

Tata Power

Short-Term Buy (1B): CMP-546

- **Consolidation** — Tata Power has seen a breakout from the 528-482 consolidation zone where it was consolidating for 25 trading sessions. The breakout was supported by a rise in volumes (Fig. 1).
- **Triple bottom** — The stock has posted a “Triple Bottom” at the 482 level. On the upside it should test 574. #574 is derived by adding 46 to the breakout level at 482. # 46 is derived as a distance between Triple Bottom at 482 and previous high of 528 (12 March 2007). Prices should move towards the 588 level, low of 1 February 2007 (Fig. 1).
- **Trend line support tested** — Prices tested the Trend Line (T#1) support around 493 and rallied higher, thus confirming test of support. Trendline construction: low of 218 (24 June 2004) and low of 390 (13 June 2006) (Fig. 2).
- **Moving averages** — Prices are trading above the 10dma (534), 20dma (520), 50dma (539.66), 200dma (540).
- **Target Price - Stop Loss Price** — CMP: **546**. Target price **588**, Stop loss **526** (50% retracement of the rise from low of 484 (2 April 2007) to the recent high at 561 (18 April 2007)).
- Recommendation expires on 23 July 2007.
- CIR Fundamental Research has a Hold / Low Risk (2L) rating on Tata Power shares with a target price of Rs648.

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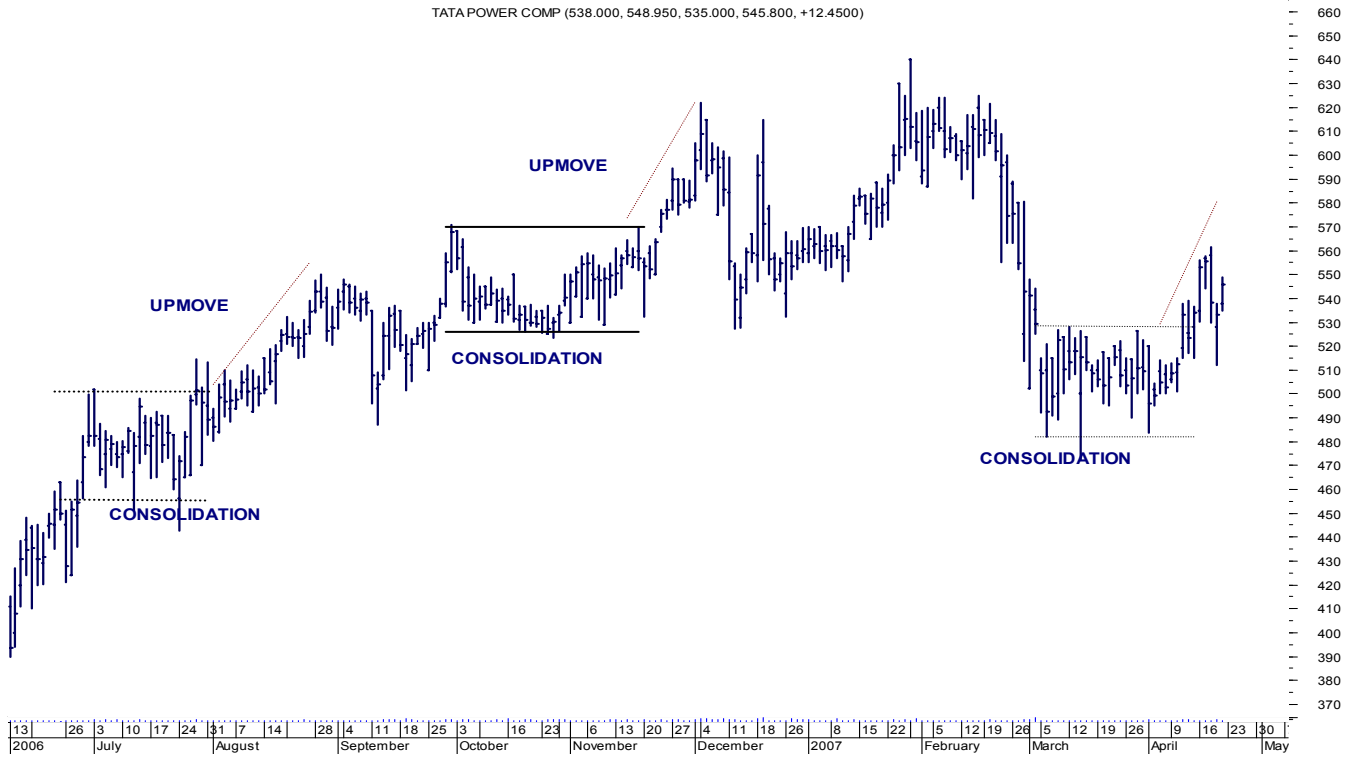
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See Appendix A-1 for Analyst Certification and important disclosures.

