

BSE SENSEX
 38,615

 S&P CNX
 11,408

CMP: INR57
TP: INR66 (+16%)
Buy

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Stock Info

Bloomberg	TPWR IN
Equity Shares (m)	2,705
M.Cap.(INRb)/(USDb)	153.5 / 2
52-Week Range (INR)	69 / 27
1, 6, 12 Rel. Per (%)	11/17/-4
12M Avg Val (INR M)	892
Free float (%)	62.8

Financials Snapshot (INR b)

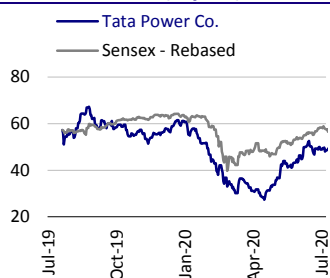
Y/E Mar	2020	2021E	2022E
Net Sales	291.4	310.2	339.8
EBITDA	79.4	76.5	78.1
PAT	10.2	10.6	14.7
EPS (INR)	3.76	3.33	4.61
Gr. (%)	78.2	-11.6	38.6
BV/Sh (INR)	66.8	67.8	70.6
RoE (%)	5.9	5.4	6.7
RoCE (%)	7.1	7.0	7.0
P/E (x)	15.1	17.1	12.3
P/BV (x)	0.8	0.8	0.8

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	37.2	37.2	33.0
DII	31.4	27.8	24.9
FII	12.9	18.6	26.0
Others	18.5	16.3	16.1

FII Includes depository receipts

Stock Performance (1-year)



Planning for an asset-light and consumer-facing model

Analyst meet takeaways

We attended the analyst meet hosted by Tata Power (TPWR) today, 19th Aug'20. Here are the key takeaways:

Deleveraging at the forefront

- Tata Power (TPWR) highlighted its focus on addressing legacy issues with regard to: 1) deleveraging and 2) the self-sustenance of Mundra.
- Over the past few months, the co.'s deleveraging process has been accelerated with the: 1) sale of Cennergi, 2) sale of shipping cos, and 3) preferential issue to Tata Sons.
- The co. plans to continue with its asset monetization plans by exiting non-core assets and InvIT for renewables. The co. expects the InvIT transaction to be completed this year. TPWR plans to reduce net debt to INR250b by the end of FY21 and sustain it at these levels.
- The co. plans to simplify its holding structure and generate synergies from the merger of CGPL, Tata Power Solar, and Aftaab with TPWR. The process for the same requires the NCLT's approval (which could take 4–12 months).
- With regard to CGPL, the co. plans to reduce its debt by INR40b using preference and divestment-related proceeds, in turn generating interest cost savings of INR3.8b. In terms of the PPA amendment for CGPL, the benefit of compensatory tariff at current prices stands at INR2.5b.

Increasing presence in consumer-facing business

- TPWR aims to more than double its revenues in FY25, aided by a strong presence in Rooftop Solar and Solar Pumps, new businesses (such as EV Charging and Home Automation) and T&D.
- TPWR targets revenue from the T&D business to increase to INR270b in FY25 (v/s INR120b currently) through new opportunities in distribution (INR120b) and CESU. The co expects DISCOM privatization opportunities to emerge in Uttar Pradesh, Rajasthan, and Jharkhand. The co. would be keen to take over projects through the license model instead of the franchise model.
- In addition, the co. plans to expand in new energy businesses, such as Home Automation and EV Charging, with targeted revenue of INR35b in FY25. Capital expenditure for the new energy businesses would be small at ~INR20b across five years.
- The co. expects revenues from Rooftop Solar and Solar Pumps to rise with increased capacity and market share; it targets INR100b revenues from the segment by FY25.

Focus on Renewables; no new addition in Coal

- TPWR targets wins of ~2GW in renewable projects every year, and plans to increase capacity to ~15GW (incl. under-construction) by FY25. The co.'s renewable arm would continue to work on the asset-light model by transferring operational projects to InvIT and thereby releasing cash for future growth opportunities.
- On the Solar EPC front, the co aims to execute 4GW of utility-scale projects by FY25, implying market share of ~20%. It targets an 8x increase in revenues to INR120b by FY25.
- TPWR would not add new coal-based capacities going forward. It plans to focus on deploying digitization and asset management technologies to improve efficiencies at its old thermal plants, and would slowly phase them out upon completion of useful life.

