INDIA

Power

Tata Power

Q3FY10 (standalone)/ Estimate change **20 January 2010**

Hold

Target Price: Rs1,387

CMP: Rs1,419*

Downside: 2%

**as on 19 January 2010*

Lower volumes hit results

Tata Power Q3FY10 results were below expectation because of lower-than-expected volumes. We raise FY11E PAT by 5.6% on account of lower interest cost. We have raised our target price by 5% to Rs1,387 and maintain Hold rating on the stock with a positive bias.

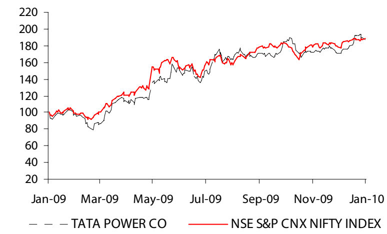
- **Results below estimates:** Q3 revenue (standalone) was Rs15.6bn, down 11.8% YoY and 9.0% QoQ, and 12% below our estimate of Rs17.8bn. Adjusted PAT rose 53.5% YoY (but down 35.2% QoQ) to Rs1.5bn, 20.1% below our estimate of Rs1.8bn due to one-offs. Lower volume due to shutdown of plants is the major reason.
- **Estimates revised.** We have revised our earnings estimates factoring in a higher tax rate during FY10 because of one-time MAT adjustment. For FY11, the tax rate would decline to 21.9% from 26.7%. Our FY10E PAT is cut 6.5% and FY11E raised 5.6%.
- **Reiterate Hold, target price raised to Rs1,387:** We believe the result was one-off case and outlook of the company remains positive. At CMP, the stock trades at 2.6x FY11E P/BV (consolidated), a valuation which we believe is fairly-valued and in-line with peers. We maintain our Hold rating with a positive bias as we believe the company would benefit from strengthening Asian coal prices due to shortage of domestic coal in India.

Key Data

Bloomberg Code	TPWR IN
Reuters Code	TTPW.BO
Current Shares O/S (mn)	237.2
Diluted Shares O/S(mn)	237.2
Mkt Cap (Rsbn/USDbn)	342.3/7.5
52 Wk H / L (Rs)	1,519/602
Daily Vol. (3M NSE Avg.)	451,543
Face Value (Rs)	10

1 USD = Rs45.6

One year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
TATA Power	9.5	26.1	89.9
NIFTY	5.8	20.6	85.3

Source: Bloomberg, Centrum Research
**as on 19 January 2010*

Y/E March (Rsmn)	Q3FY10	Q3FY09	YoY (%)	Q2FY10	QoQ (%)	Q3FY10E	Variance (%)
Net sales	**15,665**	**17,769**	*(11.8)*	**17,210**	*(9.0)*	**17,800**	*(12.0)*
Purchases	**9,879**	**13,258**		**10,979**		**11,429**	
% of sales	*63.1*	*74.6*	*(1,155) bp*	*63.8*	*(73) bp*	*64.2*	*(115) bp*
Employee costs	796	690		856		860	
% of sales	*5.1*	*3.9*		*5.0*		*4.8*	
Other expenditure	1,351	1,261		1,208		1,211	
% of sales	*8.6*	*7.1*		*7.0*		*6.8*	
Operating profit	**3,640**	**2,560**	***42.2***	**4,167**	***(12.7)***	**4,300**	***(15.4)***
OPM (%)	***23.2***	***14.4***	***883 bp***	***24.2***	***(98) bp***	***24.2***	***(92) bp***
Depreciation & amortisation	1,208	809		1,184		1,200	
Interest	921	952		1,018		1,020	
EBT	**1,511**	**800**	***88.9***	**1,965**	***(23.1)***	**2,080**	***(27.4)***
Other income	452	251		755		740	
PBT	**1,963**	**1,051**	***86.8***	**2,720**	***(27.9)***	**2,820**	***(30.4)***
Exceptional Item		(209)					
Provision for tax	484	109		890		970	
-effective tax rate	*24.7*	*10.4*		*32.7*		*14.6*	
PAT (reported)	**1,479**	**1,151**	***28.5***	**1,830**	***(19.2)***	**1,850**	***(20.1)***
PAT (adj. for deferred tax)	**1,479**	**963**	***53.5***	**2,280**	***(35.2)***	**1,850**	***(20.1)***
NPM (%)	*9.4*	*5.4*	*402 bp*	*13.2*	*(381) bp*	*10.4*	*(95) bp*

