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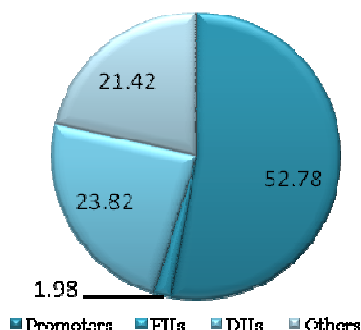
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Investment Details	
CMP (Rs.)	346.0
Target (Rs.)	447.0
Upside Potential (%)	29.3
Horizon (Months)	6-9 M

Profile	
Industry	Power
Market Cap (Rs. cr.)	16346.8
Face Value (Rs.)	10.0
52-week high/low (Rs.)	374/213
Book Value (Rs.)	88.7
Price / Book Value	4.13
PE Ratio (TTM)	15.6
Dividend (%)	30.0
Average Daily Volume (1 Y)	347082

Shareholding Pattern %

Source: BSE. Figures as on June, 2010.



BUY Torrent Power Ltd. (TPL)

We are initiating coverage on Torrent Power Ltd (TPL), promoted by the Rs. ~5000cr Torrent Group. Apart from power, the group is also in healthcare business with Torrent Pharmaceuticals as the listed entity.

Torrent Power, the flagship company of the group has an all-round expertise in generation, transmission and distribution of power. With commissioning of SUGEN, TPL has entered a new growth trajectory. Company doubled its profits in FY10, registering a whopping CAGR of ~99% from FY08 to FY10. Franchisee agreement with Maharashtra State Electricity Distribution in Bhiwandi in 2006 has created a distinct place in the power distribution space. Near term growth triggers are contributed by Agra & Kanpur distribution circles. The company has witnessed strong performance over the years & we remain positive on TPL's performance in Agra & Kanpur. At CMP of Rs.346, the stock is trading at a TTM P/E of 15.6. We recommend a **BUY** with a target price of Rs.447.

KEY INVESTMENT ARGUMENTS

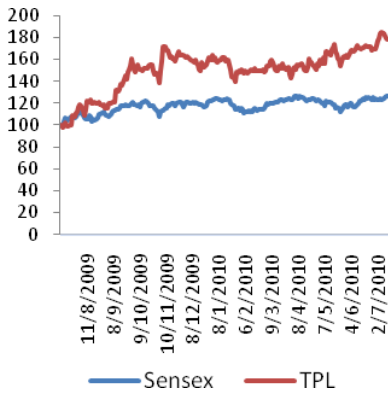
- **TPL has bagged the power distribution rights for Agra & Kanpur**
UPPCL (Uttar Pradesh Power Corporation Ltd.) has signed a MoU with TPL to distribute power in Agra & Kanpur for the next 20 years. U.P. is facing huge transmission losses and rampant power theft. The company will purchase power from the UPPCL and will distribute it to consumers on the rates approved by the UP Electricity Regulatory Commission. TPL is likely to invest Rs.650-700cr in U.P. in the next six months, out of which Rs.150-200cr will be invested in Agra and Rs.500cr will be invested in Kanpur. TPL commenced distribution franchisee operations in Agra on 1st April, 2010.
TPL is expected to kick start its operations in Kanpur by October 2010. This is the first time a private player would be undertaking power distribution in U.P. except for the Noida – Greater Noida area.

- **Brownfield expansion of SUGEN mega power project**
The 1147.5 MW gas based SUGEN plant near Surat caters to the power needs of Ahmedabad, Gandhinagar and Surat to the extent of 800 MW. At least 100 MW is sold on inter-state basis and the remaining as merchant power. During FY10, SUGEN achieved PLF (Plant Load Factor) of 86.05% and dispatched 5,609 MUs (Million Units).

