

Morgan Stanley India Company
Private Limited+

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Stock Rating
Equal-weight

Industry View
In-Line

Tata Power Co

F2010: Weak Results

What's Changed

Price Target	Rs1,348.00 to Rs1,087.00
F2011 EPS estimate	From Rs40.42 to Rs35.13
F2012 EPS estimate	From Rs37.50 to Rs31.41

We maintain an Equal-weight rating on the stock with a revised target price of Rs 1,087: In our view the company has strong execution capabilities and there is high visibility on the implementation of power projects. However, the stock is trading at 2x P/B and 10x EV/EBITDA on our F2012 consolidated estimates, which we believe leaves limited upside. Our price target is now based on an 80% probability weighting for our Base Case (Rs 1013/sh) and 20% for our Bull Case (Rs 1383/sh) fair values.

F2010 results were below expectations: Tata Power reported F2010 consolidated revenue of Rs178.8 bn (up 2% YoY), EBITDA of Rs36.8 bn (up 4% YoY), and adjusted profits of Rs13.3 bn (up 6% YoY). We had estimated consolidated profit of Rs14.8 bn. We believe the miss was largely due to lower profitability in the coal segment due to lower realizations.

Standalone earnings estimates lowered due to uncertainty on merchant capacity: Tata Power had decided to sell an additional 200-400 MW in the short-term market from the capacity that was earlier provided to Reliance Infrastructure. We had built in 158 MW of such additional merchant capacity; however, given regulatory uncertainty the company may have to sell this at regulated rates to Reliance Infrastructure. This is the primary reason for taking down our standalone earnings by 13% and 16% for F2011e and F2012e, respectively.

Key triggers: Monetization of group company investments and commencement of construction work on pipeline projects would be positive for the stock. Also, any improvement in coal outlook can help earnings.

Key Ratios and Statistics

Reuters: TTPW.BO Bloomberg: TPWR IN

India Utilities

Price target	Rs1,087.00
Shr price, close (May 25, 2010)	Rs1,203.05
52-Week Range	Rs1,518.55-995.00
Mkt cap, curr (mn)	US\$5,698
Avg daily trading value (mn)	US\$2
Shrs out, basic, per-end (03/10e) (mn)	237

Fiscal Year ending	03/09	03/10e	03/11e	03/12e
ModelWare EPS (Rs)	31.07	35.47	35.13	31.41
Prior ModelWare EPS (Rs)	-	31.63	40.42	37.50
EPS (Rs)**	56.28	55.99	67.53	81.40
Revenue, net (Rs mn)	72,362	68,459	72,072	72,122
EBITDA (Rs mn)	11,409	16,099	16,992	17,104
ModelWare net inc (Rs mn)	6,911	8,419	8,339	7,455
P/E	24.6	38.7	34.2	38.3
P/BV	2.0	3.1	2.5	2.4
EV/EBITDA	18.6	23.6	20.1	20.7
Div yld (%)	1.5	0.9	1.0	1.1

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

** = Based on consensus methodology
e = Morgan Stanley Research estimates

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Financial Summary

Income Statement

Profit and loss statement				
Rs Mn (Year-end March)	F2009	F2010E	F2011E	F2012E
Total Revenues	72,362	68,459	72,072	72,122
Power purchase cost	4,935	2,517	2,704	2,796
Fuel cost	48,135	40,457	42,229	43,026
Employee cost	2,919	3,053	3,214	3,216
Transmission EPC expenses	69	69	69	69
Repairs & Other op. exp.	4,895	6,265	6,863	5,910
Total Operating Expenses	60,953	52,360	55,079	55,018
EBITDA	11,409	16,099	16,992	17,104
Depreciation	3,289	4,779	5,180	5,431
EBIT	8,121	11,320	11,812	11,673
Other income	2,315	2,296	2,150	1,705
Interest and finance charges	3,278	4,066	4,499	5,050
PBT	7,158	9,550	9,462	8,328
Taxation	1,454	2,655	2,631	2,315
Tax rate (%)	20.3%	27.8%	27.8%	27.8%
PAT (Standalone)	5,704	6,895	6,832	6,012
Share in profit of Associates	1,208	1,524	1,507	1,442
Total Profits	6,911	8,419	8,339	7,455
Extraordinary items	3,518	2,496	0	0
PAT after extraordinary items	10,430	10,915	8,339	7,455
EPS (Rs)	31.07	35.47	35.13	31.41
EPS Consolidated	56.27	55.99	67.53	81.40
DPS (Rs)	11.50	12.00	12.50	13.00

* Refer to exhibit 6 for further consolidated statement with the Indonesian coal assets

Balance Sheet

Rs Mn (Year-end March)	F2009	F2010E	F2011E	F2012E
Liabilities				
Share Capital	2,214	2,374	2,374	2,374
Share Warrants	0	0	0	0
Reserves and surplus	78,885	99,229	102,723	105,264
Share in Profits of Associates	5,038	6,562	8,069	9,512
Shareholders funds	86,137	108,165	113,166	117,149
Secured loans	39,317	39,317	39,317	39,317
Unsecured loans	12,665	19,465	24,465	34,465
Other Liabilities	6,969	6,969	6,969	6,969
Total Liabilities	145,088	173,916	183,917	197,900
Assets				
Gross Block	89,859	100,882	105,882	110,882
Accumulated Depreciation	37,953	42,732	47,913	53,344
Net Block	51,905	58,150	57,969	57,538
CWIP	7,612	5,200	5,200	5,200
Investments	49,984	65,576	84,148	100,782
Deferred tax asset	0	0	0	0
Inventories	6,441	5,414	5,651	5,758
Sundry debtors	15,880	15,023	15,816	15,827
Cash and Cash Equivalents	9,944	15,204	6,290	4,077
Deposits	314	314	314	314
Other current assets	23,721	28,905	28,905	28,905
Sundry creditors	8,353	7,175	7,548	7,540
Other liabilities and Provisions	12,360	12,695	12,828	12,962
Net current assets	35,587	44,990	36,599	34,380
Total Assets	145,088	173,916	183,917	197,900

