

## EARNINGS REVIEW

# Tata Power Company (TTPW.BO)

Neutral

## Below expectations – Finance charges hurt, lowering TP to Rs840

### What surprised us

At Rs1.15 bn (down 43% YoY), Tata Power's (TPWR's) 3QFY09 net income came in 35%/30% below ours/consensus (Reuters) estimates. Earnings disappointment came from – [1] Lower-than-expected sales as a 180 MW unit at Trombay was under maintenance; [2] Non-conversion of warrants by promoters requiring TPWR to raise debt to fund upcoming projects. Key earnings call takeaways – [1] Consolidated capex for Apr-Dec 08 was Rs11 bn (incl. Rs8.9 bn equity infusion into project SPVs); 4QFY09 capex pegged at Rs6 bn. [2] Cash surplus from Indonesian coal mines at the SPV level was US\$222 mn for 2008; acquisition-related debt stood at US\$850 mn. [3] Potential TTSL stake disposal likely to be a Tata Group level decision.

### What to do with the stock

We retain our Neutral rating. However, we revise our FY09E-11E EPS estimates for TPWR by +0.5% to -16.2% largely on the back of higher finance charges due to fresh borrowings in lieu of non-conversion of warrants by the promoters. We lower our 12-m target price for TPWR to Rs840 (Rs983 previously); the SOTP-based TP comprises: 1) DCF-based value of its stand-alone business (Rs344), 2) RI value of power generation projects under implementation via SPVs/JVs (Rs199), 3) value of NDPL and PTL (Rs35), 4) realizable value of holdings in Tata Group telcos (Rs186) and 5) net book value (Rs76) (investment less acquisition-related debt) of 30% holding in Indonesian coal assets. Risks: Downside - delay in project timelines; Upside - higher yield from disposal of investment in Group telcos.

### 3QFY09 – Non-conversion of warrants dent bottom-line

TPWR - standalone financials In Rs mn	2QFY09 Sep-08	3QFY09 Dec-08	3QFY08 Dec-07	yoy	GS Est.	Actual vs. GS	9MFY09 Dec-08	9MFY08 Dec-07	yoy
Revenues	19,589	17,769	14,194	25.2%	18,254	-2.7%	57,619	42,815	34.6%
Operating Expenditure	16,942	15,208	11,513	32.1%			49,363	34,995	41.1%
EBITDA	2,647	2,560	2,682	-4.5%	3,412	-25.0%	8,256	7,819	5.6%
EBITDA margin	13.5%	14.4%	18.9%	(450)	18.7%				-
Depreciation	763	809	705	14.8%			2,303	2,128	8.2%
Interest & finance charges	681	952	386	146.8%			2,154	1,394	54.5%
Non operating income	1,118	251	414	-39.4%			1,853	1,562	18.6%
PBT	2,321	1,051	2,006	-47.6%			5,652	5,860	-3.6%
Tax	468	109	(13)	-933.6%			1,340	684	95.9%
Net Income	1,853	942	2,019	-53.3%	1,770	-46.8%	4,312	5,176	-16.7%
Prior Period / Extraordinary	766	209	-				1,364	1,320	
Reported PAT	2,619	1,151	2,019	-43.0%	1,770	-35.0%	5,675	6,495	-12.6%

Source: Company data. Goldman Sachs Research estimates.

### INVESTMENT LIST MEMBERSHIP

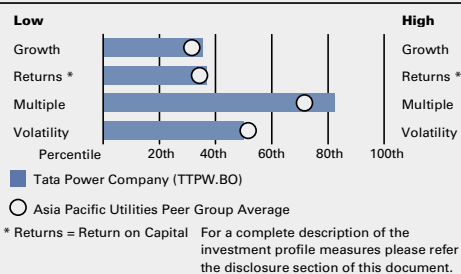
Neutral

### Coverage View: Neutral

India:  
Power

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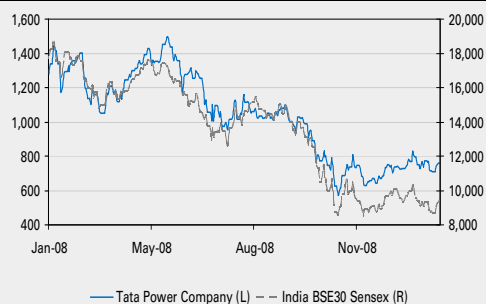
### Investment Profile



Key data	Current
Price (Rs)	761.45
12 month price target (Rs)	840.00
Market cap (Rs mn / US\$ mn)	168,052.1 / 3,438.1
Foreign ownership (%)	21.2

	3/08	3/09E	3/10E	3/11E
EPS (Rs) New	35.98	26.27	32.38	34.20
EPS revision (%)	0.0	(16.2)	(12.2)	0.5
EPS growth (%)	48.2	(27.0)	23.2	5.6
EPS (dil)( Rs) New	37.36	26.27	32.38	34.20
P/E (X)	21.2	29.0	23.5	22.3
P/B (X)	2.1	2.0	1.9	1.8
EV/EBITDA (X)	25.3	17.3	14.1	13.9
Dividend yield (%)	1.4	1.4	1.4	1.5
ROE (%)	12.4	7.1	8.3	8.3

### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	23.5	(31.7)	(42.2)
Rel. to India BSE30 Sensex	18.5	3.5	8.9

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/30/2009 close.

