

India Update

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Highlights

Sector/event	Impact
POWER: Tata Power – Reclassification of Recommendation and earnings revision	<p>We reclassify Tata Power (TPL) to ADD from Hold (in accordance with our new recommendation structure), as we believe the stock factors in the pain from Mundra losses and taxes on Bumi dividend after the recent correction. Though the management maintained that it would be able to contain losses at Mundra by optimising PLF and using cheaper low-grade fuel, we have factored-in Rs5.5bn in losses in the first full year of operations (FY14) of the plant. Improving visibility over Tubed and Mandakini mines is a positive given the shortage of coal in the domestic market.</p> <p>We lower our FY12 earnings by 12.1% and FY13 earnings by 7.2% led by lower sales at Bumi mines, increase in borrowing costs and delay in CoD of Mundra and Maithon plants. We cut our target price to Rs1,050 from Rs1,140 and reclassify TPL to ADD from Hold. Key downside risks are: 1) Lower-than-expected operational performance of the Mundra facility and possible change in funding structure and 2) Lower realisations and off-take from Bumi mines.</p>

News Snippets

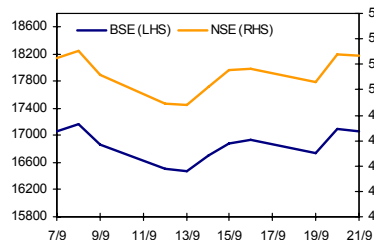
Economy

- Advance tax payment by India's top 100 companies rose a modest 9.9% for the July-September quarter from a year ago against 19% for the April-June quarter, reflecting slowdown in growth and pressure on margins because of rising input costs and higher interest rates. (The Economic Times)
- As currencies of developed nations struggle to maintain supremacy in global financial markets, the yuan is finding favour with Indian firms. Demand for yuan-denominated funds in India is reflected in the government's decision to allow fund-raising up to US\$1bn in the Chinese currency. (Business Standard)

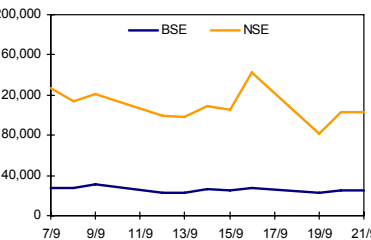
Sectoral

- Unable to find solutions to the recurrent bankruptcy of SEBs, which is holding up the power sector, the government is working on marginalising their role. The Planning Commission is working on a model allowing power discoms to directly buy and sell power in the 12th Plan (2012-17). (The Economic Times)
- The mines ministry has drawn up plans to tighten state-level governance machinery for eradicating delays in grant of mineral concessions, the reason why miners are drawn towards illegal mining practices. (Business Standard)

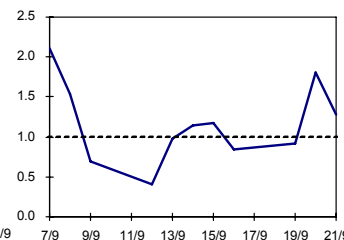
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances & Declines ratio (BSE)



Market data as on Sep 21, 2011

INDICES			
			% chg (DoD)
BSE Sensex	17065		(0.20)
S&P CNX Nifty	5133		(0.14)
BSE 100	8968		0.01
BSE 200	2116		0.08

OVERSEAS MARKETS			
			% chg (DoD)
Dow Jones	11125		(2.49)
Nasdaq Comp.	2538		(2.01)
S&P 500	1167		(2.94)
Hang Seng	18164		(3.51)
Nikkei	8598		(1.63)

ADVANCES/DECLINES (BSE)			
Group	A	B	S
Advances	117	1271	218
Declines	80	941	229
Unchanged	2	86	26

FII TURNOVER (BSE+NSE)* (Rs mn)			
	Bought	Sold	Net
	21,310	17,530	3,790

NEW HIGHS AND LOWS (BSE)			
Group	A	B	S
High	0	33	22
Low	2	29	21

CURRENCY
US\$1 = Rs47.89

* FII turnover (BSE + NSE) as on September 20, 2011

Tata Power (Add)

