

COMPANY

UPDATE

Tata Power Company Ltd.

Indonesian woes trigger earnings downgrade
BUY

Analyst

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Nifty: 4,840; Sensex: 16,146

CMP	Rs1,046
Target Price	Rs1,203
Potential Upside/Downside	15%

Key Stock Data

Sector	Power Generation
Bloomberg / Reuters	TPWR IN / TTPW.BO
Shares o/s (mn)	237.3
Market cap. (Rs mn)	248,200
Market cap. (US\$ mn)	5,389
3-m daily average vol.	16,090

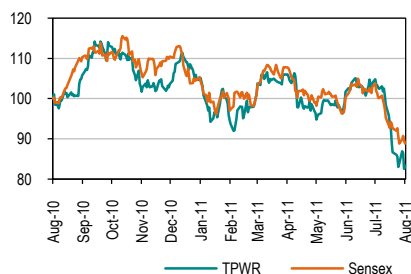
Price Performance

52-week high/low	Rs1,465/1,007
	-1m -3m -12m
Absolute (%)	(21) (12) (17)
Rel to Sensex (%)	(6) (3) (5)

Shareholding Pattern (%)

Promoters	31.8
FII/IRIs/OCBs/GDR	23.6
MFs/Banks/FIs	28.5
Non Promoter Corporate	0.7
Public & Others	15.4

Relative to Sensex



Source: Capitaline

Summary

Tata Power Company Ltd. (TPWR) approached Ministry of Power (MoP) in light of potential project losses expected at its Mundra UMPP (4000MW) due to rise in Indonesian coal prices after change in Indonesian coal mining laws. However, MoP seems to be staying away from the matter as it has directed TPWR to sort out the issue directly with the procurers. In absence of any positive development, we cut our revenue and APAT estimates by 5%/2% and 2%/23% for FY12E/FY13E respectively. Consequently, our RoEs stand revised down to 14.3%/10.5% (earlier 14.6%/13.4%) for FY12E/FY13E. Despite the cut in revenue and APAT estimates for TPWR, we remain positive on the company. Maintain BUY with a revised target price of Rs1,203/share.

■ We revise down our Revenue and APAT estimates

We believe, due to increase in imported coal price, TPWR would incur potential losses at its Mundra UMPP. We have increased our coal price assumption to US\$83/ton (earlier US\$67/ton), which would lead to 54paise/unit loss at average tariff of Rs2.26/unit in first year of full operation (FY14). That said, the cash loss over the life of UMPP would be Rs31 bn (-Rs130/share). In the given scenario, we have revised down our revenue estimate to Rs234 bn (-5%)/Rs283 bn (-2%) for FY12E/FY13E. Our APAT stands revised at Rs22.4 bn (-2%)/Rs18.7 bn (-23%) for FY12E/FY13E.

Table: Estimate revision

(Rs mn)

	FY12E			FY13E		
	Old	New	% Change	Old	New	% Change
Revenue	2,47,393	2,34,000	(5)	2,88,540	2,83,200	(2)
EBITDA	58,647	57,306	(2)	69,151	68,956	(0)
APAT	22,883	22,443	(2)	24,155	18,673	(23)
EPS (Rs)	96.4	94.6	(2)	101.8	78.7	(23)
RoE (%)	14.6	14.3	(2)	13.4	10.5	(22)

Source: IDBI Capital Research

■ Our target price stands cut at Rs1,203/share

We have increased our Average Selling Price (ASP) assumption for TPWR's coal to be sold in Indonesia to US\$85/tonne (earlier US\$80/tonne) for FY12E and US\$80/tonne (earlier US\$75/tonne) sustainable over a long period. As we adjust for our new coal price assumptions at Mundra UMPP and Indonesian coal interest of TPWR, the combined value for Mundra and coal asset comes to Rs368/share. Wherein, coal asset contributes Rs498/share and Mundra UMPP negates Rs130/share. Our weighted average price target (equal weightage to SOTP and P/BV) stands cut to Rs1,203/share (earlier Rs1,407/share).

