

# Tata Power

BSE SENSEX

35,179

S&amp;P CNX

10,685

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## Stock Info

Bloomberg	TPWR IN
Equity Shares (m)	2,705
52-Week Range (INR)	102 / 75
1, 6, 12 Rel. Per (%)	-7/-17/-14
M.Cap. (INR b)	237.0
M.Cap. (USD b)	3.5
Avg Val ( INRm)	577.0
Free float (%)	67.0

## Financials Snapshot (INR b)

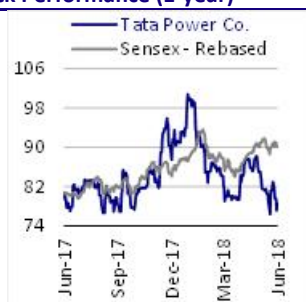
Y/E Mar	2018	2019E	2020E
Net Sales	293.3	305.3	320.1
EBITDA	63.6	62.1	65.8
PAT	14.5	17.2	21.1
EPS (INR)	5.3	6.3	7.8
Gr. (%)	3.5	18.7	22.7
BV/Sh (INR)	56.4	66.2	70.9
RoE (%)	10.7	10.3	11.4
RoCE (%)	6.3	5.5	5.8
P/E (x)	14.7	12.4	10.1
P/BV (x)	1.4	1.2	1.1

## Shareholding pattern (%)

As On	Mar-18	Dec-17	Mar-17
Promoter	33.0	33.0	33.0
DII	23.6	24.4	23.5
FII	28.1	27.3	27.3
Others	15.2	15.3	16.2

FII Includes depository receipts

## Stock Performance (1-year)


**CMP: INR79**
**TP: INR77 (-2% )**
**Upgrade to Neutral**

## New MD identifies growth areas in RE and T&D

### Deleveraging and coal prices driving earnings; upgrading to Neutral

Tata Power (TPWR) hosted its annual analyst meet on 5<sup>th</sup> June 2018. We are enthused with the new MD Praveer Sinha's focus on deleveraging, prudent capital allocation and identifying new areas of growth that are less capital intensive. We, thus, upgrade our rating on the stock to Neutral.

### Sale of non-core assets is aiding deleveraging

Over the last year, TPWR has accelerated the pace of sale of non-core assets. It has finalized divestment plans amounting to ~INR50b, while ~INR25b has been realized – a majority of which has been received in 1QFY19. Sale of its stake in Tata Projects is under discussion. The reported consolidated net debt to equity will decline from 2.7x in FY17 to 2.3x post divestments. TPWR is also evaluating the performance of its overseas power assets for possible consolidation/monetization.

### Optimizing operations of CGPL to help contain losses

CGPL continues engaging beneficiaries for a sustainable resolution of partial under-recovery of fuel cost. At the same time, it is taking various steps to contain losses.

- CGPL is optimizing fuel cost by blending of low GCV coal, which is available at a steeper discount.
- CGPL is also in discussion with DISCOMs to sell power beyond minimum commitment of 80% at merchant tariff. However, there is no progress on this.

### Trombay PPA expiry is low risk

The regulated PPA for the Trombay power plant with BEST is valid until March 2019 (after the recent extension by one year). BEST is seeking competitive bids, but, based on the initial results (two rounds have been completed), the competitive price may be higher than regulated supply by Trombay. This may lower the risk of expiry of the PPAs. The integrated Trombay and distribution operations also provide reliability of supply in the Mumbai distribution circle of BEST.

### Future growth strategies

With the changing paradigms of electricity, TPWR is evaluating various business models, where it can leverage its 100+ years of experience in the sector to gain an edge over competitors. Possible areas include distributed generation (already supplying in two villages in Bihar, India), smart meters, rooftop solar, EV charging systems, home automations and inter-state transmission. TPWR sees huge opportunity in privatization of distribution circles over the next 3-4 years.

