

# TATA POWER COMPANY LTD.

Hopes for an upside...

Q1 FY 2007 update

## COMPANY DETAILS

Auditors	AF Ferguson & Co SB Billimoria & Co
Chairman	Ratan Tata
Corp. Office	Bombay House, 24 Homi Modi Street, Mumbai-400001
Plant	Trombay, Jamshedpur, Raigad Distt.
Website	<a href="http://www.tatapower.com">www.tatapower.com</a>

## SCRIP DETAILS

Market Capitalisation	Rs. 100 bn.
Book Value per share	Rs. 292
Equity Shares O/S (F.V. Rs 10)	197.9 mn.
Median Volumes (12 mths)	506,172 (BSE+NSE)
52 Week High/Low	Rs 594 / 386
BSE Scrip Code	500400
NSE Scrip Code	TATAPOWER
Bloomberg Code	TPWR@IN
Reuters Code	TTPW.BO

## SHAREHOLDING PATTERN (%)

Qtr. Ended	Dec-05	Mar-06	Jun-06
Promoters	32.3	32.3	32.3
MF/FIs	22.5	22.7	23.4
FIIIs/NRIs/OCBs	21.9	22.8	20.9
PCBs	1.5	1.2	1.1
Indian Public/Others	21.8	21.0	22.2

## KEY FINANCIALS

Rs Mn	Quarter Ended			Year Ended (Mar)		
	Dec-05	Mar-06	Jun-06	2005	2006	2007E
Net Sales	12,314	11,711	13,766	39,270	45,628	49,376
YoY Gr. (%)	30.9	21.7	25.3	(7.4)	16.2	8.2
Op. Profits	1,968	1,574	2,581	9,493	8,355	11,360
Op. Marg (%)	16.0	13.4	18.7	24.2	18.3	23.0
Net Profits	2,277	1,388	1,219	5,513	6,105	6,915
Eq. Capital	1,979	1,979	1,979	1,979	1,979	1,979

## KEY RATIOS

Year Ended (Mar)	EPS (Rs.)	ROCE (%)	RONW (%)	P/E (x)	EV/Sales (x)	EV/EBDIT (x)
2005	27.9	10.9	11.2	18.2	3.1	10.1
2006E	30.8	10.9	11.2	16.4	2.7	10.0
2007E	34.9	12.0	11.9	14.5	2.4	8.8

## SUMMARY

- Tata Power Company Ltd. (TPC) reported a 25% YoY growth in net sales to Rs 13.8 bn in Q1FY07. This was result of 29% rise in sales from electricity supply to Rs 13.4 bn.
- Revenues from other operations declined by 41% to Rs 320 mn. This was on account of the transfer of Power Systems Division (PSD) to Tata Projects for a consideration of Rs 800 mn in FY06.
- Operating margins declined by 319 bps to 18.7%. However, the higher volumes of electricity sales helped operating profits grow by 7% to Rs 2.6 bn.
- Interest charges were higher by 39% at Rs 524 mn as a result of depreciation of the rupee and its impact on foreign currency denominated term loans. Depreciation charges similarly reflected the higher asset value due to the rupee depreciation.
- An 80% increase in other income to Rs 410 mn helped TPC to report a 3% rise in net profits to Rs 1.2 bn.
- Generation during the quarter increased by 1.9% to 3,824 MU while sales rose by 5.3% to 3,807 MU. The increased demand arose from the newly commissioned 120 MW unit at Jojobera, which supplied electricity to Tata Steel as well as to other electricity boards.
- *The CMP of Rs 506 discounts FY07E EPS of Rs 34.9 by 14.5x. The stock trades at an EV/Sales of 2.4x and EV/EBIDTA of 8.8x FY07 estimates. While the company has been undergoing restructuring, the outlook appears buoyant on back of the ongoing projects. Thus, we maintain our 'HOLD' recommendation.*

Aug 17, 2006

Sensex : 11539

Nifty : 3382

CMP : Rs 506

Recomm : HOLD

TPC's performance was buoyed in Q1FY07 by 120 MW expansion at Jojobera which resulted in 28.7% YoY jump in revenues from electricity sales to Rs 13.4 bn.

