companies in the form of:

- Erratic trend in purchase of power from generation stations, thereby leading to back downs by SEBs towards buying expensive power
- Deterioration of receivable days as SEBs are facing a significant mismatch in their cash flows as discipline in hiking power tariffs has not been followed

**Exhibit 13: Losses for SEBs in India swelling over last few years**



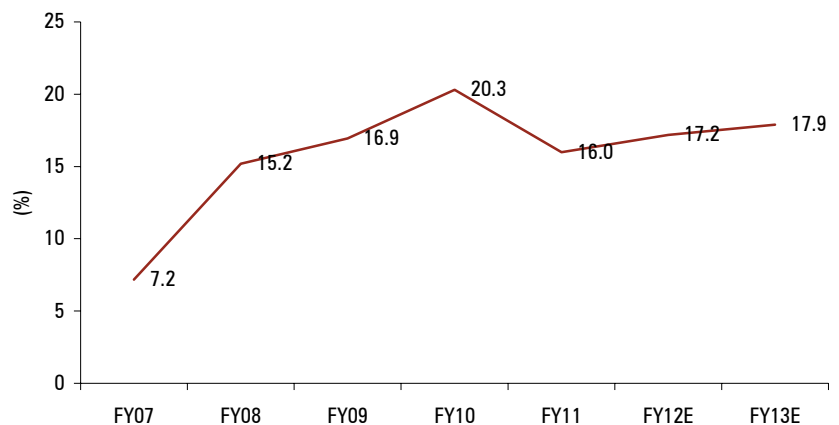
Source: PFC, ICICIdirect.com Research

We believe that CESC remains insulated from the hurdles created by SEBs as CESC’s integrated business model requires the distribution company to meet majority of its power requirement from the internal generation asset. Hence, CESC is only able to meet about 70% of the total peak period demand of over 1600 MW. It also appears that West Bengal is one of the better states to own distribution assets as it exhibits:

- Low base load deficit coupled with more power consumption skewed towards industry and household as against the trend of other states where agriculture occupies a significant share in overall power consumption
- Positive spread between average cost of supply and average revenue realisations

As discussed above, CESC is a buyer of electricity from SEBs unlike its other peers that are net sellers to SEBs. On an average, CESC’s power purchase requirement in the overall power sold by CESC has ranged between 15% and 20% over FY08-FY11. Going ahead, with rising power requirement in the license area, we expect the power purchase requirement to rise to 17-18% over FY12E-FY13E, indicating a rising dependence on power purchase from SEBs and other sources.

**Exhibit 14: Power purchased as percentage of overall power sold**

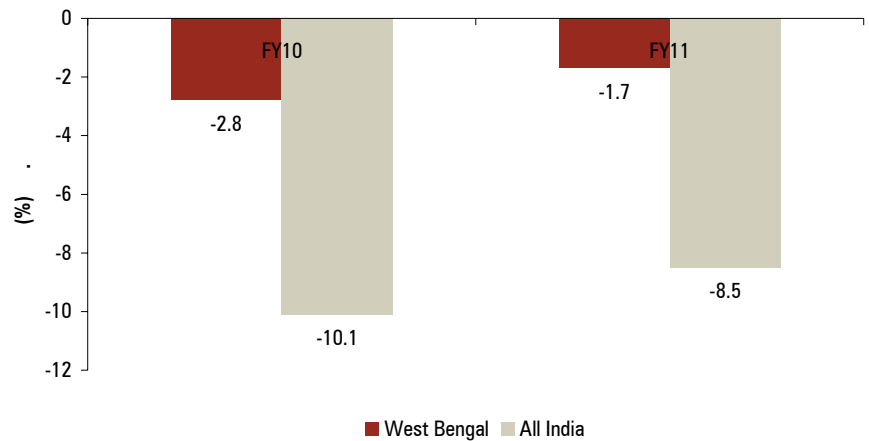


Source: Company, ICICIdirect.com Research

Demand is skewed towards industry and households and less towards agriculture

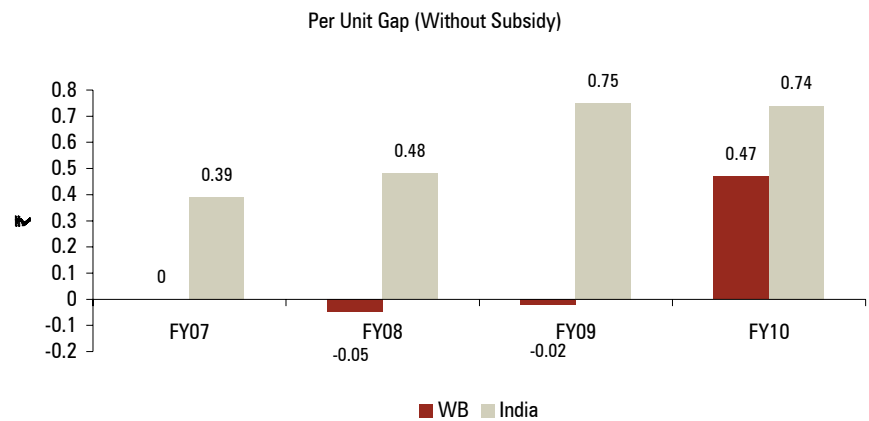
CESC buys power from SEB since it is able to meet only 70% of peak demand – 1600 MW

**Exhibit 15: Base load deficit in West Bengal vis-à-vis all-India average**



Source: Company, ICICIdirect.com Research

**Exhibit 16: Spread between cost of selling power and average realisations in WB and all-India**

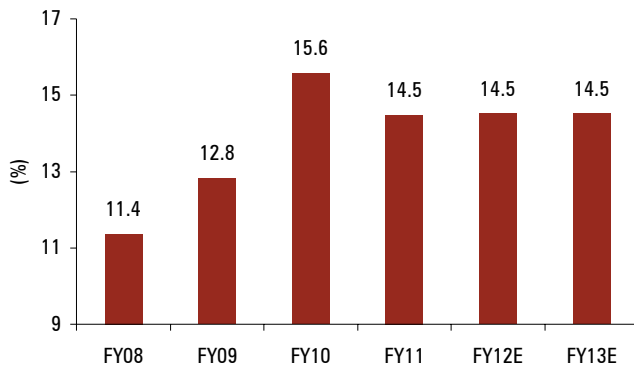


Source: Company, ICICIdirect.com Research

No deterioration in debtor days of CESC since in buys power from SEB unlike other utilities

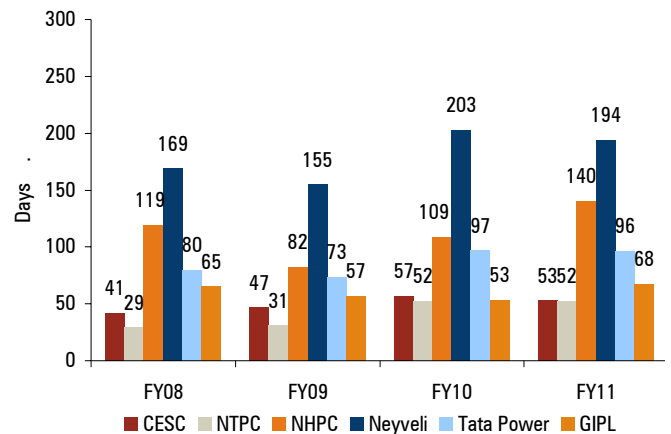
In addition, receivables days have been quite stable for CESC over the last few years, thereby indicating that CESC has least exposure to SEBs (hence no deterioration of receivables) as debtors as a percentage of sales has ranged between 11% and 15% over FY08-FY11. We expect the same to remain steady at 14.5-15% levels over FY12E-FY13E. Coupled with this, the integrated business model ensures optimum working capital management as CESC is better off in terms of debtor days when compared to its peers wherein debtor days are as high as 150-200 days as compared to average 40-50 days receivable cycle for CESC.

**Exhibit 17: Debtors highly stable indicating timely receipt of dues**



Source: Company, ICICIdirect.com Research

**Exhibit 18: CESC better off than peers in terms of receivable cycle**



Source: Company, ICICIdirect.com Research

CESC's regulated business model is governed by WBERC norms. We believe WBERC has played an important role in issuing tariff orders. This will, in turn, help CESC to revise tariff on a consistent basis.

