

# Torrent Power

BSE SENSEX

36,977

S&amp;P CNX

10,948

**CMP: INR296**
**TP: INR351 (+19%)**
**Buy**

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Bloomberg	TPW IN
Equity Shares (m)	481
M.Cap.(INRb)/(USD\$)	142.1 / 2
52-Week Range (INR)	314 / 212
1, 6, 12 Rel. Per (%)	6/21/30
12M Avg Val (INR M)	409
Free float (%)	46.4

## Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	131.5	135.6	142.7
EBITDA	32.0	35.1	41.2
PAT	9.0	10.5	13.6
EPS (INR)	18.7	21.7	28.3
Gr. (%)	-4.6	16.3	30.2
BV/Sh (INR)	186.6	202.4	224.7
RoE (%)	10.8	11.2	13.3
RoCE (%)	8.5	8.6	9.6
P/E (x)	15.7	13.5	10.4
P/BV (x)	1.6	1.5	1.3

Estimate change



TP change



Rating change



## Growth across segments barring Sugen

### UnoSugen PPA kicks off but RE projects may be at risk

EBITDA increased 9% YoY to INR8.3b (our estimate: INR8.1b) in 1QFY20, led by (a) increased merchant power sales, (b) higher renewable generation and (c) investments in the distribution license business. However, the gains from these segments were partly offset by the impact from the new CERC regulations on Sugen. PAT was up 22% YoY to INR2.8b (our estimate: INR2.4b), led by a lower tax rate of 14% (1QFY19: 21%).

- UnoSugen (PLF: 42%) and DGEN (PLF: 10%) benefitted from the sale of power in the merchant market. In contrast, both these plants were idle in 1QFY19. Including Sugen, the company sold 788MUs in the merchant market (1QFY19: 77MUs), leading to an incremental benefit of ~INR400m.
- PLFs for TPW's wind/solar business also improved 125bp/70bp YoY.
- Profitability for Sugen, though, was impacted by the new CERC regulations, which has tightened O&M norms and increased sharing on efficiency gains.
- UnoSugen has started supplying power under an LT PPA since 1<sup>st</sup> Jul'19. We expect UnoSugen to generate EBITDA of ~INR1.7b per annum.
- The company noted that its 500MW SECI-III project is facing execution issues. If the project does not go through, it would lead to a penalty of INR1.5b.

### Strong positioning, healthy balance sheet; Maintain Buy

Outlook for TPW's gas plants has improved with the sourcing of imported LNG and the recent offtake of UnoSugen PPA. This, along with continued capitalization within regulated distribution and RE investment, is likely to drive earnings CAGR of 19% over FY19-22. Besides, TPW remains well poised to capitalize on opportunities from distribution privatization and consolidation in the generation sector. Maintain **Buy** with an SOTP-based TP of INR351. We, however, note that the potential non-commissioning of RE projects is a risk and could impact our estimates.

## Quarterly Performance (Consolidated) – INR m

Y/E March	FY19				FY20				FY19	FY20E	FY20	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Net Sales	35,281	34,445	32,535	29,248	37,361	35,091	33,374	29,770	131,510	135,597	35,957	4
YoY Change (%)	15.3	18.2	18.1	4.1	5.9	1.9	2.6	1.8			1.9	
Total Expenditure	27,617	24,577	25,171	22,150	29,025	24,823	25,423	21,240	99,515	100,510	27,893	4
EBITDA	7,664	9,869	7,364	7,098	8,337	10,269	7,952	8,530	31,995	35,086	8,064	3
Margins (%)	21.7	28.6	22.6	24.3	22.3	29.3	23.8	28.7	24.3		22.4	
Depreciation	3,018	3,044	3,074	3,130	3,206	3,216	3,248	3,289	12,265	12,958	3,188	1
Interest	2,292	2,247	2,287	2,163	2,477	2,448	2,491	2,375	8,989	9,790	2,200	13
Other Income	523	441	533	399	545	463	560	423	1,896	1,991	549	-1
PBT	2,877	5,019	2,537	2,204	3,199	5,069	2,773	3,288	12,636	14,329	3,225	-1
Tax	604	884	155	1,956	433	1,369	749	1,319	3,598	3,869	871	
Rate (%)	21.0	17.6	6.1	88.7	13.5	27.0	27.0	40.1	28.5	27.0	27.0	
MI and Associates	15	13	12	9	13	2	2	-9	49	8	2	
Reported PAT	2,259	4,122	2,370	240	2,753	3,698	2,023	1,978	8,989	10,452	2,352	17
PAT	2,259	4,122	2,370	240	2,753	3,698	2,023	1,978	8,989	10,452	2,352	
YoY Change (%)	-17.2	27.7	15.6	-89.0	21.9	-10.3	-14.6	726.1	-11.6	16.3	4.1	

