

Industry : Power

CMP : Rs.600

Price Target : Rs.580

Hold

 Analyst:
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Current

Recommendation	Hold
CMP (INR)	600.00
Target Price (INR)	580.00

Key Data

Bloomberg	TPWR@IN
Reuters Code	TTPW.BO
BSE Code	500400
NSE Code	TATAPOWER
Face Value	10.00
Market Cap. (INR mn)	118752.00
52 Week High (INR)	640.00
52 Week Low (INR)	390.00

Scrip Scan

Equity Rs.mn	19792.0
FY07E	37.0
FY08E	31.1

Shareholding (31.12.06) (%)

Promoters	32.26
FI	29.46
FII	25.87
Public	12.41
Grand Total	100.00

Highlights for the quarter
↗ Q3 performance below expectations

TPL reported flat sales for the quarter while net profit grew by 38.3% y-o-y largely buoyed by tax credit taken during the quarter. The operating margins improved by 150bps on a y-o-y basis. The result was not comparable due to extra ordinary gains reported on sale of Tata Broadband in the same quarter last year.

↗ Volume growth impressive

Volume growth for TPL remained impressive for the quarter as unit sales grew by 9% for the quarter. A large part of sales has come due to 29% increase in generation at Jojobhera plant. The volume growth in license area stood at 5.44% for the quarter. Sales from other operations was impacted due to sale of power system division. The high fuel cost impacted the generation cost for the quarter.

↗ New projects kicked of the ground

TPL has seen a number of projects going off the ground. It is currently working on a 250MW capacity addition at Trombay, 100MW DG set, 100MW wind mill in Maharashtra and 1000MW Maithon project. Besides, it bagged 4000MW Mundra project under Ultra Mega Power Project during the quarter. It also signed MoU with Chattisgarh govt. for setting up 1000MW coal based power plant with investment of Rs 50bn.

Valuation

TPL is likely to see the benefits of new capacities coming in FY09. Till then, it is likely to see growth coming from its license area and from the strategic electronic division. It was given prime contractor status by Defence ministry for designing, developing, manufacturing, assembling and upgrading mission critical systems in seven core areas of defence strategic electronics. The division is likely to see significant growth as a result of this development. At current market price, the stock trades at 16.2x and 19.3x FY07E and FY08E earnings. **We recommend investors to "HOLD" the stock with fair price estimate of Rs.580 over next 12 months.**

Quarterly Performance
(Rs.mn)

	Q3 FY07	Q3 FY06A	Q2 FY07A	9M FY07	9M FY06
Net Sales	12005.1	12247.7	12008.3	37706.1	33720.1
% Change (yoy)	(2.0)				
Total Expenditure	9897.6	10279.5	9512.9	30522.2	26938.3
EBIDTA	2107.5	1968.2	2495.4	7183.9	6781.8
% Change (yoy)	7.1			5.9	
EBIDTA Margin (%)	17.6	16.1	20.8	19.1	20.1
Interest	510.3	424.2	387.9	1422.5	1233.0
Depreciation	734.7	711.8	731.1	2226.0	2049.4
Other Income	459.8	1765.6	783.4	1652.8	2501.8
PBT	1322.3	2597.8	2159.8	5188.2	6001.2
Tax	-1476.7	321.3	136.6	-852.5	1284
Ex Ord Item	0	0	0	0	0
Adj Net Profit	2799.0	2276.5	2023.2	6040.7	4717.2
% Change (yoy)	23.0			28.1	
Net Profit Margin (%)	23.3	18.6	16.8	16.0	14.0
Equity	1979.2	1979.2	1979.2	1979.2	1979.2
EPS	14.1	11.5	10.2	30.5	23.8

Income Statement
(Rs.mn)

	FY05	FY06	FY07E	FY08E
Net Sales	38800.8	46081.1	47935.7	49844
Growth (%)		18.8	4.0	4.0
Other Income	1361.6	2062.2	1800	1850
Total Expenditure	29317.6	37730.4	37074.6	38529.4
% to sales	75.6	81.9	77.3	77.3
Fuel Cost	18639.8	23875.6	25257.7	25847.9
% to sales	48.0	51.8	52.7	51.9
Cost of Power Purchase	4157.0	5832.0	5443.5	5976.4
% to sales	10.7	12.7	11.4	12.0
Cost on EPC contracts	2130.2	2565	956.6	1092.9
% to sales	5.5	5.6	2.0	2.2
Employee Cost	1554.0	1716.6	1770.0	1820.0
% to sales	4.0	3.7	3.7	3.7
Repairs & maintainance	1135.4	1159.8	1250.0	1300.0
% to sales	2.9	2.5	2.6	2.6
Other Expenditure	1701.2	2581.4	2396.8	2492.2
% to sales	4.4	5.6	5.0	5.0
Operating Profit	9483.2	8350.7	10861.1	11314.6
Margins (%)	24.4	18.1	22.7	22.7
Interest	1914.4	1652.8	1950.0	1900.0
Gross Profit	8930.4	8760.1	10711.1	11264.6
Depreciation	3596.2	2783.4	3000.0	3050.0
Tax	2073.3	1365.2	385.5	2053.6
Net Profit	3260.9	4611.5	7325.6	6161
Margins (%)	8.4	10.0	15.3	12.4

