

August 9, 2012

Rating	Previous Reco
Hold	Hold
CMP	Target Price
Rs98	Rs95
EPS Chg FY13E/FY14E (%)	-4.7/-4.6
Target Price change (%)	-3.1
Nifty	5,338
Sensex	17,601

### Price Performance

(%)	1M	3M	6M	12M
Absolute	-5	-1	-9	-19
Rel. to Nifty	-6	-7	-9	-21

Source: Bloomberg

### Relative price chart



Source: Bloomberg

### Stock Details

Sector	Power
Bloomberg	TPWR IB
Equity Capital (Rs mn)	2,373
Face Value(Rs)	1
No of shares o/s (mn)	2,373
52 Week H/L	123/ 80
Market Cap (Rs bn/USD mn)	233/ 4,220
Daily Avg Volume (No of sh)	3,315,848
Daily Avg Turnover (US\$mn)	5.8

### Shareholding Pattern (%)

	Jun12	Mar12	Dec11
Promoters	31.8	31.8	31.8
FII/NRI	26.2	25.1	23.3
Institutions	25.6	26.6	28.6
Private Corp	0.9	1.0	0.7
Public	15.5	15.6	15.6

Source: Bloomberg

- 1Q13 APAT of Rs3.0bn, below estimates on account of (i) higher cash cost at Bumi (\$49/ton vs. \$41/ton in 1Q12), (ii) higher losses at Mundra
- Coal EBIT dipped to 11% in 1Q13 marred by lower realization (expected) and higher cost (not expected); Mundra-blending at 70:30 ratio going forward (1Q13- 60:40); Maithon- 85% PAF to declare for 75% part, rail link work to start by Aug end
- Consol earnings might remain in a fix in the mid-term driven by softening coal prices (net long coal); Led by higher mining cost, cut our FY13E/FY14E ests. by 4.7/4.6% respectively
- In our view, lots of practical and legal challenges even if CERC approves petition to convert non-escalable component to escalable - very unlikely; Maintain Hold with PT of Rs95

### Below est. – double impact of lower realizations and higher cost at Bumi

1Q13 APAT of Rs3.0bn was below our's and street expectations largely on account of – (i) cash cost at Bumi increased to \$49/ton against expectations of decline and (ii) higher losses booked at Mundra owing to fixed cost related with shipping and port. Average realizations at Bumi have also dipped to \$84/ton vs. \$94/ton in 1Q12. Consequently EBIT margins declined to 11.4% in the quarter vs. 37.7% in 1Q12. Both Mundra and Maithon reported loss of Rs1.6bn and Rs178mn respectively. Fuel cost at Mundra came at Rs1.9/ unit (including port/shipping). At standalone level, APAT of Rs3.9bn grew by 36%yoy primarily helped by 12% higher regulated equity & 41% higher treasury income. Rs2.16bn of dividend was received from Bumi in 1Q13 vs Rs2.06bn in 1Q12.

### Project update

Management has guided for 70:30 blending of coal at Mundra against 60:40 currently. Steam blow-out is completed for Unit-3 and boiler light-up done for Unit-4 and Unit-5. For Maithon, coal transportation facility has now been stabilized with capacity of transporting 10000tons/day of coal by trucks. Construction work on railway link is expected to start by August end. TPWR will declare 85% PAF only for 75% of Maithon capacity (PPA with Punjab not yet approved) while the remaining capacity will be sold on merchant.

### Cut FY13E/FY14E earnings estimate by 4.7%/4.6%

We cut our earnings estimates for FY13E/FY14E by 4.7%/4.6% respectively, factoring in higher cash cost at Bumi (assuming \$42/ton now vs. earlier assumption of \$39/ton) and fine tuning of our assumptions for other businesses. Consequently our revised EPS for FY13E/FY14E stands at Rs4.7/4.6 respectively.

### Earnings in a fix but valuations limit downside; Maintain Hold

Considering that most of its other businesses (Mumbai, Delhi, Captive, others) are steady state and would be little variations in valuing these businesses, stock performance will be driven by (1) global coal prices and (2) Mundra tariff escalation (if any). We do not expect positive surprises from both the factors. However, in our view, valuations are already factoring in the negatives, thus limiting the downside. Maintain Hold rating with revised target price of Rs95/Share vs earlier PT of Rs98/share.