**Exhibit 19: Issuance of tariff hike orders by WBERC**

Year	Date
FY07	August-06
FY08	August-07
FY09	August-08
FY10	July-09
FY11	July-10

Source: Company, ICICIdirect.com Research

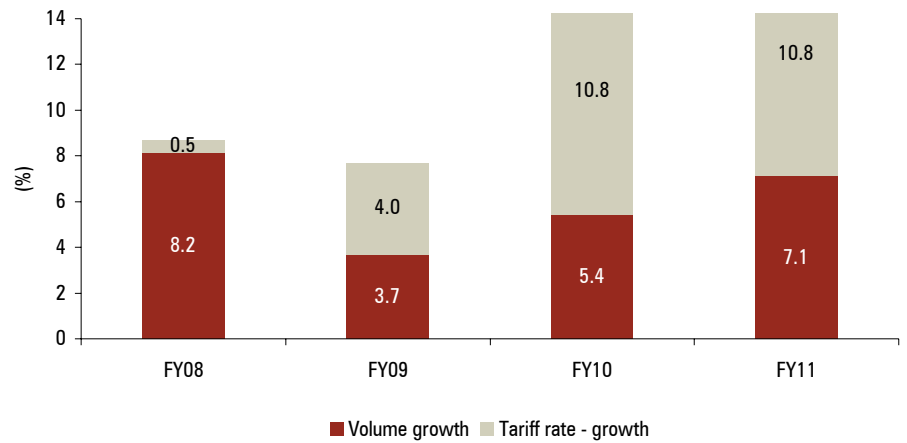
Regular Tariff hikes prevents any cash flow mismatch

Robust cash flow generation via volume and tariff led growth

**Base business a cash flow machine to fund future growth...**

On a standalone basis, the standalone utility business generates robust cash flows for CESC. In FY11, the cash flow from operations (CFO) stood at ₹ 1001 crore, which takes care of the losses that are recorded in the retail business (Spencer's Retail). Going ahead, a rise in power consumption in the West Bengal (rise in volume and expansion of consumer base) coupled with a gradual rise in tariffs will ensure steady CFO for CESC. This will act as a good hedge against the loss making retail venture and will also take care of the equity requirement in the upcoming power plants in Chandrapur (2x300 MW) and Haldia (2X300 MW).

**Exhibit 20: Volume and tariff led growth = Key drivers for steady cash flows for CESC**

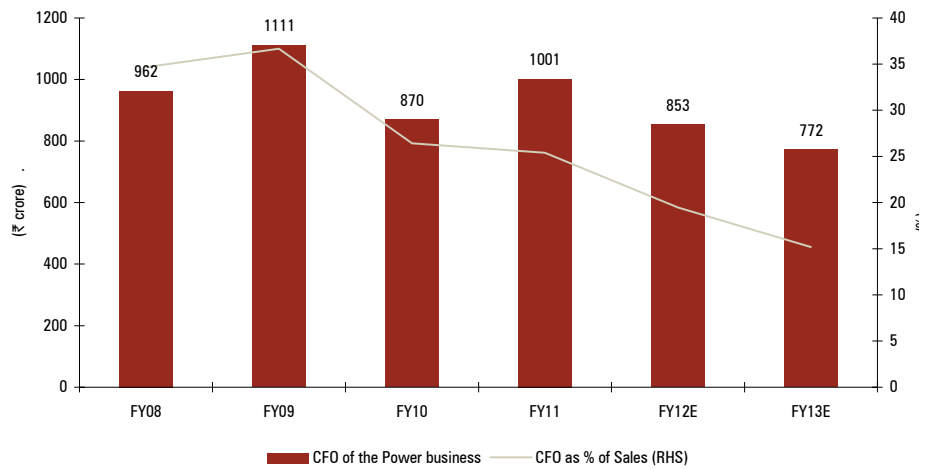


Source: ICICIdirect.com Research

We estimate a CFO (standalone) of ₹ 853 crore and ₹ 772 crore in FY12E and FY13E, respectively. This is against the estimated incremental capex on retail business and equity requirement for projects under construction (cumulative requirement of ₹ 1644 crore over FY12E-FY13E to absorb the retail capex [₹ 706 crore over FY12E-FY13E] and equity requirement for expansion projects [₹ 600 crore for FY12E-FY13E]).

Standalone business to generate cash of ₹ 700 – 800 crore enough to fuel equity contribution for 1200MW

**Exhibit 21: Trend in CFO from standalone utility business**



Source: Company, ICICIdirect.com Research

Capacity set to double by 2015

### 2x of capacity by FY15 to lead to gradual improvement in RoE profile

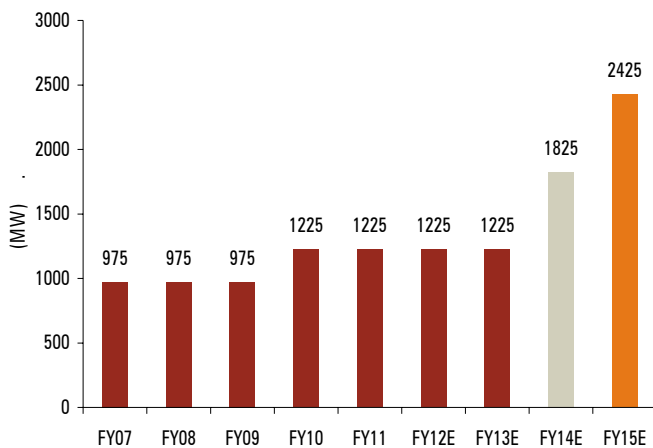
CESC has chalked out expansion plans wherein its plans to add another 4620 MW of incremental capacity by FY16-FY18, which are in the construction and planning stage. Out of these, Chandrapur (2x300 MW) and Haldia (2X300 MW) projects are under construction and are expected to get commissioned by FY14 and FY15, respectively. This will lead to a 2x rise in generation capacity for the company by FY15 to 2425 MW. Also, since some part of the incremental capacity will be solely in the spot market, CESC's exposure to the merchant power market will rise from 0% in FY11 to 16% in FY14. It can inch up to 19% in FY15 with the commissioning of the Haldia project.

#### Exhibit 22: Specifics of projects under construction

	Chandrapur , Maharashtra	Haldia Phase 1 West Bengal
Configuration	2 units of 300 MW each	2 units of 300 MW each
% ownership	100	100
Commissioning date	FY14	FY15
Business Model	Cost plus regulated model in case of PPA + merchant power	Cost plus regulated model (15.5% + incentives)
Fuel source	Coal linkage with Coal India	Coal from Mahanadi Coalfields (70%), Balance 30% imported coal
GCV	3000	3000
SHR	2400	2400
Tariff Structure	Bidding for Case 1 PPA for 50% - 300 MW with MSDECL, balance merchant	PPA with CESC for 450 MW, balance yet to be tied up
Project cost	₹ 2950 crore; (D/E: 75:25)	₹ 3300 crore; (D/E: 75:25)
Amount Spent (till Nov 11)	Debt drawn – ₹ 370 crore, equity invested – ₹ 380 crore	Debt drawn –NIL ; Equity –₹ 150 crore
Cost of Borrowing	Currently borrowing at 12% - floating rate	Currently borrowing at 12% - floating rate
Aux. Consumption	10%	10%

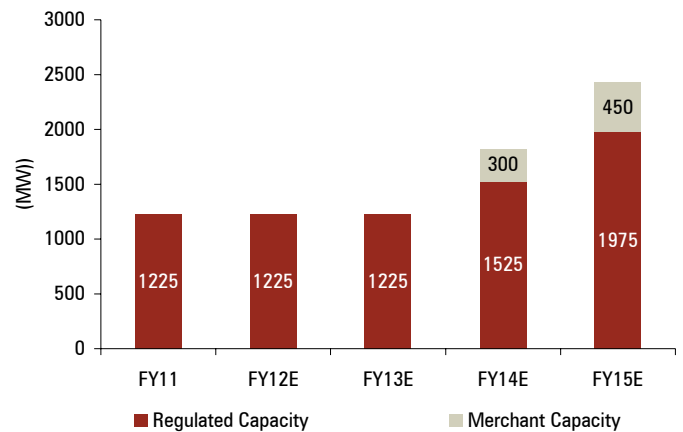
Source: Company, ICICIdirect.com Research

#### Exhibit 23: Capacity to rise by 2x by FY15...



Source: Company, ICICIdirect.com Research

#### Exhibit 24: Share of merchant capacity to rise to 19% by FY15E



Source: Company, ICICIdirect.com Research

Though CESC houses a stable cash generating utility business, the RoE thus attained is not attractive as CESC has not incurred any significant capex over the last one year, leading to lower asset capitalisation (FY10 is an exception wherein CESC commissioned the third unit of 250 MW Budge Budge station), which is reflected in the relatively low regulated equity base. Going ahead, this is set to gradually change as a rise in capacity by 2x and ~19% exposure to merchant rates will lead to an improvement in the RoE profile of the company, given that retail losses remain stable or decline from current levels.

### Adequately funded for 1200 MW

The following tables would show that the company is adequately funded for the incremental addition of 1200 MW. For projects under construction, we believe the company would require equity infusion in the future.

