INDIA

Power

Tata Power

Initiation 21 February 2011

Rating: Buy
Target Price: Rs1,525
CMP: Rs1,285*
Upside: 19%
**as on 18 February 2011*

Valuation favours Tata Power

Tata Power Company's (TPC) earnings are expected to grow at a 4 year 12.2% CAGR through FY14E on the back of capacity addition in the power vertical and bullish coal demand in the pacific coal trading circle. We believe the earnings growth and the current valuations (~15% discount to post 2007 valuations, following 30% stake acquisition in Indonesian coal mines) offer an investment opportunity. We initiate coverage on TPC with a FY12E price target of Rs1525, which offers 19% upside from the CMP and recommend Buy.

- **Valuations attractive**: With 30% stake acquisition in Indonesian coal mining companies, TPC's business model has shifted from a plain-vanilla utility to a combination of fixed return yield model and a high-return commodity business. Thus, we believe valuations post 2007 are more relevant. Currently TPC is trading at FY13E P/E of 10.5x, which is at ~15% discount to its post 2007 valuations. SOTP of its various business verticals suggests an FY12E target price of Rs1525, implying a FY13E P/E of 12.7x. We therefore recommend a Buy, and our target price holds an upside of 19%.
- **Power operations to be scaled up 3x**: TPC is executing projects to reach 3 times its current scale by FY14E. Expansion will take place in all fields of operations. While the generation capacity is expected to reach 8.3GW by FY14E (2.8GW currently), the open-access now applicable to Mumbai License Area allows TPC to expand its T&D network in the region. Following the exponential increase in its scale of operations, we expect revenues from the company's power vertical to grow at a compounded rate of 16% through FY14E.
- **Indonesian coal investment contributes significantly**: Income from coal investments is also expected to grow substantially due to **a)** increase in coal output from the Indonesian coal mines from 65MMTPA currently to 100MMTPA by CY14, and **b)** firm coal prices at USD72.5/ton due to sustained growth in coal imports by China and India. We expect the coal segment's income to grow at a CAGR of 11% to Rs90bn in FY14E.
- **Key Risks**: Changes in regulation. Lower than estimated coal production in Indonesian coal investments. Lower than estimated (USD72.5/ton) coal realisations.
- **SOTP Valuation**: Using DCF we value TPC's power business at Rs633/share as on FY12E end. Coal assets are valued at 10xFY13E P/E at Rs598/share, while cash and other strategic investments of the company hold a value of Rs294/share. FY12E SOTP value of TPC is Rs1525/share.

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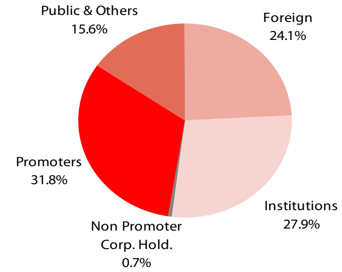
Key Data

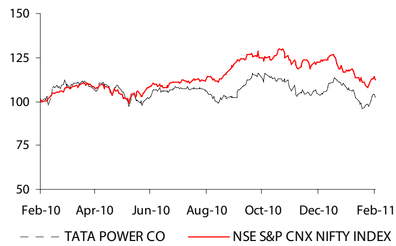
Bloomberg Code	TPWR IN
Reuters Code	TTPW.BO
Current Shares O/S (mn)	237.3
Diluted Shares O/S(mn)	237.3
Mkt Cap (Rsbn/USDbn)	300.1/6.6
52 Wk H / L (Rs)	1468/1156
Daily Vol. (3M NSE Avg.)	218,802
Face Value (Rs)	10
1 USD = Rs45.3	

Shareholding Pattern



As on 31 December 2010

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Tata Power	(5.1)	(3.7)	0.9
NIFTY	(4.6)	(0.4)	11.7

Source: Bloomberg, Centrum Research
** as on 18 February 2011*

Y/E Mar	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoIC(%)	P/E (x)	P/B(x)
FY09	180,613	65.8	33,692	18.7	15,229	15.5	64.0	18.7	10.4	19.7	3.5
FY10	189,858	5.1	38,379	20.2	19,967	61.4	84.1	19.9	10.5	15.0	2.6
FY11E	213,027	12.2	49,383	23.2	19,433	(1.2)	81.9	15.9	9.1	15.4	2.3
FY12E	249,743	17.2	63,952	25.6	26,592	36.8	112.1	18.7	10.0	11.3	1.9
FY13E	299,269	20.0	72,779	24.3	28,527	7.3	120.2	17.1	10.6	10.5	1.7

Source: Centrum Research

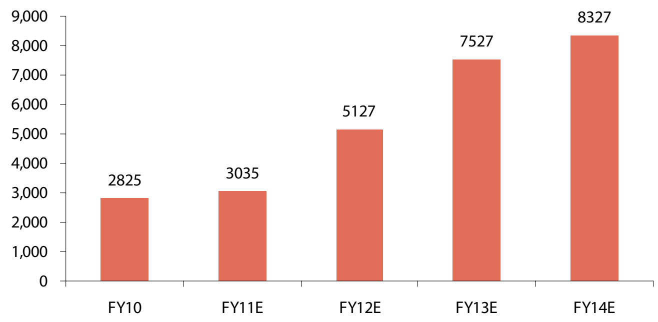
Shareholding Pattern (%)

	Q410	Q111	Q211	Q311
Promoter	31.22	31.81	31.81	31.81
Foreign	17.92	17.55	19.13	20.16
Institutions	29.80	29.58	28.56	27.89
Public & Others	21.06	21.06	20.50	20.14
Total	**100.0**	**100.0**	**100.0**	**100.0**