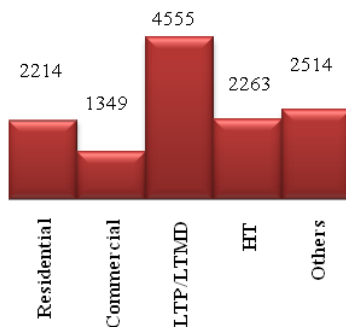
The company has launched SUGEN Unit-40, an addition of one more unit of 382.5MW to bring the total capacity of the plant at 1530 MW. TPL is expected to pump in about Rs 1,500cr for the proposed expansion. The company is aiming to expand the capacity of SUGEN plant by 3,000 MW in phases to create the country's largest gas-based generation facility to the tune of 4,500 MW at a single location. TPL has already acquired necessary land for expansion. EPC contract for the project has been awarded to Siemens AG, Germany and Siemens Ltd, India.

- **TPL to set up a 1200 MW project in Dahej**
TPL is expanding its capacity by 1200MW by undertaking a combined cycle power plant (3 x 400MW) at Dahej (DGEN mega power project), in Bharuch, Gujarat with an investment of ~Rs 6,000cr. DGEN project is

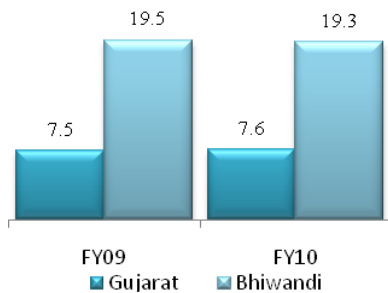
Torrent Power V/s BSE



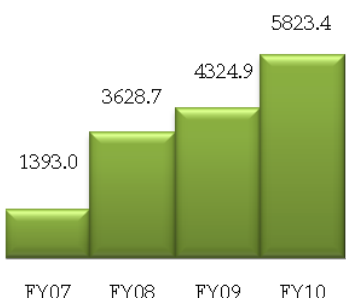
Consumer Category (MUs)- Overall



T&D Losses (%)



Net Sales (Rs. cr.)



being established under the aegis of Torrent Energy Limited (TEL), a wholly-owned subsidiary of Torrent Power Ltd. EPC contract for the project has been awarded to Siemens AG, Germany and Siemens Ltd, India.

➤ **Setting up a 1000 MW coal based power project in Pipavav**

Torrent Pipavav Generation Ltd (TPGL) is setting up a 1000 MW coal based power project at Pipavav, Dist. Amreli, Gujarat. The company has signed an agreement with Gujarat Power Corporation Limited (GPCL), a Government of Gujarat undertaking, for implementation of the project. TPGL has started the process of acquiring land for the project and has also initiated other project related activities. Baitarni coal block in Orissa is allocated for this project. The total investment expected is about Rs. 4500cr.

➤ **Constraints in gas supply to be eliminated**

Reliance Industries Ltd (RIL) has signed gas sales and purchase agreements with TPL for the supply of natural gas from the KG-D6 block. As per the agreement, RIL would supply natural gas to power generation facilities of TPL, at a price of US \$4.2 per mmbtu. The duration of the contract is 5 years. The expected supply of gas to the company would largely eliminate the deficit in gas supply being currently faced by TPL's power units.

➤ **Joint venture with Power Grid for transmission of power**

Torrent Power Grid Limited - a joint venture with Power Grid, is setting up transmission system for evacuation of power from SUGEN. Two phases have already been completed and the third phase is expected to be completed by July 2010. During FY10, Torrent Power Grid Ltd generated revenue of Rs. 2.98cr and made net profit of Rs. 0.98cr.

➤ **Efficient distribution of power**

Gujarat: The sales were higher at 8,045 MUs in FY10 as against 7,665 MUs during FY09, registering a reasonable growth of 4.9%. The overall peak system demand for these distribution areas during FY10 was 1,503 MW, which increased by 4.7% as against 1,435 MW in the previous financial year. T&D losses in Ahmedabad, Gandhinagar & Surat distribution circles were at 7.6% as against 7.5% during the previous financial year. Though T&D losses have shown a marginal increase, they remain one of the lowest in the country.