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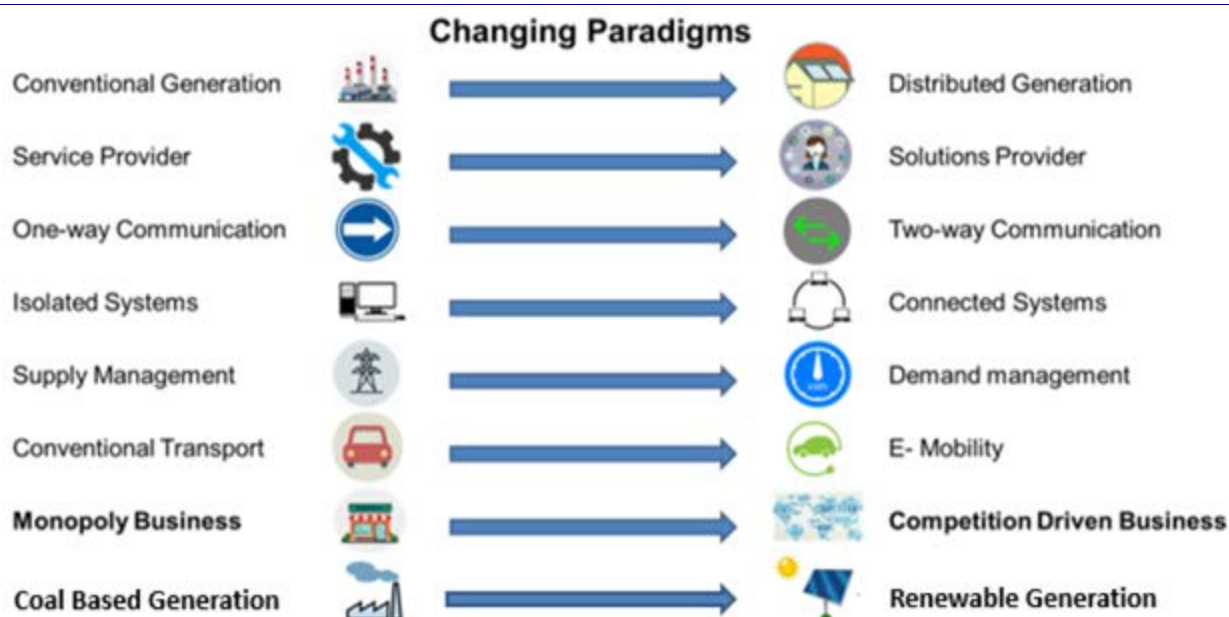
### Renewables – opportunities for value-accretive growth

TPWR has ~2GW of operating and 100MW of under-construction renewable energy (RE) asset portfolio. The assets are well diversified across states, which reduces concentration risk. TPWR has an edge in the solar space because of (1) its in-house manufacturing of cells and modules, (2) EPC and (3) O&M and access to low-cost funds. TPWR is targeting to increase non-fossil-fuel-based capacities to 40-50% of its total portfolio from ~34% now. It will continue evaluating growth opportunities (recently won a 150MW project) but with caution.

### Deleveraging and coal prices driving earnings; upgrading to Neutral

- TPWR has walked the talk by divesting INR50b worth of non-core assets. Divestment of a few more non-core assets (e.g. Tata Projects) is on agenda. This has started deleveraging of balance sheet. The net debt/equity ratio will decline from 2.8x at end-FY18 to 2x by FY20E.
- TPWR has also been prudent in capital allocation by not following the herd in RE space. However, we believe that there are opportunities emerging now for value-accretive growth in RE due to consolidation and an increase in government tendering.
- Spot coal prices have been trading above our assumption of USD80/t, which poses an upside risk to our estimates, as TPWR is marginally long on net basis. This also improves visibility of proceeds from the sale of Arutmin.
- We expect TPWR to start generating some free cash flows, led by improving operating cash flows, lower interest cost on deleveraging and low capex intensity.
- TPWR has been an underperformer since we initiated coverage with a Sell rating. However, we now believe that the worst is behind for the stock, although it still lacks an attractive growth trajectory. Therefore, we **upgrade the stock to Neutral**. The stock trades at a P/E of ~10x and a P/BV of ~1.1x. We value the stock at INR77/share based on SOTP (Exhibit 4).

