

RESULT UPDATE

LARGE CAP

Share Data

| | |
|----------------------------------|---------|
| Reuters code | TTPW.BO |
| Bloomberg code | TPWR IN |
| Market cap. (US\$ mn) | 7,379 |
| 6M avg. daily turnover (US\$ mn) | 16.3 |
| Issued shares (mn) | 237 |
| Target price (Rs) | 1,427 |

Performance (%) 1M 3M 12M

| | | | |
|----------|---|-----|----|
| Absolute | 8 | 0 | 87 |
| Relative | 3 | (1) | 0 |

Valuation ratios

| Yr to 31 Mar | FY10E | FY11E |
|--------------------|-------|-------|
| EPS (Rs) | 34.2 | 42.4 |
| +/- (%) | 33.8 | 24.0 |
| PER (x) | 41.5 | 32.0 |
| PBV (x) | 3.3 | 3.1 |
| Dividend/Yield (%) | 0.9 | 1.1 |
| EV/Sales (x) | 4.7 | 4.3 |
| EV/EBITDA (x) | 24.5 | 21.8 |

Major shareholders (%)

| | |
|-----------------|----|
| Promoters | 31 |
| FII's | 19 |
| MF's | 28 |
| Public & Others | 22 |

Financial highlights

| (Rs mn) | 3QFY10 | 3QFY09 | YoY (%) | 9MFY10 | 9MFY09 | YoY (%) | FY09 | FY10E | YoY (%) | FY11E | YoY (%) |
|---|---------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Net Sales | 15,665 | 17,769 | (11.8) | 53,032 | 57,619 | (8.0) | 72,362 | 84,516 | 16.8 | 100,665 | 19.1 |
| EBITDA | 3,641 | 2,560 | 42.2 | 14,132 | 8,645 | 63.5 | 11,409 | 16,062 | 40.8 | 20,123 | 25.3 |
| EBITDA Margin (%) | 23.2 | 14.4 | - | 26.6 | 15.0 | - | 15.8 | 19.0 | - | 20.0 | - |
| Other Income | 452 | 460 | (1.8) | 2,283 | 2,827 | (19.3) | 6,266 | 3,454 | (44.9) | 3,636 | 5.3 |
| Interest | (922) | (952) | (3.1) | (3,117) | (2,154) | 44.7 | (3,278) | (5,128) | 56.4 | (5,371) | 4.7 |
| Depreciation | (1,208) | (809) | 49.3 | (3,510) | (2,303) | 52.4 | (3,289) | (4,162) | 26.6 | (4,162) | - |
| PBT | 1,963 | 1,260 | 55.8 | 9,788 | 7,016 | 39.5 | 11,110 | 10,226 | (8.0) | 14,227 | 39.1 |
| Tax | (484) | (109) | 343.0 | (2,706) | (1,340) | 102.0 | (1,888) | (1,738) | (7.9) | (3,699) | 112.8 |
| Reported PAT | 1,479 | 1,151 | 28.5 | 7,082 | 5,676 | 24.8 | 9,222 | 8,488 | (8.0) | 10,528 | 24.0 |
| Extraordinary items | (92) | (191) | - | (1,575) | (949) | - | (2,878) | - | - | - | - |
| Adjusted PAT (after extraordinary) | 1,387 | 960 | 44.5 | 5,507 | 4,727 | 16.5 | 6,344 | 8,488 | 33.8 | 10,528 | 24.0 |
| Adjusted PAT margin (%) | 8.9 | 5.4 | - | 10.4 | 8.2 | - | 8.8 | 10.0 | - | 10.5 | - |
| Adjusted EPS (Rs) post extra ordinary & fully diluted equity | 5.6 | 3.9 | 44.5 | 22.2 | 19.0 | 16.5 | 25.6 | 34.2 | 33.8 | 42.4 | 24.0 |

Tata Power

Maintain Outperformer

Price: Rs 1,419

BSE Index: 17,486

19 January 2010

3QFY10 Result – Beats expectations

- Sales volumes are up marginally by 3 mn kWh due better generation at Hydro plants and at Haldia. However, generation at Trombay in 3QFY10 has dipped by 4%, despite higher capacities (due to unplanned outages Unit-5 and testing of new Unit-8).
- The revenues are down 12% YoY primarily due to higher last year sales from pass through effect of higher fuel costs and power purchases last year. Fuel cost this year has dipped by 26% YoY due to lower fuel prices and replacement of oil with gas as fuel at Trombay.
- Depreciation is higher in tune with new capacities added in FY10; however interest expenses have remained flat (lower than expected) due to repayment of short term borrowings.
- PAT after adjusting for forex income stands higher by 44%. Tax rate is higher due to changes in MAT rules.

B&K's view

The merchant sales of 358 MW in FY11 (100 MW of Unit-8 in Trombay and additional 158 MW currently sold to Reliance Infrastructure – RELI) will lift earnings in FY11. The rest of power sold to RELI will be reallocated to BEST 100 MW and 200 MW to change over customers from RELI. This power will continue to be sold under MERC norms of mandated RoE.