This incremental generation from Jojobera led to a 5.3% YoY increase in electricity sales to 3,807 MU. Excluding Jojobera, the increase in electricity sales was 1.6% to 3,090 MU.

Average tariff rose by 22.3% to Rs 3.5/kwh as a result of the higher contribution from Jojobera. This suggests a higher return on investment from Jojobera.

TPC commissioned the 120 MW Jojobera expansion during Q3FY06 and as a result, generation from the project rose by 24.7% to 717 MU respectively.

Other income was higher by 80% at Rs 410 mn as a result of treasury gains.

Interest and depreciation charges were higher by 39% and 16% at Rs 524 mn and Rs 760 mn as a result of the depreciation of the rupee during the period.

TPC continued to be impacted by the cap on passing on Fuel Adjustment Charges (FAC) and the accumulated unrecovered FAC at the end Q1FY07 was around Rs 4 bn. TPC is as yet unable to pass on any increase in fuel costs to the consumer beyond the mandatory 10%.

TPC has a slew of projects on hand, which include a 250 MW coal-fired plant at Trombay and a 120 MW CPP for Tata Steel at Jamshedpur. TPC is also setting up a 120 MW independent power project at Haldia, which will utilise the waste metallurgical coke oven gases from Tata Steel's facility at Haldia. The project was originally planned by Tata Steel and was subsequently transferred to TPC to align businesses within the group.

These projects will reduce TPC's dependence on revenues from the licence area. Thus, it should lead to a sharp improvement in profitability and consequently returns on capital employed. Also, TPC has filed the FY07 ARR based on normative parameters as against actual and accordingly, any efficiency improvement will be a windfall.

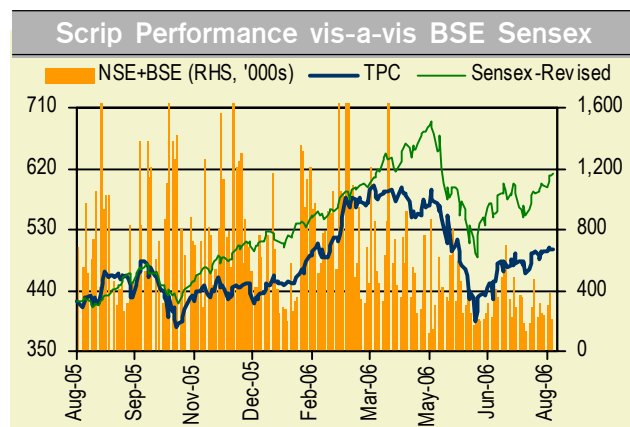
We expect net revenues to grow by 8.2% to Rs 49.3 bn in FY07. This will be led mainly by a 13.6% increase in revenues from sale of electricity to Rs 48.7 bn while revenues from its projects division are expected to decline by 78% to Rs 600 mn. This is due to a hive off of the Power Systems Division (PSD) to Tata Projects for Rs 801 mn during FY06.

We expect operating margins to improve as a result of the transfer of losses of the PSD. Hence, we expect OPM to expand by 470 bps to 23%. Operating profits are expected to grow by 36% to Rs 11.3 bn. Interest and depreciation charges are likely to be higher as a result of the depreciation of the rupee.

Thus, we expect net profits to grow by 13.3% to Rs 6.9 bn in FY07.

The restructuring of operations should help lower losses in the projects divisions and help TPC focus on its core business of power generation. This, along with the generation projects lined up should steadily boost TPC's performance over the next few years. This will be aided by the lower dependence on licence area.