Cash Flow

Rs Mn (Year-end March)	F2009	F2010E	F2011E	F2012E
PAT(Standalone)	9,222	9,391	6,832	6,012
Depreciation	3,289	4,779	5,180	5,431
Interest	3,278	4,066	4,499	5,050
Share in Profits of Associates	1,208	1,524	1,507	1,442
Changes in Working Capital	-5,864	-4,477	-657	-126
Cash flow from operations	11,132	15,283	17,361	17,810
(Purchase)/sale of fixed assets, net	-15,933	-8,612	-5,000	-5,000
(Purchase)/sale of investment, net	-11,688	-15,592	-18,572	-16,634
Cash flow from investing activities	-27,621	-24,204	-23,572	-21,634
Proceeds from equity issuance	-89	16,813	0	0
Proceeds/(repayment) of loan	21,609	6,800	5,000	10,000
Dividend	-2,575	-2,870	-3,204	-3,338
Interest expense	-3,278	-4,066	-4,499	-5,050
Other items	643	-2,496	0	0
Cash flow from financing activities	16,312	14,181	-2,704	1,612
Change in cash and cash equiv	-177	5,260	-8,914	-2,212
Opening cash and cash equiv	10,121	9,944	15,204	6,290
Closing cash and cash equiv	9,944	15,204	6,290	4,077

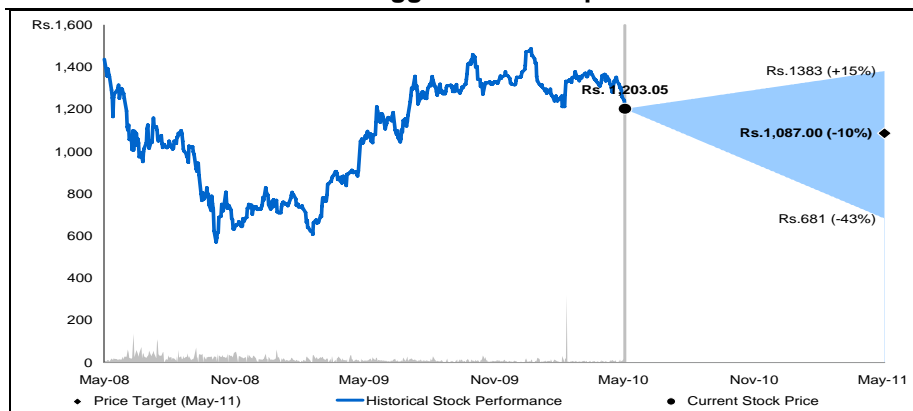
Ratio Analysis

(Year-end March)	F2009	F2010E	F2011E	F2012E
Growth (%)				
Revenues	22%	-5%	5%	0%
EBITDA	22%	41%	6%	1%
EBIT	26%	39%	4%	-1%
Net Profit	-2%	22%	-1%	-11%
EPS	-7%	14%	-1%	-11%
Margins (%)				
EBITDA	15.8%	23.5%	23.6%	23.7%
EBIT	11.2%	16.5%	16.4%	16.2%
EBT	9.9%	13.9%	13.1%	11.5%
Net Profit	9.6%	12.3%	11.6%	10.3%
Return (%)				
ROE	8.4%	8.7%	7.5%	6.5%
ROCE	5.3%	5.3%	4.7%	3.9%
ROA	4.6%	4.7%	4.2%	3.5%
Gearing				
Debt/Equity	0.60	0.54	0.56	0.63
Net Debt/Equity	0.49	0.40	0.51	0.60
Valuations				
EV/EBITDA (Standalone)	27.0	20.4	20.2	20.8
EV/EBITDA (Consolidated)	13.7	14.4	13.1	10.2
P/E (Standalone)	38.7	33.9	34.2	38.3
P/E (Consolidated)	21.4	21.5	17.8	14.8
P/BV (Standalone)	3.1	2.6	2.5	2.4
P/BV (Consolidated)	3.1	2.5	2.3	2.0
Dividend Yield (%)	1.0%	1.0%	1.0%	1.1%
Turnover (days)				
Inventory	49	49	49	49
Debtors	80	80	80	80
Creditors	50	50	50	50

Source: Company data, Morgan Stanley Research
E= Morgan Stanley Research Estimates; Valuations are as of May 25, 2010;

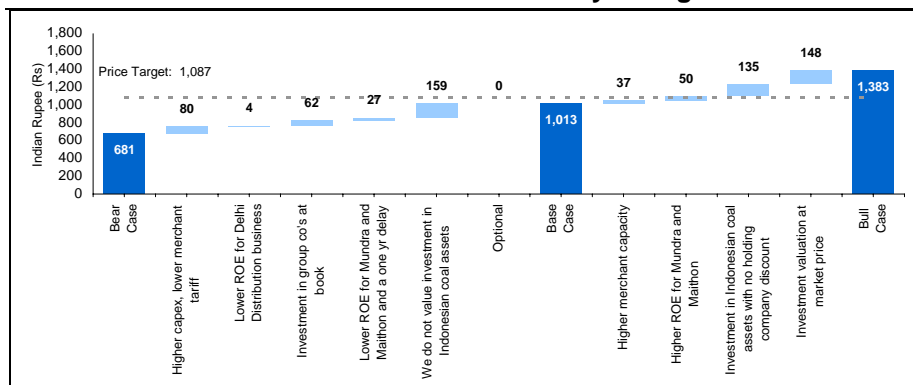
Risk-Reward Snapshot: Tata Power (TPWR, Rs 1203, EW, PT Rs 1087)

Risk-Reward View: Lack of Triggers Could Impede Stock Performance



Price Target Rs1,087	Probability-weighted, sum of the parts: 80% probability for our base case and 20% probability for our bull case valuation.	
Bull Case Rs1383	2.6x Base Case F2011 Consolidated P/B	Higher value of existing utility business and higher investment value: We ascribe a higher value to the generation business due to higher merchant capacity of 158 MW; we assume a higher ROE for the Mundra and Maithon projects and value the investment in Indonesian coal assets at bull case fair value and without a holding company discount. In addition we value investments in group companies at market price.
Base Case Rs1013	1.9x Base Case F2011 Consolidated P/B	Existing utility business at regulated returns and upside for investment in Indonesian coal assets and in group companies: We use a SOTP methodology to arrive at our base case value of Rs 1,013/share.
Bear Case Rs681	1.3x Base Case F2011 Consolidated P/B	Lower ROE and investments at book value: We assume higher capex for the Generation business (including Mumbai), lower ROE for Delhi business and the Mundra UMPP, a one year delay in commissioning of the Maithon and Mundra projects and we value investments in group company at book value.

