

Tata Power

HOLD

Bumi blues

Rs749

Reason for report: Management meet

Key takeaways from our management meet with Tata Power (TPL) are: i) loan servicing for Bumi would be difficult if coal benchmark falls below US\$65/te, ii) US\$225mn dividend received from Bumi in FY08, which is below expectations, iii) falling interest rates will provide some respite, iv) outstanding loan for Bumi likely to be ~US\$775mn by March '09 and v) while project execution will be on track, given the existing funding gap and concerns on debt servicing of Bumi loan, equity/stake dilution in projects is on cards. Overall, the current situation is not inspiring, given the funding gap in existing projects and falling international coal prices. However, considering TPL's track record, project execution is unlikely to suffer, but TPL may have to reduce stake in some of its SPVs or dilute equity.

- ▶ **Bumi loan servicing difficult if coal benchmark falls below ~US\$65/te.** Falling coal prices do not augur well for TPL as it has a long position on coal. The company's subsidiaries may face difficulty in servicing ~US\$950mn loan taken to acquire 30% stake in two Bumi mines, KPC & Arutmin, if benchmark prices fall below ~US\$65/te. Given the slowdown in metals in China and the resultant sluggishness in power consumption, we believe long-term coal prices will most likely be at ~US\$40-45/te. Thus, TPL will either refinance ~US\$950mn loan or raise additional loan in India to repay the Bumi debt, which appears difficult given the highly leveraged balance sheet.
- ▶ **Dividend at ~US\$225mn from Bumi below expectations.** TPL has received ~US\$225mn cash surplus from Bumi mines in FY08. While additional dividend might be possible, the cash dividend is below Street and I-Sec estimates of ~US\$310mn.
- ▶ **Bumi outstanding loan at ~US\$775mn by March '09.** TPL plans to reduce the outstanding loan from Bumi to ~US\$775mn by March '09 from the current ~US\$850mn. It had originally taken a bridge loan of ~US\$950mn to acquire 30% stake in Bumi's two mines, KPC & Arutmin. TPL has already paid ~US\$100mn of ~US\$950mn by December '08.
- ▶ **Falling interest rate may provide some respite.** Falling LIBOR rate may provide some respite to TPL as US\$950mn loan was taken at a cost of LIBOR+2.5%. Three-month LIBOR has already fallen to ~1.2% from ~5.4% two years ago. The ~4% drop may lead to ~Rs3 accretion to FY10E EPS.
- ▶ **Project execution on track but funding requirement will lead to stake dilution.** TPL requires at least ~Rs10bn external equity funding for its projects. It is planning to raise funding in the next 6-8 months via a stake sale in its SPVs or equity dilution. In spite of the funding gap, TPL will be able to reach ~8,100MW capacity in the next four years. All projects are on track – off ~Rs180bn debt required for capacity addition ~Rs155bn has been tied up and TPL will provide ~Rs28bn equity (with equity requirement of ~Rs51bn). The Mundra ultra mega power project (at ~Rs170bn with 75:25 D:E) is unlikely to face delays. It requires ~Rs40bn equity funding, of which ~Rs8.5bn has already been disbursed along with ~Rs12bn debt that has been drawn.

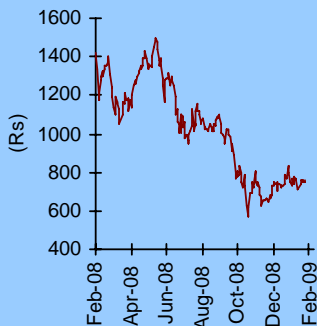
Utilities

Shareholding pattern

	Jun '08	Sep '08	Dec '08
Promoters	33.4	33.3	33.3
Institutional investors	47.3	47.2	47.7
MFs and UTI	7.3	6.5	6.6
Insurance Cos.	18.9	20.5	21.8
FIs	20.8	20.0	19.1
Others	19.3	19.5	19.0