**Exhibit 25: Equity funding status for next two years**

	Capacity (MW)	Project cost (₹ crore)	Equity Req. (₹ crore)	FY11		Balance Equity infusion after			Balance equity (₹ crore)
				Equity Infused (₹ crore)	Balance Equity infusion after FY11 (₹ crore)	FY12	FY 13		
Chandrapur	600	2950	738	380	358	0	100	258	
Haldia	600	3300	825	150	675	200	300	175	
Solar *	2	31				8	0	0	
Properties		220	88	100		0	0	0	
Retail						160	160		
<b>Total</b>						<b>368</b>	<b>560</b>	<b>433</b>	
<b>Consolidated CFO</b>						<b>500</b>	<b>1061</b>		

Source: ICICIdirect.com Research

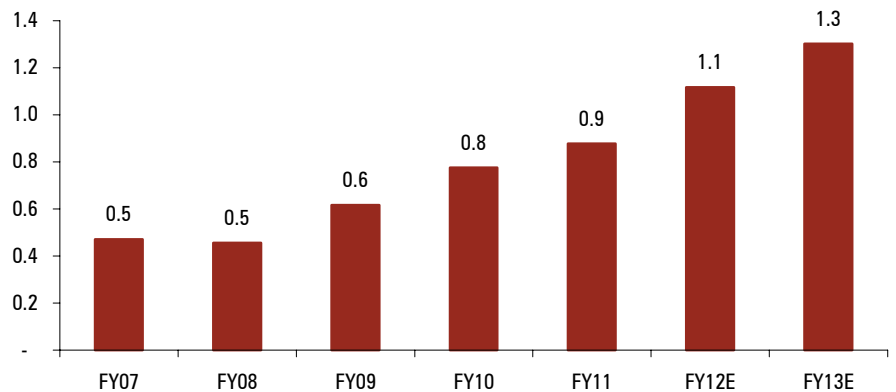
\* CESC is developing 9MW solar power plant in ICML where the co has 26% share. Hence proportionate share

**Exhibit 26: Debt funding status for FY12, FY13**

	Capacity (MW)	Project cost (₹ crore)	Debt requirement (₹ crore)	FY11		Balance Debt infusion			Balance debt (₹ crore)
				Debt Infused (₹ crore)	Balance Debt infusion (₹ crore)	FY12	FY 13		
Chandrapur	600	2950	2213	370	1843	600	1000	243	
Haldia	600	3200	2400	0	2400	300	1000	1100	
Solar	2	26	18			18	0	0	
Properties		220	132	50		30	52	0	
Retail						0	0	0	
<b>Total</b>						<b>948</b>	<b>2052</b>	<b>1343</b>	

Source: Company, ICICIdirect.com Research

**Exhibit 27: Debt equity ratio set to increase, going forward, as capacity expansion kicks in**



Source: Company, ICICIdirect.com Research

### Projects under planning stage

CESC plans to add 6500 MW of generation capacity in its portfolio by FY15-FY16, with 20% of the portfolio under operation and 20% under construction. The remaining 60% of the capacity is still in the development stage and, hence, needs to overcome a lot of hurdles in terms of land acquisition, fuel security, financial closure and environmental clearances. Hence, we have not considered them in our valuation scenarios.

**Exhibit 28: Details of projects in planning stage**

Project	Fuel Source	Capacity (MW)	Land acquisition	Fuel linkage	Environment Clearance	Financial closure	PPA signed
Odisha Phase 1	Coal	1320	Yes	No	No	No	No
Balagarh	Coal	1320	Yes	No	No	No	No
Jharkhand	Coal	600	No	Capitve block allocated	No	No	No
3rd Unit in Haldia	Coal	300	Yes	No	No	No	No
Odisha Phase 2	Coal	1320	Yes	No	No	No	No
Bihar Pirpainty	Coal	1000	No	No	No	No	No
		5860					

Source: Company, ICICIdirect.com Research

Retail venture has been a capital intensive and has strained the balance sheet and RoEs of CESC

### Retail venture: Turnaround to be a huge kicker

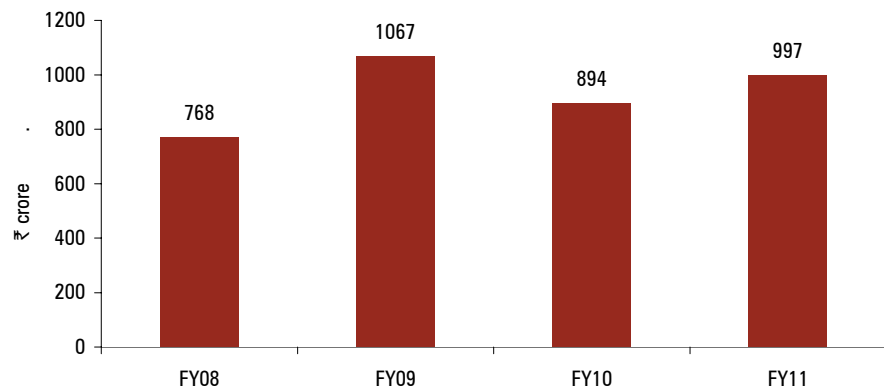
Apart from the utility business, CESC also owns Spencer's, which is into the retail business. It was transferred from the RPG group itself and merged with CESC in 2007. The venture has been a capital guzzler and is loss making, thereby putting strain on the steady performance of the utility business. This, in our view, has weighed heavily on the investor sentiment. The topline of Spencer's has grown at a CAGR of 9% over FY07-FY11 while losses have accumulated to the tune of ₹ 874 crore till FY11. Spencer's currently has 0.995 million sq ft of space over FY07-FY11.

#### Exhibit 29: Composition of outlets of Spencer's as of H1FY12

Regions	States	Total Area ('000)	Hypers > 15k	Supers 3k-<15k	Dailies <3k	SAS	Total
East	West Bengal	177	6	1	10	0	17
	Total	177	6	1	10	0	17
West	Maharashtra	97	2	0	12	4	18
	Gujarat	24	1	0	0	0	1
	Total	121	3	0	12	4	19
North	East UP	114	3	1	14	0	18
	NCR	108	3	2	6	5	16
	Punjab	4	0	0	0	3	3
	Total	226	6	3	20	8	37
South 1	Kerala	30	0	2	8	0	10
	T.N.	136	1	2	47	0	50
	Total	166	1	4	75	8	60
South 2	Bangalore	74	2	2	12	0	16
	Coastal AP	96	4	1	11	0	16
	Hyderabad	137	2	3	25	0	30
	Total	307	8				
Total		996k	24	14	145	12	195

Source: Company

#### Exhibit 30: Revenues have grown at a CAGR of 9% over FY08-FY11



Source: Company, ICICIdirect.com Research

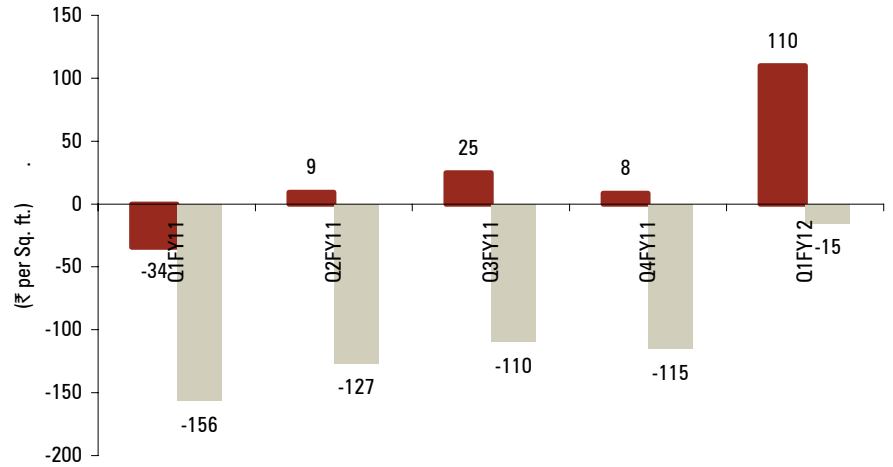
A visible turnaround has taken place with Store EBITDA positive in last 5 quarters

However, things have started looking up for this line of the business as the management has been able to turn the business EBITDA positive at the store level (not including corporate overhead, distribution, advertising) for the past five quarters. The turnaround has been mainly driven by a reduction in costs wherein CESC has closed unviable stores (Spencer's experienced consolidation during FY10. The company started the year with 254 stores, focused on a few profitable regions and gradually moved out of the rest, ending the year with 207 stores), right-sized manpower and made necessary investments and rationalised the

The company has rationalised backend infrastructure, closed unviable stores (but increased area under operation) and right sized manpower cost

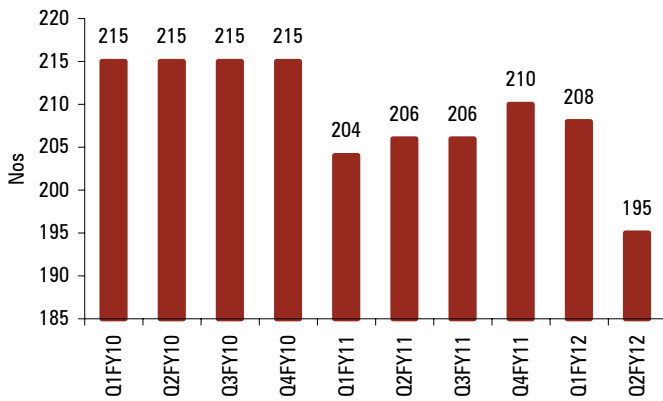
back end infrastructure (reduction in distribution warehouses) for efficient operations. Hence, cost reduction measures have yielded the desired benefits for Spencer's, thereby enabling it to break even at the stores level.