Exhibit 1: Future trends emerging in electricity sector



Source: Company

Exhibit 2: Emerging businesses in electricity sector

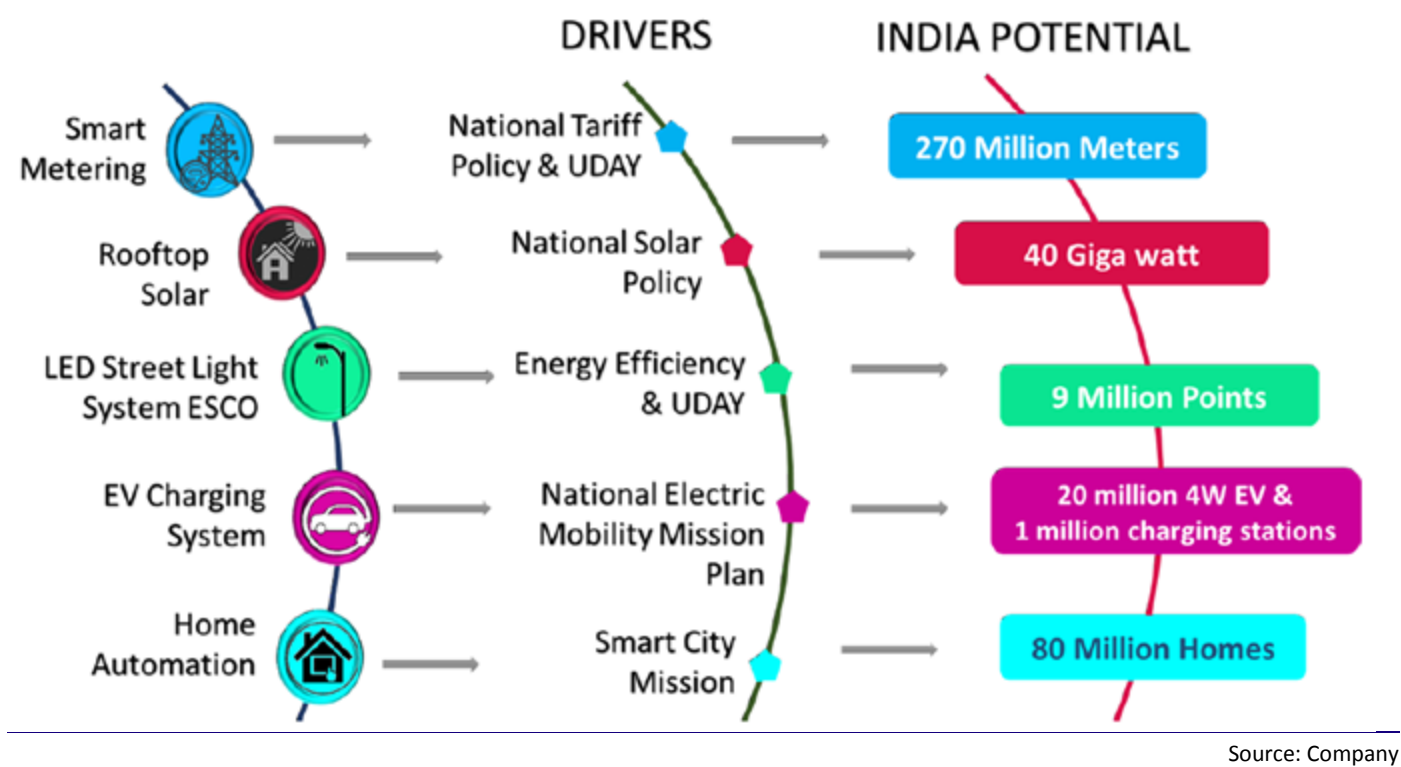
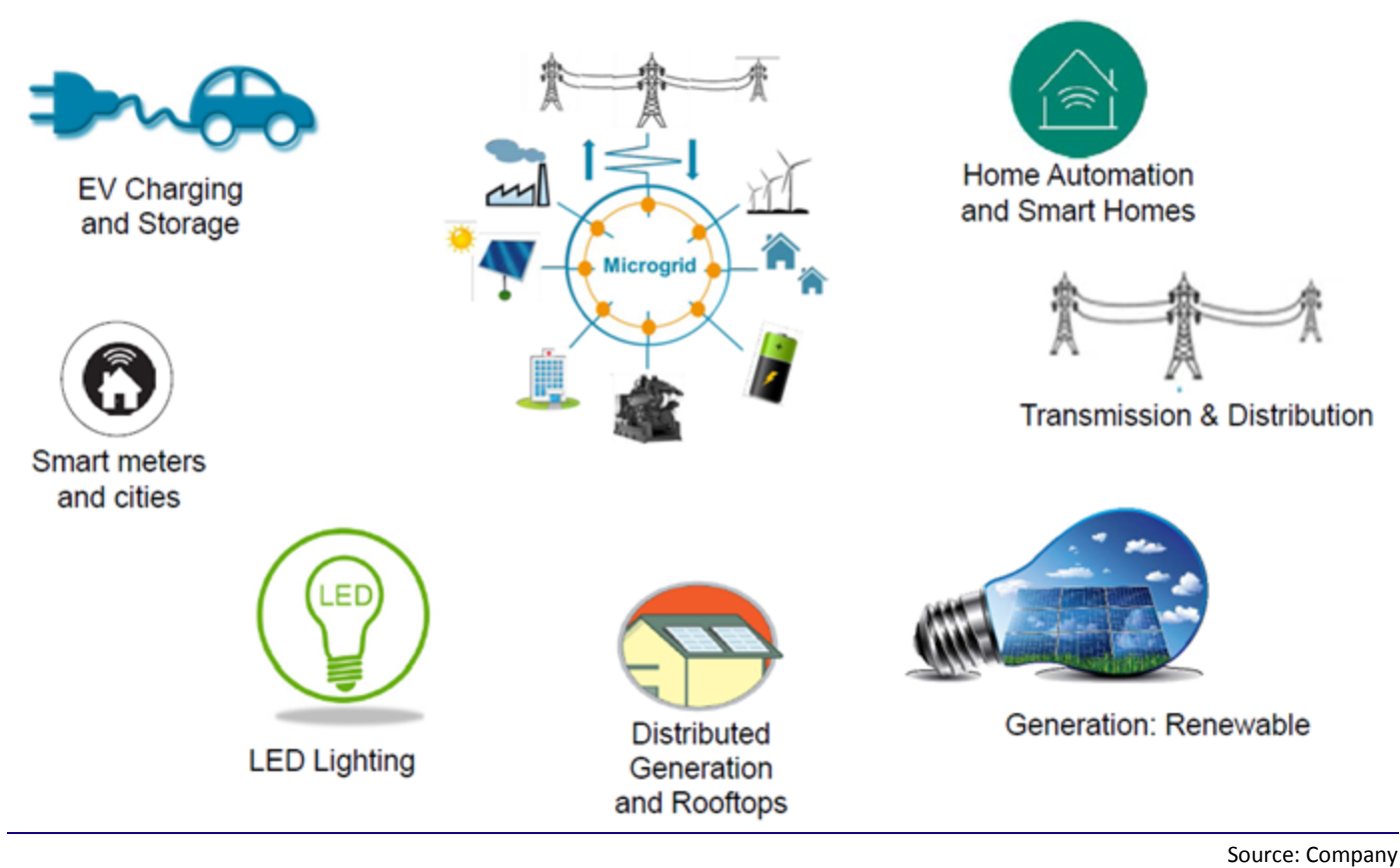


