

10 October 2011

Produced by: The Royal Bank of Scotland N.V., (India) Office

Tata Power

Lack of catalysts

Resumption of coverage

Hold

Target price
Rs105.00

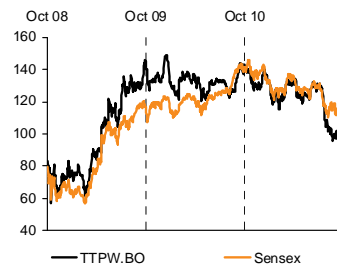
Price
Rs98.30

Short term (0-60 days)
n/a

Market view
Underweight

Price performance

	(1M)	(3M)	(12M)
Price (Rs)	103.9	131.4	143.8
Absolute (%)	-5.4	-25.2	-31.7
Rel market (%)	-0.5	-12.1	-14.5
Rel sector (%)	1.8	-13.1	-5.8



Market capitalisation

Rs233.30bn (US\$4.75bn)

Average (12M) daily turnover

Rs362.94m (US\$8.05m)

Sector: BBG AP Electricity
 RIC: TTPW.BO, TPWR IN
 Priced Rs98.30 at close 7 Oct 2011.
 Source: Bloomberg

Analyst

Harish Bihani

 India
 +91 22 6715 5390
 harish.bihani@rbs.com

 83/84 Sakhar Bhawan, Nariman Point,
 Mumbai 400 021, India

<http://research.rbsm.com>

TPWR has become a play on imported coal, with Mundra UMPP / Bumi SPV accounting for an estimated 36% of its SOTP. We believe development projects (especially with captive coal blocks) will not contribute to earnings before FY16; until then earnings will stagnate, largely driven by coal price movement. Hold.

Key forecasts

	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue (Rsm)	189,958	194,690	235,819	290,740	327,819
EBITDA (Rsm)	38,479	46,138	63,210	65,269	67,936
Reported net profit (Rsm)	19,768	20,778	26,483	23,009	22,754
Normalised net profit (Rsm) ¹	19,768	20,778	26,483	23,009	22,754
Normalised EPS (Rs)	8.33	8.76	11.16	9.69	9.59
Dividend per share (Rs)	1.20	1.25	1.25	1.25	1.25
Dividend yield (%)	1.22	1.27	1.27	1.27	1.27
Normalised PE (x)	11.80	11.23	8.81	10.14	10.25
EV/EBITDA (x)	10.30	9.95	7.75	7.81	7.09
Price/book value (x)	2.05	1.78	1.51	1.34	1.21
ROIC (%)	9.97	8.63	8.66	6.79	6.01

1. Post-goodwill amortisation and pre-exceptional items
 Accounting standard: local GAAP
 Source: Company data, RBS forecasts

year to Mar, fully diluted

Exposure to commodity earnings to rise from 9% in FY08 to 65% in FY13F

Tata Power's (TPWR) stake purchase in Bumi SPV has been a masterstroke, in our view. The SPV's contribution to TPWR consolidated profit has been increasing steadily from 9% in FY08 to 44% in FY11, and we expect it to increase to 65% in FY13F. Also, we estimate Bumi SPV accounts for 45% of TPWR's SOTP, which is partially negated by 9% on losses suffered by Mundra UMPP. Over the next few years, earnings for the company will largely be driven by imported coal price movements, in our view.

We expect losses of Rs9bn for Mundra UMPP in FY14F

The Indonesian coal reference price has impacted the fortunes of Mundra UMPP, with net spot coal exposure increasing to 55% of the total from 30%. We forecast that losses will peak at Rs9bn in FY14, the first full year of the project's operations, vs Rs4bn if net exposure was 30%. TPWR is trying to offset this impact by using lower-grade coal than the 5,300 kcal/kg it had intended, and operate at a lower plant load factor (PLF), while maintaining a normative availability at 80%.

New projects with captive coal blocks will be commissioned from FY16, in our view

TPWR has received all major clearances for the 660MW Naraj Marthapur plant in Orissa, which will run on captive coal from Mandakini block. As for Tiruldih IPP (1,980MW), the company expects to issue notice to proceed (NTP) for the project around 4Q12, with coal sourced from Tubed captive coal block (2.4mtpa), Tata Steel, and possibly from JSMD. Both the plants are likely to be operational from FY16 and should have superior profitability vs regulated return projects. However, in the interim, we believe TPWR's earnings and valuation will stagnate, as we expect no major projects to be commissioned.

