

**BUY**

TP: Rs 161 | ▲ 19%

**TATA POWER**

| Power

| 06 August 2021

### Strong Q1 led by solar business; transmission reentry announced

- Strong results driven by growth in solar products, award to CGPL under APTEL order and uptick in coal mining associates
- TPWR announced reentry into transmission; expects renewable monetisation to take 0-18 months
- Raise TP to Rs 161 (from Rs 141) driven by 2-15% increase in FY22-FY24 EPS and drop in WACC assumptions due to lower cost of debt

Tarun Bhatnagar | Someel Shah  
researchreport@bobcaps.in

**Robust Q1:** TPWR's reported Q1FY22 net income grew 89% YoY driven by EBITDA growth of 12% (ex-other income) and associate income growth of 107%. EBITDA growth was led by the standalone business (higher dividend income from TERPL), CGPL (due to a 2.49bn tariff order from APTEL), Odisha discoms and Tata Power Solar segments while associate income was driven by Indonesian coal mining associates as a result of stronger prices. QoQ net income was flat despite EBITDA rising 39%. Pretax income grew 124% QoQ owing to a tax credit in Q4FY21 versus a tax debit this year. Net gearing rose to 1.57x due to repayment of perpetual securities which also reduced equity and increased debt in Tata Power Solar.

**Robust solar products business:** TPWR's non-regulated solar EPC (revenue up 4x YoY), rooftop solar (4x YoY) and solar pump (8x YoY) segments did well. Wind PLF increased from 20% to 23%. Renewable monetisation may take anywhere from 0-18 months as the company wishes to carefully consider all options.

**Discom operations:** AT&C losses at Odisha discom were higher than targeted as weak collections due to the cyclone and Covid-19 led to higher commercial losses even as technical loss reduction is on course.

**Entry into transmission:** TPWR announced its reentry into transmission projects in collaboration with associate Tata Projects as the market has fewer players now.

**PAT estimates raised 5-15%; TPWR remains our top pick:** We raise our FY22-FY24 net income estimates by 5-15% driven by a strong outlook for Tata Power Solar and above-estimated profit at Odisha dscom. Our Jun'22 TP rises from Rs 141 to Rs 161. We like TPWR due to (1) IPO / investment into renewable business at a premium, (2) deleveraging through IPO and sale of other assets, (3) growth in distribution income from new Odisha concessions and further wins post passing of the Electricity Act. Reiterate BUY.

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TPWR IN/Rs 135
Market cap	US\$ 5.8bn
Free float	53%
3M ADV	US\$ 74.8mn
52wk high/low	Rs 137/Rs 49
Promoter/FPI/DII	47%/12%/21%

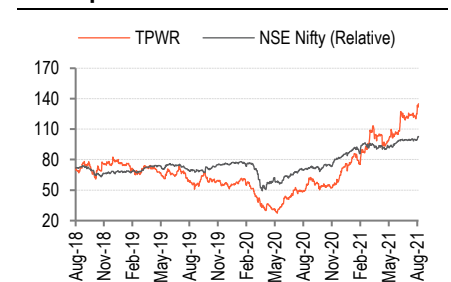
Source: NSE | Price as of 6 Aug 2021

### Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	3,24,681	4,68,987	5,22,023
EBITDA (Rs mn)	75,387	75,358	95,054
Adj. net profit (Rs mn)	11,119	16,102	27,500
Adj. EPS (Rs)	3.5	5.0	8.6
Consensus EPS (Rs)	3.5	5.9	7.2
Adj. ROAE (%)	5.3	7.2	11.8
Adj. P/E (x)	38.8	26.8	15.7
EV/EBITDA (x)	11.6	11.1	8.5
Adj. EPS growth (%)	(8.6)	44.8	70.8

