

Utilities

Brimming with energy

Top pick

Tata Power

The power sector seems to be heading for a massive overhaul over the next 3-4 years with tariffs expected to decline in the range of 40-80% in view of the recent bids awarded for Sasan and Mundra Ultra Mega Power Projects (UMPPs). Surprisingly, despite these developments, the Government is falling short of the earlier target of more than 41GW capacity addition slated in the X Plan. The target has now been revised to 30.6GW with ~17.7GW capacity already commissioned till November '06. During October-November '06, total power generation increased 9%, with the mix shifting in favour of hydel power (though hydel generation dipped drastically in November '06). We reiterate Tata Power as our top pick in the sector on the back of attractive valuations and potential triggers (such as value unlocking through sale of investments in Tata Teleservices), which are expected to play out over the medium term.

- ▶ **Sasan and Mundra projects awarded at highly aggressive tariffs.** UMPPs have generated interest among many players, who are placing highly competitive bids. Lanco won the Sasan project at the lowest bid till date of Rs1.196/Kwh with captive coalmines being awarded to the company. The Mundra project was bagged by Tata Power at Rs2.6/Kwh, which is again aggressively priced in spite of the fact that imported coal would be used as the fuel. Seven more UMPPs have been identified out of which one (Krishnapatnam in Andhra Pradesh) would to be awarded before the end of FY07.
- ▶ **Total power generation grew 9% YoY** to 110.3bnKwh during October-November '06, higher than the past year's 5.1% YoY (Chart 1). This was primarily driven by hydel power generation which grew 16% YoY on the back of large capacity coming on-stream during the year. However, due to monsoons falling during Q2FY07, hydel generation declined more than 24% QoQ. This also led to power deficit increasing to 8% in November '06 from 5% in August '06.
- ▶ **Nuclear pact signed between India and the US.** The US Senate has approved nuclear co-operation between the two countries, which includes shipping nuclear technology and fuel to India. This would encourage the commissioning of more nuclear-based projects in the long run. The Government, at present, has plans to add 1,400MW & 5,900MW nuclear power generation capacity in X and XI Plans respectively; however, the target for the XI Plan would likely see an upward revision post this pact.
- ▶ **Reiterate Tata Power as top pick in the sector.** Tata Power stands out as a value play (especially considering its investments) and is expected to register the highest earnings growth in the i-SEC utilities universe in Q3FY07.