Bear to Bull: Indonesian Coal Assets Are a Key Swing Factor



Source: Morgan Stanley, FactSet

Investment Thesis

- One of the largest private integrated electric utilities in India with experience in generation, transmission and distribution businesses.
- Standalone EBITDA has declined from earlier estimate due to uncertainty on sale of additional merchant capacity of 158 MW from the Mumbai License Area.
- Strong execution skills as exhibited in the Mundra UMPP and the Maithon projects

Key Value Drivers

- Regulatory regime improving in India and Indonesia
- Thrust provided by government to increase private participation in utility sector
- Higher production and better realizations for Indonesian coal assets

Potential Catalysts

- Liquidation of investments to finance the capex program
- Upside to the investment in other Tata group companies

Key Risks

- Continued ambiguity on monetization of investments
- Delays in execution of power projects
- Downside risk to Indonesian coal assets due to lower production, lower coal prices or ongoing tax dispute
- High leverage and increasing interest cost burden

Tata Power: Scenario Analysis: Sum of the Parts**BULL CASE**

	Rs/Per share	Basis
Generation (incl. Mumbai)	543	Assumed additional merchant capacity of 158 MW
Delhi Distribution Business	27	Same as Base Case
Powerlinks Transmission	15	Same as Base Case
Maithon Project	66	We assume 20% ROE
Mundra UMPP	147	Residual Income: Mundra valuation using an ROE of 16% and cost of equity of 15.7%
Investment in Indonesian Coal Assets	294	We take Bull Case fair value and remove the holding company discount
Investment in Group Cos.	291	At full marketable value and linking valuation of Tata Teleservices to that ascribed by the NTT DoCoMo open offer
Bull Case: Fair value	1383	

BASE CASE

	Rs/Per share	
Generation (incl. Mumbai)	506	DCF: We use cost of equity of 13.7% and terminal growth rate of 4%
Delhi Distribution Business	27	Residual Income: This comprises of NDPL in which Tata Power holds 51% stake and earns an assured ROE of 16%
Powerlinks Transmission	15	Residual Income: We use a discount rate of 13.7% and an assumed ROE of 18%. Tata Power holds 51%
Maithon Project	51	Residual Income: We use a discount rate of 13.7% and an assumed ROE of 16%. Tata Power holds 74%
Mundra UMPP	112	Residual Income: Mundra valuation using an ROE of 12.6% and cost of equity of 15.7%
Investment in Indonesian Coal Assets	159	We apply the target price of Bumi (IDR 2000/sh) to determine the value of the 30% stake in the coal assets. We adjust this for net debt, hedge for Mundra UMPP and holding company discount of 20%
Investment in Group Cos.	143	We accord a 30% discount to the estimated value to arrive at a net realizable value
Base Case: Fair Value	1013	

BEAR CASE

	Rs/Per share	
Generation (incl. Mumbai)	426	DCF: We assume higher capex and lower merchant tariff
Delhi Distribution Business	23	Residual Income: We assume a ROE of 14%
Powerlinks Transmission	15	Same as Base Case
Maithon Project	45	Assumed a 1 year delay
Mundra UMPP	91	Residual Income: Mundra valuation using an ROE of 12%, cost of equity of 15.8% and a 1 year delay
Investment in Group Cos.	81	We value it at book
Bear Case: Fair value	681	

Source: Morgan Stanley Research Estimates

F2010: Weak Results

We maintain an Equal-weight rating on Tata Power with a revised price target of Rs 1,087. This is based on an 80% probability for our Base Case (Rs 1013/sh) and 20% for Bull Case (Rs 1383/sh) scenario values – previously those weightings were equal. We have lowered our Base Case value largely for the following reasons:

- We have removed 158 MW of additional merchant capacity from the Mumbai License Area as the company may have to continue selling this capacity to Reliance Infrastructure at regulated rates based on an order from the Maharashtra Government. This is the primary reason for lowering our standalone earnings by 13% and 16% for F2011e and F2012e, respectively. However, we have built this merchant capacity into our Bull Case scenario in the event the High Court rules in the favor of Tata Power.

- Lower value of investment in the Indonesian coal mines as we peg it to the Base Case fair value of Bumi (the other shareholder in the coal mines).

Tata Power reported F2010 consolidated revenue of Rs178.8 bn (up 2% YoY), EBITDA of Rs36.8 bn (up 4% YoY), and adjusted profits of Rs13.3 bn (up 6% YoY). We had estimated consolidated profit of Rs14.8 bn. We believe the miss was largely due to lower profitability in the coal segment due to lower realizations.

The stock trades at 2x P/B and 10x EV/EBITDA on our F2012 consolidated estimates, which we believe leaves limited upside. Hence we maintain an Equal-weight rating on the stock.