Exhibit 3: TPWR’s key focus areas for growth



## Exhibit 4: SOTP valuation based on FY20E

Regulated Business									
	Reg. Eq.	P/BV	EBITDA	Equity Value	TPWR's share		Reg. Debt	Enterprise Value (EV)	Remarks
	(a)	(b)		d=axb	(%)	Eq. Val. (e)	(f)	(e+f)	
Mumbai & Jojobera (S/A)	42,993	1.7	18,745	71,768	100	71,768	56,766	128,534	RoE = 15.5%, g = 5%
Delhi	15,705	1.5	7,483	23,680	51	12,077	36,644	48,721	RoE = 15.5%, g = 3%
Maithon	16,982	1.5	9,054	25,571	74	18,923	20,637	39,560	RoE = 17%, g=0
Subtotal (A)			35,283					216,815	Ke=11.3%
CGPL (Mundra) and coal JVs									
	EV/EBITDA(x)		EBITDA			EV		Assumptions	
	(g)		(h)			(g x h)			
DCF value of fixed charges			19,227			138,003		no under recoveries	
Under recoveries in Var. cost	8		-17,453			-139,621		RB Index USD80	
PAT from coal JVs	10		12,262			122,615		RB Index USD80	
Subtotal (B)			14,036			120,996			
Other businesses									
	EV/EBITDA(x)		EBITDA			EV		Assumptions	
	(j)		(k)			(j x k)			
Renewable Energy	8		18,185			145,481			
Haldia, trading etc.	8		10,601			84,812			
PAT of other JVs and assoc.	10		4,740			47,399			
Subtotal ( C )			28,787			277,691			
Consolidated									
Consolidated EV (A+B+C)			65,843			615,503			
Less: Debt						-423,475			
Investment unquoted	1					11,452		at book value	
Investment quoted	0.8					4,095		20% discount to MTM	
Net Equity value						207,575			
No. of shares						2,705			
Target Price (INR/share)						77			

Source: MOSL, Company

## Financials and valuations

Income Statement						(INR Million)
Y/E March	2015	2016	2017	2018	2019E	2020E
<b>Net Sales</b>	<b>337,276</b>	<b>295,009</b>	<b>278,977</b>	<b>293,312</b>	<b>305,273</b>	<b>320,071</b>
Change (%)	-5.4	-12.5	-5.4	5.1	4.1	4.8
Total Expenses	274,264	223,539	220,510	229,743	243,208	254,228
<b>EBITDA</b>	<b>63,012</b>	<b>71,470</b>	<b>58,467</b>	<b>63,570</b>	<b>62,065</b>	<b>65,843</b>
% of Net Sales	18.7	24.2	21.0	21.7	20.3	20.6
Depn. & Amortization	21,742	16,487	19,886	23,981	23,939	25,151
<b>EBIT</b>	<b>41,270</b>	<b>54,983</b>	<b>38,581</b>	<b>39,589</b>	<b>38,126</b>	<b>40,692</b>
Net Interest	36,993	32,358	31,140	37,230	34,401	31,912
Other income	4,167	913	2,022	4,327	3,612	3,612
<b>PBT before EO</b>	<b>8,445</b>	<b>23,538</b>	<b>9,464</b>	<b>6,686</b>	<b>7,337</b>	<b>12,392</b>
Regulatory inc./ (exp)	6,393	-9,752	-6,095	-4,099	0	0
EO expense	0	978	6,515	-10,308	-17,618	0
<b>PBT after EO</b>	<b>14,837</b>	<b>12,807</b>	<b>-3,145</b>	<b>12,895</b>	<b>24,955</b>	<b>12,392</b>
Tax	10,749	6,803	-458	1,643	4,772	6,000
Rate (%)	72.4	53.1	14.6	12.7	19.1	48.4
<b>Reported PAT</b>	<b>4,088</b>	<b>6,004</b>	<b>-2,687</b>	<b>11,252</b>	<b>20,183</b>	<b>6,392</b>
Minority, JVs & Asso.	-2,410	618	10,142	13,514	14,600	14,674
<b>Adjusted PAT</b>	<b>1,678</b>	<b>7,600</b>	<b>13,969</b>	<b>14,458</b>	<b>17,165</b>	<b>21,065</b>
Change (%)	-150.9	352.9	83.8	3.5	18.7	22.7