We currently do not apportion value to new generation capacities (Tubed, Mandakini and Dehrand) since these are expected only post FY14. We have revised our estimates based on higher merchant sales in FY11. Our assumptions for coal prices have also been upgraded to US\$ 90/tonne as per our house call. This implies an average selling price (mix of spot and long-term contracts) of US\$ 60-65/tonne for the mines. The revised SOTP stands at Rs 1,427 per share. Maintain Outperformer.

Other updates

- The sales volume grew marginally by 0.08% to 3,714 MUs, contributed by higher generation at Haldia and Wind farms (growth of 150% and 118%, respectively). The Trombay TPS generation dipped by 4.5% but was compensated by 6.8% higher generation at the hydro plants. The customer base of the company grew to 35,576 with total addition of 7,124 for the quarter and 9,511 for the year.
- The other expenditure rose by 11% to Rs 1,351 mn this quarter due to commissioning of new units in Haldia (Rs 80 mn) and Unit-8 (Rs 30 mn).
- Other income (ex-forex gains) has gone up by 31% from Rs 251 mn (last quarter) due to higher funds available for short-term investments.
- Depreciation has gone up by 49% from Rs 809 mn (last quarter) due to commissioning of Unit-8, Haldia and Wind units.
- Interest cost has gone down by 3% from Rs 950 mn (last quarter) due to reduction in treasury interest by Rs 300 mn on account of repayment to corporate and short-term borrowing.
- 458 MW power being sold to RELI in FY10, will get re-allocated as 158 MW merchant through Tata Power Trading, 100 MW to BEST and 200 MW to new and change over customers from RELI. The power sold to BEST and new consumers will be as per MERC norms of mandated RoE.

Capex status

- PH 6-120 MW at Jamshedpur was commissioned in December 2009.
- Mundra 4 GW is 42% (31% last quarter) complete and first unit is expected to get commissioned by 2QFY12.
- Maithon 1 GW is 63% (61% last quarter) complete and first unit is expected to get commissioned by 2QFY11.
- Jojobera unit 5 of 120 MW is expected to get synchronised by February 2010.
- Dagachhu Hydro plant 114 MW (JV with Bhutan) orders placed and 1st unit expected by 2013.
- The company has partnered with SN Power of Norway to develop hydro power projects with 2 GW under construction/operation by 2015 and a total of 4 GW by 2020.

Outlook and valuation

The company is emerging as a beneficiary of merchant power – 200 MW from FY10 and possibly another 158 MW from FY11. The recent GDR and FCCB issues take away concerns on funding. We expect better results in 4QFY10 when full impact of 200 MW merchant capacity will be seen. The 3QFY10 consolidated result is awaited, wherein we expect better profitability due to higher coal prices in 3Q and 4QFY10.

We currently do not apportion value to new generation capacities (Tubed, Mandakini and Dehrand) since these are expected only post FY14. We have revised our estimates based on higher merchant sales in FY11. Our assumptions for coal prices have also been upgraded to US\$ 90/tonne as per our house call. This implies an average selling price (mix of spot and long-term contracts) of US\$ 60-65/tonne for the mines. The revised SOTP stands at Rs 1,427 per share. Maintain Outperformer.

SOTP

| VPS | Rs/share |
|---|-----------------|
| Power Business (ex-UMPP) | 600 |
| UMPP | (88) |
| Coal Mine Stake | 529 |
| Add: Investments (20% discount to CMP) | |
| Telecom | 262 |
| Other Co's | 27 |
| JV's (at 2x FY08 BV) | 62 |
| Add cash & liquid assets | 33 |
| SOTP | 1,427 |

Income Statement

| Yr end 31 Mar (Rs mn) | FY08 | FY09 | FY10E | FY11E |
|-------------------------------------|---------------|---------------|---------------|----------------|
| Net sales | 59,159 | 72,362 | 84,516 | 100,665 |
| <i>Growth (%)</i> | 25.5 | 22.3 | 16.8 | 19.1 |
| Operating expenses | (49,793) | (60,953) | (68,455) | (80,542) |
| Operating profit | 9,366 | 11,409 | 16,062 | 20,123 |
| EBITDA | 9,366 | 11,409 | 16,062 | 20,123 |
| <i>Growth (%)</i> | 29.5 | 21.8 | 40.8 | 25.3 |
| Depreciation | (2,905) | (3,289) | (4,162) | (4,162) |
| Other income | 4,658 | 6,266 | 3,454 | 3,636 |
| EBIT | 11,120 | 14,387 | 15,354 | 19,597 |
| Interest paid | (1,419) | (3,278) | (5,128) | (5,371) |
| Pre-tax profit | 9,701 | 11,110 | 10,226 | 14,227 |
| (before non-recurring items) | | | | |
| Tax (current + deferred) | (1,002) | (1,888) | (1,738) | (3,699) |
| Net profit | 8,699 | 9,222 | 8,488 | 10,528 |
| Non-recurring items | (2,637) | (2,878) | 0 | 0 |
| Adjusted net profit | 6,062 | 6,344 | 8,488 | 10,528 |
| <i>Growth (%)</i> | 6.4 | 4.7 | 33.8 | 24.0 |