We believe growth will require stake sale of non-core assets and/or equity dilution

TPWR has diluted around 20% of its equity (FY07-11) to pursue growth projects. As per our estimates, the internal cash flows will not be sufficient to fund future projects, and TPWR will need to sell stakes in non-core assets/SPVs, and/or dilute equity in FY13/FY14.

This note should be read along with our sector report (*Growth pangs*, 10 October 2011) for a better understanding of the investment argument.

Important disclosures can be found in the Disclosures Appendix.

The basics

Versus consensus

EPS	Ours	Cons	% diff
FY12F	11.2	9.5	14.8
FY13F	9.7	9.5	1.8
FY14F	9.6	9.2	3.9

Source: Reuters, RBS forecasts

Forced ranking*

Company	Rec	Upside / Downside
Power Grid	Buy	13%
NHPC	Buy	12%
NTPC	Hold	8%
Tata Power	Hold	7%
JSW Energy	Hold	-2%
Adani Power	Hold	-4%

* by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.

Source: RBS forecasts

Key events

Date	Event
2nd week of Nov 11	2Q FY12 results

Source: Company

Catalysts for share price performance

- No major medium-term catalysts. Imported coal price movement will be the key driver of the stock for the next few years (see Table 2 below).
- Start of construction for projects with captive coal blocks will be an incremental positive. However, any benefit to financials will only start after FY16, in our view.

Earnings momentum

We forecast that revenue, EBITDA and PAT will register CAGRs of 19%, 14% and 3%, respectively, over FY11-14F vs 22%, 30% and 24% over FY09-11.

Valuation and target price

We use a SOTP approach to arrive at our target price of Rs105. Our SOTP valuation for TPWR comprises: 1) the value of regulated/semi-regulated return business at Rs48/share, or 46% of the total value we estimate; 2) the value of the merchant power business at Rs4/share, or 4% of the total; 3) the value of the Mundra UMPP-Bumi SPVs combined at Rs38/share, or 36% of the total; and 4) the value of telecom/other investments at Rs17/share, or 16% of the total.

We believe TPWR's current one-year forward multiples (see chart 1 and 2 below) reflect the company's large exposure to imported coal and the possibility of earnings stagnating over the next four years. Reversion to the mean is difficult until projects, which add incremental value, are commissioned (which we do not expect before FY16).

How we differ from consensus

Our FY12/FY13/14F EPS are higher by 15%/2%/4% compared to consensus. This might be due to our assumption of higher price realisation of coal sold through Bumi SPVs vs consensus and/or variance in standalone/subsidiaries' profitability.

Risks to central scenario

- 10% higher/lower production in Bumi SPVs vs our current estimate could provide +/-Rs5.4/share up/downside to our SOTP per share forecast (all else being equal).
- US\$10/ton higher/lower coal price realisation than our estimate could lead to +/-Rs3.4/share up/downside to our SOTP per share forecast (all else being equal).
- Lower loss in Mundra UMPP, if the Indonesian government agrees to TPWR's petition to look at it as a special case, could provide upside to our current outlook.

Key assumptions and sensitivities

Table 1 : Key assumptions

	FY12F	FY13F	FY14F	FY15F
Mundra UMPP				
Capacity Wtd. Average (MW)	267	2,467	4,000	4,000
MUs sold	2,336	21,608	35,040	35,040
Landed coal cost (US\$/ton)	106	106	107	107
PAT (Rs m)	(2,919)	(8,073)	(9,746)	(8,314)
Bumi SPV				
Sales (MT)	69	77	81	84
Avg Selling Price (US\$/ton)	90	90	90	90
Royalty (%)	13.5	13.5	13.5	13.5
Tax rate (%)	45.0	45.0	45.0	45.0
Maithon DVC				
Capacity Wtd. Average (MW)	525	1,050	1,050	1,050
MUs sold	3,891	7,782	7,782	7,782
RoE (%)	20.0	20.0	20.0	20.0
Power sales (Mumbai license area)				
MUs sold	51,075	52,173	53,373	54,598
Average selling price (Rs/unit)	4.2	4.3	4.4	4.5

