

TATA POWER

POWER UTILITIES

BUY

Target Price: Rs 95

Coal, renewable drive earnings

Q2 PAT at Rs 2.7 bn was above our estimate of Rs 2.2 bn despite one-off of Rs 1.5 bn (Rs 1.1 bn Docomo and Rs 350 mn Rithala plant), but sharply below street's expectation at Rs 4.4 bn. Performance of Mundra UMPP deteriorated on rise in coal prices, but strong performance by coal companies supported by improvement in coal realization helped to more than offset Mundra losses. Renewables reported steady growth due to higher emphasis on improving operational metrics.

Net debt as on Sept'17 stands at Rs 389 bn, resulting in leverage of 2.4x. Management targets to reduce leverage to 2x through divesting non-core assets which includes Tata Communications worth Rs 22 bn and Arutmin mine worth Rs 26 bn.

CMP : Rs 85
Potential Upside : 12%

MARKET DATA

No. of Shares : 2,705 mn
Free Float : 67%
Market Cap : Rs 229 bn
52-week High / Low : Rs 91 / Rs 67
Avg. Daily vol. (6mth) : 5.1 mn shares
Bloomberg Code : TPWR IB Equity
Promoters Holding : 33%
FII / DII : 26% / 25%

Renewables post steady growth: Renewable portfolio reported revenue and EBITDA of Rs 5.1 bn and Rs 4.8 bn respectively in Q2FY18. Tata Power did not face any material off-take (PLF of ~19% for solar) or receivables issues. Smaller issues in Tamil Nadu also seems to be ironing out in September and October. Other renewable players are facing issues of both lower off-take and high receivables. We value Renewable business at 8x EV/ EBITDA FY19E (equity valuation of Rs 19/ share).

Extension of Trombay thermal PPA key to sustaining standalone profitability: Tata Power is confident of extension of its PPA of its Mumbai generation assets.

Upgrade to BUY on potential decrease in leverage due to asset sale: With improving coal price scenario, we now include value from sale of Arutmin mine (USD 401 mn) in TP. Potential sale of 51% in loss-making Mundra Power will result in significant upside. We value the plant at -Rs 42/ share. At CMP, the stock trades at P/B of 1.6x and 1.5x FY18 and FY19 and P/E of 13.7x and 12.5x FY18 and FY19, respectively.

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	2,86,929	2,72,113	3,29,276	3,39,259
EBITDA (Rs mn)	64,073	51,602	66,791	67,474
Adj PAT (Rs mn)	16,584	17,036	15,336	16,789
Con. EPS* (Rs.)	-	-	5.6	6.9
EPS (Rs.)	6.1	6.3	5.7	6.2
Change YOY (%)	560.0	2.7	(10.0)	9.5
P/E (x)	12.6	12.3	13.7	12.5
RoE (%)	12.9	12.9	11.1	11.1
EV/EBITDA (x)	10.2	13.9	10.0	9.5
DPS	1.6	1.3	1.1	1.2

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

	(Units)	FY16	FY17	FY18E
Coal volume	(mn tons)	81	59	60
Coal realization	(USD/t)	45	47	52
Reg. equity	(Rs bn)	71	69	68

