

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	TTPW.BO
Bloomberg code	TPWR IN
Market cap. (US\$ mn)	5,982
6M avg. daily turnover (US\$ mn)	12.9
Issued shares (mn)	237
Target price (Rs)	1,462

Performance (%) 1M 3M 12M

Absolute	(12)	(5)	12
Relative	(2)	(4)	(3)

Valuation ratios (Standalone)

Yr to 31 Mar	FY10P	FY11E
EPS (Rs)	36.6	43.6
+/- (%)	34.3	19.0
PER (x)	37.1	29.8
PBV (x)	3.1	2.9
Dividend/Yield (%)	1.0	1.2
EV/Sales (x)	5.3	5.3
EV/EBITDA (x)	20.3	19.1

Major shareholders (%)

Promoters	31
FII's	18
MF's	7
BFSI's	22
Public & Others	22

Financial highlights (Standalone)

(Rs mn)	4QFY09	4QFY10	YoY (%)	3QFY10	YoY (%)	FY09	FY10	YoY (%)	FY11E	YoY (%)
Net Sales	14,744	17,951	21.8	15,665	14.6	72,362	70,983	(1.9)	78,169	10.1
EBITDA	2,934	4,491	53.1	3,641	23.3	11,468	18,622	62.4	21,890	17.5
EBITDA Margin (%)	19.9	25.0	-	23.2	-	15.8	26.2	-	28.0	-
Other Income	3,107	533	(82.8)	452	18.0	6,266	2,816	(55.1)	3,033	7.7
Depreciation	986	1,270	28.8	1,208	5.1	3,289	4,779	45.3	5,410	13.2
EBIT	5,055	3,754	(25.7)	2,885	30.2	14,445	16,659	-	19,513	-
Interest	904	950	5.1	922	3.0	3,278	4,066	24.1	4,897	20.4
PBT	4,151	2,805	(32.4)	1,963	42.9	11,168	12,593	12.8	14,616	16.1
Tax	605	499	(17.6)	484	3.1	1,945	3,205	64.8	3,800	18.6
Reported PAT	3,546	2,306	(35.0)	1,479	55.9	9,223	9,388	1.8	10,816	15.2
EOI	(823)	(135)	-	(152)	(11.4)	(2,453)	(299)	-	-	-
Adjusted PAT	2,723	2,171	(20.3)	1,327	63.7	6,770	9,089	34.3	10,816	19.0
Adjusted EPS (Rs)	11.0	8.7	(20.3)	5.3	63.7	27.3	36.6	34.3	43.6	19.0

Tata Power

Maintain Outperformer

Price: Rs 1,203

BSE Index: 16,022

25 May 2010

4QFY10 Result – Coal to drive growth

Due to a 470 bps decline in cost of generation (63% of sales) led by lower coal and oil prices and higher usage of gas and a 6% growth in volumes (flat in the Mumbai Licence Area) the standalone revenue declined 2% YoY in FY10. The decline in revenue was stemmed by sale of power on merchant basis from 100 MW each at Trombay and Haldia even though the units undertook shutdown in 3Q and 4QFY10. The commissioning of 250 MW at Trombay, 90 MW at Haldia and 42 MW of wind power capacity led to an increase in depreciation and interest cost and due to an upward revision in MAT the tax cost also increased. The revenue from NDPL increased 39% and coupled with a 6% increase in revenue from coal mines the consolidated revenue grew 5%. The coal sales increased ~10% to 62 mn tonne in FY10 led by an increase in production aided by a dry weather but the realisations declined 22% YoY to US\$ 60 per tonne. The KPC and Arutmin coal mines are targeting 75 mn tonne of coal production by FY12 and 100 mn tonne by FY17 or earlier depending on the demand and pricing scenario. Tata Power (TPWR) took a charge of Rs 1.2 bn in FY10 as deferred stripping costs on account of a change in estimate of long-term mining costs, strip ratios and other operational parameters. TPWR had taken a hit of Rs 3.7 bn in 3QFY10 based on the JORC report but on revised assumptions in 4QFY10, TPWR wrote-back Rs 2.5 bn. The higher royalty and coal processing expenses led to a pressure on the operating margins of the consolidated entity.

