

April 15, 2013

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Rating	Accumulate
Price	Rs94
Target Price	Rs111
Implied Upside	18.1%
Sensex	18,358
Nifty	5,568

(Prices as on April 15, 2013)

Trading data

Market Cap. (Rs bn)	223.0
Shares o/s (m)	2,373.3
3M Avg. Daily value (Rs m)	319.5

Major shareholders

Promoters	31.75%
Foreign	24.95%
Domestic Inst.	23.97%
Public & Other	19.33%

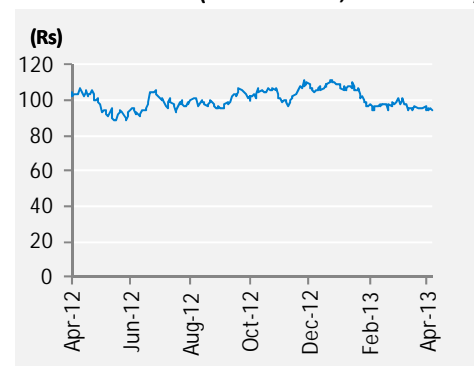
Stock Performance

(%)	1M	6M	12M
Absolute	(7.6)	(9.4)	(9.0)
Relative	(2.1)	(7.5)	(16.4)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	4.5	5.8	-22.5
2015	5.3	7.1	-25.9

Price Performance (RIC:TTPW.BO, BB:TPWR IN)



Source: Bloomberg

■ Tata Power gets a breather from Central Electricity Regulatory Commission (CERC) committee in the ratio of 4:1. The authority acknowledged the fact that Coastal Gujarat Power Limited (Mundra UMPP) is suffering from losses arising out of unforeseen events which will render it commercially unviable, if not given a suitable hike in the tariff. Thus it has decided and directed the parties to the Power Purchase Agreement (PPA) to work out an amicable solution to compensate the UMPP for the losses arising out of the difference between the prices before and after the Indonesian Regulations were passed (which made erstwhile contracted lower coal prices to be kept aligned to high spot prices).

■ It further stated that Mundra UMPP *deserves* to be compensated to make the project commercially viable, in order to operate and supply power to the respondents in terms of the PPAs. CERC has thus directed the concerned parties to constitute a committee within one week from the order to suggest a package for **compensatory tariff** which can be allowed to UMPP over and above the tariff in the PPAs. The Committee will have to submit its report to CERC by 15th May 2013 for consideration and further directions. **However this order can be challenged by any of the parties to the PPA in the higher courts.**

■ Again the tariff determination process will keep the following basic points so that the hike is constructive to all parties. They are:

(a) The net profit less Government taxes and cess etc. earned by the coal mines in Indonesia (read as **KPC** and **Arutmin**) on account of the bench mark price due to Indonesian Regulation, corresponding to the quantity of the coal being supplied to the Mundra UMPP should be factored in full, to pass on the same to the beneficiaries in the compensatory tariff.

Contd...2

Key financials (Y/e March)	2012	2013E	2014E	2015E
Revenues (Rs m)	260,014	327,117	392,370	425,175
Growth (%)	33.7	25.8	19.9	8.4
EBITDA (Rs m)	53,253	63,660	78,845	85,436
PAT (Rs m)	11,007	9,034	10,710	12,512
EPS (Rs)	4.6	3.8	4.5	5.3
Growth (%)	(43.3)	(17.9)	18.5	16.8
Net DPS (Rs)	1.3	1.3	1.5	1.5

Profitability & Valuation	2012	2013E	2014E	2015E
EBITDA margin (%)	20.5	19.5	20.1	20.1
RoE (%)	8.2	6.6	7.8	8.9
RoCE (%)	5.0	5.1	5.4	5.5
EV / sales (x)	2.0	1.7	1.6	1.5
EV / EBITDA (x)	9.7	8.8	7.9	7.3
PE (x)	20.3	24.7	20.8	17.8
P / BV (x)	1.6	1.6	1.6	1.6
Net dividend yield (%)	1.4	1.4	1.6	1.6

Source: Company Data; PL Research * Financials are calculated without an effect to the Mundra tariff

(b) The possibility of sharing the revenue due to sale of power beyond the target availability of Mundra UMPP to the third parties may be explored.