Source: Company data, RBS forecasts

Table 2 : Sensitivity to coal prices and volume

	Combined value of Mundra UMPP + Bumi SPVs (Rs/share)	SOTP Value (Rs/share)	EPS		
			FY12F	FY13F	FY14F
Base Case	38	105	9.7	9.6	10.7
Bumi SPVs' volume is 10% higher than our forecast	44	111	10.4	10.3	11.5
Change (%)	14.8	5.4	7.5	7.9	7.2
Bumi SPVs' volume is 10% lower than our forecast	32	99	9.0	8.8	10.0
Change (%)	(14.8)	(5.4)	(7.5)	(7.9)	(7.2)
Coal price is US\$10/ton higher than our forecast	42	109	10.5	9.7	10.9
Change (%)	9.2	3.4	8.3	1.3	2.0
Coal price is US\$10/ton lower than our forecast	34	101	8.9	9.5	10.5
Change (%)	(10.5)	(3.8)	(8.3)	(1.3)	(2.0)

Source: Company data, RBS forecasts

Table 3 : RBS vs Consensus

Rsm	FY12F			FY13F			FY14F		
	RBS	Consensus	% variation	RBS	Consensus	% variation	RBS	Consensus	% variation
Revenue	235,819	234,702	0.5	290,740	280,346	3.6	327,819	316,039	3.6
EBITDA	63,210	57,936	8.3	65,269	68,567	(5.1)	67,936	74,455	(9.6)
Net Income	26,483	22,576	14.8	23,009	22,597	1.8	22,754	21,878	3.9
EPS (Rs/share)	11.2	9.5	14.8	9.7	9.5	1.8	9.6	9.2	3.9

Source: Reuters, RBS forecasts

Valuation and target price

We use a SOTP approach to arrive at our target price of Rs105. Our SOTP valuation for TPWR comprises: 1) the value of regulated/semi-regulated return business at Rs48/share, or 46% of the total value we estimate; 2) the value of the merchant power business at Rs4/share, or 4% of the total; 3) the value of the Mundra UMPP-Bumi SPVs combined at Rs38/share, or 36% of the total; and 4) the value of telecom/other investments at Rs17/share, or 16% of the total.

Table 4 : SOTP-based target price

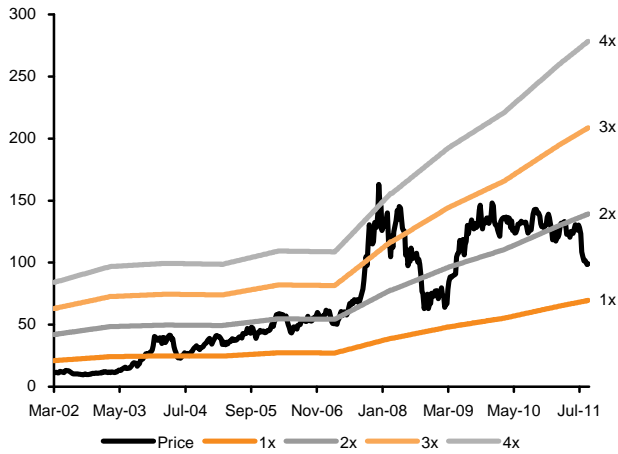
	Methodology	Key assumptions/comments	Per share value (Rs)	% of value	Stake (%)
Existing business					
Mumbai existing generation, transmission & distribution business	Price/Book (X)	Earns assured RoE + incentives based on MERC norms	21	20	100
Jojobera & Belgaum generation business	Price/Book (X)	Operational generation capacity at Jojobera (428MW) and Belgaum (81MW). Returns are PPA driven. Upside hinges on merchant sales + savings on agreed terms + PLF incentives	5	5	100
Powerlinks Transmission Ltd	Price/Book (X)	CERC based tariff (15.5% ROE) + Incentives	2	2	51
Delhi Distcom (NDPL)	Price/Book (X)	NDPL earns 16% RoCE + efficiency gains (based on AT&C loss reduction benchmarks).	4	3	51
Trombay Ext U#8 - 100MW on Merchant Power	DCF-equity	Expected equity IRR at around 45%	2	2	100
Wind Power	Price/Book (X)	Around 227MW of wind power operational capacity	2	2	100
Haldia IPP-120MW	Price/Book (X)	Haldia to sell 100MW on merchant power (after meeting its commitments to the WBSEB).	3	2	100
CPP (Jamshedpur, IEL) -120MW	Price/Book (X)	CPP -Regulated+ Merchant	1	1	74
CPP (Jojobera, IEL) -120MW	Price/Book (X)	CPP -Regulated+ Merchant	1	1	74
Projects under construction					
Mundra UMPP	DCF-equity	Levelised tariff of Rs2.26/unit for 25 years	(9)	(9)	100
Maithon DVC JV	DCF-equity	1,050MW project; CERC-based returns (new norms) + Incentives	8	8	74
Wind Power	Price/Book (X)	Wind power under construction	1	1	100
Key Investments					
Investments-Telecom/Others	Disc to CMP/BV	Listed Telecom Investment @30% disc to CMP. For Tata Teleservices @40% disc to NTT DoCoMo deal. For other Unlisted @1x PB.	17	16	100
Bumi SPVs (30% stake in KPC/Arutmin/Indocoal resources)	DCF-equity	ASP @ US\$90/tonne from CY11F onwards & tax rate @45%	47	45	30
Target price (Rs/share)			105	100	100