Source: Company, Centrum Research

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Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	P/B(x)
FY07	46,581	*3.7*	6,689	*14.4*	4,552	*35.8*	23.0	*12.7*	*9.6*	61.7	5.1
FY08	58,710	*26.0*	8,917	*15.2*	5,084	*(15.0)*	23.0	*8.7*	*6.8*	61.6	4.2
FY09	71,932	*22.5*	10,979	*15.3*	5,141	*(1.1)*	23.2	*7.1*	*7.0*	61.1	3.9
FY10E	77,887	*8.3*	17,420	*22.4*	8,055	*44.8*	34.0	*8.7*	*8.2*	41.8	3.2
FY11E	82,815	*6.3*	19,589	*23.7*	8,873	*10.2*	37.4	*8.3*	*8.9*	37.9	3.1

Note: Standalone financials
Source: Company, Centrum Research Estimates

Q3 results below expectations due to one-offs

Tata Power reported Q3 revenue of Rs15.6bn, down 11.8% YoY and 9.0% QoQ, and 12% below our estimate of Rs17.8bn due to lower-than-expected sales volume. Electricity sales volumes during the quarter remained flat at 3,714 MUs vs 3,711 MUs in Q3FY09 despite the addition of Haldia (120MW) and Unit 8 (250MW) of Mumbai License Area (MLA) during the year. This was 15.8% lower than our estimate of 4,410 MUs. Volumes were much lower-than-expected because of unplanned shutdown of Unit 5 and outage of Unit 8 (both MLA) for performance-testing for three weeks each.

Unit 8 has 100MW in merchant capacity and loss of volume in this unit would impact profitability more than other units. For Unit 8, the loss of merchant power sales is ~110MUs, which is equivalent to about Rs110mn loss at PBT level. Unit 5, which used to operate at about 98% PLF, is likely to have operated closer to normative levels of 80%. As a result, we believe the unit would have suffered loss in incentives, which we estimate at around Rs65mn. These two combined explain a difference of ~Rs170mn at PBT level between reported and estimated PBT. The management said that there was loss of incentive because of low gas usage in MLA. The management did not quantify the same. Also, wind power losses because of seasonal effects explain the remaining difference. Adjusted PAT was 20.1% below our estimate at Rs1.5bn. We believe these losses are one-offs. Going forward in Q4FY10, we expect PAT to go back to normal levels, estimated to be Rs1.86bn.

Exhibit 1: Reason for variation

Y/E March (Rsmn)	Q3FY10	Q3FY10E	*Variance (%)*	Reasons
Volume (in MUs)	**3,714**	**4,410**	***(15.8)***	The planned shutdown in Trombay Unit8 and Unit 6 for ~3 weeks. This could have impacted plant availability by about 15-20bp
Net sales	**15,665.1**	**17,800**	***(12.0)***	Due to lower volume
Operating profit	**3,639.8**	**4,300.0**	***(15.4)***	Lower incentives due to lower PLF recorded in Unit 5 which we estimate to be ~Rs65mn. Loss of earnings due to lower volumes in unit 8 which operates 100 MW under merchant capacity. Further loss of incentives in Unit 6 due to shift from oil to gas which might be recovered in the future.
OPM (%)	***23.2***	***24.2***	***(92) bp***	
Depreciation & amortization	1,207.9	1,200.0		
Interest	921.1	1,020.0		
EBT	**1,510.8**	**2,080.0**	***(27.4)***	Same as explained above.
Other income	451.7	740.0		
PBT	**19,62.5**	**2,820.0**	***(30.4)***	
PAT (reported)	**1,479**	**1,850**	***(20.1)***	
	-			
PAT (adj. for deferred tax)	**1,479**	**1,850**	***(20.1)***	Same as explained above
NPM (%)	*9.4*	*10.4*	*(95) bp*	