Debt reduction is playing out; Maintain Buy

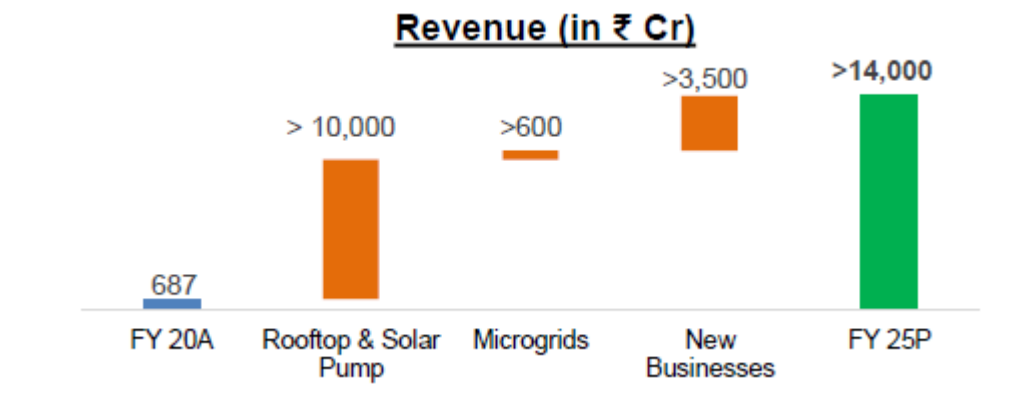
- TPWR has been keen on moving to a more consumer-facing model and leveraging its expertise and brand. In this context, the quantification of its targets provides some growth context. However, we still await visibility on whether the opportunities within T&D and new consumer businesses would pan out. Growth in its in-house Solar EPC business is compelling, but would still depend on overall ordering within Renewables by FY25 and the co.'s ability to maintain market share.
- Nevertheless, TPWR has walked the talk in recent months through asset monetization and WC management – despite the current COVID-19 environment. Net debt at the end of Jun'20 had reduced to INR444b (from INR471b in FY20).
- Divestment-related measures (part receipt from International Shipping business, Arutmin, and Tata SED) and the infusion of INR26b from promoters would continue to aid debt reduction. As we build-in the expectations of normalization in its EPC business and some WC by FY22, we see the risk-reward as favorable. 1) the approval of a tariff hike at Mundra, 2) the merger of CGPL & Tata Power Solar with TPWR, and 3) favorable InvIT valuations would provide upsides to our estimates. Maintain Buy, with TP of INR66/sh.