**Exhibit 31: EBITDA per sq ft at store level has turned positive for last five quarters as ...**



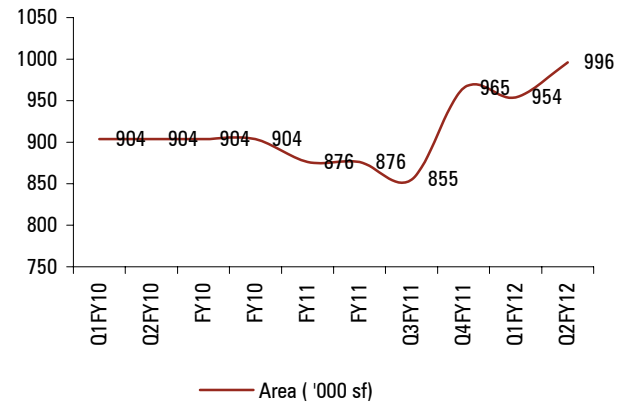
Source: Company, ICICIdirect.com Research

**Exhibit 32: ...closing down of unviable stores...**



Source: Company, ICICIdirect.com Research

**Exhibit 33: ... but effectively increasing area under operation...**



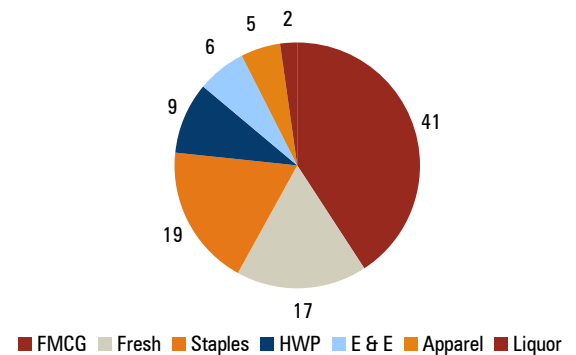
Source: Company, ICICIdirect.com Research

**Exhibit 34: ...gradual improvement in share of private labels and ...**



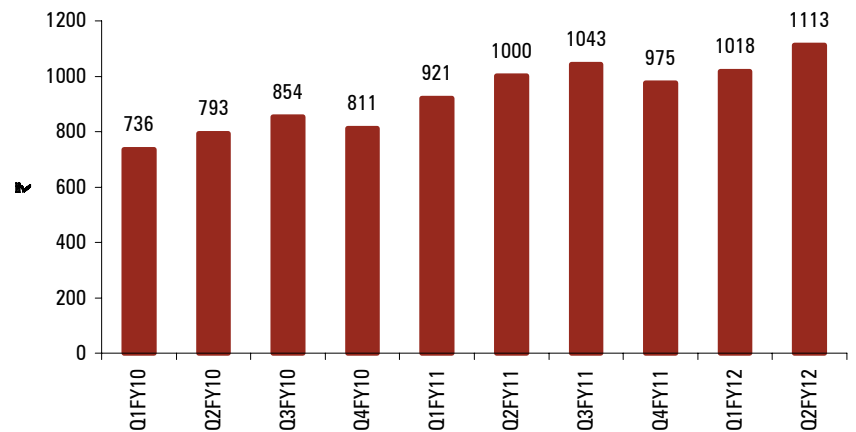
Source: Company, ICICIdirect.com Research

**Exhibit 35: ... higher focus on consumables ...**



Source: Company, ICICIdirect.com Research

**Exhibit 36: ... has led to steady rise in revenue per sq ft per month**



Source: Company, ICICIdirect.com Research

Going forward, company plans to double increase private labels, focus more on food staples

From now on, the focus of the management would be on diluting the large corporate overhead base in order to break even at the PAT level. This can be only achieved by increasing the turnover, which, if achieved, will provided a huge operating leverage kicker given the cost efficiencies that are in place now. The strategy to achieve the same would be through the following:

- Spencer's plans to double its current area from 0.9 million sq ft to 2 million sq ft by FY13E. It is focused on improving same store sales growth as well as opening new stores in focus regions improving same store sales growth apart from opening new stores in focus regions
- In order to increase margins, the company will try to focus on increasing the share of private labels in the overall turnover. The management expects the share of private labels to rise from the current 12.2% to 16% by FY12
- To focus more on consumables as these products are daily necessities and are immune to a slowdown. Also, this strategy will reduce the working capital cycle as consumables are perishable in nature. Currently, food contributes 79% to the overall sales mix
- Spencer's is also planning to enter the liquor business and expand in the apparel segment

We are conservative in our retail business earnings as we expect EBITDA breakeven in FY16 v/s management estimates of FY14.

With the adoption of the above strategy, the management seems confident of breaking even by FY13-FY14. However, we are cautiously optimistic about the business as we believe that the turnaround at the store level is structural in nature but believe that overall break even at the EBITDA level will be achieved by FY16.

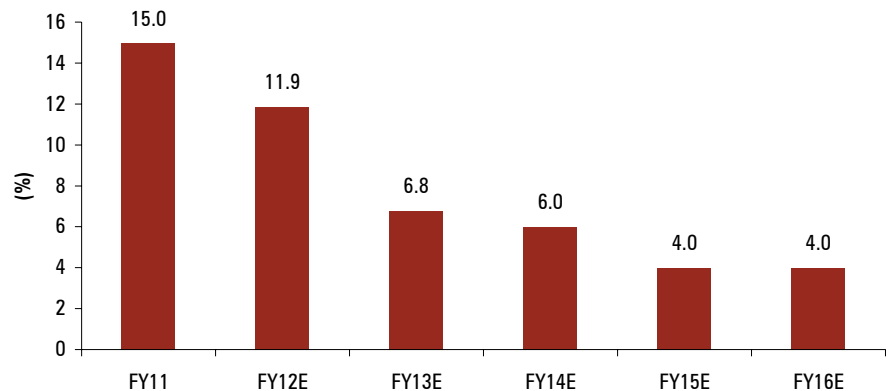
In terms of financials, we expect Spencer's to achieve a sales CAGR of 25.7% over FY11-FY13E as high focus on staples (79%) is relatively immune to slowdown. Contrary to the management's claim of EBITDA break even in FY14, we have built in conservative estimates of same store sales growth (14%, 8% and 6% for FY12, FY13 and FY14, respectively) given the same stood at 14% and 20% for Q1FY12 and Q2FY12, respectively. We expect the same to get achieved by FY16, where we expect the EBITDA to be at ₹ 51 crore.

**Exhibit 37: Projections of financials for retail venture**

(₹ crore)	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Sales	768	1067	894	997	1276	1586	1918	2241	2546
Operation cost	918	1369	1119	1165	1442	1736	2013	2274	2495
EBITDA	-150	-302	-225	-169	-166	-151	-96	-34	51
EBITDA Margins (%)	-19.5	-28.3	-25.1	-16.9	-13.0	-9.5	-5.0	-1.5	2.0
PAT	-245	-178	-259	-193	-194	-192	-154	-119	-38

Source: Company, ICICIdirect.com Research

**Exhibit 38: Same store sales growth trend**



Source: ICICIdirect.com Research

### Foray into real estate – revenues to come in FY13

CESC Properties, a 100% subsidiary, is developing a premium mall in Kolkata at a capex of ₹ 220 crore (FY13) with a debt equity of 60:40. The management expects to earn ₹ 50 crore per annum from this venture. The company will only lease out retail space. Till date, 70% of space has already been booked by big international brands like Gucci, Canali and the likes.

### Expansion in transmission and distribution business cannot be ruled out

The business model for distribution would work on a regulated equity and incentives whereby the franchise owner would get incentives for reducing AT&C losses. For example, let us say a franchise owner in his bid has submitted that current AT&C losses (assume it to be 20%) would come down to 18% in the next two years. If the actual losses are 17% (100 bps lower than the original bid) then the owner is entitled to receive 1% over and above the regulated returns every year.

Real estate venture can materially impact revenues in FY13 but we have not factored in earnings and valuations

## Risk & concerns

### Delay in projects under construction

We believe that any delay in implementation will have a negative impact on the revenues and cash flows of the company. Under our original assumption, we expect the Chandrapur and Haldia power projects to get commissioned in FY14 and FY15, respectively. We have done a sensitivity analysis on both projects assuming a delay of one year and coal linkage of 50% from Coal India. Under this scenario, the impact of the fair value of the company (base case) would be to the extent of ₹ 13/share.

#### Exhibit 39: Base valuation of CESC if projects under construction are delayed by 1 year

	Value	No of o/s shares	Value per share	Valuation Methodology
Kolkata Distribution	3860	12.6	306	FCFE with CoE of 13%
Chandrapur Power plant (600MW)	294	12.6	2	0.1x amount of invested equity capital (book value) - 14% discount (CoE) to base case BV multiple
Haldia Power plant (600MW)	763	12.6	36	0.6x amount of invested equity capital (book value) - 14% discount (CoE) to base case BV multiple
Retail	-1777	12.6	-56	The company has shown a marked improvement in the last eight quarters in same store sales, sales per sq ft, trimming losses at store EBITDA level (positive since last five quarters); though at corporate level it is making losses. Hence, we have valued at 0.4x accumulated losses till FY13, given the turnaround in retail operations
CESC Properties*	50	12.6	4	1x amount of invested equity capital (book value)
<b>Total value</b>			<b>289</b>	

Source: Company, ICICIdirect.com Research

\* We have not valued CESC Properties in our final valuation

### Inadequate coal supply for projects under construction

The company has ~5860 MW under development. While the company has adequate fuel linkage for projects under construction (1200 MW), we believe the company would require ~25 MTPA by FY18 (assuming all projects under development materialise). Further investments in Resource Generation/acquisition in coal mines cannot be ruled out by FY13–FY14.