Outlook and valuation

TPWR is interested to take over the distribution business of Reliance Infrastructure (RELI) in the Mumbai Licence Area. In case the transaction is initiated by the directive of MERC, then the acquisition could be close to book value of the distribution business of RELI (~Rs 11 bn). TPWR will then incur capex for installing digital meters, replacing lower voltage lines to reduce losses and will in turn benefit as the regulated equity increases. We maintain Outperformer rating on the stock and value TPWR on SOTP basis at Rs 1,462.

Conference call highlights

- Led by the commissioning of 250 MW unit 8 at Trombay and 30 MW at Haldia and 42 MW wind power, the total generation grew 8% in FY10 and net of renewable purchase obligations the sale of power grew 6%.
- TPWR commissioned 42 MW wind power taking the total wind power capacity to 195 MW.
- The Unit 5 at Jojobera is expected to be commissioned in 2QFY11.
- The Maithon TPS of 1,050 MW is expected to commence operations in 3QFY11 and will consume ~4.5 mtpa coal of 4,000 kcal per kg. Of this 1.6 mtpa would be supplied by BCCL and for the balance TPWR is in talks with Coal India for a firm linkage. Initially, the coal will be transported by road until the railway siding is set-up.
- For the 1,600 MW (2x800) to be set-up at Derhand, Maharashtra-based on imported coal, the TPWR is looking to have 50% of the capacity on RoE basis for MLA and the balance on a mix of Case I and merchant.
- The land acquisition for the Mandakini coal mine (2.5 mtpa) is expected to commence in 2QFY11 and the mine should be operational by FY13. The 1,000 MW captive power plant is expected to be operational by FY14-15.
- Similarly, the Tubed coal mine (2.3 mtpa) is expected by FY13 and 500 MW power plant by FY14-15.
- TPWR received a dividend of US\$ 170 mn in FY10 as compared to US\$ 252 mn in due to lower profits of the coal mine SPV.

Consolidated results

- The coal sales increased ~10% to 62 mn tonne in FY10 led by an increase in production aided by a dry weather but the realisations declined 22% YoY to US\$ 60 per tonne.
- The KPC and Arutmin coal mines are targeting 75 mn tonne of coal production by FY12 and 100 mn tonne by FY17 or earlier depending on the demand and pricing scenario.
- TPWR took a charge of Rs 1.2 bn in FY10 on account of a change in estimate of long term mining costs, strip ratios and other operational parameters. TPWR had taken a hit of Rs 3.7 bn in 3QFY10 based on the JORC report but on revised assumptions in 4QFY10, TPWR wrote-back Rs 2.5 bn.

KPC and Arutmin coal mines

	4QFY09	4QFY10	YoY (%)	FY09	FY10	YoY (%)
Coal Production (mt)	12	15	24.0	–	65	–
Coal Sales (mt)	11	16	40.7	–	62	–
Realisation (US\$/t)	75	63	(16.8)	77	60	(22.1)
Cost (US\$/t)*	34	32	(5.9)	34	32	(5.9)

*Excluding royalty and marketing expenditure.

Financial highlights

(Rs mn)	4QFY09	4QFY10	YoY (%)	3QFY10	QoQ (%)	FY09	FY10	YoY (%)
Net Sales	47,004	52,789	12.3	43,130	22.4	179,789	188,548	4.9
EBITDA	6,679	8,073	21	8,901	(9.3)	31,835	38,237	20.1
EBITDA Margin (%)	14.2	15.3	–	20.6	–	17.7	20.3	–
Other Income	3,297	4,033	22	385	946.9	5,639	5,889	4.4
Depreciation	4,438	2,467	(44)	2,208	11.7	9,369	8,930	(4.7)
EBIT	5,864	10,495	–	7,352	42.8	28,930	36,507	–
Interest	1,903	1,853	(3)	1,853	(0.0)	7,087	7,639	7.8
PBT	3,962	8,642	118	5,499	57.2	21,843	28,868	32.2
Tax	7,018	789	(89)	265	198.1	11,651	6,287	(46.0)
Reported PAT	110	9,542	8,575	926	930.7	12,640	19,757	56.3
EOI	(2,533)	(2,511)	–	3,707	(167.8)	(2,796)	1,195	–
Adjusted PAT	(2,423)	7,031	(390)	4,633	51.8	10,192	20,953	105.6
Adjusted PAT margin (%)	(5.15)	13.32	–	10.74	–	5.67	11.11	–

Tussle with Reliance Infrastructure

TPWR would be supplying 368 MW to Reliance Infrastructure (RELI) and that would reduce to 198 MW post July and continue till March 2011.