Exhibit 1: Targeted growth in Distribution



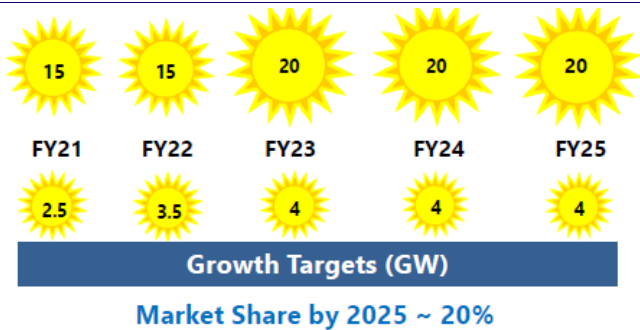
Source: Company

Exhibit 2: Targeted growth in new businesses



Source: Company

Exhibit 3: Estimated EPC Solar market



Source: Company

Exhibit 4: Targeted revenue from EPC Solar



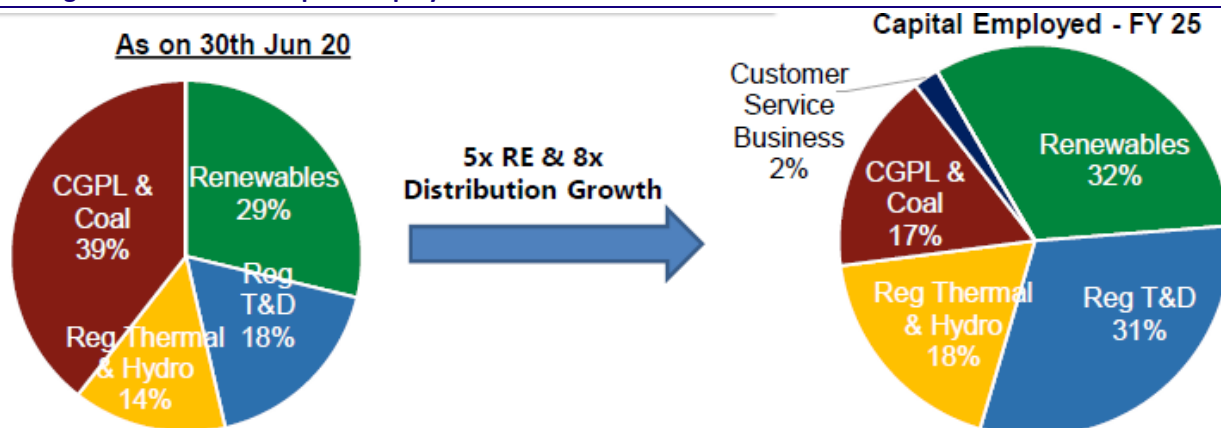
Source: Company

Exhibit 5: New businesses – Targeting foray into EVs and its outlook

EV Type	EVs on Road (FY25)	Annual Running (km/ year)	Power Consumption (FY25, MU)
	10 – 14 mn	10,000	4,600
	1 – 1.5 mn	30,000	3,400
	0.6 – 1 mn	10,000	1,200
	1 – 1.2 mn	45,000	7,000
	0.02 – 0.03 mn	70,000	2,100
			18,300

Source: Company

Exhibit 6: Targeted allocation of capital employed



Source: Company

Exhibit 7: SOTP valuation

	Reg. Eq.	P/BV	EBITDA	Equity Value	TPWR's share (%)	TPWR's share Eq. Val.	Reg. Debt	Enterprise Value (EV)	Remarks
	(a)	(b)		d=axb		(e)	(f)	(e+f)	
Mumbai & Jojobera (S/A)	45,661	1.7	17,492	76,710	100	76,710	37,989	114,699	RoE = 15.5%, g = 5%
Delhi	14,224	1.5	7,555	21,552	51	10,991	33,190	44,181	RoE = 15.5%, g = 3%
Maithon	16,982	1.5	11,578	25,662	74	18,990	14,603	33,592	RoE = 17%, g=0
CESU						2,162	4,950	7,112	DCF based
Subtotal (A)			36,625					199,585	Ke=11.3%

CGPL (Mundra) and coal JVs

	EV/EBITDA(x)	EBITDA	EV	Assumptions
	(g)	(h)	(g x h)	
DCF value of fixed charges		18,645	127,860	no under-recoveries
Under recoveries in Var. cost	8	-10,943	-87,544	
PAT from coal JVs	10	6,343	63,433	
Subtotal (B)		14,045	103,750	

Other businesses

	EV/EBITDA(x)	EBITDA	EV	Assumptions
	(j)	(k)	(j x k)	
Renewables	7.5	22,888	171,663	
Haldia, trading etc.	8.0	10,869	86,951	
PAT of other JVs and assoc.	10.0	3,302	33,023	
Subtotal (C)		33,757	291,637	

Consolidated

Consolidated EV (A+B+C)		78,084	594,972	
Less: Debt			-399,762	
Assets held for sale				
Zambia and Vikhroli trans	1.0	x BV	7,815	
Others	1.0	x BV	3,581	
Investment unquoted	1.0		3,977	at book value
Investment quoted	0.8		615	20% discount to MTM
Net Equity value			211,198	
No. of shares			3,196	
Target Price (INR/share)			66	