### Financial Snapshot (Consolidated)

(Rsmn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY11A	193,482	44,902	23.2	18,702	7.9	0.0	15.3	12.5	10.5	1.8
FY12A	258,689	51,927	20.1	6,924	2.9	-63.0	5.5	33.6	10.6	2.0
FY13E	276,521	59,138	21.4	11,231	4.7	62.2	9.2	20.7	9.3	1.8
FY14E	326,745	73,838	22.6	10,915	4.6	-2.8	8.4	21.3	7.2	1.7

**Exhibit 1: Quarterly result analysis (consolidated)**

Rs mn	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>58,048</b>	<b>62,483</b>	<b>66,459</b>	<b>71,699</b>	<b>73,526</b>	<b>26.7</b>	<b>2.5</b>
<b>Expenditure</b>	<b>-44,011</b>	<b>-48,975</b>	<b>-56,569</b>	<b>-57,747</b>	<b>-58,428</b>	<b>32.8</b>	<b>1.2</b>
as % of sales	-75.8%	-78.4%	-85.1%	-80.5%	-79.5%		
Consumption of RM	-36,875	-39,647	-38,533	-44,561	-47,246	28.1	6.0
as % of sales	-63.5%	-63.5%	-58.0%	-62.2%	-64.3%		
Power and Fuel	2,107	319	-5,773	-3,247	0	-100.0	-100.0
as % of sales	3.6%	0.5%	-8.7%	-4.5%	0.0%		
Employee Cost	-2432	-3026	-3104	-2901	-3098	27.4	6.8
as % of sales	-4.2%	-4.8%	-4.7%	-4.0%	-4.2%		
Other expenditure	-6811	-6622	-9159	-7038	-8084	18.7	14.9
as % of sales	-11.7%	-10.6%	-13.8%	-9.8%	-11.0%		
<b>EBITDA</b>	<b>14,037</b>	<b>13,508</b>	<b>9,889</b>	<b>13,951</b>	<b>15,098</b>	<b>7.6</b>	<b>8.2</b>
Depreciation	-2719	-3066	-3469	-4093	-5059	86.1	23.6
<b>EBIT</b>	<b>11,318</b>	<b>10,442</b>	<b>6,421</b>	<b>9,858</b>	<b>10,039</b>	<b>-11.3</b>	<b>1.8</b>
Other Income	542	1414	819	1238	1641	202.9	32.5
Interest	-2630	-3313	-4213	-4566	-5481	108.4	20.1
<b>PBT</b>	<b>9,230</b>	<b>8,543</b>	<b>3,028</b>	<b>6,531</b>	<b>6,200</b>	<b>-32.8</b>	<b>-5.1</b>
Total Tax	-4910	-7654	-1893	-4758	-2663	-45.8	-44.0
<b>Adjusted PAT</b>	<b>4321</b>	<b>889</b>	<b>1135</b>	<b>1774</b>	<b>3536</b>	<b>-18.2</b>	<b>99.4</b>
Extra ordinary items	718	-12479	1807	-7847	-1602		
<b>Reported PAT</b>	<b>5039</b>	<b>-11590</b>	<b>2942</b>	<b>-6074</b>	<b>1934</b>	<b>-61.6</b>	<b>-131.8</b>
(Profit)/loss from JV's/Ass/MI	-735	-283	38	-213	-492	-33.1	130.8
<b>PAT after MI</b>	<b>4304</b>	<b>-11874</b>	<b>2980</b>	<b>-6287</b>	<b>1443</b>	<b>-66.5</b>	<b>-122.9</b>
<b>Reported EPS</b>	<b>1.5</b>	<b>0.3</b>	<b>0.5</b>	<b>0.7</b>	<b>1.3</b>	<b>-15.1</b>	<b>95.1</b>

