

Pick of the week



CESC Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 625

Target Price

₹ 820

Potential Upside

31.2%

Investment Argument

- In 1QY21, CESC's consolidated profits declined 14.7% yoy to Rs198 cr largely led by a 41% yoy decline in standalone earnings to Rs134 cr due to the dual impact of Covid-19 and cyclone Amphan in Kolkata even as subsidiaries were lesser impacted.
- Dhariwal unit (subsidiary) reported Profit After Tax of Rs24 cr in 1QFY21, an improvement from losses of Rs24 cr. Improvement in performance was led by 7.4% yoy increase in sales volume to 91.3 crore units as PLF for 1QFY21 increased to 76% (71% in 1QFY20).
- Dhariwal unit has tied up 270 MW of Unit -2 under long term PPA while Unit-1 has signed a PPA (185 MW) with MERC starting November 2019 currently up to October 2020. Haldia unit (subsidiary) reported 12% yoy increase in PAT to Rs85 cr due to 7.2% yoy increase in realizations to Rs5.8/unit.
- Standalone business enjoys very high predictability of cash flows and profitability (>20% Return of Equity). We expect Earnings Per Share (EPS) to grow by 9.9% in FY21 and by 14.8% in FY22. High operating cash flows leads to healthy free cash flow generation.
- Valuations offer increased comfort. We maintain our BUY rating on CESC with a revised Fair Value of Rs820/share, with the results for 1QFY21 further strengthening our investment thesis on 1) stability of regulated business, 2) moderating losses from new distribution circles and 3) improving utilization for Dhariwal.