Key Risk: Indonesian coal price volatility

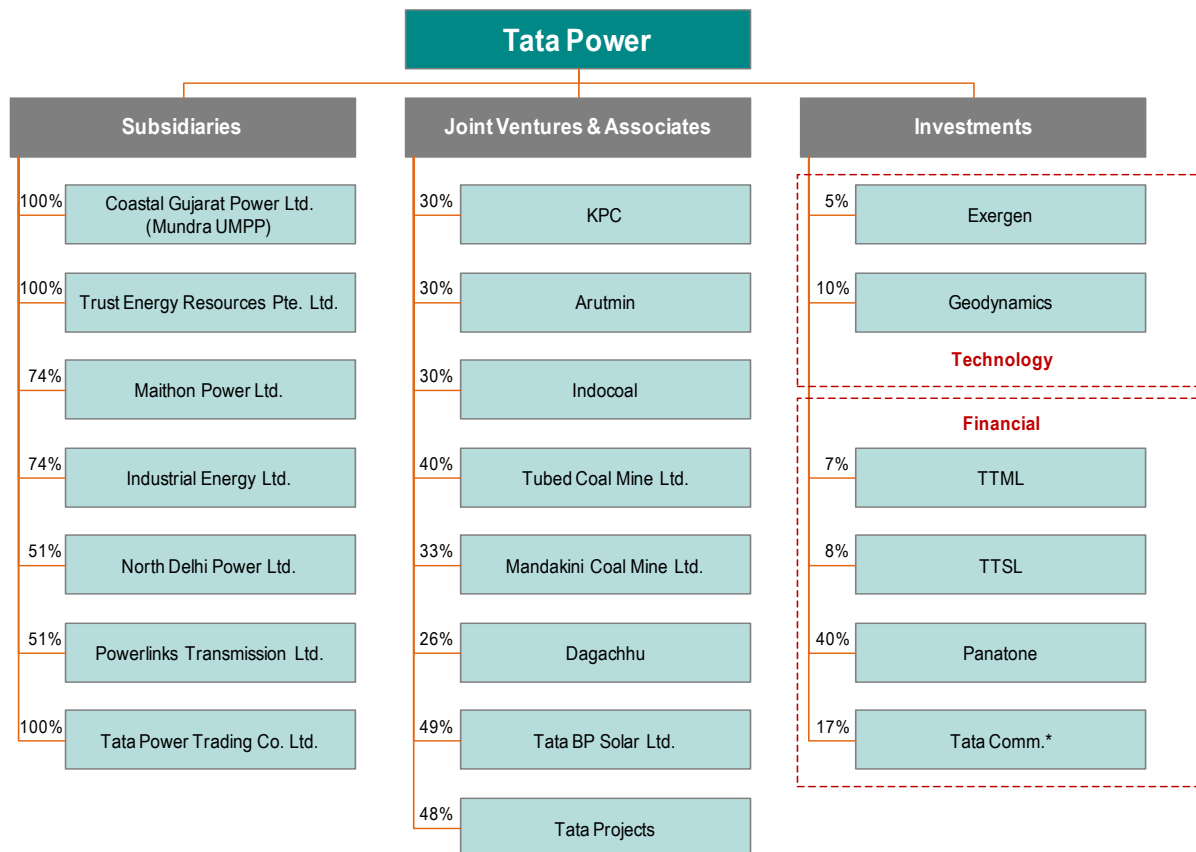
Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	Adj. PAT	EPS (Rs)	BV (Rs)	P/E (x)	P/B (x)	ROE (%)	ROCE (%)
FY10	189,858	38,532	19,052	80.8	534.8	12.9	2.0	17.2	12.3
FY11	194,508	45,964	19,854	83.7	611.8	12.5	1.7	14.6	11.0
FY12E	234,000	57,306	22,443	94.6	708.6	11.1	1.5	14.3	12.3
FY13E	283,200	68,956	18,673	78.7	793.0	13.3	1.3	10.5	11.7

Source: Company; IDBI Capital Research

Diagram: Tata Power’s company structure



* Includes indirect holding in Tata Communication through Panatone

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY10	FY11	FY12E	FY13E
Net sales	189,858	194,508	234,000	283,200
Growth (%)	5.1	2.4	20.3	21.0
Operating expenses	(151,326)	(148,544)	(176,693)	(214,244)
EBITDA	38,532	45,964	57,306	68,956
Growth (%)	5.6	19.3	24.7	20.3
Depreciation	(8,930)	(9,811)	(10,833)	(15,905)
EBIT	35,491	40,258	53,599	60,889
Interest paid	(7,818)	(8,684)	(12,946)	(22,416)
Other income	5,889	4,105	7,125	7,838
Pre-tax profit	27,673	31,575	40,653	38,473
Tax	(6,287)	(9,756)	(14,296)	(15,725)
Effective tax rate (%)	22.7	30.9	35.2	40.9
Net profit	21,386	21,819	26,357	22,748
Adjusted net profit	19,052	19,854	22,443	18,673
Growth (%)	59.9	4.2	13.0	(16.8)
Shares o/s (mn nos)	236	237	237	237

