



Tata Power

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,293	TPWR IN
	REUTERS CODE
S&P CNX: 4,266	TTPW.BO

23 June 2008

Buy

Rs1,191

Previous Recommendation: Buy

Equity Shares (m)	232.9
52-Week Range	1,650/595
1,6,12 Rel. Perf.(%)	-3/18/88
M.Cap. (Rs b)	277.4
M.Cap. (US\$ b)	6.5

YEAR	NET SALES	PAT*	EPS*	EPS*	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	47,153	5,744	27.0	26.2	44.1	4.3	9.5	4.8	5.4	35.4
03/08E	59,159	6,851	32.2	19.3	37.0	3.7	7.6	6.4	5.0	31.7
03/09E	59,675	14,442	67.9	110.8	17.5	3.4	8.0	7.3	4.9	25.6
03/10E	64,835	22,348	96.0	41.3	12.4	2.8	9.0	8.6	4.5	19.4

* Consolidated incl share of profit from Bumi Resources, Pre Exceptionals, Fully Diluted

- FY08 performance boosted by extraordinaries:** During FY08, Tata Power reported standalone revenues of Rs59.2b, EBIDTA of Rs9.6b and reported net profit of Rs8.7b. Reported numbers include several one-offs such as 1) profit on sale of long term investment of Rs3.1b, 2) Forex gain of Rs320m, 3) Tax write back of Rs294m. Adjusted for the same, net profit stood during FY08 stood at Rs4.9b (up 6.1% YoY).
- Dividend receipt of US\$75m from KPC / Arutmin mines is a positive surprise:** During FY08, consolidated profit stood at Rs10.6b, while adjusted for one offs, profits stood at Rs6.9b. Share of profit from KPC and Arutmin mines stood at Rs140m, lower than estimates, as the tax provision stood at US\$50m during FY08. Key positive surprise has been dividend receipt of US\$75m from the KPC and Arutmin mines, payout ratio of ~60%+. Tata Power has also re-financed the acquisition debt upto US\$900m (total US\$950m) linked at Euro LIBOR.
- Update on project progress:** 1) Financial closure for Mundra UMPP and Maithon project achieved, and equipment order has been awarded. 2) Entered into long term contract for 3 ships, for coal import for Mundra, Coastal Maharashtra, etc and has also taken option to acquire 4 ships. Total capacity addition expected in FY09 is ~600MW, comprising of Haldia (120MW), Trombay (250MW), Wind (100MW), and Jojobera (120MW).
- Maintain Buy:** We expect Tata Power to report consolidated net profit of Rs14.4b for FY09 and Rs22.3b in FY10. We arrive at a target price of Rs1,600/sh based on SOTP methodology. At the CMP of Rs1,191, the stock trades at consolidated PER of 17.5x FY09E and 12.4x FY10E. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(Rs Million)

Y/E MARCH	FY07				FY08				FY07	FY08
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Total Operating Income	13,766	12,008	12,005	11,713	15,115	13,506	14,194	16,345	49,393	59,159
Change (%)	25.3	13.1	-2.5	0.0	9.8	12.5	18.2	39.5	8.3	19.8
EBITDA	2,581	2,495	2,108	2,290	2,903	2,614	2,682	1,426	9,474	9,624
Change (%)	7.1	3.8	7.1	45.6	12.5	4.7	27.2	-37.7	13.4	1.6
As of % Sales	18.7	20.8	17.6	19.5	19.2	19.4	18.9	8.7	19.2	16.3
Depreciation	760	731	735	693	714	709	705	777	2,919	2,905
Interest	524	388	510	473	594	414	386	282	1,895	1,676
Other Income	410	783	460	1,787	685	1,404	368	2,202	3,440	4,658
PBT	1,706	2,160	1,322	672	2,279	2,895	1,960	2,568	5,860	9,701
Tax	488	137	-1,477	-255	377	320	-13	318	-1,108	1,002
Effective Tax Rate (%)	28.6	6.3	-111.7	-38.0	16.5	11.1	-0.7	12.4	-18.9	10.3
Reported PAT	1,218	2,023	2,799	927	1,902	2,574	1,973	2,250	6,968	8,699
Adjusted PAT	1,130	1,682	1,205	638	1,832	1,634	1,496	915	4,655	4,940
Change (%)	3.1	33.8	26.0	-39.3	62.2	-2.8	24.2	43.4	6.8	6.1

E: Most Estimates

FY08 performance boosted by extra ordinaries

During FY08, Tata Power reported standalone revenues of Rs59.2b, EBIDTA of Rs9.6b and reported net profit of Rs8.7b. Reported number include several one-off items such as 1) profit on sale of long term investment of Rs3.1b, 2) Forex gain of Rs320m, 3) Tax write back of Rs294m. Adjusted for the same, net profit stood during FY08 stood at Rs4.9b (up 6.1% YoY). During FY08, Tata Power sold stake in Tata Teleservices Maharashtra (now 8% vs 11% earlier) and PTC India, which has resulted in capital gains of Rs3.1b.