Balance Sheet

| Yr end 31 Mar (Rs mn) | FY08 | FY09 | FY10E | FY11E |
|---------------------------------|----------------|----------------|----------------|----------------|
| Current assets | 38,755 | 46,811 | 72,498 | 72,833 |
| Investments | 44,300 | 54,435 | 54,435 | 54,435 |
| Net fixed assets | 46,872 | 59,517 | 107,454 | 154,292 |
| Total assets | 129,927 | 160,763 | 234,386 | 281,560 |
| Current liabilities | 18,393 | 20,713 | 21,554 | 23,170 |
| Total Debt | 30,373 | 51,982 | 102,763 | 141,994 |
| Other non-current liabilities | 5,526 | 6,480 | 6,480 | 6,480 |
| Total liabilities | 54,291 | 79,176 | 130,798 | 171,645 |
| Share capital | 2,207 | 2,214 | 2,375 | 2,375 |
| Reserves & surplus | 72,985 | 78,885 | 100,725 | 107,051 |
| Less: Misc. expenditure | (17) | 0 | 0 | 0 |
| Shareholders' funds | 75,636 | 81,588 | 103,589 | 109,915 |
| Total equity & liab. | 129,927 | 160,763 | 234,386 | 281,560 |

Cash Flow Statement

| Yr end 31 Mar (Rs mn) | FY08 | FY09 | FY10E | FY11E |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| Pre-tax profit | 9,701 | 11,110 | 10,226 | 14,227 |
| Depreciation | 2,905 | 3,289 | 4,162 | 4,162 |
| Chg in working capital | (1,819) | (6,714) | (970) | (3,213) |
| Total tax paid | 475 | (1,198) | (2,155) | (4,216) |
| Cash flow from oper. (a) | 11,263 | 6,486 | 11,263 | 10,959 |
| Capital expenditure | (25,411) | 74,581 | (52,098) | (51,000) |
| Chg in investments | 0 | (97,761) | 0 | 0 |
| Other investing activities | 0 | 1,028 | 3,454 | 0 |
| Cash flow from inv. (b) | (25,411) | (22,152) | (48,644) | (51,000) |
| Free cash flow (a+b) | (14,149) | (15,666) | (37,381) | (40,041) |
| Equity raised/(repaid) | 6,458 | 57 | 16,901 | 0 |
| Debt raised/(repaid) | 2,210 | 21,151 | 50,781 | 39,230 |
| Dividend (incl. tax) | 0 | 0 | (2,971) | (3,685) |
| Other financing activities | (4,259) | (5,321) | (5,128) | 0 |
| Cash flow from fin. (c) | 4,409 | 15,887 | 59,584 | 35,546 |
| Net chg in cash (a+b+c) | (9,740) | 221 | 22,203 | (4,495) |

Key Ratios

| Yr end 31 Mar (%) | FY08 | FY09 | FY10E | FY11E |
|----------------------------|--------|------|-------|-------|
| Adj EPS post extraord.(Rs) | 24.4 | 25.6 | 34.2 | 42.4 |
| Adj EPS growth | (15.1) | 4.7 | 33.8 | 24.0 |
| EBITDA margin | 15.8 | 15.8 | 19.0 | 20.0 |
| EBIT margin | 18.8 | 19.9 | 18.2 | 19.5 |
| RoCE | 10.7 | 11.5 | 8.7 | 8.3 |
| RoE | 9.3 | 8.1 | 9.2 | 9.9 |
| Net debt/Equity | 39.8 | 63.2 | 77.3 | 112.7 |

Valuations

| Yr end 31 Mar (x) | FY08 | FY09 | FY10E | FY11E |
|-------------------|------|------|-------|-------|
| PER | 58.1 | 55.5 | 41.5 | 32.0 |
| PCE | 34.9 | 32.6 | 26.6 | 22.9 |
| Price/Book | 4.1 | 3.8 | 3.3 | 3.1 |
| Yield (%) | 0.8 | 0.8 | 0.9 | 1.1 |
| EV/Net sales | 5.8 | 5.1 | 4.7 | 4.3 |
| EV/EBITDA | 36.7 | 32.0 | 24.5 | 21.8 |

Du Pont Analysis – ROE

| Yr end 31 Mar (x) | FY08 | FY09 | FY10E | FY11E |
|----------------------|------|------|-------|-------|
| Net margin (%) | 10.2 | 8.8 | 10.0 | 10.5 |
| Asset turnover | 0.5 | 0.5 | 0.4 | 0.4 |
| Leverage factor | 1.9 | 1.8 | 2.1 | 2.4 |
| Return on equity (%) | 9.3 | 8.1 | 9.2 | 9.9 |

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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