*The CMP of Rs 506 discounts FY07E EPS of Rs 34.9 by 14.5x. The stock trades at an EV/Sales of 2.4x and EV/EBIDTA of 8.8x FY07 estimates. While the company has been undergoing restructuring, the outlook buoyant on back of the ongoing projects. Thus, we maintain our 'HOLD' recommendation.*

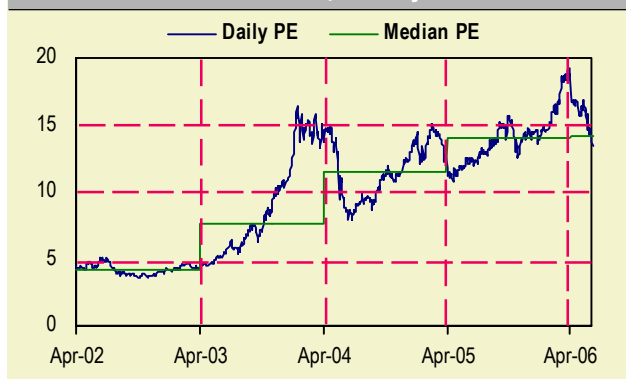


TPC's capex program				
Projects	Fuel	Capacity (MW)	Proj. cost (Rs bn)	Comm. Period
Trombay expansion	Coal	250	10.0	FY09
CPP Jamshedpur	Waste gases	120	5.0	FY09
IPP Haldia	Coke oven gases	120	5.0	FY09
DVC (74% stake)	Coal	1,000	~40.0	FY10
Wind Farm (Ahmednagar)	Wind	50	~2-2.5	FY08
<b>Total</b>		<b>1,540</b>	<b>62.0</b>	

## Financial Results for the quarter ended Jun'30, 2006

Particulars (Rs mn)	Quarter Ended			Year Ended		
	30/06/06	30/06/05	Gr %	31/03/06	31/03/05	Gr %
<b>Net Sales</b>	<b>13,766</b>	<b>10,988</b>	<b>25.3</b>	<b>45,628</b>	<b>39,304</b>	<b>16.1</b>
Income from power supply	13,446	10,447	28.7	42,933	36,554	17.5
Income from operations	320	541	(40.9)	2,695	2,751	(2.0)
<b>Total Expenditure</b>	<b>11,185</b>	<b>8,577</b>	<b>30.4</b>	<b>37,273</b>	<b>30,174</b>	<b>23.5</b>
Cost of power purchased	1,768	1,111	59.2	5,832	4,157	40.3
Cost of fuel	8,126	6,041	34.5	23,965	18,640	28.6
Staff Cost	416	379	9.8	1,737	1,774	(2.1)
Other expenditure	874	1,046	(16.4)	5,739	5,603	2.4
<b>Operating profit</b>	<b>2,581</b>	<b>2,410</b>	<b>7.1</b>	<b>8,355</b>	<b>9,130</b>	<b>(8.5)</b>
Other Income	410	227	80.4	1,936	1,673	15.8
<b>PBDIT</b>	<b>2,991</b>	<b>2,637</b>	<b>13.4</b>	<b>10,291</b>	<b>10,803</b>	<b>(4.7)</b>
Interest	524	379	38.5	1,653	1,914	(13.7)
Depreciation	760	656	15.9	2,783	3,596	(22.6)
<b>PBT &amp; extraordinary items</b>	<b>1,706</b>	<b>1,603</b>	<b>6.4</b>	<b>5,855</b>	<b>5,292</b>	<b>10.6</b>
Ext. Ord. Inc.	-	88		1,320	2,596	
Ext. Ord. Exp.	-	-		(300)	300	
<b>PBT</b>	<b>1,706</b>	<b>1,691</b>		<b>7,475</b>	<b>7,588</b>	
Provision for current tax	458	575		1,300	1,589	
Provision for deferred tax	30	(68)		69	486	
<b>Net Profit</b>	<b>1,219</b>	<b>1,184</b>	<b>2.9</b>	<b>6,105</b>	<b>5,514</b>	<b>10.7</b>
<b>Equity Capital</b>	<b>1,979</b>	<b>1,979</b>		<b>1,979</b>	<b>1,979</b>	
<b>Reserves (excl. rev. res.)</b>	<b>-</b>	<b>-</b>		<b>47,823</b>	<b>43,631</b>	
<b>EPS for the period (Rs)</b>	<b>6.2</b>	<b>6.0</b>		<b>30.9</b>	<b>27.9</b>	
Book Value (Rs)	-	-		252	230	
<b>OPM (%)</b>	<b>18.7</b>	<b>21.9</b>		<b>18.3</b>	<b>23.2</b>	
<b>NPM (%)</b>	<b>8.9</b>	<b>10.8</b>		<b>13.4</b>	<b>14.0</b>	
<b>Expend. (% of net sales)</b>						
Cost of power purchased	<b>12.8</b>	<b>10.1</b>		<b>12.8</b>	<b>10.6</b>	
Fuel cost	<b>59.0</b>	<b>55.0</b>		<b>52.5</b>	<b>47.4</b>	
Staff Cost	<b>3.0</b>	<b>3.4</b>		<b>3.8</b>	<b>4.5</b>	
Other expenditure	<b>6.4</b>	<b>9.5</b>		<b>12.6</b>	<b>14.3</b>	
Generation MUs	3,824	3,751	1.9	13,746	12,917	6.4
Sales MUs	3,807	3,617	5.3	13,616	12,231	11.3
<b>Average Tariff (Rs/unit)</b>	<b>3.5</b>	<b>2.9</b>	<b>22.3</b>	<b>3.2</b>	<b>3.0</b>	<b>5.5</b>