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Revenue (post indirect taxes)</b>	<b>99,680</b>	<b>64,530</b>	<b>54.5</b>	<b>1,01,274</b>	<b>(1.6)</b>
Cost of Revenue	(60,498)	(37,984)	59.3	(69,757)	(13.3)
<b>Gross Profit</b>	<b>39,182</b>	<b>26,546</b>	<b>47.6</b>	<b>31,517</b>	<b>24.3</b>
Gross Margin (%)	39.3	41.1	-	31.1	-
Employee Benefits Expense	(7,364)	(4,053)	81.7	(7,078)	4.0
Other Expense	(8,574)	(5,181)	65.5	(9,983)	(14.1)
Other Income	(1,375)	2,185	(162.9)	1,275	(207.8)
<b>EBITDA</b>	<b>21,870</b>	<b>19,498</b>	<b>12</b>	<b>15,731</b>	<b>39</b>
% EBITDA margin	21.9	30.2	-	15.5	41.3
Depreciation & Amortization	(7,472)	(6,445)	15.9	(6,633)	12.7
<b>EBIT</b>	<b>14,398</b>	<b>13,053</b>	<b>10.3</b>	<b>9,098</b>	<b>58.3</b>
% EBIT margin	14.4	20.2	-	9.0	-
Interest Expense	(9,454)	(10,894)	(13.2)	(8,905)	6.2
Other Financial Items	1,779	874	103.4	951	87.0
<b>Total Financials</b>	<b>(7,676)</b>	<b>(10,019)</b>	<b>(23.4)</b>	<b>(7,954)</b>	<b>(3.5)</b>
<b>Income after financial items</b>	<b>6,723</b>	<b>3,034</b>	<b>121.6</b>	<b>1,144</b>	<b>487.6</b>
% margin	6.7	4.7	-	1.1	-
Associate Income	3,660	1,769	106.9	3,483	5.1
<b>Pretax income</b>	<b>10,382</b>	<b>4,802</b>	<b>116.2</b>	<b>4,627</b>	<b>124.4</b>
Total Non-Recurring	-	(228)	(100.0)	(892)	(100.0)
Reported Pretax	10,382	4,575	127.0	3,734	178.0
Taxation	(5,725)	(1,894)	202.4	1,078	(631.1)
% of pretax income before Associates	85	62	36.4	(94)	-
Net income before minorities	4,657	2,681	73.7	4,812	(3.2)
Minorities	(747)	(615)	21.4	(883)	(15.4)
<b>Net income after minorities</b>	<b>3,910</b>	<b>2,066</b>	<b>89.3</b>	<b>3,929</b>	<b>(0.5)</b>

Source: Company

## Valuation methodology

We raise FY22/FY23/FY24 earnings estimates by 15%/2%/5% due to higher forecasts for the solar products division following the strong Q1FY22 performance. We have also increased our estimates for Odisha discom as results were better than expected. Our Jun'22 TP thus rises to Rs 161 from Rs 141 previously.

Our TP implies 9.5x EV/EBITDA on FY23E, a premium to mean which is justified by a robust earnings outlook and expected project wins in growth segments. We retain our BUY rating on TPWR. Key stock price drivers include fresh investments in renewables, parent company restructuring, and new renewable and distribution contracts.

**Fig 2 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	469	522	557	472	526	565	(0.6)	(0.8)	(1.4)
EBITDA	75	95	123	75	95	122	0.7	(0.5)	0.6
EBIT	43	60	84	43	61	84	(0.1)	(1.8)	0.0
Pretax Income	28	41	59	23	40	57	22.4	2.8	4.0
Net Income	16	27	43	14	27	41	14.9	2.3	4.7
EPS (Rs per share)	5.0	8.6	13.4	4.4	8.4	12.8	14.9	2.3	4.7

Source: BOBCAPS Research

**Fig 3 – Key assumptions**

Parameter	FY21	FY22E	FY23E	FY24E
Delhi Discom - AT&C Losses (%)	6.5	6.0	5.5	5.0
Tata Power Mumbai - AT&C Losses (%)	0.4	0.4	0.4	0.4
Odisha WESCO AT&C Losses (%)	27.0	25.0	22.5	17.5
Odisha Southco AT&C Losses (%)	32.2	30.0	27.5	22.5
Odisha CESU AT&C Losses (%)	29.5	27.5	25.0	20.0
Odisha NESCO AT&C Losses (%)	25.3	22.5	20.0	15.0
Ajmer AT&C Losses (%)	10.0	8.0	7.0	6.0
Renewables- New Capacity (MW)	3	1,247	1,500	2,000
Renewables Tariff for New projects (Rs per unit)	2.5	2.5	2.4	2.1
Renewables New Projects PLF (%)	22.0	24.0	25.0	26.0
Tata Power Solar New EPC External Order (MW)	NA	1,000	1,250	1,500
Rooftop Installations Completed during the year (MW)	175	300	400	500
Tata Power Solar Product Sales Revenue (%)	NA	30,000	40,000	50,000
USDINR Average Conversion Rate	74.2	75.0	75.0	75.0
Coal Price - Imported (US\$/t) - Indonesia HBA	60.7	75.0	75.0	60.0

Source: Company, BOBCAPS Research

Our TP is based on an SOTP valuation, arrived at via a DCF assessment of various assets. Our valuation model discounts cash flows from the company's projects till the end of respective PPAs, assuming no extension only for generation plants. For distribution assets under the regulated return model, we have assumed extension of the concession period by 25 years post-expiry.

