

| Sector | Power |
|-----------------------|------------|
| Recommendation | Buy |
| CMP | Rs 395.10 |
| Target Price- | Rs 520 |
| Face Value- | 10 |
| Potential upside- | 36% |
| Tenure- | 6 Months |

| | |
|------------|---------|
| Bloomberg- | CESC:IN |
| Reuters - | CESC:BO |
| BSE-- | CESC |
| NSE- | CESC |

Date:- 7th October ,2010

Stock Info:

| | |
|---------------|---------------|
| Weekly H/L- | 401.30/384.10 |
| Monthly H/L- | 432.85/384.10 |
| 52 Weeks H/L- | 452.00/345.00 |



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CESC Ltd.

Industry Overview:

It is evident that the deficit in power availability in India is a significant impediment to the smooth development of the economy. In this context, bridging the gap in demand and supply has become critical and consequently, large projects are being undertaken in different segments of the sector Generation, Transmission and Distribution.

India is the fifth largest generation capacity in the world.

- *An installed capacity of 152 GW as on 30 September 2009,which is about 4 percent of global power generation.*
- *The top four countries, viz., US, Japan, China and Russia together consume about 49 percent of the total power generated globally.*
- *The average per capita consumption of electricity in India is estimated to be 704 kWh during 2008-09.*
- *However, this is fairly low when compared to that of some of the developed and emerging nations such US (~15,000 kWh) and China (~1,800 kWh).*
- *The world average stands at 2,300 kWh. The Indian government has set ambitious goals in the 11th plan for power sector owing to which the power sector is poised for significant expansion.*

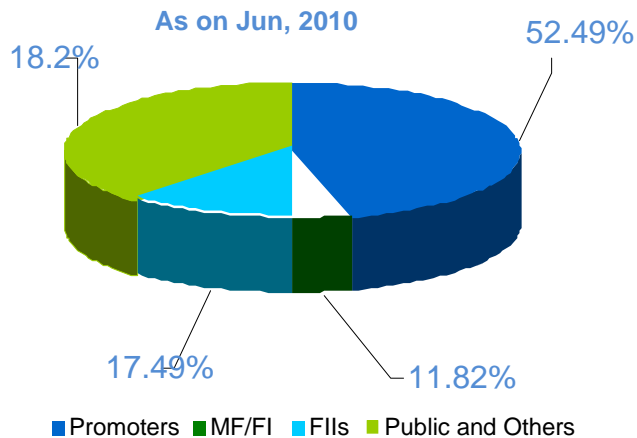
Domestic overview:

The installed generating capacity in the country is over 1,35,000 MW and total no. of consumers is over 144 million.

Company profile:

CESC Limited generates and supplies electricity in and around Kolkata. The Company also provides consultancy services for setting up power plants and for erecting transformers and electrical equipment.

Exhibit:- 1 Shareholding pattern:



Quarterly Results:

Net profit of CESC rose 4.76% to Rs. 110.00 crore in the quarter ended June 2010 as against Rs. 105.00 crore during the previous quarter ended June 2009. Sales rose 33.75% to Rs. 1082.00 crore in the quarter ended June 2010 as against Rs. 809.00 crore during the previous quarter ended June 2009.

Exhibit:-2

| (in Cr.) | Jun-10 | Jun-09 | % change |
|-------------------------|-----------------|-------------|-----------------|
| Income Statement | | | |
| Revenue | 1,096.00 | 820 | 33.65854 |
| Other Income | 15 | 17 | -11.7647 |
| Total Income | 1,111.00 | 837 | 32.73596 |
| Expenditure | -840 | -619 | 35.70275 |
| Interest | -67 | -43 | 55.81395 |
| PBDT | 204 | 175 | 16.57143 |
| Depreciation | -67 | -48 | 39.58333 |
| PBT | 137 | 127 | 7.874016 |
| Tax | -27 | -22 | 22.72727 |
| Net Profit | 110 | 105 | 4.761905 |
| Equity | 126 | 126 | 0 |
| EPS | 8.81 | 8.4 | 4.880952 |
| OPM % | 24.73 | 26.59 | -6.99511 |
| NPM % | 10.04 | 12.8 | -21.5625 |