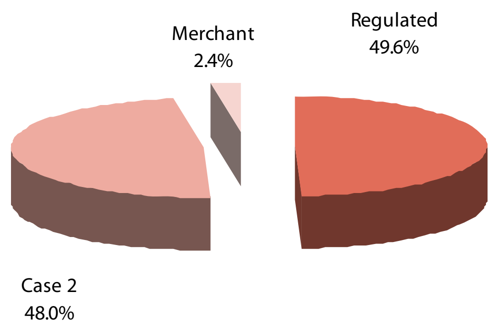
Company Background

Tata Power Company (TPC) is India's biggest and oldest private power generation company. It has a presence in all three verticals of power; Generation, Transmission and Distribution. The company started its operations by generating power for Mumbai over 90 years ago and over the years, it extended its presence across other verticals. Today it has a generation capacity of 2.3GW (for Mumbai License Area, captive power plants for Tata Steel and other places), T&D network (Tala Transmission, MLA and in New Delhi) and power trading through TPC Trading Co. Ltd. As India's oldest power company, TPC has been a participant in all developments in the sector. Mundra UMPP and NDPL are two examples. TPC has maintained an exceptional execution record. It has also turned around the loss making NDPL (distribution company in New Delhi) and the work at Mundra UMPP is progressing ahead of schedule. The company also has equity interests in two Indonesian coal mine companies. TPC is also venturing into the renewable energy space and aims to achieve 25% of its total generation capacity from renewable sources by 2017.

Installed Generation Capacity (MW)



FY14E Installed Generation Capacity Break-up (8.2GW)



Source: Company, Centrum Research

Key management personnel

Name	Position	Profile
Mr. Ratan N Tata	Chairman	Mr Tata has been on the Board since 1989. Mr Tata holds a B.Sc. (Architecture) degree with Structural Engineering from Cornell University, USA and has completed the Advanced Management Programme at Harvard University, USA. He is an eminent industrialist with wide business experience across a variety of industries. He joined the Tata group in 1962 and is the Chairman of Tata Sons Ltd., the apex body of the Tata group and other major Tata companies.
Mr. Anil Sardana	Managing Director	Mr Sardana is an Electrical Engineer from Delhi College of Engineering, a Cost Accountant (ICWAI) and a Post Graduate Diploma in Management from Delhi. Mr Sardana has over three decades of proven expertise in the power sector and has worked with companies like NDPL (a subsidiary of Tata Power), NTPC and BSES. Mr Sardana has also served as the Executive Director (Business Development & Strategy) for Tata Power from 1st March 2007 to 3rd August 2007 and continued to be on its Board till 1st July 2008.
Mr. S. Ramakrishnan	CFO	Mr Ramakrishnan holds a B.Tech degree from IIT Madras and also has a Management Degree from IIM, Ahmedabad. He joined the Tata Administrative Services in 1972 .

Source: Company, Centrum Research

Investment Rationale

- **Valuations attractive**: Currently TPC is trading at FY13E P/E of 10.7x and P/B of 1.7x, which is at a 15% discount to its post 2007 valuations. SOTP valuation of its various business verticals suggests an FY12E target price of Rs1525, implying an FY13E P/E of 12.7x.
- **To scale up power operations 3x**: TPC is executing projects to reach 3 times its current scale. Expansion will take place in both generation and T&D segments. Thus, on the back of exponential increase in the scale of operations, we expect the company's power venture revenues to grow at a compounded rate of 16% through FY14E.
- **Indonesian coal investments contribute significantly**: Indonesian coal companies are expected to increase production from 65MTPA in CY09 to over 100MTPA by CY14E. With higher coal sales and firm inter-national coal prices (USD72.5/ton), the coal segment's income is expected to grow at a compounded rate of 11% to Rs90bn in FY14E.

Standalone Financials

(Rs mn)	FY09	FY10	FY11E	FY12E
Revenues	71,932	70,396	80,568	83,156
Revenue growth (%)	*23*	*(2)*	*14*	*3*
PAT	9,992	9,388	9,228	9,385
PAT growth (%)	*15*	*(6)*	*(2)*	*2*
Networth	81,099	99,988	106,293	112,709
Debt	51,982	58,720	70,061	75,707
Fixed Assets	59,517	62,290	76,154	80,713

Summary Financials

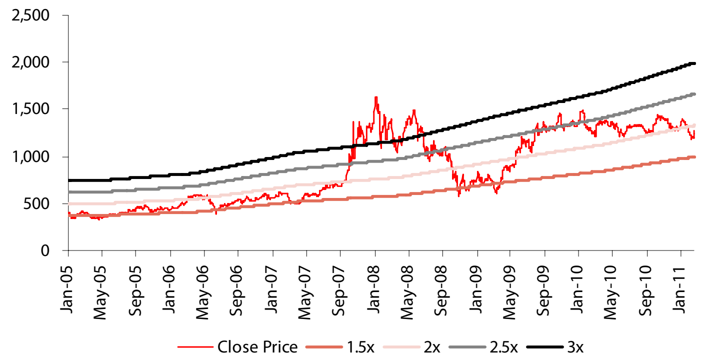
Y/E March	FY09	FY10	FY11E	FY12E	FY13E
Key Income Statement					
Revenue	180,613	189,858	213,027	249,743	299,269
YoY growth (%)	*65.8*	*5.1*	*12.2*	*17.2*	*19.8*
Operating profit	33,692	38,379	49,383	63,952	72,779
YoY growth (%)	*59.0*	*14.0*	*29.0*	*30.0*	*14.0*
Operating margin	*18.7*	*20.2*	*23.2*	*25.6*	*24.3*
Depreciation	6,565	8,777	9,914	11,897	16,381
Interest expenses	8,129	7,818	9,750	10,724	12,368
Other non operating income	2,598	5,590	4,101	4,122	4,042
PBT	24,638	27,673	33,820	45,453	48,073
Provision for tax	11,651	6,287	12,781	16,500	16,726
Minority interest	(800)	(1,718)	(1,607)	(2,362)	(2,819)
PAT (adjusted)	15,229	19,967	19,433	26,592	28,527
YoY growth (%)	*15.5*	*61.4*	*(1.2)*	*36.8*	*7.3*
PAT margin	8.4	10.5	8.9	10.5	9.4
Key CF Statement					
Cash generated from operations	29,401	24,592	22,497	52,587	62,583
Cash flow from investing activities	(53,058)	(67,887)	(68,110)	(48,461)	(13,172)
Cash flow from financing activities	29,728	25,989	25,332	1,069	(30,689)
Net cash increase/decrease	6,072	(17,306)	(20,280)	5,195	18,722
Key Balance Sheet Data					
Shareholders' fund	86,189	114,004	130,513	154,137	179,833
Debt	141,434	184,468	220,819	238,430	224,779
Minority Interest	9,444	12,097	15,359	18,121	21,234
Total Capital Employed	250,652	324,969	381,090	425,087	440,245
Fixed Assets	205,780	267,402	337,143	380,267	383,537
Investments	32,512	30,823	25,823	25,823	25,823
Net current assets	6,654	22,820	14,199	15,072	26,960
Total Assets	250,652	324,969	381,090	425,087	440,245
Key Ratio (%)					
ROIC	*10.4*	*10.5*	*9.1*	*10.0*	*10.1*
ROE	*18.7*	*20.0*	*15.9*	*18.7*	*17.1*
Per share Ratios (Rs)					
Fully diluted EPS	64	84	82	112	120
Book value	363	480	550	650	758
Solvency Ratio (x)					
Debt-equity	1.5	1.5	1.5	1.4	1.1
Interest coverage ratio	3.3	3.8	4.0	4.9	4.6
Valuation parameters(x)					
P/E (Fully Diluted)	19.7	15.0	15.4	11.3	10.5
P/BV	3.5	2.6	2.3	1.9	1.7
EV/EBITDA	12.1	11.5	10.1	8.0	6.6
EV/Sales	2.3	2.3	2.3	2.0	1.6

