

# Retail Equity Research

## Tata Power Company Limited

Electric Utilities

 BSE CODE: 500400      NSE CODE: TATAPOWER  
 Bloomberg CODE: TPWR:IN      SENSEX: 36,473

**HOLD**

 12M Investment period      Rating as per Mid Cap  
**CMP Rs 53    TARGET Rs 56    RETURN 5%**  
 (Closing: 22-08-19)

**KEY CHANGES:**
**TARGET ↓**
**RATING ↔**
**EARNINGS ↔**

### Riding solar wave

The Tata Power Company Limited generates and supplies electricity. The Company constructs and operates independent power plants, as well as specializes in transmission and distribution of electricity. It delivers its products and services in India.

- Company registered revenue growth of 6.2% in Q1FY20 helped by strong performance in Mundra, Maithon Power and Tata Power Solar businesses.
- EBITDA margin was up 560bps YoY to 31.0% on improved renewable businesses more-than-offsetting weaker coal operations.
- Adj. PAT came in at Rs. 186cr (vs. Rs. 227cr loss in Q1FY19) further aided by lower tax expenses.
- TPREL won 450MW of solar bids and executed definitive agreements for 50MW open access solar plant. Additional 250MW is under implementation.
- Given limited upside, we maintain our HOLD rating on the stock with a revised target price of Rs. 56 based on ~8.5x FY21E P/E.

### Coal margins remain under pressure

Consolidated revenue grew 6.2% YoY to Rs. 7,767cr in Q1FY20. Generation segment was the highest contributor to the total revenue in Q1FY20 (+10.3% YoY to Rs. 3,888cr). This is partly offset by declines in Transmission and Distribution revenue (-2.5% YoY to Rs. 3,150cr). Amongst the businesses, revenue growth was led by Mudra (+19.9% YoY to Rs. 1,823cr), Maithon Power (+26.0% to Rs. 814cr) and Tata Power Solar (+50.6% to Rs. 518cr). EBITDA rose 29.5% YoY to Rs. 2,410cr as margin expanded 560bps YoY to 31.0% on improved performance in renewables offsetting margin contractions in coal operations amid declining coal prices. Company was still able to achieve positive EBITDA of Rs. 167cr at CGPL vs Rs. 38cr losses last year.

### Strong pipeline in Solar business

Growth in Renewables business remains robust with EBITDA rising 12.0% YoY to Rs. 663cr in Q1FY20, as company commissioned 250MW of solar capacity. Overall renewables segments capacity has expanded to 2,470MW from 2,226MW in Q1FY19. Solar EPC business witnessed strong growth with total order pipeline of Rs. 4,400cr. TPREL won 450MW of solar bids and executed definitive agreements for 50MW open access solar plant. Additionally, 250MW is under implementation. Company expects Rs. 1,800-2,000cr of total capex on renewables this year based on current pipeline of 450MW capacity expansion.

### Key highlights

- International coal prices have softened from the peak of USD 105/t last year and currently trade in the USD 70 range. Company expects prices to remain mild for at least the next two quarters before stabilizing at the present level.
- Management remains focused to reduce debt levels by divesting non-core assets and could divest stakes in both Cennergi and ITPC Zambia.
- Company plans to set up 300 charging stations across Mumbai, Delhi, Pune, Bengaluru, and Hyderabad by the end of the FY20.

### Valuation

We expect the company to grow steadily over the next few years supported with ongoing capacity expansion in solar businesses. We maintain our HOLD rating with a target price of Rs. 56 based on 8.5x FY21E P/E.

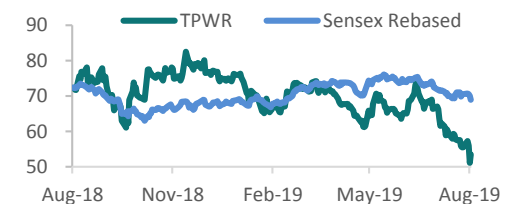
### Company Data

Market Cap (cr)	Rs.14,458
Enterprise Value (cr)	Rs.61,362
Outstanding Shares (cr)	270.5
Free Float	67.0%
Dividend Yield	2.4%
52 week high	Rs.86.2
52 week low	Rs.50.4
6m average volume	741,283
Beta	1.5
Face value	Rs.1

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	33.0	33.0	33.0
FII's	26.1	26.6	26.0
MFs/Insti	25.8	24.9	24.9
Public	12.5	12.5	12.5
Others	2.7	3.0	3.4
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-17.6%	-20.3%	-26.1%
Absolute Sensex	-6.7%	1.7%	-4.7%
Relative Return*	-10.8%	-22.0%	-21.4%

\*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	29,559	31,332	32,585
Growth (%)	0.8	6.0	4.0
EBITDA	6,746	6,776	7,018
EBITDA Margin (%)	22.8	21.6	21.5
Adj. PAT	445	1,436	1,793
Growth (%)	-67.6	222.7	24.8
Adj. EPS	1.7	5.3	6.6
Growth (%)	-66.8	220.7	24.8
P/E	42.3	10.1	8.1
P/B	1.0	0.8	0.7
EV/EBITDA	9.8	9.1	8.7
ROE (%)	12.0	7.3	8.7
D/E	2.2	2.1	1.9