POWER

RECLASSIFICATION OF RECOMMENDATION AND EARNING REVISION

Mundra losses factored in price

Rs998

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Target price Rs1,050

Earnings revision

(%)	FY12E	FY13E
Sales	↓ 5.2	↓ 7.9
EBITDA	↓ 5.3	↓ 6.3
EPS	↓ 12.1	↓ 7.2

Target price revision

Rs1,050 from Rs1,140

We reclassify Tata Power (TPL) to ADD from Hold (in accordance with our new recommendation structure), as we believe the stock factors in the pain from Mundra losses and taxes on Bumi dividend after the recent correction. Though the management maintained that it would be able to contain losses at Mundra by optimising PLF and using cheaper low-grade fuel, we have factored-in Rs5.5bn in losses in the first full year of operations (FY14) of the plant. Improving visibility over Tubed and Mandakini mines is a positive given the shortage of coal in the domestic market.

We lower our FY12 earnings by 12.1% and FY13 earnings by 7.2% led by lower sales at Bumi mines, increase in borrowing costs and delay in CoD of Mundra and Maithon plants. We cut our target price to Rs1,050 from Rs1,140 and reclassify TPL to ADD from Hold. Key downside risks are: 1) Lower-than-expected operational performance of the Mundra facility and possible change in funding structure and 2) Lower realisations and off-take from Bumi mines.

Table 1: Valuations summary

		Y/E Mar	EPS (Rs)	P/E (x)	EV/E (x)		
Price (20/9/11) (Rs)	998	2010	79.9	12.5	9.7	M.Cap. (Rs bn)	237
52 wk Range (Rs)	1,438/958	2011	84.1	11.9	9.9	M.Cap (US\$ bn)	4.9
Dividend yield FY12E (%)	1.4	2012E	84.8	11.8	7.9	Shares Out (mn)	237.3
BSE Sensex	17099	2013E	88.6	11.3	6.3	Free Float (%)	68.2

Source: Company data, I-Sec Research

- **Mundra losses factored in the price.** We believe that the stock's current price reckons the potential losses at the Mundra plant. We factor Rs5.5bn in losses in the first full year of operations at a lowered PLF of 72%. TPL has maintained that it will manage losses at the plant by optimising PLF and using cheaper low-grade coal.
- **Bumi – to achieve 75mnte in CY13.** The management was sanguine on production estimates from Bumi and guided for a 5% increase in CY11 and 10% rise in CY12. We align our production and sales volume accordingly. TPL is also incurring incremental capex to create infrastructure for lowering costs in future.
- **Growth and dilution to continue beyond Mundra.** The management shared the detailed plan to become a 25GW power company and suggested that equity dilution could be an option to fund growth. Improving visibility of coal mine-based projects such as Tubed and Mandakini is positive.
- **Reclassify to ADD.** We lower our assumptions from Bumi mines (as guided by the management) and factor in increased interest costs (in line with recent debt raisings). Consequently, we lower our earning estimates for FY12 & FY13 by 12.1% & 7.2% respectively and target price to Rs1,050/share from Rs1,140/share

Details in our report '*Mundra losses factored in price*' dated September 21, 2011