### Turnaround in retail takes longer than expected

The improvement of consolidated profit numbers (till FY13) hinges on a turnaround in the retail business of Spencer's. In case the turnaround takes longer than expected due to a slowdown in the economy, profit growth will get hampered. Hence, we would give a 50% higher multiple to accumulated losses till FY13 (i.e. 0.6x vs. 0.4x in our base case) resulting in impact of (base case) ₹28/share on the fair value of the company.

#### Exhibit 40: Base valuation of CESC if turnaround in retail is longer than expected

	Value	No of o/s shares	Value per share	Valuation Methodology
Kolkata Distribution	3860	12.6	306	FCFE with CoE of 13%
Chandrapur Power plant (600MW)	712	12.6	23	0.4x amt of invested equity capital (book value)
Haldia Power plant (600MW)	380	12.6	30	1.1x amt of invested equity capital (book value)
Retail	-1777	12.6	-85	The company has shown marked improvement in last 8 quarters in same store sales, sales per ft, trimming losses at store EBITDA level (positive since last 5 quarters); though at corporate level it is making losses. Hence we have valued at 0.6x accumulated losses till FY13 in case the turnaround is longer than expected
CESC Properties*	50	12.6	4	1x amt of invested equity capital (book value)
<b>Total value</b>			<b>274</b>	

Source: Company, ICICIdirect.com Research

\* We have not valued CESC Properties in our final valuation

### **Equity dilution in power projects under construction**

The company is adequately funded for 1200 MW. For projects under development (5860 MW), current cash flow and cash flow from 1200 MW would be inadequate to meet the equity requirement necessitating equity dilution via stake sale/PE funding in a couple of years.

### **Possible change of law in South Africa equity dilution in power projects under construction**

Till date, South Africa has not implemented any changes, which can increase coal cost. However, its counterparts (coal exporting countries) - Indonesia and Australia have changed the law or levied tax (effectively increased coal costs to the developer).

What if South Africa does it? Will it not increase coal costs for the company?

Yes, it would increase the coal costs to the company. The maximum impact of a further increase in coal costs would be on Chandrapur (50% merchant exposure) followed by Haldia (25% merchant exposure) and no impact on the standalone business. At this point, it would be difficult to quantify the exact impact of such an event.

### **Inability to pass through cost of imported coal for projects under construction**

One of the projects under development, Chandrapur (600 MW), the company has bid for Case 1 PPA of 300 MW with MSEDCL. This is based on an assumption (by the company) that the plant would run on domestic: imported coal ratio of 70:30. In case the company does not get coal from Coal India it would be forced to run the power plant at 50:50 domestic: imported coal ratio. Recent instances of the company's dealing with MERC suggests that, in such a scenario, CESC may have to bear an extra cost (20%) driving the RoE of the projects down. We have captured this scenario in our bear case valuation, which should impact the fair valuation by 10%.

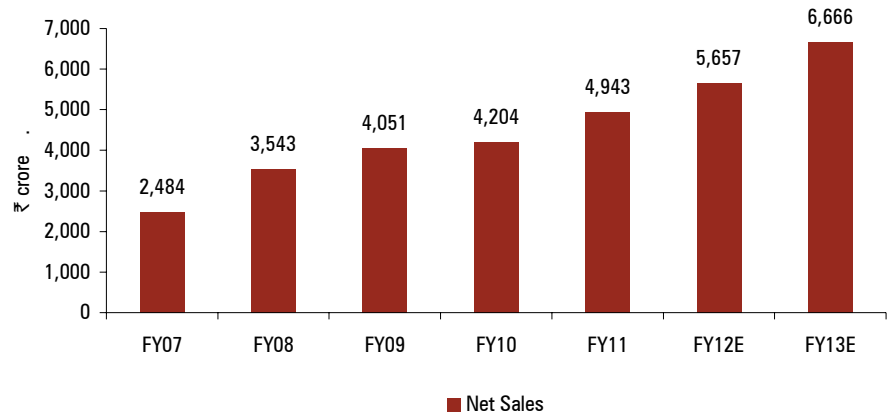
Consolidated revenue growth of 16% led by Spencer's (25%) and Power (13%)

## Financials

**Revenue growth at 16% CAGR in FY11-13E aided by tariff hike and improvement in retail business**

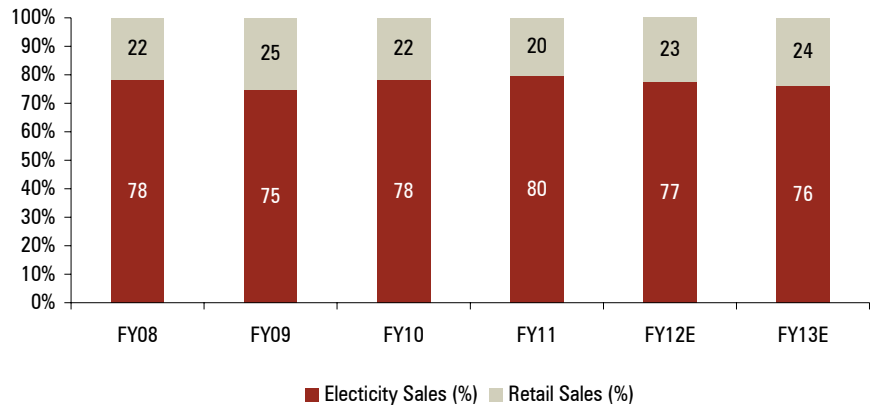
We estimate revenues will grow at 16% CAGR in FY11-13E to ₹ 6666 crore. Revenue growth will be fuelled by the tariff hike (in line with increase in fuel costs) and improvement in sales of Spencer's. The power segment is expected to grow at 13.6% while the improvement in same store sales will lead to revenues growth at 25% CAGR in retail business.

**Exhibit 41: Revenues to grow at CAGR of 16%**



Source: Company, ICICIdirect.com Research

**Exhibit 42: Trend in percentage share in overall consolidated revenues**



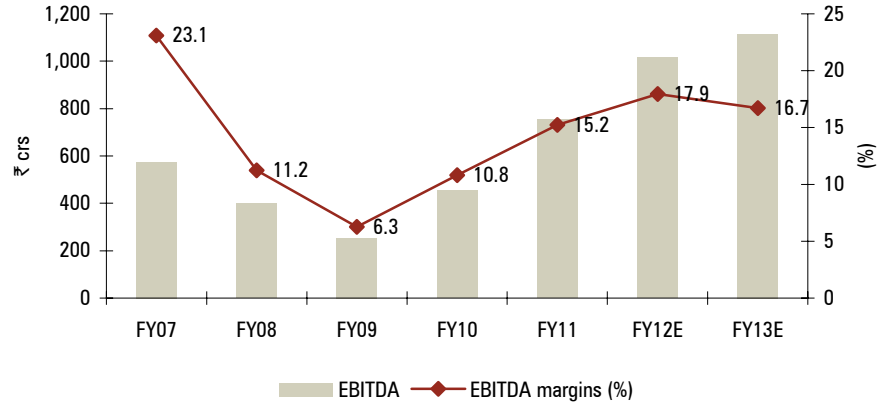
Source: Company, ICICIdirect.com Research

EBITDA margin to improve in FY13 led by uptick in margin in Spencer's

**EBITDA margins likely to improve on curtailment of losses in retail**

We expect CESC's EBITDA margins to improve due to lower losses in the retail business. However, till FY13, the company would continue to make losses at the corporate level.

**Exhibit 43: EBITDA and EBITDA margin trend**

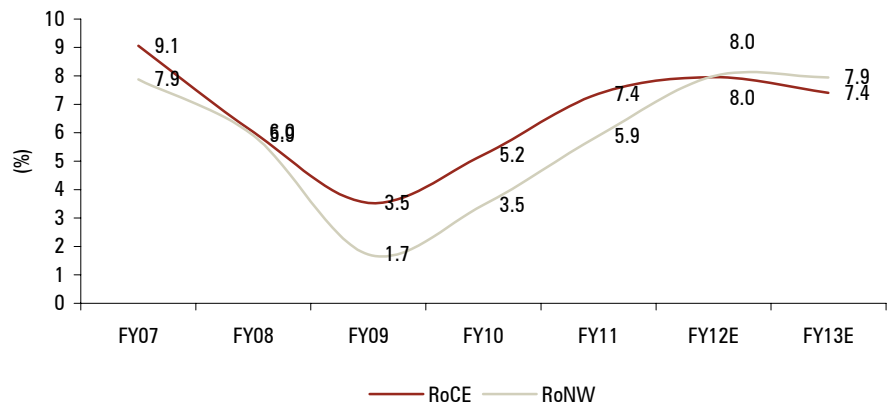


Source: Company, ICICIdirect.com Research

**...thus improving ROCE and RONW ratios**

CESC's return ratios on a consolidated basis (RoCE and RoNW) have significantly improved since FY09 due to the turnaround in retail. We expect a marginal improvement in return ratios from FY11-FY13.