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Revenue	7,767	7,313	6.2	7,230	7.4
<b>EBITDA</b>	<b>2,410</b>	<b>1,861</b>	<b>29.5</b>	<b>1,535</b>	<b>57.0</b>
EBITDA margins	31.0	25.4	560bps	21.2	980bps
Depreciation	620	601	3.2	603	2.7
<b>EBIT</b>	<b>1,790</b>	<b>1,260</b>	<b>42.1</b>	<b>932</b>	<b>92.1</b>
Interest	1,144	1,013	12.9	1,109	3.2
Other Income	241	369	(34.8)	233	3.4
Exceptional Items	(259)	(175)	(48.0)	343	n.m.
<b>PBT</b>	<b>(35)</b>	<b>1,897</b>	<b>n.m.</b>	<b>(151)</b>	<b>76.6</b>
Tax	<b>593</b>	<b>2,338</b>	<b>(74.6)</b>	<b>248</b>	<b>139.2</b>
Share of profit from Associate	343	570	(39.8)	115	197.6
Minority Interest	(19)	(34)	44.1	(25)	24.0
<b>Reported PAT</b>	<b>80</b>	<b>64</b>	<b>23.9</b>	<b>50</b>	<b>59.9</b>
Adjustments	<b>151</b>	<b>1,671</b>	<b>(90.9)</b>	<b>58</b>	<b>162.7</b>
<b>Adjusted PAT</b>	<b>35</b>	<b>(1,897)</b>	<b>n.m.</b>	<b>151</b>	<b>(76.6)</b>
No. of shares	<b>186</b>	<b>(227)</b>	<b>n.m.</b>	<b>209</b>	<b>(11.0)</b>
<b>EPS (Rs)</b>	<b>270.5</b>	<b>270.5</b>	<b>0.2</b>	<b>270.5</b>	<b>0.6</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	-	-	31,332	32,585	-	-
EBITDA	-	-	6,776	7,018	-	-
Margins (%)	-	-	21.6	21.5	-	-
Adj. PAT	-	-	1,436	1,793	-	-
EPS	-	-	5.3	6.6	-	-

## PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Revenue</b>	<b>27,898</b>	<b>29,331</b>	<b>29,559</b>	<b>31,332</b>	<b>32,585</b>
% change	(24.9)	5.1	0.8	6.0	4.0
<b>EBITDA</b>	<b>5,798</b>	<b>6,740</b>	<b>6,746</b>	<b>6,776</b>	<b>7,018</b>
% change	(31.2)	16.5	(0.2)	1.9	3.4
Depreciation	2,006	2,349	2,321	2,463	2,533
<b>EBIT</b>	<b>3,793</b>	<b>4,392</b>	<b>4,425</b>	<b>4,313</b>	<b>4,484</b>
Interest	3,114	3,723	4,170	4,491	4,235
Other Income	(993)	2,247	2,967	2,138	2,258
<b>PBT</b>	<b>(315)</b>	<b>2,915</b>	<b>3,222</b>	<b>1,959</b>	<b>2,507</b>
% change	(116.2)	(1026.8)	10.5	(39.2)	28.0
Tax	(46)	164	656	399	510
Tax Rate (%)	14.6	5.6	20.4	20.4	20.4
<b>Reported PAT</b>	<b>745</b>	<b>2,477</b>	<b>2,191</b>	<b>1,401</b>	<b>1,793</b>
Adj*	-	(1,103)	(1,746)	35	-
<b>Adj PAT</b>	<b>745</b>	<b>1,374</b>	<b>445</b>	<b>1,436</b>	<b>1,793</b>
% change	(35.4)	84.3	(67.6)	222.7	24.8
No. of shares (cr)	318.6	275.2	268.8	270.5	270.5
<b>Adj EPS (Rs)</b>	<b>2.3</b>	<b>5.0</b>	<b>1.7</b>	<b>5.3</b>	<b>6.6</b>
% change	(35.1)	113.4	(66.8)	220.7	24.8
DPS (Rs)	1.3	1.3	1.3	1.3	1.3
CEPS (Rs)	8.6	13.5	10.3	14.4	16.0

## CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Net inc. + Depn.</b>	<b>2,751</b>	<b>4,825</b>	<b>4,512</b>	<b>3,864</b>	<b>4,326</b>
Non-cash adj.	3,355	884	1,839	3,186	2,777
Changes in W.C	851	655	(1,777)	51	(25)
<b>C.F. Operation</b>	<b>6,958</b>	<b>6,364</b>	<b>4,574</b>	<b>7,101</b>	<b>7,078</b>
Capital exp.	(3,306)	(3,504)	(3,533)	(3,760)	(3,910)
Change in inv.	(294)	788	2,735	863	708
Other invest.CF	(3,819)	1,198	479	1,122	1,130
<b>C.F - Investment</b>	<b>(7,419)</b>	<b>(1,518)</b>	<b>(319)</b>	<b>(1,774)</b>	<b>(2,073)</b>
Issue of equity	157	85	97	-	-
Issue/repay debt	4,961	437	(642)	(300)	(200)
Dividends paid	(415)	(417)	(410)	(352)	(352)
Other finance.CF	(3,709)	(4,832)	(4,229)	(4,638)	(4,388)
<b>C.F - Finance</b>	<b>994</b>	<b>(4,726)</b>	<b>(5,184)</b>	<b>(5,290)</b>	<b>(4,940)</b>
Chg. in cash	533	120	(930)	37	65
Closing cash	954	1,186	787	825	889

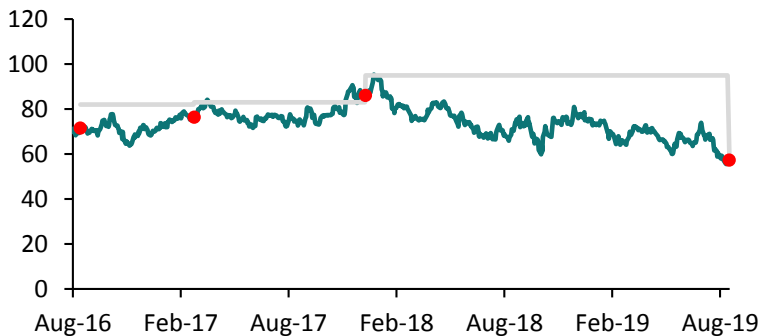
## BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	954	1,186	787	825	889
Accounts Receivable	3,832	2,789	4,445	4,712	4,900
Inventories	1,600	1,623	1,706	1,850	1,924
Other Cur. Assets	12,803	15,077	14,586	14,549	14,530
Investments	10,862	11,993	12,851	12,711	12,811
Gross Fixed Assets	55,780	58,522	57,957	61,717	65,627
Net Fixed Assets	43,013	43,257	41,102	42,378	43,733
CWIP	1,923	1,653	2,576	2,627	2,680
Intangible Assets	3,693	3,225	3,203	3,172	3,142
Def. Tax (Net)	92	83	89	54	70
Other Assets	3,365	2,852	2,816	2,789	2,762
<b>Total Assets</b>	<b>82,136</b>	<b>83,737</b>	<b>84,162</b>	<b>85,667</b>	<b>87,441</b>
Current Liabilities	19,866	19,134	14,782	15,392	15,736
Provisions	271	300	334	340	347
Debt Funds	41,966	41,897	45,702	45,402	45,202
Other Liabilities	4,886	3,631	2,957	2,936	2,915
Equity Capital	271	271	271	271	271
Reserves & Surplus	13,009	16,490	17,951	19,000	20,441
Shareholder's Fund	13,279	16,760	18,221	19,270	20,711
Minority Interest	1,869	2,015	2,167	2,326	2,530
<b>Total Liabilities</b>	<b>82,136</b>	<b>83,737</b>	<b>84,162</b>	<b>85,667</b>	<b>87,441</b>
<b>BVPS (Rs)</b>	<b>42</b>	<b>61</b>	<b>68</b>	<b>71</b>	<b>77</b>

## RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	20.8	23.0	22.8	21.6	21.5
EBIT margin (%)	13.6	15.0	15.0	13.8	13.8
Net profit mgn.(%)	2.7	8.4	7.4	4.5	5.5
ROE (%)	5.6	14.8	12.0	7.3	8.7
ROCE (%)	6.6	7.2	6.7	6.4	6.6
<b>W.C &amp; Liquidity</b>					
Receivables (days)	50.1	34.7	54.9	54.9	54.9
Inventory (days)	31.9	31.3	32.3	32.3	32.3
Payables (days)	110.1	108.1	103.7	103.7	103.7
Current ratio (x)	0.5	0.5	0.8	0.7	0.8
Quick ratio (x)	0.2	0.1	0.2	0.2	0.2
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	0.5	0.5	0.5	0.5	0.5
Total asset T.O (x)	0.3	0.4	0.4	0.4	0.4
Int. covge. ratio (x)	1.2	1.2	1.1	1.0	1.1
Adj. debt/equity (x)	2.8	2.2	2.2	2.1	1.9
<b>Valuation</b>					
EV/Sales (x)	2.5	2.2	2.2	2.0	1.9
EV/EBITDA (x)	12.0	9.4	9.8	9.1	8.7
P/E (x)	35.9	15.0	42.3	10.1	8.1
P/BV (x)	2.0	1.2	1.0	0.8	0.7

## Recommendation Summary



Dates	Rating	Target
19-Nov-13	REDUCE	65
12-Dec-14	HOLD	82
12-Mar-15	HOLD	81
4-Sep-15	HOLD	63
31-Aug-16	HOLD	82
9-Mar-17	HOLD	83
20-Dec-17	HOLD	95
23-Aug-19	HOLD	56

## Investment Criteria

### Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

### Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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