Source: Company, Centrum Research

Valuations

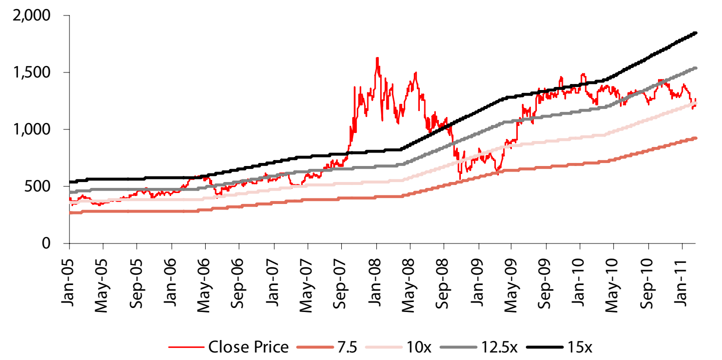
TPC's revenue stream now includes 25% contribution from its coal investments in Indonesian coal mining companies. Thus, as the company's business model has shifted from plain-vanilla utility to a combination of fixed return yield model and a high-return commodity business, post-2007 valuations form a more comparable base (TPC bought 30% stake in Indonesian coal mining companies in June 2007). We believe strong growth in coal demand from China and India will keep realisations of the coal companies firm at USD72.5/ton. Currently TPC is trading at FY13E P/E of 10.5x and FY13E P/B of 1.7x, which is at ~15% discount to its historic valuations. SOTP of its various business verticals suggests an FY12E target price of Rs1525, implying a FY13E P/E of 12.7x. We therefore recommend a Buy, and our target price holds an upside of 19%.

Exhibit 1: P/B Price Band



Source: Company, Centrum Research

Exhibit 2: P/E Price Band



Source: Company, Centrum Research

Valuing power business

We have valued TPC's power business, which includes its power generating assets of 8.2GW, transmission assets (constituting MLA, NDPL and Powerlinks Transmission), Tata BP Solar and Tata Power Trading, using DCF methodology of valuation and arrived at a fair value of Rs633/share as on FY12E.

Exhibit 3: Power business DCF

	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
EBIT	27,115	31,594	32,415	35,682	37,897	40,516
Less: Tax	(4,732)	(5,020)	(5,460)	(5,978)	(5,934)	(6,198)
Effective tax rate (%)	17.5	15.9	16.8	10.0	10.0	10.0
EBIT - Tax	22,383	26,574	26,955	29,703	31,962	34,318
Less: Minority cash flows	(2,362)	(2,819)	(3,393)	(3,520)	(3,654)	(3,794)
Add: non cash expenditure	9,459	13,943	17,316	17,309	17,303	17,297
Less: Capex	(39,760)	(10,320)	(2,000)	(2,000)	(2,000)	(2,000)
Less: Working capital change	(1,795)	(1,590)	(799)	(947)	(42)	(75)
FCFF	(12,074)	25,789	38,079	40,546	43,570	45,746
Terminal value						423,576
Total FCFF	(12,074)	25,789	38,079	40,546	43,570	469,322
Discounted FCFF	(12,074)	23,275	31,018	29,807	28,909	281,043
Total Value	381,977					
Less: Net Debt	231,721					
Equity Value	**150,256**					
Value per share (Rs)	**633**					

Source: Company, Centrum Research Estimates

Exhibit 4: Assumptions for DCF calculation of Power Business

Debt to Total capital (x)	0.6
WACC (%)	*10.8*
COE (%)	*13.5*
Rf (%)	*7.5*
Beta	1
Rm (%)	*6.0*
COD (%)	9.0
Terminal Growth (%)	0.0

Source: Company, Centrum Research

Valuing Indonesian coal investments

PT Arutmin and PT Kaltim, the two Indonesian companies in which TPC holds 30% equity stake are expected to increase production from current 65MTPA to 100MMTPA by 2013. As demand for coal from the fastest developing economies in the pacific trade region, China and India, is expected to grow continuously (explained in detail later in the report), and Indonesia being geographically closer to these economies than Australia and South Africa, we expect coal realizations of PT Kaltim and PT Arutmin to be around USD72.5/ton. We value the Indonesian coal investments at Rs598/share, 10xFY13E P/E.