Source: Company, Centrum Research Estimates

Projects on fast track

The company will add another 1,138MW capacity by FY11 from the Jojobera and Maithon projects and wind capacity. The addition of Mundra UMPP 4,000 MW by FY13 would take its total capacity to 8,239 MW. The 1,050MW Maithon project is 72% complete (was 61% complete at the end of Q2FY10) and is scheduled for commissioning in FY11. Also, 88MW capacity from wind projects is scheduled for commissioning in FY11. The Mundra UMPP is 42% complete (was 35% complete at the end of Q2FY10) and is targeted for completion by 2012. About 80% of the work is complete for the 120MW Unit5, Jojobera project, and is scheduled to be commissioned in Q4FY10. The Mandakini coal block is scheduled to start production by July 2011 and the Tubed coal block in Feb 2012. Major orders have been completed for the 114MW Dagachhu Power Plant in Bhutan. All clearances have been received and the power purchase agreement (PPA) for the entire power generated has already been signed.

More visibility emerging in 500MW Tubed and 1GW Naraj Marathpur IPP

With funding problems easing, the company has fast-tracked its 500MW Tubed IPP and 1,000MW Naraj Marathpur IPP. The company has started looking for land for the construction of project. Land has been identified in Orissa and Jharkhand and discussions are on with state governments. Both these projects will use coal from captive coal blocks allocated to Tata Power along with other utilities. We expect the company to be cash surplus post FY13E by which time construction of these projects can commence.

Estimates revised

We have revised our earnings estimates to factor in a higher tax rate during FY10 which includes additional tax burden due to MAT on diminishing value of assets. For FY11, we expect the tax rate to decline to ~21.9% from 26.7% in FY10E due to (1) the one-time adjustment of MAT on diminishing value of assets would be absent, and (2) the commissioning of new units during the year would likely take the effective tax rate closer to MAT levels. We have lowered our FY11E interest cost assumption by ~11% by factoring in a lower standalone debt requirement than assumed earlier. We have cut FY10E PAT by 6.5% to Rs9.1bn and raised FY11E PAT by 5.6% to Rs8.9bn.

Exhibit 2: Revised estimates

	FY10E			FY11E		
	Revised	Earlier	*% Change*	Revised	Earlier	*% Change*
Sales	77,887	79,719	*(2.3)*	82,815	84,015	*(1.4)*
Reported PAT	9,140	9,778	*(6.5)*	8,873	8,405	*5.6*

Source: Company, Centrum Research Estimates

Maintain Hold, recommend accumulating on corrections

We have marginally raised our target price by 4.9% to Rs1,387. Our SOTP value of the company comes to Rs1,387, which includes Rs718 for power business, Rs441 for the coal business and Rs228 for the investments. Currently the stock is trading at 2.6x FY11E P/BV (consolidated), 3% above our target price.

Exhibit 3: SOTP value of Tata Power

Rs/share	Value (Rsbn)	Rs/share
Power Business - incl. JVs, subsidiaries and associates	170.3	718
Investments, cash and cash equivalents	54.1	228
Coal Assets - 30% stake in Indonesian coal mines @14x FY10E EPS	104.6	441
Total Value	**329.0**	**1,387**

Source: Centrum Research Estimates

We maintain our Hold rating with a positive bias for the stock. We believe the Q3FY10 results were below expectation due to one-offs and hence going forward in Q4FY10 we expect PAT to go back to normal levels, estimated to be Rs1.86bn. In the long-term, we expect Tata Power to be major beneficiary of coal shortage situation which is arising in India due to slower expansion by Coal India Ltd (CIL). Therefore any correction due to results should be seen as an opportunity to accumulate. We will be revising up our target price post our completion of analysis on coal shortages in India and impact on Asian coal prices.