Balance Sheet						(INR Million)
	2015	2016	2017	2018	2019E	2020E
Share Capital	2,705	2,705	2,705	2,705	2,705	2,705
Reserves	122,716	113,629	115,090	149,897	176,451	189,198
<b>Net Worth</b>	<b>125,421</b>	<b>116,334</b>	<b>117,795</b>	<b>152,602</b>	<b>179,156</b>	<b>191,903</b>
Minority Interest	24,926	17,498	18,690	20,153	21,131	22,358
Total Loans	423,419	403,486	503,154	500,896	457,356	441,006
Deferred Tax Liability	14,014	20,969	17,598	5,166	5,166	5,166
<b>Capital Employed</b>	<b>587,779</b>	<b>558,286</b>	<b>657,237</b>	<b>678,816</b>	<b>662,809</b>	<b>660,432</b>
Gross Block	583,351	476,643	577,520	602,689	628,179	653,331
Less: Accum. Deprn.	202,217	112,536	130,311	154,292	178,231	203,382
<b>Net Fixed Assets</b>	<b>381,133</b>	<b>364,108</b>	<b>447,209</b>	<b>448,398</b>	<b>449,948</b>	<b>449,948</b>
Capital WIP	36,505	13,449	21,779	16,526	16,526	16,526
Goodwill	66,258	55	17,325	16,416	16,416	16,416
Investments	27,326	114,468	108,592	119,928	122,474	125,343
<b>Curr. Assets</b>	<b>243,207</b>	<b>208,517</b>	<b>226,458</b>	<b>227,068</b>	<b>207,189</b>	<b>202,707</b>
Inventories	18,442	13,734	15,996	16,231	16,231	16,231
Account Receivables	55,640	35,402	38,321	27,889	28,885	29,936
Cash and Bank Balance	21,064	9,991	20,521	16,219	14,512	17,532
Others	148,062	149,389	151,621	166,729	147,561	139,008
<b>Curr. Liability &amp; Prov.</b>	<b>166,650</b>	<b>142,311</b>	<b>164,127</b>	<b>149,519</b>	<b>149,744</b>	<b>150,508</b>
Account Payables	52,354	44,014	55,290	56,098	54,613	55,378
Provisions & Others	114,296	98,297	108,837	93,420	95,130	95,130
<b>Net Curr. Assets</b>	<b>76,557</b>	<b>66,206</b>	<b>62,332</b>	<b>77,550</b>	<b>57,445</b>	<b>52,198</b>
<b>Appl. of Funds</b>	<b>587,779</b>	<b>558,286</b>	<b>657,237</b>	<b>678,816</b>	<b>662,809</b>	<b>660,432</b>

## Financials and valuations

### Ratios

Y/E March	2015	2016	2017	2018	2019E	2020E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>0.6</b>	<b>2.8</b>	<b>5.2</b>	<b>5.3</b>	<b>6.3</b>	<b>7.8</b>
Cash EPS	8.7	8.9	12.5	14.2	15.2	17.1
BV/Share	46.4	43.0	43.5	56.4	66.2	70.9
DPS	1.3	1.3	0.0	1.3	1.3	1.3
Payout (%)	209.5	46.3	0.0	24.3	20.5	16.7