Price performance

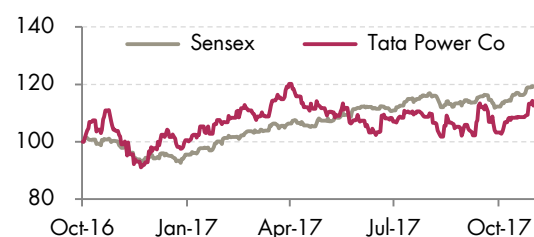


Exhibit 1: Profitability of coal companies helped off set losses at Mundra UMPP

Fig in ₹ Cr

Particulars	Op. Income		EBITDA ^A		PAT	
	Q2FY18	Q2FY17	Q2FY18	Q2FY17	Q2FY18	Q2FY17
Tata Power-Consolidated	7,393	7,285	1,718	1,696	234	427
Standalone & Key Subsidiaries						
Tata Power (Standalone)	1,821	1,798	810	1,112	50	496
CGPL (Mundra UMPP)	1,690	1,607	115	281	(279)	(78)
MPL (Maithon Power)*	646	569	203	193	68	52
TPDDL (Delhi Discom)**	1,941	2,012	222	255	21	67
TPTCL (Power Trading)	1,140	1,232	5	(13)	1	(12)
Tata Power Solar (Solar Mfg)	470	347	48	12	17	(3)
TPREL (Renewable Power)	134	87	171	88	90	15
WREL (Renewable Power)	272	-	254	-	70	-
Coal SPVs ^{AA}			246	89	159	21
TERPL	80	93	52	69	25	43
EEPL	57	86	(11)	3	(12)	2
Others	262	231	8	99	12	40
TOTAL - A	8,513	8,062	2,122	2,187	224	643
Joint Venture and Associates ^{***}					425	195
TOTAL - B	8,513	8,062	2,122	2,187	650	838
Eliminations [#]	(1,120)	(777)	(404)	(492)	(416)	(411)
TOTAL - C	7,393	7,285	1,718	1,695	234	427

*TPCL stake-74%; **TPCL stake-51% stake; *** TPCL share, ^A including other income, ^{AA} Consolidated at EBITDA & PAT level only[#]Eliminations include inter-company transactions and minority interest

Source: Company Q2FY18 presentation

Incremental EBITDA loss in UMPP was Rs 1.7 bn while incremental profit in coal companies was ~Rs 3 bn. As Tata Power is net long on higher coal prices; this is proving to be beneficial for the company

Exhibit 2: Strong performance of coal companies aided by rise in coal realization

Fig in ₹ Cr

Particulars	% Share	Op. Income		EBITDA		PAT	
		Q2FY18	Q2FY17	Q2FY18	Q2FY17	Q2FY18	Q2FY17
Coal Companies (KPC, BSSR, AGM)	26% / 30%	2,103	1,532	690	342	334	52
IIPC	50%	78	50	75	82	39	2
Coal Infrastructure Companies (NTP)	26%	80	52	74	51	49	31
Cennerg Pty. Ltd.	50%	68	39	62	67	(9)	(29)
Powerlinks Transmision Ltd	51%	25	20	24	21	23	18
PTMP	30%	-	70	-	83	-	52
Industrial Energy Ltd	74%	64	87	39	43	19	15
Others						(38)	31
Associates						9	23
Total		2,418	1,850	965	688	425	196

Source: Company Q2FY18 presentation

Coal realization was up almost 34% YoY in Q2

Exhibit 3: Incremental profits from higher coal prices to more than off set Mundra losses

Fig in ₹ Cr

Incremental EBITDA Loss of Rs. 166 Crs					Incremental PAT Gain of Rs. 267 Crs*				
Generation at Mundra					Coal mining & Coal Infra Companies				
CGPL	Q2FY18	Q2FY17	Variance	%	Coal & Infrastructure Business	Q2FY18	Q2FY17	Variance	%
Revenue	1690	1607	83	5%	Revenue	2,183	1,584	599	38%
EBITDA	115	281	(166)	(59%)	EBITDA	764	393	372	95%
PAT	(279)	(78)	(201)	258%	PAT	383	84	299	356%
Coal Logistics (freight) companies									
Fuel Logistics Business	Q2FY18	Q2FY17	Variance	%					
Revenue	137	179	(42)	(23%)					
EBITDA	40	71	(31)	(43%)					
PAT	14	45	(32)	(70%)					

Incremental losses in CGPL due to coal price increases offset by gains in Coal & Logistics businesses

Source: Company Q2FY18 presentation

Performance of UMPP deteriorated due to rise in coal prices and adverse Supreme Court judgement.