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Annual financial performance:

The Company's earnings from sale of electricity increased by 8.6% over last year to reach Rs. 3,292.8 crore the overall increase in total income was 7.7% (from Rs. 3,201.3 crore in 2008-09 to Rs. 3449.04 crore in 2009-10). Profit before depreciation and taxation (PBDT) reflected a year-on-year increase of 13.7%. After providing for depreciation of Rs. 205.6 crore and taxation of Rs. 88.8 crore, the profit after taxes (PAT) for 2009-10 stands at Rs. 433.3 crore, which reflects a 5.8% increase over the PAT figure of the previous year amounting Rs. 409.7 crore.

Exhibit:-3

| Income Statement | | | | | |
|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| (in Cr.) | 2009 - 10 | 2008 - 09 | 2007 - 08 | 2006 - 07 | 2005 - 06 |
| Revenue | 3,351.00 | 3,103.00 | 2,775.00 | 2,489.00 | 2,508.00 |
| Other Income | 84 | 97 | 129 | 94 | 71 |
| Total Income | 3,435.00 | 3,200.00 | 2,904.00 | 2,583.00 | 2,579.00 |
| Expenditure | -2,537.00 | -2,419.00 | -2,197.00 | -1,914.00 | -1,926.00 |
| Interest | -178 | -141 | -136 | -169 | -205 |
| PBDT | 720 | 640 | 571 | 500 | 448 |
| PBT | 522 | 465 | 403 | 336 | 196 |
| Net Profit | 433 | 410 | 355 | 297 | 179 |
| Reserves | -- | 3,267.00 | 2,847.00 | -- | -- |
| EPS | 34.66 | 32.79 | 30.05 | 35.75 | 22.84 |
| OPM % | 26.8 | 25.17 | 25.48 | 26.88 | 26.04 |
| NPM % | 12.92 | 13.21 | 12.79 | 11.93 | 7.14 |

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Investment Argument:-

Huge gap in Demand and supply-

There is a huge gap between demand and supply. So, there is big opportunity to scale up the business.

Leading position in power industry-

CESC, one of the oldest utility companies in India, has been generating and distributing power in Kolkata since 1897.

Dhariwal Infrastructure. Dhariwal Infrastructure is engaged in setting up a 600 MW thermal power generating station at Chandrapur in Maharashtra. This station will be operational from the year 2012. CESE is planning to acquire Dhariwal Infrastructure and consequent to this acquisition, Dhariwal Infrastructure will become CESC subsidiary.

CESC Ltd is planning to acquire 40% stake in an Indonesian coal mine, according to a report. The report stated that 40% stake would give CESC access to 10 mn tonne (mt) of coal over a period of seven years.

The company signed an agreement with Australia –based Resource Generation to purchase 37 million tonne of coal for 20 years.

The company has already placed the EPC and BTG orders for the 600 MW Chandrapur project, which is currently under construction. And the 600MW Haldia project construction work is set to begin in FY 2011.

Business expansion in the field of Retail sector-

CESC having retail business, Spencer's, currently has a total of 204 outlets spread across 45 cities, with a total area of 867,000 sq. ft. The company plans to selectively open Hyper and Super stores in FY2011, with a special focus on the southern states for growth. Spencer's per sq. ft sales has risen by 23% to Rs906 in June 2010 from Rs736 in June 2009. As a result, EBITDA/sq. ft has turned positive at the store level. We expect the retail business to break even at the corporate level as well in another 12-15 months.