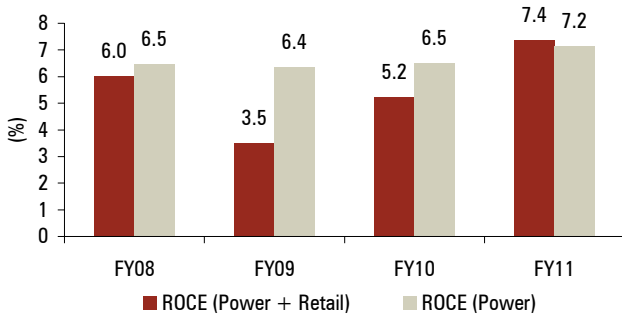
**Exhibit 44: Trend in return ratios**



Source: Company, ICICIdirect.com Research

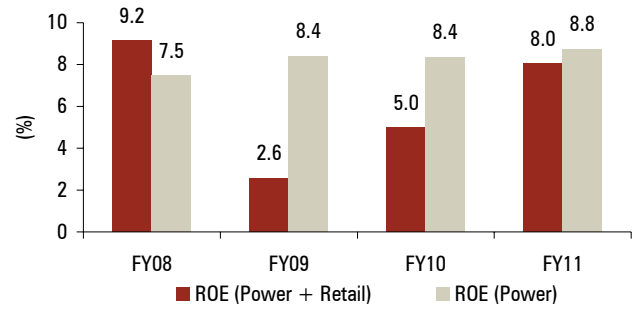
Understandably, CESC's return ratios from the power business are higher than consolidated.

**Exhibit 45: Comparison of RoCE between standalone and consolidated business**



Source: Company, ICICIdirect.com Research

**Exhibit 46: Comparison of RoE between standalone and consolidated business**



Source: Company, ICICIdirect.com Research

## Valuation

We have valued CESC on a sum of the parts (SOTP) approach as it has a more diversified business model across the energy value chain. Using the methodology, we have arrived at a fair value of ₹ 302/share over a time frame of 12-15 months and rate the stock as **BUY**.

### Exhibit 47: CESC SOTP Valuation

	Value	No of o/s shares	Value per share	Valuation Methodology
Kolkata Distribution	3860	12.6	306	FCFE with CoE of 13%
Chandrapur Power plant (600MW)	712	12.6	23	0.4x amount of invested equity capital (book value)
Haldia Power plant (600MW)	380	12.6	30	1x amount of invested equity capital (book value)
Retail	-1788.67	12.6	-57	The company has shown a marked improvement in the last eight quarters in same store sales, sales per sq ft, trimming losses at store EBITDA level (positive since last five quarters); though at corporate level it is making losses. Hence, we have valued at 0.4x accumulated losses till FY13, given the turnaround in retail operations
CESC Properties*	100	12.6	6	1x amount of invested equity capital (book value)
<b>Total value</b>			<b>302</b>	

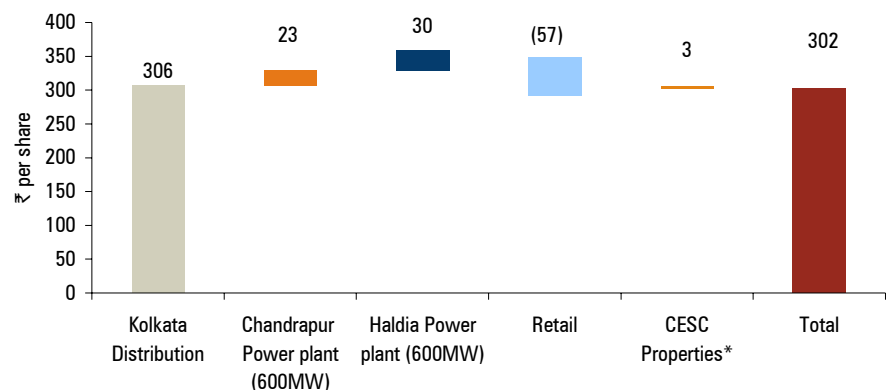
Source: ICICIdirect.com Research

\* We have not valued CESC Properties in our final valuation

Base business contributes 101% of valuation whereas retail business has a negative contribution of 18.5%.

- We are valuing all generation assets of CESC on a DCF basis with CoE of 13%. However, for projects under construction, we have given 0.4x amount invested till date to the Chandrapur Power Plant, which has 50% merchant capacity (no fuel pass through) and 1x to the Haldia Power plant that has 25% of merchant capacity
- We have valued Spencer's at 0.4x accumulated losses till FY13 given that the company has shown a marked improvement in the last eight quarters in same store sales, sales per sq ft, trimming losses at the store EBITDA level (positive in the last five quarters); though at corporate level it has been making losses
- For the real estate venture (CESC Properties), we have given 1x of amount invested till date (FY11). There is a scope for further appreciation in the valuation once the mall commences operations in September 2012

### Exhibit 48: Contribution of segments to overall business value



Source: ICICIdirect.com Research

***What is "in" the price?***

At the CMP of ₹ 227 per share, CESC's stock is quoting at 0.8x and 0.7x its FY12E and FY13E book value, respectively. We are aware of the fact that capital requirement in the loss making retail venture has weighed negatively on the stock price performance. However, the current share price is discounting more negatives than this single variable, which is as follows:

1. Continued losses in the retail business forever though the retail business has turned around at the store level and has been making positive EBITDA for the last five quarters. Also, the management expects the company to break even in this segment by FY14. We believe this would happen by FY16
2. Delay in capacity addition (as if only one of the projects of 600 MW) will come up
3. Capex in the real estate venture is only a cost – no return in this venture
4. Finally, the stock is quoting well below the book value of the standalone power business of ₹ 306 per share (adjusted for the revaluation reserve)

**On the contrary, what the price is not factoring is:**

- A gradual improvement in the overall retail business. The performance in Q2FY12 reiterates the management's stance on turning around the business as same stores growth recorded a 20% YoY growth, 9% QoQ rise in sales/sq ft and 49 bps QoQ improvement in store EBITDA margins
- On track execution of the upcoming power plants in Chandrapur and Haldia, which will gradually improve the overall business RoEs of CESC
- Possible entry of 51% FDI in multi-brand retail, which will allow CESC to rope in a strategic investor and quicken the process of a turnaround. The fresh infusion, if it materialises, will also lessen the burden on the cash flows of the standalone power business
- Land acquisition (360 acres) from villagers of the Jharkhand project (600 MW) is complete. This was delayed by more than two years. The company was allocated a captive coal block for the project. CESC maintains that it would be the most profitable project

The overall valuations of the sector have deteriorated due to reasons well known and discussed in the opening section of the report. However, we believe as and when reforms happen and the Street takes a positive stance, CESC will outperform its peers.

### Sensitivity on valuation: Bull vs. Base case scenarios

#### Exhibit 49: CESC SOTP Valuation – Bull case

	Value	No of o/s shares	Value per share	Valuation Methodology
Kolkata Distribution	3860	12.6	306	FCFE with CoE of 13%
Chandrapur Power plant (600MW)	927.2	12.6	74	DCF with CoE of 14%. We have assumed 50% domestic linkage, balance 50% imported coal (Assumed PLF of 80%)
Haldia Power plant (600MW)	1164.5	12.6	92	DCF with CoE of 14%. We have assumed 50% domestic linkage, balance 50% imported coal (Assumed PLF of 80%)
Retail	1126	12.6	0	We have given zero value for the retail business
CESC Properties*	295	12.6	23	Capitalisation rate of 10%
			472	

Source: Company, ICICIdirect.com Research

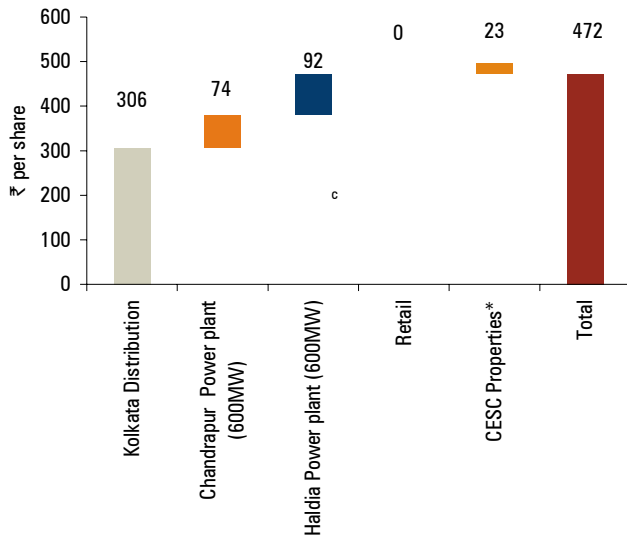
We have not valued CESC Properties in our final valuation