Source: Company data, RBS forecasts

TPWR's forward multiples contracted sharply in last three months

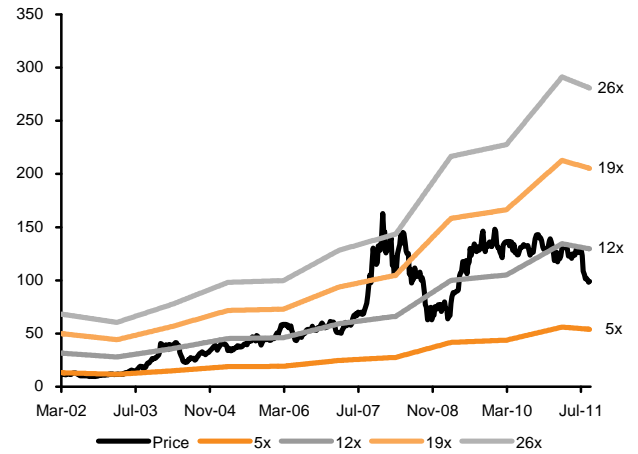
We believe TPWR's current one-year forward multiples reflect the company's large exposure to imported coal and the possibility of earnings stagnating over the next four years. Reversion to the mean is difficult until projects, which add incremental value, are commissioned (which we do not expect before FY16).

Chart 1 : TPWR – one-year forward PB



Source: RBS

Chart 2 : TPWR – one-year forward PE



Source: RBS

Key tables

Table 5 : Projects under construction

Project	Project (MW)	Fuel	Fuel Supply Agreement (FSA)	Power off-take	COD
Mundra	4,000	Imported Coal	Offtake agreement with Indocoal for 10.11mtpa ($\pm 20\%$)	PPAs have been signed for 3,800MW	Unit 1 by Sep 2011. All units by FY13
Maithon	1,050	Domestic Coal	FSA with Bharat Coking Coal for 1.659mtpa, Central Coalfields has provided Letter of Assurance for 1.975mtpa, FSA with Tata Steel for 0.05 -1 .00mtpa	PPAs have been signed for 1,050MW	Unit 1 in FY12; Unit 2 – 4 months after Unit 1
Dagacchu	126	Hydro	NA	TPTCL	FY13
Mithapur	25	Solar	NA	25-year PPA	FY12
Lodhivali	40	Diesel	NA	-	FY12
Wind	100	Wind	NA	-	FY12

Source: Company data, RBS forecasts

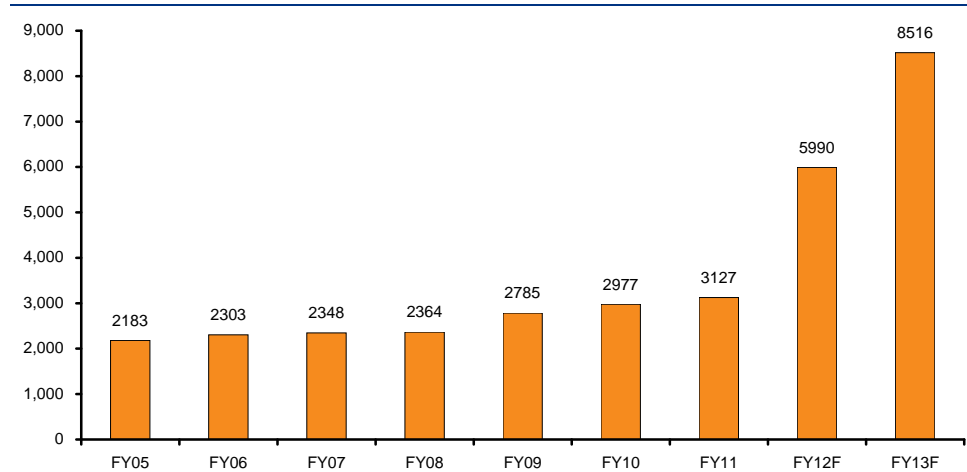
Table 6 : Projects in the planning stage

