



Tata Power

STOCK INFO. BLOOMBERG
BSE SENSEX: 10,349 TPWR IN
REUTERS CODE
S&P CNX: 3,211 TTPW.BO

2 April 2009

Neutral

Previous Recommendation: Neutral

Rs847

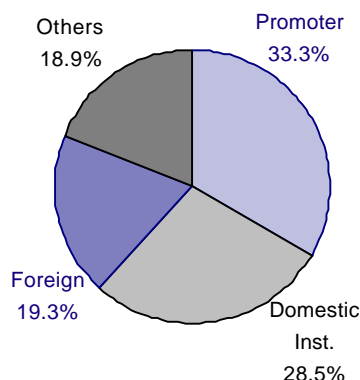
Equity Shares (m)	232.8
52-Week Range	1,510/532
1,6,12 Rel. Perf.(%)	4/13/6
M.Cap. (Rs b)	197.2
M.Cap. (US\$ b)	3.9

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
03/08A	59,159	6,942	32.7	25.4	25.9	2.5	7.7	6.2	3.6	22.8
03/09E	75,618	13,604	58.4	78.9	14.5	2.1	7.1	7.2	3.1	18.7
03/10E	81,285	16,625	71.4	22.2	11.9	2.0	8.4	9.2	2.9	13.2
03/11E	83,411	14,697	63.1	-11.6	13.4	1.9	8.9	6.0	2.9	13.2

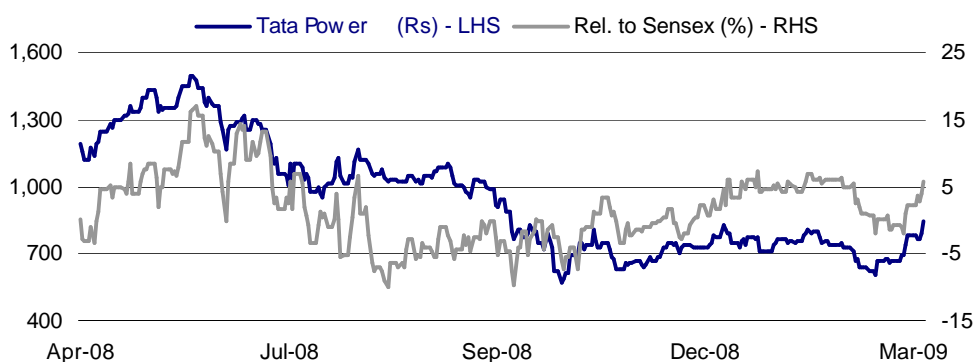
* Consolidated incl share of profit from Bumi Resources, Pre Exceptionals, Fully Diluted

- Bumi reports in-line performance for CY08:** For CY08, Bumi reported revenue of US\$3.3b (up 49.2% YoY), EBITDA of US\$1.1b (up 172.7% YoY) and PAT after minority interest of US\$645 (up 103.4% YoY). Coal production was 52.8m tons, up 1.5% YoY and coal sales were 51.5m tons (down 7% YoY). Lower volumes were due to challenging weather conditions (1m ton), environment related issues at KPC (2m ton) and underperformance of mining contractor (2m tons). Realizations were US\$71.3/ton for CY08 (v/s US\$44/ton for CY07), and US\$79.6/ton for 4QCY08 (v/s US\$81.8/ton for 3QCY08).
- CY09 guidance of 10% increase in volumes, 15% cut in production cost:** For CY09, the management has guided 10% increase in sales volumes and 15% decline in production cash cost (US\$33.1/ton in CY08). In 4QCY08, production cash cost was US\$28.6/ton, given decline in fuel oil prices. Fuel cost accounts for 33-35% of total production cost. The final guidance for FY09 average realization would be provided in the next quarter, post the Asian contracts settlement. Currently, the management expects prices to be mid-to-late US\$60/ton.
- Tata Power's share from KPC and Arutmin mines is unchanged:** We have retained our earnings estimates for KPC and Arutmin mines, and expect Tata Power's share at US\$197m in CY09 and US\$161m in CY10, v/s US\$297m in CY08. For CY09, we have factored in 8% YoY volume growth, 23% decline in realizations to US\$55/ton, and production cost of US\$29/ton (down 13% YoY). Reserves for the KPC/Arutmin mines remain unchanged at 9.6b tons – 2.2b tons of proven reserves and 7.4b tons of resources.
- Valuation and view:** We expect Tata Power to report consolidated net profit of Rs13.6b in FY09, Rs16.6b in FY10, and Rs14.7b in FY11. We arrive at an SOTP-based target price of Rs763, comprising of power business at Rs323/share, defense business at Rs3/share, Delhi distribution business at Rs76/share, Tata BP Solar at Rs5/share, investments and cash balance (net off debt) at Rs177/share, stake in KPC/Arutmin mines at Rs146/share, Mundra UMPP at Rs23/share, and Maithon Power Project at Rs7/share. The stock trades at 11.9x FY10E and 13.4x FY11E EPS. We maintain **Neutral**.

