

# TATA POWER CO.

28/05/2016  
Sector: Power

Tata Power Company (TPC) has surprised with positive Q4FY16 results with Mundra UMPP reporting profits and solar business too following the same track. Despite having exceptional items of around INR 1bn, consolidated PAT stood at INR 3.6bn. APTEL has directed CERC to compute relief to be provided due to change in Indonesian coal pricing norms by July. Meanwhile, TPC is hawk eyeing the investments in renewable space and overseas markets for growth. The company is facing a delay in completion of Arutmin transaction, which when complete will add flavor to growth.

### Synopsis:

Tata Power Company's figures have shown surprising earnings in Maithon/Mundra & also have a positive contribution from solar. Mundra UMPP reported PAT of INR 90mn which is on account of annual turning up of fixed charges, Maithon project, riding commencement of 150MW PPA with Kerala, also has reported INR 740mn PAT, which is expected to sustain for the coming future. Tata Solar also turned around to report INR 40mn PAT. However, standalone figures were lower as company has made a provision of INR 2.25bn towards investments in Tata Teleservices. Additionally, the exposure of standalone entity to Mundra now stands at INR 35bn, which also has sub-optimal returns. Quarterly EBIT from coal mine stood stable at around INR2.6bn (QoQ), but the concern is that SPV's debt of USD 900mn has not dipped. The company does not appear to be in value unlocking mode and capital generated is likely to be utilized to cater the renewable energy project of approx 500MW which is under pipeline. The company may also continue with adding renewable assets in Africa/Georgia.

We believe that the company is going to have a very strong presence in the Indian power sector. The company has an installed capacity of more than 8GW at the end of FY16. The company also has 30% stake in two coal mines of Bumi Resources with proven reserves of approx 1.9bn tonnes. With falling coal prices, we believe, Tata Power will have pressure on coal earnings.

### Key Risks:

The company has fully completed two key projects one at Mundra with installed capacity of 4,000MW and another at Maithon with installed capacity of 1,050MW. The dynamics of Indian electricity market have undergone a dynamic change due to higher imported coal prices, weak customer finances, changing fiscal norms of coal exporting countries and also, a depreciating rupee. Creating a balance between contractual supplies i.e. both volume and price and maximizing earnings has become a key risk. Cost under-recovery at Mundra is now currently at CERC and resolution of the same is key going ahead. The company had restated stripping costs by around 15% to 11.5% in 2010 which should have lead to upward restatement of reserves from 2.1bn tonnes. However, recently the restatement was only to the extent of 20mn tonnes. Unless another round of restatement is done or costs are brought down the value of coal mines could be suppressed.

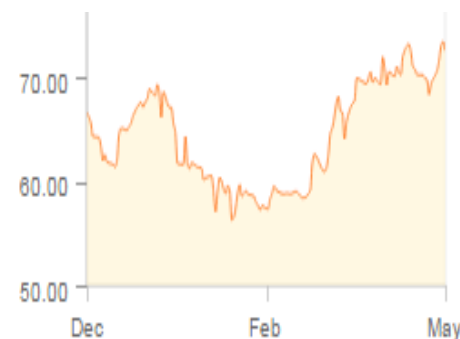
### Stock Summary:

Particular	
CMP	72.60
Target Price	82
Potential Upside	12.9%
O/S no of Shares (cr.)	27.04
Market Cap. (cr.)	19662.66
Equity Cap. (cr.)	270.48
52 Week High (INR)	76.85
52 Week Low (INR)	55
Face Value (INR)	1
NSE Code	TATAPOWER
BSE Code	500400

### Share Holding Pattern:

Particular	Mar-2016
Promoters	33%
MFs, FIs, BKs	24.5%
FII's	26.2%
Others	16.3%
<b>Total</b>	<b>100%</b>

### Stock Price Movement:



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## Valuation Outlook:

Tata Power Company has infused INR 35bn worth of sub-debt in Mundra UMPP, the APTEL directive to CERC to compute the relief under change-in-law is critical for the company going ahead. Looking forward to Arutmin transaction and further investment we are recommending a price target of INR 82. At CMP, the stock is trading at P/BV of 1.2x for FY17E and at 1.1x for FY18E. We recommend a 'BUY'.

