BUY CESC

Accelerated RE transition to support the growth momentum

Power ▸ Initiating Coverage ▸ **July 25, 2025** **CMP (Rs): 175 | TP (Rs): 225**

We initiate coverage on CESC with BUY and TP of Rs225 (~28% upside; SoTP of its entities). CESC's aggressive renewable energy (RE) capacity expansion will drive a strong, ~25% capacity CAGR over FY25-29. Further, we believe securing power offtake arrangements will strengthen topline stability, and drive ~9% revenue CAGR over FY25-28E, providing unit economic benefits amid rising power demand. Additionally, in our opinion, a constructive focus on profitable distribution facilities, coupled with cashflow boost from tariff hikes and regulatory deferral benefits will drive an improvement in the return profile and support increased capex funding through internal accruals. We expect an 11% PAT CAGR, with PAT margin expanding by 40bps over FY25-28E on a consolidated basis. From a return perspective, on a consolidated level, we expect ROE/ROIC to expand by 170/280bps by FY28E.

Aggressive RE expansion with strong PPA tie-ups

The company has made an aggressive foray into RE, with a targeted capacity CAGR of ~25% by FY29 which would take its RE power mix to ~60%. CESC has entered arrangements and framework agreements with multiple players to develop solar-wind hybrid projects that support this expansion. Additionally, CESC has been actively focused on securing PPAs for contracted capacity (captive and non-captive) which is a key positive, in our view, considering the PPA signing delays that plagued the industry recently. In our view, the strong EBITDA margin of ~85% and ~14% ROE for phase 1 will be the key drivers supporting profit growth and returns in the medium term.

Focused distribution to expand the pan-India footprint

CESC has a clear objective of turning around and strengthening its existing distribution facilities via an expected annual capex of ~Rs11bn (Rs6bn/4bn/1bn for Kolkata/Noida/Chandigarh, respectively) under the regulated equity framework. Recently, CESC also completed the acquisition of Chandigarh Power, which is the only power provider in the area. NPCL, which has consistently been ranked among the top performing private distribution facilities in India, is expected to be a key beneficiary of the transition to RE through captive power purchase. In our view, CESC's plan to bid for private distribution licenses, and focus on strengthening its distribution facilities, is key to a pan-India presence.

Strength in cashflows to support increased capex requirement

CESC Kolkata hiked fuel surcharge by ~8% in FY25; it has a massive build-up of regulatory deferral balances. Additionally, capex requirements are expected to go up significantly, owing to RE capacity expansion. Our estimate suggests additional ~Rs195bn capex requirement for capacity expansion to 3.2GW by FY29E. We expect overall cash to rise by ~Rs3bn by FY28E, accounting for capex, and believe that internal accruals will be sufficient to support the non-debt funded portion of the required capex. This, in our opinion, obviates any propensity for equity infusion and supports stable regulatory PAT growth. Consequently, we expect net debt/EBITDA to broadly remain stable at 5.2x by FY28E.

Target Price – 12M	Jun-26
Change in TP (%)	**NA**
Current Reco.	BUY
Previous Reco.	NA
Upside/(Downside) (%)	28.6

Stock Data	**CESC IN**
52-week High (Rs)	213
52-week Low (Rs)	119
Shares outstanding (mn)	1,325.6
Market-cap (Rs bn)	232
Market-cap (USD mn)	2,687
Net-debt, FY26E (Rs mn)	141,740.8
ADTV-3M (mn shares)	4
ADTV-3M (Rs mn)	728.9
ADTV-3M (USD mn)	8.4
Free float (%)	93.4
Nifty-50	25,062.1
INR/USD	86.4

Shareholding,Mar-25	
Promoters (%)	52.1
FPIs/MFs (%)	11.0/25.1

Price Performance			
(%)	**1M**	**3M**	**12M**
Absolute	5.2	10.4	3.9
Rel. to Nifty	5.9	5.9	1.1

1-Year share price trend (Rs)

CESC: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	152,932	170,010	187,547	200,657	222,880
EBITDA	21,254	26,890	34,500	39,515	44,868
Adj. PAT	13,765	13,690	15,771	17,356	18,674
Adj. EPS (Rs)	10.3	10.3	11.8	13.0	14.0
EBITDA margin (%)	13.9	15.8	18.4	19.7	20.1
EBITDA growth (%)	(1.1)	26.5	28.3	14.5	13.5
Adj. EPS growth (%)	2.5	(0.5)	15.2	10.0	7.6
RoE (%)	12.3	11.7	12.8	13.2	13.3
RoIC (%)	3.4	5.2	7.1	8.0	7.5
P/E (x)	16.9	17.2	14.8	13.4	12.5
EV/EBITDA (x)	16.5	13.8	10.9	10.6	10.4
P/B (x)	2.0	1.9	1.8	1.7	1.6
FCFF yield (%)	5.1	1.3	4.1	(5.9)	(5.6)

Source: Company, Emkay Research

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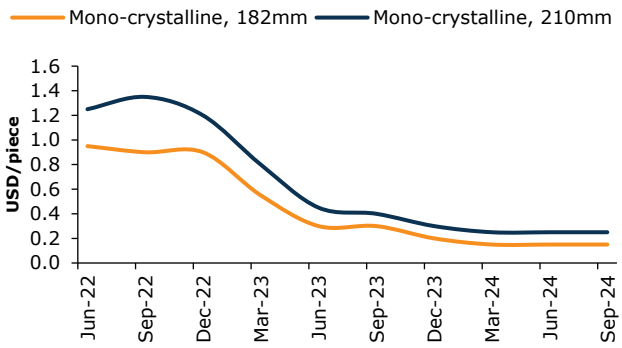
Renewed optimism with renewables

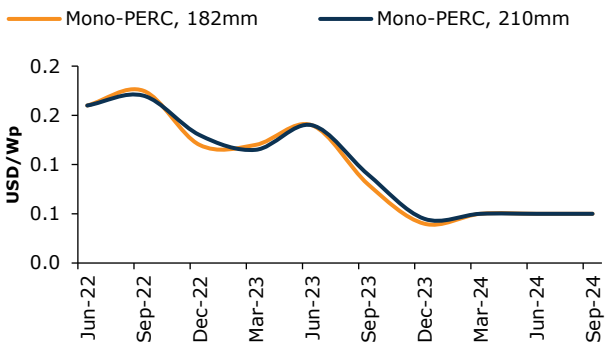
The company has made its plans clear regarding a strong entry into the RE space. This approach, which comes at a time when RE costs have been falling across the spectrum, is being supported by aggressive acquisitions in this domain which have enabled CESC to make significant strides in expanding its RE footprint. During the last fiscal year, the company signed framework agreements with Inox Wind, Suzlon Energy, and Envision for 3.5GW of wind turbines, an agreement for acquiring Bhojraj Renewables to develop 450MW of hybrid projects; it acquired Deshraj Solar to develop a 300MW solar project. The company also acquired Bhadla Green to establish 300MW solar parks in Rajasthan.

Exhibit 1: Falling wafer prices



Source: Waaree Energies DRHP, Emkay Research

Exhibit 2: Falling cell prices



Source: Waaree Energies DRHP, Emkay Research

Expansion plans – On track with PPA security

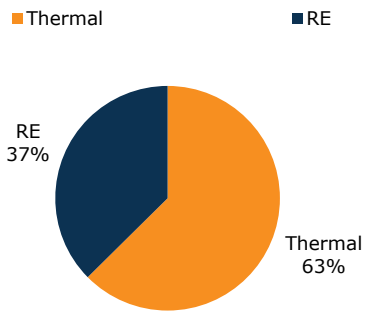
The company's RE expansion plans will be executed in two phases. Phase I consists of 3.2GW of RE projects which will be executed in two sub-phases. Sub-phase I, for which the letters of award (LOA) have been issued and the PPAs have been signed, will take capacity to 1.2GW by FY27. The company has received regulatory approval for capacity of 750MW, while for the remaining 450MW, it is in the process of re-filing for approval (post-rejection due to technical issues). Purvah Green will sign PPAs with CESC and Noida Power (NPCL, a direct subsidiary), making the power offtake in this sub-phase fully captive. Further, CESC has also applied for 6.3GW of grid connectivity across phases 1 and 2.

Sub-phase II, which has a tentative timeline of FY29, will increase the total capacity to 3.2GW. The company also targets for power from sub-phase II to be fully captive. Ensuring that the significant power output from phase I is fully captive will provide material advantages in terms of cost-savings, enhanced energy security, uninterrupted power supply, and reduced reliance on external grids.

Phase II currently has an expected execution timeline of FY32 and will take the set-up capacity to 10GW, with wind capacity contributing to two-thirds of the overall RE capacity.

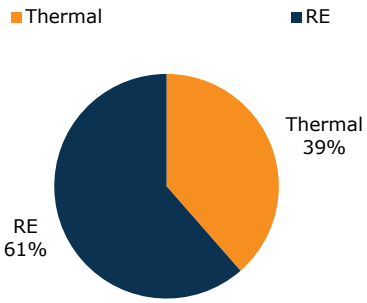
We believe that a strong focus on signing PPAs for power offtake is making a significant chunk of the offtake fully captive, thereby realizing internal synergies and a strong pipeline of RE projects expected to enhance the RE power mix – these augur well for the RE operations of the company.

Exhibit 3: CESC's installed capacity mix – FY27E



Source: Company, Emkay Research

Exhibit 4: CESC's installed capacity mix – FY29E



Source: Company, Emkay Research

Distribution – Strategic vision with a pan-India expansion

Currently, CESC operates three distribution licenses, namely Kolkata, Noida, and Chandigarh under the regulated equity framework and four distribution facilities in Rajasthan and Malegaon. Noida Power, which operates as a direct subsidiary of the company and is the sole power distributor in Greater Noida, is expected to be a key beneficiary of the RE transition through its PPA with Purvah Green.

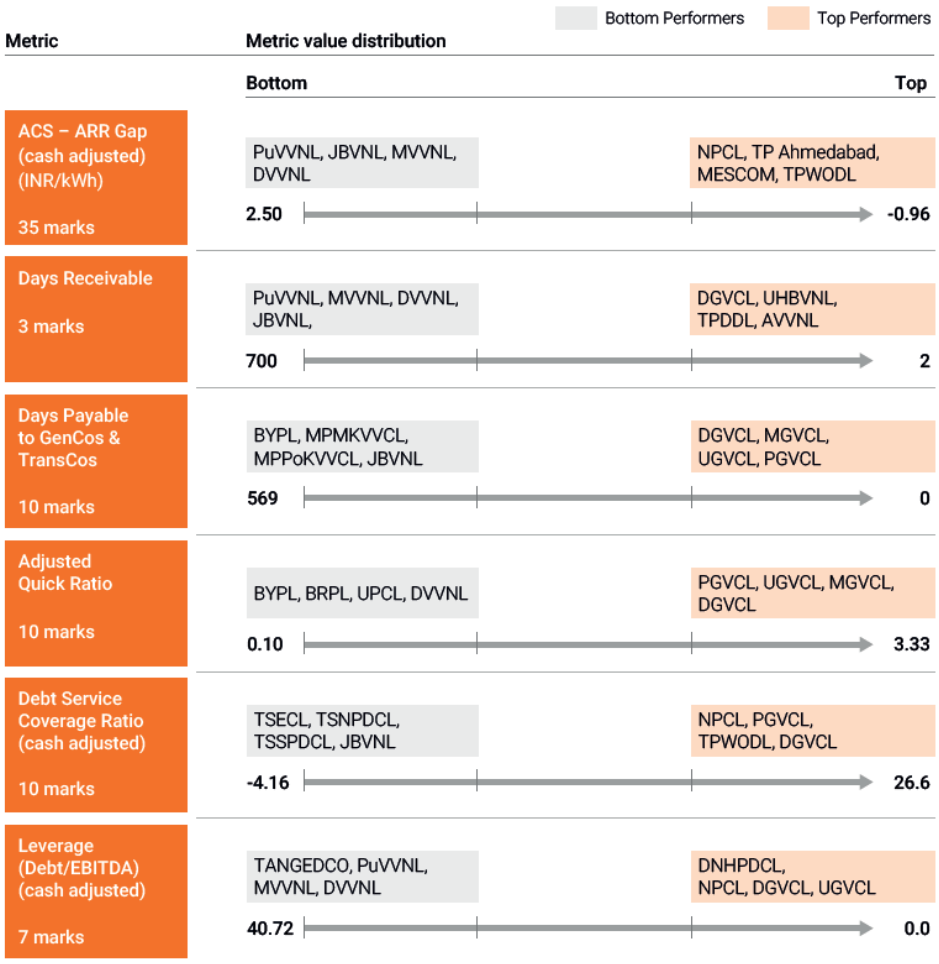
Further, NPCL has been ranked among the top performing DISCOMs on various metrics such as the gap between average cost of supply and average revenue received (ACS-ARR gap), debt service coverage ratio (DSCR), and leverage – placing it at the 7th position with a rating of A+ per the 11th and 12th Annual Integrated Rankings for DISCOMs, provided by the Ministry of Power. Additionally, NPCL and CESC Kolkata also have significantly low T&D losses at 7.5%/6.5% respectively, compared to the national average of ~16%.