Key DCF assumptions include (1) cost of equity of 15.0% (vs. 15.2% previously) based on a risk-free rate of 6.051% as per the 10-year India bond yield as of end-Jun'21 (6.12% previously based on end-Mar'21), (2) beta of 1.31 (1.32 previously) based on the last two-year weekly returns as of end-Jun'21, and (3) cost of debt of 8.0% (8.5% previously) factoring in the company's comments that debt costs have come down.

**Fig 4 – SOTP valuation**

Segment (Rs mn)	EV	Net Debt FY22E	Equity Value	% Share	Contribution to Group Equity Value	EBITDA FY22E	EV/EBITDA FY22E(x)
Standalone	1,08,044	1,77,185	(69,141)	100	(69,141)	23,016	4.7
Coastal Gujarat Power (CGPL)	73,303	72,044	1,259	100	1,259	(229)	(319.6)
Maitron Power (MPL)	42,605	13,033	29,573	74	21,884	8,137	5.2
Delhi Discom (TPDDL)	86,504	27,039	59,466	51	30,328	10,610	8.2
Power Trading (TPTCL)	5,300	-	5,300	100	5,300	530	7.0
Tata Power Solar	1,42,998	7,870	1,35,128	100	1,35,128	2,923	48.9
Tata Power Renewables	1,80,124	1,01,781	78,342	100	78,342	11,464	15.7
Walwhan Renewables Energy	85,177	42,481	42,697	100	42,697	11,441	7.4
TERPL (Shipping Company)	36,096	7,398	28,698	100	28,698	4,173	8.7
Odisha Distribution	87,911	9,905	78,006	51	39,783	2,785	31.6
Ajmer	2,848	56	2,792	100	2,792	508	5.6
<b>Sub-Total (A)</b>	<b>8,50,911</b>	<b>4,58,792</b>	<b>3,92,119</b>		<b>3,17,069</b>	<b>75,358</b>	<b>11.3</b>
Elimination (B)	-	(65,013)	65,013	100	65,013	-	11.3
<b>Majority Owned (C= A+B)</b>	<b>8,50,911</b>	<b>3,93,779</b>	<b>4,57,132</b>		<b>3,82,082</b>	<b>75,358</b>	<b>11.3</b>
<b>Associates &amp; JVs</b>							
KPC			1,47,478	30	44,243		
PT Baramulti Suksessarana & PT Antang			29,496	26	7,669		
PT Nusa Tambang Pratama, Indonesia (Coal Infrastructure)			6,390	30	1,917		
Power Link (not consolidated)	4,696	(90)	4,786	51	2,441		
Industrial Energy (not consolidated)	9,865	6,293	3,572	74	2,643		
Tata Projects				48	15,566		
Adjaristsqali Georgia LLC				40	1,383		
Other associates					39,672		
<b>Associates Valuation (D)</b>					<b>1,15,534</b>		
<b>Consolidated Total (E = C+D)</b>					<b>4,97,616</b>		
Number of shares (F)					3,195		
Value per Share (G = F/E)					156		
<b>Target Price (Rs) (H= G rounded to nearest 1)</b>					<b>161</b>		

Source: BOBCAPS Research |

**Fig 5 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS CAGR FY21-24E (%)	P/E		EV/EBITDA		Net Debt/ EBITDA (x) FY22E
					FY22E	FY23E	FY22E	FY23E	
Power Grid	PWGR IN	HOLD	196	0.32	7.4	7.1	6.2	5.8	3.37
NTPC	NTPC IN	HOLD	111	7.39	6.9	6.1	7.3	6.7	4.85
Tata Power	TPWR IN	BUY	141	53.73	30.5	16.2	11.1	8.5	5.59
Torrent Power	TPW IN	HOLD	461	12.87	15.0	14.0	7.7	6.8	1.62
CESC	CESC IN	HOLD	751	1.55	7.4	7.0	5.7	5.6	3.30