Exhibit 1

Tata Power: F2010 Standalone and Consolidated Financial Performance

Rs Mn	Standalone			Consolidated		
	F2009	F2010	YoY	F2009	F2010	YoY
Revenue	70,715	66,411	-6.1%	175,051	178,865	2.2%
Other operating income	1,647	2,048	24.3%	824	1,311	59.0%
Total Revenue	72,362	68,459	-5.4%	175,875	180,175	2.4%
Expenses	61,173	52,360	-14.4%	140,420	143,357	2.1%
Cost of Electrical Energy/Power Purchased	4,935	2,517	-49.0%	43,724	45,829	4.8%
Cost of Fuel	48,077	40,456	-15.9%	55,344	46,787	-15.5%
Employee Cost(Staff Cost)	2,919	3,053	4.6%	6,128	8,060	31.5%
Cost of Components and Materials	383	422	10.0%	383	422	10.0%
Coal Processing Charges				13,443	17,194	27.9%
Other Expenditure	4,859	5,913	21.7%	21,399	25,065	17.1%
EBITDA	11,190	16,099	43.9%	35,455	36,818	3.8%
<i>Margin (%)</i>	<i>15.5%</i>	<i>23.5%</i>	<i>805 bps</i>	<i>20.2%</i>	<i>20.4%</i>	<i>28 bps</i>
Depreciation	3,289	4,779	45.3%	6,565	8,929	36.0%
EBIT	7,901	11,319	43.3%	28,890	27,889	-3.5%
Other Income	2,322	2,296	-1.1%	1,432	1,334	-6.8%
Interest and Finance Charges	3,058	4,066	33.0%	7,087	7,639	7.8%
(Gain)/ Loss on exchange - as part of exceptional	-	-		-	-	
Profit Before Tax	7,166	9,549	33.3%	23,234	21,585	-7.1%
Tax	1,585	2,657	67.7%	9,914	6,577	-33.7%
<i>Tax Rate</i>	<i>22.1%</i>	<i>27.8%</i>	<i>571 bps</i>	<i>42.7%</i>	<i>30.5%</i>	<i>-1220 bps</i>
PAT	5,581	6,892	23.5%	13,320	15,008	12.7%
<i>Net Profit Margin (%)</i>	<i>7.7%</i>	<i>10.1%</i>	<i>235 bps</i>	<i>7.6%</i>	<i>8.3%</i>	<i>76 bps</i>
Adjustment pursuant to scheme of arrangement	-	-		0	0	
Share of associates	-	-		276	617	123.6%
Minority Interest	-	-		(1,076)	(2,335)	117.1%
Consolidated Net Profit	-	-	-	12,521	13,290	6.1%
Extraordinary items	3,641	2,496	-31.4%	(333)	6,379	-2014.9%
Reported profit	9,222	9,388	1.8%	12,187	19,668	61.4%

Source: Company data, Morgan Stanley Research

May 26, 2010
Tata Power Co

Exhibit 2

Tata Power: Status of Projects Under Construction

Projects under Implementation	Capacity (MW)	Cost (Rs bn)	Completion	Ownership	Fuel	Equipment	Construction	Off take	Remarks
Maithon	1050	45.4	Unit I by Oct 2010 and Unit II in F1Q11		Yes	Yes	Yes	Yes	Over 82% of the work is completed. The plant is CERC regulated, 100% coal source is identified and the FSA is being finalized
Mundra UMPP	4000	170.0	Unit I by Sep 2011 and each 4 months thereafter	74%	Yes	Yes	Yes	Yes	
Total	5050	222		100%					52% of the work is completed

Source: Company data, Morgan Stanley Research

Exhibit 3

Tata Power: Projects in Pipeline

Projects in the pipeline	Capacity (MW)	Status
Coastal Maharashtra	2400	The project will use imported coal as fuel. Land acquisition in progress
Naraj Marthapur IPP	1200	Coal will be supplied from the Mandakini coal block. TPWR (33% stake) has been awarded the captive coal block jointly with Monnet Ispat and Jindal Photo. Mandakini has estimated reserves of 291 mt and TPWR's share can support a 1000 MW plant.
Tiruldin IPP/ CPP	1200	Will use captive coal from Tubed coal block + coal from Tata Steel
Corus (Tata Steel)	525	Will be through Production gases to be supplied by Corus
Tama Koshi	800	Hydro power project
Total	6125	

Source: Company data, Morgan Stanley Research

Exhibit 4

Bumi Resources: Key Assumptions

	C2010e	C2011e	C2012e
Coal price			
Regional Thermal coal price (US\$/t)	95.0	105.0	110.0
Bumi Resources achieved coal price (US\$/t)	66.5	75.6	79.2
Discount to regional prices (%)	-30.0	-28.0	-28.0
Coal sales volume (mt)			
Coal sales volume (mt)	67.7	74.5	81.9
Coal production (mt)	69.4	76.4	84.0
Cash cost (US\$/ tonne)			
Cash cost (US\$/ tonne)	38.4	45.8	48.5

Source: Morgan Stanley Research

Exhibit 5

Tata Power: Key valuation metrics

Valuations	F2010e	F2011e	F2012e
P/E - Standalone	33.9	34.2	38.3
P/E - Consolidated	21.5	17.8	14.8
EV/EBITDA- Standalone	20.4	20.2	20.8
EV/EBITDA- Consolidated	14.4	13.1	10.2
P/B- Standalone	2.6	2.5	2.4
P/B- Consolidated	2.5	2.3	2.0