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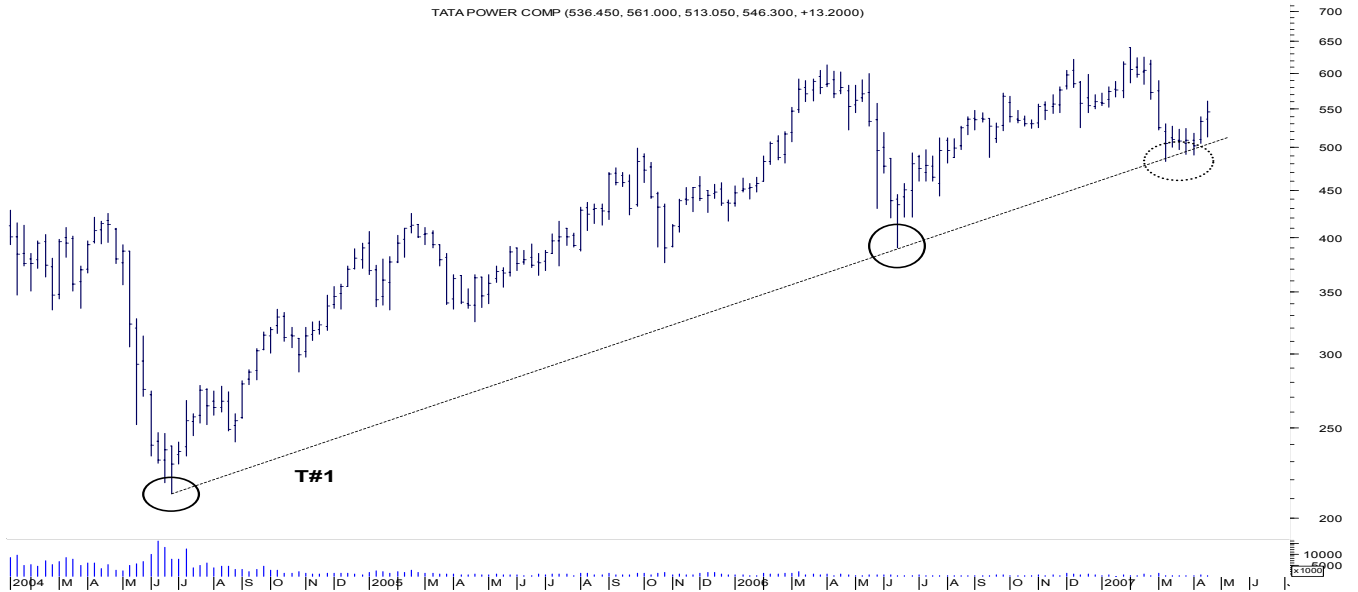
¹Citigroup Global Market India Private Limited

Figure 1. India Technical Research: Tata Power: Daily Chart



Source: Reuters Metastock

Figure 2. India Technical Research: Tata Power: Weekly Chart



Source: Reuters Metastock

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Tata Power (TTPW.BO - Rs546.30; 2L)