We expect Tata Power to be major beneficiary of coal shortage situation which is arising in India due to slower expansion by Coal India Ltd (CIL). CIL foresees a shortfall of 110 mt from its production target of 520 mt by end of the 11th Plan period in 2012 with around 17 of its new mining projects not getting the clearance from the environment and forest ministry. India's dependence on imported coal could increase significantly going forward which we expect should strengthen the Asian coal prices and therefore benefit Indonesian coal assets due to their low cost after considering the logistics cost and quality compared to South African and Australian sources. We therefore expect Tata Power to benefit from the 30% stake in the Indonesian mines KPC and Arutmin, upside here is likely to come from share of profits that would arise from the excess coal traded over and above meeting Tata Power requirements.

Financials (Standalone)

Exhibit 4: Income Statement

Y/E March (Rsmn)	FY07	FY08	FY09E	FY10E	FY11E
Revenues	**46,581**	**58,710**	**71,932**	**77,887**	**82,815**
Growth in revenues (%)	*3.7*	*26.0*	*22.5*	*8.3*	*6.3*
Cost of Raw Material	33,735	42,639	53,070	50,581	53,366
% of Sales	*72.4*	*72.6*	*73.8*	*64.9*	*64.4*
O&M expenses	6,157	7,154	7,883	9,887	9,860
% of Sales	*13.2*	*12.2*	*11.0*	*12.7*	*11.9*
EBITDA	**6,689**	**8,917**	**10,979**	**17,420**	**19,589**
EBITDA Margin	*14.4*	*15.2*	*15.3*	*22.4*	*23.7*
Depreciation	2,919	2,905	3,289	5,238	5,250
Other Income	3,047	1,238	1,400	2,505	2,502
PBIT	**6,817**	**7,250**	**9,090**	**14,687**	**16,841**
Interest expenses	1,895	1,419	3,278	4,537	5,481
PBT before extra-ord items	**4,922**	**5,832**	**5,813**	**10,149**	**11,360**
Extra-ordinary income/ (exp)	930	3,869	5,354	2,324	-
PBT	**5,851**	**9,701**	**11,167**	**12,473**	**11,360**
Provision for tax	(1,108)	1,002	1,174	3,334	2,487
Effective tax rate	*(18.9)*	*10.3*	*10.5*	*26.7*	*21.9*
PAT before MI (reported)	**6,959**	**8,699**	**9,992**	**9,140**	**8,873**
(+/-) Minority Interest and share of associates					
PAT after MI (reported)	**6,959**	**8,699**	**9,992**	**9,140**	**8,873**
Extra-ordinary income/ (exp)	2,408	3,615	4,851	1,085	-
Adjusted PAT	**4,552**	**5,084**	**5,141**	**8,055**	**8,873**
Growth in PAT (%)	*35.8*	*(15.0)*	*(1.1)*	*44.8*	*10.2*
PAT margin	*9.8*	*8.7*	*7.1*	*10.3*	*10.7*

Source: Company, Centrum Research Estimates

Exhibit 5: Balance Sheet

Y/E March (Rsmn)	FY07	FY08	FY09E	FY10E	FY11E
Share Capital	1,979	2,207	2,214	2,372	2,372
Reserves	52,594	72,985	78,885	101,354	107,268
Shareholders' fund	**54,573**	**75,192**	**81,099**	**103,726**	**109,640**
Special Appropriation towards project cost	5,336	5,336	5,336	5,336	5,336
Debt	36,334	30,373	51,982	54,430	66,382
Deferred Tax Liability	57	189	1,144	1,666	2,188
Capital Contributions & Grants	422	461	489	489	489
Total Capital Employed	**96,722**	**111,551**	**140,050**	**165,648**	**184,035**
Total Fixed Assets	38,114	46,872	59,517	66,529	76,279
Investments	35,702	44,300	54,435	66,293	80,916
Inventories	3,964	4,736	6,441	6,929	7,310
Debtors	14,782	14,145	15,880	18,753	19,936
Other Current Assets	290	594	485	485	485
Cash and bank balances	13,677	287	455	7,248	346
Loans and Advances	7,704	18,993	23,550	23,550	23,550
Total current assets	40,418	38,755	46,811	56,965	51,628
Current liabilities and provisions	17,573	18,393	20,713	24,139	24,788
Net current assets	22,845	20,362	26,099	32,825	26,840
Misc. Expenditure	62	17	-	-	-
Total Assets	**96,722**	**111,551**	**140,050**	**165,648**	**184,035**

