

May 30, 2006

Stock Rating  
Equal-weight

Industry View  
In-Line

## Tata Power Co

### Normalized Stand-alone F2006 Earnings Are In-Line

**Quick Comment: F2006 normalized/reported stand-alone earnings at Rs4.2 / Rs6.1 billion respectively :** For F2006, Tata Power's (TTPW's) normalized earnings were in line with our estimates but 5% lower than consensus estimates. Normalized and reported stand-alone earnings posted increases of 7% and 11%, respectively. Reported profit came in 8% higher than our estimate due to two extraordinary items in F4Q06 – (1) Rs220 million profit on sale of its Power Systems Division (We expected the sale in F1Q07) and (2) Write-back of provision for contingencies amounting to Rs300 million. TTPW has declared a dividend of Rs8.5/share, translating into a 31.4% payout.

#### Consolidated net profit in line with estimates:

Including its share of NDPL's net profit, TTPW's consolidated earnings came in at Rs4.71 million, vs. our estimate of Rs4.79 million. In F2006, NDPL reduced AT&C losses in its distribution circle by 540 bps to 28.4%, enabling it to post a net profit of about Rs1.1 billion. We continue to expect a strong performance from NDPL.

#### Generation / sales volumes rise, but so does cost

**of power:** Despite a good monsoon and highest ever hydel power generation, average cost of power sold by TTPW rose 9% from Rs2.8/unit to Rs3.2/unit in F2006 – a worrying sign for long-term competitiveness. With the commissioning of 120MW unit at Jojobera, together with higher purchases for Mumbai, generation & sales volume rose 3.5% YoY and 7.5% YoY respectively.

#### Underlines interest in bidding for UMPPs:

Besides its plans to bid for the proposed Ultra Mega Power Projects, TTPW has reiterated its capacity addition plans at Mumbai (250 MW) and another 120 MW captive plant near Jojobera for Tata Steel, albeit the timelines are pushed back by a few months, relative to our estimates. The company's Maithon and Tala transmission JVs are on track to commence operations in 2010 and July 2006 respectively.

#### Key Ratios and Statistics

Reuters: TTPW.BO Bloomberg: TPWR IN

##### India Utilities

Price target	Rs538.00
Shr price, close (May 29, 2006)	Rs506.40
Mkt cap, curr (mn)	Rs100,227
52-Week Range	Rs612.95-364.30
Sh out, basic, curr (mn)	198
EV, curr (mn)	Rs109,483
Net debt/cap (06e) (%)	20.2
ROE (06e) (%)	12.7
Sh out, basic, per-end (06e) (mn)	198
S'hldr eqty (06e) (mn)	Rs42,129
RNOA (06e) (%)	10.2

e = Morgan Stanley Research estimates

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**TTPW to contest Appellate Tribunal's order on the status of its distribution rights in Mumbai** – TTPW has proposed to appeal against the order by Maharashtra's Appellate Tribunal for Electricity, which stated that the company does not have a retail distribution license in Mumbai and it can only operate as a bulk electricity supplier to the discoms in the city. We understand that TTPW has seven weeks from hereon to appeal against the ruling in the Supreme Court of India.

**We rate the stock as Equal Weight** – Based on our F2008 consolidated earnings estimates, the stock trades at 18.5x P/E and 2.0x P/Book.

#### **Company Description**

Tata Power (TTPW) is India's largest private sector electric utility with installed generation capacity of over 2,200 MW and distribution business in Mumbai and New Delhi. Mumbai generation (thermal & hydro-electric) and distribution constitutes about 85% of TTPW's overall business. TTPW has sizeable effective holdings in Tata Teleservices and VSNL – Tata group's flagship telecom ventures. Promoters' holding and foreign holding in TTPW stands at 32% and 23% respectively.

#### **Industry View: In-Line**

In-Line

#### **MSCI Country: India**

Asia Strategist's Recommended Weight: 1.4%  
MSCI Asia/Pac All Country Ex Jp Weight: 6.0%

Exhibit 1

**TTPW – F2006 Stand-Alone Earnings**

(Rs mn)	F4Q06	F4Q05		F2006	F2005	
(period ending)	31-Mar-06	31-Mar-05	YoY	31-Mar-06	31-Mar-05	YoY
<b>Operating Metrics</b>						
Generation (mn units)	3,367	3,310	1.7%	13,746	13,283	3.5%
Sales (mn units)	3,306	3,207	3.1%	13,616	12,663	7.5%
Tariff (Rs/Unit)	3.3	2.7	24.6%	3.2	2.9	9.2%
<b>Income from Operations</b>	<b>11,711</b>	<b>9,623</b>	<b>22%</b>	<b>45,540</b>	<b>39,304</b>	<b>16%</b>
<b>Expenditure</b>	<b>10,138</b>	<b>8,054</b>	<b>26%</b>	<b>37,273</b>	<b>30,174</b>	<b>24%</b>
Staff Cost	485	652	-26%	1,737	1,774	-2%
Cost of Power Purchased	1,305	990	32%	5,832	4,157	40%
Cost of Fuel	6,365	4,620	38%	23,965	18,640	29%
Other expenditure	1,983	1,792	11%	5,739	5,603	2%
<b>Operating profit</b>	<b>1,573</b>	<b>1,569</b>	<b>0%</b>	<b>8,266</b>	<b>9,130</b>	<b>-9%</b>
Depreciation	734	704	4%	2,783	3,271	-15%
Finance Charges	420	401	5%	1,653	1,914	-14%
Non Operating Income	530	384	38%	1,712	1,437	19%
<b>Profit before tax</b>	<b>949</b>	<b>848</b>	<b>12%</b>	<b>5,542</b>	<b>5,381</b>	<b>3%</b>
Tax	85.1	54.5	56%	1,369	1,492	-8%
Current	177	97	83%	1,644	1,206	36%
Deferred	-92	-42	119%	(275)	286	-196%
<b>Net Profit</b>	<b>864</b>	<b>793</b>	<b>9%</b>	<b>4,173</b>	<b>3,889</b>	<b>7%</b>
Extraordinary Items (Net)	524	912	-43%	1,932	1,624	19%
<b>Reported PAT</b>	<b>1,388</b>	<b>1,706</b>	<b>-19%</b>	<b>6,105</b>	<b>5,514</b>	<b>11%</b>
Operating margins (%)	13.4	16.3		18.2	23.2	
Net margins (%)	7.4	8.2		9.2	9.9	
Tax % of PBT	9.0	6.4		24.7	27.7	