SHAREHOLDING PATTERN (DEC.08)



STOCK PERFORMANCE (1 YEAR)



Bumi reports in-line performance for CY08

For CY08, Bumi reported revenue of US\$3.3b (up 49.2% YoY), EBITDA of US\$1.1b (up 172.7% YoY) and PAT after minority interest of US\$645 (up 103.4% YoY).

FINANCIAL PERFORMANCE (US\$ M)

	CY07				CY08				CY07	CY08
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Total Operating Income	578	575	493	620	664	830	940	945	2,265	3,378
Change (%)					14.8	44.4	85.0	52.4	22.3	49.2
EBITDA	112	102	72	124	161	262	324	360	406	1,107
Change (%)					43.3	158.3	353.1	191.5	24.2	172.8
As of % Sales	19.4	17.7	14.5	19.9	24.3	31.6	34.5	38.1	17.9	32.8
PBT	86	102	77	126	147	254	299	332	383	1,032
Tax	6	7	-20	29	-4	-31	42	83	15	90
Effective Tax Rate (%)	6.7	7.2	-26.5	23.2	-3.0	-12.0	14.0	25.0	3.9	8.7
Reported PAT	80	94	97	97	152	285	257	249	368	942
Minority Interest	0	1	24	26	49	86	69	94	51	297
PAT after Minority	80	93	73	71	103	199	188	155	317	645
Change (%)					28.8	113.7	157.0		67.7	103.4

E: Bumi Resources

Operational performance: Coal production was 52.8m tons, up 1.5% YoY and coal sales were 51.5m tons (down 7% YoY). Lower volumes were due to challenging weather conditions (1m ton), environment related issues at KPC (2m ton) and underperformance of mining contractor (2m tons). Realizations were US\$71.3/ton for CY08 (v/s US\$44/ton for CY07), and US\$79.6/ton for 4QCY08 (v/s US\$81.8/ton for 3QCY08).

KPC/ARUTMIN MINES OPERATIONAL METRICS

	CY07				CY08				CY07	CY08
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Coal Sales (m tons)	14.5	13.8	12.3	14.7	12.5	12.9	12.5	13.6	55.4	51.5
Coal Conveyed (m tons)	13.9	13.2	12.3	15.1	12.5	13.2	12.2	15.3	52.0	52.8
OB Removed (M bcm)	99.8	117.7	115.3	119.9	118.7	128.4	116.6	132.2	452.5	495.9
Strip Ratio	8.9	9.7	9.1	7.9	9.6	9.9	9.9	8.7	8.7	9.4
Production Cash										
Cost (US\$/ton)	23.3	29.6	25.6	25.4	30.7	37.6	34.9	28.6	25.9	33.1
Fuel Cost (US\$/ton)									6.1	10.3
Avg. FOB Price (US\$/ton)	41.7	42.3	-	46.4	58.0	71.6	81.8	79.6	44.0	71.3

Source: Bumi Resources

CY09 guidance of 10% increase in volumes, 15% cut in production cost

For CY09, the management has guided 10% increase in sales volumes and 15% decline in production cash cost (US\$33.1/ton in CY08). In 4QCY08, production cash cost was US\$28.6/ton, given decline in fuel oil prices. Fuel cost accounts for 33-35% of total production cost. The final guidance for FY09 average realization would be provided in the next quarter, post the Asian contracts settlement. Currently, the management expects prices to be mid-to-late US\$60/ton.

Reserves for KPC/Arutmin mines remain unchanged

The total reserves for KPC and Arutmin mines put together stand at 9.6b tons (2.2b tons of proven reserves and 7.4b tons of resources), unchanged since December 2008. The reserves were increased from 8.1b tons in March 2008 (1.4b tons of reserves and 6.7b tons of resource). This represents increase of 16.7% in total reserves – proven reserves grew 51%, while resources were up 9.5%.