Project	Fuel Source	Capacity(MW)	Status
In planning Phase I			
Coastal Project (Dehrand)	Imported Coal	1,600	Land acquisition in progress
Naraj Marthapur IPP	Partially met through Mandakini coal block	660	Land acquisition in progress, main clearances obtained, environmental clearance process has begun, PPA to be signed
Tiruldih IPP	Partially met through Tubed coal block	1,980	To be executed in phases. Land acquisition in progress
Dugar Hydro	Hydro	236	Won bid for project. In planning stage
Sorik Marapi	Geothermal	240	Exploration has commenced
Visapur-Wind	Wind	88	Advanced stages of planning
Solar	Solar		In planning stage
In planning Phase II			
Maithon Phase II	Domestic coal	1,320	In planning stage
Mundra Phase II	Imported coal	1,600	In planning stage
Tama Kosh	Hydro	880	In planning stage. License to be converted to production license
Kalinganagar	Coal/gas	600	In planning stage
Wind	Wind	200	In planning stage
Bhivpuri CCGT	Gas	450	In planning stage

Source: Company data, RBS forecasts

Major projects in the pipeline should start contributing to revenues by FY16F

Chart 3 : TPWR's year-end capacity



Source: Company data, RBS forecasts

Income statement

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
Revenue	189958	194690	235819	290740	327819
Cost of sales	-151479	-148552	-172609	-225471	-259883
Operating costs	-36327	-33164	-41035	-46267	n/a
EBITDA	38479	46138	63210	65269	67936
DDA & Impairment (ex gw)	-8777	-9802	-10854	-12567	-16548
EBITA	29702	36336	52356	52702	51387
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	29702	36336	52356	52702	51387
Net interest	-7818	-8684	-14179	-16711	-17375
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	9238	4287	0.00	0.00	n/a
Other pre-tax items	5889	4105	7307	8055	10068
Reported PTP	27773	31757	45484	44046	44081
Taxation	-6287	-9756	-17235	-19564	-19718
Minority interests	-2335	-1965	-1766	-1474	-1609
Exceptionals (post-tax)	0.00	0.00	0.00	0.00	0.00
Other post-tax items	616.6	741.9	-0.00	0.00	0.00
Reported net profit	19768	20778	26483	23009	22754
Normalised Items Excl. GW	0.00	0.00	0.00	0.00	0.00
Normalised net profit	19768	20778	26483	23009	22754

Source: Company data, RBS forecasts

year to Mar

Balance sheet

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
Cash & market secs (1)	23108	22066	62933	72280	97445
Other current assets	73794	88862	99349	122486	138107
Tangible fixed assets	224658	313844	376365	416354	408603
Intang assets (incl gw)	42744	42281	42281	42281	42281
Oth non-curr assets	34718	35819	35819	35819	35819
Total assets	399021	502871	616746	689220	722255
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	59505	77276	94328	116296	131128
Long term debt (3)	184469	247624	319539	348903	346084
Oth non-current liab	28946	32793	32793	32793	32793
Total liabilities	272920	357693	446660	497992	510005
Total equity (incl min)	126101	145179	170087	191228	212251
Total liab & sh equity	399021	502871	616746	689220	722255
Net debt	161362	225558	256607	276623	248639

Source: Company data, RBS forecasts

year ended Mar

Cash flow statement

Rsm	FY10A	FY11A	FY12F	FY13F	FY14F
EBITDA	38479	46138	63210	65269	67936
Change in working capital	-4839	5937	6565	-1169	-789.5
Net interest (pd) / rec	-7818	-8684	-14179	-16711	-17375
Taxes paid	-6938	-8323	-17235	-19564	-19718
Other oper cash items	-5879	-4105	-7307	-8055	-10068
Cash flow from ops (1)	13004	30964	31053	19769	19985
Capex (2)	-71898	-89186	-62522	-39989	7751
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	1689	2413	0.00	0.00	0.00
Cash flow from invest (3)	-70209	-86773	-62522	-39989	7751
Incr / (decr) in equity	158.9	0.00	0.00	0.00	0.00
Incr / (decr) in debt	43035	63155	71915	29364	-2819
Ordinary dividend paid	0.00	0.00	0.00	0.00	0.00
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	25338	-8387	420.5	203.2	248.1
Cash flow from fin (5)	68532	54768	72336	29567	-2571
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	11328	-1042	40867	9347	25165
Equity FCF (1+2+4)	-58894	-58222	-31469	-20220	27736