During FY08, Consolidated profit stood at Rs10.6b. North Delhi Power Limited reported net profit of Rs2.8b (up 51.7% YoY) while Powerlinks Transmission reported PAT of Rs584.1m. Share of profit from KPC and Arutmin mines stood at Rs140m, lower than estimates as the company provided for tax of US\$50m during FY08. Key positive surprise has been dividend receipt of US\$75m from the KPC and Arutmin mines, which results in payout ratio of ~60%.

Five fold increase in capacity by FY15

Tata power currently has a project pipeline of 10,463MW, of which 5,763MW (including Mundra UMPP 4,000MW and Maithon Power 1050MW) are in the various stages of development while 4,700MW (incl Coastal Maharashtra 2,400MW and Tata Steel Captive power projects 2,000MW) are under planning stage. Successful implementation will result in eventual capacity of 12,831MW by FY14/FY15 from current capacity of 2,368MW.

Update on project progress: 1) Mundra power project – Financial closure for the project has been achieved and equipment orders have been placed largely for the entire project. The company has started the civil construction work at the site (Boiler erection building, etc) and significant part of the land required for the project is already in place. Management is hopeful of commissioning two units of 800MW each by September 2011. The company has also formed a subsidiary in Mauritius for the shipping business and has entered into long term contract for chartering 3 ships, plus an option to acquire 4 ships. 2) Maithon power project – Financial closure for the project has been completed and equipment orders have been placed. 3) 250 MW Trombay unit is progressing as per schedule and is likely to be commissioned by October 2008, 4) 100MW of wind power is expected to be commissioned by end FY09, 5) 90MW Phase 1 Haldia power project commissioned in 1QFY09. Management expects the total capacity addition in FY09 at ~600MW, comprising of Haldia (120MW), Trombay (250MW), Wind (100MW), and Jojobera (120MW).

PROJECTS UNDER IMPLEMENTATION STAGE

	CAPACITY (MW)	FUEL	COST	% STAKE	TARGET (MAR-08)	COMMENTS
Trombay	250	Imported Coal	US\$250m	100	Oct-08	Orders for Main Plant & Equipment and Balance of Plant placed with BHEL Boiler Drum Lifting completed Boiler Hydro completed
Haldia	120	Hot Fuel Gas	US\$140m	100	90 MW in Mar-08 30 MW in Oct-08	Waste heat recovery power plant 6 MW to fuel supplier Boiler – Thermax, Turbine – BHEL, BoP Tata Projects
Wind Power	100 37	-	US\$ 125m US\$44m	100	2H 2008 1H 2008	Will meet renewable energy obligations Will be set up in Karnataka, Maharashtra and Gujarat; Order placed with Enercon
Mundra Project	4,000	Imported Coal	US\$ 4250m	100	CY2012	Orders for Boiler (Doosan) and Turbine (Toshiba); Land acquisition largely done, Fuel linkages from Bumi resources
Maithon Project	1,050	Domestic Coal	US\$ 1100m	74	525 MW in Oct-10 525 MW in 2011	JV with Damodar Valley Corporation (DVC) Land - 1,120 acres already acquired LoI issued to BHEL for BTG Package Long term coal linkage from BCCL for 4.86 MTPA PPA for 300 MW with DVC, MoU with TPTCL for 750 MW
Tata Steel Phase I	120	Coke Oven Gases	US\$120m	74	Aug-08	To meet Tata Steel's expansion requirements Orders placed with BHEL and Alstom Orders placed with BHEL and Alstom
Tata Steel Phase II	120	Domestic Coal	US\$150m	74	Sep-09	To meet Tata Steel's expansion requirements Orders placed with various vendors