Source: Company data, Morgan Stanley Research

Exhibit 2

**F2006 Stand-alone Earnings – MS vs. Actuals**

(Rs Million)	MS	Actual	Remark
Adjusted Net Profit	4,250	4,173	In-line, after adjusting for extraordinary items
Reported Net Profit	5,514	6,105	Due to sale of PSD* (Rs224 mn) + write-back of prov. for contingency (Rs300 mn)

Source: Company data, Morgan Stanley Research



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*(as of April 30, 2006)*

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>713</b>	<b>36%</b>	<b>261</b>	<b>41%</b>	<b>37%</b>
<b>Equal-weight/Hold</b>	<b>883</b>	<b>45%</b>	<b>295</b>	<b>46%</b>	<b>33%</b>
<b>Underweight/Sell</b>	<b>367</b>	<b>19%</b>	<b>84</b>	<b>13%</b>	<b>23%</b>
<b>Total</b>	<b>1,963</b>		<b>640</b>		

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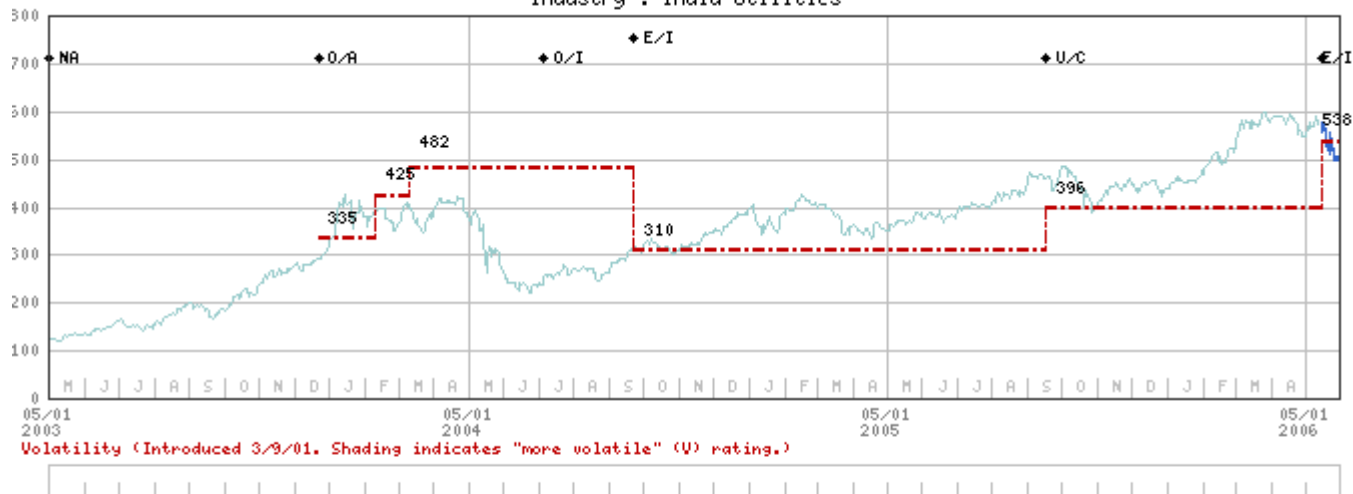
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**Stock Price, Price Target and Rating History (See Rating Definitions)**

Tata Power Co (TTPW.BO) - As of 5/29/06 in INR  
Industry : India Utilities



Stock Rating History: 8/10/99 : NA; 12/22/03 : O/A; 7/6/04 : O/I; 9/22/04 : E/I; 9/16/05 : U/C; 5/15/06 : E/I  
Price Target History: 3/22/99 : NA; 12/22/03 : 335; 2/10/04 : 425; 3/10/04 : 482; 9/22/04 : 310; 9/16/05 : 396;  
5/15/06 : 538

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)  
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■  
Stock Ratings abbreviated as below ( Effective 3/18/02, ratings appear as Stock Ratings/Industry View ) ♦  
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (U) No Rating Available (NAU)  
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Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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**Industry Coverage:India Utilities**

<b>Company (Ticker)</b>	<b>Rating (as of)</b>	<b>Price (05/29/2006)</b>
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NTPC (NTPC.BO)	E (11/10/2004)	Rs114.55
Petronet LNG Limited (PLNG.BO)	U (12/05/2005)	Rs49.95
Tata Power Co (TTPW.BO)	Equal-weight (05/15/2006)	Rs506.40
<b>Hozefa Topiwalla</b>		
Reliance Energy (RLEN.BO)	U (09/16/2005)	Rs526.75

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