Exhibit:-4 Peer Group comparison:

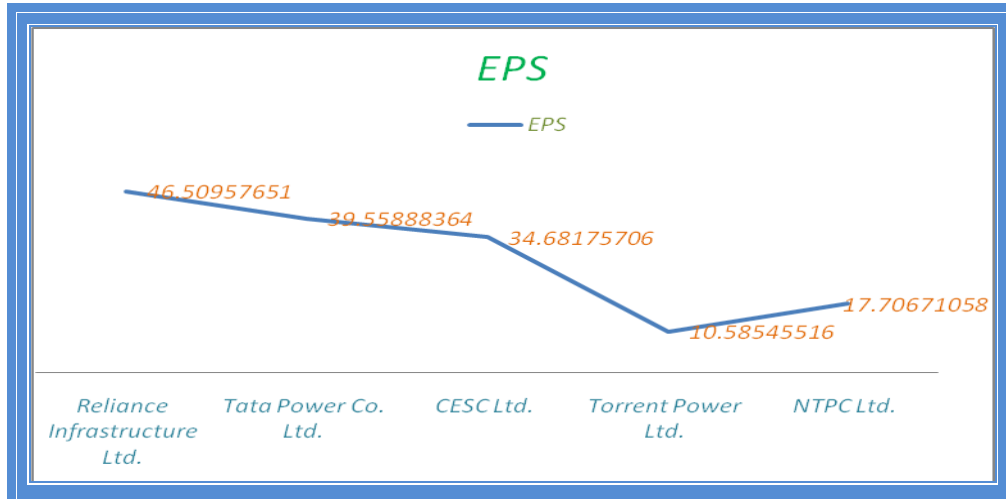
| Company | PAT | NPM | EPS | P/E(X) | BV | P/BV(X) | EV/EBIDT A(X) | EV/NET SALES | ROE(%) |
|------------------------------|-------------|--------------|--------------|---------------|-----------------|-----------------|------------------|-----------------|---------------|
| Reliance Infrastructure Ltd. | 11388.8 | 11.58 | 46.51 | 5.2649 | 462.1922 | 0.529801 | 7.62196 | 1.32947 | 10.063 |
| Tata Power Co. Ltd. | 9387.6 | 13.13 | 39.56 | 34.093 | 447.6804 | 3.01264 | 17.15851 | 5.11962 | 8.8364 |
| CESC Ltd. | 4333 | 12.92 | 34.68 | 11.385 | 306.0039 | 1.290343 | 11.87799 | 2.24195 | 11.334 |
| Torrent Power Ltd. | 87282 | 18.82 | 10.59 | 20.708 | 75.72344 | 2.894744 | 14.79974 | 4.40006 | 13.979 |
| NTPC Ltd. | 8365.5 | 14.37 | 17.71 | 18.453 | 83.82192 | 3.898145 | 11.5521 | 3.07059 | 21.124 |

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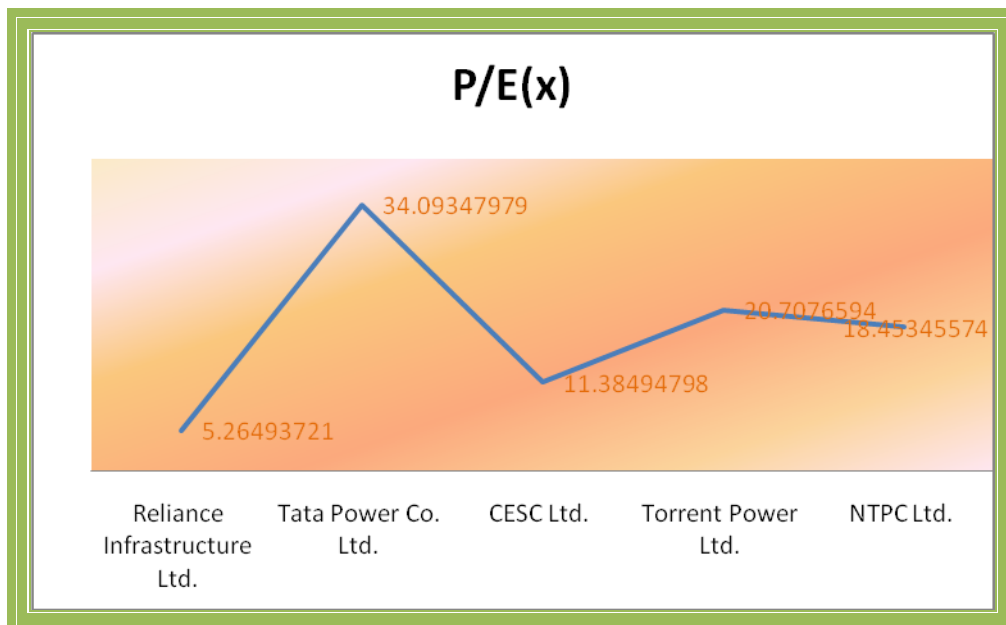
Valuation Outlook:-