Fundamental Valuation

Our Rs648 target price is based on a sum-of-the-parts (SOTP) valuation that includes Tata Power's telecom assets, its holdings in PTC and NELCO, and its Delhi distribution and transmission business holdings. We use the Discounted Cash Flow Methodology (DCF) to value Tata Power's Generation & Distribution Business (ex Delhi) business. Using R_f of 7.5%, $R_m - R_f$ of 6%, beta of 1.05, we arrive at a cost of equity (R_e) of 13.8%. We use an after-tax cost of debt of 5.3% to arrive at a WACC of 10.8%. This WACC and terminal growth rate of 2% provides us with a DCF-based value of Rs393. We value Tata Power's Delhi distribution business at a P/BV multiple of 4.0x to factor in the incentives for overachievement of average technical and commercial (AT&C) loss reduction. We use the DCF to value the power transmission project investments in Power Links and arrive at a P/BV multiple of 1.2x. We value the investments in Tata Teleservices (Maharashtra), NELCO, PTC and VSNL through Panatone Finvest using a 25% discount to the current market value. We also value investments in Tata Teleservices at the value at which private equity investors have taken a stake in the company.

Fundamental Risks

We rate Tata Power shares Low Risk based on our quantitative risk-rating system, which tracks 260-day historical share price volatility.

The key downside risks which could prevent the shares from reaching our target price include: Unfavorable judgment in the MERC order petition and the standby charges case vs. Reliance Energy could negatively impact Tata Power's financials; The power sector is gradually liberalizing, but the regulatory and tariff structures are still evolving. Companies in the sector are vulnerable to delays, mid-term corrections and dramatic policy changes; under the existing system, litigation following any discord may be time consuming, and the lack of precedents adds to the uncertainty; and Substantial investments have been made in Tata Group telecom ventures, Tata Tele Services and VSNL - these ventures have a long gestation period and low initial returns.

The key upside risks which could drive the shares above our target price include: Positive judgment on the MERC order and standby charges case vs. Reliance Energy could positively impact investor sentiment even though it would not have any positive bearing on Tata Power's financials, on our estimates; and Tata Power exiting its telecom holdings at a significant premium to their current market value.

Appendix A-1

Analyst Certification

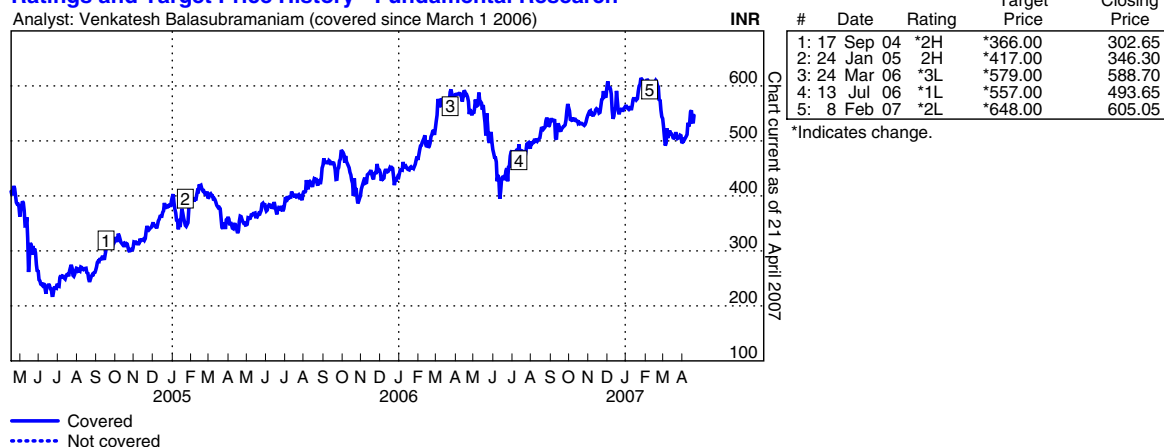
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Tata Power (TTPW.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Venkatesh Balasubramaniam (covered since March 1 2006)



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Data current as of 31 March 2007

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