Source: Morgan Stanley Research

Exhibit 6

Tata Power: Consolidated with Indonesian Coal Assets, Mundra UMPP and Maithon

Key Profit and Loss Statement (Rs mn)	F2009	F2010e	F2011e	F2012e
Revenue- TPWR	72,362	68,459	72,072	72,122
Revenue-Share in Indonesian coal assets	47,766	49,256	62,863	72,939
Revenue-Maithon Power Plant			2,557	11,202
Revenue-Mundra UMPP			0	10,130
Total Revenue	120,128	117,715	137,492	166,393
EBITDA-TPWR	11,409	16,099	16,992	17,104
EBITDA-Share in Indonesian coal assets	13,516	13,460	16,193	18,165
EBITDA-Maithon Power Plant			1,418	6,318
EBITDA-Mundra UMPP			0	4,603
Total EBITDA	24,925	29,559	34,603	46,190
EBIT- TPWR	8,121	11,320	11,812	11,673
EBIT-Share in Indonesian coal assets	11,844	11,187	13,669	15,555
EBIT-Maithon Power Plant			1,058	4,776
EBIT-Mundra Power Plant			0	3,386
Total EBIT	19,965	22,507	26,539	35,389
PBT- TPWR	7,158	9,550	9,462	8,328
PBT- Share in Indonesian coal assets	12,229	8,260	12,803	15,071
PBT- Share in Maithon Power Plant			461	1,976
PBT- Share in Mundra UMPP			0	2,154
Total PBT	19,386	17,810	22,727	27,528
Tax- TPWR	1,454	2,655	2,631	2,315
Tax- Share in Indonesian coal assets	6,620	3,862	5,482	6,208
Tax- Share in Maithon Power Plant			92	394
Tax- Share in Mundra UMPP			0	732
Total Tax	8,074	6,516	8,205	9,649
PAT- TPWR standalone business	5,704	6,895	6,832	6,012
PAT- TPWR standalone business+NDPL+Powerlinks	6,911	8,419	8,339	7,455
PAT-Share in Indonesian coal assets	5,609	4,871	7,321	8,863
PAT-Share in Maithon Power Plant			369	1,582
PAT-Share in Mundra UMPP			0	1,422
Total PAT	12,520	13,290	16,029	19,322
EPS-TPWR	31.1	35.5	35.1	31.4
EPS Consolidated	56.3	56.0	67.5	81.4

Source: Company data, Morgan Stanley Research

e=Morgan Stanley Research estimates; Source: Morgan Stanley Research

Note: Share in Indonesian coal assets refers to the 30% stake that Tata Power holds in KPC and Arutmin coal mines. Bumi holds the balance 70% stake. We believe the coal assets are debt-free.

Valuation

Our change in price target to Rs 1,087/share is primarily due to the following:

- Exclusion of 158 MW of merchant capacity that will be released from the Mumbai License Area starting April 2010.
- Pegging the value of investment in the Indonesian coal mines to the Base Case fair value of Bumi (the other shareholder in the coal mines).
- Assigning probabilities of 80% to our Base Case and 20% to our Bull Case scenario values, vs. equal weightings earlier.

The components of our base case are as shown in Exhibit 7.

Exhibit 7	
Tata Power: Base Case Sum-of-the-Parts Valuation (Rs/share)	
BASE CASE	
Existing Generation Business	506
Delhi Distribution Business	27
Powerlinks Transmission	15
Maithon Project	51
Mundra UMPP	112
Investment in Indonesian coal assets	159
Investment in Group Companies	143
Base Case	1,013

Source: Morgan Stanley Research estimates

Current generation business (including Mumbai License Area): We use a discounted cash flow (DCF) model to value the current generation business, which consists largely of the

Mumbai License Area. We expect business in this area to continue to grow because of expansion in the consumer base and the increase in consumption. The company earns regulated returns on its generation, transmission and distribution businesses, which we expect will continue. We have assumed 158 MW continues to be sold at regulated rates in the Mumbai License Area. The merchant capacity is limited to 200 MW from Trombay Unit 8 and Haldia. We have also built in additional distribution revenue emanating from the Mumbai License Area as the company commences retail distribution operations from April 2010 onwards.

Our assumptions for weighted average cost of capital (WACC) and the DCF model are provided in Exhibits 8 and 9.

Exhibit 8		
Tata Power: Key Assumptions		
	Old	New
Equity portion	60%	60%
Debt portion	40%	40%
Beta	1.03	1.03
Risk free rate	7.62%	7.50%
Market premium	6.00%	6.00%
Cost of equity	13.80%	13.68%
Debt	7.50%	7.34%
Tax rate	28.00%	27.80%
Cost of debt	5.40%	5.30%
WACC	10.44%	10.33%
Terminal Growth Rate	4.00	4.00

Source: Bloomberg, Morgan Stanley Research

May 26, 2010
Tata Power Co

Exhibit 9

Tata Power DCF – Mumbai License Area

(Rs Mn)	F2007	F2008	F2009	F2010E	F2011E	F2012E	F2013E
Revenue	46,997	59,159	72,362	68,459	72,072	72,122	73,275
YoY growth (%)	4%	26%	22%	-5%	5%	0%	2%
EBIT	4,159	6,461	8,121	11,320	11,812	11,673	11,519
Margin (%)	8.8%	10.9%	11.2%	16.5%	16.4%	16.2%	15.7%
Effective tax rate (%)	12.9%	14.3%	20.3%	27.8%	27.8%	27.8%	27.8%
EBIT (1-Tax)	3,621	5,536	6,471	8,173	8,528	8,428	8,317
Depreciation	2,919	2,905	3,289	4,779	5,180	5,431	5,606
Capex	(8,885)	(11,664)	(15,933)	(8,612)	(5,000)	(5,000)	(2,000)
Change in Working Capital	(2,673)	(11,279)	(5,864)	(4,477)	(657)	(126)	(208)
Net investment in Capital	(8,639)	(20,037)	(18,509)	(8,310)	(477)	305	3,398
Free cash flow	(5,018)	(14,501)	(12,037)	(137)	8,051	8,733	11,715
Compounding period					0	1	2
Discounting factor					1.00	0.91	0.82
PV of cash flows					8051	7915	9624

Forecast horizon	25,591
PV of Terminal Value	152,085
Firm value	177,675
Debt	63,782
Cash	6,290
Equity Value	120,183
# shares outstanding	237.4
Equity value/share	506

Source: Company data, Morgan Stanley Research

The Delhi distribution business: This includes NDPL (North Delhi Power Limited), in which Tata Power holds 51%. NDPL earns a 16% ROE on the regulatory capital base and also an incentive if it reduces AT&C losses below the Delhi government's stipulated level.

We use an RI model to value the stake in NDPL at Rs 27/share. We use a cost of equity of 13.7% (risk free rate of 7.50% and expected risk premium of 6%) and a terminal growth rate of 4%. We value NDPL at Rs53/ share and Tata Power's 51% stake in NDPL accordingly is Rs27/share, based on our residual income (RI) model.