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# Tata Power Company: Summary financials

Profit model (Rs mn)	3/08	3/09E	3/10E	3/11E	Balance sheet (Rs mn)	3/08	3/09E	3/10E	3/11E
<b>Total revenue</b>	<b>59,159.1</b>	<b>76,254.7</b>	<b>76,564.3</b>	<b>82,132.6</b>	Cash & equivalents	3,654.9	17,815.7	11,008.2	4,254.3
Cost of goods sold	(42,638.6)	(56,810.2)	(52,969.5)	(57,010.7)	Accounts receivable	14,145.2	20,891.7	18,878.9	20,251.9
SG&A	(7,154.1)	(7,878.2)	(9,056.7)	(9,694.6)	Inventory	4,736.1	6,668.4	6,176.3	6,585.1
R&D	--	--	--	--	Other current assets	19,586.8	18,039.7	18,568.6	18,999.0
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>42,123.0</b>	<b>63,415.5</b>	<b>54,632.0</b>	<b>50,090.3</b>
<b>EBITDA</b>	<b>9,366.4</b>	<b>11,566.2</b>	<b>14,538.0</b>	<b>15,427.2</b>	Net PP&E	46,872.2	50,900.5	50,830.8	50,380.1
Depreciation & amortization	(2,905.0)	(3,227.7)	(3,969.7)	(4,200.8)	Net intangibles	0.1	0.1	0.1	0.1
<b>EBIT</b>	<b>6,461.4</b>	<b>8,338.5</b>	<b>10,568.3</b>	<b>11,226.4</b>	Total investments	40,949.0	40,687.0	52,220.7	66,134.0
Interest income	4,658.4	2,192.9	2,632.5	2,373.7	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(1,418.7)	(3,225.1)	(4,522.2)	(4,433.7)	<b>Total assets</b>	<b>129,944.3</b>	<b>155,003.1</b>	<b>157,683.6</b>	<b>166,604.5</b>
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	9,987.8	12,363.1	11,843.6	12,731.9
Others	0.0	0.0	0.0	0.0	Short-term loans	0.0	0.0	0.0	0.0
<b>Pretax profits</b>	<b>9,701.1</b>	<b>7,306.3</b>	<b>8,678.7</b>	<b>9,166.5</b>	Other current liabilities	8,405.3	9,614.0	9,894.0	10,428.1
Income tax	(1,323.5)	(1,461.3)	(1,475.4)	(1,558.3)	<b>Total current liabilities</b>	<b>18,393.1</b>	<b>21,977.1</b>	<b>21,737.6</b>	<b>23,160.0</b>
Minorities	0.0	0.0	0.0	0.0	Long-term debt	30,833.5	47,979.4	46,389.9	49,094.9
<b>Net income pre-preferred</b>	<b>8,377.6</b>	<b>5,845.1</b>	<b>7,203.3</b>	<b>7,608.2</b>	Other long-term liabilities	189.4	352.3	516.7	690.3
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	31,022.9	48,331.6	46,906.5	49,785.2
<b>Net income (pre-exceptionals)</b>	<b>8,377.6</b>	<b>5,845.1</b>	<b>7,203.3</b>	<b>7,608.2</b>	<b>Total liabilities</b>	<b>49,416.0</b>	<b>70,308.7</b>	<b>68,644.1</b>	<b>72,945.2</b>
Post tax exceptionals	321.3	0.0	0.0	0.0	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net income</b>	<b>8,698.9</b>	<b>5,845.1</b>	<b>7,203.3</b>	<b>7,608.2</b>	<b>Total common equity</b>	<b>80,528.3</b>	<b>84,694.4</b>	<b>89,039.5</b>	<b>93,659.3</b>
EPS (basic, pre-except) (Rs)	37.96	26.27	32.37	34.19	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-except) (Rs)	39.42	26.27	32.37	34.19	<b>Total liabilities &amp; equity</b>	<b>129,944.3</b>	<b>155,003.1</b>	<b>157,683.6</b>	<b>166,604.5</b>
EPS (diluted, post-except) (Rs)	37.36	26.27	32.38	34.20	<b>BVPS (Rs)</b>	<b>364.88</b>	<b>380.66</b>	<b>400.19</b>	<b>420.95</b>
DPS (Rs)	10.94	10.50	11.00	11.50	<b>Ratios</b>	<b>3/08</b>	<b>3/09E</b>	<b>3/10E</b>	<b>3/11E</b>