Exhibit 5: Peer-group comparative valuation

			P/E		P/B		EV/EBIDTA	
Name	**Location**	**Minerals excavated**	**FY12/ 2011**	**FY13/ 2012**	**FY12/ 2011**	**FY13/ 2012**	**FY12/ 2011**	**FY13/ 2012**
Xstrata	London	Multiple	8.4	7.8	1.4	1.3	5.2	5.0
China Shenhua	China	Coal/Transportation/Power generation	12.4	10.9	2.3	2.01	6.5	5.7
China Coal	China	Coal	12.6	10.6	1.74	1.6	7.3	6.03
Yanzhou Coal	China	Coal / Railway Transportation	12.43	10.5	2.72	2.3	10.4	8.6
SAR	Indonesia	Coal	13.25	7.9	3.7	2.9	7.8	5.1
BHP Billiton	Australia	Multiple	11.6	10	4.1	3.15	6.3	5.4
Macar Coal	Australia	Coal	18	11.6	2.14	1.95	11.2	7.3
Massey Energy	US	coal	17.4	11.8	3	2.3	7.7	6.3
Arch Coal	US	Coal	13.04	8.7	2.1	1.7	6.6	5.2

Source: Bloomberg

Other strategic investments

We have valued the non-listed trade investments of TPC at 1x BV, and the listed investments at their market price after assigning a holding company discount. In totality, other strategic investments add Rs294/share to TPC's SOTP.

SOTP Value

Overall the sum of fair values of various verticals of TPC at FY12E end is Rs1525/share, implying a FY13E P/E of 12.7x and FY13E P/B of 2x. The stock is currently trading at FY13E P/E of 10.5x and FY13E P/B of 1.7x. We thus recommend Buy. Our target price holds an upside of 19% from the CMP.

Exhibit 6: SOTP Valuation

Rs/share	**Value (Rsbn)**	**Revised (Per Share)**
Power Busienss - incl. JVs, subsidiaries and associates	150.3	633
Investments, cash and cash equivalents	69.7	294
Coal Assets - 30% stake in Indonesian coal mines @10x FY13E EPS	142.0	598
Total Value	**362.0**	**1,525**

Source: Company, Centrum Research

The two captive coal mines Mandakini and Tubed, which have a total production capacity of 13.25MMTPA, are out of the purview of our estimates/valuations as the mines are still awaiting critical clearances. Once these mines get clearances, power plants linked to these mines would also gain visibility. At 1xBV, the mines and power plants together would add ~Rs170/share to our SOTP value.

Scaling up operations 3x

Tata Power, which is India's oldest power generator, is executing projects to reach 3 times its current scale. Expansion will be in all fields of operations. While the generation capacity is expected to reach 8.3GW by FY14E (currently 2.8GW), the open-access now applicable to Mumbai License Area allows TPC to sell power to retail customers as well. Following the exponential increase in the scale of operations, we expect the company's power venture revenues to grow at a compounded rate of 16% through FY14E to Rs250bn.

Work progressing at full-throttle

Tata Power is executing generation projects of 5.5GW, which are in the final stage of completion. The company has kept to its execution schedule, and in the case of Mundra UMPP work is progressing ahead of schedule. Beyond these, it has identified projects of 6.2GW generation capacity. Of these, the company is in advanced stages of implementation of 2400MW Dehrang TPP, and is expected to be brought under implementation in FY12E. However, implementation of other projects like Naraj Marthapur and Tirudih is dependant upon progress in developing respective captive mines, Mandakini and Tubed. As the company has maintained a good execution track record, we believe the projects enjoy high visibility, but the prevailing business environment in the country makes it difficult to give a timeline for these projects. Therefore, though these mines are allocated to TPC are out of the purview of our estimates and valuation. The two power-plants and the captive coal blocks will contribute Rs170/share to out SOTP value, at 1xBV.

Exhibit 7: Project Details

	Projects Under Execution					
	Name of the project	**Fuel**	**Capacity (MW)**	**Cost (Rs bn)**	**Expected CoD**	**Comments**
1	DVC Maiton RBTPP	Domestic Coal	1050	45	FY12	Under a 74:26 JV between Tata Power and DVC
2	Mundra UMPP	Imported Coal	4000	170	FY12-14E	Case 2 basis, Coal to be acquired from PT Bumi's mines in Indonesia.
3	Wind Farms	RE	242	13	FY12E	142MW in Maharashtra and 99MW in Tamil Nadu
			5292	227		
	Projects Identified / In-pipeline					
	Name	**Type**	**Capacity**	**Cost (Rs bn)**	**Ownership**	**Comments**
1	Dehrand TPP	Imported Coal	2400MW	108	100%	Land acquisition in progress.
2	Naraj Marthapur	Thermal Power Plant	1200MW	54	100%	Is linked to Mandakini captive coal block.
3	Tiruldih	Thermal Power Plant	1200MW	54	100%	Is linked to Tubed coal block.
4	Tamakoshi HEP	Hydro Power Plant, Nepal	800MW	NA	50%	To be developed under a 50:50 JV between Nepal government and SN Power.
5	DHPC Bhutan	Hydro Power Plant, Bhutan	114MW	9	26%	Developing in JV with Bhutan government.
6	Corus	Thermal Power Plant	525MW	NA		The plant will be located in Netherlands, and will be fueled by production gases form Corus's Steel plant.
7	Mandakini Mine	Coal Mine, Orissa	7.5 MMTPA	~11	33%	Jindal Photo Film; Monet Ispat & Energy
8	Tubed Coal Mine	Coal Mine	6MMTPA	~9	40%	In JV with HINDALCO

Source: Company, Centrum Research

Expanding T&D network in MLA

TPC is now selling power to retail customers as the state regulator has allowed Open Access in the MLA. (TPC has been operating in MLA as a generating and transmission utility for almost a century now). Though the adoption of open access allows TPC to supply power to retail customers using the distribution network of other companies, however, due to high demand growth expectations, the company is erecting its own T&D network in the region. TPC will incur a total capex of Rs20bn through FY12E. Overall, the company is expecting an increase from 0.06mn customers in FY10 to over 0.3mn customers in FY13E and the demand from ~450MW in FY10 to 1050MW in FY13E. As on 31 December 2010, MLA customer count has already breached the 0.1mn mark.