Exhibit 10

NDPL: RI Model

(Rs mn)	F2008	F2009	F2010E	F2011E	F2012E	F2013E
NDPL Capital Base	6,199	6,850	7,878	8,823	9,705	10,676
Net income	1,432	1,761	1,719	1,654	1,553	1,708
ROE	22%	28%	25%	21%	18%	18%
RI	557	913	782	576	346	380
Discounting Factor				1.00	0.88	0.77
				576	304	294

Beginning capital base	8,823
Forecast horizon	599
Terminal Value	3,163
Equity Value	12,584
Value per share	53
Value for TPWR	27

Source: DERC, Morgan Stanley Research

Powerlinks Transmission: Tata Power, together with PGCIL, has set up the 1,200 km Tala transmission line for extracting power from Bhutan and supplying it to the northern parts of India. The company is to earn a post-tax ROE of 16% + incentives (following the new CERC regulations effective from April 2009 to March 2014) on the Powerlinks Transmission project, and its total investment is Rs2.5 billion. We value this investment at Rs15/share based on our RI model.

Exhibit 11

Powerlinks Transmission: RI Model

Rs Mn

TPWR's Investment in Powerlinks	2,514
TPWR's holding	51%
Total equity component of the project	4,930
ROE	18.0%
COE	13.7%
Terminal growth rate	2%
Intrinsic value	6753
Implied P/B	1.4
Value for TPWR	15

Source: Company data, Morgan Stanley Research

Maithon Thermal Power Project : This 1,050 MW thermal plant is being implemented through a 74:26 joint venture between Tata Power and Damodar Valley Corporation. We use an RI model to value the project at Rs51/share.

Exhibit 12

Maithon Thermal Power Project: RI Model

Size (MW)	1,050
Cost/MW (Rs mn)	43
Cost of project (Rs mn)	45,415
Equity value of project (Rs mn)	13,625
Assumed ROE	16.0%
COE	13.7%
Terminal growth rate	2%
Intrinsic value	16,390
Implied P/B	1.2
Value per share (Rs/share)	69
Years to commissioning (1 year forward)	0
Present value per share (Rs/share)	69
TPWR stake	74%
Value for TPWR (Rs/share)	51

Source: Company data, Morgan Stanley Research

Mundra UMPP: Tata Power was the lowest bidder for the Mundra UMPP with a 25-year levelized tariff of Rs2.26/kWh. The company expects the first unit to be commissioned in September 2011 and each unit 4 months thereafter. We believe the Mundra UMPP will generate an equity IRR of 12.6% and have used an RI model to arrive at a value of Rs112/share (Exhibit 13).

Exhibit 13

Mundra UMPP: RI Model

Size (MW)	4,000
Cost of project (Rs mn)	170,000
Equity value of project (Rs mn)	42,500
Assumed ROE	12.6%
COE	15.7%
Terminal growth rate	2%
Intrinsic value	32,947
Implied P/B	0.8
Value per share (Rs/share)	139
Years to commissioning (1 year forward)	1.5
Present value per share (Rs/share)	112

Source: Company data, Morgan Stanley Research

Investment in Indonesian Coal Assets: We value the investments in coal assets using the Base Case fair value of Bumi from our regional team. Since Bumi's value represents its 70% stake in the KPC and Arutmin coal assets, we have grossed it up to achieve the implied market capitalization of the coal assets as US\$ 6 bn. The implied value for TPWR's 30% stake in the coal assets after backing out the net debt of US\$ 419 mn aggregates to US\$ 1,377 mn or Rs 265/share. However, we make the following adjustments to arrive at our fair value for TPWR:

- We believe the 30% stake in the coal assets partially acts as a hedge for 3.24 mtpa of coal requirements for the Mundra UMPP since it comes at a fixed price for the first five years of the project, thus reducing the exposure to higher coal prices. This quantity represents about 25% of the total coal offtake from the coal assets (3.24 mtpa out of 13 mtpa); and
- We accord a 20% holding company discount

Accordingly, the fair value of the 30% stake in the Indonesian coal assets is Rs159/share for Tata Power (Exhibit 14).

Exhibit 14

Value of Investment in Indonesian Coal Assets

Particulars	
Bumi Target Market Cap (US\$m)	4,191
Target Market Cap of Indonesian Coal Assets (US\$m)	5,987
Tata Power's Stake in Bumi	30%
Value for Tata Power (US\$m)	1,796
Net Debt Raised by Tata Power (US\$m)	419
Unrealized gain for Tata Power (US\$m)	1,377
Value for TPWR (Rs/share)	265
Less: Hedge through lower coal pricing for Mundra UMPP	25%
Holding company discount (%)	20%
Fair value for TPWR (Rs/share)	159

Source: Factset, Morgan Stanley Research

Note: Bumi Target Market Cap is based on Base Case fair value of IDR 2,000/sh

Investments in companies: Tata Power has investments primarily in group companies such as VSNL, Tata Teleservices and Tata Sons. These investments carried a face value of Rs19 billion in the balance sheet as at March 31, 2009. In Exhibit 15 we present a list of these investments and their estimated fair values. We have assumed a 30% discount to determine the net realizable value.