Dividend payout ratio (%)	27.7	40.0	34.0	33.6	ROE (%)	12.4	7.1	8.3	8.3
Free cash flow yield (%)	(3.8)	(1.4)	4.5	3.4	ROA (%)	7.1	4.1	4.6	4.7
<b>Growth &amp; margins (%)</b>	<b>3/08</b>	<b>3/09E</b>	<b>3/10E</b>	<b>3/11E</b>	ROACE (%)	6.0	6.0	7.3	7.1
Sales growth	25.5	28.9	0.4	7.3	Inventory days	37.2	36.6	44.3	40.9
EBITDA growth	29.5	23.5	25.7	6.1	Receivables days	89.2	83.9	94.8	86.9
EBIT growth	49.7	29.1	26.7	6.2	Payable days	81.0	71.8	83.4	78.7
Net income growth	24.8	(32.8)	23.2	5.6	Net debt/equity (%)	33.8	35.6	39.7	47.9
EPS growth	11.9	(33.3)	23.2	5.6	Interest cover - EBIT (X)	NM	8.1	5.6	5.4
Gross margin	27.9	25.5	30.8	30.6	<b>Valuation</b>	<b>3/08</b>	<b>3/09E</b>	<b>3/10E</b>	<b>3/11E</b>
EBITDA margin	15.8	15.2	19.0	18.8	P/E basic (X)	21.2	29.0	23.5	22.3
EBIT margin	10.9	10.9	13.8	13.7	P/B (X)	2.1	2.0	1.9	1.8
<b>Cash flow statement (Rs mn)</b>	<b>3/08</b>	<b>3/09E</b>	<b>3/10E</b>	<b>3/11E</b>	EV/EBITDA (X)	25.3	17.3	14.1	13.9
Net income pre-preferred dividends	8,377.6	5,845.1	7,203.3	7,608.2	Dividend yield (%)	1.4	1.4	1.4	1.5
D&A add-back	2,905.0	3,227.7	3,969.7	4,200.8	<b>Additional metrics</b>	<b>3/08</b>	<b>3/09E</b>	<b>3/10E</b>	<b>3/11E</b>
Minorities interests add-back	0.0	0.0	0.0	0.0	Power generation (kWh)	14,717	15,279	17,518	17,871
Net (inc)/dec working capital	(10,907.3)	(3,547.7)	1,736.5	(789.8)	Power attributable capacity (MW)	2,364	2,800	2,998	3,098
Other operating cash flow	0.0	0.0	0.0	0.0	Wtd-avg power tariffs (Rs/kWh)	3.88	4.94	4.66	4.78
<b>Cash flow from operations</b>	<b>844.1</b>	<b>5,687.9</b>	<b>13,073.9</b>	<b>11,192.8</b>	Unit coal costs (Rs/kWh)	--	--	--	--
Capital expenditures	(11,663.7)	(7,256.0)	(3,900.0)	(3,750.0)	Wtd-avg tariff coal-fired (Rs/kWh)	--	--	--	--
Acquisitions	(9,716.1)	262.0	(11,533.7)	(13,913.3)	Utilization rate (%)	71.1	62.3	66.7	65.9
Divestitures	0.0	0.0	0.0	0.0	Reserve margin (%)	--	--	--	--
Others	0.0	0.0	0.0	0.0	Gas sales volume (gas unit)	--	--	--	--
<b>Cash flow from investments</b>	<b>(21,379.8)</b>	<b>(6,994.0)</b>	<b>(15,433.7)</b>	<b>(17,663.3)</b>	Wtd-avg gas tariffs (Rs/gas unit)	--	--	--	--
Dividends paid (common & pref)	(2,683.3)	(2,733.4)	(2,863.5)	(2,993.7)	Unit gas costs (Rs/gas unit)	--	--	--	--
Inc/(dec) in debt	(5,921.7)	17,145.9	(1,589.5)	2,705.0	Tap water tariffs (Rs/cu. mtr.)	--	--	--	--
Common stock issuance (repurchase)	14,603.1	1,054.4	5.3	5.3	Tap water capacity (cu. mtr.)	--	--	--	--
Other financing cash flows	(14.9)	0.0	0.0	0.0	Tap water sales volume (cu. mtr.)	--	--	--	--
<b>Cash flow from financing</b>	<b>5,983.2</b>	<b>15,466.9</b>	<b>(4,447.7)</b>	<b>(283.3)</b>	Sewage proc. tariffs (Rs/cu. mtr.)	--	--	--	--
<b>Total cash flow</b>	<b>(14,552.5)</b>	<b>14,160.8</b>	<b>(6,807.5)</b>	<b>(6,753.9)</b>	Sewage proc. capacity (cu. mtr.)	--	--	--	--
					Sewage proc. volume (cu. mtr.)	--	--	--	--

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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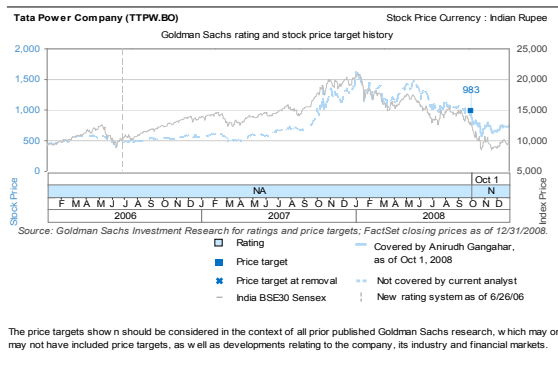
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