Bhiwandi: The sales were higher at 2,449 MUs in FY10 as against 2,241 MUs during FY09, registering an impressive growth of 9.3%. The consumer base as on 31st March, 2010 was 1.9 lakhs. The peak system demand for this distribution area was 525 MW, which was marginally lower as against 540 MW, a year earlier. The T&D loss was marginally lower at 19.3% in FY10 as against 19.5% during the previous year.

➤ **Improvement in the financial performance of the company**

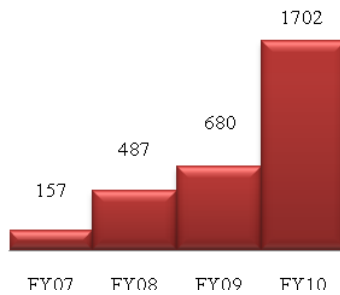
For FY10, the net sales increased by 34.7% to Rs. 5823.4cr on the back of capacity addition of 1147.5MW at SUGEN. The EBITDA reported a whopping 150% jump to Rs.1702cr mainly on account of reduced raw material cost and declining employee cost, thereby operating margins expanded by 1350bps to 29.2%. TPL posted 105% increase in net profit to Rs. 836.6cr from Rs. 407.9cr in FY09 despite significant increase in depreciation and interest costs.

➤ **Additional upside from Carbon credits**

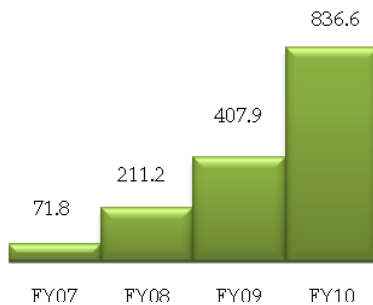
SUGEN Power plant is based on natural gas as fuel and has been approved for clean development mechanism (CDM) benefits and will be eligible for carbon credits as gas-fired plants release less greenhouse gases into the atmosphere. With commissioning of SUGEN capacity, the project is expected to earn almost 3.2 mn carbon credits annually for a period of ~5

years. Presently, carbon credits are trading at Rs. 720 per MT in spot markets and Rs. 846 per MT in futures market (Dec, 2010 expiry).

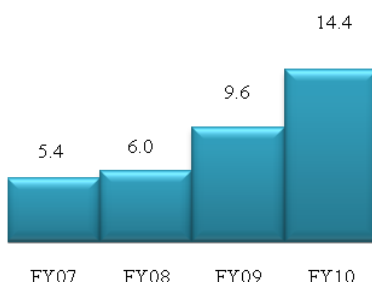
EBITDA (Rs. cr.)



Net Profit (Rs. cr.)



APAT Margin (%)



COMPANY BACKGROUND

Torrent Power Limited is one of the leading brands in the Indian power sector, promoted by the Rs. 5000cr Torrent Group. The company, incorporated in 2004, is engaged in the generation, transmission and distribution of power. The company forayed into the power segment by acquiring management control of Surat Electricity Company (SEC) in 1996-97 and Ahmedabad Electricity Company (AEC) in 1998-99.

Generation

Torrent has a generation capacity of 1647.5 MW and distributes over 10 billion units of power annually to Ahmedabad, Gandhinagar and Surat – the industrial and commercial hubs of Gujarat. The company has three power plants:

a. 400MW Sabarmati TPS- Coal based

This power station comprises of four thermal generating units- C, D, E & F. Unit C is of 60MW, Unit D is of 120MW and Unit E&F are of 110MW each. To meet the fuel requirement of this station, Torrent Power has signed a 5-year fuel supply agreement with South East Coalfield Limited, a subsidiary of Coal India Limited.

b. 100MW Vatva CCPP- Dual Fuel

The capacity of this Combined Cycle Dual Fuel Power Plant (CCPP) is 100MW, located at Vatva, Ahmedabad. The station consists of two gas turbines each of 32.5MW and a steam turbine of 35MW capacity. During FY10, from 500MW capacity of Sabarmati and Vatva power projects, TPL achieved PAF of 95.81% and PLF of 93.44% and dispatched 3,785 MUs.