Exhibit 5: 11th and 12th Annual Integrated Rating and Ranking for DISCOMs, provided by the Ministry of Power

Rank-11th exercise	Rank-12th exercise	Utility	States	Ownership	11th ratings score	12th ratings score
1	1	AEML	Maharashtra	Private	99.6 | A+	99.9 | A+
-	2	Torrent Power Surat	Gujarat	Private	-	99.6 | A+
-	3	Torrent Power Ahmedabad	Gujarat	Private	-	99.5 | A+
6	4	DGVCL	Gujarat	State	93.8 | A+	98.3 | A+
2	5	UGVCL	Gujarat	State	99.1 | A+	97.4 | A+
3	6	MGVCL	Gujarat	State	97.6 | A+	97.3 | A+
7	**7**	**NPCL**	**Uttar Pradesh**	**Private**	**93.3 | A+**	**95.1 | A+**
5	8	PGVCL	Gujarat	State	94.0 | A+	92.3 | A+
NA	9	TPCODL	Odisha	Private	51.8 | B	91.1 | A+
NA	10	TPWODL	Odisha	Private	87.2 | A+	91.1 | A+
10	11	UHBVNL	Haryana	State	87.6 | A+	88.0 | A+
9	12	DHBVNL	Haryana	State	89.3 | A+	86.7 | A+
15	13	MESCOM	Karnataka	State	73.9 | A	84.0 | A
13	14	TPDDL	Delhi	Private	79.0 | A	80.2 | A
28	15	MPPaKVVCL	Madhya Pradesh	State	50.0 | B-	73.8 | A
22	16	APEPDCL	Andhra Pradesh	State	57.8 | B	71.2 | A
19	17	AVVNL	Rajasthan	State	62.1 | B	63.3 | B
18	18	CHESCOM	Karnataka	State	62.5 | B	62.5 | B
NA	19	TPSODL	Odisha	Private	79.3 | A	62.1 | B
11	20	PSPCL	Punjab	State	83.8 | A	61.6 | B
32	21	PVVNL	Uttar Pradesh	State	35.5 | B-	59.3 | B
37	22	MPMKVVCL	Madhya Pradesh	State	23.4 | C	50.9 | B
29	23	JVVNL	Rajasthan	State	42.8 | B-	50.8 | B
27	24	BRPL	Delhi	Private	68.8 | B-	70.8 | B-2
26	25	BYPL	Delhi	Private	69.1 | B-	70.8 | B-2

Source: PFC, Emkay Research

Exhibit 6: Financial sustainability of DISCOMs



Source: PFC, Emkay Research

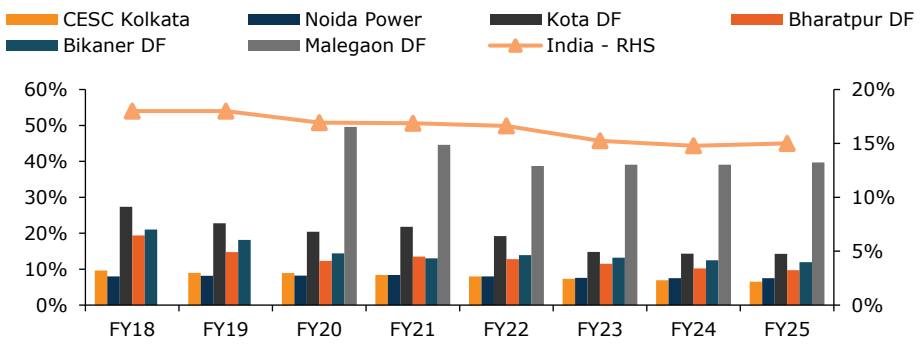
Additionally, the company operates four other distribution facilities through its subsidiaries under the distribution franchisee (DF) route – in Bharatpur, Bikaner, Kota, and Malegaon. The Malegaon facility, which commenced operations in 2020 and has been in financial distress with negative profits and exorbitantly high transmission and distribution losses at 39% (T&D), has been a key area of concern. The Rajasthan franchise became profitable and clocked an EBITDA of ~Rs1bn for the first time in FY25. At the same time, the management is also focused on turning around the Malegaon facility ahead.

Further, the company, through its subsidiary Eminent Electricity Distribution (EEDL) has recently acquired a 100% stake in Chandigarh Power Distribution (CPDL), which is the sole power distributor in the area.

At the same time, the company further aims to bid actively for more distribution licenses in Uttar Pradesh, especially as the state looks toward privatizing the power distribution space to improve efficiency and reduce losses. The UP government has already given a go-ahead for the privatization of Purvanchal (PUVVNL) and Dakshinanchal (DVVNL). The state is looking to revamp the sector aggressively, accounting for a major portion of the capex (~Rs220bn over FY22-25, ~55% of the total sanctioned capex) and equity infusion as of FY25.

We believe that with a clear guidance on moving away from loss-making segments and narrowing down its focus on constructive business operations, along with plans to expand its distribution footprint to achieve a pan-India presence, the company will benefit from improved and enhanced distribution operations.

Exhibit 7: T&D losses – CESC plants vs all-India



Source: Company, CEA, Emkay Research

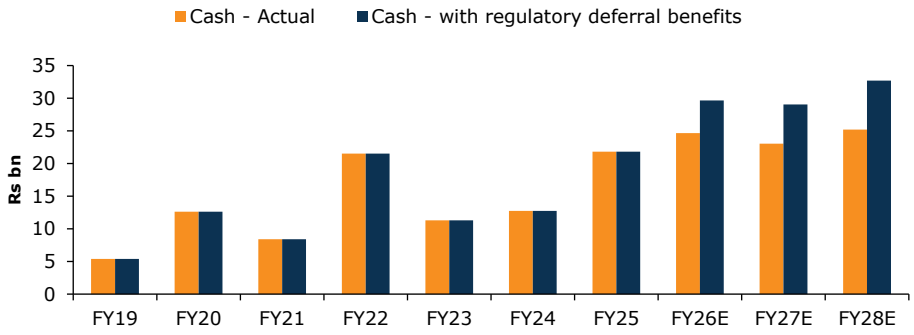
Cashflow boost – Strong support for increased capex

CESC Kolkata hiked fuel surcharge by ~8% in FY25 for its thermal operations, which fall under the regulated and assured ROE business. Also, there was a massive build-up of regulatory deferral balances of ~Rs77bn as of Mar-25.

The capex requirements at the firm have also gone up significantly, especially as the company looks to expand its RE operations. The capex requirement per the management guidance is pegged at ~Rs85bn for 1.2GW of capacity to be commissioned by FY27. We further estimate capex requirement at ~Rs100bn for the remaining phase I expansion of up to 3.2GW and an additional ~Rs410bn for commissioning of the phase II capacity of 6.8GW.

The company plans to fund 80% of the RE capex through debt and the remaining 20% through self-generated cashflows. The company also expects regulatory income to reduce, owing to higher sales of renewable energy, thereby leading to a cash flow boost over the next 3-4Y. We believe that this cash flow boost will enable CESC to fund the increased capex requirements through internal accruals.

Exhibit 8: Closing cash balances – Actual and with regulatory deferral benefits



Source: Company, Emkay Research

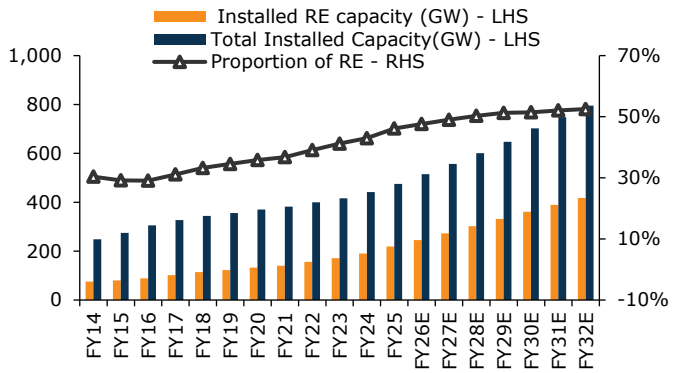
Thermal operations – stable generation with high PLF

The company's thermal power plants, encompassing Kolkata facilities (including Haldia) and the Chandrapur facility, operate at significantly higher plant load factor (PLF) of ~86%, compared to the national average of ~70%. Further, Chandrapur's medium-term PPA with the Railways, which expired in Mar-25, was renewed at higher tariffs, leading to an expected annual PAT increase of ~Rs1bn. These power plants have been ranked among the top thermal facilities in the country (Haldia ranked #1 in Jun'25 by CEA in terms of PLF at 91%), owing to their efficient and stable power generation.

Since the incorporation of renewable energy into the same grid, thermal power plants have had to play an important role in grid balancing by operating flexibly due to the intermittent nature of renewable energy. This has led to a reduction in the operating PLF of thermal plants.

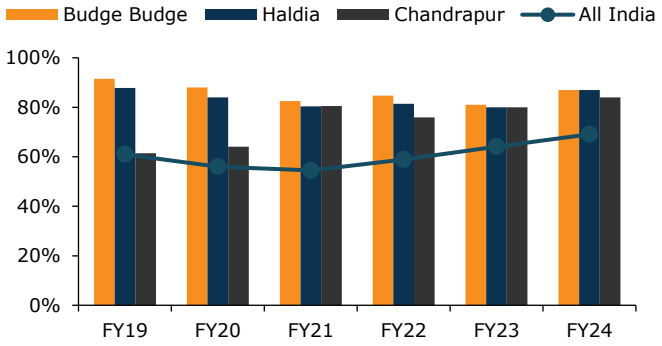
Our opinion is that with the advantage of significantly higher PLF, the company's thermal facilities will continue to have an edge in terms of efficient power generation even if the thermal PLFs start reducing and hence, will be better placed to provide higher base load power as power demand continues to surge.

Exhibit 9: Increasing share of installed RE capacity as of fiscal year end*



Source: CEA, Emkay Research **Includes large Hydro*

Exhibit 10: Thermal PLF – CESC plants vs all-India

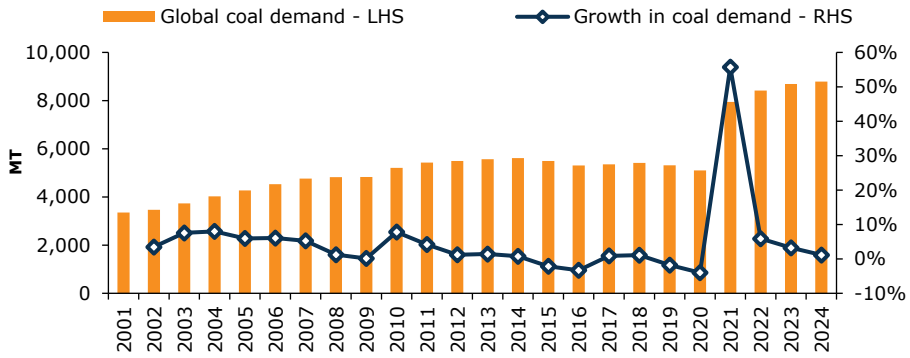


Source: Company, CEA, Emkay Research

Falling coal prices – Positive for the thermal business

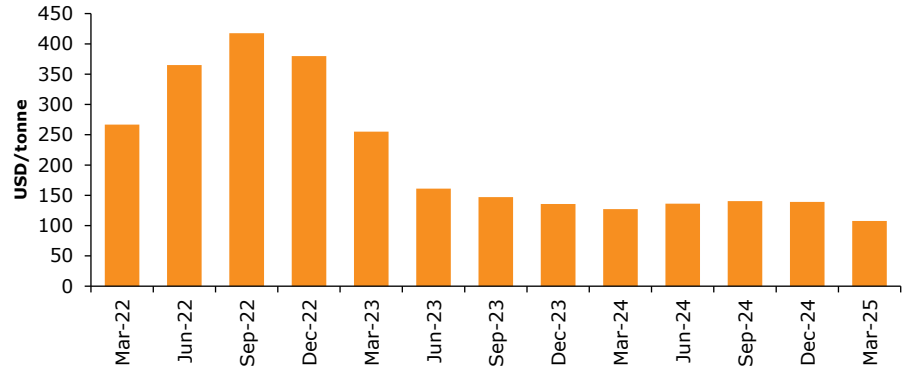
The transition to renewable energy across the globe is leading to a notable shift in demand away from coal. Consequently, we expect coal prices to fall by ~15% over the next 2-3Y. Even though the company sources coal from its two captive coal mines through long-term fuel supply agreements (FSAs) with Coal India (CIL), it also resorts to coal purchase through spot auctions conducted by CIL and its subsidiaries. Hence, falling coal prices are expected to act as a tailwind for the company's operating margins (some of these cost benefits could be offset against the regulatory deferral balances though).

Exhibit 11: Yearly global coal demand



Source: IEA, Emkay Research

Exhibit 12: Falling coal prices



Source: Bloomberg, Emkay Research

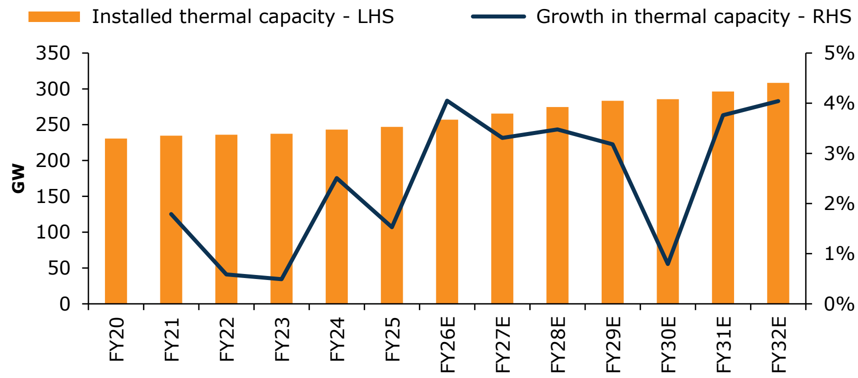
Industry Overview

Thermal power – where it all started

The current installed thermal capacity, which includes coal, gas, lignite, and diesel as fuel sources, in India is ~247GW (as of Mar-25; a CAGR of ~3.5% since 2014). The rate of capacity addition was ~12% initially, however, the strong push toward RE coincided with the moderation in the growth rate. Among thermal sources, coal has been the predominant power source, contributing to ~90% of the total thermal capacity as of FY25.

