

**TATA POWER****INR 1,118****Clear visibility****ACCUMULATE**

June 24, 2008

**Tata Power announced its FY08 results. The key takeaways are:**

### **Strong growth in revenue and net profit; profits up ~16% Y-o-Y**

Revenue for the year was up 25% to INR 59,159 mn. This was mainly on account of higher sale of power (14,959 MU as against 14,422 MU) and tariff on the back of rising fuel prices. Net profit was up 16% to INR 5,626 mn due to better operational efficiency of its units. Its Trombay plant had a plant load factor (PLF) of ~85% for the year. Gross generation as a whole was up 3.1% without any increase in capacity.

### **Other income rose 36%, mainly on account of sale of long-term investment**

In FY08, the company saw 36% growth in other income to INR 4,658 mn. This included profit on account of sale of long-term investments of INR 3,145 mn. For Q4FY08, the same stood at INR 1,995 mn on account of sale of stake (~3%) in Tata Teleservices Maharashtra (TTML). Net profit of INR 5,626 is in line with our expectation of INR 5,418 mn.

### **Projects under construction on track; expect timely commissioning**

The company is expected to commission ~600 MW in FY09, which include Trombay (250 MW), Jamshedpur (120 MW), Haldia (120 MW), and a wind power plant (100 MW) in Karnataka. Tata Power has attained financial closure for its Mundra ultra mega power plant (UMPP) and Maithon Power (74% joint venture with Damodar Valley Corporation). We estimate that the company will be able to commission the Maithon plant by FY11E, while the Mundra UMPP is expected to be commissioned by FY12-13E.

### **Consolidated profits up 36% on account of coal business**

On the consolidated level, the company saw revenue growth of ~68% to INR 109 bn, of which the coal business accounted for ~19.5%. At profit before interest and tax (PBIT) level, the coal business accounted for ~24%. Tata Power received USD 75 mn from its investment in coal mines in Indonesia.

### **Outlook and valuations: Clear visibility; maintain 'ACCUMULATE'**

The company has guided that the dividends from the coal investment will be utilised for debt repayment and will not be included in the standalone entity; hence, we have revised our standalone numbers. Net profit has been revised from INR 7,944 to INR 6,393 mn. Tata Power has 5,660 MW in the construction stage, all of which is expected to be commissioned by FY12-13E. With projects on schedule and strong near-term high earning visibility from the coal business, we maintain our 'ACCUMULATE' recommendation on the stock.

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 Bloomberg : TPWR IN

**Market Data**

52-week range (INR) : 1,641 / 610  
 Share in issue (mn) : 220.7  
 M cap (INR bn/USD mn) : 246.7 / 5,738.2  
 Avg. Daily Vol. BSE ('000) : 1,016.8

**Share Holding Pattern (%)**

Promoters : 33.4  
 MFs, FIs & Banks : 26.1  
 FIIs : 20.6  
 Others : 19.9

**Relative Performance (%)**

	Sensex	Stock	Stock over Sensex
1 month	(14.2)	(0.2)	14.0
3 months	(6.5)	0.0	6.5
12 months	(1.2)	0.8	2.0