However, coal companies' good performance (on back of better coal realization) helped offset Mundra losses

Incremental losses in Mundra offset by gains in coal mining: Incremental EBITDA loss in UMPP was Rs 1.7 bn, as incremental profit in coal companies was ~Rs 3 bn. As Tata Power is net long on coal, higher coal prices is proving to be beneficial for the company. Sequential improvement in UMPP performance despite higher coal prices was due to higher plant availability in Q2, resulting in catch-up of lower availability in Q1.

Exhibit 4: Strong operational performance in renewable space

Fig in ₹ Cr

Financial overview of renewables portfolio for Q2 FY18				
Particular	TPREL	WALWHAN	Standalone (Tata Power)	CONSO
Total Revenue	134	272	103	510
EBITDA	171	254	90	475
PAT	90	70	46	173
Net Worth	5,031	1,850	307	5,338
Net Debt	2,768	5,365	700	8,833

Note: 1. Conso EBITDA & PAT excludes inter company dividend

2. Conso net worth excludes inter company investments

Source: Company Q2FY18 presentation

Higher emphasis laid on improving the operational aspects of renewables:

- improved internal grid performance,
- increase in availability and
- receivables under control

Exhibit 5: Financial overview of Renewables portfolio for Q1FY18

Particular	TPREL	WALWHAN	Standalone (Tata Power)	CONSO
Total Revenue	142	332	86	560*
EBITDA	176	315	77	539*
PAT	58	57	31	109*
Net Worth	4813	1816	261	5074**
Net Debt	2350	5466	700	8515

*excluding inter-company dividends **excluding inter-company investments

Source: Company Q1FY18 presentation

Exhibit 6: Mundra UMPP – performance (accending order)

(Rs/kWh)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Units sold (MU)	4,987	6,629	6,304	7,383	4,876	6,468
Realization	2.4	2.4	2.4	2.4	2.4	2.5
Fuel cost	1.7	1.7	2.0	2.2	2.1	2.3
Fixed cost	1.1	0.7	0.4	0.6	0.9	0.7

Source: Company, Axis Capital

Exhibit 7: Coal business – performance

(USD/ton)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Volumes (mtpa)	20.6	14.8	14.7	14.1	14.5	14.6
Realization	39.6	42.4	53.1	54.9	55.5	58.3
Cash cost	32.8	27.3	33.0	31.7	32.7	34.0

Source: Company, Axis Capital

Exhibit 8: Regulated assets

(Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Mumbai operations	19,220	15,810	15,811	15,180	12,720	12,720
Delhi distribution	50,320	47,100	46,500	45,740	43,220	43,220

Source: Company, Axis Capital

Exhibit 9: Leverage position

(x)	FY15	FY16	FY17	FY18
Net Debt: Equity	2.7	2.6	3.1	3.1

Source: Company, Axis Capital

Exhibit 10: Delhi distribution – key financials

(Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Regulated Equity	12,480	12,560	12,690	11,630	12,130	12,560
Core RoE (%)	26.3	22.0	35.6	(0.3)	27.7	27.7

Source: Company, Axis Capital

Exhibit 11: SoTP

	Value (Rs bn)	(Rs/shr)	Comment
Mumbai power business	84	31	Standalone power: generation, T&D @ 2x equity
Other power businesses	45	17	Power links (transmission), Delhi distribution, and IEL (generation JV with Tata Steel) @ 2x core equity
Valn Bumi stake (net of debt)	102	38	Valued at 6x FY19E EV/EBITDA
Value of 1GW Maithon	23	8	NPV disc @ CoE of 13% (100% cost plus)
Value of 4GW Mundra UMPP	(112)	(42)	Base case: no CT; NPV @ CoE of 14%
Strategic Engineering division	8	3	Valued at 20x FY19E EV/ EBITDA
International Power Ventures	16	6	Invested equity of USD 156 mn, valued at P/B of 1.5x
Renewable	51	19	Valued at 8x EV/EBITDA for consolidated renewable
Investments	42	16	20% holdco discount for Tata Communication; NIL value for unlisted TTSL; 25% discount to sale proceeds from Aruimin mines of USD 401 mn
Target price	258	95	