## Key Financials

Year to March	Q4FY16	Q4FY15	% Change	Q3FY16	% Change	FY16	FY17E	FY18E
Revenues	93,751	82,396	13.8	93,292	0.5	364,608	383,788	401,399
EBITDA	19,134	19,617	(2.5)	24,721	(22.6)	79,912	75,669	90,417
Adj. net profit	3,601	1,591	126.3	3,766	(4.4)	8,734	12,702	22,413
Adj EPS (INR)	1.3	0.6	126.3	1.4	(4.4)	3.2	4.7	8.3
Price/BV(x)						1.2	1.2	1.1
ROAE (%)						6.0	8.0	12.3

## Positive Facts & Performance Outlook:

### Orders from CERC seems favoring Mundra UMPP:

A change in law by CERC, upheld by APTEL, with retrospective effect was made. In case of Mundra UMPP a retrospective recovery, not booked is of around INR 30bn, as compensatory tariff for CGPL will provide extra earnings.

### Coal Prices Getting Firm:

With favorable orders issued by APTEL addressing the issue of increase in International coal prices will benefit the profitability of coal business and thereby valuations.

### Coal Asset Deal: Conclusion of deal at USD 510mn:

There is a stake sale at Arutmin mine which could potentially unlock USD 510mn and help the company to retire its debt. If the company could close the deal at the agreed price there could be an upside from current value of the coal business which is valued at USD 190mn.

### Sensitivity of coal business valuation to see borne coal prices

6322 Kcal HBA Indonesian coal prices (USD/t FoB)

	50	55	60	65	70
Coal Business Value (INR mn)	8,504	16,852	25,200	33,548	41,896
Coal Business Value (INR/Share)	3.1	6.2	9.3	12.4	15.5

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## Key Concerns:

- While we are expecting that CERC will come out with a final orders within 3 months, any further appeal in the higher court by beneficiaries will delay the company's cash flows.
- TPC has INR 64bn of regulatory assets at Delhi and Mumbai businesses as on FY16 end. As against liquidation, any further build up of the same will deteriorate balance sheet further and hurt cash flows.

## Regulatory assets at Mumbai &amp; Delhi Business:

			INR mn
	<b>Q4FY16</b>	<b>Q4FY15</b>	<b>Q3FY16</b>
TPDDL (Delhi)	47,200	53,580	44,710
Mumbai Operations	17,210	22,220	16,490
Total	64,410	75,800	61,200

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**Financial Statements:**
**Income Statement:**

INR mn

<b>Year to March</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
Income from operations	343,669	364,608	383,788	401,399
Direct costs	204,980	214,374	233,670	233,118
Employee costs	15,457	15,122	15,374	16,079
Other Expenses	53,827	55,200	59,075	61,785
Total operating expenses	274,264	284,696	308,118	310,983
EBITDA	69,405	79,912	75,669	90,417
Depreciation	21,742	23,764	17,396	17,720
EBIT	47,663	56,148	58,273	72,696
Add: Other income	4,167	790	3,397	3,397
Less: Interest Expense	36,993	34,765	34,962	37,452
Add: Exceptional items	-	(2,805)	-	-
Profit Before Tax	14,837	19,367	26,709	38,641
Less: Provision for Tax	10,749	8,693	11,003	13,024
Minority interest	2,894	2,557	3,004	3,203
Associate profit share	484	616	-	-
Reported Profit	1,678	8,734	12,702	22,413
Exceptional Items	256	-	-	-
Adjusted Profit	1,422	8,734	12,702	22,413
Shares o /s (mn)	2,705	2,705	2,705	2,705
Adjusted Basic EPS	0.5	3.2	4.7	8.3
Diluted shares o/s (mn)	2,705	2,705	2,705	2,705
Adjusted Diluted EPS	0.5	3.2	4.7	8.3
Adjusted Cash EPS	9.6	12.3	11.1	14.8
Dividend per share (DPS)	1.1	1.3	1.9	3.3
Dividend Payout Ratio(%)	209.6	45.9	45.9	45.9
<b>Common size metrics</b>				
<b>Year to March</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
Operating expenses	79.8	78.1	80.3	77.5
Depreciation	6.3	6.5	4.5	4.4
Interest Expense	10.8	9.5	9.1	9.3
EBITDA margins	20.2	21.9	19.7	22.5
Net Profit margins	1.3	3.1	4.1	6.4
<b>Growth ratios (%)</b>				
<b>Year to March</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
Revenues	(3.6)	6.1	5.3	4.6
EBITDA	(9.9)	15.1	(5.3)	19.5
PBT	52.2	30.5	37.9	44.7
Adjusted Profit	(64.2)	514.1	45.4	76.5
EPS	(68.6)	514.1	45.4	76.5