Poonam Nishal

poonam_nishal@isecltd.com
+91 22 6637 7443

R Amarnath

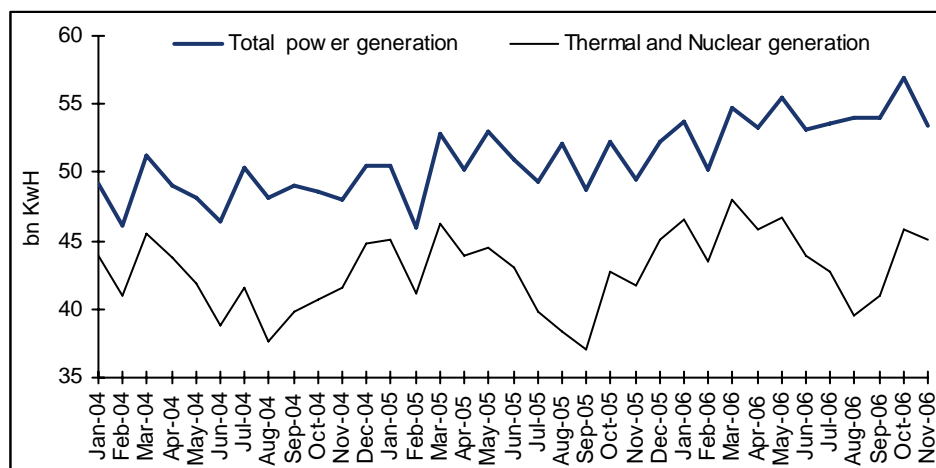
r_amarnath@isecltd.com
+91 22 6637 7114

Table 1: Quarterly summary

Company (Rs mn)	Sales			EBITDA			PAT		
	Q3FY07*	% Chg		Q3FY07*	% Chg		Q3FY07*	% Chg	
		(YoY)	(QoQ)		(YoY)	(QoQ)		(YoY)	(QoQ)
NTPC	72,079	4.9	5.8	19,171	(8.4)	4.1	15,059	(20.7)	2.2
Tata Power	12,300	(0.1)	2.4	2,620	33.1	5.0	1,323	37.8	(34.6)
Reliance Energy	12,246	23.9	8.5	1,825	1.8	(5.4)	1,908	10.4	12.9

*October-December '06
Source: i-SEC Research

Chart 1: Trends in power generation



Source: CMIE

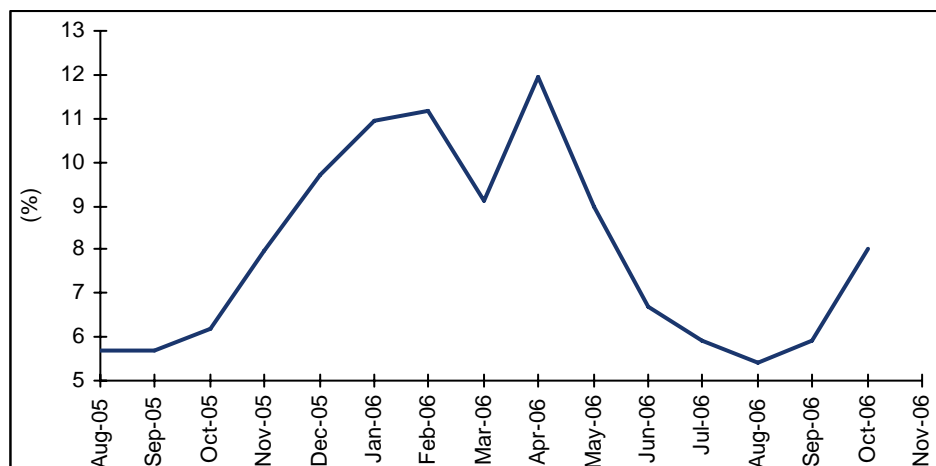
Table 2: Generation statistics

(bn Kwh)

	Oct – Nov '06	Oct – Nov '05	% chg	FY06	FY05	% chg
Total Units	110.27	101.21	8.95	617	588	4.9
Thermal	90.93	84.56	7.53	514	503	2.2
Hydel	19.34	16.65	16.15	101	85	19.4
PLF (Thermal plants)	76.00	72.20	-	78.4	77.5	-
Power Shortage (%)	8.00	6.21	-	8.4	12	-

Source: CMIE

Chart 2: Power shortage on the rise post monsoons



Source: CMIE

Table 3: Stock performance of key companies

All utility companies in the region have underperformed the Sensex

Company	Currency	Price 2 Jan '07	Returns (%)		
			1 month	3 month	YTD '06
Sensex	None	13,942	1.1	12.7	46.2
CESC	INR	320	(9.1)	1.8	35.8
Tata Power	INR	565	(7.2)	1.8	27.7
NTPC	INR	138	(8.6)	3.6	23.2
Huaneng Power	HKD	7	9.0	22.6	(0.9)
China Resources	HKD	12	16.3	40.3	(1.5)
Reliance Energy	INR	523	(5.9)	7.5	(15.0)

Source: Bloomberg

NTPC (Buy)

(QoQ chg: 3.6%; YTD chg: 23.2%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	72,079	68,689	4.9	5.8	139,674	127,134	9.9
EBITDA	19,171	20,932	(8.4)	4.1	38,368	34,318	11.8
PBT	15,852	19,507	(18.7)	2.2	33,593	30,594	9.8
PAT	15,059	18,991	(20.7)	2.2	32,021	28,980	10.5