- On the basis of relative valuation, the enterprise value of the company is Rs 75214.98cr and stock is currently trading at Rs 394.25 of PE 11.38(x) with EPS 34.68%.
- Stock is trading at 1.29 times of book value (BV)Rs 306.0 per share and ROE is 11.34%. giving attractive return than peer group companies.
- We expect earnings to grow at a CAGR of 15% for next 4 years
- From peer group comparison, CESC ltd has 12.9% net profit margin, which is showing robust profit growth.

We recommend a **Buy** on the stock with target Rs 520 medium to long-term investment horizon.

Exhibit:5

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Exhibit:-6

Research-cell Flourish Fincap pvt. Ltd

Torrent Power CMP Rs. 330.55 Target Rs. 450

Torrent Power Limited is an India-based company. The Company is engaged in the generation and distribution of electricity. As of March 31, 2010, the Company had a generating capacity of 1647.5 megawatt and distributes over 10 billion units of power annually to Ahmadabad, Gandhinagar and Surat. The Company's subsidiaries include Torrent Power Grid Limited (TPGL), Torrent Energy Limited (TEL), Torrent Pipavav Generation Limited and Torrent Power Bhiwandi Limited.

Investment Rationale:

TPL has bagged the power distribution rights for Agra & Kanpur

UPPCL (Uttar Pradesh Power Corporation Ltd.) has signed a MoU with TPL to distribute power in Agra & Kanpur for the next 20 years. U.P. is facing huge transmission losses and rampant power theft. The company will purchase power from the UPPCL and will distribute it to consumers on the rates approved by the UP Electricity Regulatory Commission. TPL is likely to invest Rs.650-700cr in U.P. in the next six months, out of which Rs.150-200cr will be invested in Agra and Rs.500cr will be invested in Kanpur. TPL commenced distribution franchisee operations in Agra on 1st April, 2010. TPL is expected to kick start its operations in Kanpur by October 2010. This is the first time a private player would be undertaking power distribution in U.P. except for the Noida – Greater Noida area.

Brownfield expansion of SUGEN mega power project

The 1147.5 MW gas based SUGEN plant near Surat caters to the power needs of Ahmedabad, Gandhinagar and Surat to the extent of 800 MW. At least 100 MW is sold on inter-state basis and the remaining as merchant power. During FY10, SUGEN achieved PLF (Plant Load Factor) of 86.05% and dispatched 5,609 MUs (Million Units). The company has launched SUGEN Unit-40, an addition of one more unit of 382.5MW to bring the total capacity of the plant at 1530 MW. TPL is expected to pump in about Rs 1,500cr for the proposed expansion. The company is aiming to expand the capacity of SUGEN plant by 3,000 MW in phases to create the country's largest gas-based generation facility to the tune of 4,500 MW at a single location. TPL has already acquired necessary land for expansion. EPC contract for the project has been awarded to Siemens AG, Germany and Siemens Ltd, India.