Source: MOFSL, Company

Financials and valuations

Income statement (INR m)									
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	337,276	295,009	278,977	293,312	295,586	291,364	310,218	339,838	353,727
Change (%)	-5.4	-12.5	-5.4	5.1	0.8	-1.4	6.5	9.5	4.1
Total Expenses	274,264	223,539	220,510	229,743	231,359	211,936	233,709	261,754	273,269
EBITDA	63,012	71,470	58,467	63,570	64,227	79,428	76,509	78,084	80,459
% of Net Sales	18.7	24.2	21.0	21.7	21.7	27.3	24.7	23.0	22.7
Deprn. & Amortization	21,742	16,487	19,886	23,981	23,931	26,336	27,299	29,005	30,440
EBIT	41,270	54,983	38,581	39,589	40,296	53,093	49,210	49,079	50,019
Net Interest	36,993	32,358	31,140	37,230	41,700	44,937	43,509	41,034	40,611
Other income	4,167	913	2,022	4,327	3,958	5,626	4,582	4,582	4,582
PBT before EO	8,445	23,538	9,464	6,686	2,554	13,781	10,282	12,627	13,990
Regulatory inc./ (exp)	6,393	-9,752	-6,095	-4,099	-659	-1,887	0	0	0
EO expense (inc.)	0	978	6,515	-10,308	-16,200	-4,099	-5,185	0	0
PBT after EO	14,837	12,807	-3,145	12,895	18,095	15,994	15,468	12,627	13,990
Tax	10,749	6,803	-458	1,643	6,561	8,253	4,334	4,897	5,138
Rate (%)	72.4	53.1	14.6	12.7	36.3	51.6	28.0	38.8	36.7
Reported PAT	4,088	6,004	-2,687	11,252	11,534	7,741	11,134	7,730	8,852
Minority, JVs & Asso.	-2,410	618	10,142	13,514	10,376	6,535	4,685	7,009	6,921
Adjusted PAT	1,678	7,600	13,969	14,458	5,710	10,177	10,634	14,738	15,773
Change (%)	-150.9	352.9	83.8	3.5	-60.5	78.2	4.5	38.6	7.0

Balance sheet (INR m)									
	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	2,705	2,705	2,705	2,705	2,705	2,705	3,196	3,196	3,196
Reserves	122,716	113,629	115,090	149,897	164,507	177,955	213,419	222,292	232,201
Net Worth	125,421	116,334	117,795	152,602	167,212	180,660	216,615	225,488	235,397
Minority Interest	24,926	17,498	18,690	20,153	21,667	23,320	24,464	25,836	27,573
Total Loans	423,419	403,486	503,154	500,892	500,060	498,759	440,152	431,527	420,960
Deferred Tax Liability	14,014	20,969	17,598	5,166	10,568	11,740	11,740	11,740	11,740
Capital Employed	587,779	558,286	657,237	678,813	699,507	714,480	692,972	694,592	695,671
Gross Block	583,351	476,643	577,520	604,390	599,714	654,228	694,134	726,662	754,642
Less: Accum. Deprn.	202,217	112,536	130,311	155,993	173,081	193,980	221,279	250,284	280,724
Net Fixed Assets	381,133	364,108	447,209	448,398	426,633	460,248	472,855	476,378	473,918
Capital WIP	36,505	13,449	21,779	16,526	25,757	16,115	16,115	16,115	16,115
Goodwill	66,258	55	17,325	16,416	16,416	16,416	16,416	16,416	16,416
Investments	27,326	114,468	108,592	119,928	128,511	138,353	140,548	143,729	147,213
Curr. Assets	243,207	208,517	226,458	227,068	234,378	255,724	223,663	221,146	222,376
Inventories	18,442	13,734	15,996	16,231	17,064	17,524	17,905	18,043	18,093
Account Receivables	55,640	35,402	38,321	27,889	44,453	44,259	48,643	48,988	49,213
Cash and Bank Balance	21,064	9,991	20,521	16,219	9,544	27,937	25,365	31,765	33,720
Others	148,062	149,389	151,621	166,729	163,317	166,005	131,750	122,350	121,350
Curr. Liability & Prov.	166,650	142,311	164,127	149,522	132,189	172,376	176,625	179,192	180,367
Account Payables	52,354	44,014	55,290	56,098	54,815	50,954	55,203	57,770	58,945
Provisions & Others	114,296	98,297	108,837	93,424	77,374	121,422	121,422	121,422	121,422
Net Curr. Assets	76,557	66,206	62,332	77,546	102,190	83,348	47,038	41,955	42,009
Appl. of Funds	587,779	558,286	657,237	678,813	699,507	714,480	692,972	694,592	695,671