Funding in place for ongoing expansion programme

Tata Power is fully funded for the ongoing expansion programme. The company has a total capex requirement of Rs120bn, of which Rs85bn will be funded by debt. With a debt equity ratio of 1.5, the company has good scope to further leverage its balance sheet. The equity portion will be funded through internal accruals.

For its projects in the pipeline, TPC will be incurring a capex of ~Rs300bn, of which equity requirement will be Rs90bn. We believe that the company will be able to fund its equity requirement through internal accruals, trade investments and an under-leveraged balance sheet. TPC has strategic investments in Tata Group's telecom companies and we value these and other trade investments at Rs68bn. The company has an option to partly sell its stake in Indonesian coal mining companies, but this would be the last resort for TPC as these assets add great value to the company.

Exhibit 8: Status of projects in pipeline

Name of the Project	Capacity (MW)	Comments
Dehrand TPP	2400	Approved by the board. Of total 1100 acres required, 200 acres is government land and 900 acres is private land. TPC has possession of ..acres. Construction activity likely to start in FY12E.
Naraj Marthapur	1200	Linked to Mandakini Coal Block. The mining plan for the block is approved. Land acquisition expected to start in FY12E. Coal production is expected to start by FY14E.
Tiruldih	1200	Linked to Tubed Coal Block. The mining plan for the block is approved. Land acquisition has started. TPC expects coal production to start from FY13E.
Tamakoshi HEP	800	Feasibility study in final stage of completion.
DHPC Bhutan	114	Civil work has commences on the project and it is expected to start commercial operation in 2012. The project is registered under CDM.
Corus	525	Corus is undertaking studied to improve utilisation and thereby downsize the plant from 525MW.

Source: Company, Centrum Research

Emphasis on Green Energy

TPC has always aimed to produce 25% of their total power capacity from renewable sources. Apart from developing wind and solar farms in India, the company is venturing into various other green power technologies like geo-thermal power, coal bed methane, beneficiation of coal/brown coal etc. The company in JV with Origin Energy and PT Supraco Indonesia won a contract to develop a 240MW geo-thermal power plant in Indonesia. In JV with BP, Tata Power also manufactures solar cells and panels. Currently, TPC operates 203MWof wind farms in India, and 240MW of wind capacity is under construction. The company also plans to develop solar farms of 400MW by 2017.

Power segment's revenues to grow 16% annually through FY14E

On the back of strong and visible capacity expansion, we expect earnings from the power segment, which includes generation assets, transmission networks (in Mumbai, New Delhi and Tala Transmission), power trading business and Tata BP Solar, to grow at a compounded rate of 16% to Rs250bn in FY14E.

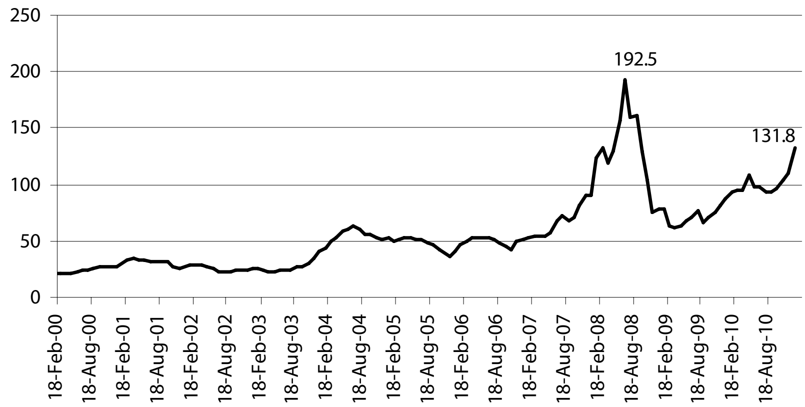
Coal investments to add significant value

Growth in revenues will also be contributed by an increase in coal output from Indonesian mines, where Tata Power has 30% equity stake. The two coal companies, PT Arutmin and PT Kaltim are expected to increase production from 65MTPA in CY09 to over 100MTPA by CY14. With this growth in production and firm international coal prices (realisations assumed at USD72/ton), the coal segment's income is expected to grow at a compounded rate of 11% to Rs90.5bn in FY14E.

Coal prices to remain firm on the back of incremental demand from China and India:

In one year coal prices have shot up by 75% to USD132/ton in Jan 2011, owing to **a) demand side pressures** - 18% growth in coal imports by China and sustained demand from other markets due to the severe winter, **b) supply constraints** - floods in Australia and heavy rains throughout the year in Indonesia. While the spike (up 75% increase in a years' time) in coal prices was partially caused by seasonal changes on both demand and supply, going forward we see coal prices reducing from current levels but remain strong due to growing demand from China and India.

Exhibit 9: Coal Price (USD/Ton)



Source: Company, Centrum Research

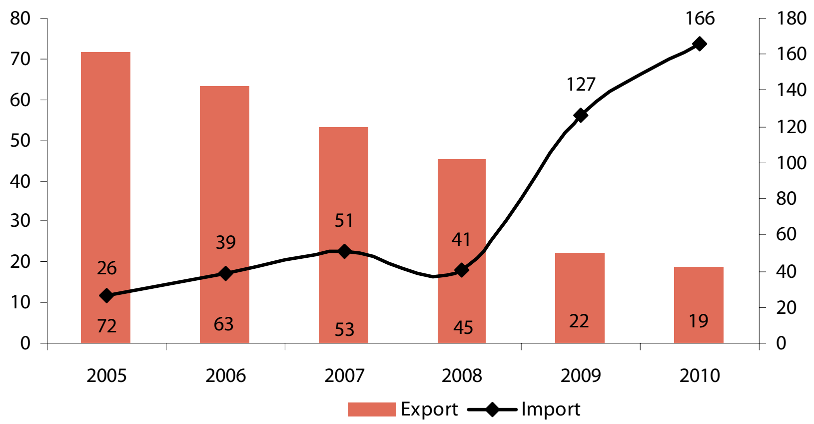
A. Sustained growth in imported coal demand from China

China has become a net importer of coal from 2008-09 which has resulted in increase in coal prices.

