

Chairman's Letter

Dear Shareholder,

This letter is in two parts. In the first, I will brief you on the demerger proposal that I had touched upon in my letter last year, which you may have been subsequently informed of through news items and other reports. And in the second, I will share with you the performance of CESC Limited and its subsidiaries for the year 2017-18.

Demerger

Your Company has nurtured many dynamic businesses over the years, whose intrinsic values were not coming into the fore under the overall canopy of CESC. This was the reason why your Board of Directors on 18 May 2017 approved a restructuring plan to demerge the large businesses into four separate entities: (i) power generation, (ii) power distribution, (iii) retail, and (iv) other businesses. The rationale for this move is to unlock shareholder value, provide greater flexibility in accessing capital and to prepare focused strategies for growth across the different entities.

As per the proposal, for every 10 CESC shares held, a shareholder would get five shares of the power generation arm, five of the distribution company, six of the retail firm and two of the entity which will hold the residual business. All four would be listed entities.

Your Company obtained the necessary clearance from SEBI and stock exchanges. After that, a draft Restructuring Scheme was submitted with National Company Law Tribunal (NCLT), Kolkata Bench in September 2017. Under the NCLT's directions, a meeting of your Company's equity shareholders was held on 15 December 2017. In this meeting, an overwhelming majority of shareholders approved the draft Scheme. Thereafter, on 28 March 2018, NCLT passed an order sanctioning the Scheme with a direction that the part of the Scheme providing for demerger of CESC's generation undertaking shall be effective upon obtaining approval of the West Bengal Electricity Regulatory Commission (WBERC) to the Power Purchase Agreement between CESC and the generation undertaking proposed to be demerged.

Your Company made an application in April 2018 seeking WBERC's approval. At the time of writing this letter, the approval is awaited.

Subsequent to the receipt of the certified copy of the NCLT order on 5 October 2018, your Board of Directors, in its meeting held on 12 October 2018 decided to file it with the Registrar of Companies and make the Scheme effective, except for Part III, Part IX and Part XII (Section 1) relating to the demerger of CESC's generation undertaking, which would become effective after receipt of the above approval from WBERC to the Power Purchase Agreement.

Accordingly, every shareholder of the Company will receive 6 (six) shares of RP-SG Retail Limited and 2 (two) shares of RP-SG Business Process Services Limited for every 10 equity shares of the Company

held by such shareholder on 31 October 2018, the Record Date.

Business Performance

When describing the business performance of your Company in my last year's letter, I had written, "The business hummed along, without any upheavals, downturns nor negative surprises". This is exactly true for 2017-18, and the numbers show this in no uncertain terms.

- At a standalone level, the total income (including other income) of your Company grew by 8.1% to ₹ 7,954 crore in 2017-18. At a consolidated level, it did better still — growing by 22.5% to ₹ 10,527 crore.
- Standalone profit after taxes (PAT) for 2017-18 stood at ₹ 862 crore. Consolidated PAT increased by 20.4% to ₹ 975 crore. Consolidated PAT after non-controlling interest rose by over 32% to ₹ 913 crore.
- Standalone earnings per share (EPS) for the year was at ₹ 65.01 in 2017-18 versus ₹ 65.09 in 2016-17. Consolidated EPS grew from ₹ 52.12 in 2016-17 to ₹ 68.85 in 2017-18.

These results have been on account of several operational successes. Let me share some. Further details can be found in the chapter on Management Discussion and Analysis in the Annual Report.

- *Thermal power generation* : On a standalone basis, your Company operates three generating stations at Budge Budge, Southern and Titagarh. During the year, combined generation for the three stations was 6,337 MU (million units). Of this, Budge Budge alone generated 6,033 MU, recording its highest level of generation. This was also the fourth highest PLF among all thermal plants in India in 2017-18. I am delighted that Budge Budge received the award for "Best Performing Utility in Thermal Power Sector" from Central Board of Irrigation and Power. Haldia Energy Limited, a 100% subsidiary of your Company, operates 2 x 300 MW coal fired thermal power plants at Haldia in West Bengal. In 2017-18, it achieved an outstanding plant availability factor of nearly 98% and a PLF of 86%. It also received several industry awards in the year for excellence in quality systems, health, safety and environment.
- *Power distribution in the Kolkata and Howrah licensed area*: CESC supplies cost-effective and reliable electricity to over 3.2 million customers across 567 square kilometres. During 2017-18, it added around 74,000 customers; and the average time taken to provide a new connection was one to two days. Among several initiatives, some 2.5 lakh meters were installed in the course of the year; in space-starved urban zones, extra high voltage outdoor substations were converted to indoor GIS substations; smart metering was deployed in several parts of the area, including remote metering of its both its consumers

Chairman's Letter



and distribution transformers. There has been a rapid spread of digitisation in billing and payments, customer contact, helped by a bouquet of e-services and an upgraded mobile app.

- *Wind and solar* : There are four wind projects: one each in Rajasthan and Madhya Pradesh and two in Gujarat. All four projects are running successfully. During 2017-18, their combined generation was over 234 MU, and combined supply of electricity stood at almost 223 MU. The Company's venture into solar power has been in Tamil Nadu. The plant has been operating profitably since its first full year of operation in 2016-17.
- *Distribution franchisees* : At present, the Company has three operating distribution franchisees in Rajasthan — for Kota, Bharatpur and Bikaner. The three have a combined customer base of 4.2 lakh that accounts for energy consumption of around 2,100 million units per year, and translates into a revenue of some ₹ 1,300 crore per annum.

We expect the implementation of the Scheme in respect of the non power businesses will unlock value in retail, FMCG and IT services.

We also expect the WBERC approval to come, sooner rather than later. When it does, we will put the complete demerger Scheme into effect. With the consequence that each shareholder of the Company will become an equity holder of four different listed entities — a move that ought to generate greater value for all of you who have shown so much loyalty and faith in CESC. You certainly deserve this.

With my best regards,

Yours sincerely,

Sanjiv Goenka
Chairman

14 November, 2018