Lines in bold can be derived from the immediately preceding lines.
Source: Company data, RBS forecasts

year to Mar

Standard ratios	Tata Power					Adani Power			JSW Energy		
Performance	FY10A	FY11A	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F
Sales growth (%)	8.52	2.49	21.1	23.3	12.8	216.2	107.0	19.6	38.5	17.5	8.45
EBITDA growth (%)	17.8	19.9	37.0	3.26	4.09	193.9	90.0	14.6	47.6	10.8	10.5
EBIT growth (%)	13.9	22.3	44.1	0.66	-2.49	206.7	83.5	7.64	47.7	3.11	9.71
Normalised EPS growth (%)	51.3	5.11	27.5	-13.1	-1.11	172.5	31.7	12.3	12.9	-6.78	19.2
EBITDA margin (%)	20.3	23.7	26.8	22.4	20.7	53.1	48.8	46.7	38.8	36.6	37.3
EBIT margin (%)	15.6	18.7	22.2	18.1	15.7	46.9	41.6	37.4	32.2	28.2	28.6
Net profit margin (%)	10.4	10.7	11.2	7.91	6.94	20.7	13.2	12.4	16.0	12.7	13.9
Return on avg assets (%)	7.85	6.38	6.62	5.17	4.81	5.66	6.95	6.97	8.05	9.20	10.7
Return on avg equity (%)	19.7	17.0	18.6	14.0	12.4	20.0	21.4	19.6	15.7	13.1	14.0
ROIC (%)	9.97	8.63	8.66	6.79	6.01	6.83	8.07	7.51	8.96	9.54	11.4
ROIC - WACC (%)	-0.39	-1.73	-1.70	-3.57	-4.35	-6.13	-4.89	-5.45	-4.00	-3.42	-1.54
				year to Mar			year to Mar			year to Mar	
Valuation											
EV/sales (x)	2.08	2.36	2.08	1.75	1.47	6.92	3.92	3.37	2.72	2.14	1.76
EV/EBITDA (x)	10.3	9.95	7.75	7.81	7.09	13.0	8.04	7.22	7.00	5.85	4.74
EV/EBITDA @ tgt price (x)	10.7	10.3	8.00	8.06	7.33	12.8	7.95	7.14	6.94	5.79	4.69
EV/EBIT (x)	13.3	12.6	9.36	9.68	9.38	14.8	9.44	9.02	8.44	7.57	6.17
EV/invested capital (x)	1.35	1.22	1.14	1.08	1.03	1.21	1.10	1.04	1.09	1.04	0.97
Price/book value (x)	2.05	1.78	1.51	1.34	1.21	2.21	1.78	1.46	1.27	1.15	1.03
Equity FCF yield (%)	-25.2	-25.0	-13.5	-8.67	11.9	-48.9	-47.7	-9.49	4.88	17.2	21.5
Normalised PE (x)	11.80	11.23	8.81	10.14	10.25	12.16	9.23	8.22	8.59	9.22	7.73
Norm PE @tgt price (x)	12.6	12.0	9.41	10.8	11.0	11.7	8.87	7.90	8.45	9.07	7.61
Dividend yield (%)	1.22	1.27	1.27	1.27	1.27	0.00	0.00	0.00	2.01	2.01	2.01
				year to Mar			year to Mar			year to Mar	
Per share data						Solvency					
Tot adj dil sh, ave (m)	2373	2373	2373	2373	2373	Net debt to equity (%)	128.0	155.4	150.9	144.7	117.1
Reported EPS (INR)	8.33	8.76	11.2	9.69	9.59	Net debt to tot ass (%)	40.4	44.9	41.6	40.1	34.4
Normalised EPS (INR)	8.33	8.76	11.16	9.69	9.59	Net debt to EBITDA	4.19	4.89	4.06	4.24	3.66
Dividend per share (INR)	1.20	1.25	1.25	1.25	1.25	Current ratio (x)	1.63	1.44	1.72	1.67	1.80
Equity FCF per share (INR)	-24.8	-24.5	-13.3	-8.52	11.7	Operating CF int cov (x)	3.55	5.52	4.41	3.35	3.29
Book value per sh (INR)	48.0	55.2	65.0	73.3	81.4	Dividend cover (x)	6.11	6.65	7.93	6.89	6.81
				year to Mar						year to Mar	