Source: Company

PROJECTS IN PIPELINE

	CAPACITY (MW)	FUEL	COST	% STAKE	COMMENTS
Coastal Maharashtra	2,400	Imported coal	US\$1,900m/ US\$2,800m	100	In discussion with Govt. of Maharashtra for land acquisition
CPPs for Tata Steel	1,270	Domestic Coal	US\$2200m for	74	To meet Tata Steel's expansion requirements
Mandakini Coal Block	1,000	Domestic Coal	both projects	100	
Wind Power	300	-	US\$375m	100	Renewable Energy
Thermal Power Project in JV	1,000	Domestic Coal		40	In JV with Hindalco based on captive coal block (reserves of 189m ton)
Total Projects	5,970				

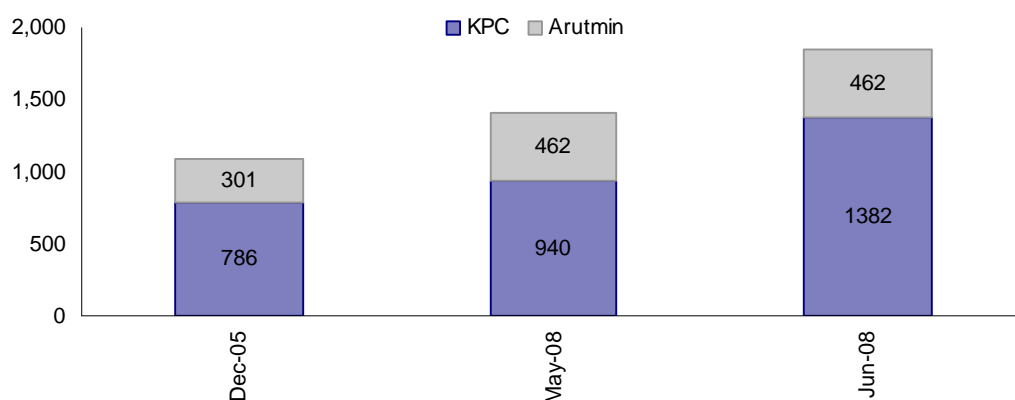
Source: Company

Bumi Resources updated reserves stands at 1.8b tons

During June 2008, Bumi Resources has announced accretion of 442m tons to marketable coal reserves, to take its total reserves to 1.8b tons, up 31.5%. In May 08, Bumi Resources had announced marketable coal reserves of 1,402 m tons (vs 1,087m ton in Dec 05, up 29%). Thus, the recent revision increases marketable reserves by 69% over the past 2 months. New coal discovery has been in Pedayak mine in KPC concession. The

management stated that final figure for marketable reserves is likely to be substantially higher than 1.84b tons presently indicated, when the company will declare its updated reserves as at June 08, during Aug 08. The company expects the total reserves to rise significantly by year end 2008 given that drilling is in progress for various blocks and that only 45% of KPC mine is explored till date.

TREND IN PROVEN RESERVES FOR BUMI RESOURCES (M TONS)



Source: Bumi resources

Bumi is expected to report net profit (Bloomberg estimates) of US\$874m in CY08 (up 137% YoY) and US\$1.5b in CY09 (up 71% YoY). This is expected to boost contribution to the consolidated earnings for Tata Power. Tata Power has also re-financed the acquisition debt of upto US\$860m (total debt of US\$950m) linked at Euro LIBOR (average cost of debt is expected at 7%).

FINANCIAL PERFORMANCE (RS M)

	CY07A	CY08E	CY09E
Sales	90,600	159,424	221,145
EBIDTA	21,760	72,540	119,852
EBIDTA Margin (%)	24.0	45.5	54.2
Profit after Tax	31,560	34,078	56,620
PAT Margin (%)	34.8	21.4	25.6

Source: Bloomberg

MANAGEMENT GUIDANCE FOR CY08

	CY08E	CY07A	% VAR
Sales volume (m tons)	61.0	55.4	10.1
Strip ration	9.5x	9.0x	-
Prices (US\$/ton)			
-First guidance	54		
-Second guidance	64		
-Current guidance	70	44	59.0
Fuel cons. (ltr/bcm)	1.35	1.2	0.15
Fuel prices (\$/ltr)	80	58	22

Source: Bumi Resources

Project funding, warrants issue to Tata Sons

Tata Power has issued 10.4m warrants to Tata Sons at price of Rs1,351.6/sh, entailing infusion of Rs14.1b. For projects under implementation stage, Tata Power will require equity investment of Rs60b. Equity portion is expected to be funded as: 1) Rs29b through internal accruals (over FY08-12), 2) Rs19b raised through preferential issue/warrants to promoters and 3) Balance by either disinvestment of various holding or assets or further equity dilution.