RESERVES AT KPC/ARUTMIN MINES (M TONS)

	COAL RESERVES	COAL RESOURCES	TOTAL
KPC			
Sangatta	160	3,447	3,607
Melawan	337	-	337
North Pinang	920	-	920
Bengalon	146	977	1123
Total (A)	1,563	4,424	5,987
Autmin			
Senakin	43	411	454
Satui	84	269	353
Batulicin	25	216	241
Sub-Bituminous	407	2047	2,454
Total (B)	559	2,943	3,502
Total (A + B)	2,122	7,367	9,489

Source: Bumi Resources

Tata Power's share from KPC/Arutmin mines is unchanged

We have retained our earnings estimates for KPC and Arutmin mines, and expect Tata Power's share at US\$197m in CY09 and US\$161m in CY10, v/s US\$297m in CY08. For CY09, we have factored in 8% YoY volume growth, 23% decline in realizations to US\$55/ton, and production cost of US\$29/ton (down 13% YoY). Reserves for the KPC/Arutmin mines remain unchanged at 9.6b tons – 2.2b tons of proven reserves and 7.4b tons of resources.

KPC/ARUTMIN MINES CONTRIBUTION TO TATA POWER (US\$ M)

	UNITS	CY08A	CY09E	CY10E
Coal Production	m tons	57	62	68
Coal Sales	m tons	52	58	64
Realization	US\$/ton	70	55	50
Cost of Sales	US\$/ton	33	29	29
Operating Expenses	% to Sales	9.6	7.5	5.5
Revenues		3,378	3,059	2,952
EBITDA		1,107	978	808
Net Profit before Minority		942	656	538
Profit Attributable to Tata Power		297	197	161

Source: MOSL

Valuation and view

We expect Tata Power to report consolidated net profit of Rs13.6b in FY09, Rs16.6b in FY10, and Rs14.7b in FY11. We arrive at an SOTP-based target price of Rs763, comprising of power business at Rs323/share, defense business at Rs3/share, Delhi distribution business at Rs76/share, Tata BP Solar at Rs5/share, investments and cash balance (net off debt) at Rs177/share, stake in KPC/Arutmin mines at Rs146/share, Mundra UMPP at Rs23/share, and Maithon Power Project at Rs7/share. The stock trades at 11.9x FY10E and 13.4x FY11E EPS. We maintain **Neutral**.

TATA POWER: SUM OF THE PARTS

	RS M	RS/SH	BUSINESS SEGMENT	METHOD
Power Business (Mumbai, IPPs, etc)	75,123	323	Power Utility	DCF, WACC 12.3%
Defense Business	797	3	Defense	EV/EBITDA 10x FY10E
Delhi Distribution	17,668	76	Power Distribution	PER, 10x FY10E
Tata BP Solar	1,227	5	Solar Cells, etc	PER, 10x FY10E
Investments in Power (Powerlinks Transmission, Maithon Power, etc)	2,864	12	Power Transmission, Generation, etc	RoE 18-20%, 1.2x P/BV
Investments				
- Tata Sons	6,429	28	Investment Company	Value of investment, Discount of 20% to Market Value
- Aftaab Investments	4,402	19	Investment Company	Value of investment, Discount of 20% to Market Value
- Telecom Investments	39,837	171	Investments in Tata Tele and VSNL	Tata Tele: At 3x EV/Sales for FY09E, discount of 20% to market value for other investments
Govt Bonds, MF, etc	13,305	57	Investments	Book value
KPC / Arutmin Mines	34,106	146	Investments	Based on valuation benchmark of US\$0.6/ton of total reserve, less acquisition debt
	196,044	842		
Growth Option				
- Mundra Power Project	5,370	23	Power Generation	DCF, COE 15.0%, Investment of Rs4b as at March 2008
- Maithon Power Project	1,704	7	Power Generation	BV of investments till March 2008
Less: Debt	25,567	110		Excl FCCB, assumed conversion; less debt on existing regulatory business
Value	177,551	763		

Source: MOSL

INCOME STATEMENT		(RS MILLION)			
Y/E MARCH	2008	2009E	2010E	2011E	
Total Revenues	59,159	75,618	81,285	83,411	
Cost of Electrical Energy pur	5,489	12,407	10,827	15,566	
Cost of fuel	37,150	43,337	44,863	44,961	
Administration & Other Exps	7,154	7,512	7,887	8,282	
EBITDA	9,366	12,363	17,708	14,602	
% of Total Revenues	15.8	16.3	21.8	17.5	
Depreciation	2,905	3,370	4,323	4,382	
Interest	1,419	3,115	3,574	0	
Other Income	4,658	2,914	1,649	2,663	
PBT	9,701	8,792	11,461	12,883	
Tax	-1,002	-1,608	-3,288	-3,715	
Rate (%)	-10.3	-18.3	-28.7	-28.8	
Reported PAT	8,699	7,184	8,173	9,168	
Change (%)	24.8	-17.4	13.8	12.2	
Recurring PAT	4,985	6,006	8,173	9,168	
Change (%)	0.8	20.5	36.1	12.2	
Consolidated PAT	6,942	13,604	16,625	14,697	
Change (%)	25.4	96.0	22.2	-11.6	
Dividend (Inc. tax)	2,683	2,328	2,794	2,794	