Source: Company, Axis Capital

Exhibit 12: Results update

(Rs mn)	Quarter ended					12 months ended		
	Sep-17	Sep-16	% Chg	Jun-17	% Chg	FY18E	FY17	% Chg
Net Sales	76,573	69,025	10.9	67,249	13.9	3,22,446	2,72,113	18.5
EBIDTA	19,466	15,441	26.1	15,874	22.6	67,932	51,602	31.6
Other income	1,331	1,714	(22.4)	313	325.5	4,394	5,859	(25.0)
PBIDT	20,797	17,155	21.2	16,187	28.5	72,326	57,461	25.9
Depreciation	5,900	4,476	31.8	5,857	0.7	21,492	19,886	8.1
Interest	9,814	7,243	35.5	9,286	5.7	36,635	31,140	17.6
PBT	5,083	5,436	(6.5)	1,044	387.0	14,199	6,436	120.6
Tax	1,970	3,777	(47.8)	2,630	(25.1)	4,544	(458)	
Minority Int & asso profit share (net)	1,020	612	66.7	454	124.6	(7,872)	(10,142)	(22.4)
Adjusted PAT	7,365	3,043	142.1	1,638	349.7	17,528	17,036	2.9
Extra ordinary income/ (exp.)	(3,303)	(2,345)	40.9	0	-	0	(9,581)	
Reported PAT	4,062	698	481.9	1,638	148.0	17,528	7,455	135.1
No. of shares (mn)	2,706	2,706	-	2,705	-	2,705	2,705	-
EBIDTA margins (%)	25.4	22.4	-	23.6	-	21.1	19.0	-
PBIDT margins (%)	27.2	24.9	-	24.1	-	22.4	21.1	-
EPS - annualized (Rs.)	10.9	4.5	142.1	2.4	349.6	6.5	6.3	2.9

Source: Company, Axis Capital

Financial summary (Consolidated)**Profit & loss (Rs mn)**

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	2,86,929	2,72,113	3,29,276	3,39,259
Other operating income	-	-	-	-
Total operating income	2,86,929	2,72,113	3,29,276	3,39,259
Cost of goods sold	(1,89,004)	(1,81,716)	(1,97,361)	(2,04,135)
Gross profit	97,925	90,397	1,31,915	1,35,125
<i>Gross margin (%)</i>	<i>34.1</i>	<i>33.2</i>	<i>40.1</i>	<i>39.8</i>
Total operating expenses	(33,852)	(38,794)	(65,124)	(67,651)
EBITDA	64,073	51,602	66,791	67,474
<i>EBITDA margin (%)</i>	<i>22.3</i>	<i>19.0</i>	<i>20.3</i>	<i>19.9</i>
Depreciation	(16,487)	(19,886)	(24,105)	(24,016)
EBIT	47,586	31,717	42,686	43,458
Net interest	(32,358)	(31,140)	(37,627)	(36,239)
Other income	7,541	5,859	4,394	4,394
Profit before tax	22,769	6,436	9,454	11,612
Total taxation	(6,803)	458	(4,727)	(3,716)
<i>Tax rate (%)</i>	<i>29.9</i>	<i>(7.1)</i>	<i>50.0</i>	<i>32.0</i>
Profit after tax	15,966	6,894	4,727	7,896
Minorities	(1,242)	(2,031)	(3,159)	(3,392)
Profit/ Loss associate co(s)	1,860	12,173	13,768	12,285
Adjusted net profit	16,584	17,036	15,336	16,789
<i>Adj. PAT margin (%)</i>	<i>5.8</i>	<i>6.3</i>	<i>4.7</i>	<i>4.9</i>
Net non-recurring items	(9,959)	(9,581)	-	-
Reported net profit	6,625	7,455	15,336	16,789