Margins (%)						(bps)	(bps)
EBIDTA	24.2	21.6	14.9	19.5	20.5	-365	108
EBIT	19.5	16.7	9.7	13.7	13.7	-584	-10
EBT	17.4	-11.3	8.0	-4.6	5.7	-1174	1028
PAT	6.2	1.0	1.8	2.2	4.1	-204	196
Effective Tax rate	50.2	-64.3	44.4	-85.3	53.9	366.5	13920.5

Source: Company, Emkay Research

**Exhibit 2: Segment analysis (consolidated)**

Segment (Rs mn)	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	YoY (%)	QoQ (%)
<b>Revenue</b>							
Power	37,203	39,344	39,099	46,050	48,240	29.7	4.8
Coal	19,907	21,673	27,007	23,378	22,650	13.8	-3.1
Others	1,480	2,138	1,701	3,239	2,096	41.6	-35.3
Inter-segment	(344)	(333)	(1,208)	(320)	(447)	29.9	39.8
<b>EBIT</b>							
Power	6,270	4,622	4,819	5,887	5,782	-7.8	-1.8
Coal	7,501	5,962	1,353	5,065	2,576	-65.7	-49.1
Others	(296)	(152)	58	(303)	28	-109.3	-109.1
<b>EBIT margin</b>							
Power	16.9	11.7	12.3	12.8	12.0	(486.7)	(79.7)
Coal	37.7	27.5	5.0	21.7	11.4	(2,630.6)	(1,029.1)
Others	(20.0)	(7.1)	3.4	(9.4)	1.3	2,133.7	1,067.4

Source: Company, Emkay Research

**Exhibit 3: Key subsidiaries performance**

Subsidiaries (Rsmn)	Q1FY12	Q4FY12	Q1FY13	YoY (%)	QoQ (%)
<b>CGPL (Mundra UMPP)</b>					
Sales	-	80	2,851	-	3463.8
PAT	-	(10,119)	(1,648)	-	-83.7
<b>Maithon</b>					
Sales	-	2,411	1,925	-	-20.2
PAT	(226)	13	(178)	-21.2	-1469.2
<b>IEL</b>					
Sales	1,095	1,067	1,449	32.3	35.8
PAT	200	205	213	6.5	3.9
<b>NDPL</b>					
Sales	12,057	12,002	14,786	22.6	23.2
PAT	1,483	739	739	-50.2	0.0
<b>Powerlinks</b>					
Sales	696	696	679	-2.5	-2.4
PAT	256	296	262	2.5	-11.5
<b>Power trading</b>					
Sales	6,621	3,806	6,442	(2.7)	69.3
PAT	59	8	54	(7.7)	575.0

Source: Company, Emkay Research

**Exhibit 4: Sum-of-the-Parts valuation**

Particulars	Method	Multiple assigned	TPWR share	Per share value
Mumbai license area	Price to Book	1.2x	100%	14
Other generation assets in standalone	Price to Book	1.0x		4
Maithon	FCFE	12% CoE	74%	5
IEL	FCFE	15% CoE	74%	2
CGPL	FCFE	13.5% CoE	100%	-24
Bumi stake	FCFE	15% CoE	30%	51
NDPL	Price to Book	1.7x	51%	4
Power Links	Price to Book	1.4x	51%	1
Power Trading	PE	10.0x	100%	0.5
<b>Investments</b>				
Tata Teleservices (Maharashtra)	CMP	20% discount		1
Tata Communications	CMP	20% discount		1
Tata Teleservices	As per Docomo deal	35% discount		10
NELCO	CMP	20% discount		0.2
Panatone Finvest - Tata Comm	CMP	20% discount		7
Other investments	Book Value	1x		4
Cash	Book Value	1x		14
<b>Total Fair Value</b>				<b>95</b>

Source: Company, Emkay Research

**Exhibit 5: Revenue built-up**

Rs mn	FY12	FY13E	FY14E
Revenue	258,689	276,521	326,745
Mumbai Discom (standalone)	80,515	70,962	75,808
IPPs	8,114	43,775	74,191
Indo coal & JVs	91,909	80,642	92,962
NDPL	51,947	55,050	59,300
Power links	2,816	2,768	2,722
Tata Power Trading	19,267	19,201	17,641
Coal SPVs	-	-	-
Others	4,121	4,121	4,121