On the back of overall industrial growth (maintained at an average of 15% for the last 5 years), the demand for coal in China has grown at a CAGR of 14.4% in the last five years, to ~3.5bn MT in 2010. However, being a resource-rich country, China has been largely able to support its generation capacity growth (which nearly doubled form 500GW in 2005 to 960GW in 2010) and growth in other industrial segments, through internal energy resources. Therefore, of total coal demand of 3.5bn MMT in CY10, 147MMT, i.e. ~4% of the total coal requirement was imported. While coal imports form a miniscule portion of China's coal demand, it constitutes over 25% of the total coal trade in the pacific region and ~40% of the total Indonesian coal exports. Going forward, we expect demand for imported coal from China to remain strong on the back of:

- Power generation capacity addition: slated to increase from 960GW in 2010 to 1460GW by 2015.
- Restrained growth in domestic coal production due to the policy of Chinese government to shut down small and un-organised coal mines to reduce coal-mine accidents.

Exhibit 10: China Coal Imports and Exports (MMT)

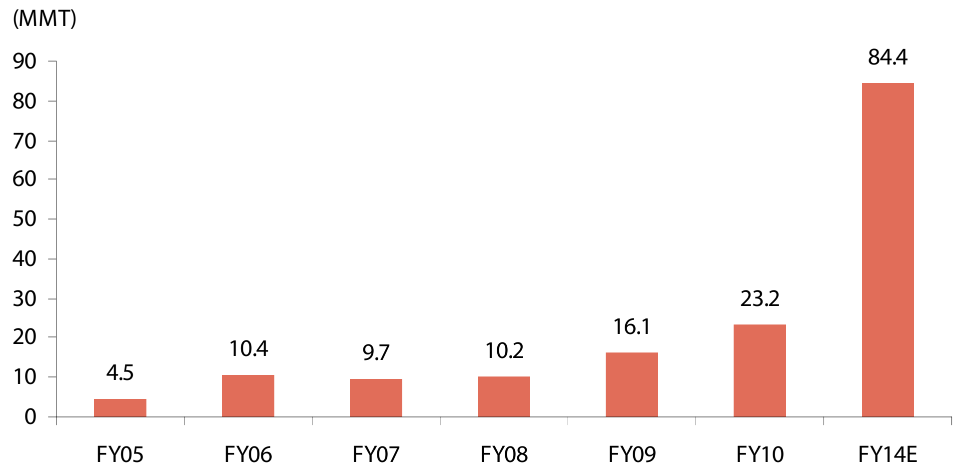


Source: Company, Centrum Research

B. *India's thermal coal imports to more than treble in next 4 years*

India is expected to add ~12000MW of imported coal based generation capacity over the next four years, which will result in incremental imported coal demand of 45MMT. Besides this, the domestic coal-based power plants are increasingly blending imported coal to fill the short-supply of domestic coal. As Coal India (CIL) has not been able to keep pace with the increase in generation capacity, companies like NTPC, Lanco, JSW Energy etc are supplementing domestic coal with imported coal. Thus, thermal coal imports by India have increased from 4.5MMT in FY05 to 23.2MMT in FY10. Overall, we expect coal imports to reach over ~85MMT by FY14E. While our estimates include coal imports by imported coal based power plants, actual imports are likely to be higher on account of additional demand from domestic coal based power plants.

Exhibit 11: Thermal Coal Imports by India (MMT)



Source: Company, Centrum Research

C. *Other coal importing Asian countries, like Japan, Korea, Taiwan etc are completely dependent on imported coal and thus, we expect the demand of these countries to remain constant/flat.*

Coal prices to remain in check though

Though, there is a case for strong growth in coal demand in the pacific trade region, we believe coal prices will have a ceiling in the medium-term that will largely be dictated by China. As China imports a small portion of its total coal demand, it is capable of replacing imports with domestic coal if international coal prices breach domestic coal prices. For CY10, domestic coal prices were agreed upon between RBM695-RBM845/ton (USD 100-130/ton), depending upon the calorific value of coal.

Exhibit 12: Domestic coal prices in China

Grade (kcal/kg)	Price (RBM/ton)	Eq. Price in USD/ton
6,000	845	128
5,500	790	120
5,000	695	106

Source: Company, Centrum Research

Also, the recent practices by SEBs in India (backing down and resorting to load shedding), has once again underlined the fact that even in a state of deficit, the SEBs are unwilling to buy power at exorbitant rates. Thus, beyond a point imported coal will face competition from other fuels. As can be seen from the table below, at USD175/ton imported coal will lose its competitiveness to other fuels. Thus, even the Indian power companies will buy coal with affordability in mind.

Exhibit 13: Per Kwh fuel cost (Rs/kwh) for various fuels

Type of Fuel	$5.2/mmbtu	$8/mmbtu	$10/mmbtu	$100/ton	$175/ton	$40/ton
KG D6 Gas (8200kcal)	1.88	2.89	3.61	-	-	-
LNG (10000 kcal)	1.54	2.37	2.96	-	-	-
Imported coal (6500 kcal)	-	-	-	1.70	2.97	-
Imported coal (5500 kcal)	-	-	-	2.01	3.51	-
Domestic coal (3750 kcal)	-	-	-	-	-	1.18

Source: Company, Centrum Research

Therefore, we expect long-term realisations of the Indonesian coal mines to stabilize at USD72.5/ton as things normalize in Indonesia and Australia. These two companies are also expected to ramp up their production from 65MMT currently to 100MMT by 2014. We thus value coal investments of TPC at 10xFY13 EPS at Rs598/share.