Balance Sheet

(Rs mn)

Year-end: March	FY10	FY11	FY12E	FY13E
Net fixed assets	224,658	313,844	284,567	350,161
Investments	30,823	28,410	33,926	49,277
Other non-curr assets	46,668	49,758	49,690	49,690
Current assets	96,901	110,928	178,723	218,840
Inventories	9,539	11,333	14,104	17,070
Sundry Debtors	39,845	50,689	67,315	77,589
Cash and Bank	23,108	22,066	61,402	80,732
Loans and advances	24,089	26,589	35,260	42,674
Total assets	399,050	502,939	546,905	667,967
Shareholders' funds	126,101	145,179	168,155	188,179
Share capital	2,373	2,373	2,373	2,373
Reserves & surplus	111,631	128,663	147,726	163,675
Total Debt	184,469	247,624	282,470	371,792
Secured loans	147,001	195,507	230,353	319,675
Unsecured loans	37,468	52,117	52,117	52,117
Other liabilities	198,868	262,674	297,520	386,842
Curr Liab & prov	88,657	112,897	101,557	112,183
Current liabilities	74,081	95,087	81,231	92,946
Provisions	14,576	17,810	20,326	19,237
Total liabilities	272,949	357,761	378,750	479,788
Total equity & liabilities	399,050	502,939	546,905	667,967
Book Value (Rs)	535	612	709	793

Cash Flow Statement

(Rs mn)

Year-end: March	FY10	FY11	FY12E	FY13E
Pre-tax profit	27,673	31,575	40,653	38,473
Depreciation	6,470	8,746	10,833	15,905
Tax paid	(7,133)	(9,311)	(14,228)	(15,725)
Chg in working capital	(5,018)	5,868	(41,925)	(8,938)
Other operating activities	5,800	(147)	523	582
Cash flow from operations (a)	27,793	36,731	(4,144)	30,298
Capital expenditure	(73,664)	(97,932)	18,444	(81,499)
Chg in investments	1,689	2,413	(5,516)	(15,351)
Other investing activities	-	-	-	-
Cash flow from investing (b)	(71,975)	(95,519)	12,928	(96,850)
Equity raised/(repaid)	15,500	(12)	-	-
Debt raised/(repaid)	43,035	63,155	34,846	89,322
Dividend (incl. tax)	(3,344)	(3,395)	(4,196)	(3,622)
Chg in minorities	319	81	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	55,510	59,829	30,649	85,700
Net chg in cash (a+b+c)	11,328	1,041	39,433	19,149

Financial Ratios

Year-end: March	FY10	FY11	FY12E	FY13E
Adj EPS (Rs)	80.8	83.7	94.6	78.7
Adj EPS growth (%)	50.9	3.5	13.0	-16.8
EBITDA margin (%)	20.3	23.6	24.5	24.3
Pre-tax margin (%)	14.6	16.2	17.4	13.6
Net margin (%)	10.0	10.2	9.6	6.6
ROE (%)	17.2	14.6	14.3	10.5
ROCE (%)	12.3	11.0	12.3	11.7
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.5	0.4	0.4	0.5
Leverage factor (x)	3.2	3.3	3.4	3.4
Net Debt/Equity (x)	1.3	1.6	1.3	1.5
Working Capital & Liquidity ratios				
Inventory days	18	21	22	22
Receivable days	77	95	105	100
Payable days	144	190	126	126

Valuation

Year-end: March	FY10	FY11	FY12E	FY13E
PER (x)	12.9	12.5	11.1	13.3
Price / Book value (x)	2.0	1.7	1.5	1.3
PCE (x)	8.8	8.4	7.5	7.2
EV / Net sales (x)	2.2	2.4	2.0	1.9
EV / EBITDA (x)	10.6	10.3	8.2	7.8
Dividend Yield (%)	1.2	1.2	1.4	1.2



Notes

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Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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