c. 1147.5MW SUGEN CCPP- Gas based

The gas based mega power SUGEN plant at Akhakhol village near Surat, having capacity of 1147.5 MW and with an outlay of 3,217cr became operational in August 2009. This is the first mega project of the country. The plant consists of three units of 382.5MW each. Each unit is made of advanced class gas turbines, steam turbine, heat recovery steam generator (HRSG) and a common generator in a single shaft configuration with a high operating efficiency. Environmental and social impact of this project is minimal due to (a) use of eco-friendly Natural Gas, (b) use of uncultivated and barren land and (c) no loss of livelihood.

Transmission & Distribution

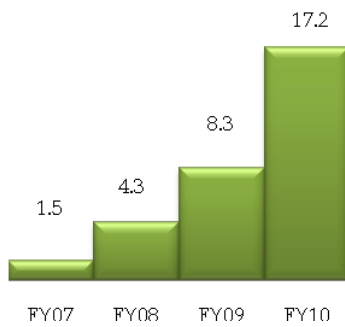
1. Bhiwandi Distribution Area

Bhiwandi has a customer base of 1.6 lakhs in an area spread over 721 sq. km. The estimated demand in the circle is 750 MVA with an annual power consumption of 2400 MUs. Torrent has undertaken this area in December 2006 from Maharashtra State Electricity Distribution Company Limited. This is India’s first distribution franchisee agreement which is valid for an initial term of 10 years.

2. Ahmedabad – Gandhi Nagar and Surat Distribution Area

Torrent Power transmits and distributes over 4BUs of power per annum to its 1.26 million customers spread over 293 Sq. Kms. in Ahmedabad and 63 Sq. Kms. in Gandhinagar.

Earning Per Share (Rs.)



GROUP COMPANIES

- Torrent Pharmaceuticals Ltd
- ✚ •Torrent Private Ltd
- Torrent Cables Ltd

SUBSIDIARIES

- Torrent Power Grid Ltd
- Torrent Energy Ltd
- Torrent Pipavav Gen. Ltd
- Torrent Power Bhiwandi Ltd

3. Agra & Kanpur Distribution Area

Recently, the company has been awarded the distribution franchise for Agra and Kanpur distribution area for a period of 20 years. The company will distribute power for these two areas. In Agra, urban area is spread into 188 sq. km. with customer base of 2.72lakh. The estimated demand of this area stood at 420MW and the Aggregate Technical & Commercial (AT&C) losses in this area is estimated to be 42%. Kanpur urban area spread in 500 sq. km. The customer base of this area is approximately 4.7 lakh and the estimated demand for this area stood at 510MW. The AT&C losses are estimated at around 47%.

KEY CONCERNS

- TPL plants run on gas and coal. The non-availability of gas could hamper the capacity utilization of TPL’s gas based plants. However, the company has signed a gas sales and purchase agreement with Reliance Industries for its gas from KG-D6 for a period of 5 years.
- The company is currently in different stages of business expansion, which requires large funds. Any change in interest rates will affect the bottom-line of the company.
- Distribution franchisee of Bhiwandi circle is subject to financial risks if the T&D losses are not reduced.

VALUATIONS

Commissioning of SUGEN helped the company to improve its operating margin. We expect further expansion of margins as the company is currently increasing its capacity at the plant. The capacity expansion will reduce the company’s dependency on other utilities for power which will help it to reduce its operational expenses. Moreover, considerable inflows from its merchant power business and from the sale of carbon credits are likely to add to its bottom-line and improve margins significantly.

We recommend a “BUY” on the stock with a 6-9 month target price of Rs. 447.

