

**TATA POWER CO**

Tata Power raises USD 300 mn through 14-15% stake sale in coal mine SPV

Tata Power has entered into an agreement to sell 14-15% stake in its coal mine SPV to Olympus Capital, a PE investor. This implies that Tata Power's holding in BUMI mines will be reduced to 25.5% post the stake sale as in 2007 it had spent USD 1.2 bn for 30% stake. The share sale arrangement is as follows:

- Tata Power will receive USD 300 mn upfront from Olympus Capital in lieu of Class B equity shares with no dividend rights subject to a capital protection arrangement at the end of five years.
- Class B shares are fully convertible into ordinary shares during these five years.

The deal does not impact Mundra project's fuel security as the FSA (fuel supply agreement) for the 4 GW UMPP project with BUMI's coal mines is independent of the share holding agreement in the coal mines.

■ Rationale behind stake sale

1. Tata Power has been planning to de-risk geographical and political risks associated with Indonesian coal mines. Hence, at a premium valuation (~2x its investment) it will book profits from these investments.
2. Use the funds to secure fuel linkages for some pipeline projects / get access to cheaper coal which could be used for the Mundra project and thereby mitigate the higher fuel price risk.

■ Our view

It is yet unclear whether the Class B shares will also carry a coupon rate / redemption premium on maturity of the capital protection. Assuming USD 300 mn is for 15% stake, the deal values Tata Power's 30% stake in BUMI mines at ~USD 2 bn, versus our valuation of ~USD 2.5 bn. This will impact our SOTP value of INR 1,327 by ~INR 70/share.

However, the deal benefits Tata Power in the following manner:

1. Tata Power stands to benefit from the entire dividend till the time the investor does not convert into equity shares and on conversion the investor will be liable for the SPV's outstanding debt (~ USD 630 mn) on a pro-rata basis. Assuming no redemption premium, this could result in a higher net asset value for Tata Power.

Financials (Standalone)

Year to March	FY09	FY10E	FY11E	FY12E
Revenues (INR mn)	72,362	83,121	92,607	95,472
Total expenditure	61,173	66,635	76,230	77,219
EBITDA (INR mn)	11,190	16,486	16,377	18,253
Rep. net profit (INR mn)	9,675	7,959	7,965	8,228
EBITDA margins (%)	15.5	19.8	17.7	19.1
NPM (%)	13.4	9.6	8.6	8.6
Diluted EPS (INR)	24.7	33.7	33.7	34.8
Diluted P/E (x)	52.7	38.7	38.7	37.4
ROAE (%)	7.0	9.5	8.9	8.6

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Reuters: TTPW.BO Bloomberg: TPWR IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

Note:

Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 1,310
52-week range (INR)	:	1,518 / 995
Share in issue (mn)	:	237.3
M cap (INR bn/USD mn)	:	311 / 6,671
Avg. Daily Vol. BSE/NSE ('000):	:	515.1

SHARE HOLDING PATTERN (%)

Promoters*	:	31.2
MFs, FIs & Banks	:	29.8
FIIIs	:	17.9
Others	:	21.1
* Promoters pledged shares (% of share in issue)	:	12.2

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Power Index
1 month	2.5	3.7	1.2
3 months	(4.7)	(0.9)	(0.8)
12 months	14.5	19.7	(1.9)

Shankar.K

+91 22 4040 7412

shankar.k@edelcap.com

Subhadip Mitra

+91 22 4040 7414

subhadip.mitra@edelcap.com

2. The balance USD 230 mn can then be used to buy further coal assets to fuel the 1.5-2.0 GW Dehrand project or for financial closure of the Mandakini and Tubed captive mine-based projects cumulating another 1.5-2.0 GW.

Given this scenario we believe either greater fuel security or financial closure of another 1.5-2.0 GW is possible in the medium term. Tata Power's shift from higher commodity exposure to more weightage on power projects, which have greater assurity of returns, is a step in the right direction. Considering the likelihood of the post money valuation to be closer to our estimates and in the absence of greater clarity on the deal structure we maintain '**BUY**' recommendation with a SOTP target of INR 1,327/share. On relative return basis we rate the stock '**Sector Outperformer**'.

Edelweiss Securities Limited, 14th Floor, Express Towers, Nariman Point, Mumbai – 400 021.
Board: (91-22) 2286 4400, Email: research@edelcap.com

Vikas Khemani	Head	Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Head	Research	nischal.maheshwari@edelcap.com	+91 22 6623 3411

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