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### Operational highlights

- UnoSugen and DGEN sold power in the merchant market, reporting PLFs of 42.3% and 10.2%, respectively, in 1QFY20. Both these plants were idle in 1QFY19.
- PLF in Sugden was down ~150bp YoY to 73.1% in 1QFY20. PLF in Amgen stood at 93.7% (v/s 94.0% in 1QFY19).
- For 1QFY20, T&D losses in Ahmedabad were down from 12.2% in 1QFY19 to 11.6%. Losses in Surat were up from 3.0% to 3.3%.
- AT&C losses in Bhiwandi were down from 16.3% in 1QFY19 to 14.2% in 1QFY20. Losses in Agra were up from 23.3% to 24.6%.
- PLF for wind-based projects was at 36.7% in 1QFY20 (35.4% in 1QFY19). PLF for solar-based projects stood at 19.8% (19.1% in 1QFY19).

### Conference call takeaways

- **Quarterly performance:** Sugden was impacted by ~INR400m due to the tightening of the new CERC norms. The co.'s distribution businesses (franchise and license) showed improvements, gaining ~INR300m YoY. Sale of merchant power led to an incremental benefit of ~INR400m YoY. Higher PLF and additional capacity improved the renewables performance (~INR170m).
- **UnoSugen:** UnoSugen has started supplying power for 278MW under long-term PPA from 1<sup>st</sup> Jul'19. The FC allowance is capped at INR228cr or CERC-determined tariff, whichever is lower over the life of the PPA. According to the PPA, the all-in cost of power supplied should not be more than the price of medium-term power, which is at INR5.6/kWh. The price cap of INR5.6/kWh (based on price discovered under the recent Pilot Scheme for medium term power) will be applicable for three years.
- At an FC allowance of INR1.1/kwh, maximum fuel cost would be INR4.5/kWh, which implies a max gas price of USD\$7.5/mmbtu at current exchange rates. If the cost of fuel is higher, the co. can sell power under the PPA but the tariff will be capped at INR5.6/kWh, thereby implying lower FC recoveries. Spot LNG is currently at ~USD4/mmbtu, while a medium-term LNG contract is at ~USD7/mmbtu, according to the company. TPW has some surplus gas (@USD6.5/mmbtu till Dec'2020) which it is using for UnoSugen. It will enter into spot/medium-term gas contracts for the remaining supply.
- **DGEN:** DGEN plant could become operative when the government's R-LNG subsidy scheme is announced. ~30-35% PLF is possible.
- **Renewable projects:**
  - **SECI -I:** 50MW of the project is commissioned, while another 50MW stands delayed from the long stop date of PPA. The company has the option to give back the project to the EPC company. The project has been bid by EPC contractor (Inox). All the land for the project is in place – a delay is being witnessed from the supplier.
  - **SECI-III and SECI-V:** Both these projects are facing headwinds. Projects though are protected for its EPC value in the form of bank guarantees (BG). Cancellation of the project will lead to penalties.
  - In SECI-III, SECI has already extended milestone related to land by one year, but the schedule COD has not been extended. If COD is not extended and the project is cancelled, the co. may face penalty of INR1b in the form of

liquidity damages (BG given to SECI) and INR0.5b from PGCIL for long-term access (BG given to PGCIL). Besides, there is INR0.1b of pre-operative expenses. The company has spent ~INR4b on the project, but is covered through bank guarantees on the same. While Suzlon is working on the project, the progress remains slow.