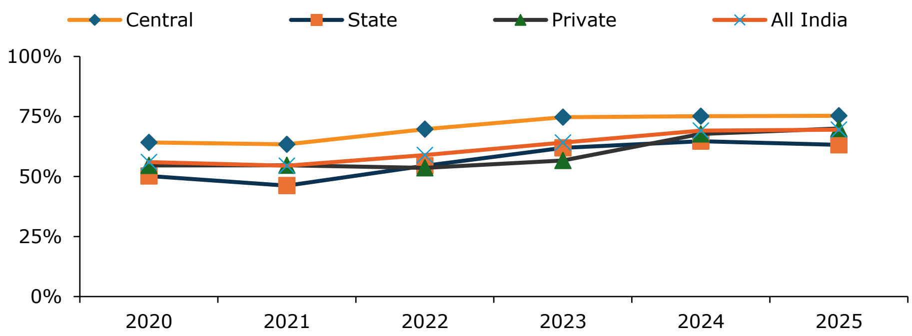
The plant load factor, which is a key determinant of the efficiency of a thermal power plant, currently stands at ~70% in FY25 at an all-India level.

Exhibit 13: All-India installed thermal capacity - projected



Source: CEA, Emkay Research

Exhibit 14: Thermal PLFs at year-end – sector-wise and all-India



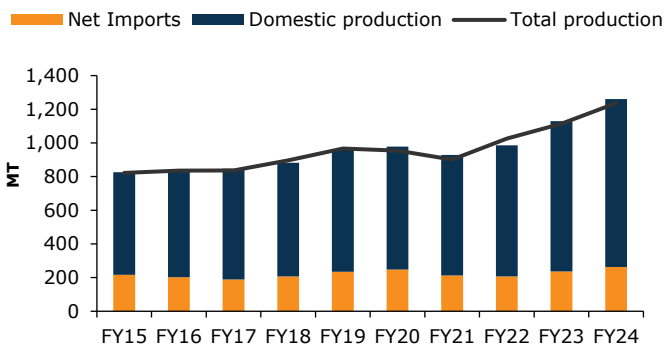
Source: CEA, Emkay Research

While we structurally agree with the clean energy narrative and believe that its growing mix in global power production is both crucial and inevitable, we believe that India's growing energy demands coming from a multitude of sources such as EV adoption, data center growth, growing population, relatively low per-capita power consumption and an impetus to manufacturing will likely prevent a phase-down of thermal power in the medium term.

From a coal demand-supply perspective, the power sector received ~970MT (~11% imports) of coal in FY24 and the total domestic coal consumption stood at ~860MT. The power sector has been the largest consumer of total coal produced at ~85%. Ahead, we think that the ramp-up in coal production will largely be in line with rising coal demand and that supply will broadly be able to match the increased demand emanating from the power sector.

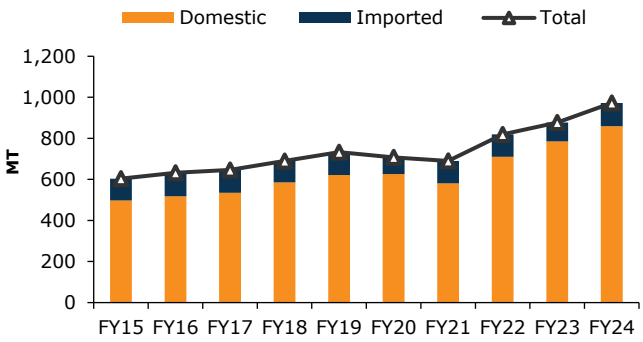
As more RE is integrated into the existing grid network, we believe that thermal PLFs would go down; however, with energy storage systems (ESS) still at a nascent stage, the necessity to meet the rising peak power demand will act as an offset and keep PLFs largely stable at ~70% in the medium term.

Exhibit 15: Yearly coal production and import



Source: MOSPI, Ministry of Coal, Emkay Research

Exhibit 16: Yearly coal dispatch to power sector

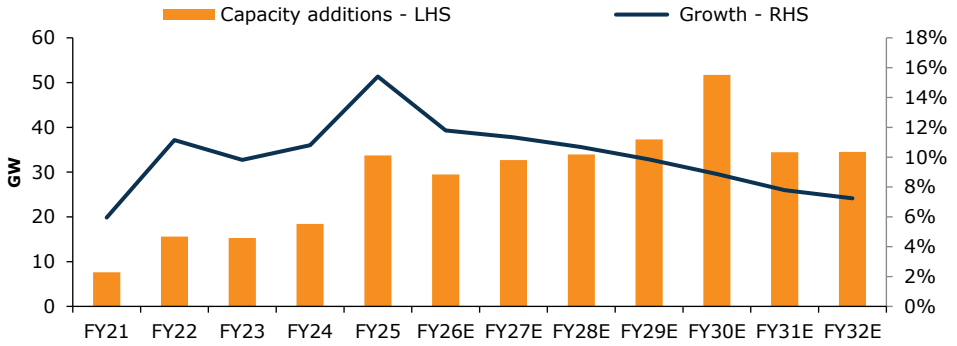


Source: MOSPI, Ministry of Coal, Emkay Research

RE proliferation – Marching toward a cleaner power mix

The renewable energy (RE) capacity in India saw ~14% CAGR over the last 5Y and was ~226GW (as of May-25), with solar contributing to ~52% of RE capacity additions. On the other hand, thermal capacity additions saw a meagre ~1.5% CAGR over the same period. The recent GoI initiatives such as renewable purchase obligations (RPO), National Green Hydrogen Mission (NGHM), waiver of interstate transmission (ISTS) charges, annual tendering of 50GW of RE capacity to fulfil the objective of achieving 500GW of installed non-fossil fuel capacity by FY32, and development of solar parks are expected to bolster the adoption of RE in India.

Exhibit 17: RE capacity addition and growth in installed RE capacity* - projected

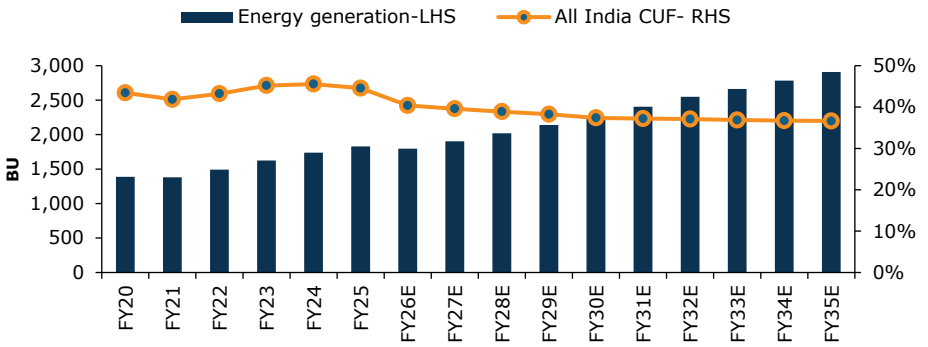


Source: CEA, Emkay Research **Includes large hydro*

Currently, the total installed capacity in India stands at ~479GW (as of Jun-25), of which ~52% comes from fossil fuels (coal, gas, and diesel). The strong growth in RE capacity additions is in line with India's pledge at the COP26 to achieve 50% of installed capacity from non-fossil fuels by CY30 and ultimately aligns with the net-zero emissions target for CY70.

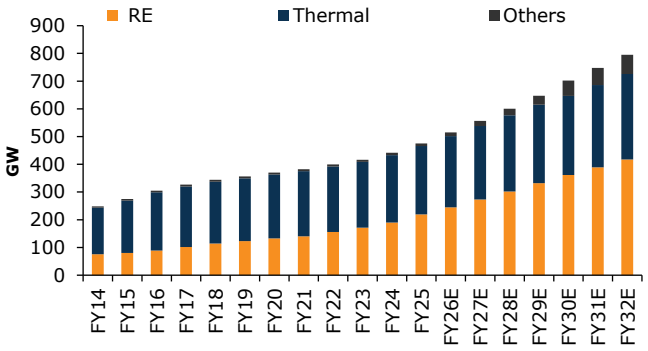
In terms of total power generation, thermal sources contribute ~75%, while the contribution of RE stands at ~17% (excluding large hydro). This is primarily attributable to the much lower load factors of RE sources vs thermal.

Exhibit 18: Energy generation and all-India CUF - projected



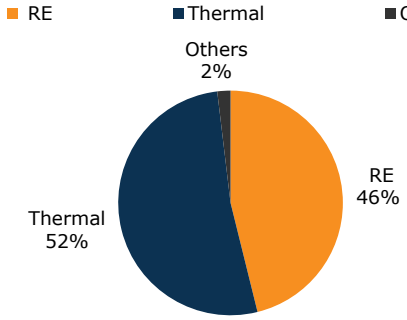
Source: CEA, Emkay Research

Exhibit 19: RE-thermal capacity mix - projected



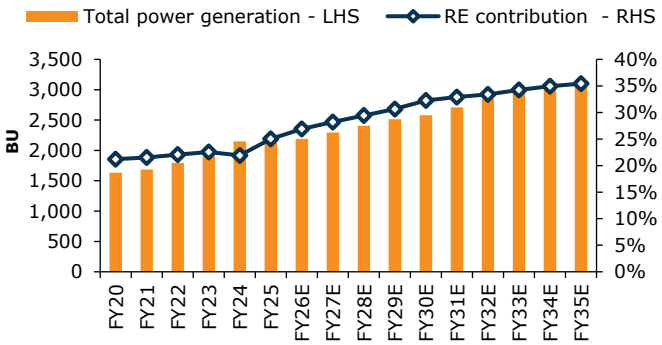
Source: CEA, Emkay Research

Exhibit 20: RE thermal mix – FY25*



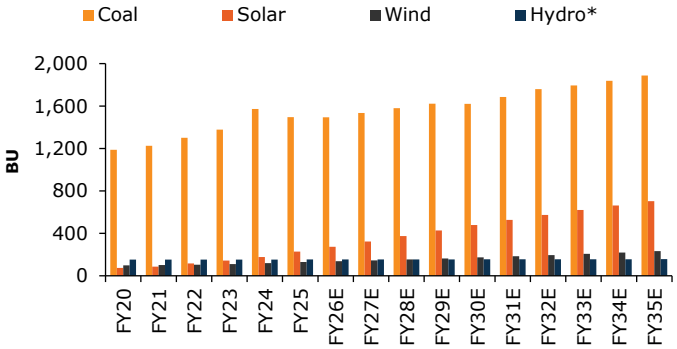
Source: CEA, Emkay Research ** Includes large hydro*

Exhibit 21: Power generation and share of RE – projected*



Source: CEA, Emkay Research **including large hydro*

Exhibit 22: Source-wise power generation – projected*



Source: CEA, Emkay Research **Includes small hydro*

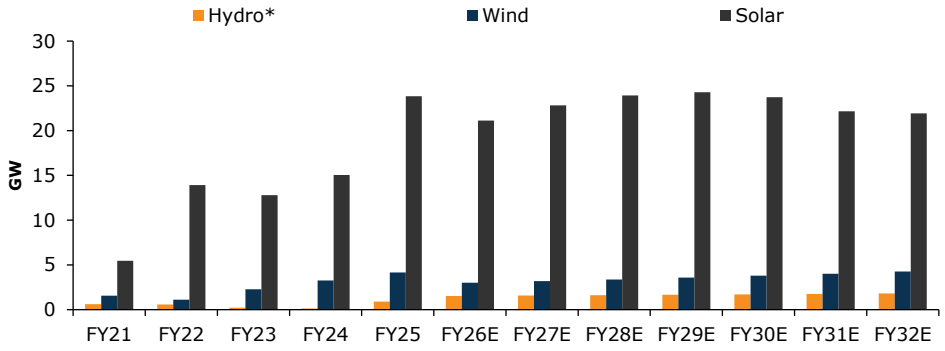
We expect RE capacity (including hydro and biofuels) to grow at ~11% CAGR over FY25-30E and reach ~362GW, while thermal capacity is expected to grow at a more muted CAGR of ~3% over the same period to reach ~285GW. This implies that owing to the strong policy support, ~63% of total capacity additions over FY25-30 will come from RE. Additionally, we also expect RE sources to contribute ~26% toward overall power generation by FY30E (excluding large hydro), owing to capacity additions and CUF improvements on the back of technology advancements. Consequently, we expect RE to contribute ~51% and ~60% of the overall installed capacity excluding and including large hydro, respectively, by FY30E.

Exhibit 23: Energy generation under peak load– projected

Source (BU)	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E	FY30E
Coal	1,188	1,225	1,301	1,378	1,573	1,495	1,493	1,535	1,580	1,622	1,621
Gas	54	54	54	54	54	53	55	56	58	59	61
Large hydro	138	140	141	142	142	144	149	153	158	162	167
Small hydro	14	14	15	15	15	15	16	16	16	17	17
Wind	98	102	105	111	119	130	137	146	154	164	174
Solar	75	87	117	144	177	228	274	323	375	427	479
Biomass/Bagasse	21	22	22	22	22	23	24	24	25	25	25
Nuclear	44	44	44	44	53	53	53	56	59	63	66
RE*	346	364	399	434	475	541	599	662	728	795	862
Total power generation	**1,632**	**1,687**	**1,798**	**1,909**	**2,155**	**2,142**	**2,200**	**2,309**	**2,426**	**2,539**	**2,610**
RE% share*	**21**	**22**	**22**	**23**	**22**	**25**	**27**	**29**	**30**	**31**	**33**

Source: CEA, Emkay Research **Includes large hydro*

Exhibit 24: Yearly RE capacity addition split by source* - projected



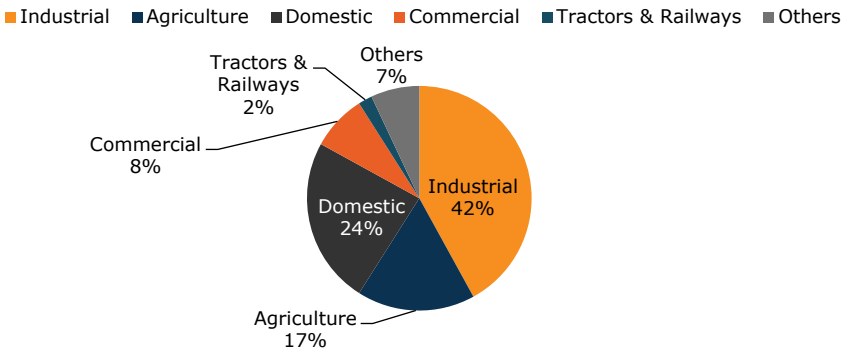
Source: CEA, Emkay Research **Includes small hydro*

Surging power demand – Certainty in an uncertain world

Being a developing nation with expanding economic activity, India has witnessed ~4% CAGR in electricity demand growth over the last decade. Ahead, we expect power demand to grow at ~7% CAGR over FY25-30E, owing to rapid industrialization, growing population, the government's focus on domestic manufacturing through the "Make in India campaign", growth in data centers, and EV adoption.