Source: CMIE

Price chart



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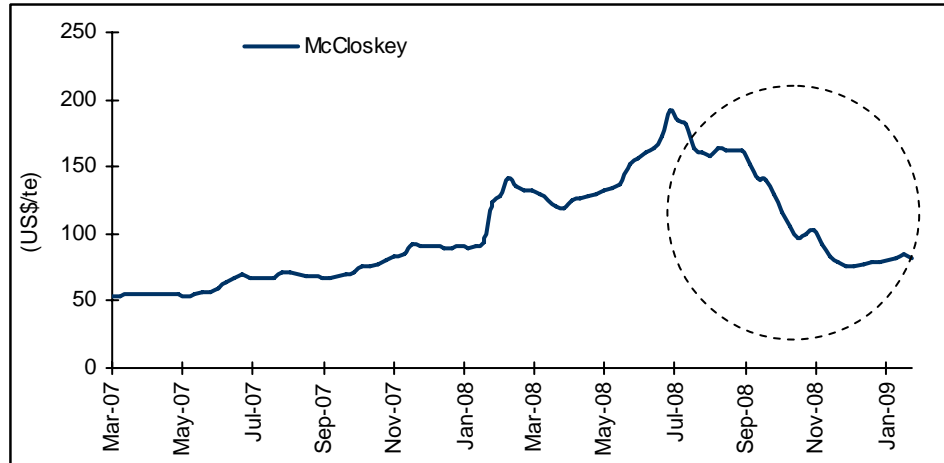
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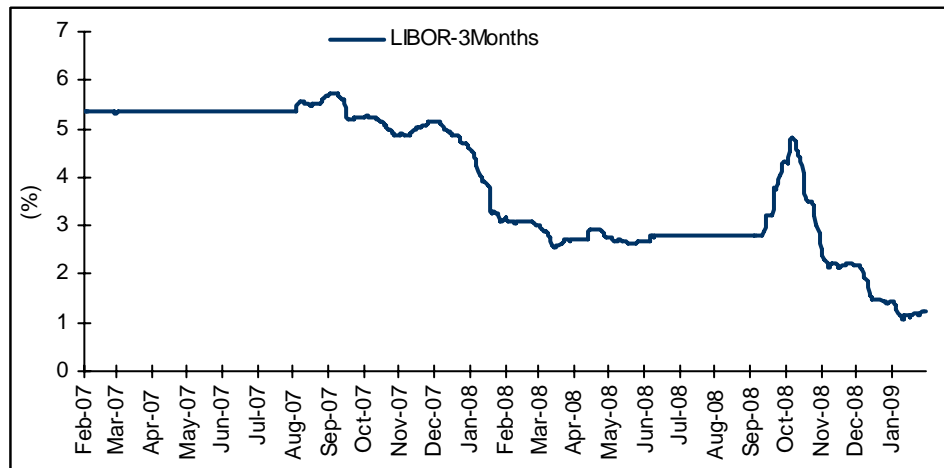
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Chart 1: While international coal prices are under pressure...



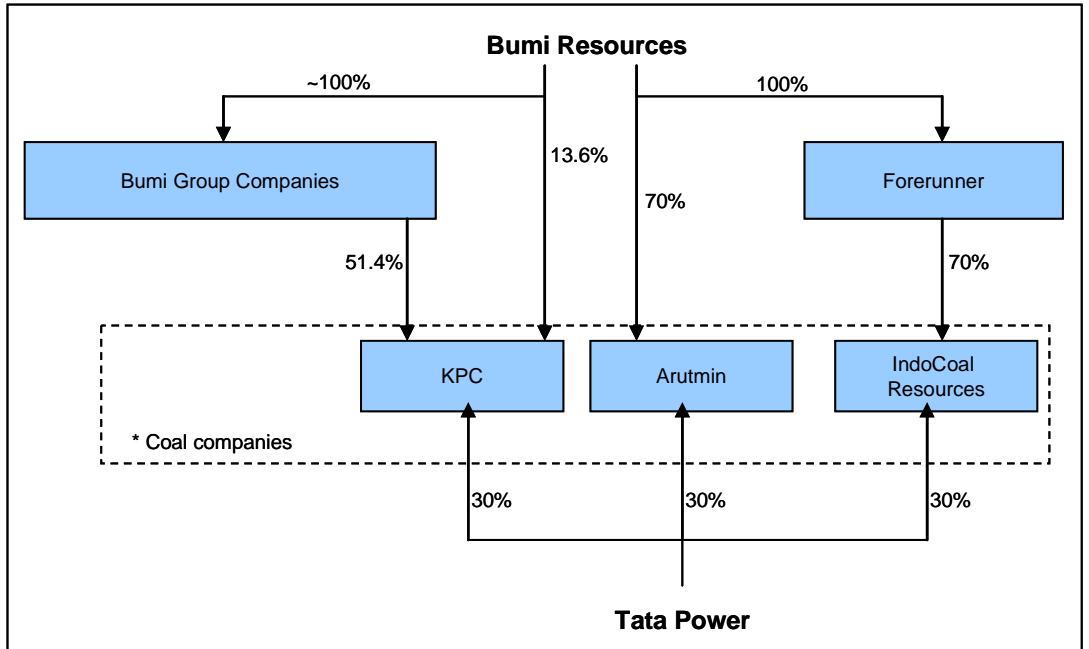
Source: Bloomberg, McClosky Benchmark, I-Sec Research

Chart 2: Tata Power may get some respite because of falling LIBOR



Source: Bloomberg

Chart 3: Tata Power and Bumi – Stake in various coal mines



Source: PT Bumi Resources Tbk, Company data, I-Sec Research

Financial summary (Standalone)