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**Balance Sheet:**

INR mn

<b>As on 31st March</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
Share capital	2,705	2,705	2,705	2,705
Reserves & Surplus	155,484	162,271	169,142	181,266
Shareholders' funds	158,189	164,976	171,847	183,971
Minority Interest	24,926	25,814	28,818	32,021
Short term borrowings	45,866	29,551	29,551	29,551
Long term borrowings	362,553	371,658	366,872	347,807
Total Borrowings	408,419	401,209	396,423	377,358
Long Term Liabilities	20,005	22,216	22,216	22,216
Def. Tax Liability (net)	13,955	14,758	14,758	14,758
<b>Sources of funds</b>	<b>625,494</b>	<b>628,973</b>	<b>634,061</b>	<b>630,324</b>
Gross Block	578,148	645,607	676,234	701,894
Net Block	377,481	421,176	434,407	442,347
Capital work in progress	36,505	35,867	25,934	20,967
Intangible Assets	69,910	50,419	50,419	50,419
Total Fixed Assets	483,896	507,462	510,759	513,732
Non current investments	27,326	28,855	28,855	28,855
Cash and Equivalents	21,064	16,740	20,337	21,001
Inventories	18,442	18,061	20,771	18,422
Sundry Debtors	55,640	52,042	59,414	54,958
Loans & Advances	53,458	62,921	62,921	62,921
Other Current Assets	94,545	90,867	90,867	90,867
Current Assets (ex cash)	222,084	223,891	233,972	227,167
Trade payable	52,354	61,277	73,163	73,733
Other Current Liab	76,522	86,699	86,699	86,699
Total Current Liab	128,876	147,976	159,862	160,432
Net Curr Assets-ex cash	93,208	75,916	74,110	66,736
<b>Uses of funds</b>	<b>625,494</b>	<b>628,973</b>	<b>634,061</b>	<b>630,324</b>
BVPS (INR)	58.5	61.0	63.5	68.0

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Cash flow:

	INR mn			
<b>Particular</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
Reported Profit	1,678	8,734	12,702	22,413
Add: Depreciation	21,742	23,764	17,396	17,720
Deferred tax	2,726	803	-	-
Others	58,159	15,685	13,293	11,164
Less: Changes in WC	(13,182)	17,292	1,806	7,374
Operating cash flow	81,317	87,413	65,755	83,501
Less: Capex	34,244	66,821	20,693	20,693
Free Cash Flow	47,073	20,592	45,061	62,808
<b>Cash flow Matrix</b>				
<b>Particular</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
Operating cash flow	81,317	87,413	65,755	83,501
Investing cash flow	2,569	(66,137)	(17,296)	(17,296)
Financing cash flow	(20,361)	(45,491)	(44,861)	(65,541)
Net cash Flow	63,525	(24,216)	3,597	664
Capex	(34,244)	(66,821)	(20,693)	(20,693)
Dividend paid	(3,517)	(4,009)	(5,831)	(10,289)
Share issue/(buyback)	21,798	-	-	-

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## Ratios:

### Profitability & Efficiency Ratios

Particular	FY15	FY16	FY17E	FY18E
ROAE (%)	2.5	6.0	8.0	12.3
ROACE (%)	9.0	9.6	10.4	12.8
Inventory Days	35	31	30	31
Debtors Days	54	54	53	52
Payable Days	87	97	105	115
Cash Conversion Cycle	1	(12)	(22)	(32)
Current Ratio	1.9	1.6	1.6	1.5
Gross Debt/EBITDA	5.9	5.0	5.2	4.2
Gross Debt/Equity	2.2	2.1	2.0	1.7
Adjusted Debt/Equity	2.2	2.1	2.0	1.7
Interest Coverage Ratio	1.3	1.6	1.7	1.9

### Operating ratios

Particular	FY15	FY16	FY17E	FY18E
Total Asset Turnover	0.6	0.6	0.6	0.6
Fixed Asset Turnover	0.8	0.8	0.8	0.8
Equity Turnover	2.0	2.0	2.0	1.9

### Valuation parameters

Particular	FY15	FY16	FY17E	FY18E
Adj. Diluted EPS (INR)	0.5	3.2	4.7	8.3
YoY growth (%)	(68.6)	514.1	45.4	76.5
Adjusted Cash EPS (INR)	9.6	12.3	11.1	14.8
Diluted P/E (x)	139.1	22.7	15.6	8.8
P/B (x)	1.3	1.2	1.2	1.1
EV / Sales (x)	1.8	1.7	1.6	1.5
EV / EBITDA (x)	8.8	7.6	8.0	6.5
Dividend Yield (%)	1.6	1.8	2.6	4.6

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