Source: Emkay Research, Company

**Exhibit 6: PAT built-up**

Rs mn	FY12	FY13E	FY14E
Adjusted PAT	6,923	11,231	10,915
Mumbai Discom (standalone)	1,846	5,360	5,461
IPPs	(1,330)	(2,130)	(5,263)
Indo coal & JVs	12,115	7,965	11,191
NDPL	1,727	1,830	1,969
Power links	575	595	614
Tata Power Trading	141	119	125
Coal SPVs	6,169	2,196	3,051
Profit/(loss) from Associates	708	708	708
Others/Group eliminations	(15,028)	(5,411)	(6,942)

Source: Company, Emkay Research

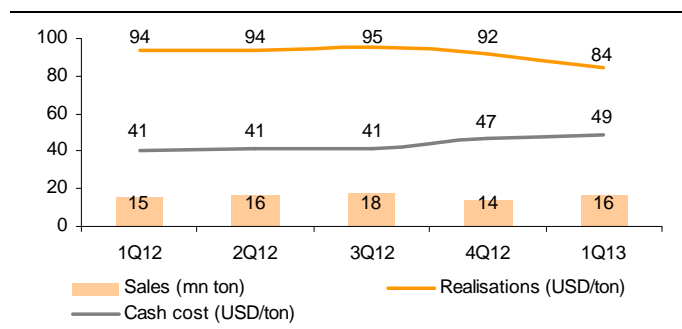
## Tata Power – Investment summary

### Earnings forecast - Emkay vs. Consensus

(Rs mn)	Emkay	Consensus	Variance
FY13E	11,231	17,642	- 36.3%
FY14E	10,915	16,497	- 33.8%

Source: Bloomberg

### Focus Chart – Bumi operations



Source: Company, Emkay Research

### Company description:

Tata Power Ltd (fka Tata Electric Companies), part of Tata group founded by Jamshedji Tata, was incorporated in 1919 and having presence now in power generation, transmission and distribution. Company owns and operates 5.3GW of generation capacity and provides power distribution services in Mumbai and Delhi. Around 3.3GW of generation capacity is under construction. It also owns 30% stake in Indonesian mines with 2.9bn ton of reserves.

### Recent update

- Tata Power filed petition to CERC for tariff revision for its 4000MW Mundra UMPP
- DERC announced 20.89% tariff hike for Delhi distribution area

### Promoters background

- **Ratan Tata:** 74yrs; Non-executive Chairman; B.Sc. (Architecture) with Structural Engineering from Cornell University, USA and Advanced Management Programme at Harvard University; Joined the Tata group in 1962 and became Chairman in 1991; Will retire as Chairman in December'2012 and to be replaced by Cyrus Mistry.

### Investment rationale

- Higher coal price favour Tata Power because (1) it was earning healthy profits from its stake in Bumi and (2) also enjoyed better bargaining power in getting Mundra tariffs increased. However, softening of coal prices (25-30% in last few months) is likely to lead to (1) lower profits in Bumi and (2) lesser chances of Mundra tariffs getting escalated. On the whole - negative impact.
- Even though Mundra UMPP will benefit due to softening coal prices, TPWR's net 'long' coal status will lead to earnings downgrade and lower NPV. In our view, it will involve lots of practical challenges even if CERC recommend tariff revision for Mundra.
- Steady state Mumbai and Delhi distribution business though, is unlikely to pose any negative or positive surprises

### Valuations

- Considering that most of its other businesses (Mumbai, Delhi, Captive, others) are steady state, Tata Power's stock performance to be driven by (1) global coal prices and (2) Mundra tariff escalation (if any). We do not expect positive surprises from both the factors.
- Currently trading at 1.8x FY13E book. Maintain Hold on the stock with price target of Rs95

### Investment risk

- (1) Tariff revision at Mundra against our assumption of no revision and (2) rebound in coal prices

### Top Institutional holdings

Name	Holding %
LIC	13.1
The Bank of New York	3.2
The New India Assurance Company Ltd	2.8
GIC	2.6
Matthews Pacific Tiger Fund	2.6