Recent reports/updates

Analyst	Company/Sector	Date
Prakash / /Vivek/Aniruddha	Tata Power: Mundra losses factored in price	Sept 21
Vikash / Satish	Subscriber watch (Aug '11): Subscriber additions slump to 5.4mn	Sept 21
Kuldeep / Krupal/ Varun	Infosys: Commentary more measured than peers'	Sept 20
Prakash / /Vivek/Aniruddha	Power Grid: Not immune from sectoral issues	Sept 16
Prakash / /Vivek/Aniruddha	Power Sector: Tariff hike: Good, persistence is the key	Sept 15
Kuldeep / Krupal/ Varun	Infosys: The Strategic Imperatives	Sept 13
Krupal/ Varun	Cement sector: Foundation for the next up-cycle	Sept 13
Vikash / Satish	Zee Entertainment: Sports, more investments = more losses	Sept 13
Rohit Ahuja / Prolin Nandu	Oil & Gas and Petrochemicals Monthly (September '11)	Sept 9
Kuldeep / Krupal/ Varun	TCS: BUYers into weakness	Sept 8
Rohit/Prolin	ONGC: Undemanding valuations	Sept 8
Abhijit / Neerav	Hindalco: Utkal Alumina in quicksand – Part II	Sept 7
Abhijit / Neerav	JSW Steel: Earnings visibility/risk-reward improves further	Sept 5
Chirag / Gagan	Cipla: Signs of a succession plan and	Aug 26
Kuldeep / Krupal/ Varun	MphasiS: Sandwiched at HP	Aug 25
Kuldeep / Krupal/ Varun	Technology: BFSI: Medicine yesterday, poison today?	Aug 25
Prakash / /Vivek/Aniruddha	Power Sector: SEBs – Three defaults and counting...	Aug 25
Abhijit / Neerav	JSW Steel: Pricing in year long uncertainty in Karnataka	Aug 22
Kuldeep / Krupal/ Varun	Infosys Technologies: Playing it safe	Aug 22
Vikash / Satish	ZEEL: Zee Entertainment Enterprises	Aug 18
Vikash / Satish	MTNL: Weak balance sheet, low revenue potential	Aug 18
Abhijit / Neerav	Nalco: Favourably placed vs domestic peers	Aug 17
Vikash / Satish	RCom: Dissapointment is a norm	Aug 17
Kuldeep / Krupal/ Varun	Technology sector: The acquisition imperative	Aug 17
Shaleen Silori	Unitech: Slowdown visible	Aug 17
Shaleen Silori	HDIL: Strong headwinds – TDR volumes remain concern	Aug 16
Krupal/ Varun	Jaiprakash Associates: Short-term pain; long-term growth intact	Aug 16
Abhijit / Neerav	Hindalco: Project risks to create valuation overhang	Aug 16
Kuldeep / Krupal/ Varun	Tech Mahindra: BT revenues at risk?	Aug 12
Rohit Ahuja / Prolin Nandu	HPCL: Priced in	Aug 12
Abhijit / Neerav	Tata Steel: Steady quarter	Aug 12
Rohit Ahuja / Prolin Nandu	BPCL: Rising Uncertainty	Aug 12
Vikash / Satish	TV18 Broadcast: Punished; value emerges	Aug 12
Chirag / Gagan	Ranbaxy Laboratories: 10 burning questions on Lipitor, answered	Aug 11
Kuldeep / Krupal/ Varun	Technology sector: The fallacy of growth	Aug 11
Prakash / /Vivek/Aniruddha	Tata Power: Walking a tight rope	Aug 11
Chirag / Gagan	GSK Pharma: Field force productivity still not optimal	Aug 11
Sanket / Vijit	ABG Shipyard: Business case remains strong	Aug 11
Abhijit / Neerav	Hindalco Industries: Risks abound	Aug 9
Kuldeep / Krupal/ Varun	Mahindra Satyam: Good execution continues	Aug 9
Rohit Ahuja / Prolin Nandu	Gujarat State Petronet: Preferred play on gas	Aug 9
Shaleen Silori	Sobha Developers: H2FY12 looks promising	Aug 9
Kuldeep /Krupal/ Varun	Technology sector: Keep your powder dry	Aug 8
Abhijit / Neerav	Sesa Goa: Liberian acquisition raises concerns	Aug 5
Chirag / Gagan	Cipla: Margin recovery strong and sustainable	Aug 5
Chirag / Gagan	Ranbaxy Lab: Base business profitability under pressure	Aug 5
Krupal/ Kuldeep / Varun	Educomp Solutions: Valuation support	Aug 5
Prakash / /Vivek/Aniruddha	Adani Power: Downside risks persists	Aug 5
Abhijit / Neerav	Usha Martin: Looking for volume triggers	Aug 4
Rohit Ahuja / Prolin Nandu	Oil & Gas and Petrochemicals Monthly (August '11)	Aug 4
Prakash / /Vivek/Aniruddha	Power Grid: Coal issues may hurt execution	Aug 3
Shaleen Silori	DLF: Tough road ahead	Aug 3
Chirag / Gagan	Cipla: Could be at an inflection point	Aug 3
Vikash / Satish	Print: Digging their own grave; going the telecom way	Aug 2
Krupal / Varun	Shree Cement: In line quarter	Aug 2
Shaleen Silori	Prestige Estates: Looking forward to H2FY12	Aug 2
Vikash / Satish	Sun TV Network: Ad performance muted but still ahead of peers	Aug 2
Prakash / /Vivek	Chambal Fertilisers: Strong tailwinds, upgrade for 50% return	Aug 2

New I-Sec investment ratings (all ratings based on absolute return)

BUY: >15% return; ADD: 5% to 15% return; Reduce: Negative5% to positive5% return; SELL: < negative 5% return

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