Exhibit 15

Tata Power: Valuation of Investments

	Shares Held (mn)	Listed/Unlisted	Stock Price/Est Value (Rs/share)	Discount Factor	Fair Value (Rs/share)	Value for TTPW (Rs/share)	Basis for estimated value
Holding in Tata group companies							
<u>Telecom Investments</u>							
- Tata Teleservices Ltd	328	Unlisted	52	30%	36	50	Applied valuation of additional stake acquired by TPWR
- Tata Teleservices Maharashtra Ltd	216	Listed	19.3	30%	14	12	Current market price
- Tata Communications Ltd/ VSNL	8	Listed	237.2	30%	166	5	Current market price
- Panatone Inv Ltd (holding in VSNL)	500	Unlisted	20	30%	14	29	Holding in VSNL through Panatone Inv
Sub total						97	
<u>Non Telecom Investments</u>							
- Tata Sons	0.0	Unlisted	1,052,600	30%	736,820	21	Stake purchase by TPWR
- Rallis	5.0	Listed	1476.5	30%	1,034	22	Current market price
Sub total						43	
<u>Other investments</u>							
- Nelco	11.6	Listed	108.8	30%	76	4	Current market price
Sub total						4	
Grand total						143	

Note: Market prices for listed companies are as on May 25, 2010

Source: Factset, Morgan Stanley Research

Risks to Our Target Price

The key upside risks to our SOTP-based target price are:

- Significant increase in generation capacity
- Additional projects in the transmission or distribution segment.
- Upside to investment in Indonesian coal assets and other investments in group companies
- Upside to returns from the generation projects
- Monetization of investments for investment in the core business

The key downside risks to our target price are:

- Significant changes in regulations that could impair the business in Mumbai and Delhi
- Continued ambiguity about the company's intentions concerning the monetization of investments in group companies
- Significant increase in capex
- Significant downside to earnings for the Indonesian coal assets due to production delays or decline in coal pricing
- Political intervention in India and Indonesia.

May 26, 2010
Tata Power Co

Exhibit 14

Indian Utility Valuation Comparables

Company Name	Market Price (Rs/Share)	Adjusted Price (Rs/Share)	Implied Mkt Cap (US\$ mn)	EV/MW - US\$ mn				Mkt Cap/MW - US\$ mn				EV/EBITDA (x)			
				F2010e	F2011e	F2012e	F2013e	F2010e	F2011e	F2012e	F2013e	F2010e	F2011e	F2012e	F2013e
Reliance Power	145	145	7,265	26.02	18.91	7.44	4.90	24.22	12.11	3.36	1.51	2,440.74	126.30	89.58	44.57
NTPC	192	192	33,212	1.22	1.14	0.97	0.90	1.04	0.95	0.79	NA	14.47	11.76	10.20	NA
Lanco Infratech	54	54	2,736	3.29	2.19	1.58	1.68	1.84	1.06	0.73	0.73	14.28	7.95	6.09	6.83
Tata Power	1,203	901	4,480	2.40	2.27	1.50	1.10	1.59	1.34	0.82	0.57	14.40	13.12	10.16	7.07
KSK Energy Ventures	177	177	1,379	3.57	3.26	1.29	NA	2.51	1.60	0.52	0.30	39.17	13.88	11.45	NA
Reliance Infrastructure	1,029	423	2,006	NA	NA	NA	NA	NA	NA	NA	NA	15.01	7.48	5.53	4.67
Adani Power	114	114	5,230	10.97	4.68	1.98	1.54	7.51	2.64	0.99	0.79	141.64	26.00	7.14	5.20
NHPC	28	28	7,297	1.79	1.46	1.42	1.00	1.38	1.12	1.09	0.77	13.71	13.45	11.30	NA
Jindal Steel and Power	648	434	8,472	7.31	4.62	4.55	2.47	6.67	4.07	3.61	1.78	11.85	10.34	9.24	8.78
JSW Energy	113	113	3,876	3.33	1.66	1.66	1.53	2.48	1.23	1.23	1.14	23.77	9.64	6.72	6.02

Company Name	Market Price (Rs/Share)	Adjusted Price (Rs/Share)	Implied Mkt Cap (US\$ mn)	P/B (x)				ROE (%)				P/E (x)			
				F2010e	F2011e	F2012e	F2013e	F2010e	F2011e	F2012e	F2013e	F2010e	F2011e	F2012e	F2013e
Reliance Power	145	145	7,265	2.53	2.50	2.43	2.43	0.0%	0.6%	1.5%	NM	16,256.05	397.70	157.50	NM
NTPC	192	192	33,212	2.53	2.29	2.06	NA	14.6%	16.1%	16.8%	NA	17.26	14.23	12.28	NA
Lanco Infratech	54	54	2,736	3.72	2.68	2.02	1.61	20.1%	26.1%	25.8%	17.4%	18.45	10.27	7.84	9.23
Tata Power	1,203	901	4,480	2.54	2.28	2.03	1.74	11.8%	12.8%	13.7%	15.6%	21.49	17.82	14.78	11.18
KSK Energy Ventures	177	177	1,379	2.44	2.03	1.67	NA	4.6%	12.8%	15.8%	0.0%	52.86	15.84	10.54	NA
Reliance Infrastructure	1,029	423	2,006	0.54	0.50	0.47	0.44	5.0%	6.3%	7.5%	6.3%	10.83	8.07	6.18	6.92
Adani Power	114	114	5,230	4.08	3.70	2.30	1.65	2.9%	13.9%	37.9%	28.3%	139.21	26.67	6.06	5.84
NHPC	28	28	7,297	1.48	1.40	1.33	NA	6.1%	6.4%	6.7%	NA	24.33	21.84	19.72	NA
Jindal Steel and Power	648	434	8,472	8.36	5.27	3.61	2.73	49.3%	37.0%	31.5%	24.3%	16.96	14.24	11.45	11.24
JSW Energy	113	113	3,876	4.10	3.36	2.30	1.88	16.7%	20.3%	24.1%	25.2%	24.59	16.57	9.57	7.48

Notes:

Stock Prices are as of 5/25/10

Reliance Infrastructure is adjusted for investment in Reliance Power at Rs 606/share (Morgan Stanley Fair value Estimate)

Tata Power price is adjusted for its investment in Indonesian coal assets (Rs 159/share) and investments in group companies (Rs 143/share)