The four major segments consuming power are– industrial, commercial, domestic, and agricultural. As of FY24, these sectors accounted for ~42%, ~8%, ~24%, and ~17%, respectively, of the total energy consumed in the country.

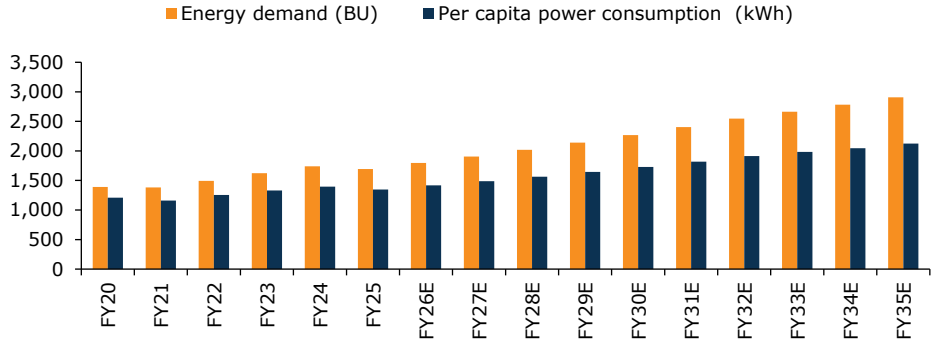
Exhibit 25: Energy consumption split by sector



Source: MOSPI, Emkay Research

The per-capita power consumption in India, which continues to be low vs its global peers has grown to 1,395kWh in FY24, from 1,010kWh in FY15, at ~3.7% CAGR. We expect that with a further push to manufacturing and growing power demand, the per-capita consumption will see a CAGR of 5% and increase to ~2,200kWh by FY35.

Exhibit 26: Rising energy demand and per-capita power consumption - projected

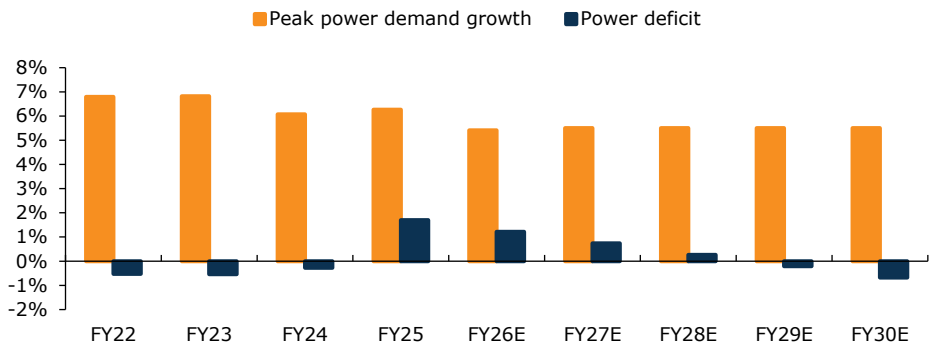


Source: CEA, Emkay Research

Peak power dynamics – Balancing act between ESS and thermal

The overall power deficit has shown a narrowing trend and stood at 0.3% in CY23, down from 0.7% in CY17. Peak power demand also saw a CAGR of ~6.5% over FY20-25 and reached 250GW in May-24. The growing adoption of RE could present some difficulties in meeting peak power demand, especially in the evenings due to its intermittent nature. With peak power demand expected to reach ~400GW by FY35, we believe that the addition of RE capacity needs to be supported by a well-balanced energy storage (ESS) ecosystem to fulfil peak power requirements and supply round-the-clock (RTC) power. In addition to the current sources of power consumption, increased power requirements are expected to arise from increasing electric vehicle (EV) adoption and burgeoning data center growth.

Exhibit 27: Peak power demand growth and power deficit - projected



Source: CEA, Emkay Research

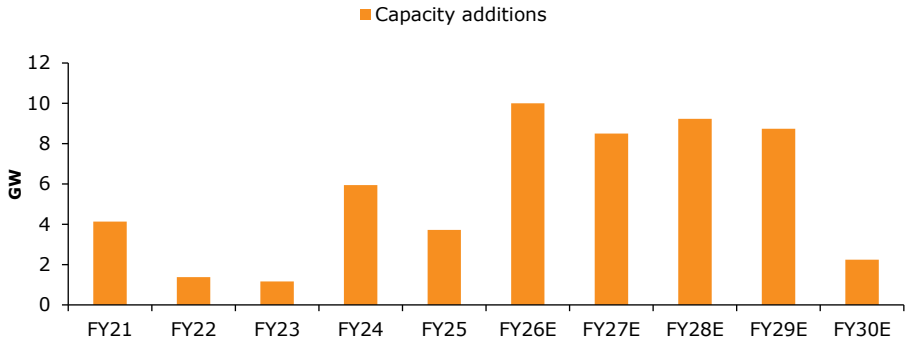
As businesses continue to expand, the need for computing equipment to manage platforms for selling products, running operations and applications (internal and web-based) reinforces the need for centralization of resources for effective management. The capacity of data centers in India stood at ~966MW as of FY23 (a CAGR of ~32% over FY20-23).

Growing EV adoption across passenger vehicles (PVs) and two wheelers (2Ws) in the country will also require additional power for recharging of batteries. Various government schemes such as the PLI scheme with a total outlay of Rs240bn for PV module manufacturing and ~Rs2trn overall for renewable energy over FY22-27, PM E-Drive scheme with a spend of Rs110bn over FY25-26, and the support of Rs181bn for manufacturing Advanced Chemistry Cell (ACC) batteries to establish a 50GWh capacity have provided a much needed initial thrust for the adoption of EVs in the country. Though the penetration rates continue to be modest, as battery technology, payback periods, and charging infrastructure improve, we expect a deeper penetration of EVs, especially in the 2W space where unit economics are more favorable.

We expect that by FY30E, data centers and EVs will contribute ~7% of the total peak demand and ~7% of the total energy consumption.

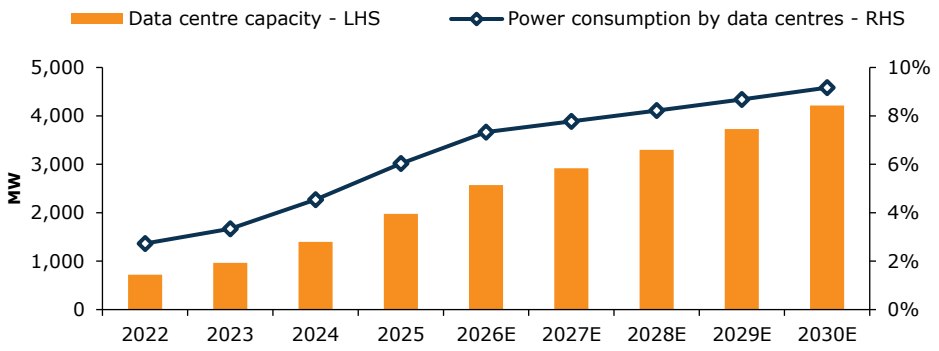
Further, with integration of RE power into the existing grid network, the onus of grid load balancing will fall on thermal power, to provide flexibility in meeting peak power requirements, especially with longer gestation periods (~36-42 months on average), and approval/execution delays associated with energy storage systems. We expect thermal capacity addition of ~40GW till FY30E.

Exhibit 28: Annual thermal capacity additions



Source: CEA, Emkay Research

Exhibit 29: Rise in data center capacity and share in power consumption - projected



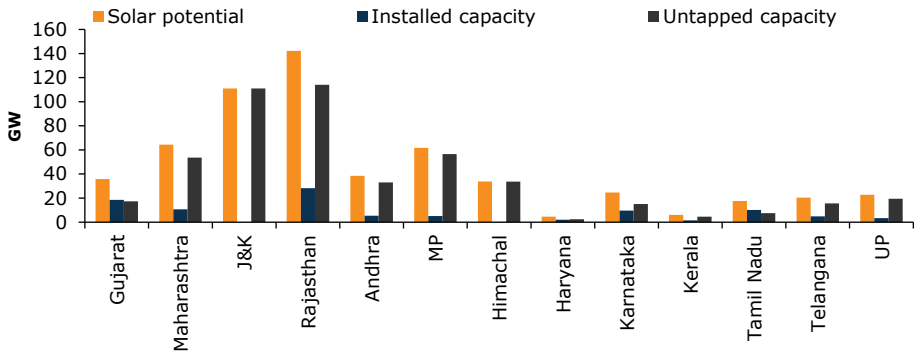
Source: Emkay Research

Solar Power – Topping the RE leaderboard

Solar capacity has been the key driver of India's transition toward RE, with a CAGR of ~25% over FY20-25. The accelerated adoption of solar energy in India is largely driven by the huge solar potential of ~750GW, falling solar module prices leading to lower costs of generation, and the strong regulatory momentum from key policies.

India has been able to currently tap into only ~14% of the total solar power potential. Some of the key states with huge untapped potential include Gujarat, Maharashtra, Rajasthan, Andhra Pradesh, and Madhya Pradesh.

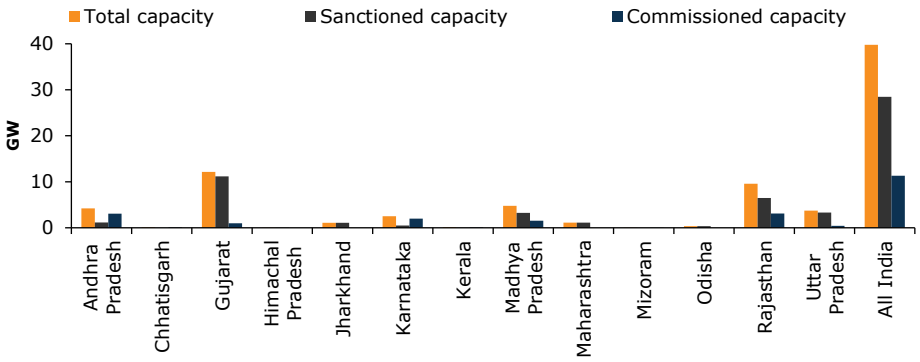
Exhibit 30: Installed and untapped solar power potential for major states



Source: CEA, Emkay Research

Regulatory policies have also provided significant tailwinds to the solar power segment in the country. The scheme for development of 51 solar parks aims at establishing ~38GW of solar parks by FY26; however, the commissioned capacity as of Apr-24 was ~12GW. Additionally, policies like the Approved List of Module Manufacturers (ALMM), Domestic Content Requirement (DCR), and imposition of Basic Customs Duty (BCD) of 25% on cells and 40% on modules, along with PLI benefits, and waiver of ISTS charges are expected to provide a guaranteed market by fostering demand and supporting domestic manufacturing by reducing competition with imports.

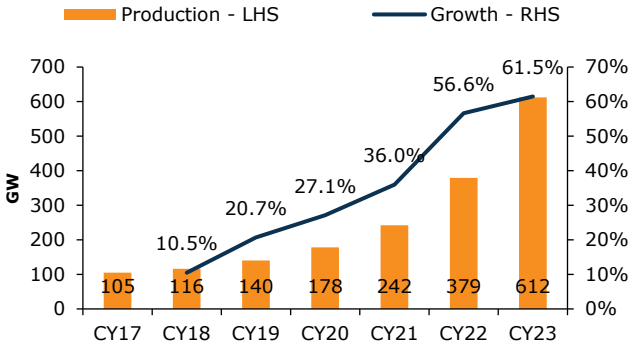
Exhibit 31: Sanctioned and commissioned solar park capacity – major states and all-India



Source: CEA, Emkay Research

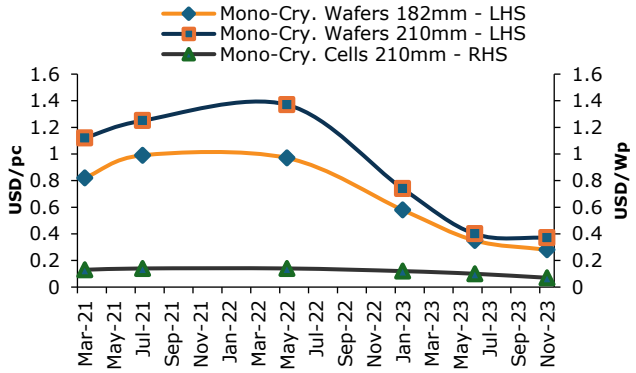
The prices of solar modules, which constitute ~55-60% of the total system cost, plummeted by ~73% to USD0.22/Wp by Aug-19, from USD1.78/Wp in 2010, owing to a supply glut in the global solar module manufacturing industry. The prices declined further owing to technological advancements and a ramp-up in backward integration toward cells and wafers, reaching USD0.09/Wp in Jun-24. Domestic module prices also followed a similar trend, declining to USD0.14/Wp by Jun-24. Given low entry barriers in module manufacturing, we expect the demand-supply imbalance to persist in the short-medium term, keeping the prices largely stable at current levels. The reduced solar power tariffs (currently at ~Rs2.5) are much lower than thermal power tariffs and the gap between the two has continued to grow, driven by falling solar prices.