FINANCIAL STATEMENTS

Profit & Loss A/C (Rs. Cr)

Particulars	201003(12)	200903(12)	200803(12)	200703(06)	200609(18)
Net Sales	5823.4	4324.9	3628.7	1393.0	3831.5
Other Income	133.7	143.1	97.0	57.1	153.2
Expenditure	4121.3	3644.7	3141.4	1235.2	3272.6
EBITDA	1702.0	680.2	487.2	157.2	559.5
Depreciation	335.4	183.1	147.9	65.2	290.9
EBIT	1366.7	497.2	339.3	92.0	268.6
Interest	314.4	155.5	59.8	19.4	61.5
PBT	1186.0	484.8	376.5	129.6	360.2
Tax	349.5	76.9	165.3	57.9	181.0
PAT	836.6	407.9	211.2	71.8	179.3
APAT	836.2	413.9	217.1	74.7	186.4
Dividend (%)	30.0	20.0	12.0	4.0	12.0
EBITDA Margin (%)	29.2	15.7	13.4	11.3	14.6
APAT Margin (%)	14.4	9.6	6.0	5.4	4.9

Key Ratios

	201003(12)	200903(12)	200803(12)	200703(06)	200609(18)
Debt/ Equity Ratio	0.9	1.1	1.0	0.7	0.3
Interest Coverage Ratio	4.3	3.2	5.7	4.7	4.4
RONW (%)	23.2	13.5	7.8	2.8	
ROCE (%)	19.0	7.9	6.5	2.2	
Current Ratio	1.4	1.2	0.9	0.7	0.8
Total Debt/EBIT	2.6		8.5	21.0	3.4
RoTA	18.0	7.3	5.9	2.0	7.6
EPS (Rs.)	17.2	8.3	4.3	1.5	3.6
CEPS (Rs.)	24.3	12.2	7.4	2.8	9.8
Book Value (Rs.)	83.8	68.4	61.2	57.3	55.7
P/E	16.8				
EV/EBITDA	9.5	9.5	16.5	29.7	1.5
P/BV	3.4	1.1	1.8		

Balance Sheet (Rs. Cr.)

Particulars	201003(12)	200903(12)	200803(12)	200703(06)	200609(18)
Equity Share Capital	472.5	472.5	472.5	472.5	472.5
Total Reserves	3487.7	2761.0	2417.3	2232.9	2159.6
Net Worth	3960.2	3233.4	2889.8	2705.4	2632.1
Total Debt	3615.3	3607.0	2871.9	1927.9	910.4
Total Liabilities	7575.5	6840.4	5761.7	4633.3	3542.5
Gross Block	7590.5	4348.4	3689.2	2985.7	2800.0
Less: Acc. Depreciation	1058.7	710.2	517.4	364.2	297.2
Net Block	6531.8	3638.2	3171.9	2621.5	2502.8
CWIP	170.7	2867.1	2814.9	2247.6	978.8
Investments	357.9	157.8	61.9	125.3	207.8
Inventories	144.1	168.0	165.8	152.8	93.9
Debtors	542.9	487.6	412.8	342.8	343.6
Cash	1171.4	640.5	185.9	41.3	55.1
Loan and Advances	735.4	453.7	480.5	357.9	338.1
Total Current Assets	2593.8	1749.7	1245.0	894.7	830.7
Total Current Liabilities	1819.8	1455.9	1439.2	1224.3	986.6
Net Current Assets	774.1	293.8	-194.2	-329.5	-155.9
Misc. Exp not written off	0.0	0.0	0.0	0.0	0.0
Net Deferred Tax	-258.9	-116.5	-92.7	-31.5	9.1
Total Assets	7575.5	6840.4	5761.7	4633.3	3542.5

Cash Flow Summary (Rs. Cr.)

Cash Flow Summary (Rs. Cr.)	201003(12)	200903(12)	200803(12)	200703(06)	200609(18)
Cash & Equv. in Beginning	640.5	212.0	84.5	180.4	472.0
Net Cash from OA	1666.2	668.1	458.5	409.0	569.4
Net Cash Used in IA	-547.4	-793.5	-1248.3	-1410.2	-1304.1
Net Cash Used in FA	-419.9	554.0	917.2	905.2	443.1
Cash & Equ. at end of the year	1339.4	640.5	212.0	84.4	180.4
* Free cash Flow	1105.7	-200.3	-863.7	-1027.6	-729.5

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