TPL to set up a 1200 MW project in Dahej

TPL is expanding its capacity by 1200MW by undertaking a combined cycle power plant (3 x 400MW) at Dahej (DGEN mega power project), in Bharuch, Gujarat with an investment of ~Rs 6,000cr.

Setting up a 1000 MW coal based power project in Pipavav

Torrent Pipavav Generation Ltd (TPGL) is setting up a 1000 MW coal based power project at Pipavav, Dist. Amreli, Gujarat. The company has signed an agreement with Gujarat Power Corporation Limited (GPCL), a Government of Gujarat undertaking, for

implementation of the project. TPGL has started the process of acquiring land for the project and has also initiated other project related activities. Baitarni coal block in Orissa is allocated for this project. The total investment expected is about Rs. 4500cr.

Constraints in gas supply to be eliminated

Reliance Industries Ltd (RIL) has signed gas sales and purchase agreements with TPL for the supply of natural gas from the KG-D6 block. As per the agreement, RIL would supply natural gas to power generation facilities of TPL, at a price of US \$4.2 per mmbtu. The duration of the contract is 5 years. The expected supply of gas to the company would largely eliminate the deficit in gas supply being currently faced by TPL's power units.

Joint venture with Power Grid for transmission of power

Torrent Power Grid Limited - a joint venture with Power Grid, is setting up transmission system for evacuation of power from SUGEN. Two phases have already been completed and the third phase is expected to be completed by July 2010. During FY10, Torrent Power Grid Ltd generated revenue of Rs. 2.98cr and made net profit of Rs. 0.98cr.

Additional upside from Carbon credits

SUGEN Power plant is based on natural gas as fuel and has been approved for clean development mechanism (CDM) benefits and will be eligible for carbon credits as gas-fired plants release less greenhouse gases into the atmosphere. With commissioning of SUGEN capacity, the project is expected to earn almost 3.2 mn carbon credits annually for a period of ~5.

Financial performance:

Quarterly

The Company has posted a net profit of Rs 3044.10 million for the quarter ended June 30, 2010 as compared to Rs 934.50 million for the quarter ended June 30, 2009. Total Income has increased from Rs 12624.40 million for the quarter ended June 30, 2009 to Rs 18438.60 million for the quarter ended June 30, 2010.

Annual performance:

The company has recorded a net profit Rs 836.55cr for FY 2009-10 as compared to Rs 407.89cr for FY 2008-09 an increase of 105.09% from last year. This shows robust growth in profits. Revenue increased to Rs 5,909.20cr for FY 2009-10 as compared to Rs 4424.96 2008-09, growth 33.54% from last year.

Valuation Outlook:

- At present stock is trading at Rs 331.20 of P/E(X) 20.17 with trailing 12 month EPS (TTM) 10.58.
- The book value BV and P/BV(X) are Rs 75.72 and 2.98 respectively.
- We recommend buy for the stock with target Rs 450.

| | | |
|-------------------|------------------------|------------------------|
| Tata power | CMP Rs. 1398.55 | Target Rs. 1536 |
|-------------------|------------------------|------------------------|

Tata Power Company Limited is an India-based integrated power utilities company. The Company's operations include wind, hydro-electric and thermal power generation, as well as power distribution and transmission in India. As of March 31, 2010, solar power installations were in the stage of implementation. During the fiscal year ended March 31, 2010, the Company generated 15946 million units of power from all of its power plants. Its Trombay Thermal Power Station generated 10,168 million units of power. The hydro power plants Bhira, Bhivpuri and Khopoli, generated 1,455 million units. Its Jojobera Thermal Power Station generated 3,002 million units. The Belgaum Independent Power Plant generated 394 million units. The Company further holds the Tata Strategic Electronics Division (SED) in the defense industry, which produces weapon systems, positioning and communication equipment. Tata Power Co owns subsidiaries in India, Indonesia and Singapore, among others.