### Valuation (x)

P/E	124.3	23.0	15.2	14.7	12.4	10.1
Cash P/E	8.9	7.3	6.3	5.5	5.2	4.6
P/BV	1.7	1.5	1.8	1.4	1.2	1.1
EV/EBITDA	10.1	8.2	12.2	11.3	10.9	10.0
Dividend Yield (%)	1.7	2.0	0.0	1.7	1.7	1.7
FCF(pre-int) to EV yield(%)	4.0	9.9	5.7	2.0	9.8	9.0

### Return Ratios (%)

RoE	1.4	6.3	11.9	10.7	10.3	11.4
RoCE (post-tax)	6.1	8.6	6.8	6.3	5.5	5.8
RoIC (post-tax)	2.7	6.0	7.2	6.9	6.2	4.3

### Working Capital Ratios

Fixed Asset Turnover (x)	0.9	0.8	0.6	0.7	0.7	0.7
Asset Turnover (x)	0.6	0.5	0.4	0.4	0.5	0.5
Debtor (Days)	60	44	50	35	35	34
Inventory (Days)	20	17	21	20	19	19

### Leverage Ratio (x)

Net Debt/EBITDA	6.4	5.5	8.3	7.6	7.1	6.4
Debt/Equity	2.7	2.9	3.5	2.8	2.2	2.0

### Cash flow statement

(INR Million)

Y/E March	2015	2016	2017	2018	2019E	2020E
<b>EBITDA</b>	<b>63,012</b>	<b>71,470</b>	<b>58,467</b>	<b>63,570</b>	<b>62,065</b>	<b>65,843</b>
FX gain/loss						
WC	-5,611	20,488	21,843	-31,952	18,397	8,267
Others	10,493	9,873	-4,409	0	0	0
Direct taxes (net)	-8,085	-4,295	-6,323	-14,076	-4,772	-6,000
<b>CF from Op. Activity</b>	<b>59,809</b>	<b>97,536</b>	<b>69,578</b>	<b>17,542</b>	<b>75,690</b>	<b>68,110</b>
Capex	-34,936	-39,864	-33,223	-19,916	-25,490	-25,151
<b>FCF</b>	<b>24,873</b>	<b>57,672</b>	<b>36,356</b>	<b>-2,374</b>	<b>50,200</b>	<b>42,958</b>
Int & div income	2,078	2,141	6,263	18,616	17,746	17,744
Investments(subs/JVs)	0	-2,757	-36,926	0	0	0
Others	-5,891	-4,286	-10,303	33,071	17,618	0
<b>CF from Inv. Activity</b>	<b>-38,749</b>	<b>-44,767</b>	<b>-74,190</b>	<b>31,771</b>	<b>9,874</b>	<b>-7,408</b>
Share capital	20,692	149	9	0	0	0
Borrowings	-1,026	-13,037	49,608	-2,258	-43,540	-16,350
Finance cost	-33,842	-33,515	-32,704	-37,230	-34,401	-31,912
Dividend	-5,121	-5,908	-4,159	-5,800	-7,620	-7,710
Others	-3,089	-3,369	-2,816	-1,710	-1,710	-1,710
<b>CF from Fin. Activity</b>	<b>-22,386</b>	<b>-55,680</b>	<b>9,937</b>	<b>-46,999</b>	<b>-87,271</b>	<b>-57,682</b>
<b>(Inc)/Dec in Cash</b>	<b>-1,326</b>	<b>-2,911</b>	<b>5,326</b>	<b>2,315</b>	<b>-1,708</b>	<b>3,020</b>
Opening balance	13,845	12,616	2,398	9,543	11,858	10,150
<b>Closing balance (as per B/S)</b>	<b>12,519</b>	<b>9,706</b>	<b>7,723</b>	<b>11,858</b>	<b>10,150</b>	<b>13,170</b>

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Analyst ownership of the stock	No

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