Source: Bloomberg

### Shares pledge

Period	Promoters holding	Pledge % of Prom. holding	Pledge % of total equity
Jun-11	31.8%	35.6%	11.3%
Sep-11	31.8%	6.9%	2.2%
Dec-11	31.8%	6.9%	2.2%
Mar-12	31.8%	6.9%	2.2%
Jun-12	31.8%	6.9%	2.2%

Source: Capitaline

## Key Financials (Consolidated)

## Income Statement

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
<b>Net Sales</b>	<b>193,482</b>	<b>258,689</b>	<b>276,521</b>	<b>326,745</b>
Growth (%)	0.0	33.7	6.9	18.2
<b>Expenditure</b>	<b>148,580</b>	<b>206,761</b>	<b>217,383</b>	<b>252,907</b>
Raw Materials	4,698	3,988	4,432	5,211
Employee Cost	8,259	11,463	12,739	14,980
Other Exp	0	0	0	0
<b>EBITDA</b>	<b>44,902</b>	<b>51,927</b>	<b>59,138</b>	<b>73,838</b>
Growth (%)	0.0	15.6	13.9	24.9
<b>EBITDA margin (%)</b>	<b>23.2</b>	<b>20.1</b>	<b>21.4</b>	<b>22.6</b>
Depreciation	9,802	13,346	18,416	23,431
<b>EBIT</b>	<b>35,100</b>	<b>38,581</b>	<b>40,721</b>	<b>50,408</b>
<b>EBIT margin (%)</b>	<b>18.1</b>	<b>14.9</b>	<b>14.7</b>	<b>15.4</b>
Other Income	2,762	4,013	6,425	6,311
Interest expenses	8,662	15,271	22,450	29,494
<b>PBT</b>	<b>29,201</b>	<b>27,323</b>	<b>24,696</b>	<b>27,224</b>
<b>Tax</b>	<b>9,276</b>	<b>19,206</b>	<b>11,258</b>	<b>13,763</b>
Effective tax rate (%)	31.8	70.3	45.6	50.6
<b>Adjusted PAT</b>	<b>19,925</b>	<b>8,118</b>	<b>13,438</b>	<b>13,462</b>
Growth (%)	0.0	-59.3	65.5	0.2
<b>Net Margin (%)</b>	<b>10.3</b>	<b>3.1</b>	<b>4.9</b>	<b>4.1</b>
(Profit)/loss from JVs/Ass/MI	1,965	1,902	2,915	3,255
<b>Adj. PAT After JVs/Ass/MI</b>	<b>18,702</b>	<b>6,924</b>	<b>11,231</b>	<b>10,915</b>
E/O items	1,894	-17,800	0	0
<b>Reported PAT</b>	<b>20,596</b>	<b>-10,877</b>	<b>11,231</b>	<b>10,915</b>
<b>PAT after MI</b>	<b>18,702</b>	<b>6,924</b>	<b>11,231</b>	<b>10,915</b>
Growth (%)	0.0	-63.0	62.2	-2.8

## Cash Flow

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
<b>PBT (Ex-Other income)</b>	<b>29,548</b>	<b>1,767</b>	<b>18,979</b>	<b>21,621</b>
Depreciation	9,802	13,346	18,416	23,431
Interest Provided	8,662	15,271	22,450	29,494
Other Non-Cash items	146	222	0	0
Chg in working cap	-10,216	-20,324	8,284	-685
Tax paid	-9,750	-14,755	-11,258	-13,763
<b>Operating Cashflow</b>	<b>28,193</b>	<b>-4,473</b>	<b>56,871</b>	<b>60,098</b>
Capital expenditure	-97,215	-61,805	-37,651	-20,511
<b>Free Cash Flow</b>	<b>-69,022</b>	<b>-66,278</b>	<b>19,220</b>	<b>39,587</b>
Other income	2,762	4,013	6,425	6,311
Investments	3,057	358	707	708
<b>Investing Cashflow</b>	<b>-91,396</b>	<b>-57,434</b>	<b>-30,518</b>	<b>-13,493</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	71,060	96,426	22,285	11,359
Interest Paid	-8,662	-15,271	-22,450	-29,494
Dividend paid (incl tax)	-3,395	-3,395	-3,807	-4,161
Income from investments				
Others	2,797	4,866	1,681	4,379
<b>Financing Cashflow</b>	<b>61,801</b>	<b>82,626</b>	<b>-2,291</b>	<b>-17,916</b>
<b>Net chg in cash</b>	<b>-1,402</b>	<b>20,719</b>	<b>24,062</b>	<b>28,689</b>
Opening cash position	25,512	24,110	44,829	68,891
<b>Closing cash position</b>	<b>24,110</b>	<b>44,829</b>	<b>68,891</b>	<b>97,580</b>