Source: Company data, i-SEC Research

* April - September

- We expect unit sales to grow at 2% YoY in Q3FY07E supported by the commissioning of new capacity (500MW added in Q3FY07 at Vindhyachal)
- Margins would dip due to higher fuel and other costs. Despite declining depreciation charge (as 95% cost of the earlier plants has been expensed), we estimate PBT to decline 19% due to higher interest costs and almost uniform other income
- Though the company was nowhere close to the winning bids in the awarded UMPPs, it plans to participate in the bidding process for 4,000MW Krishnapatnam project, to be awarded before FY07-end

Tata Power (Buy)

(QoQ chg: 1.8%; YTD chg: 27.7%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	12,300	12,314	(0.1)	2.4	25,774	21,516	19.8
EBITDA	2,620	1,968	33.1	5.0	5,076	4,726	7.4
PBT	2,287	1,278	78.9	5.9	3,866	3,404	13.6
PAT	1,670	960	73.9	(17.5)	3,242	2,353	37.8

Source: Company data, i-SEC Research

* April - September

- Though revenues from electricity are expected to rise 2.9% YoY, total revenues would more or less be at similar levels due to a dip in income from other operations
- EBITDA margin expected to improve to 21.3% from 20.8% in Q2FY07 & 16% in Q3FY06 on the back of higher fuel cost rationalisation
- Tata Power has won the 4,000MW Mundra UMPP bid at levelised tariffs of Rs2.6/unit. The project would involve Rs160bn capex to be funded through 70:30 D/E, involving four phases of 1,000MW each

Reliance Energy (Hold)

(QoQ chg: 7.5%; YTD chg: (15.0%))

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	12,246	9,883	23.9	8.5	25,625	19,926	28.6
EBITDA	1,825	1,793	1.8	(5.4)	3,410	3,649	(6.6)
PBT	2,244	1,994	12.6	19.5	4,397	3,508	25.3
PAT	1,908	1,729	10.4	12.9	3,830	3,162	21.1

Source: Company data, i-SEC Research

* April - September

- Overall, 24% increase in sales would be led by 74% growth in the EPC segment. However, increasing contribution from the low-margin EPC segment would result in margin dipping 320 bps YoY and 220 bps QoQ to 15%
- EBITDA expected to remain uniform YoY; yet, we expect lower depreciation costs and higher other income to result in 10% net income growth