Table 1: Profit and Loss Statement
(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Income (Sales)	58,710	61,388	62,352	64,643
<i>of which EXIM</i>	-	-	-	-
<i>of which Domestic</i>	58,710	61,388	62,352	64,643
Operating Expenses	49,793	50,022	47,493	48,997
EBITDA	8,917	11,367	14,859	15,646
<i>% margins</i>	15.2	18.5	23.8	24.2
Depreciation & Amortisation	2,905	3,431	4,090	4,314
Gross Interest	1,419	3,070	3,724	4,379
Other Income	1,523	2,355	2,409	2,431
Recurring PBT	6,116	7,220	9,453	9,385
Add: Extraordinaries	3,420	-	-	-
Less: Taxes	1,002	1,178	1,535	1,524
- Current tax	804	1,178	1,535	1,524
Net Income (Reported)	8,534	6,042	7,919	7,861
Recurring Net Income	5,114	6,042	7,919	7,861

Source: Company data, I-Sec Research

Table 2: Balance Sheet
(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Assets				
Total Current Assets	38,755	30,174	30,239	31,366
<i>of which cash & cash eqv.</i>	287	964	1,532	1,771
Total Current Liabilities & Provisions	18,393	18,439	17,932	18,233
Net Current Assets	20,362	11,735	12,307	13,132
Investments	44,300	55,816	68,267	82,065
<i>of which</i>	-	-	-	-
<i>Strategic/Group</i>	28,813	40,329	52,780	66,578
<i>Other Marketable</i>	15,487	15,487	15,487	15,487
Net Fixed Assets	46,872	55,438	52,839	50,068
<i>Capital Work-in-Progress</i>	14,107	8,299	1,491	1,543
Total Assets	111,534	122,989	133,414	145,266
Liabilities				
Borrowings	30,373	37,196	41,740	47,768
Deferred Tax Liability	5,986	5,986	5,986	5,986
Equity Share Capital	2,207	2,207	2,207	2,207
<i>Face Value per share (Rs)</i>	10	10	10	10
Reserves & Surplus*	72,968	77,600	83,481	89,305
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	75,175	79,807	85,688	91,512
Total Liabilities	111,534	122,989	133,414	145,266

Source: Company data, I-Sec Research

Table 3: Cash Flow Statement
(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Cash flow	6,644	7,119	9,600	9,743
Working Capital Changes	1,852	(2,034)	(4)	(586)
Capital Commitments	(19,431)	(23,513)	(13,943)	(15,341)
Free Cash Flow	(10,935)	(18,429)	(4,347)	(6,184)
Cash flow from Investing Activities	(12,068)	13,693	2,409	2,431
Issue of Share Capital	228	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(5,961)	6,823	4,544	6,028
Dividend paid	(2,683)	(2,202)	(2,202)	(2,202)
Extraordinary Items	3,420	-	-	-
Chg. in Cash & Bank balance	(13,390)	677	568	239

Source: Company data, I-Sec Research

Table 4: Key Ratios
(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
Per Share Data (Rs)				
EPS(Basic Recurring)	23.2	27.4	35.9	35.6
Diluted Recurring EPS	23.2	27.4	35.9	35.6
Recurring Cash EPS	36.3	42.9	54.4	55.2
Dividend per share (DPS)	12.2	12.2	12.2	12.2
Book Value per share (BV)	340.6	361.6	388.2	414.6
Growth Ratios (%)				
Operating Income	26.0	4.6	1.6	3.7
EBITDA	33.7	27.5	30.7	5.3
Recurring Net Income	(19.8)	18.1	31.1	(0.7)
Diluted Recurring EPS	(19.8)	18.1	31.1	(0.7)
Diluted Recurring CEPS	(22.7)	18.1	26.8	1.4
Valuation Ratios (x)				
P/E	32.3	27.8	21.2	21.4
P/CEPS	20.6	17.7	14.0	13.8
P/BV	2.2	2.1	2.0	1.8
EV / EBITDA	24.6	22.6	19.9	23.0
EV / Operating Income	3.7	4.2	4.7	5.6
EV / Operating FCF	(69.3)	(37.2)	36.5	47.2
Operating Ratio				
Employee cost / Revenue	17.3	7.9	8.1	8.1
Operating expenses / Revenue	4.3	4.2	4.3	4.4
Other Income / PBT (%)	24.9	32.6	25.5	25.9
Effective Tax Rate (%)	15.7	16.3	16.2	16.2
NWC / Total Assets (%)	18.0	8.8	8.1	7.8
Inventory Turnover (days)	27.0	30.2	30.7	29.0
Receivables (days)	89.9	86.0	87.2	86.4
Payables (days)	70.0	73.0	75.2	72.1
D/E Ratio (x)	0.5	0.5	0.6	0.6
Return/Profitability Ratio (%)				
Recurring Net Income Margins	8.5	9.5	12.2	11.7
RoCE	6.1	7.3	8.6	8.3
RoNW	7.9	7.8	9.6	8.9
Dividend Payout Ratio	52.5	44.4	33.9	34.1
Dividend Yield	1.6	1.6	1.6	1.6
EBITDA Margins	15.2	18.5	23.8	24.2

Source: Company data, I-Sec Research

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