Exhibit 32: Global solar module production and growth in installations



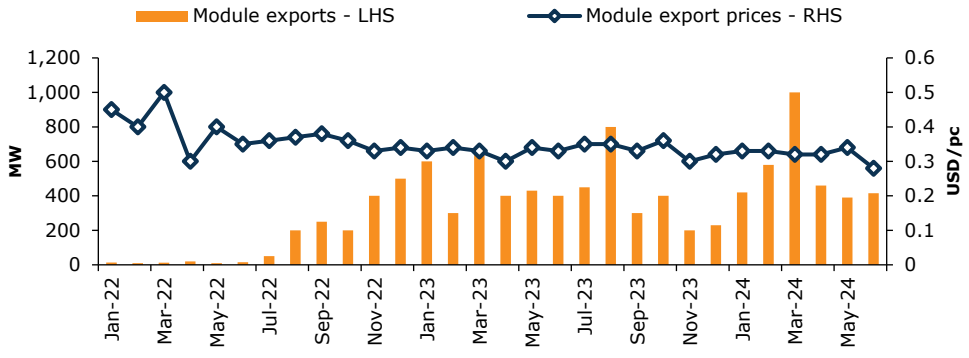
Source: Premier Energies DRHP, Emkay Research

Exhibit 33: Falling wafer and cell prices



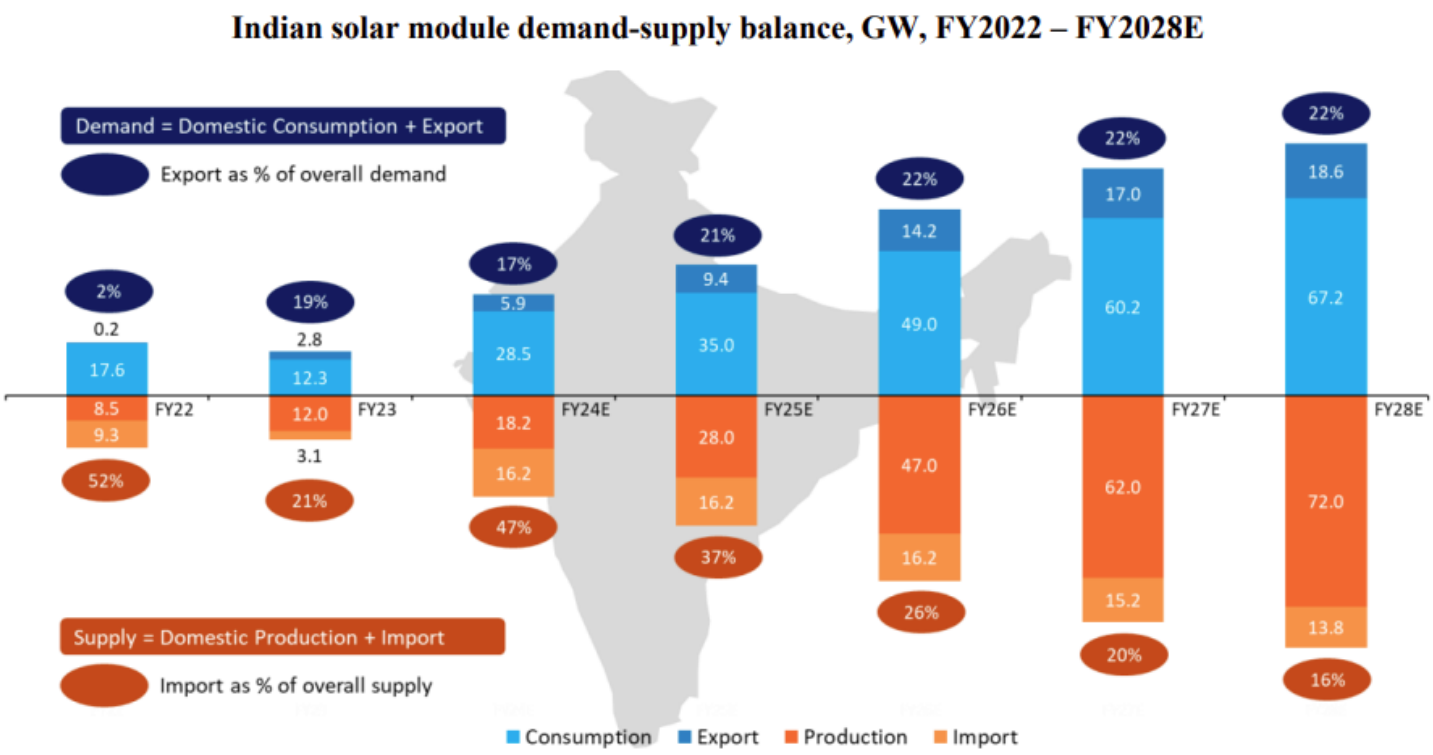
Source: Premier Energies DRHP, Emkay Research

Exhibit 34: Solar module exports and falling export prices



Source: Premier Energies DRHP, Emkay Research

Exhibit 35: India's solar module demand-supply balance – projected



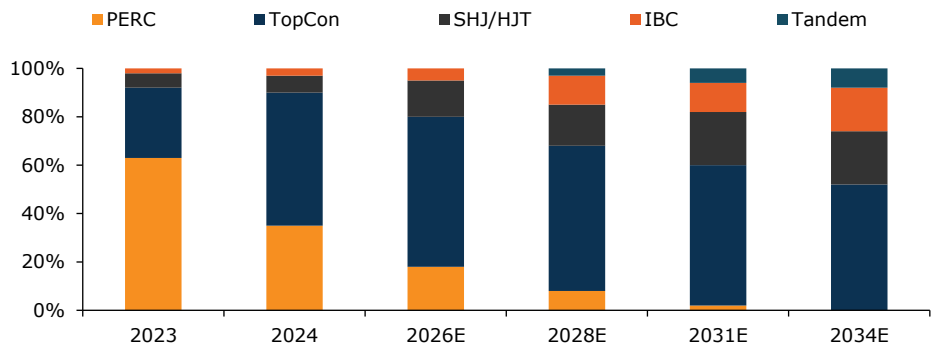
Source: Premier Energies DRHP, Emkay Research

Exhibit 36: Comparison of popular solar cell technologies

PARAMETERS	PERC	TOPCon	HJT
Cell Efficiency	23.2% - 23.7%	24.5% - 25.3%	24.5% - 25.2%
Module Efficiency	20.0% - 21.5%	22.0% - 23.0%	22.0% - 23.0%
Bi-faciality	70% - 75%	80% - 85%	80% - 90%
Complexity	Moderately complex	Less than HJT	Most complex
Low Light Performance	Good	Very good	Excellent
Suited for Climate	Moderately complex	Hot and Cold	Hot and Cold
Temperature Coefficient of Power (Pmax Temperature Co-efficient)	> 0.35%/ºC > PERC cells experience a more noticeable power decline at elevated temperatures	> 0.29%/ºC > Offers a significant power improvement over PERC cells at elevated temperatures	> 0.24% to -0.26%/ºC > Lowest temperature coefficient - HJT cells experience minimal power loss even at high temperatures

Source: Premier Energies DRHP, Emkay Research

Exhibit 37: Projected penetration of popular solar cell technologies



Source: Premier Energies DRHP, Emkay Research

Solar cell prices have also continued to fall (from USD0.16 in Jun-22 to USD0.05 in Sep-24), albeit at a slower pace given the comparative tightness in demand-supply balance vs solar modules. India's current cell production capacity is limited at ~25GW as of Feb-25, with ~90% of the requirement being met through imports. Overall, installations for upstream components—wafer and ingots—are also at a very nascent stage, with total commissioned capacity of ~2GW as of Mar-25. However, we believe that the ramp-up in capacity of upstream components will lead to improved self-reliance and abatement of supply-chain concentration risk.

Energy Storage Systems – A necessary cog in the RE wheel

Renewable energy, though a clear priority for most countries including India, has a notable shortcoming owing to its intermittent nature. Despite the presence of abundant sunshine, impediments to harnessing the full potential of solar power plants stem from their inability to generate power during evenings. Similarly, the availability of wind energy varies due to fluctuating wind speeds and other environmental factors.

Further, with the integration of RE into the existing grid network, in the absence of any additional fallback, thermal power plants will have to bear the critical responsibility of grid balancing by maintaining flexibility in operations. In doing so, thermal facilities will often have to operate at lower PLFs. At such times, the role of ESS becomes crucial to meet the growing peak power demand in the country.

India's identified pumped storage hydro (PSH) potential is ~125GW; however, the current constructed capacity stands at ~5GW, all being on river. The total capacity – operational and under various stages was at ~83GW as of FY25. Most of this capacity was awaiting the submission of detailed project reports (DPR) in CY25, following which the construction and commissioning of a typical PSH project takes ~4Y. The Central Electricity Authority (CEA) plans to concur with DPRs for a minimum of 13 PSPs, totaling to ~22GW, which are then expected to be commissioned by end-CY29. We think that owing to the complexities involved during the commissioning process (which could lead to potential delays), India will likely have an installed PSP capacity of ~25GW by end-CY30 in the base case.

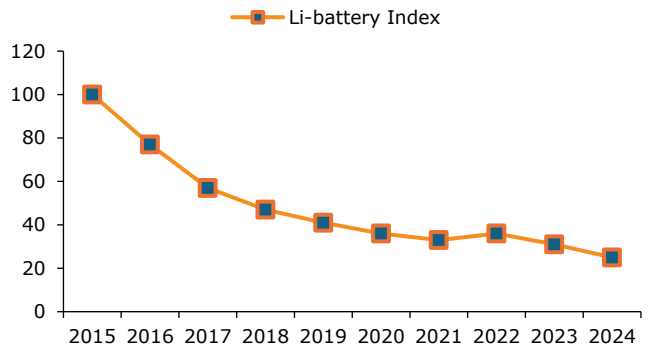
Exhibit 38: On-river and off-river pumped storage hydro capacity* in various stages

	Constructed (MW)		Other Stages (MW)		
Project name	**In pumping mode**	**Not in pumping mode**	**Under active construction**	**DPR concurred by CEA**	**Schemes under survey**
Nagarjuna Sagar	706	-	-	-	-
Srisailam LBPH	900	-	-	-	-
Purulia	900	-	-	-	-
Total	**3,306**	**-**	**-**	**-**	**-**
Sardar Sarovar Project	-	1,200	-	-	-
Total	**-**	**1,440**	**-**	**-**	**-**
Tehri Stage - II	-	-	1,000	-	-
Upper Sileru	-	-	1,350	-	-
Sharavathy	-	-	2,000	-	-
Total	**-**	**-**	**4,850**	**-**	**-**
Turga	-	-	-	1,000	-
Bhavali	-	-	-	1,500	-
Total	**-**	**-**	**-**	**2,500**	**-**
Indirasagar	-	-	-	-	640
Upper Bhavani	-	-	-	-	1,000
Total	**-**	**-**	**-**	**-**	**1,640**

Source: CEA, Emkay Research **Table depicts individual capacities >500MW*

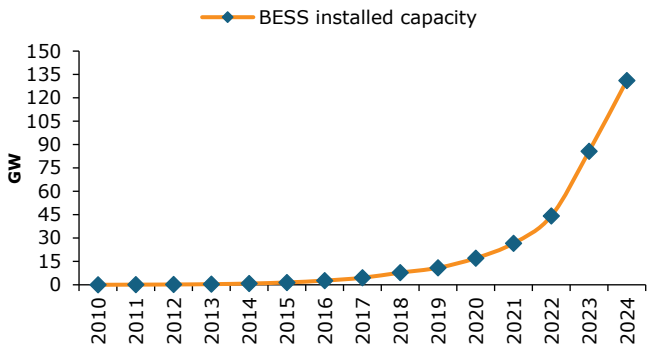
Battery Energy Storage System (BESS) capacity currently stands at ~200MW (including standalone and co-located capacity). In Sep-23, the GoI also approved the Viability Gap funding (VGF) scheme to be run over FY24-26 for the development of 4,000MWh of BESS capacity by FY31, supported by an initial outlay of Rs94bn. The falling cost of battery prices globally which accounts for a major portion of BESS cost has enabled a reduction in the global cost of energy storage. Incidentally, the annual global BESS installations have risen in line. However, given China's dominance in battery supply chain and volatility in commodity prices, we think that BESS capacity growth will continue at a moderate pace in the short to medium term and reach ~25GW by the end-CY30.

Exhibit 39: Falling lithium battery index



Source: IEA, Emkay Research

Exhibit 40: Global BESS installed capacity



Source: IEA, Emkay Research

PSH is typically useful for long duration requirements (~6-10 hours), BESS helps in meeting shorter-term needs (~2-4 hours). Further, PSH has advantages in terms of upfront capex requirements and longer project life, while BESS has advantages in terms of lower maintenance costs and lower gestation periods.