Financials and valuations

We expect Tata power to report consolidated net profit of Rs14.4b for FY09 and Rs22.3b in FY10. We arrive at a target price of Rs1,600/sh based on SOTP methodology comprising of: Power business at Rs437/sh, Defense business at Rs9/sh, Delhi distribution business at Rs81/sh, Investments and Cash balance at Rs424/sh, stake in Bumi resources at Rs507/sh, Mundra UMPP at Rs38/sh, Coastal Maharashtra project at Rs4/sh, Coal mine allocation of Rs134/sh, Maithon power project at Rs53/sh, less debt at Rs87/sh. At the CMP of Rs1,191, the stock trades at consolidated PER of 17.5x FY09E and 12.4x FY10E. **Maintain Buy.**

TATA POWER: SOTP VALUE

	RS M	RS/SH	BUSINESS SEGMENT	METHOD
Power Business (Mumbai, IPPs, etc)	101,766	437	Power Utility	DCF, WACC 10.7%
Defense Business	2,120	9	Defense	EV/EBIDTA, 15x FY10E
Delhi Distribution	18,930	81	Power Distribution	PER, 15x FY10E
Tata BP Solar	3,680	16	Solar Cells, etc	PER, 30x FY10E
Investments in Power (Powerlinks Transmission, Maithon Power, etc)	3,103	13	Power Transmission, Generation, etc	RoE 18-20%, 1.3x P/BV
Investments				
Tata Sons	11,099	48	Investment Company	Value of investment, Discount of 20% to Market Value
Aftaab Investments	7,192	31	Investment Company	Value of investment, Discount of 20% to Market Value
Telecom Investments	55,682	239	Investments in Tata Tele and VSNL	Tata Tele: 100% premium to Temasek stake sale valuation (1QFY07); Discount of 20% to Market Value
Govt Bonds, MF, etc	8,668	37	Investments	Book value
Bumi Resources	117,963	507	Investments	Net of Acquisition Debt, 20% discount to CMP
Cash in Hand	9,404	63		Book value
	339,606	1,458		
Growth Option				
Mundra Power Project	8,942	38	Power Generation	DCF, COE 14%
Coastal Maharashtra Power Project	960	4	Power Generation	Book Value of Investments till Mar 08, given that land acquisition is pending
Coal Mine Allocation	31,187	134	Coal Mining	DCF, COE 13%
Maithon Power Project	12,286	53	Power Generation	DCF, COE 13%
Less: Debt	21,483	87		Excl FCCB, Assumed conversion
Equity Value	328,025	1,600		

Source: Motilal Oswal Securities

INCOME STATEMENT						(RS MILLION)				
Y/E MARCH	2006	2007	2008E	2009E	2010E					
Total Revenues	45,609	47,153	59,159	59,675	64,835					
Cost of Electrical Energy pur.	5,832	6,646	5,489	11,692	9,588					
Cost of fuel	23,965	27,089	37,150	28,973	32,199					
Administration & Other Exps	7,212	6,157	7,217	7,578	7,957					
EBITDA	8,335	7,234	9,304	11,432	15,092					
% of Total Revenues	18.3	15.3	15.7	19.2	23.3					
Depreciation	2,783	2,919	2,905	3,436	4,139					
Interest	1,653	1,895	1,676	1,989	2,451					
Other Income	3,256	3,440	4,978	1,806	2,103					
Contingency Provision	-319	0	0	0	0					
PBT	7,475	5,860	9,701	7,814	10,604					
Tax	-1,369	1,108	-1,002	-1,569	-2,501					
Rate (%)	-18.3	18.9	-10.3	-20.1	-23.6					
Reported PAT	6,105	6,968	8,699	6,245	8,103					
Change (%)	10.7	14.1	24.8	-28.2	29.7					
Recurring PAT	4,361	4,945	4,940	6,245	8,103					
Change (%)	33.1	13.4	-0.1	26.4	29.7					
Consolidated PAT*	4,549	5,744	6,851	14,442	22,348					
Change (%)	-7.4	26.2	19.3	110.8	54.7					
Dividend (Inc. tax)	1,919	2,202	2,329	2,329	2,794					