Balance Sheet

	(Rs.mn)			
	FY05	FY06	FY07E	FY08E
SOURCES OF FUNDS				
Equity share capital	1979.2	1979.2	1979.2	1979.2
Reserves & Surplus	49385.5	53577.2	59232.8	63722.8
Equity share holders funds	51,364.7	55,556.4	61,212.0	65,702.0
Secured Loans	10590.7	9460	6303.3	11303.3
Un Secured Loans	18009.4	18090	18090	18090
Total Loan funds	28,600.1	27,550.0	24,393.3	29,393.3
Deferred Tax Liability	113.2	-161.5	-161.5	-161.5
Capital Employed	80,078.0	82,944.9	85,443.8	94,933.8
APPLICATION OF FUNDS				
Gross Block	59034.9	61365.5	63865.5	78865.5
Less: Depreciation	26573.7	29217.2	32217.2	35267.2
Net Block	32,461.2	32,148.3	31,648.3	43,598.3
Investments	35029.2	34121.7	38121.7	38662.7
Inventories	2970.3	4422.6	4690	4984
Sundry Debtors	6966.3	10582.3	9586	9968
Cash & Bank Bal	9795	9905.5	9892.5	6392.5
Loans & Advances	5503.6	4820	4820	4820
Curr Assets, Loans & Adv	25,235.2	29,730.4	28,988.5	26,164.5
Curr Liabilities & Provision	7068.7	7318.1	7577.3	7754.3
Provision	5807	5892	5892	5892
Curr Liab & Prov	12,875.7	13,210.1	13,469.3	13,646.3
Net Current Assets	12,359.5	16,520.3	15,519.2	12,518.2
Miscellaneous Exp	228.1	154.6	154.6	154.6
Total Assets	80,078.0	82,944.9	85,443.8	94,933.8

Ratios

	2004-05	2005-06	2006-07	2007-08
Growth (%)				
Net Sales	-7.3	17.3	4.0	4.0
Adjusted Net Profit	8.1	10.9	20.0	-15.9
EBITDA	-26.2	-11.9	30.1	4.2
EPS	8.1	10.9	20.0	-15.9
CEPS	-3.0	-2.3	16.2	-10.8
Gross Fixed Assets	1.1	3.9	4.1	23.5
Capital Employed	18.9	3.6	3.0	11.1
Valuation				
EPS (Rs.)	27.8	30.8	37.0	31.1
CEPS (Rs.)	46.0	44.9	52.2	46.5
BVPS (Rs)	259.5	280.7	309.3	332
PER (x)	21.6	19.5	16.2	19.3
PEG (x)	2.7	1.8	0.8	-1.2
P/CEPS (x)	13.0	13.4	11.5	12.9
P/BV (x)	2.3	2.1	1.9	1.8
EV/EBITDA (x)	15.5	17.5	13.2	13.1
EV/Net Sales (x)	3.8	3.2	3.0	3.0
Profitability				
ROCE (%)	13.5	12.6	14.8	13.9
ROE (%)	6.3	8.3	12.0	9.4
EBIDTA Margin (%)	24.1	18.1	22.7	22.7
EBDTA Margin (%)	19.3	14.5	18.6	18.9
Net Profit Margin (%)	8.3	10.0	15.3	12.4
Tax/PBT (%)	38.9	22.8	5.0	25.0
Turnover				
Avg. Collection Period (Days)	65	84	73	73
Avg. Payment Period (Days)	66	58	58	57
Net Fixed Assets (x)	1.2	1.4	1.5	1.1
Total Assets (x)	0.5	0.6	0.6	0.5
Other Financial Ratios				
Interest Coverage (x)	5.0	5.1	5.6	6.0
Debt to Equity Ratio (x)	0.6	0.5	0.4	0.4
Basic Data				
Market Capitalisation (Rs.mn)	11,8752.0	11,8752.0	11,8752.0	11,8752.0
Enterprise Value (Rs.mn)	14,7352.0	14,6302.0	14,3145.0	14,8145.0

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