Exhibit 41: Parameter-wise comparison of energy storage systems – BESS vs PSP

Criteria	BESS	PSP
Operation	Stores electricity in batteries and releases it when needed	Pumps water uphill to a reservoir during off-peak hours and releases it to generate electricity during peak demand
Capex	Higher upfront capital costs of ~Rs15-17mn/MWh	Lower capital costs of ~Rs10mn/MWh
Opex	Higher operational costs per kWh	Lower operational costs per kWh
Project Lifespan	Shorter project lifespan (7-12 years)	Longer project lifespan (40+ years)
Location	Location-flexible and can be deployed in various settings, including distributed generation	Site-specific and requires suitable topography and water resources
Efficiency	Higher efficiency (~85-90%)	Lower efficiency (~75-80%)
Land Requirements	Requires less land	Typically requires larger land areas
Gestation Period	Shorter gestation period (1-2 years)	Longer gestation period (5-7 years)
Suitability	Suitable for applications requiring fast response times, renewable energy integration, and distributed generation	Well-suited for large-scale, long-duration energy storage and grid balancing

Source: Emkay Research

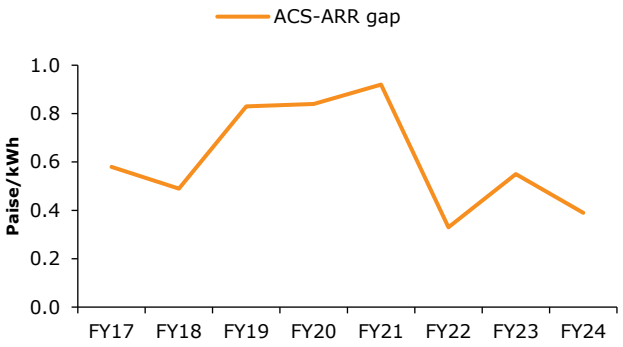
Distribution – Plagued, but back in focus

As per the Electricity Act, enacted in 2003, the distribution activities of the erstwhile State Electricity Boards (SEBs) have been entrusted with separate state government-owned entities (DISCOMs), converting electricity distribution into a local monopoly business. Private participation, though permitted, has largely been limited (~7% by FY20).

These distribution companies procure power from generators through long-term bilateral contracts to meet most of their expected demand. Tariffs for the power procured, however, are regulated by regulatory commissions, except where the tie-up is via competitive bidding.

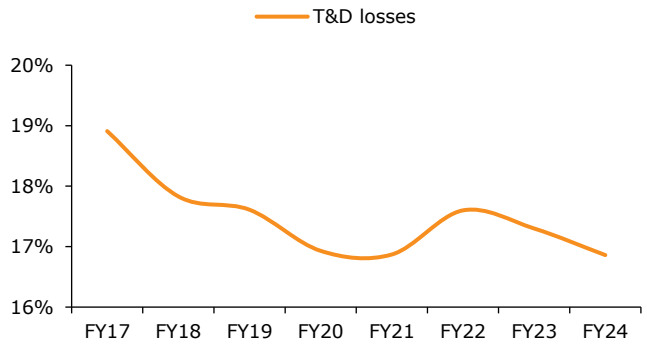
The distribution sector, which provides last-mile dissemination of power, is the key to revenue realization for the entire industry. However, most DISCOMs have continued to register financial losses and have required government bail-out from time to time. This situation primarily arises from aggregate technical and commercial losses (energy transfer losses, thefts, sub-optimal network conditions, systemic inefficiencies) and underpriced tariffs (leading to a gap between average cost of supply and average revenue received).

Exhibit 42: Gap between ACS and ARR



Source: PFC, Emkay Research

Exhibit 43: All-India T&D losses

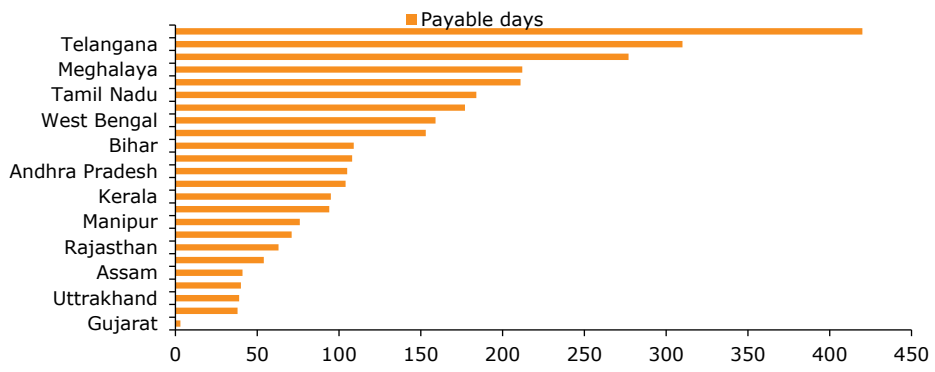


Source: PFC, Emkay Research

The government has implemented various schemes such as the Ujwal DISCOM Assurance Yojana (UDAY), Late Payment Surcharge (LPS), and Revamped Distribution Sector Scheme (RDSS) – with outlay of Rs3trn over FY22-26 to reduce AT&C losses to 12-15% and narrow the ACS-ARR gap. These schemes are primarily aimed at improving the financial health and efficiency of the state DISCOMs.

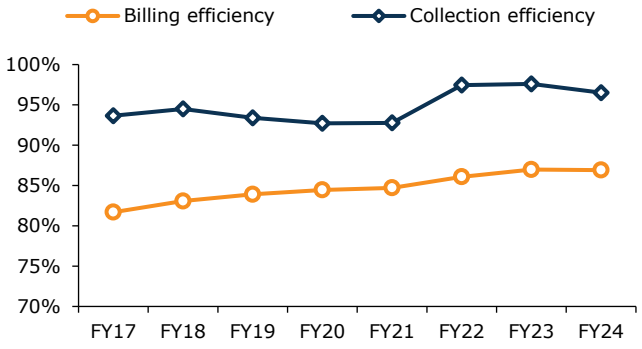
Recognizing the turnaround of DISCOMs post-privatization, with Delhi being a key example, many states have adopted privatization initiatives to improve efficiencies and financial health in the distribution sector. Consequently, the proportion of private DISCOMs rose to ~19% in FY24. We believe that the recent privatization of Chandigarh Power (CPDL) and UPPCL's plans to privatize PUVVNL and DVVNL are reassuring and are steps in the right direction.

Exhibit 44: Number of payable days by state – FY24



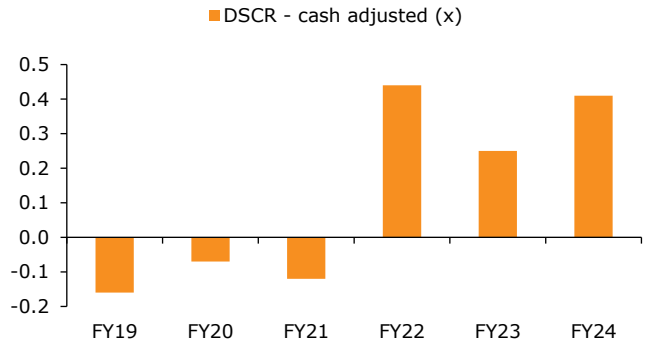
Source: PFC, Emkay Research

Exhibit 45: Improving billing and collection efficiency



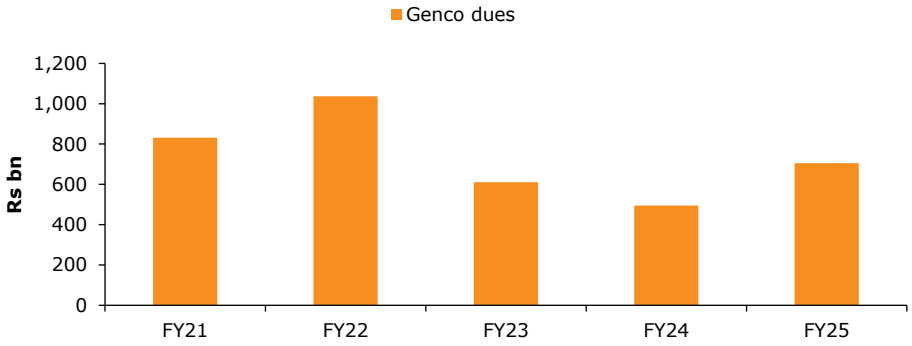
Source: PFC, Emkay Research

Exhibit 46: Cash-adjusted debt service coverage ratio (DSCR)



Source: PFC, Emkay Research

Exhibit 47: Dues payable to generation companies by DISCOMs as of year-end



Source: PFC, Emkay Research

Company Background

Background and Business Model

CESC is one of India's leading energy companies with pan-India operations spanning generation and distribution segments. CESC classifies its operations into three key areas – Kolkata operations, generation projects, and distribution ventures.

As part of Kolkata operations, CESC operates a 750MW generating station at Budge Budge (BBGS) and a 135MW facility at Garden Reach (Southern). Additionally, Haldia Energy (HEL)—a wholly owned subsidiary of the company—operates a 600MW generating plant at Haldia and has a long-term PPA for power offtake with CESC.

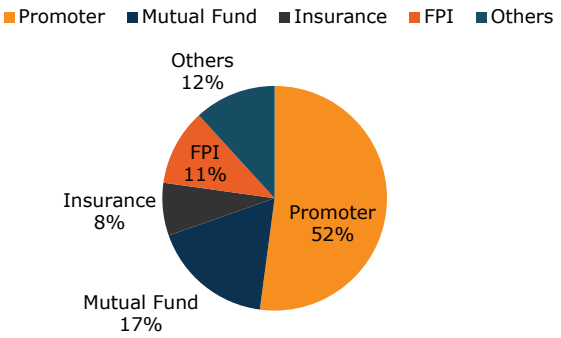
During FY25, ~95% of the generation from these plants came from Haldia and BBGS. Along with highly efficient and stable operations, these plants follow stringent environmental standards through 100% ash utilization and water reuse. CESC's Kolkata distribution infrastructure serves ~3.7mn customers in Kolkata, Hooghly, Howrah, and North and South 24 Parganas in West Bengal.

Apart from Kolkata operations, CESC also has independent generation facilities which include two thermal power plants with capacities of 600MW (2x300MW) and 40MW, along with another solar facility with a capacity of 18MW. The Chandrapur facility, which houses two thermal units of 300MW capacities, is operated by Dhariwal Infrastructure (DIL) – a wholly owned subsidiary of CESC. DIL has long-term PPAs for power offtake with Noida Power (NPCL, 187MW) and Tamil Nadu Generation and Distribution (TANGEDCO, 100MW), along with a medium-term PPA with Central Railways in Maharashtra for a contracted capacity of 210MW which expired in Mar-25 but was renewed later. The 40MW plant in Asansol is an atmospheric fluidized bed combustion (AFBC) based plant that uses inferior coal and washery rejects from the adjacent captive coal mine in Sarisatolli and is operated by CESC's subsidiary, Crescent Power, which operates in the merchant power market. The 18MW plant in Ramanathapuram, Tamil Nadu, is also operated by Crescent Power, which sells power under a long-term PPA to TANGEDCO.

CESC has been operating in the private distribution space through its subsidiary, Noida Power (NPCL), which distributes power in Greater Noida. NPCL operated at consistently lower transmission and distribution (T&D) losses at ~7.5% (as of FY25). In addition, it also operates three distribution facilities in Rajasthan – Kota, Bharatpur, and Bikaner, and another facility in Malegaon, Maharashtra, under the distribution franchisee (DF) route. The Rajasthan DFs have witnessed T&D losses at ~12-13%, while the Malegaon facility has seen considerable losses at ~39%. To focus on constructive operations, the management plans to turn around the facilities' operations and achieve profitability over the next 3Y. The independent distribution ventures (ex-Kolkata) collectively serviced ~1.1mn consumers in FY25. CESC also concluded the acquisition of Chandigarh Power (CPDL) – the sole power distributor in the area, through its subsidiary Eminent Electricity Distribution (EEDL). This acquisition, coupled with plans to bid for more distribution licenses, demonstrates the company's clear intent of expanding its pan-India distribution footprint.

The company has made its plans clear on a strong entry into the RE space. This approach, which comes at a time when RE costs have been falling across the spectrum, is being supported by aggressive acquisitions in this domain. During the last fiscal year, the company signed framework agreements with Inox Wind, Suzlon Energy, and Envision for 3.5GW of wind turbines, an agreement for acquiring Bhojraj Renewables to develop 450MW of hybrid projects; it also acquired Deshraj Solar to develop a 300MW solar project, and Bhadla Green to establish a 300MW solar facility in Rajasthan. The RE operations of the company will be aggregated under its direct subsidiary, Purvah Green Power. CESC has an aggressive target of setting up 10GW of RE capacity (~2/3rd wind and 1/3rd solar) under two phases by FY32. Phase 1 consists of an initial 1.2GW capacity, to be fully operational by FY27 and the remaining 2GW to be set up by FY29. LOAs for the initial capacity have been issued and PPAs have been signed with CESC and NPCL, as this power offtake will be fully captive. Phase 2 will expand the capacity by 6.8GW, to reach the target of 10GW by FY32.

Exhibit 48: CESC's shareholding pattern



Source: Company, Emkay Research

Exhibit 49: Board of Directors

Name	Designation
Sanjiv Goenka	Chairman
Shashwat Goenka	Vice-Chairman
Pradip Kumar Khaitan	Non-Executive, Non-Independent Director
Arjun Kumar	Independent Director
Kusum Dadoo	Independent Director
Paras Kumar Chowdhary	Independent Director
Sunil Mitra	Independent Director
Debanjan Mandal	Independent Director
Brajesh Singh	Managing Director (Generation)
Vineet Sikka	Managing Director (Distribution)

Source: Company, Emkay Research

ESG initiatives

As a company in the energy space, CESC's operating business closely aligns with environmental sustainability. The company has strongly committed itself to decarbonization through co-firing of 155MT of biomass pellets cumulatively and controlled NOx and SOx emissions. Further, the company has a target to convert all its thermal plants into zero liquid discharge (ZLD) facilities by 2030, demonstrating its focus on water conservation. Additionally, CESC achieved ~7% reduction in tCO2 eq/MWh and continues to operate at 100% fly ash utilization.