* Excl share of profit from Bumi Resources

BALANCE SHEET						(RS MILLION)				
Y/E MARCH	2006	2007	2008E	2009E	2010E					
Share Capital	1,979	1,979	2,329	2,329	2,329					
Reserves	47,823	52,594	73,633	78,945	96,811					
Net Worth	49,803	54,573	75,962	81,274	99,140					
Loans	27,550	36,334	21,483	28,883	33,000					
Capital Contribution from cus	418	422	422	422	422					
Appropriation towards projec	5,336	5,336	5,336	5,336	5,336					
Capital Employed	83,107	96,665	103,202	115,914	137,898					
Gross Fixed Assets	59,247	62,297	74,856	84,482	94,229					
Less: Depreciation	29,217	31,994	34,937	38,372	42,512					
Net Fixed Assets	30,030	30,303	39,919	46,110	51,718					
Capital WIP	2,118	7,811	6,540	8,180	0					
Investments	34,122	35,702	43,636	54,148	65,105					
Deferred Tax Asset	162	-57	372	372	372					
Curr. Assets	29,730	40,418	28,116	24,484	36,549					
Inventory	4,423	3,964	3,300	3,000	3,300					
Debtors	10,582	14,782	7,182	5,500	5,500					
Cash & Bank Balance	9,905	13,677	9,404	9,484	21,249					
Loans & Advances	4,820	7,994	8,230	6,500	6,500					
Current Liab. & Prov.	13,210	17,573	15,536	17,536	16,002					
Sundry Liabilities	7,318	11,257	9,094	11,094	9,094					
Provisions	5,892	6,316	6,442	6,442	6,908					
Net Current Assets	16,520	22,845	12,579	6,948	20,547					
Misc Expenses	155	62	156	156	156					
Application of Funds	83,107	96,665	103,202	115,914	137,898					

E: M O S t Estimates

RATIOS					
Y/E MARCH	2006	2007	2008E	2009E	2010E
Basic EPS (Rs) (Recurri	22.0	25.0	21.2	26.8	34.8
Consolidated EPS	23.0	29.0	29.4	62.0	96.0
Fully Diluted Consolida	21.4	27.0	32.2	67.9	96.0
CEPS (Rs)	36.1	39.7	33.7	41.6	52.6
Book Value	250.8	275.4	325.5	348.4	425.1
DPS	9.7	11.1	10.0	10.0	12.0
Payout (incl. Div. Tax.)	45.4	44.0	44.5	47.1	37.3
Valuation (x)					
P/E		44.1	37.0	17.5	12.4
EV/EBITDA		35.4	31.7	25.6	19.4
EV/Sales		5.4	5.0	4.9	4.5
Price/Book Value		4.3	3.7	3.4	2.8
Dividend Yield (%)		0.9	0.8	0.8	1.0
Profitability Ratios (%)					
RoE		9.2	9.5	7.6	8.0
RoCE		6.8	4.8	6.4	7.3
Turnover Ratios					
Debtors (Days)		85	114	44	34
Inventory (Days)		35	31	20	18
Asset Turnover (x)		0.5	0.5	0.6	0.5
Leverage Ratio					
Debt/Equity (x)		0.6	0.7	0.3	0.4

CASH FLOW STATEMENT						(Rs Million)				
Y/E MARCH	2006	2007	2008E	2009E	2010E					
PBT before EO Items	7,474	5,860	9,701	7,814	10,604					
Add : Depreciation	2,783	2,919	2,905	3,436	4,139					
Interest	1,653	1,895	1,676	1,989	2,451					
Less : Direct Taxes Paid	1,369	-1,108	1,002	1,569	2,501					
(Inc)/Dec in WC	-4,050	-2,553	5,992	5,712	-1,834					
CF from operations	6,491	9,229	19,272	17,381	12,859					
Extra-ordinary Items	1,744	2,023	3,759	0	0					
CF from operations incl	4,747	7,206	15,513	17,381	12,859					
(Inc)/dec in FA	-2,471	-8,885	-11,251	-11,267	-1,567					
(Pur)/Sale of Investments	907	-1,580	-7,934	-10,513	-10,957					
Inc/(Dec) in special appropri	0	0	0	0	0					
CF from investments	-1,563	-10,464	-19,184	-21,779	-12,523					
(Inc)/Dec in Networth	1,548	2,340	18,254	1,395	12,558					
(Inc)/Dec in Debt	-1,050	8,784	-14,851	7,400	4,117					
(Inc)/Dec in Capital Contribut	0	4	0	0	0					
Less : Interest Paid	1,653	1,895	1,676	1,989	2,451					
Dividend Paid	1,919	2,202	2,329	2,329	2,794					
CF from Fin. Activity	-3,074	7,029	-602	4,478	11,429					
Inc/Dec of Cash	110	3,771	-4,273	80	11,765					
Add: Beginning Balance	9,796	9,905	13,677	9,404	9,484					
Closing Balance	9,906	13,677	9,404	9,484	21,249					

N O T E S



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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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