- SECI-V is also facing land issues. EPC contract for SECI-V has not been awarded; TPW remains hopeful that both SECI-III and SECI-V will go ahead.
- **Distribution franchise:** In Agra, core T&D losses have reduced by ~100bp. However, collection efficiency has been impacted by delay in payment of govt. dues. These dues would be recovered in 2Q. The co. expects to takeover Shil, Mumbra and Kalwa DF post elections in Maharashtra, i.e., from Sept-Oct.
- **Merchant contracts:** The co. has tied up some merchant contracts in 2Q. It believes that there could be more opportunities in the merchant market but only until October.

#### Exhibit 1: Torrent Power – SOTP valuation

FY21 basis	Reg. E Equity INR m	RoE %	Growth %	Multiple x (RoE-g)/(CoE-g)	Equity Value INR m	Norm. Debt INR m	EV INR m
<b>Regulated businesses</b>	<b>48,981</b>				<b>77,024</b>	<b>36,526</b>	<b>119,132</b>
<b>Distribution</b>							
Ahmedabad	21,065	16.0	6.0	1.9	40,124	17,609	57,733
Surat	6,961	16.0	6.0	1.9	13,258	3,365	16,623
Regulatory assets	9,330				9,330	0	9,330
<b>Generation</b>							
Sabarmati	4,515	14.0	0.0	1.0	4,515	0	4,515
Sugen	7,110	15.5	0.0	1.4	9,796	15,553	25,349
UnoSugen						5,581	5,581
<b>Others businesses</b>	<b>EBITDA INR m</b>						
RE projects	10,130			8.0			81,041
Bhiwandi and Agra DFs	8,006			6.5			52,037
Sugen PPA efficiency earnings	2,603			6.0			15,618
Others							
<b>EV</b>							<b>267,829</b>
Less: Net debt							99,167
<b>MCap</b>							<b>168,663</b>
No. of shares							481
<b>Value per share</b>							<b>351</b>
<b>CMP</b>							<b>284</b>
<b>Upside/(Downside) - %</b>							<b>24</b>

Source: MOSL, Company

## Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Net Sales</b>	<b>86,811</b>	<b>103,960</b>	<b>117,158</b>	<b>100,536</b>	<b>115,121</b>	<b>131,510</b>	<b>135,597</b>	<b>142,690</b>
Change (%)	5.6	19.8	12.7	-14.2	14.5	14.2	3.1	5.2
<b>EBITDA</b>	<b>12,833</b>	<b>20,799</b>	<b>30,616</b>	<b>24,603</b>	<b>31,171</b>	<b>31,995</b>	<b>35,086</b>	<b>41,175</b>
EBITDA Margin (%)	14.8	20.0	26.1	24.5	27.1	24.3	25.9	28.9
Depreciation	5,544	7,205	9,157	10,059	11,315	12,265	12,958	14,075
<b>EBIT</b>	<b>7,289</b>	<b>13,594</b>	<b>21,459</b>	<b>14,544</b>	<b>19,856</b>	<b>19,730</b>	<b>22,129</b>	<b>27,100</b>
Interest	7,046	9,623	11,308	10,580	8,482	8,989	9,790	10,542
Other Income	2,506	3,662	2,819	1,909	2,636	1,896	1,991	2,090
Extraordinary items	0	-230	-74	0	0	0	0	0
<b>PBT</b>	<b>2,749</b>	<b>7,404</b>	<b>12,896</b>	<b>5,873</b>	<b>14,010</b>	<b>12,636</b>	<b>14,329</b>	<b>18,648</b>
Tax	1,670	3,777	3,874	1,576	4,489	3,598	3,869	5,035
Tax Rate (%)	60.7	51.0	30.0	26.8	32.0	28.5	27.0	27.0
Min. Int. & Assoc. Share	26	30	20	8	98	49	8	8
<b>Reported PAT</b>	<b>1,053</b>	<b>3,597</b>	<b>9,002</b>	<b>4,290</b>	<b>9,423</b>	<b>8,989</b>	<b>10,452</b>	<b>13,605</b>
<b>Adjusted PAT</b>	<b>1,053</b>	<b>3,367</b>	<b>8,928</b>	<b>4,290</b>	<b>9,423</b>	<b>8,989</b>	<b>10,452</b>	<b>13,605</b>
Change (%)	-72.8	219.9	165.2	-52.0	119.7	-4.6	16.3	30.2