CESC also aims to be a 'community change-maker' through its continued endeavor of practicing a systematic CSR policy. By 2030, the company wants to provide free access to primary and secondary education to at least 15,000 children and facilitate healthcare and nutrition support for 4,000 mothers and 6,000 children. At the same time, it is also targeting skill development and employment opportunities for 7,500 underprivileged youth.

The company's corporate governance structure aims at transparency and accountability in its functioning toward stakeholders. The Board of Directors has an optimum mix of Executive and Non-Executive Directors, in line with the provisions of the Companies Act, 2013, and the SEBI regulations, 2015. Featuring a Board with sufficient independent directors and a thorough risk management framework, CESC aims to ensure high ethical standards across its operations.

Exhibit 50: CESC's ESG initiatives, targets, and progress as of FY24

ENVIRONMENT	
2030 TARGETS	**Progress FY 2023-24**
Maintain PM emissions below normative levels of 50 mg/Nm³	Complied with all applicable regulations
Maintaining NOx emissions below normative levels of 600 mg/Nm³ for all thermal plants commissioned before 2003 and 450 mg/Nm³ for all thermal plants commissioned in 2004 onwards until 2017	Complied with all applicable regulations
Maintaining SOx emissions below normative levels of 600 mg/Nm³	Complied with all applicable regulations
100% thermal power plants with freshwater source have implemented zero liquid discharge systems	On track
Reduce water intensity of thermal power plants below 2.25 Kl/MWh	2.11 Kl/MWh
Zero waste to landfill (waste reused/recycled)	~100%
100% of operational fleet will be replaced by green technology such as Electric Vehicles	On track
10,000 commercial/industrial/residential canteens and roadside eateries in adopting e-cooking to replace conventional fuel	On track
100% of the new substations/offices will be certified as green buildings	21 green buildings out of 399 establishments
100% plant administration buildings will be certified as green buildings	60%

SOCIAL	
2030 TARGETS	**Progress FY 2023-24**
12% Women Participation in workforce	8%
100% Employees receiving career performance reviews and appraisal	100%
95% TAT adherence to consumer complaints[3]	90%
>80% Procurement spent from local suppliers (state)	55%
100% suppliers screened for ESG Criteria (coverage by number of suppliers)[3]	4.7%
Maintain Average Response time below 1 hr for large area outages[3]	0.94 hours overall by value
100% new connection (LOOP Connection) requests are fulfilled for consumers within 24 hours subjected to compliance[3]	97.56%

SOCIAL	
2030 TARGETS	**Progress FY 2023-24**
Improving the online payment penetration further to 90%[4]	79.84%
Upskill 100% employees with digital skills	On track
Zero Incident in workspace	30 incidents
Women represent 30% of the Board of Directors	9%
Zero Incident resulting from logistics and transportation and installation/repair of equipment	Zero incidents
Providing at least 15,000 children access to quality pre-primary, primary and secondary education with effective learning outcomes in CESC	~21,000
Facilitate healthcare and nutrition support to 4,000 mothers and 6,000 children in CESC	4,980 mothers and 858 children have benefited
Provide 7,500 underprivileged youth with skill development training and employment opportunities in CESC	~2,200

Governance	
2030 TARGETS	**Progress FY 2023-24**
Strive to improve out anti-corruption and anti-bribery management through the ISO 37001 guidelines	We have made significant advancement in improving our existing management systems against anti-corruption and anti-bribery in line with the requirements of ISO 37001
Implementation of ISO 27001 across generation and distribution utilities and leading to unified compliance management programme while complying with Ministry of Power / CERT-IN guidelines as well as the readiness to comply with the personal Data Protection Bill whenever enacted	Implementation of ISO 27001 in all generation and distribution facilities completed and corresponding certificate received
At least one cybersecurity assessment / validation on each year	Cybersecurity assessment has been completed across all generation and distribution facilities

Source: Company, Emkay Research

Key risks

Risks to global economic performance, owing to geopolitical tensions and tariff escalations could affect power demand coming from industrial and commercial sectors. This, in turn, could lead to reduced PLFs of operating power plants, thereby affecting the overall efficiency of the grid network. We, however, believe that this risk is more benign in nature, given the heavy domestic concentration of production activities. Further, inflationary pressures could affect the cost of equipment and other EPC costs, leading to weaker and sub-economic projects. In our view, given the largely contained inflationary backdrop, this risk will remain muted in the near term.

Power is a highly regulated sector and exposes the company to policy risk. Enforcement of more stringent measures such as fly ash utilization, installation of Flue Gas Desulphurization (FGD) systems, changes in assured return on equity, and increased RPO targets could affect the execution of new projects and also increase the cost of operations. CESC is working on FGD installations and already operates at 100% fly utilization levels. Hence, we believe that this risk, though pertinent, will affect the overall industry broadly in an unbiased manner.

The transition to renewable power is fraught with supply-chain risks – both in terms of complexity and concentration. Though the cost of renewable energy has been reducing over the past few years, volatility in prices of upstream components could significantly affect sourcing costs for power generators. Further, the control exhibited by China in the production of upstream solar components, in terms of installed capacity and technological advancements, poses a significant risk to companies in the RE sector, especially till the time sufficient integrated domestic capacity is not set up. We expect the prices of upstream components to stay largely stable in the short to medium term, owing to sufficient supply and hence, do not expect this risk to be materially concerning for now.

The complexity in execution of RE projects can lead to execution delays and cost over-runs, thereby affecting capacity addition targets. The complexity could appear in the form of difficulties in procuring contiguous land parcels, unpredictable weather patterns, and local

disruptions. Further, given the falling costs of RE, power offtake has not picked up in line with capacity bids as off-takers are waiting for bottoming out of RE procurement costs. This could lead to a situation where there is a capacity glut in the short to medium term, thereby affecting capacity addition objectives. We believe that project execution delays represent a material risk, especially as the company is venturing into the RE space for the first time. Difficulties in navigating the execution complexity due to a lack of prior experience could pose a downside risk. However, in our view, the risk arising from delayed power offtake appears to be less concerning, especially for phase I, where the company has already made significant progress toward signing of captive PPAs. In general, we believe that both these risks would become more relevant in the context of phase II expansion, and more so if delays are observed during phase I.

Financials

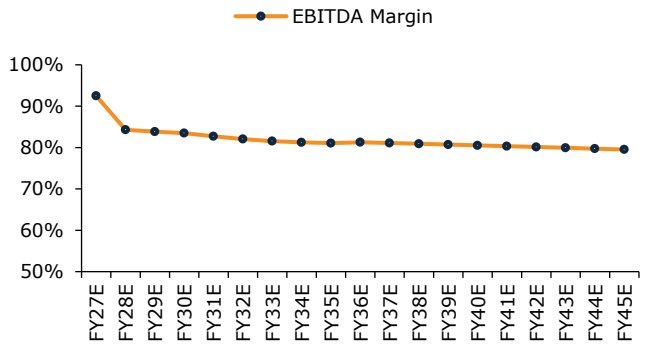
We expect CESC to commission phase I of the wind-solar hybrid capacity of 3.2GW by FY29, in line with the management's plans, and further achieve the targeted objective of 10GW cumulative capacity tentatively by FY32, implying an effective capacity CAGR of ~28%. Given the company's entry into the RE segment and considering the usual phasing/execution delays in capacity installations in the RE segment, we are factoring in a delay of one year, compared with CESC's target for phase II expansion in FY32.

The captive RE power offtake from phase I and the recent acquisition of Chandigarh Power is expected to generate a PAT CAGR of ~15% in NPCL and enable CESC in expanding its pan-India distribution presence. Additionally, the high EBITDA margin of ~85% in RE operations will boost the overall operating margin at a consolidated level.

We expect the synergic effect of RE transition and distribution strength, coupled with an expected reduction in coal prices by ~15% over FY26-28E to support EBITDA margin expansion by 430bps to 20.1% by FY28E. From a net margin perspective, we think that a trickle-down effect of EBITDA margin expansion will lead to a slight PAT margin expansion by 40bps to 8.4% in FY28E. The full effect of EBITDA margin expansion will not be visible in PAT margins, owing to increased finance and depreciation costs due to high capex intensity to fund RE projects.

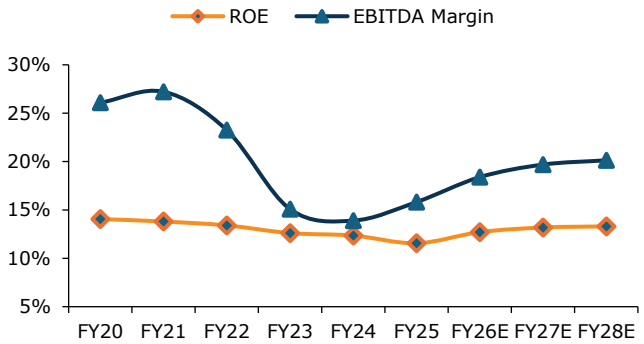
Further, in our opinion, phase I of the RE project of 3.2GW is expected to generate a strong ROE of ~14% and will result in a blended ROE expansion of 170bps to 13.3% at a consolidated level by FY28E. The strong growth in earnings should also support EPS CAGR of ~11% over FY26-28.

Exhibit 51: Purvah Green EBITDA margin - projected



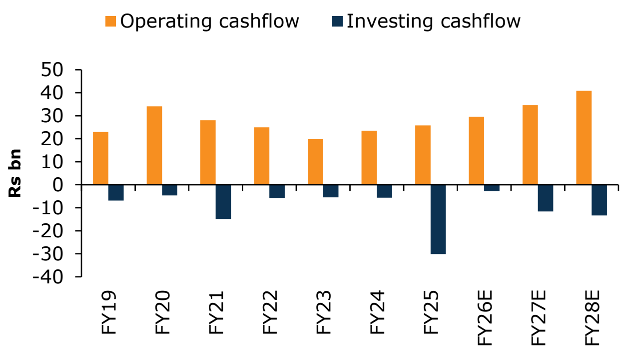
Source: Company, Emkay Research

Exhibit 52: Consolidated ROE and EBITDA margin - projected



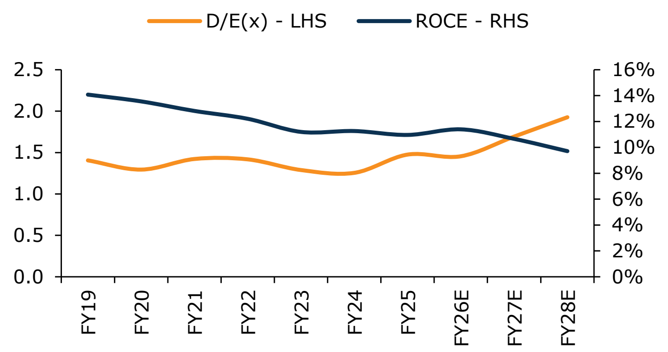
Source: Company, Emkay Research

Exhibit 53: OCF sufficient to cover non-debt funded capex



Source: Company, Emkay Research

Exhibit 54: Leverage and ROCE projections



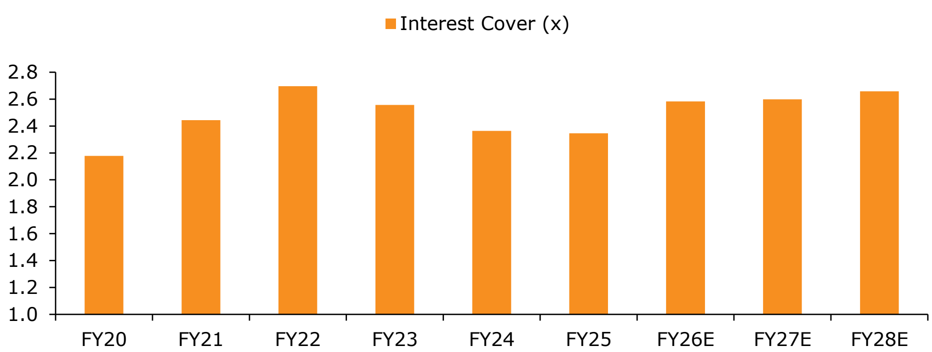
Source: Company, Emkay Research

Considering the leverage position, debt funding required to support RE capex will lead to a slight increase in the net leverage to 5.2x in FY28E, from 5.1x in FY25. Further, we believe that this is not concerning for two reasons – the increase being very marginal and the interest coverage improving owing to higher operating profits. We expect the interest cover to increase to 2.7x by FY28E, from 2.3x in FY25, and believe that it will remain well supported ahead.

We also expect debt/equity ratio to rise to 1.7x in FY27E, from 1.5x in FY25, owing to high capex intensity for funding renewable projects. In line with the increased debt funding to support the rising capex, we expect ROCE to decline by 130bps to 9.7% by FY28E.

In terms of cashflows, we expect a boost to operating cash, primarily driven by strong profits and regulatory income benefits. In our view, the incremental generation of Rs105bn of operating cashflow over FY26-28E will be more than sufficient to fund the non-debt portion of the Rs28bn capex over the same period.

Exhibit 55: Consolidated interest coverage ratio – projected



Source: Company, Emkay Research

We also believe that with the build-up in regulatory deferral balances, along with tariff hikes of ~8% in FY25, and increased debt funding, CESC's cashflows will see a boost, increasing to ~Rs25bn by FY28E, from ~Rs22bn in FY25, even after the partial fulfilment of significantly higher RE capex requirements (~Rs85bn for the 1.2GW project over FY25-27).

Valuations

We value the company on SOTP basis, considering each of its business segments separately, implying a Jun-26E TP of Rs225, ~28% upside. The regulated ROE-based thermal business is valued using a long-term P/B multiple of 1.5x, implied by an assured ROE of ~15% and a terminal growth rate of 3% on projected blended FY27/28E regulated equity. We believe that annual capex would be a usual Rs6bn and will continue to support regulated equity additions in generation and distribution for the standalone Kolkata operations.