(c) The possibility of using coal with a low GCV for generation of electricity for supply to the Power procurers without affecting the operational efficiency of the generating stations.

- **Valuations & Recommendations:** Though the procedure to assess the final hike will take some time, **this judgment could be challenged by any of the parties to the PPA. We have presently kept our estimates and target price unchanged as this is not the final binding verdict.** At CMP of Rs94 the stock is trading at a P/BVx of 1.6x FY15E. Despite the quantum of the hike still being still in the negotiation phase, post this sentence we expect the stock to react positively as its surely a saving grace for the UMPP. Maintain '**Accumulate**'.

Exhibit 1: Calorific Value adjusted FOB rates in terms of USD per metric tonn

	6322 GCV	5350 GCV
At the time of Bid (7.12.2006)	49.79	42.13
Escalated price at 3.46% p.a. escalation (bid evaluation) as notified by CERC	59.01	49.94
Escalated price at 7% p.a. escalation	69.83	59.09
Market Price as on June 2012(HBA*rate)	96.65	74.44

Source: Company Data, PL Research

Exhibit 2: Methodology used to compute losses

	Qty(MMT)	Price in Bid	Current Price	Difference		\$/INR	Annual Losses (Rs bn)	
				\$MT	\$MMT			
A	B	C	D	E	F	G	H	I
Coal Qty		11.22						
Fixed	55.0%	6.17	30.00	74.00	44.00	271.00	54.00	14.63
Escalable	45.0%	5.05	59.00	74.00	15.00	76.00	54.00	4.10
Total			43.24	74.44	31.00	347.00		18.73
Add: Ins & Taxes			3.00	3.00	-	-	-	-
Total						347.00		18.73

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	260,014	327,117	392,370	425,175
Raw Material Expenses	129,903	178,033	210,485	234,490
Gross Profit	130,111	149,084	181,885	190,685
Employee Cost	11,462	—	—	—
Other Expenses	65,396	85,424	103,040	105,249
EBITDA	53,253	63,660	78,845	85,436
Depr. & Amortization	13,346	22,452	28,523	32,412
Net Interest	15,271	25,123	29,412	30,125
Other Income	(19,563)	4,200	4,000	5,000
Profit before Tax	5,073	20,285	24,910	27,899
Total Tax	14,755	10,751	13,701	14,786
Profit after Tax	(9,683)	9,534	11,210	13,112
Ex-Od items / Min. Int.	(20,690)	500	500	600
Adj. PAT	11,007	9,034	10,710	12,512
Avg. Shares O/S (m)	2,373.3	2,373.3	2,373.3	2,373.3
EPS (Rs.)	4.6	3.8	4.5	5.3

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	(10,448)	56,436	49,391	77,302
C/F from Investing	(192,534)	(116,644)	(203,840)	(151,653)
C/F from Financing	218,356	57,049	150,823	70,690
Inc. / Dec. in Cash	15,375	(3,159)	(3,626)	(3,661)
Opening Cash	22,066	37,441	34,206	31,435
Closing Cash	37,441	34,206	31,435	30,499
FCFF	(133,788)	(18,801)	(121,281)	(42,610)
FCFE	(50,400)	23,333	(64,857)	(41,231)