Source: Company, Centrum Research Estimates

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY07	FY08	FY09E	FY10E	FY11E
CF from operating					
Profit before tax	5,860	9,701	11,167	12,473	11,360
Depreciation	2,919	2,905	3,289	5,238	5,250
Interest expenses	1,825	1,676	3,058	4,537	5,481
Other Non operating (income)/exp.	(3,081)	(5,062)	(6,720)	374	374
OP profit before WC change	**7,523**	**9,220**	**10,793**	**22,623**	**22,465**
Working capital adjustment	(3,538)	1,568	(3,109)	66	(916)
Gross cash from operations	**3,985**	**10,788**	**7,685**	**22,689**	**21,549**
Misc. Expenditure Incurred During the Year (not w/off)	382	475	(1,198)	(3,186)	(2,340)
Cash from operations	**4,367**	**11,263**	**6,486**	**19,503**	**19,210**
CF from investing					
Capex	(7,828)	(12,013)	(14,872)	(12,250)	(15,000)
Investment - Cash equivalents	(2,105)	(7,179)	1,080	-	-
Investment - Subsidiary / Strategic	-	(7,330)	(9,266)	(11,859)	(14,623)
Other Income	467	1,110	3,743	-	-
Cash from investment	**(9,466)**	**(25,411)**	**(19,315)**	**(24,109)**	**(29,623)**
CF from financing					
Proceeds from sh. capital & premium	-	6,418	-	16,016	-
Borrowings/ (Repayments)	9,197	2,210	21,151	2,448	11,952
Interest paid	(1,841)	(1,529)	(2,734)	(4,537)	(5,481)
Dividend paid	(1,913)	(2,309)	(2,587)	(2,686)	(2,959)
Other Financial Expenses	(58)	(382)	28	158	-
Cash from financing	**5,385**	**4,409**	**15,858**	**11,398**	**3,512**
Net cash increase/ (decrease)	**287**	**(9,740)**	**3,029**	**6,793**	**(6,902)**

Source: Company, Centrum Research Estimates

Exhibit 7: Key Ratios

Y/E March	FY07	FY08	FY09E	FY10E	FY11E
Margin ratios (%)					
EBITDA Margin	14.4	15.2	15.3	22.4	23.7
PBIT Margin	14.6	12.3	12.6	18.9	20.3
PBT Margin	10.6	9.9	8.1	13.0	13.7
PAT Margin	9.8	8.7	7.1	10.3	10.7
Growth ratios (%)					
Revenues	3.7	26.0	22.5	8.3	6.3
EBITDA	(15.9)	33.3	23.1	58.7	12.5
Net Profit	35.8	(15.0)	(1.1)	44.8	10.2
Return ratios (%)					
ROCE	9.6	6.8	7.0	8.2	8.9
ROE	12.7	8.7	7.1	8.7	8.3
Turnover ratios (x)					
Asset turnover ratio (x)	0.5	0.5	0.5	0.5	0.4
Inventroy (days)	53.4	46.5	50.0	50.0	50.0
Average Collection period (days)	114.6	92.4	90.0	90.0	90.0
Average payment period (days)	120.4	102.4	63.3	63.3	63.3
Per share ratios (Rs.)					
EPS (Basic)	23.0	23.0	23.2	34.0	37.4
CEPS (Basic)	37.7	36.2	38.1	56.0	59.5
Book Value (Basic)	275.7	340.7	366.2	437.2	462.1
Solvency ratios					
Debt/ Equity	0.7	0.4	0.6	0.5	0.6
Interest coverage	3.6	5.1	2.8	3.2	3.1
Valuation parameters (x)					
P/E (Basic)	61.7	61.6	61.1	41.8	37.9
P/BV (Basic)	5.1	4.2	3.9	3.2	3.1
EV/ EBITDA	50.4	38.6	33.3	20.7	19.4
EV/ Sales	7.2	5.9	5.1	4.6	4.6

Source: Company, Centrum Research Estimates

Appendix A

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