

Sanjiv Goenka Group to split flagship firm CESC into four units

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KOLKATA

The RP-Sanjiv Goenka Group on Thursday announced a four-way split of its flagship firm, CESC Ltd, but shares of the power utility fell 15% after the plan was made public.

The diverse businesses of CESC are being split into separate entities with the aim of "unlocking value for shareholders", the company said in a regulatory filing, but investors slammed the stock. CESC plunged 15.1% to Rs829.80 on BSE in a weak market, only two days after hitting a 52-week high of Rs1,001.85.

Some analysts and stockbrokers, however, said CESC's shares fell because of confusion over the company's March quarter earnings. The restructuring scheme, they said, was not much different from what was anticipated.

After restructuring, CESC will be split along four lines of business: power generation, power distribution, retailing and business process outsourcing. CESC will only distribute power; power generation will be transferred to Haldia Energy Ltd.

For every 10 shares in CESC, shareholders will get five shares of Rs10 each of the restructured CESC, five shares of Rs10 each of Haldia Energy and six shares of Rs5 each of RP-SG Retail Ltd, which will be the holding company for the retail business. CESC shareholders will also get two shares of Rs10 each in RP-SG Business Process Services Ltd.

Apart from holding CESC's 55% stake in business process outsourcing firm Firstsource Solutions Ltd, this company will also own the Rising Pune Supergiant cricket team and the group's new ventures such as consumer goods, the group said in a regulatory filing.

The shareholding pattern of all four firms will be identical, said group chairman Sanjiv Goenka. All four will be publicly listed. Consulting firms Grant Thornton and KPMG

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Sanjiv Goenka, chairman of RP-Sanjiv Goenka Group.

had advised the group on the restructuring, Goenka added.

The restructuring will lead to a "sharper focus" on individual businesses, which, in turn, will create more value for shareholders, Goenka said.

About the flagship power business, he said the group will push for growth in both generation and distribution, but more aggressively in distribution because "it is the growing end of the business".

CESC generates 2,550 MW and distributes power in five cities, serving 3.5 million people. CESC is a new entrant in three cities of Rajasthan, and this part of the business will start to turn in profits in 18 months, according to Goenka.

CESC's March quarter net profit at Rs295 crore remained almost unchanged from a year earlier. The firm posted a tepid 1.7% growth in revenue to Rs1,631 crore from Rs1,604 crore a year ago.

There was, however, confusion over CESC's operating profit or Ebitda (earnings before interest, tax, depreciation and amortization), said Anuj Upadhyay, research analyst at Emkay Global Financial Services Ltd. Because of a change in accounting treatment of a large receivable of Rs341 crore, CESC's March quarter Ebitda was read by some investors as Rs38 crore, as against Rs296 crore a year ago. This could have triggered panic selling, said Upadhyay.