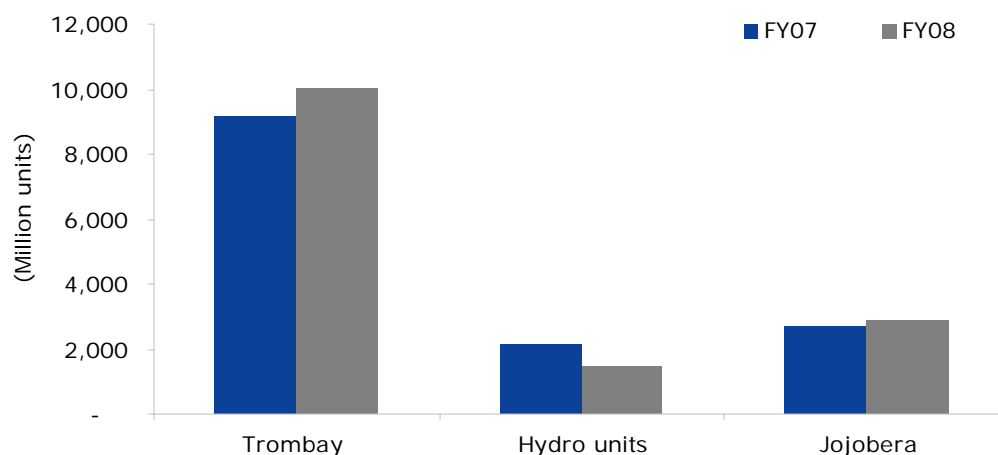
**Financials**

Year to March	Q4FY08	Q4 FY07	Change %	Q3 FY08	Change %	FY08	FY09E
Net Income (INR mn)	16,345	11,291	44.8	14,194	15.2	59,159	70,823
EBITDA (INR mn)	1,484	1,868	(20.5)	2,682	(44.7)	9,624	10,836
Net profit (INR mn)	786	1,892	(58.5)	1,520	(48.3)	5,626	6,393
Diluted P/E (x)	78.5	29.2		40.1		43.7	39.7
Diluted EPS (INR)	3.6	9.6		7.0		25.5	28.1
ROAE (%)						7.5	7.5

### Strong growth in revenue and net profit; profit up ~16% Y-o-Y

Gross generation of all its units (except hydro units) was up from the previous year, which can be attributed to good operation and maintenance of units. Its Trombay plant had PLF of ~85% and hence was able to generate 10,002 MU for the year. Gross generation at the Jojobera unit was up from 2,731 MU to 2,862 MU. The higher generation led to sales increasing 3.7% in FY08. Tata Power's revenues and net profit grew 25% and 16%, respectively. We believe, the company has been able to gain incentives of ~INR 1,150 mn on account of PLF and better heat rate.

#### Gross generation from major units



Source: Company, Edelweiss research

### Under-construction projects on track; expect timely commissioning

The company is expected to commission ~600 MW in FY09, which include Trombay (250 MW), Jamshedpur (120 MW), Haldia (120 MW), and a wind power plant (100 MW) in Karnataka. We expect Tata Power to commission the Jojobera unit (120 MW) in FY10 and Maithon Power (1,050 MW) in FY11E.

Tata Power has attained financial closure for its Mundra UMPP and main plant orders have been given. We estimate that the company will be able to commission the plant by end-FY12.

#### Status of units under construction

Plants/Units	MW	Present Status	CoD-Expected
Trombay Unit 8	250	Under Construction	FY09E
Mundra	4,000	Main equipment order placed	FY12E
Maithon	1,050	Main equipment order placed	FY11E
Haldia	120	Under Construction	FY09E
Jojobera	120	Under Construction	FY10E
Wind Farm	100	Order placed	FY09E
Jamshedpur	120		FY09E
<b>Total</b>	<b>5,760</b>	<b>MW</b>	

Source: Company, Edelweiss research

### Consolidated profits show coal business playing significant role in near term

On the consolidated level, Tata Power saw revenue growing ~68% to INR 109 bn, of which the coal business accounted for ~19.5%. At PBIT level, the coal business accounted for ~24%. The company received USD 75 mn as cash dividend from its investment in Bumi. Bumi has guided for sale of 62 mt of coal for CY08, up ~10% from CY07. Also, the average sale price is expected to be USD 70/tonne in CY08.

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**Projects worth 5,670 MW in the pipeline**

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The company has projects worth 5,670 MW in the pipeline, which include Coastal Maharashtra (2,400 MW), Naraj Marthapur (1,000 MW), Naraj Marthapur captive (1,270 MW), Tubed (500 MW), and Jharkhand captive (500 MW).

The company has also incorporated a special purpose vehicle for the shipping business. The present shipping requirement for Mundra UMPP is eight-nine vessels. The company plans to buy ~4 ships and enter into long-term charter for the rest.

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**Outlook and valuations: Clear visibility; maintain 'ACCUMULATE'**

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In our earlier report, we had attributed dividends from the coal joint venture companies directly to Tata Power and included it in the standalone figures. Hence, we had other income INR 6,276 mn in FY09E. We have now revised this to INR 2,699 mn.