Balance Sheet							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	4,725	4,725	4,806	4,806	4,806	4,806	4,806	4,806
Reserves	57,329	60,832	59,898	64,115	72,389	84,896	92,464	103,185
<b>Net Worth</b>	<b>62,053</b>	<b>65,557</b>	<b>64,705</b>	<b>68,921</b>	<b>77,195</b>	<b>89,702</b>	<b>97,270</b>	<b>107,991</b>
Debt	94,634	93,547	85,148	87,681	92,981	97,152	111,152	113,152
Deferred Tax	7,127	8,579	13,061	13,363	14,799	15,654	16,398	17,367
<b>Total Capital Employed</b>	<b>164,110</b>	<b>167,990</b>	<b>163,215</b>	<b>170,255</b>	<b>185,334</b>	<b>202,882</b>	<b>225,203</b>	<b>238,901</b>
Gross Fixed Assets	130,650	186,848	160,461	187,266	209,170	222,767	242,008	284,834
Less: Acc Depreciation	28,903	36,065	9,166	19,226	30,463	42,628	55,586	69,661
<b>Net Fixed Assets</b>	<b>101,747</b>	<b>150,782</b>	<b>151,295</b>	<b>168,040</b>	<b>178,707</b>	<b>180,139</b>	<b>186,422</b>	<b>215,173</b>
Capital WIP	45,496	2,330	2,133	3,321	3,925	3,593	16,202	249
Investments	0	0	0	0	0	0	0	0
<b>Current Assets</b>	<b>43,923</b>	<b>43,112</b>	<b>42,590</b>	<b>36,625</b>	<b>43,258</b>	<b>61,809</b>	<b>65,505</b>	<b>66,833</b>
Inventory	2,902	2,597	4,202	3,694	4,549	6,270	5,201	5,473
Debtors	8,046	8,924	10,570	9,751	11,305	12,297	13,002	13,683
Cash & Bank	24,218	23,732	12,856	9,336	9,982	9,549	13,609	13,985
Loans & Adv, Others	8,757	7,860	14,962	13,845	17,423	33,693	33,693	33,693
<b>Curr Liabs &amp; Provns</b>	<b>27,156</b>	<b>28,338</b>	<b>32,902</b>	<b>37,731</b>	<b>40,556</b>	<b>42,659</b>	<b>42,927</b>	<b>43,354</b>
Curr. Liabilities	27,156	28,338	32,902	37,731	40,556	42,659	42,927	43,354
Provisions	0	0	0	0	0	0	0	0
<b>Net Current Assets</b>	<b>16,768</b>	<b>14,775</b>	<b>9,687</b>	<b>-1,106</b>	<b>2,702</b>	<b>19,150</b>	<b>22,579</b>	<b>23,479</b>
<b>Total Assets</b>	<b>164,110</b>	<b>167,987</b>	<b>163,215</b>	<b>170,255</b>	<b>185,334</b>	<b>202,882</b>	<b>225,203</b>	<b>238,901</b>