#### Exhibit 50: CESC SOTP Valuation – Bear case

	Value	No of o/s shares	Value per share	Valuation Methodology
Kolkata Distribution	3860	12.6	306	FCFE with CoE of 13%
Chandrapur Power plant (600MW)	533	12.6	42	0.2x amount of invested equity capital (book value) and DCF assuming CoE of 14%. We have assumed 20% domestic linkage, balance 80% imported coal (assumed PLF of 80%)
Haldia Power plant (600MW)	380	12.6	24	0.8x amount of invested equity capital (book value) and DCF assuming CoE of 14%. We have assumed 20% domestic linkage, balance 80% imported coal (assumed PLF of 80%)
Retail	-1878	12.6	-149	Accumulated losses till FY13 with a 1% decline in gross margin and 1% increase in other costs
CESC Properties	80	12.6	-6	Assuming property remains defunct forever
Total value			217	

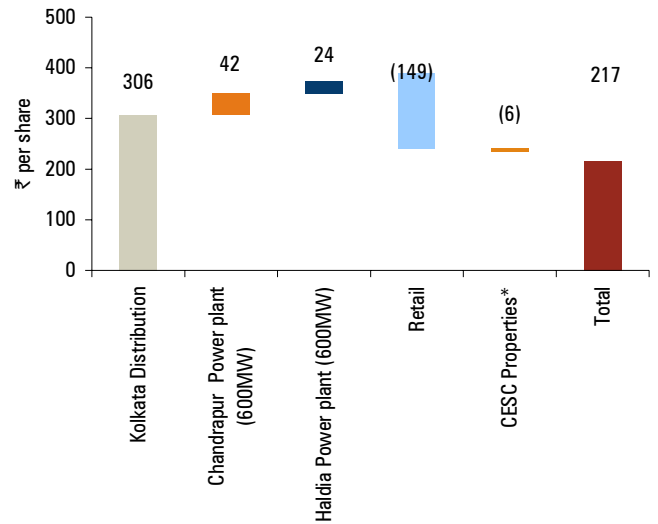
Source: Company, ICICIdirect.com Research

#### Exhibit 51: Bull Case Scenario



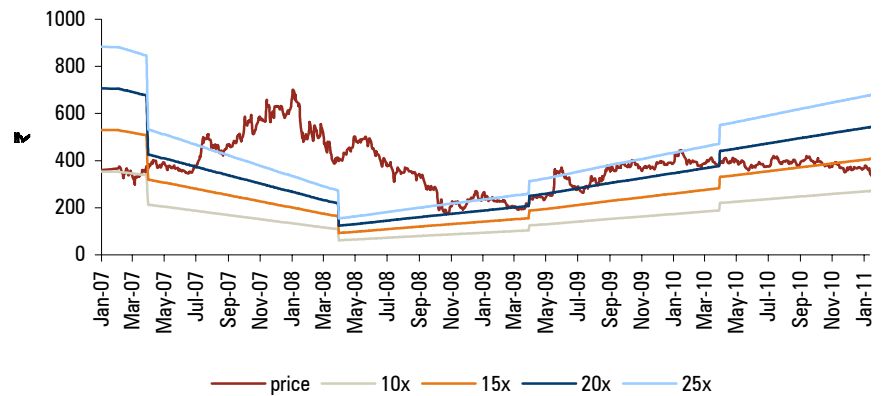
Source: Company, ICICIdirect.com Research

#### Exhibit 52: Bear case scenario



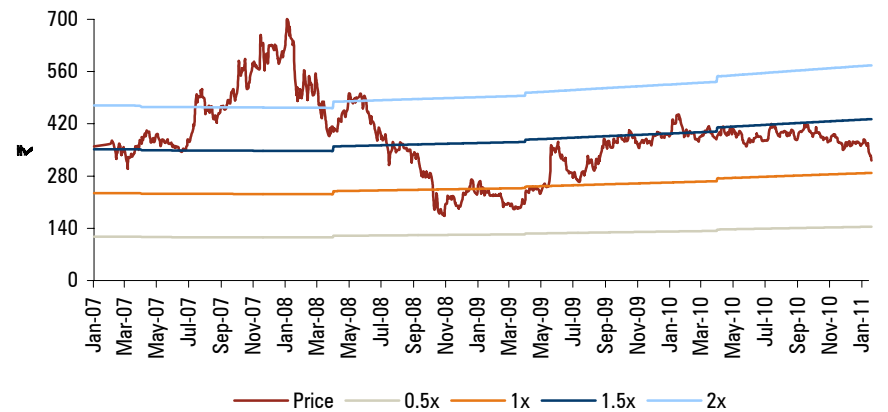
Source: Company, ICICIdirect.com Research

**Exhibit 53: P/E Band**



Source: Company, ICICIdirect.com Research

**Exhibit 54: Adjusted P/B Band**



Source: Company, ICICIdirect.com Research

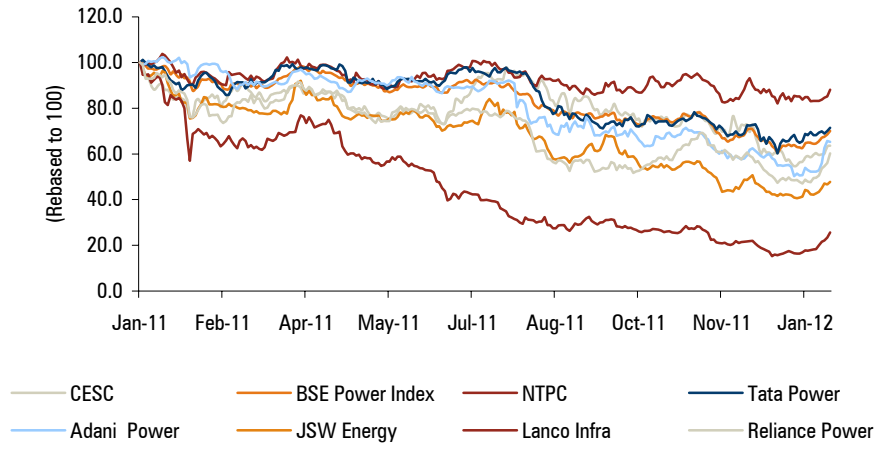
**Exhibit 55: CESC vis a vis peers**

Company	Price	M Cap ( ₹ Crore)	P/E			P/B			EV/ EBITDA			ROEs		
			FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
NTPC	161	132,752	15.0	13.7	13.3	1.9	1.9	1.7	11.4	8.4	8.4	13.6	14.1	13.8
Tata Power	98	23,226	10.9	14.5	11.7	1.8	1.6	1.5	10.0	8.6	8.9	15.9	11.0	12.2
CESC**	227	2,860	10.4	7.3	7.0	0.8	0.8	0.7	7.6	7.1	8.2	5.9	8.0	7.9
Adani Power*	80	17,571	27.2	13.2	8.5	2.7	2.3	1.8	34.7	13.4	7.0	9.9	19.6	23.6
JSW Energy*	44	7,224	7.4	13.8	10.8	1.3	1.2	1.1	9.5	9.5	7.0	18.7	8.8	10.2
Reliance Power*	86	25,078	32.6	37.3	18.7	1.4	1.4	1.3	95.4	38.1	11.7	4.5	3.9	5.8
Lanco Infra	15	3,530	7.9	14.8	11.0	0.8	0.8	0.8	10.0	8.2	7.6	12.7	6.3	7.1
Average			15.9	16.4	11.6	1.5	1.4	1.3	25.5	13.3	8.4	11.6	10.2	11.5

Source: Bloomberg, ICICIdirect.com Research \* Bloomberg estimates \*\*CESC – P/B represents Price/ Adjusted book value (adjusted for revaluation reserves)

Since last one year, the Nifty has a posted negative return of 15.4%. The BSE Power Index has underperformed the Nifty by 14.5% (corrected by 29.9%). Only NTPC – return of -12.0% has relatively outperformed the BSE Power Index. CESC, on the other hand, has fallen 36% while most of the IPP (barring Tata Power) have fallen between 32% and 76%

**Exhibit 56: Relative performance of utilities space since January 2011**



Source: Bloomberg, ICICIdirect.com Research

## Financial Scorecard (Consolidated)

### Exhibit 57: Profit and Loss

Particulars (₹ crore)	FY09	FY10	FY11	FY12E	FY13E
Net Sales	4,051	4,204	4,943	5,657	6,666
Expenses	3,797	3,749	4,190	4,643	5,551
EBITDA	254	455	753	1,015	1,114
<i>EBITDA Margin (%)</i>	6.3	10.8	15.2	17.9	16.7
Depreciation	216	251	316	347	383
PBIT	257	421	650	839	902
<i>PBIT Margin (%)</i>	6.3	10.0	13.2	14.8	13.5
Interest	157	204	299	346	388
PBT	100	217	352	493	514
<i>PBT Margin (%)</i>	2.5	5.2	7.1	8.7	7.7
PAT	78	157	277	393	410
<i>PAT Margin (%)</i>	1.9	3.7	5.6	7.0	6.2

Source: Company, ICICIdirect.com Research

### Exhibit 58: Balance sheet

Sources of funds (₹ crore)	FY09	FY10	FY11	FY12E	FY13E
Equity share capital	126	126	126	126	126
Reserves and Surplus	4,375	4,413	4,575	4,797	5,036
Total Loans	2,774	3,519	4,128	5,626	7,018
AAD	338	447	514	874	1,137
Consumer Security Deposits	821	896	935	1,215	1,573
Minority interest	0	1	2	2	2
Total Liabilities	8,433	9,402	10,280	12,640	14,891