NPCL, which is also a regulated equity distribution business, is valued using an implied P/B of 1.6x, owing to stronger growth prospects due to CESC's RE transition. Haldia and Chandrapur facilities are valued on a DCF basis using a terminal growth rate of 3% and levered beta of 1.4 which would decline to 0.9/0.6, respectively, as the business shrugs off leverage. We believe that RE transition is a strong growth story for the company and hence, we value phase

I and phase II projects separately using a terminal growth rate of 5% and levered beta of 1.8/2, respectively, which would decline to 1.1/1.5, respectively, as the operations achieve maturity.

The 1YF P/B multiple implied from our TP stands at 2.2x vs the 5Y median P/B at 1.1x and current consensus based on 1YF multiple of 1.9x. However, we believe that this multiple expansion is justified due to improved ROE and growth expectations stemming from the RE expansion. An analysis of growth, return, and P/B multiple profiles across domestic as well as global peers during their RE growth phase corroborates these claims. We observed that P/B multiples expanded by ~60% on average from their median levels, owing to growth in RE capabilities. Further, we are forecasting FY27E EBITDA/EPS that is 6/5% above consensus, respectively. Hence, we think that a larger expansion in multiples is warranted for CESC, especially as it is on the cusp of a more aggressive entry into the RE segment.

We also believe that obtaining more licenses in the distribution space, coupled with addressing the complexities of RE transition to avoid execution delays and cost overruns will offer enhanced upside potential. We initiate coverage on CESC with BUY.

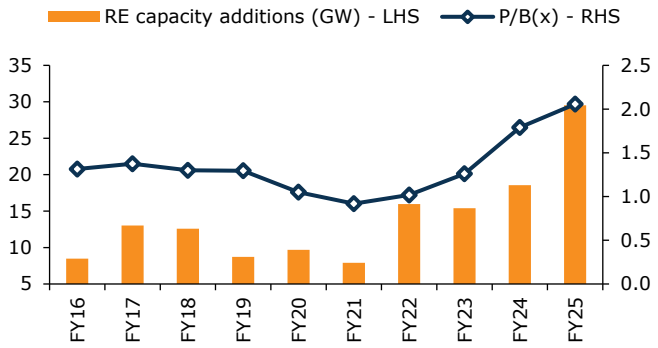
The stock currently trades at 1.9x 1YF P/B multiple and has rallied ~12% over the last month which does expose it to some correction in the short term.

Exhibit 56: SoTP valuation by segment

SOTP based valuation	Basis of valuation	Equity value (Rs mn)	Equity value (Rs/sh)	Contribution to SOTP	Remarks
Kolkata standalone ex-HEL	P/B; 1.5x	79,553	58	26%	Regulated model with assured ROE
Chandrapur - DIL	DCF	39,119	29	13%	DCF with 3% terminal growth
Haldia - HEL	DCF	35,471	27	12%	DCF with 3% terminal growth
Purvah Green	DCF	85,903	64	29%	DCF with 5% terminal growth
Bharatpur	P/B; 2x	1,546	1	1%	P/B based on projected ROE
Bikaner	P/B; 1.5x	3,729	3	1%	P/B based on projected ROE
Kota	P/B; 0.5x	543	0	0%	P/B based on projected ROE
Malegaon	P/B; 0.5x	-1,931	-1	-1%	P/B based on projected ROE
NPCL - Noida	P/B; 1.6x	20,421	15	7%	P/B based on projected ROE
Crescent Power	P/B; 1.1x	4,598	3	2%	P/B based on projected ROE
Chandigarh Power	Purchase price	8,710	8	4%	Valued at purchase price
Cash	P/B; 1x	21,810	16	7%	
Total (rounded off)		**2,99,473**	**225**		

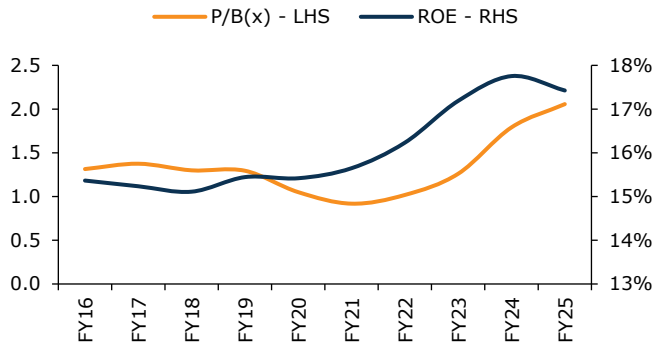
Source: Emkay Research

Exhibit 57: Domestic peer comparison – RE capacity growth vs sector multiple expansion*



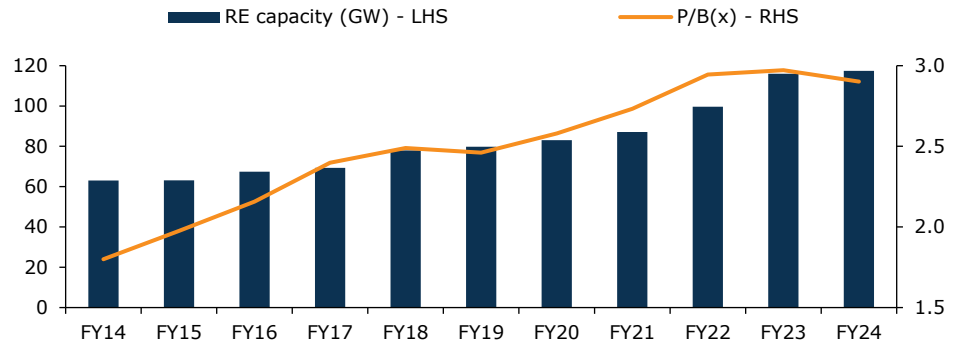
Source: Bloomberg, Emkay Research

Exhibit 58: Domestic power sector – Multiple expansion vs ROE growth*



Source: Bloomberg, Emkay Research

Exhibit 59: Global peer comparison – RE capacity growth vs sector multiple expansion**



Source: Bloomberg, Emkay Research

**Includes NTPC, Tata Power, and JSW Energy.*

***Includes Iberdrola, NEXTERA, Yangtze Power, and American Electric.*

CESC: Consolidated Financials and Valuations

Profit & Loss

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	**152,932**	**170,010**	**187,547**	**200,657**	**222,880**
Revenue growth (%)	7.4	11.2	10.3	7.0	11.1
EBITDA	**21,254**	**26,890**	**34,500**	**39,515**	**44,868**
EBITDA growth (%)	(1.1)	26.5	28.3	14.5	13.5
Depreciation & Amortization	12,167	12,050	12,409	13,204	15,781
EBIT	**9,087**	**14,840**	**22,090**	**26,310**	**29,088**
EBIT growth (%)	(28.5)	63.3	48.9	19.1	10.6
Other operating income	-	-	-	-	-
Other income	20,083	16,220	13,416	10,526	9,926
Financial expense	12,339	13,240	13,712	14,140	14,649
PBT	**16,831**	**17,820**	**21,794**	**22,696**	**24,365**
Extraordinary items	45	(130)	0	0	0
Taxes	2,358	3,540	5,449	4,766	5,117
Minority interest	(708)	(590)	(575)	(575)	(575)
Income from JV/Associates	0	0	0	0	0
Reported PAT	**13,810**	**13,560**	**15,771**	**17,356**	**18,674**
PAT growth (%)	2.8	(1.8)	16.3	10.0	7.6
Adjusted PAT	**13,765**	**13,690**	**15,771**	**17,356**	**18,674**
Diluted EPS (Rs)	**10.3**	**10.3**	**11.8**	**13.0**	**14.0**
Diluted EPS growth (%)	2.8	(1.8)	16.3	10.0	7.6
DPS (Rs)	**4.6**	**4.5**	**4.5**	**4.7**	**4.8**
Dividend payout (%)	**43.9**	**44.5**	**38.3**	**35.8**	**34.3**
EBITDA margin (%)	13.9	15.8	18.4	19.7	20.1
EBIT margin (%)	5.9	8.7	11.8	13.1	13.1
Effective tax rate (%)	14.0	19.9	25.0	21.0	21.0
NOPLAT (pre-IndAS)	**7,814**	**11,892**	**16,568**	**20,785**	**22,979**
Shares outstanding (mn)	1,332	1,332	1,332	1,332	1,332

Source: Company, Emkay Research

Balance Sheet

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	1,332	1,332	1,332	1,332	1,332
Reserves & Surplus	113,124	118,760	125,847	133,929	143,469
Net worth	**114,456**	**120,092**	**127,179**	**135,261**	**144,801**
Minority interests	5,397	5,930	6,505	7,079	7,654
Net Deferred taxes	41,505	33,910	33,910	33,910	33,910
Total debt	**143,631**	**177,190**	**184,978**	**228,767**	**278,555**
Total liabilities & equity	**338,696**	**373,662**	**389,112**	**441,557**	**501,459**
Net tangible fixed assets	290,899	300,188	314,511	373,906	440,881
Net intangible assets	1,187	10,310	10,310	10,310	10,310
Net ROU assets	-	-	-	-	-
Capital WIP	1,746	4,270	4,270	4,270	4,270
Goodwill	-	-	-	-	-
Investments [JV/Associates]	-	-	-	-	-
Cash & equivalents	**27,114**	**40,420**	**43,238**	**41,748**	**43,896**
Current assets (ex-cash)	38,856	42,992	42,496	43,992	46,416
Current Liab. & Prov.	32,982	36,150	35,917	37,762	41,120
NWC (ex-cash)	**5,874**	**6,842**	**6,578**	**6,230**	**5,296**
Total assets	**338,696**	**373,662**	**389,112**	**441,557**	**501,460**
Net debt	116,517	136,770	141,741	187,019	234,659
Capital employed	338,696	373,662	389,112	441,557	501,459
Invested capital	**226,551**	**233,882**	**235,532**	**281,374**	**331,635**
BVPS (Rs)	85.9	90.1	95.5	101.5	108.7
Net Debt/Equity (x)	1.0	1.1	1.1	1.4	1.6
Net Debt/EBITDA (x)	5.5	5.1	4.1	4.7	5.2
Interest coverage (x)	2.4	2.3	2.6	2.6	2.7
RoCE (%)	**11.3**	**11.0**	**11.4**	**10.7**	**9.7**

Source: Company, Emkay Research

Cash flows

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	(3,252)	1,600	8,378	12,170	14,439
Others (non-cash items)	21,199	23,773	11,254	7,724	7,676
Taxes paid	(4,504)	(3,800)	(5,449)	(4,766)	(5,117)
Change in NWC	3,141	(8,563)	264	349	933
Operating cash flow	**23,517**	**25,820**	**29,586**	**34,728**	**40,869**
Capital expenditure	(5,560)	(20,937)	(14,323)	(59,394)	(66,976)
Acquisition of business	0	0	0	0	0
Interest & dividend income	1,043	1,420	1,021	1,050	1,123
Investing cash flow	**(5,636)**	**(30,130)**	**(14,287)**	**(59,141)**	**(66,939)**
Equity raised/(repaid)	-	0	0	0	0
Debt raised/(repaid)	3,011	33,559	7,788	43,788	49,788
Payment of lease liabilities	0	0	0	0	0
Interest paid	(12,339)	(13,240)	(13,712)	(14,140)	(14,649)
Dividend paid (incl tax)	(6,062)	(6,030)	(6,039)	(6,205)	(6,401)
Others	(1,032)	(919)	(520)	(520)	(520)
Financing cash flow	**(16,422)**	**13,370**	**(12,483)**	**22,923**	**28,219**
Net chg in Cash	1,459	9,060	2,816	(1,490)	2,149
OCF	23,517	25,820	29,586	34,728	40,869
Adj. OCF (w/o NWC chg.)	20,377	34,383	29,322	34,380	39,935
FCFF	17,957	4,883	15,263	(24,666)	(26,107)
FCFE	6,661	(6,937)	2,571	(37,756)	(39,633)
OCF/EBITDA (%)	110.6	96.0	85.8	87.9	91.1
FCFE/PAT (%)	48.2	(51.2)	16.3	(217.5)	(212.2)
FCFF/NOPLAT (%)	**229.8**	**41.1**	**92.1**	**(118.7)**	**(113.6)**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	16.9	17.2	14.8	13.4	12.5
P/CE(x)	9.0	9.1	8.3	7.6	6.8
P/B (x)	2.0	1.9	1.8	1.7	1.6
EV/Sales (x)	2.3	2.2	2.0	2.1	2.1
EV/EBITDA (x)	16.5	13.8	10.9	10.6	10.4
EV/EBIT(x)	38.5	24.9	17.0	16.0	16.1
EV/IC (x)	1.5	1.6	1.6	1.5	1.4
FCFF yield (%)	5.1	1.3	4.1	(5.9)	(5.6)
FCFE yield (%)	2.9	(3.0)	1.1	(16.3)	(17.1)
Dividend yield (%)	2.6	2.6	2.6	2.7	2.7
DuPont-RoE split					
Net profit margin (%)	9.0	8.1	8.4	8.6	8.4
Total asset turnover (x)	0.4	0.5	0.5	0.5	0.5
Assets/Equity (x)	3.1	3.0	3.1	3.2	3.4
RoE (%)	**12.3**	**11.7**	**12.8**	**13.2**	**13.3**
DuPont-RoIC					
NOPLAT margin (%)	5.1	7.0	8.8	10.4	10.3
IC turnover (x)	0.7	0.7	0.8	0.8	0.7
RoIC (%)	**3.4**	**5.2**	**7.1**	**8.0**	**7.5**
Operating metrics					
Core NWC days	14.0	14.7	12.8	11.3	8.7
Total NWC days	**14.0**	**14.7**	**12.8**	**11.3**	**8.7**
Fixed asset turnover	0.5	0.6	0.6	0.6	0.5
Opex-to-revenue (%)	49.5	43.0	41.7	37.7	34.4

Source: Company, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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