Financials and valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Basic (INR)									
EPS	0.6	2.8	5.2	5.3	2.1	3.8	3.3	4.6	4.9
Cash EPS	8.7	8.9	12.5	14.2	11.0	13.5	11.9	13.7	14.5
BV/Share	46.4	43.0	43.5	56.4	61.8	66.8	67.8	70.6	73.7
DPS	1.3	1.3	0.0	0.0	1.3	1.6	1.3	1.3	1.3
Payout (%)	209.5	46.3	0.0	0.0	61.6	41.2	39.1	28.2	26.3
Valuation (x)									
P/E	124.3	23.0	11.0	10.6	26.9	15.1	17.1	12.3	11.5
Cash P/E	8.9	7.3	4.5	4.0	5.2	4.2	4.8	4.1	3.9
P/BV	1.7	1.5	1.3	1.0	0.9	0.8	0.8	0.8	0.8
EV/EBITDA	10.1	8.2	11.2	10.4	10.4	8.2	8.1	7.8	7.4
Dividend Yield (%)	1.7	2.0	0.0	0.0	2.3	2.7	2.3	2.3	2.3
FCF (pre-int) to EV yield (%)	4.0	9.9	6.2	5.7	1.9	10.9	7.7	8.7	9.8
Return Ratios (%)									
RoE	1.4	6.3	11.9	10.7	3.6	5.9	5.4	6.7	6.8
RoCE (post-tax)	6.1	8.6	6.8	6.3	5.5	7.1	7.0	7.0	7.1
RoIC (post-tax)	2.7	6.0	7.2	6.9	5.0	5.0	7.0	6.1	6.5
Working Capital Ratios									
Fixed Asset Turnover (x)	0.9	0.8	0.6	0.7	0.7	0.6	0.7	0.7	0.7
Asset Turnover (x)	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.5
Debtor (Days)	60	44	50	35	55	55	57	53	51
Inventory (Days)	20	17	21	20	21	22	21	19	19
Leverage Ratio (x)									
Net Debt/EBITDA	6.4	5.5	8.3	7.6	7.6	5.9	5.4	5.1	4.8
Debt/Equity	2.7	2.9	3.5	2.8	2.6	2.3	1.7	1.6	1.5

Cash flow statement

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
(INR m)									
EBITDA	69,405	61,718	52,372	59,471	63,568	77,541	76,509	78,084	80,459
FX gain/loss									
WC	-5,611	20,488	21,843	9,584	-13,234	6,743	7,903	3,083	1,900
Others	4,101	19,625	1,686	602	462	-4,440	0	0	0
Direct taxes (net)	-8,085	-4,295	-6,323	-6,019	-5,058	-6,091	-4,334	-4,897	-5,138
CF from Op. Activity	59,809	97,536	69,578	63,639	45,738	73,753	80,078	76,270	77,221
Capex	-34,936	-39,864	-33,223	-35,604	-35,762	-22,258	-39,906	-32,528	-27,980
FCF	24,873	57,672	36,356	28,035	9,976	51,495	40,173	43,742	49,241
Int & div income	2,078	2,141	6,263	11,256	4,480	20,595	9,400	11,046	11,021
Investments(subs/JVs)	0	-5,109	-35,396	1,505	24,592	-374	0	0	0
Others	-2,457	-10,097	-6,630	2,165	-5,546	-3,392	31,020	8,400	0
CF from Inv. Activity	-35,315	-52,929	-68,986	-20,677	-12,236	-5,429	514	-13,082	-16,959
Share capital	20,692	149	9	2	0	201	26,000	0	0
Borrowings	-1,026	-13,037	49,608	4,370	-6,416	-1,070	-58,607	-8,625	-10,567
Finance cost	-33,842	-33,515	-32,704	-45,704	-39,761	-40,025	-43,509	-41,034	-40,611
Dividend	-5,121	-5,908	-4,159	-5,067	-4,927	-5,992	-5,338	-5,420	-5,420
Others	-3,089	-3,369	-2,816	-864	-740	-4,209	-1,710	-1,710	-1,710
CF from Fin. Activity	-22,386	-55,680	9,937	-47,263	-51,845	-51,096	-83,165	-56,788	-58,307
(Inc)/Dec in Cash	2,109	-11,073	10,530	-4,301	-18,343	17,228	-2,572	6,400	1,955
Opening balance	18,956	21,064	9,991	20,521	16,219	9,544	27,937	25,365	31,765
Closing balance (as per B/S)	21,064	9,991	20,521	16,219	-2,124	26,773	25,365	31,765	33,720

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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