

RESEARCH
Tata Power | Target: Rs 181 | -20% | SELL

Stock rally too high, too fast

SUMMARY
Tata Power

- TPWR's ~70% run-up in two months stems from power demand growth, international coal price rally and possible renewables business IPO
- Power consumption growth is back in single digits, China is working to cool coal prices and renewables listing upside looks capped post rally
- Downgrade from BUY to SELL but raise TP to Rs 181 (from Rs 161) driven largely by rollover of our DCF valuation to Mar'24

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.44	4bps	(11bps)	54bps
India 10Y yield (%)	6.35	0bps	(4bps)	51bps
USD/INR	74.99	(0.1)	(0.2)	(1.4)
Brent Crude (US\$/bbl)	69.67	1.2	(17.8)	43.0
Dow	34,640	1.8	(3.5)	15.6
Shanghai	3,574	(0.1)	0.8	3.8
Sensex	58,461	1.3	(2.8)	31.0
India FII (US\$ mn)	01-Dec	MTD	CYTD	FYTD
FII-D	(72.7)	(72.7)	10.7	2,037.9
FII-E	(368.0)	(368.0)	5,134.5	(2,191.9)

Source: Bloomberg

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SELL

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TATA POWER

| Power

| 03 December 2021

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Rallied 70% in two months: Tata Power's (TPWR) stock has outperformed peers CESC, Torrent Power (TPW) and NTPC by 50-60% in the last two months. In our view, the run-up was fuelled by power consumption growth in August, an international coal price rally, possible listing of the renewables business at a premium and setup of 1,000 EV charging stations with a target to reach 10,000.

Drivers for the rally now weakening: From a double-digit surge in Aug'21, India's power consumption growth is now back to single digits and likely to align with GDP growth, per historical trends. The upswing in August was due to weak rainfall in large parts of the country. International coal prices have also started falling after China – the biggest consumer of thermal coal – initiated steps to cool prices off. TPWR's renewables fund raising plan is on, but the rally has erased the valuation discount to Indian renewable peers listed in the US. Lastly, EV charging will continue to grow, but the business may take years to have a meaningful impact.

Downgrade to SELL: TPWR's unprecedented 70% rally since October has taken the stock higher than our revised SOTP-based TP of Rs 181 (vs. Rs 161 earlier). The target price increase is driven by rollover of our DCF valuation of the various businesses that is used to arrive at an SOTP value. We change our FY22-FY24 net income estimates by +19%/-10%/-1% to incorporate the expected increase in earnings of coal associates and stronger performance of the solar products division as well as a downward revision in renewable generation rollout plan.

Distribution delicensing a key upside risk: While stretched valuations and challenges in EPC are negative factors, delicensing of distribution could spark another stock rally as TPWR is India's largest power distributor with experience in running large-scale operations. Delicensing will enable the company to start offering power supply at limited upfront investment in larger cities with a focus on commercial and industrial customers. Other upside risks include IPO / investments into the renewables business at a large premium and steady rollout of EV charging and other new-age businesses.

Key changes

Target	Rating
▲	▼

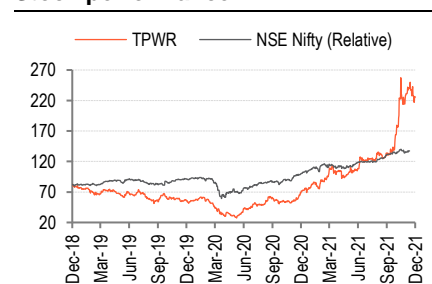
Ticker/Price	TPWR IN/Rs 226
Market cap	US\$ 9.6bn
Free float	53%
3M ADV	US\$ 219.9mn
52wk high/low	Rs 268/Rs 66
Promoter/FPI/DII	47%/11%/20%

Source: NSE | Price as of 3 Dec 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	324,681	435,227	511,255
EBITDA (Rs mn)	75,387	74,125	95,246
Adj. net profit (Rs mn)	11,119	19,305	24,913
Adj. EPS (Rs)	3.5	6.0	7.8
Consensus EPS (Rs)	3.5	6.5	7.6
Adj. ROAE (%)	5.3	8.6	10.7
Adj. P/E (x)	64.8	37.3	28.9
EV/EBITDA (x)	15.5	15.2	11.5
Adj. EPS growth (%)	(8.6)	73.6	29.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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