Application of funds (₹ crore)	FY09	FY10	FY11	FY12E	FY13E
Net fixed assets	5,937	7,845	8,062	9,745	12,664
Capital WIP	1,351	442	880	1,058	1,200
Total non-current assets	7,288	8,287	8,942	10,803	13,864
Total Investments	434	437	417	417	417
Sundry debtors	412	518	582	1,240	1,096
Cash	1,284	1,168	1,229	1,233	757
Inventories	378	374	408	463	581
Loan and advances	289	282	292	396	467
Deffered payments	42	15	13	13	13
Total current assets	2,404	2,357	2,524	3,345	2,914
Current liabilities	1,753	1,808	1,794	1,760	2,074
Provisions	125	125	138	165	231
Total Assets	8,434	9,402	10,280	12,640	14,891

Source: Company, ICICIdirect.com Research

**Exhibit 59: Cash flow statement**

(₹ crore)	FY09	FY10	FY11	FY12E	FY13E
PBT	100	217	352	493	514
Depreciation	216	251	316	347	383
Other Adjustments	264	288	352	423	507
Cash Operating Profit	579	756	1,020	1,262	1,405
(Increase)/Decrease in WC	391	82	(28)	(587)	138
Taxes Paid	(58)	(89)	(124)	(99)	(103)
Net cash from operations	912	749	869	577	1,440
Capital Expenditure	(1,283)	(1,106)	(1,215)	(2,030)	(3,302)
Acquisition of inv./disposals	182	(212)	89	0	0
Net cash from investing	(1,101)	(1,318)	(1,126)	(2,030)	(3,302)
Proceeds from borrowings /(Repayments)	0	0	0	1,498	1,392
Issue of equity shares	0	2	1	0	0
Increase / (Repayment ) of long term loans	769	638	429	0	0
Increase / (Repayment ) of short term loans	(100)	69	181	0	0
Repayment of public deposits	(1)	(0)	(0)	0	0
Interest paid	(154)	(293)	(316)	(346)	(388)
Dividends paid	(58)	(58)	(58)	(58)	(58)
Others	1	(0)	0	0	0
Net cash from financing	578	421	319	1,457	1,386
Net change in cash & cash equivalents	388	(148)	61	4	(476)
Opening cash as per balance sheet	1,017	1,307	1,168	1,229	1,233
Add cash in JVs	0	8	0	0	0
Closing cash & cash equivalents	1,405	1,168	1,229	1,233	757

Source: Company, ICICIdirect.com Research

## Ratios (Consolidated)

### Exhibit 60: Per share ratios (₹)

	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
EPS	35	21	6	13	22	31	33
EPS (Diluted)	35	21	6	13	22	31	33
Cash EPS	54	37	23	33	47	59	63
Cash per Share	86	81	102	93	98	98	60
Revenue per Share	292	282	323	335	394	450	531
Dividend per share	3	4	4	4	4	4	4
Operating profit per share	68	32	20	36	60	81	89
BV per share	449	361	358	361	374	392	411
Adjusted BV per share	235	233	240	252	274	300	328

Source: Company, ICICIdirect.com Research

### Exhibit 61: Turnover ratios

	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Asset Turnover	0.4	0.5	0.5	0.4	0.5	0.4	0.4
Inventory Turnover	5.0	2.5	2.5	2.9	3.5	3.5	3.5
Debtor Turnover	6.0	10.4	9.8	8.1	8.5	4.6	6.1
Creditor Turnover	11.9	10.3	10.3	9.4	9.8	9.1	9.1

Source: Company, ICICIdirect.com Research

### Exhibit 62: Return ratios (%)

	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
RoCE	9.1	6.0	3.5	5.2	7.4	8.0	7.4
RoNW	7.9	5.9	1.7	3.5	5.9	8.0	7.9
Return on Adjusted Net Worth	15.1	9.2	2.6	5.0	8.0	10.4	10.0
RoIC	4.7	3.2	0.3	1.2	2.5	3.2	2.9
RoA	4.7	3.5	0.9	1.7	2.7	3.1	2.8

Source: Company, ICICIdirect.com Research

### Exhibit 63: Leverage ratios (x)

	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Interest coverage	3.0	2.7	1.6	2.1	2.2	2.4	2.3
Operating leverage	3.1	-0.7	-2.5	21.0	3.7	2.4	0.6
Financial leverage	3.1	0.5	2.0	1.6	1.4	1.5	0.6
Combined leverage	9.7	-0.4	-5.0	33.7	5.2	3.5	0.3
Debt / Asset	0.3	0.3	0.3	0.4	0.4	0.4	0.5
Debt / Equity	0.5	0.5	0.6	0.8	0.9	1.1	1.4
Net Debt / Equity	0.3	0.2	0.3	0.5	0.6	0.9	1.2
Debt / EBITDA	3.1	5.2	10.9	7.7	5.5	5.5	6.3
Net Debt / EBITDA	1.9	2.6	5.9	5.2	3.9	4.3	5.6

Source: Company, ICICIdirect.com Research

### Exhibit 64: Valuation Ratios (x)

	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
P/E	6.4	10.7	36.8	18.1	10.3	7.2	7.0
P/B	0.5	0.6	0.6	0.6	0.6	0.6	0.6
P/Adj.BV	1.0	1.0	0.9	0.9	0.8	0.8	0.7
EV/ EBITDA	5.2	9.8	17.1	11.4	7.6	7.1	8.2
EV/ Sales	1.2	1.1	1.1	1.2	1.2	1.3	1.4
Dividend Yield (%)	1.5	1.8	1.8	1.8	1.8	1.8	1.8

Source: Company, ICICIdirect.com Research

## Financial Scorecard (Standalone)

### Exhibit 65: Profit and Loss

Particulars (₹ crore)	FY09	FY10	FY11	FY12E	FY13E
Net Sales	3,031	3,293	3,940	4,381	5,080
Expenses	2,419	2,543	2,939	3,201	3,815
EBITDA	612	750	1,001	1,181	1,265
<i>EBITDA Margin (%)</i>	20.2	22.8	25.4	26.9	24.9
Depreciation	175	206	267	293	319
PBIT	606	700	886	887	946
<i>PBIT Margin (%)</i>	20.0	21.3	22.5	20.2	18.6
Interest	141	178	272	312	352
PBT	465	522	614	575	594
<i>PBT Margin (%)</i>	15.3	15.9	15.6	13.1	11.7
PAT	411	434	487	446	460
<i>PAT Margin (%)</i>	13.6	13.2	12.4	10.2	9.1

Source: Company, ICICIdirect.com Research

### Exhibit 66: Balance sheet

Sources of funds (₹ crore)	FY09	FY10	FY11	FY12E	FY13E
Equity share capital	126	126	126	126	126
Reserves and Surplus	4,757	5,071	5,444	5,831	6,232
Total Loans	2,398	2,812	3,017	3,367	3,717
AAD	338	447	514	456	389
Consumer Security Deposits	821	896	935	1,215	1,573
Total Liabilities	8,440	9,352	10,036	10,995	12,036

Application of funds (₹ crore)	FY09	FY10	FY11	FY12E	FY13E
Net fixed assets	5,603	7,233	7,479	7,685	7,866
Capital WIP	1,280	278	272	494	785
Total non-current assets	6,882	7,511	7,751	8,179	8,651
Total Investments	310	679	1,084	1,084	1,084
Sundry debtors	389	513	571	636	738
Cash	1,251	1,120	839	1,172	1,384
Inventories	212	238	294	335	419
Loan and advances	1,033	1,010	1,176	1,314	1,524
Deferred payments	42	15	13	13	13
Total current assets	2,927	2,896	2,893	3,470	4,077
Current liabilities	1,565	1,619	1,561	1,586	1,648
Provisions	1,239	1,155	1,194	1,726	2,297
Total Assets	8,440	9,352	10,036	10,995	12,036

Source: Company, ICICIdirect.com Research

**Exhibit 67: Cash flow statement**

(₹ crore)	FY09	FY10	FY11	FY12E	FY13E
PBT	465	522	614	575	594
Depreciation	175	206	267	293	319
Other Adjustments	230	230	307	307	307
Cash Operating Profit	870	958	1,188	1,175	1,220
(Increase)/Decrease in WC	298	0	(68)	(195)	(316)
Taxes Paid	(57)	(89)	(120)	(128)	(132)
Net cash from operations	1,111	870	1,001	853	772
Capital Expenditure	(1,250)	(912)	(736)	(500)	(500)
Acquisition of inv./disposals	(251)	(255)	(492)	0	0
Net cash from investing	(1,501)	(1,167)	(1,228)	(500)	(500)
Increase / (Repayment ) of short term loans	(44)	48	181	0	0
Interest paid	(139)	(265)	(284)	(312)	(352)
Dividends paid	(58)	(58)	(58)	(58)	(58)
Net cash from financing	655	142	(54)	(20)	(60)
Net change in cash & cash equivalents	265	(155)	(281)	333	212
Opening cash as per balance sheet	986	1,275	1,120	839	1,172
Add cash in JVs	0	0	0	0	0
Closing cash & cash equivalents	1,251	1,120	839	1,172	1,384

Source: Company, ICICIdirect.com Research

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