## Median PE v/s Daily PE



## PE Band



## Segmentwise results for the quarter ended Jun'30, 2006

Particulars (Rs mn)	Quarter Ended			Year Ended		
	30/06/06	30/06/05	Gr %	31/03/06	31/03/05	Gr %
<b>Segment Revenue</b>						
Power	13,512	10,598	27.5	43,302	36,831	17.6
Others	255	407	(37.4)	2,369	3,579	(33.8)
<b>Gross Sales</b>	<b>13,766</b>	<b>11,005</b>	<b>25.1</b>	<b>45,671</b>	<b>40,410</b>	<b>13.0</b>
Less: Intersegment Revenue	-	17		43	106	
<b>Net Sales</b>	<b>13,766</b>	<b>10,988</b>	<b>25.3</b>	<b>45,628</b>	<b>40,304</b>	<b>13.2</b>
<b>Segment Results</b>						
Power	1,884	1,789	5.3	6,349	6,169	2.9
Others	(21)	(17)	26.0	27	109	(75.0)
<b>Total PBIT</b>	<b>1,862</b>	<b>1,772</b>	<b>5.1</b>	<b>6,376</b>	<b>6,277</b>	<b>1.6</b>
Less: Interest	385	366	5.3	1,485	1,670	(11.1)
less: Other unallocable exp net of unallocable inc	229	285	(19.7)	2,583	2,980	(13.3)
<b>PBT</b>	<b>1,706</b>	<b>1,691</b>	<b>0.9</b>	<b>7,475</b>	<b>7,588</b>	<b>(1.5)</b>
Less: Tax	488	507		1,369	2,074	
<b>PAT</b>	<b>1,219</b>	<b>1,184</b>	<b>2.9</b>	<b>6,105</b>	<b>5,514</b>	<b>10.7</b>
<b>Capital Employed</b>						
Power	39,932	35,467	12.6	37,960	33,751	12.5
Others	1,472	1,232	19.4	2,133	1,212	76.0
<b>Total</b>	<b>41,404</b>	<b>36,699</b>	<b>12.8</b>	<b>40,093</b>	<b>34,963</b>	<b>14.7</b>
<b>ROCE (%)</b>						
Power	18.9	20.2		16.7	18.3	
Others	(5.8)	(5.5)		1.3	9.0	
<b>Total</b>	<b>22.5</b>	<b>19.3</b>		<b>15.9</b>	<b>18.0</b>	
<b>PBIT Margins (%)</b>						
Power	13.9	16.9		14.7	16.7	
Others	(8.4)	(4.2)		1.1	3.0	
<b>Total</b>	<b>13.5</b>	<b>16.1</b>		<b>14.0</b>	<b>15.6</b>	

# Team

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