## Financials and Valuations

### Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>2.2</b>	<b>7.1</b>	<b>18.6</b>	<b>8.9</b>	<b>19.6</b>	<b>18.7</b>	<b>21.7</b>	<b>28.3</b>
Cash EPS	14.0	22.4	37.6	29.9	43.1	44.2	48.7	57.6
Book Value	131.3	138.8	134.6	143.4	160.6	186.6	202.4	224.7
DPS	0.5	1.5	6.0	0.0	2.2	5.0	5.0	5.0
Payout (incl. Div. Tax.)	22.4	21.0	32.3	0.0	11.2	26.7	23.0	17.7
<b>Valuation(x)</b>								
P/E	42.2	22.9	12.5	25.8	11.7	15.7	13.5	10.4
Cash P/E	6.7	7.3	6.2	7.7	5.3	6.7	6.0	5.1
Price / Book Value	0.7	1.2	1.7	1.6	1.4	1.6	1.5	1.3
EV/Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	8.9	7.1	6.0	7.7	6.2	7.2	6.8	5.8
Dividend Yield (%)	0.5	0.9	2.6	0.0	1.0	1.7	1.7	1.7
<b>Profitability Ratios (%)</b>								
RoE	1.7	5.3	13.7	6.4	12.9	10.8	11.2	13.3
RoCE	4.2	6.9	9.8	6.6	8.4	8.5	8.6	9.6
<b>Turnover Ratios (%)</b>								
Asset Turnover (x)	0.5	0.6	0.7	0.6	0.6	0.6	0.6	0.6
Debtors (No. of Days)	34	31	33	35	36	34	35	35
Inventory (No. of Days)	12	9	13	13	14	17	14	14
Creditors (No. of Days)	27	22	23	31	21	22	22	22
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	1.1	1.1	1.1	1.1	1.1	1.0	1.0	0.9

### Cash Flow Statement

(INR Million)

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Adjusted EBITDA	12,833	20,799	30,616	24,603	31,171	31,995	35,086	41,175
Non cash opr. exp (inc)	539	-847	-1,412	385	586	-161	0	0
(Inc)/Dec in Wkg. Cap.	406	3,759	-534	236	-922	-4,729	632	-525
Tax Paid	-253	-1,197	-3,167	-1,056	-3,200	-2,859	-3,124	-4,066
Other operating activities	0	0	0	0	0	0	0	0
<b>CF from Op. Activity</b>	<b>13,524</b>	<b>22,514</b>	<b>25,503</b>	<b>24,168</b>	<b>27,635</b>	<b>24,246</b>	<b>32,594</b>	<b>36,584</b>
(Inc)/Dec in FA & CWIP	-12,545	-12,575	-16,349	-21,745	-23,866	-19,887	-31,850	-26,873
<b>Free cash flows</b>	<b>979</b>	<b>9,939</b>	<b>9,155</b>	<b>2,423</b>	<b>3,769</b>	<b>4,359</b>	<b>744</b>	<b>9,711</b>
(Pur)/Sale of Invt	0	0	0	0	0	0	0	0
Others	1,455	1,630	1,599	829	-9	2,942	1,991	2,090
<b>CF from Inv. Activity</b>	<b>-11,090</b>	<b>-10,945</b>	<b>-14,750</b>	<b>-20,916</b>	<b>-23,875</b>	<b>-16,944</b>	<b>-29,860</b>	<b>-24,783</b>
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	13,806	-1,190	-8,055	2,442	5,276	4,175	14,000	2,000
Interest Paid	-6,951	-11,694	-11,818	-10,334	-8,285	-9,076	-9,790	-10,542
Divd Paid (incl Tax) & Others	129	828	-1,757	1,120	-105	-1,265	-2,884	-2,884
<b>CF from Fin. Activity</b>	<b>6,984</b>	<b>-12,055</b>	<b>-21,629</b>	<b>-6,771</b>	<b>-3,114</b>	<b>-6,166</b>	<b>1,326</b>	<b>-11,426</b>
<b>Inc/(Dec) in Cash</b>	<b>9,418</b>	<b>-486</b>	<b>-10,876</b>	<b>-3,520</b>	<b>646</b>	<b>1,136</b>	<b>4,060</b>	<b>376</b>
Add: Opening Balance	14,800	24,218	23,732	12,856	9,336	9,982	9,549	13,609
<b>Closing Balance</b>	<b>24,218</b>	<b>23,732</b>	<b>12,856</b>	<b>9,336</b>	<b>9,982</b>	<b>11,118</b>	<b>13,609</b>	<b>13,985</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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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