Exhibit 14: Basic assumptions for Indonesian coal mines

	CY10	CY11	CY12	CY13	CY14	CY15
Coal Production (MMT)	60	67.5	75	90	100	105
Realisations (USD/ton)	65	75	70	72.5	72.5	72.5
Revenues (USD mn)	3,900	5,063	5,250	6,525	7,250	7,613
PAT (USD mn)	676	1,093	955	1,261	1,391	1,463

Source: Company, Centrum Research

Stake sale to Olympus called off: A positive development

TPC in July 2010 entered in to an agreement with a PE firm, Olympus Capital Holdings Asia, to sell 14-15% of its total stake in its Indonesian coal companies. The deal was made at USD300mn, under which TPC would have issued shares with differential rights to Olympus Capital (without dividend rights). However, the deal was called off in January 2011, due to non-fulfillment of agreement terms and conditions by Olympus Capital before the Long Stop Date.

After fresh studies the total resources of the two coal mines now stand at 7.8Bn MT, and thus per ton valuation came to USD0.85. In comparison to coal mine acquisitions made during 2010 by Indian companies, TPC had signed the deal for cheaper valuations for an operational mine. With equity requirement of capex being met by internal accruals, telecom investments and debt (at parent company level), we believe the Indonesian coal mines as value accretive assets and thus view stake retention a positive development for TPC.

Exhibit 15: Details of coal mine acquisition deals by Indian companies

Company	Date of acquisition	Location	Owner	Coal Resource (MT)	Acquisition Cost	Value/ton of resource (USD/Ton)	Comments
Adani Enterprises Ltd	Aug-10	Australia	Linc Energy	7,800	2,800	0.36	Greenfield
Reliance Power Ltd	Jun-10	Indonesia	PT Srivijaya Bintangtiga Energi and PT Bryayan Bintangtiga Energi.	2,000	1,600	0.80	Greenfield
JSW Energy Ltd	Jun-10	South Africa	Indian Ocean Mining Pty	2,600	422	0.23	Greenfield
Lanco Infratech	Dec-10	Australia	Griffin Coal Mining Company	1,250	750	0.60	Operational

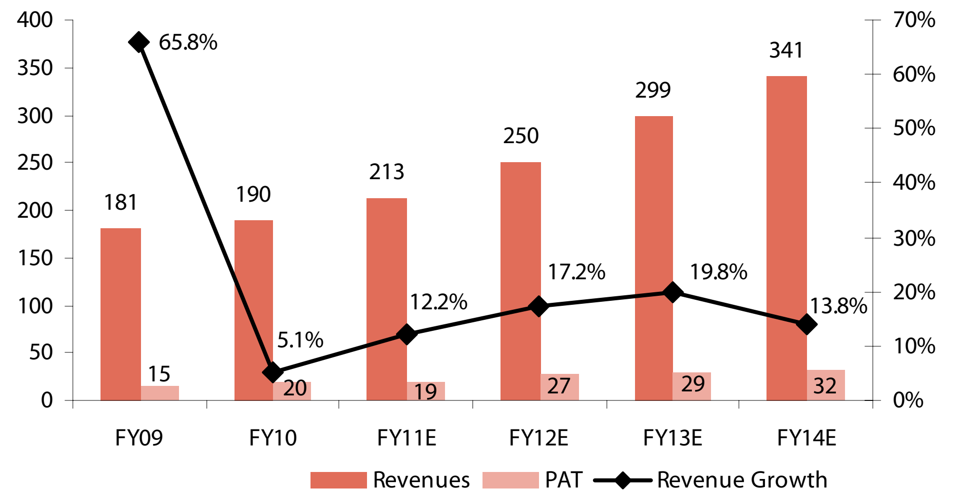
Source: Company, Centrum Research

Financial Analysis

Consolidated profits to grow at 12%

Due to the addition in power assets and higher production in Indonesian coal mines, the consolidated revenues are expected to grow at a 4 year CAGR of 15.7% through FY14E. However despite increased contribution from the Indonesian coal investments, PAT growth will be lower at 12% during the period, due to lower profitability from the Mundra UMPP.

Exhibit 16: Revenue and PAT estimates and growth



Source: Company, Centrum Research

Key downside risks

- **Changes in regulation**: By FY14E, TPC will have 50% of its capacity on regulated business model. Any changes in regulations will have a significant impact on our estimates.
- **Lower coal production and realisation of coal**: Coal investments of TPC contribute significantly to its total valuation. We have assumed long-term coal realizations at USD72.5/ton, and sales of the two Indonesian companies to reach 100MMTPA by 2014, while the company has guided that it would reach 100MMTPA by 2013 itself. A lower realisation or delay in production capacity ramp-up would impact our estimates.

Key upside risks

- We have not included the captive coal mines, Mandakini and Tubed and the power plants linked to them in our valuations as they have not received clearances. Therefore, these assets in total hold Rs170/share upside risk to our target price.

Financials

Exhibit 17: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Revenues	**180,613**	**189,858**	**213,027**	**249,743**	**299,269**
Growth in revenues (%)	*65.8*	*5.1*	*12.2*	*17.2*	*19.8*
Fuel cost	55,223	46,627	55,338	63,350	87,877
% of Sales	*30.6*	*24.6*	*26.0*	*25.4*	*29.4*
O&M expenses	91,698	104,852	108,305	122,441	138,613
% of Sales	*50.8*	*55.2*	*50.8*	*49.0*	*46.3*
EBITDA	**33,692**	**38,379**	**49,383**	**63,952**	**72,779**
EBITDA Margin	*18.7*	*20.2*	*23.2*	*25.6*	*24.3*
Depreciation	6,565	8,777	9,914	11,897	16,381
PBIT	**27,128**	**29,602**	**39,469**	**52,055**	**56,398**
Interest expenses	8,129	7,818	9,750	10,724	12,368
PBT before extra-ordinary items	**18,999**	**21,784**	**29,719**	**41,331**	**44,030**
Other Income	2,598	5,590	4,101	4,122	4,042
Extra-ordinary income/ (expenses)	3,042	299	-	-	-
PBT	**24,638**	**27,673**	**33,820**	**45,453**	**48,073**
Provision for tax	11,651	6,287	12,781	16,500	16,726
Effective tax rate	*47.3*	*22.7*	*37.8*	*36.3*	*34.8*
PAT before MI (reported)	**12,987**	**21,386**	**21,039**	**28,953**	**31,346**
(+/-) Minority Interest and share of associates	(800)	(1,718)	(1,607)	(2,362)	(2,819)
PAT after MI (reported)	**12,187**	**19,669**	**19,433**	**26,592**	**28,527**
Extra-ordinary income/ (expenses)	(3,042)	(299)	-	-	-
Adjusted PAT	**15,229**	**19,967**	**19,433**	**26,592**	**28,527**
Growth in PAT (%)	*15.5*	*61.4*	*(1.2)*	*36.8*	*7.3*
PAT Margin	*8.4*	*10.5*	*8.9*	*10.5*	*9.4*