We had also assumed the debt for stake acquisition in the Bumi coal mine on the standalone entity, which we understand is not the case presently. Hence, we have revised our FY09E numbers for interest cost from INR 5,095 mn to INR 2,736 mn. Our net profit estimate has been revised downwards from INR 7,944 mn to INR 6,521 mn. We have also introduced FY10E numbers and estimated net profit at INR 6,874 mn.

Tata Power has 5,660 MW in the construction stage, all of which is expected to be commissioned by FY12-13E. With projects on schedule and strong near-term high earning visibility from the coal business, we maintain our '**ACCUMULATE**' recommendation on the stock.

Financial snapshot									(INR mn)
Year to March	Q4FY08	Q4 FY07	Change %	Q3 FY08	Change %	FY07	FY08	FY09E	
Total operating income	16,345	11,291	44.8	14,194	15.2	47,153	59,159	70,823	
<i>Sale of electricity</i>	16,345	11,291	44.8	14,194	15.2	47,153	59,159	70,823	
Total expenses	14,861	9,424	57.7	11,513	29.1	39,892	49,535	59,988	
Cost of goods sold	12,625	7,908	59.6	10,242	23.3	33,735	42,639	52,347	
Fuel cost	10,922	5,703	91.5	9,642	13.3	27,089	37,150	45,805	
Power purchase	1,621	1,952	(17.0)	506	220.4	6,646	5,489	6,542	
Material and component	81	253	(67.9)	95	(14.4)				
Gross profit	3,720	3,383	10.0	3,952	(5.9)	13,419	16,520	18,476	
Other expenses	2,236	1,515	47.6	1,270	76.1	6,157	6,897	7,641	
Salaries,wages, other payment	691	380	82.1	370	86.9	1,919	2,497	2,987	
Other expenses	1,545	1,136	36.0	900	71.6	4,238	4,400	4,654	
EBITDA	1,484	1,868	(20.5)	2,682	(44.7)	7,261	9,624	10,836	
Other income	2,144	1,787	19.9	368	482.3	3,433	4,658	2,548	
PBDIT	3,627	3,655	(0.7)	3,050	18.9	10,694	14,282	13,384	
Depreciation	777	693	12.1	705	10.3	2,919	2,905	3,127	
Interest	282	473	(40.3)	386	(26.8)	1,895	1,676	2,736	
PBT	2,568	2,489	3.2	1,960	31.1	5,880	9,701	7,521	
Tax(including deferred tax)	318	1,562	(79.6)	(13)		(1,114)	1,003	1,128	
PAT (Reported)	2,250	927	142.6	1,973	14.1	6,994	8,698	6,393	
Prev Yr sales/Tax		1,254		(294)					
Forex fluctuations	102			46					
Profit on sale of investments	(1,769)	(289)		(229)		(349)	(3,073)		
Prior period items	203			24		(1,808)			
Adj PAT	786	1,892	(58.5)	1,520	(48.3)	4,837	5,626	6,393	
Number of shares (mn)	221	198		218		198	221	228	
EPS(INR)	4	10		7		24	25	28	
P/E (x)	79	29		40		46	44	40	
<b>as % of net revenues</b>									
COGS	77.2	70.0		72.2		71.5	72.1	73.9	
Other expenses	13.7	13.4		8.9		13.1	11.7	10.8	
Total expenses	90.9	83.5		81.1		84.6	83.7	84.7	
Gross profit	22.8	30.0		27.8		28.5	27.9	26.1	
EBITDA	9.1	16.5		18.9		15.4	16.3	15.3	
Net profit	4.8	16.8		10.7		10.3	9.5	9.0	
Tax rate	12.4	62.7		(0.7)		(18.9)	10.3	15.0	

### Company Description

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Tata Power is a pioneer in India's power sector with a presence in all spheres of the power industry, encompassing generation, transmission, trading, and distribution. Tata Power has demonstrated exceptional performance in its transmission and distribution JVs. The company was also awarded the first UMPP at Mundra (Gujarat) due to its lowest levelised tariff bid at INR 2.26 per unit.