Investment Argument:

Inks pact with Korean co

- *Tata Power Company has signed a Memorandum of Understanding (MoU) with Korea East West Power Company (EWP), one of the largest 5 generation utilities of Korea, to identify and execute operation and maintenance opportunities relating to third party Generation Assets in Asia, Middle East and Africa. Under this MoU, Tata Power and EWP have initiated a technical cooperation in the field of operation and maintenance of the generation assets. The technical cooperation shall cover exchange of information, best practices and exchange of personnel relating to the operation and maintenance of the generation assets.*

Plan Rs 15,000 cr Hydel projects

- *Tata Power Company and SN Power of Norway will invest about Rs 15,000 crore over the next six to eight years to develop hydropower projects in India and Nepal. The plan includes readying 2,000 MW by 2015 and about 4,000 MW by 2020.*
- *Inks deal with Invensys unit Invensys Operations Management has signed a multi-million dollar deal with Coastal Gujarat Power Ltd, a wholly-owned subsidiary of Tata Power Ltd, to supply integrated solutions to its 4,000 MW plant at Mundra. Invensys will provide distributed and critical control systems, emergency shutdown systems, advanced process control, plant optimization and operator training simulator technology to fully optimize the largest coal fired power plant that is to be completed in 2013.*

Alliance with MCX

- *MCX (Multi Commodity Exchange) has signed a memorandum of understanding with Tata Power to spread the awareness on the benefits of futures trading to farmers' doorstep. The objective of this alliance is to increase accessibility of spot and future prices of agricultural commodities traded on MCX and advisory services of water shed management by Tata Power.*

Govt announced JNNSM

- *Ministry of New and Renewable Energy, Government of India recently announced Jawaharlal Nehru National Solar Mission which encourages setting up of solar based plants in India. In this regard, Tata Power is actively looking at opportunities to set up solar based generation plants at various locations in the country.*

Status of On-going Power Projects

- ❖ *4000 MW, Mundra Ultra Mega Power Project on Fast Track: 4000 MW Mundra Project implementation is progressing as per schedule with Engineering, Procurement and Construction activities in full swing. Overall project progress achieved is 42%. Ordering of all critical items/major packages has been completed. The first unit is expected to be commissioned by September 2011.*
- ❖ *1050 MW Maithon Joint Venture Project: 1050 MW Maithon Power Limited (MPL), a joint venture between the Company (74%) and Damodar Valley Corporation (DVC) (26%), is also progressing well and has achieved 63% completion. All efforts are being taken to commission the first unit by October FY11.*
- ❖ *Industrial Energy Limited (IEL): A joint venture between Tata Power (74%) and Tata Steel (26%) has the following projects:*
- ❖ *The Company signed an exclusive partnership agreement with SN Power, Norway to set up Joint Ventures to develop hydropower projects in India and Nepal. The partners aim to have 2,000 MW under construction or in operation by 2015, and a total of 4,000 MW by 2020. Tata Power and SN Power have already begun pursuing potential project opportunities based on the vast reserves of renewable energy in the Himalayan Region.*

Financial performance: Quarterly

The Company's standalone results reflected a robust financial and operational performance. The Company reported Revenues at Rs. 1867.90 Cr. as against Rs. 2015.62 Cr. in the corresponding period last year.

Profit After Tax (PAT) for the quarter stood at Rs. 268.98 Cr. as compared to Rs. 377.08 Cr. in the previous year.

Annual Performance:

The Company's consolidated revenue increased by 5% at Rs. 18854.76 Cr. as compared to Rs. 17978.88 Cr. in the previous year.

For the Financial Year ended 31st March 2010, Tata Power reported Profit After Tax (PAT) of Rs. 938.76 Cr. up by 2% as against Rs. 922.20 Cr. for the previous year.

Valuation Outlook:

- *Currently Stock is trading at Rs 1398.55 of P/E(x) 34.09 with 12 month trailing EPS (TTM) 39.55.*
- *The book value and P/BV of the stock are 447.68 and 3.01 respectively.*
- *We recommend buy for the stock with target Rs 1536.*

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