Jindal Steel and Power is adjusted for steel business at Rs 214/share

Exchange Rate of INR/USD = 47.71

KSK Energy, Indiabulls Power, NHPC and JSW Energy are Factset mean Estimates

NA = Not Available; NM = Not Meaningful

Source: Factset, Morgan Stanley Research

Exhibit 15

Global Valuation Comparables

Company Name	MS Rating	Currency	Stock Price	52 Week Range*	PT	Mkt Cap (US\$mn)	EPS			P/E			EV/EBITDA			P/B			
							F10/C09	F11/C10	F12/C11	F10/C09	F11/C10	F12/C11	F10/C09	F11/C10	F12/C11	F10/C09	F11/C10	F12/C11	
European Companies																			
Drax	EW	GBP	326	322-522	420.0	1717	68.3	59.3	41.5	6.1	5.5	7.9	4.4	3.0	4.0	1.4	1.0	1.0	
EDF	OW	EUR	34	31-43	50.0	77273	2.4	2.6	3.2	17.7	13.2	10.8	9.1	7.5	6.8	2.8	2.3	2.1	
Endesa	OW	EUR	18	16-24	25.8	23571	2.2	2.0	1.9	10.8	8.9	9.4	6.1	5.2	5.3	1.6	1.1	1.1	
ENEL	OW	EUR	4	3-4	5.0	40996	0.5	0.5	0.5	8.3	7.1	7.3	6.7	6.0	6.0	1.2	1.0	0.9	
Iberdrola	UW	EUR	5	5-7	5.7	31388	0.5	0.5	0.5	13.2	11.0	10.8	9.1	7.8	7.9	1.3	1.0	0.9	
Scottish & Southern	EW	GBP	1010	1010-1206	1300.0	13183	108.9	113.5	127.4	10.1	8.9	7.9	8.8	8.1 NA		2.9	2.4	2.2	
Average										11.0 x	9.1 x	9.0 x	7.4 x	6.3 x	6.0 x	1.9 x	1.5 x	1.4 x	
Asia-Pacific Companies																			
Cheung Kong Infra.	EW	HKD	28	27-31	29.6	8120	1.8	1.8	1.8	16.0	15.3	15.4	14.7	13.2	13.3	1.7	1.5	1.5	
China Resources Power	OW	HKD	14	14-20	19.5	7744	1.1	1.1	1.3	13.9	13.5	11.2	9.8	9.0	7.3	1.9	1.6	1.5	
CLP Holdings	EW	HKD	55	51-58	55.2	17041	3.3	3.6	3.8	15.7	15.3	14.6	8.6	8.5	8.5	1.9	1.9	1.8	
Hongkong Electric	EW	HKD	48	41-50	43.0	13050	3.1	3.2	3.2	13.4	14.8	14.8	10.9	11.9	11.9	1.8	2.0	1.9	
Huadian Power Int'l	EW	HKD	2	2-3	2.3	1335	0.2	0.0	0.0	9.8	71.1	49.5	9.2	12.2	10.9	0.8	0.6	0.6	
Huaneng Power	EW	HKD	4	4-7	4.9	6907	0.4	0.2	0.2	8.8	16.7	16.1	9.1	10.6	9.6	1.1	1.0	1.0	
Korea Electric Power	EW	KRW	31550	27000-42250	35220.0	17185	-121.6	2852.5	2918.6	NM	11.1	10.8	9.1	7.4	7.1	0.5	0.5	0.5	
Yangtze Power	EW	CNY	12	12-16	14.8	17050	0.5	0.6	0.6	25.6	21.2	19.2	15.7	13.3	12.4	2.8	2.5	2.3	
Tokyo Electric Power	OW	JPY	2277	2085-2540	2800.0	34079	164.5	172.7	194.1	13.8	13.2	11.7	8.7	8.6	NA	1.2	1.1	1.1	
Tenaga Nasional Bhd	OW	MYR	8	7-9	10.7	10629	0.2	1.0	0.8	37.9	7.8	10.1	8.0	6.8	6.4	1.3	1.2	1.1	
Average										17.2 x	20.0 x	17.3 x	10.4 x	10.2 x	9.7 x	1.5 x	1.4 x	1.3 x	
India Companies																			
LANCO Infratech Ltd	EW	INR	54	31-65	44.0	2566	2.9	5.3	6.9	17.8	10.3	7.8	14.6	7.9	6.1	3.5	2.6	1.9	
NTPC	EW	INR	192	187-242	211.0	33731	11.1	13.5	15.6	18.6	14.2	12.3	15.4	11.8	10.2	2.7	2.3	2.1	
Reliance Infrastructure Limited	OW	INR	1029	951-1404	1280.0	4954	34.4	50.6	52.5	29.0	20.3	19.6	26.8	17.6	16.5	1.6	1.6	1.5	
Tata Power Co	EW	INR	1203	995-1519	1087.0	5698	35.5	35.1	31.4	38.7	34.2	38.3	23.6	20.1	20.7	3.1	2.5	2.4	
Average										26.0 x	19.8 x	19.5 x	20.1 x	14.3 x	13.4 x	2.7 x	2.2 x	2.0 x	

Source: Morgan Stanley Research

Data for Indian companies is for Fiscal Year End March 31.

Stock Price are as of May 25, 2010 for Indian and Asian companies and as of May 24, 2010 for the others

NA = Not Available; NM = Not Meaningful



Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of April 30, 2010)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1065	42%	328	42%	31%
Equal-weight/Hold	1118	44%	357	46%	32%
Not-Rated/Hold	14	1%	4	1%	29%
Underweight/Sell	366	14%	88	11%	24%
Total	2,563		777		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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May 26, 2010
Tata Power Co

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Industry Coverage: India Utilities

Company (Ticker)	Rating (as of)	Price* (05/25/2010)
Parag Gupta		
Adani Power (ADAN.BO)	O (02/25/2010)	Rs114.45
LANCO Infratech Ltd (LAIN.BO)	E (04/23/2007)	Rs54.2
NTPC (NTPC.BO)	E (04/23/2007)	Rs192.15
Reliance Infrastructure Limited (RLIN.BO)	O (01/23/2008)	Rs1,029.35
Tata Power Co (TTPW.BO)	E (05/26/2010)	Rs1,203.05

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