### Investment Theme

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We believe the company is poised to play an important role in the Indian power sector. All its plants under construction are on schedule, which exhibits the company's expertise in project execution. We expect the company to have an installed capacity of ~7,900 MW by FY13E.

The company has 30% stake in two coal mines of Bumi Resources with proven reserves of ~1.4 bt. With rising coal prices, we believe, Tata Power will have significant profits from these assets.

### Key Risks

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Of the total 5,760 MW under construction, two of its plants have a capacity of 5,050 MW (Mundra—4,000 MW and Maithon—1,050 MW). Hence, any delay in commissioning projects could impact earnings adversely.

The company is using supercritical technology for its Mundra UMPP. This is a first-of-its-type in the country. Any problems regarding stabilisation of these units could be a major risk for the company.

## Financial Statements

Income statement					(INR mn)
Year to March	FY06	FY07	FY08E	FY09E	FY10E
Income from operations	45,322	47,153	59,159	70,823	82,201
Direct costs	29,797	33,735	42,639	52,347	62,217
Employee costs	1,703	1,919	2,497	2,987	3,521
Other expenses	5,430	4,238	4,400	4,654	4,946
Total operating expenses	36,930	39,892	49,535	59,988	70,684
EBITDA	8,392	7,261	9,624	10,836	11,517
Depreciation and amortisation	2,783	2,919	2,905	3,127	3,588
EBIT	5,609	4,342	6,719	7,709	7,930
Interest expenses	1,653	1,895	1,676	2,736	2,573
Other income	3,256	3,433	4,658	2,548	2,724
Profit before tax	7,212	5,880	9,701	7,521	8,081
Provision for tax	1,369	(1,114)	1,003	1,128	1,212
Profit before minority interest	5,843	6,994	8,698	6,393	6,869
Reported profit after minority int.	5,843	6,994	8,698	6,393	6,869
Extraordinary items	1,315	2,157	3,073	0	0
Adjusted net profit	4,529	4,837	5,626	6,393	6,869
Shares outstanding	198	198	221	228	228
Dividend per share	1.0	0.9	1.2	1.3	1.4
Dividend payout (%)	42.7	32.0	41.5	41.5	41.5

### Common size metrics- as % of net revenues

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Operating expenses	81.5	84.6	83.7	84.7	86.0
Depreciation	6.1	6.2	4.9	4.4	4.4
Interest expenditure	3.6	4.0	2.8	3.9	3.1
EBITDA margins	18.5	15.4	16.3	15.3	14.0
Net profit margins	10.0	10.3	9.5	9.0	8.4

### Growth metrics (%)

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Revenues	15.3	4.0	25.5	19.7	16.1
EBITDA	(11.9)	(13.5)	32.5	12.6	6.3
PBT	(8.6)	(18.5)	65.0	(22.5)	7.5
Net profit	(22.1)	6.8	16.3	13.6	7.5
EPS	(22.1)	6.8	4.3	10.1	7.5

### Cash flow statement

Cash flow statement					(INR mn)
Year to March	FY06	FY07	FY08E	FY09E	FY10E
Net profit	5,843	6,994	8,698	6,393	6,869
Add: Depreciation	2,783	2,919	2,905	3,127	3,588
Cash flow from operating activities	3,255	5,248	2,553	7,524	8,235
Cash flow from investing	1,445	(6,889)	(10,930)	(20,652)	(53,976)
Cash flow from financing	(4,538)	5,417	4,951	26,347	36,348
<b>Free cash flow</b>	<b>(124)</b>	<b>3,772</b>	<b>(4,753)</b>	<b>11,719</b>	<b>(11,005)</b>