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	33.7	25.8	19.9	8.4
EBITDA (%)	15.9	19.5	23.9	8.4
PAT (%)	(43.3)	(17.9)	18.5	16.8
EPS (%)	(43.3)	(17.9)	18.5	16.8
Profitability				
EBITDA Margin (%)	20.5	19.5	20.1	20.1
PAT Margin (%)	4.2	2.8	2.7	2.9
RoCE (%)	5.0	5.1	5.4	5.5
RoE (%)	8.2	6.6	7.8	8.9
Balance Sheet				
Net Debt : Equity	2.2	2.5	2.9	2.8
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	20.3	24.7	20.8	17.8
P / B (x)	1.6	1.6	1.6	1.6
EV / EBITDA (x)	9.7	8.8	7.9	7.3
EV / Sales (x)	2.0	1.7	1.6	1.5
Earnings Quality				
Eff. Tax Rate	290.9	53.0	55.0	53.0
Other Inc / PBT	(6.8)	20.7	16.1	17.9
Eff. Depr. Rate (%)	4.0	5.9	5.5	5.3
FCFE / PAT	(457.9)	258.3	(605.6)	(329.5)

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	136,038	136,521	138,328	141,937
Total Debt	331,012	373,146	429,570	430,949
Other Liabilities	33,213	37,734	41,604	45,397
Total Liabilities	500,263	547,401	609,502	618,283
Net Fixed Assets	352,194	420,212	466,693	477,679
Goodwill	48,444	35,232	34,125	34,125
Investments	34,229	32,415	31,425	31,425
Net Current Assets	59,464	56,516	74,259	72,054
<i>Cash & Equivalents</i>	<i>37,441</i>	<i>34,206</i>	<i>31,435</i>	<i>30,499</i>
<i>Other Current Assets</i>	<i>142,605</i>	<i>148,630</i>	<i>167,210</i>	<i>181,378</i>
<i>Current Liabilities</i>	<i>120,582</i>	<i>126,320</i>	<i>124,386</i>	<i>139,823</i>
Other Assets	5,932	3,000	3,000	3,000
Total Assets	500,263	547,401	609,502	618,283

Quarterly Financials (Rs m)

Y/e March	Q1FY13	Q2FY13	Q3FY13	Q4FY13E
Net Revenue	72,539	76,998	90,393	88,692
EBITDA	14,129	15,093	18,547	17,395
<i>% of revenue</i>	<i>19.5</i>	<i>19.6</i>	<i>20.5</i>	<i>19.6</i>
Depr. & Amortization	5,060	5,420	5,873	6,099
Net Interest	5,481	6,229	7,403	6,010
Other Income	626	(1,816)	(5,890)	1,151
Profit before Tax	4,214	1,628	(619)	6,437
Total Tax	2,263	2,225	2,299	3,964
Profit after Tax	1,459	(838)	(3,289)	2,473
Adj. PAT	2,801	1,981	1,779	2,473

Key Operating Metrics

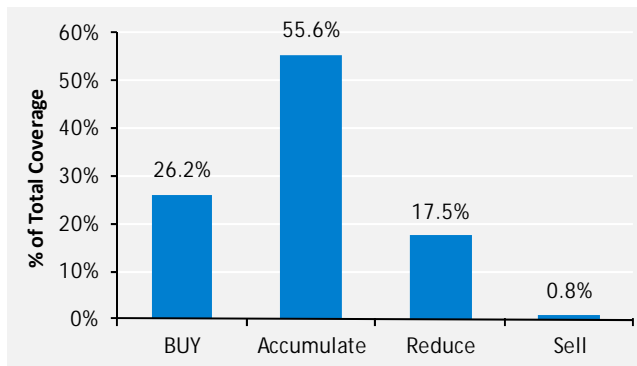
Y/e March	2012	2013E	2014E	2015E
St. Units Sold (m units)	15,240	16,458	18,452	23,065
St. Units Generated (m units)	15,230	15,230	15,230	15,230
St. Avg Realisation Rs/pu	4.2	5.0	5.5	6.0
Coal Sales (MTPA)	63.8	65.0	72.0	86.4
Capacity Added (MWs)	1,350.0	2,400.0	2,100.0	600.0
Capex (Rs bn)	129.9	50.0	140.0	88.8
Other Income/PAT (%)	(66.4)	44.1	35.7	38.1
EBITDA Marg. (%)	17.7	19.5	20.1	20.1

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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