* Incl share of profit from Bumi Resources

BALANCE SHEET		(RS MILLION)			
Y/E MARCH	2008	2009E	2010E	2011E	
Share Capital	2,207	2,328	2,328	2,328	
Reserves	72,985	92,178	97,557	103,931	
Net Worth	75,192	94,507	99,885	106,259	
Loans	30,373	38,883	46,000	76,000	
Capital Contribution from cus	461	461	461	461	
Appropriation towards proje	5,336	5,336	5,336	5,336	
Capital Employed	111,362	139,187	151,682	188,056	
Gross Fixed Assets	64,820	98,939	100,306	102,296	
Less: Depreciation	34,765	38,135	42,458	46,840	
Net Fixed Assets	30,055	60,804	57,848	55,456	
Capital WIP	16,817	0	0	0	
Investments	44,321	54,986	64,029	90,163	
Deffered Tax Asset	-189	372	372	372	
Curr. Assets	38,755	42,409	49,007	61,225	
Inventory	4,736	5,490	5,309	4,898	
Debtors	14,145	15,485	14,143	12,323	
Cash & Bank Balance	287	1,848	9,969	24,417	
Loans & Advances	19,587	19,587	19,587	19,587	
Current Liab. & Prov.	18,414	19,386	19,575	19,159	
Sundry Liabilities	12,539	14,534	14,055	12,966	
Provisions	5,875	4,852	5,520	6,192	
Net Current Assets	20,341	23,024	29,432	42,066	
Misc Expenses	17	0	0	0	
Application of Funds	111,362	139,187	151,682	188,056	

E: MOSL Estimates

RATIOS					
Y/E MARCH	2008	2009E	2010E	2011E	
Basic EPS (Rs) (Recurring)	22.6	25.8	35.1	39.4	
Consolidated EPS	31.5	58.4	71.4	63.1	
Fully Diluted Cons. EPS	32.7	58.4	71.4	63.1	
CEPS (Rs)	35.7	40.3	53.7	58.2	
Book Value	337.8	405.9	429.0	456.3	
DPS	12.2	10.0	12.0	12.0	
Payout (incl. Div. Tax.)	44.5	53.8	38.8	34.2	
Valuation (x)					
P/E	25.9	14.5	11.9	13.4	
EV/EBITDA	22.8	18.7	13.2	16.5	
EV/Sales	3.6	3.1	2.9	2.9	
Price/Book Value	2.5	2.1	2.0	1.9	
Dividend Yield (%)	1.4	1.2	1.4	1.4	
Profitability Ratios (%)					
RoE	7.7	7.1	8.4	8.9	
RoCE	6.2	7.2	9.2	6.0	
Turnover Ratios					
Debtors (Days)	87	75	64	54	
Inventory (Days)	29	26	24	21	
Asset Turnover (x)	0.5	0.5	0.5	0.4	
Leverage Ratio					
Debt/Equity (x)	0.4	0.4	0.5	0.7	

CASH FLOW STATEMENT		(Rs Million)			
Y/E MARCH	2008	2009E	2010E	2011E	
PBT before EO Items	9,701	8,792	11,461	12,883	
Add : Depreciation	2,905	3,370	4,323	4,382	
Interest	1,419	3,115	3,574	0	
Less : Direct Taxes Paid	1,002	1,608	3,288	3,715	
(Inc)/Dec in WC	-10,886	-1,122	1,712	1,815	
CF from operations	2,136	12,547	17,781	15,366	
Extra-ordinary Items	3,714	1,178	0	0	
CF from operations incl I	-1,578	11,370	17,781	15,366	
(Inc)/dec in FA	-11,664	-17,302	-1,367	-1,990	
(Pur)/Sale of Investments	-8,619	-10,665	-9,043	-26,133	
CF from investments	-20,283	-27,967	-10,410	-28,123	
(Inc)/Dec in Netw orth	18,495	15,092	0	9,168	
(Inc)/Dec in Debt	-5,961	8,510	7,117	30,000	
(Inc)/Dec in Capital Contribut	39	0	0	0	
Less : Interest Paid	1,419	3,115	3,574	0	
Dividend Paid	2,683	2,328	2,794	2,794	
CF from Fin. Activity	8,471	18,159	749	36,374	
Inc/Dec of Cash	-13,390	1,561	8,120	23,617	
Add: Beginning Balance	13,677	287	1,848	9,969	
Closing Balance	287	1,848	9,969	33,585	



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Disclosure of Interest Statement	Tata Power
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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