Priced as follows: TTPW.BO - Rs98.30; ADAN.BO - Rs78.05; JSWE.BO - Rs49.80
Source: Company data, RBS forecasts

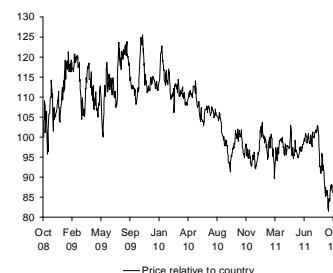
Valuation methodology – SOTP-based target price

	Methodology	Key assumptions/comments	Per share value (Rs)	% of value	Stake (%)
Existing Business					
Mumbai existing Generation, transmission & distribution business	Price/Book (X)	Earns assured RoE + incentives based on MERC norms	21	20	100
Jojobera & Belgaum generation business	Price/Book (X)	Operational generation capacity at Jojobera (428MW) and Belgaum (81MW). Returns are PPA driven. Upside hinges on merchant sales + savings on agreed terms + PLF incentives	5	5	100
Powerlinks Transmission Ltd	Price/Book (X)	CERC based tariff (15.5% ROE) + Incentives	2	2	51
Delhi Distcom (NDPL)	Price/Book (X)	NDPL earns 16% RoCE + efficiency gains (based on AT&C loss reduction benchmarks).	4	3	51
Trombay Ext U#8 - 100MW on Merchant Power	DCF-equity	Expected equity IRR at around 45%	2	2	100
Wind Power	Price/Book (X)	Around 227MW of wind power operational capacity	2	2	100
Haldia IPP-120MW	Price/Book (X)	Haldia to sell 100MW on merchant power (after meeting its commitments to the WBSEB).	3	2	100
CPP (Jamshedpur, IEL) -120MW	Price/Book (X)	CPP -Regulated+ Merchant	1	1	74
CPP (Jojobera, IEL) -120MW	Price/Book (X)	CPP -Regulated+ Merchant	1	1	74
Projects under construction					
Mundra UMPP	DCF-equity	Levelised tariff of Rs2.26/unit for 25 years	(9)	(9)	100
Maithon DVC JV	DCF-equity	1,050MW project; CERC-based returns (new norms) + Incentives	8	8	74
Wind Power	Price/Book (X)	Wind power under construction	1	1	100
Key Investments					
Investments-Telecom/Others	Disc to CMP/BV	Listed Telecom Investment @30% disc to CMP. For Tata Teleservices @40% disc to NTT DoCoMo deal. For other Unlisted @1x PB.	17	16	100
Bumi SPVs (30% Stake in KPC/Arutmin/Indocoal resources)	DCF-equity	ASP @ US\$90/tonne from CY11F onwards & tax rate @45%	47	45	30
Target price (Rs/share)			105	100	100

Source: Company data, RBS forecasts

Company description	Hold	Price relative to country
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Tata is the largest private-sector electricity utility in India and its operations span the electricity value chain, including coal mining, power generation, transmission and distribution. We expect its current power generation capacity of 3GW to expand to 8.2GW by FY13. Tata Power owns the Mundra UMPP, which is under construction and likely to be completed two years ahead of schedule. Its transmission business includes a JV with Powergrid that carries power from Tala (Bhutan) to Delhi. Its distribution business includes Mumbai and Delhi (NDPL). The coal mining business involves a 30% stake in two Indonesian mines, KPC and Arutmin, with a total production of 61mtpa. In addition to power assets, Tata Power also holds sizable shares of Tata Group's telecom companies, namely, Tata Communications, TTSL and TTML



Strategic analysis	Average SWOT company score: 3	FY11 Shareholders
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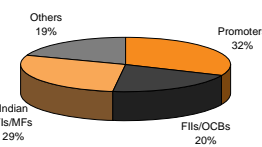
Strengths 3
Tata Power is the largest private-sector power utility in India. It has interests in both generation and distribution, which provide a good understanding of the operating environment. It has also acquired partial fuel integration with stakes in Indonesian mines.

Weaknesses 2
Bumi SPVs' contribution to Tata Power's (TPWR's) consolidated profit has been steadily increasing from 9% in FY08 to 44% in FY11, and we expect it to increase to 65% in FY13F. Over the next few years, earnings for the company will largely be driven by imported coal price movements, in our view.

Opportunities 3
The Indian power sector provides enough growth opportunities to low-cost players with full control over fuel supply.

Threats 2
Threats are more from external environment like weak financials of distribution entities, etc.