## Balance Sheet

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Equity share capital	2,373	2,373	2,373	2,373
Reserves & surplus	128,663	116,292	124,111	131,592
<b>Net worth</b>	<b>131,036</b>	<b>118,665</b>	<b>126,484</b>	<b>133,966</b>
<b>Minority Interest</b>	<b>14,143</b>	<b>16,313</b>	<b>19,289</b>	<b>22,605</b>
Secured Loans	264,751	361,399	383,684	395,043
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>	<b>264,751</b>	<b>361,399</b>	<b>383,684</b>	<b>395,043</b>
Net deferred tax liability	4,753	6,387	6,388	6,388
<b>Total Liabilities</b>	<b>414,682</b>	<b>502,763</b>	<b>535,844</b>	<b>558,001</b>
Gross Block	242,359	294,163	400,358	485,263
Less: Depreciation	83,295	96,642	114,602	137,576
<b>Net block</b>	<b>159,064</b>	<b>197,522</b>	<b>285,757</b>	<b>347,687</b>
Capital work in progress	195,751	205,751	136,751	71,901
<b>Investment</b>	<b>26,104</b>	<b>26,454</b>	<b>26,455</b>	<b>26,455</b>
<b>Current Assets</b>	<b>122,754</b>	<b>191,895</b>	<b>218,280</b>	<b>266,436</b>
Inventories	11,287	16,847	18,226	21,974
Sundry debtors	49,269	82,293	87,918	99,194
Cash & bank balance	24,110	44,829	68,891	97,580
Loans & advances	29,225	23,379	18,698	23,140
Other current assets	8,863	24,547	24,547	24,547
<b>Current lia &amp; Prov</b>	<b>88,990</b>	<b>118,859</b>	<b>131,399</b>	<b>154,478</b>
Current liabilities	71,231	99,330	109,936	128,718
Provisions	17,759	19,529	21,462	25,760
<b>Net current assets</b>	<b>33,763</b>	<b>73,036</b>	<b>86,882</b>	<b>111,958</b>
Misc. exp	0	0	0	0
<b>Total Assets</b>	<b>414,682</b>	<b>502,763</b>	<b>535,844</b>	<b>558,001</b>

## Key Ratios

Y/E Mar	FY11A	FY12A	FY13E	FY14E
<b>Profitability (%)</b>				
EBITDA Margin	23.2	20.1	21.4	22.6
Net Margin	10.3	3.1	4.9	4.1
ROCE	10.3	9.3	9.1	10.4
ROE	15.3	5.5	9.2	8.4
RoIC	21.8	19.6	15.4	15.1
<b>Per Share Data (Rs)</b>				
EPS	7.9	2.9	4.7	4.6
CEPS	12.0	8.5	12.5	14.5
BVPS	55.2	50.0	53.3	56.4
DPS	1.3	1.3	1.4	1.5
<b>Valuations (x)</b>				
PER	12.5	33.6	20.7	21.3
P/CEPS	8.2	11.5	7.9	6.8
P/BV	1.8	2.0	1.8	1.7
EV / Sales	2.4	2.1	2.0	1.6
EV / EBITDA	10.5	10.6	9.3	7.2
Dividend Yield (%)	1.3	1.3	1.4	1.6
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	1.8	2.7	2.5	2.2
Net Debt/EBITDA	5.4	6.1	5.3	4.0
Working Cap Cycle (days)	18.2	39.8	23.7	16.1

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