Earnings watch

	Key Data	Year	Valuation				Growth Rates (% YoY)				Forecasts (Rs mn)					Ratios						
			P/E	P/CEPS	*EVE	Div. Yield (%)	Rec. EPS	Rep. EPS	EBITDA	Rev.	Rev.	EBITDA	Rec. PAT	Rep. PAT	Op. FCF (post-capex)	Rec. EPS (Rs)	EBITDA Margin (%)	RoE (%)	RoCE (%)	Net D/E (%)		
UTILITIES																						
NTPC BUY																						
Price (Rs)	138	MCap (Rs mn)	1,138,277	FY03	28.1	20.1	20.9	0.7	5.3	2.2	10.9	6.9	190,475	57,601	38,446	36,076	(17,047)	4.9	Component of: BSE Sensex			
52 week Hi/Lo (Rs)	158/91	MCap (US\$ mn)	25,637	FY04	27.4	18.1	21.5	1.0	2.4	46.6	(1.0)	6.4	202,672	57,044	39,352	52,888	(42,894)	5.0	30.2	12.8	10.5	40.2
Free float (%)	10.5	*BVPS (Rs)	55	FY05	19.3	14.1	18.5	1.7	41.7	4.4	12.4	16.0	235,161	64,100	58,836	58,286	10,272	7.1	28.1	11.7	9.6	41.8
Shares out (mn)	8245.4	*Returns (%): 1 mo	(8.6)	FY06E	16.6	12.8	17.0	2.0	16.5	(1.2)	10.1	14.8	269,857	70,557	68,562	57,590	(17,575)	8.3	27.3	15.1	11.8	11.6
Year ending	March	12 mo	23	FY07E	16.6	12.5	16.5	2.3	(0.1)	12.6	7.1	9.2	294,697	75,546	68,472	64,825	(22,640)	8.3	26.1	15.7	11.6	14.2
Reliance Energy HOLD																						
Price (Rs)	523	MCap (Rs mn)	110,950	FY03	44.4	17.1	18.0	NA	NA	NA	NA	NA	26,677	4,321	1,625	1,622	2,523	11.8	Component of: BSE Sensex, Nifty			
52 week Hi/Lo (Rs)	701/362	MCap (US\$ mn)	2,499	FY04	20.5	11.4	13.0	0.9	117	97.3	67.9	27.9	34,122	7,255	4,043	3,670	1,285	25.6	16.2	6.2	7.1	22.6
Free float (%)	49.9	*BVPS (Rs)	321	FY05	22.0	12.5	11.0	0.9	(6.8)	17.6	(7.1)	21.5	41,454	6,742	4,543	5,202	3,965	23.8	21.3	11.7	9.3	26.9
Shares out (mn)	212.0	*Returns (%): 1 mo	(5.9)	FY06E	16.1	10.8	12.8	1.0	36.4	7.4	12.9	(2.4)	40,471	7,612	7,216	6,503	84	32.5	16.3	9.1	7.1	cash
Year ending	March	12 mo	(15.0)	FY07E	15.9	10.4	12.1	0.8	1.5	12.6	0.1	6.3	43,017	7,621	7,322	7,322	(3,251)	33.0	18.8	11.4	8.5	cash
Tata Power BUY																						
Price (Rs)	565	MCap (Rs mn)	111,760	FY03	19.4	12.5	10.6	1.2	NA	NA	NA	NA	41,711	12,707	5,764	5,227	(880)	29.1	Component of: BSE Sensex, Nifty			
52 week Hi/Lo (Rs)	621/390	MCap (US\$ mn)	2,517	FY04	19.8	12.4	10.1	1.2	(2.2)	(2.9)	0.9	(1.4)	41,115	12,817	5,640	5,077	8,690	28.5	30.5	13.1	12.0	49.8
Free float (%)	67.7	*BVPS (Rs)	278	FY05	34.5	16.3	13.8	1.3	(42.5)	8.6	(26.0)	(5.7)	38,782	9,489	3,242	5,512	6,750	16.4	31.2	11.7	11.2	34.3
Shares out (mn)	197.91	*Returns (%): 1 mo	(7.2)	FY06E	26.1	15.8	15.8	1.5	31.8	10.8	(13.1)	16.7	45,250	8,242	4,274	6,105	(3,943)	21.6	24.5	6.4	6.3	37.9
Year ending	March	12 mo	27.7	FY07E	25.6	14.0	11.7	1.5	2.2	(28.4)	26.8	12.3	50,799	10,454	4,370	4,370	2,899	22.1	18.2	8.1	6.9	32.9

Prices as on January 2, 2007

* BVPS - Book Value per share; Returns - Absolute Returns; Rec. - Recurring; Rep. - Reported; Rev. - Revenue

Source: i-SEC Research

The information and opinions in this report have been prepared by ICICI Securities Limited (ICICI Securities) and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and affiliates, including the analysts who have issued this report, may, on the date of this report and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions. ICICI Securities and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past. ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. This publication is disseminated in the United States jointly by ICICI Securities and ICICI Securities Inc, which is a US registered broker dealer. ICICI Securities Inc accepts responsibility for its contents accordingly, though its accuracy and completeness cannot be guaranteed. Any person receiving this report and wishing to effect a transaction in any security discussed herein must do so through ICICI Securities Inc.