Led by the acquisition of new customers by TPC-D (30,000 in FY10) the demand for power is expected to increase and that will lead to TPWR buying power outside of MLA as it needs to supply power (198 MW till March 2011) to RELI.

TPWR power capacity allocation for FY11 – Proposed

Power plant	Location	Capacity	BEST	TPC-D	RELI	TPTCL	TPC-D via TPTCL	Bal with TPTCL	TPC-D Total
Unit 4	Trombay	150	68	40	–	42	–	42	40
Unit 5	Trombay	500	256	135	–	110	49	61	184
Unit 6	Trombay	500	256	134	–	110	49	61	183
Unit 7	Trombay	180	92	48	–	40	18	22	66
Unit 8	Trombay	150	100	50	–	–	–	–	50
Thermal (RoE)	Trombay	1,480	772	407	–	302	116	186	523
Unit 8	Trombay	–	–	–	–	–	–	–	–
Thermal	Trombay	1,480	772	407	–	302	116	186	523
Tata Power	Khopoli	72	–	–	–	–	–	–	–
Tata Power	Bhivpuri	75	–	–	–	–	–	–	–
Tata Power	Bhira	300	–	–	–	–	–	–	–
Hydro	Maharashtra	447	228	120	–	99	44	55	164
MLA	Mumbai	1,927	1,000	527	–	401	160	241	687

Source: Truing UP FY09, APR FY10, Tariff Petition FY11.

RELI needs ~1,300 MW of which it generates 500 MW from Dhanu power plant, 500 MW was supplied by Tata Power and the balance was procured from spot market. Now, with TPWR supplying only 198 MW post May 2010, the pressure on RELI to source cheap power has increased.

TPWR has hence offered RELI to take over its distribution business in the Mumbai Licence Area. In case the transaction is initiated by the directive of MERC, then the acquisition could be close to book value of the distribution business of RELI (~Rs 11 bn).

TPWR will then incur capex for installing digital meters, replacing lower voltage lines to reduce losses and will in turn benefit as the regulated equity increases.

SOTP

	Stake (%)	Value of Equity (Rs mn)	Value of Equity (Rs)	Assumptions
Mumbai Licence Area	100	56,540	228	FCFE, 14% RoE Gen., 16% RoE T&D
Jamshedpur and others	100	63,787	257	FCFE, 1,102 MW, 17% RoE
Maithon DVC	74	14,372	43	FCFE, 15.5% RoE
Merchant Capacity 208 MW	100	23,715	96	FCFE
Existing Power Gen & T&D Business		158,414	623	
Mundra UMPP	100	(21,807)	(88)	FCFE, 5% RoE
Arutmin & KPC Coal Mine Stake	100	133,067	536	FCFE, 70 mtpa, US\$ 60/tonne
Sub Total – (A)		269,674	1,072	
Add: Subs & JV's				
NDPL	51	18,992	39	at 2x FY09 BV
Power Links	51	10,075	21	at 2x FY09 BV
Sub Total – (B)		29,067	60	
Add: Investments				
TTSL (valued at US\$ 10 bn)		41,035	165	10% Discount
TTML (at 20% discount to CMP)		3,141	13	20% Discount
Tata Communications		20,909	84	at B&K Research target price of Rs 428
Other Co's (20% discount to CMP)			27	
Sub Total – (C)			289	
Add: Cash & liquid assets – (D)			41	
Total Value of Equity			1,462	
Upside/downside (%)			7.6	
CMP (Rs)			1,359	
No. of shares (mn)			248	

Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	59,159	72,362	70,983	78,169
<i>Growth (%)</i>	25.5	22.3	(1.9)	10.1
Operating expenses	(49,793)	(60,895)	(52,360)	(56,279)
Operating profit	9,366	11,468	18,622	21,890
EBITDA	9,366	11,468	18,622	21,890
<i>Growth (%)</i>	29.5	22.4	62.4	17.5
Depreciation	(2,905)	(3,289)	(4,779)	(5,410)
Other income	4,658	6,266	2,517	3,033
EBIT	11,120	14,445	16,360	19,513
Interest paid	(1,419)	(3,278)	(4,066)	(4,897)
Pre-tax profit	9,701	11,168	12,294	14,616
(before non-recurring)				
Non-recurring items	0	0	299	0
Pre-tax profit	9,701	11,168	12,593	14,616
(after non-recurring)				
Tax (current + deferred)	(1,002)	(1,945)	(3,205)	(3,800)
Net profit (before Minority Interest, Pref. Dividend etc.)	8,699	9,223	9,388	10,816
Reported PAT	8,699	9,223	9,388	10,816
Adjusted net profit	6,062	6,770	9,089	10,816
<i>Growth (%)</i>	6.4	11.7	34.3	19.0

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and Marketable sec.	287	455	26,197	24,877
Other current assets	38,468	46,356	45,157	47,074
Investments	44,300	54,435	54,435	54,435
Net fixed assets	46,872	59,517	106,836	152,426
Total assets	129,927	160,763	232,624	278,811
Current liabilities	18,393	20,713	19,131	19,589
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	128,375	168,063
Share capital	2,817	2,214	2,375	2,375
Reserves & surplus	72,836	78,885	101,874	108,373
Less: Misc. expenditure	(17)	0	0	0
Shareholders' funds	75,636	81,588	104,249	110,748
Total equity & liabilities	129,927	160,763	232,624	278,811
Capital employed	111,534	140,050	213,493	259,223

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	9,701	11,168	12,593	14,616
Depreciation	2,905	3,289	4,779	5,410
Change in working capital (10,907)	(5,568)	(382)	(1,460)	
Total tax paid	(870)	(1,945)	(2,250)	(3,800)
Cash flow from oper. (a)	829	6,943	14,740	14,767
Capital expenditure	(11,530)	(15,833)	(52,098)	(51,000)
Change in investments	(8,599)	(10,135)	0	0
Others	(89)	(83)	0	0
Cash flow from inv. (b)	(20,519)	(26,051)	(52,098)	(51,000)
Free cash flow (a+b)	(19,690)	(19,108)	(37,358)	(36,233)
Equity raised/(repaid)	14,566	(89)	16,901	0
Debt raised/(repaid)	(5,961)	21,609	50,781	39,230
Dividend (incl. tax)	(2,683)	(2,877)	(3,627)	(4,317)
Others	(3,650)	(389)	0	0
Cash flow from fin. (c)	2,272	18,254	64,055	34,914
Net change in cash (a+b+c)	(17,419)	(853)	26,697	(1,320)

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	24.4	27.3	36.6	43.6
Growth	(15.1)	11.7	34.3	19.0
Book NAV/share (Rs)	342.7	368.8	438.9	466.3
Dividend/share (Rs)	10.9	11.6	13.4	15.9
Dividend payout ratio	44.3	42.5	39.9	39.9
Tax	10.3	17.4	25.5	26.0
EBITDA margin	15.8	15.8	26.2	28.0
EBIT margin	18.8	20.0	23.0	25.0
RoCE	10.7	11.5	9.3	8.3
Net debt/Equity	39.8	63.2	73.4	105.8

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	55.7	49.8	37.1	29.8
PCE	33.5	29.9	23.3	19.9
Price/Book	4.0	3.7	3.1	2.9
Yield (%)	0.8	0.9	1.0	1.2
EV/Net sales	5.6	4.9	5.3	5.3
EV/EBITDA	35.3	30.7	20.3	19.1

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	10.2	9.4	12.8	13.8
Asset turnover	0.5	0.5	0.4	0.3
Leverage factor	1.9	1.8	2.1	2.4
Return on equity (%)	9.3	8.6	9.8	10.1

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