The Telegraph

CESC plugs into four-way split

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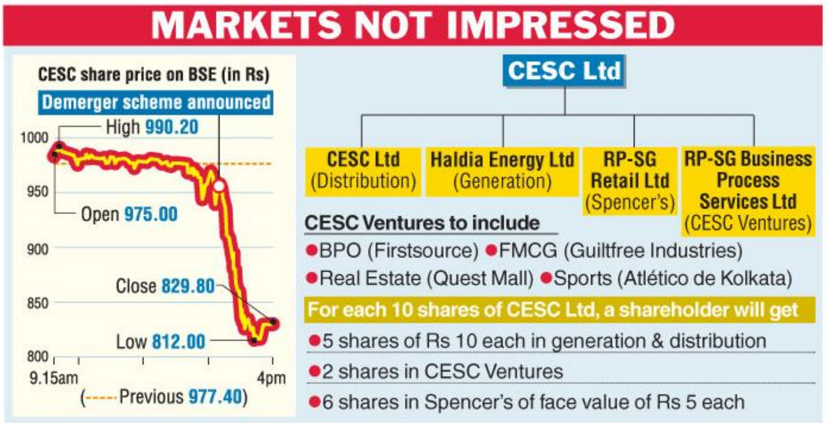

Calcutta, May 18: CESC Ltd today announced the demerger of its power, retail and IT businesses on expected lines and declared a de-facto bonus of 1:2 but the scheme of arrangement failed to enthuse investors who dumped the stock on the bourses.

The company lost nearly Rs 2,000 crore in market capitalisation after it unveiled the mirror image split scheme that will be effective from October 1, subject to all regulatory approvals.

After the demerger, the cumulative share capital of all the four entities will climb 50 per cent to Rs 198 crore from CESC Ltd's existing share capital of Rs 132 crore.

"You may call it a kind of bonus issue. For every 10 shares held, shareholders will get five shares each of the generation and distribution companies, effectively three shares of retail and two shares of the investment company," Sanjiv Goenka, chairman of CESC Ltd, said after announcing the results and the demerger scheme.

According to Goenka, the restructuring will help the group focus on each of the businesses, something that investors have been asking for a while. KPMG and Grant Thornton advised the company on the demerger ratio.

The existing company that will continue to trade on the bourses will have the lucrative Calcutta and Noida distribution franchisees and the three cities of Rajasthan, serving over 5 million consumers. The group will focus more on this segment going forward and bid for new cities.

The generation business will have 2,550 megawatt capacity, mostly in thermal power, including Budge Budge and Haldia in Bengal and Chandrapur in Maharashtra.

The retail business will get listed after the completion of the scheme. Goenka expressed hope that it would become profitable at the net level given that the company would be debt-free.

Speaking to investors at a conference call, the management said around Rs 350 crore debt in the books of Spencer's Retail Ltd had been repaid.

"Effectively, we just have to cover the depreciation. And that will happen soon," Goenka said, adding that it would focus on Bengal, Uttar Pradesh and Andhra Pradesh that earn more per square foot of retail space than other states.

CESC Ventures will hold the BPO business (Firstsource Solutions Ltd), the emerging FMCG vertical, real estate (Quest Mall) and the football franchisee. The company also said that it has made an acquisition in the FMCG space.

Stock worries

Investors said lack of clarity over debt apportionment between the distribution and generation businesses and Spencer's weak financials may have caused the stock to tank, besides the frothy valuation it already had.

"The result was worse than anticipated. The market also found the separation of generation and distribution superfluous. Moreover, the stock had a dream run ahead of the scheme. It was a classic case of buy on rumour, sell on news," Sudip Bandopadhyay, group chairman of Inditrade Securities, said from Mumbai.