<b>Balance sheet</b>		<b>(INR mn)</b>				
<b>As on 31st March</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>	<b>FY10E</b>	
Equity capital	1,979	1,979	2,207	2,279	2,279	
Reserves & surplus	47,823	52,594	72,681	83,457	87,075	
Shareholders funds	49,802	54,573	74,888	85,735	89,354	
Secured loans	9,460	13,543	23,370	52,306	94,077	
Unsecured loans	18,090	22,791	7,068	2,389	2,389	
Borrowings	27,550	36,334	30,438	54,695	96,466	
Others	5,754	5,758	5,758	5,758	5,758	
<b>Sources of funds</b>	<b>83,106</b>	<b>96,665</b>	<b>111,084</b>	<b>146,188</b>	<b>191,578</b>	
Gross block	59,247	62,297	65,547	75,547	80,947	
Depreciation	29,217	31,994	34,899	38,026	41,613	
Net block	30,030	30,303	30,648	37,522	39,334	
Capital work in progress	2,118	7,811	11,550	24,750	76,050	
Total fixed assets	32,148	38,114	42,198	62,272	115,384	
Investments	34,122	35,702	44,300	44,300	44,300	
Inventories	4,423	3,964	5,734	6,957	8,203	
Sundry debtors	10,582	14,782	11,620	13,911	16,146	
Cash and equivalents	9,906	13,677	8,924	20,643	9,638	
Loans and advances	4,820	7,994	7,994	7,994	7,994	
Total current assets	29,730	40,418	34,272	49,505	41,981	
Sundry creditors and others	7,318	11,257	3,376	3,578	3,777	
Provisions	5,892	6,316	6,316	6,316	6,316	
Total CL & provisions	13,210	17,573	9,691	9,894	10,092	
Net current assets	16,520	22,845	24,581	39,612	31,889	
Net deferred tax	162	(57)	(57)	(57)	(57)	
Others	155	62	62	62	62	
<b>Uses of funds</b>	<b>83,106</b>	<b>96,665</b>	<b>111,084</b>	<b>146,188</b>	<b>191,578</b>	
Book value per share (BV) (INR)	252	276	339	376	392	

**Ratios**

<b>Year to March</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>	<b>FY10E</b>
ROAE (%)	9.1	8.9	7.5	7.5	7.7
ROACE (%)	10.7	8.0	10.2	7.0	5.6
Current ratio	2.3	2.3	3.5	5.0	4.2
Debtors (days)	85	114	72	72	72
Average fixed assets t/o (x)	1.4	1.2	1.4	1.1	0.7
Average working capital t/o (x)	2.9	2.0	1.9	1.5	1.7
Average capital employed t/o (x)	0.6	0.5	0.6	0.6	0.5
Gross debt / Equity	0.6	0.7	0.4	0.6	1.1

**Valuation parameters**

<b>Year to March</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>	<b>FY10E</b>
Diluted EPS (INR)	22.9	24.4	25.5	28.1	30.1
Y-o-Y growth (%)	(22.1)	6.8	4.3	10.1	7.5
CEPS (INR)	36.9	39.2	38.6	41.8	45.9
Diluted P/E (x)	48.7	45.6	43.7	39.7	37.0
Price/BV(x)	4.4	4.0	3.3	3.0	2.8
EV/Sales (x)	4.6	4.4	3.5	2.9	2.5
EV/EBITDA (x)	24.7	28.6	21.6	19.2	18.0

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### Coverage group(s) of stocks by primary analyst(s): Power:

CESC, GIPCL, NTPC, Power Grid Corporation, Reliance Infrastructure and Tata Power

#### Tata Power



#### Recent Research

Date	Company	Title	Price (INR)	Recos
20-Jun-08	<b>Power Grid Corp.</b>	Transmission backbone; <i>Result Update</i>	87	Accum.
10-Jun-08	<b>GIPCL</b>	Waiting for trigger; <i>Result Update</i>	88	Buy
02-Jun-08	<b>NTPC</b>	Burning bright; <i>Result Update</i>	161	Accum.
02-May-08	<b>Reliance Infrastructure</b>	Huge potential, but slight delay in EPC; <i>Result Update</i>	1,523	Accum.

#### Distribution of Ratings / Market Cap

##### Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	104	60	15	2	193

\* 11 stocks under review / 1 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	85	73	35

#### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 20% over a 12-month period
<b>Accumulate</b>	appreciate up to 20% over a 12-month period
<b>Reduce</b>	depreciate up to 10% over a 12-month period
<b>Sell</b>	depreciate more than 10% over a 12-month period

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