Scoring range is 1-5 (high score is good)



Source: BSEIndia

Market data

Headquarters
Bombay House, 24, Homi Mody Street, Mumbai - 400 001, INDIA.

Website
<http://www.tatapower.com/>

Shares in issue
2373.3m

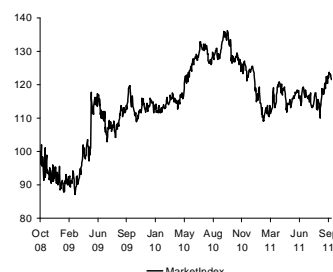
Freefloat
68%

Majority shareholders
Tata Sons Limited (30%)

Country view: India	Country rel to Asia Pacific
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The compression of multiples typically characteristic of a market undergoing the transition from growth to value continued to pressure Indian equities in the 2Q. While the economic deceleration is well under way, we continue to view the country as a major potential loser from higher costs of capital in quarters and perhaps even years ahead. Still, given the significant short-term relative underperformance and the expected decline in commodities prices, clearly a bounce is possible. Yet, as valuations are broadly unattractive and returns declining, we continue to consider the risk-reward trade-off as unattractive.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position	Average competitive score: 3+	Broker recommendations
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Supplier power 2+
Supplier power of both coal and gas is high given domestic shortage and rising prices overseas.

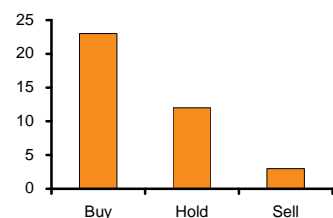
Barriers to entry 3+
The capital-intensive nature of thermal power plants makes it difficult for others unless they are financially sound.

Customer power 2+
Lowest cost power producer will have little worry on customer power. Customer default risk has increased due to weak financial health.

Substitute products 4+
There is no real substitute for power. However, there are substitute sources, ie, wind energy, hydro power, etc.

Rivalry 2+
Enough opportunity for all players to survive. Right business model with the right PPA structuring and full control over fuel cost is the key.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 10 Oct 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	855 (11)	556 (3)
Hold	413 (7)	225 (4)
Sell	87 (6)	47 (0)
Total (IB%)	1355 (9)	828 (3)

Source: RBS

Trading recommendations (as at 10 Oct 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	1 (100)	1 (100)
Trading Sell	1 (0)	1 (0)
Total (IB%)	2 (50)	2 (50)

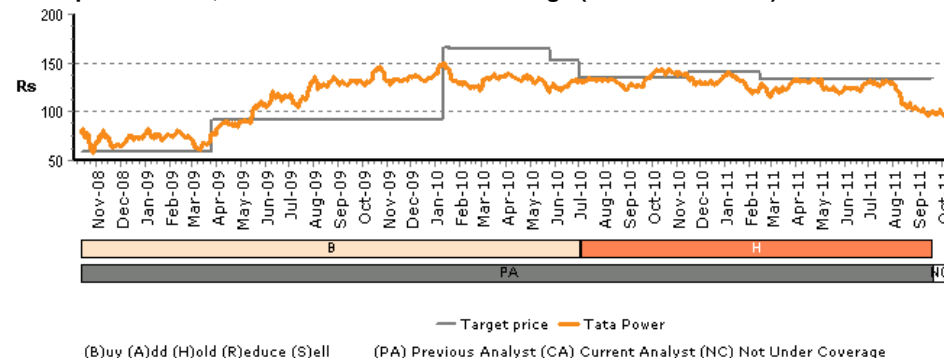
Source: RBS

Valuation and risks to target price

Tata Power (RIC: TTPW.BO, Rec: Hold, CP: Rs98.30, TP: Rs105.00): Our SOTP values the divisions on PB or DCF-to-equity. The key risks to our target price are: 1) higher/lower production in Bumi SPVs vs our current estimate; 2) higher/lower coal price realisation than our estimate; and 3) lower loss in Mundra UMP - if the Indonesian government agrees to TPWR's petition to look at it as a special case, this could be a source of upside to our outlook.

Tata Power coverage data

Stock performance, recommendations and coverage (as at 10 Oct 2011)



Trading recommendation history (as at 10 Oct 2011)

Date	Rec	Analyst
	n/a	

Source: RBS

Harish Bihani started covering this stock on 10 Oct 11. Moved to new recommendation structure between 1 November 2005 and 31 January 2006. Source: RBS

Regulatory disclosures

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