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	2,705	2,705	2,705	2,705
Reserves & surplus	1,28,434	1,30,090	1,41,837	1,54,698
Net worth	1,31,139	1,32,795	1,44,542	1,57,403
Borrowing	4,16,209	5,28,795	4,79,187	4,43,260
Other non-current liabilities	45,269	24,595	24,595	24,595
Total liabilities	6,18,430	7,04,874	6,70,173	6,50,498
Gross fixed assets	6,37,724	7,24,996	7,56,305	7,93,388
Less: Depreciation	(2,18,704)	(2,38,590)	(2,62,695)	(2,86,711)
Net fixed assets	4,19,019	4,86,406	4,93,609	5,06,677
Add: Capital WIP	41,676	19,232	15,386	-
Total fixed assets	4,60,695	5,05,638	5,08,995	5,06,677
Total Investment	33,488	1,19,570	1,19,570	1,19,570
Inventory	18,061	15,996	18,042	18,590
Debtors	1,42,895	1,21,959	1,26,297	1,20,832
Cash & bank	12,108	9,540	11,523	3,414
Loans & advances	62,935	31,334	54,127	55,769
Current liabilities	1,58,518	1,16,488	1,85,708	1,91,679
Net current assets	77,481	62,341	24,282	6,926
Other non-current assets	46,767	17,325	17,325	17,325
Total assets	6,18,430	7,04,874	6,70,173	6,50,498

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	22,769	6,436	9,454	11,612
Depreciation & Amortisation	16,487	19,886	24,105	24,016
<i>Chg in working capital</i>	<i>13,450</i>	<i>12,573</i>	<i>40,041</i>	<i>9,248</i>
Cash flow from operations	70,162	73,084	1,20,267	89,684
<i>Capital expenditure</i>	<i>(54,373)</i>	<i>(64,829)</i>	<i>(27,462)</i>	<i>(21,697)</i>
Cash flow from investing	(35,542)	(1,50,912)	(27,462)	(21,697)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(4,456)</i>	<i>91,912</i>	<i>(49,607)</i>	<i>(35,927)</i>
<i>Dividend paid</i>	<i>(5,064)</i>	<i>(4,114)</i>	<i>(3,589)</i>	<i>(3,929)</i>
Cash flow from financing	(41,878)	56,658	(90,823)	(76,095)
Net chg in cash	(7,259)	(21,170)	1,983	(8,109)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	6.1	6.3	5.7	6.2
CEPS (Rs)	8.5	10.1	14.6	15.1
DPS (Rs)	1.6	1.3	1.1	1.2
Dividend payout ratio (%)	65.3	47.2	20.0	20.0
GROWTH				
Net sales (%)	(16.3)	(5.2)	21.0	3.0
EBITDA (%)	(9.1)	(19.5)	29.4	1.0
Adj net profit (%)	560.0	2.7	(10.0)	9.5
FDEPS (%)	560.0	2.7	(10.0)	9.5
PERFORMANCE				
RoE (%)	12.9	12.9	11.1	11.1
RoCE (%)	8.9	5.7	6.8	7.2
EFFICIENCY				
Asset turnover (x)	0.5	0.5	0.5	0.6
Sales/ total assets (x)	0.4	0.3	0.4	0.4
Working capital/ sales (x)	0.3	0.2	0.1	-
Receivable days	181.8	163.6	140.0	130.0
Inventory days	29.6	26.5	25.1	25.0
Payable days	223.9	184.9	250.9	249.7
FINANCIAL STABILITY				
Total debt/ equity (x)	2.7	3.4	3.0	2.5
Net debt/ equity (x)	2.6	3.0	2.6	2.2
Current ratio (x)	1.5	1.5	1.1	1.0
Interest cover (x)	1.5	1.0	1.1	1.2
VALUATION				
PE (x)	12.6	12.3	13.7	12.5
EV/ EBITDA (x)	10.2	13.9	10.0	9.5
EV/ Net sales (x)	2.3	2.6	2.0	1.9
PB (x)	1.7	1.7	1.6	1.5
Dividend yield (%)	1.9	1.5	1.3	1.5
Free cash flow yield (%)	0.1	-	0.4	0.3

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
SELL	Less than -10%

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