Source: Company, Centrum Research Estimates

Exhibit 18: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	2,214	2,373	2,373	2,373	2,373
Reserves	83,975	111,631	128,141	151,764	177,460
Shareholders' fund	86,189	114,004	130,513	154,137	179,833
Minority Interest	9,444	12,097	15,359	18,121	21,234
Debt	141,434	184,468	220,819	238,430	224,779
Deferred Tax Liability	6,146	5,324	5,324	5,324	5,324
Capital Contributions and Grants	7,440	9,075	9,075	9,075	9,075
Total Capital Employed	**250,652**	**324,969**	**381,090**	**425,087**	**440,245**
Total Fixed Assets	205,780	267,402	337,143	380,267	383,537
Investments	32,512	30,823	25,823	25,823	25,823
Inventories	10,146	9,539	12,603	14,064	17,057
Debtors	30,235	39,845	57,409	63,267	73,236
Other Current Assets	499	320	-	-	-
Cash and bank balances	11,780	23,108	701	6,709	25,127
Loans and Advances	21,805	24,089	24,089	24,089	24,089
Total current assets	74,466	96,901	94,802	108,129	139,510
Current liabilities and provisions	67,812	74,081	80,603	93,057	112,550
Net current assets	6,654	22,820	14,199	15,072	26,960
Misc. Expenditure	5,706	3,925	3,925	3,925	3,925
Total Assets	**250,652**	**324,969**	**381,090**	**425,087**	**440,245**

Source: Company, Centrum Research Estimates

Exhibit 19: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
CF from operating					
Profit before tax	24,638	27,673	33,820	45,453	48,073
Depreciation	6,565	8,777	9,914	11,897	16,381
Interest expenses	7,087	7,639	9,750	10,724	12,368
Other Non operating (income)/expenses	-	-	(4,101)	(4,122)	(4,042)
CF from operations before WC change	**38,290**	**44,089**	**49,383**	**63,952**	**72,779**
Working capital adjustment	(6,083)	(100)	(14,105)	5,135	6,530
Gross CF from operations	**32,207**	**43,989**	**35,278**	**69,087**	**79,309**
Direct taxes paid	(2,806)	(19,397)	(12,781)	(16,500)	(16,726)
CF from operations	**29,401**	**24,592**	**22,497**	**52,587**	**62,583**
CF from investing activities					
Capex	(53,349)	(70,384)	(77,211)	(52,583)	(17,214)
Investment - Cash equivalents	(1,217)	2,047	5,000	-	-
Investment - Subsidiary / Strategic	1	(548)	-	-	-
Other Income	1,507	998	4,101	4,122	4,042
CF from investments	**(53,058)**	**(67,887)**	**(68,110)**	**(48,461)**	**(13,172)**
CF from financing activities					
Proceeds from share capital and premium	1,492	2,712	1,655	(2,850)	(1,839)
Borrowings/ (Repayments)	39,513	37,614	36,350	17,611	(13,651)
Interest paid	(7,944)	(10,635)	(9,750)	(10,724)	(12,368)
Dividend paid	(3,333)	(3,703)	(2,923)	(2,968)	(2,832)
CF from financing activities	**29,728**	**25,989**	**25,332**	**1,069**	**(30,689)**
Net cash increase/ (decrease)	**6,072**	**(17,306)**	**(20,280)**	**5,195**	**18,722**

Source: Company, Centrum Research Estimates

Exhibit 20: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
Margin ratios (%)					
EBITDA Margin	18.7	20.2	23.2	25.6	24.3
PBIT Margin	15.0	15.6	18.5	20.8	18.8
PBT Margin	10.5	11.5	14.0	16.5	14.7
PAT Margin	8.4	10.5	8.9	10.5	9.4
Growth ratios (%)					
Revenues	65.8	5.1	12.2	17.2	19.8
EBITDA	58.8	13.9	28.7	29.5	13.8
Net Profit	15.5	61.4	(1.2)	36.8	7.3
Return ratios (%)					
ROIC	10.44	10.54	9.14	10.02	10.61
ROE	18.7	19.9	15.9	18.7	17.1
Turnover ratios (x)					
Asset turnover ratio (x)	0.7	0.6	0.6	0.6	0.7
Inventroy (days)	20.5	18.3	21.6	20.6	20.8
Average Collection period (days)	61.1	76.6	98.4	92.5	89.3
Average payment period (days)	137.0	142.4	138.1	136.0	137.3
Solvency Ratios (x)					
Debt-Equity ratio (x)	1.5	1.5	1.5	1.4	1.1
Interest coverage ratio	3.3	3.8	4.0	4.9	4.6
Per share ratios (Rs.)					
Reported EPS	55	83	82	112	120
EPS (Diluted)	64	84	82	112	120
CEPS (Diluted)	92	121	124	162	189
Book Value (Diluted)	363	480	550	650	758
Solvency ratios					
Debt/ Equity	1.5	1.5	1.5	1.4	1.1
Interest coverage	3.3	3.8	4.0	4.9	4.6
Valuation parameters (x)					
P/E (Diluted)	19.7	15.0	15.4	11.3	10.5
P/BV (Diluted)	3.5	2.6	2.3	1.9	1.7
EV/ EBITDA	12.1	11.5	10.1	8.0	6.6
EV/ Sales	2.3	2.3	2.3	2.0	1.6

Source: Company, Centrum Research Estimates

Appendix A

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