Source: Company, BOBCAPS Research

## Key risks

- Intense competition could lead to deterioration in the outlook for renewables and drive a sharp drop in tariffs. The possibility of discoms renegeing on contracts and delaying payments can also impact generation returns.
- The distribution business could see fewer opportunities if power sector reforms are sluggish or new regulations make business unviable. In addition, a drop in regulatory returns due to lower interest rates would be a negative.
- A sharp rise in coal prices could fuel a steep increase in losses for CGPL, albeit partly compensated for by higher contribution from coal mining operations.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
CESC	CESC IN	1.4	771	751	HOLD
NTPC	NTPC IN	15.7	118	111	HOLD
Power Grid Corp	PWGR IN	12.3	175	196	HOLD
Tata Power	TPWR IN	5.8	135	161	BUY
Torrent Power	TPW IN	3.1	475	461	HOLD

Source: BOBCAPS Research, NSE | Price as of 6 Aug 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>2,91,364</b>	<b>3,24,681</b>	<b>4,68,987</b>	<b>5,22,023</b>	<b>5,57,383</b>
EBITDA	77,541	75,387	75,358	95,054	1,23,240
Depreciation	(26,336)	(27,449)	(32,145)	(35,429)	(38,896)
EBIT	51,206	47,938	43,213	59,625	84,344
Net interest inc./(exp.)	(43,557)	(38,390)	(33,400)	(33,952)	(34,567)
Other inc./(exp.)	4,246	2,678	2,678	2,678	2,678
Exceptional items	(1,841)	(1,555)	2,950	0	0
EBT	19,579	19,405	27,821	40,822	58,998
Income taxes	(6,415)	(5,019)	(5,550)	(8,740)	(10,467)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	6,535	5,621	9,589	7,889	783
<b>Reported net profit</b>	<b>10,174</b>	<b>11,274</b>	<b>19,480</b>	<b>27,500</b>	<b>42,772</b>
Adjustments	131	(155)	(3,378)	0	0
<b>Adjusted net profit</b>	<b>10,305</b>	<b>11,119</b>	<b>16,102</b>	<b>27,500</b>	<b>42,772</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	50,954	71,201	1,02,846	1,14,477	1,22,231
Other current liabilities	50,954	73,902	1,05,548	1,17,178	1,24,932
Provisions	4,074	8,396	8,396	8,396	8,396
Debt funds	4,80,997	4,20,186	4,17,229	4,34,687	4,35,688
Other liabilities	67,226	1,25,734	1,28,524	1,33,107	1,38,866
Equity capital	2,705	3,196	3,196	3,196	3,196
Reserves & surplus	1,92,955	2,20,027	2,19,127	2,38,835	2,70,607
Shareholders' fund	1,95,660	2,23,223	2,22,322	2,42,030	2,73,802
<b>Total liab. and equities</b>	<b>8,97,482</b>	<b>9,88,512</b>	<b>10,19,091</b>	<b>10,72,470</b>	<b>11,18,757</b>
Cash and cash eq.	28,267	66,122	23,449	26,101	27,869
Accounts receivables	44,259	50,010	72,237	80,406	85,852
Inventories	17,524	18,848	27,225	30,304	32,357
Other current assets	30,165	28,731	28,731	28,731	28,731
Investments	13,025	23,059	23,059	23,059	23,059
Net fixed assets	4,46,626	4,87,489	5,31,733	5,82,733	6,37,379
CWIP	37,865	0	0	0	0
Intangible assets	30,038	31,404	31,404	31,404	31,404
Deferred tax assets, net	4,162	1,840	1,840	1,840	1,840
Other assets	2,45,551	2,81,009	2,76,462	2,64,942	2,47,315
<b>Total assets</b>	<b>8,97,482</b>	<b>9,88,512</b>	<b>10,16,141</b>	<b>10,69,520</b>	<b>11,15,807</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>73,753</b>	<b>84,580</b>	<b>70,849</b>	<b>86,697</b>	<b>1,13,028</b>
Capital expenditures	(22,258)	(33,358)	(76,389)	(86,429)	(93,542)
Change in investments	0	12,652	0	0	0
Other investing cash flows	(3,766)	7,310	0	0	0
<b>Cash flow from investing</b>	<b>(26,024)</b>	<b>(13,396)</b>	<b>(76,389)</b>	<b>(86,429)</b>	<b>(93,542)</b>
Equities issued/Others	201	29,961	(15,000)	0	0
Debt raised/repaid	(1,070)	(63,252)	(2,957)	17,458	1,001
Interest expenses	(40,025)	(37,314)	(33,479)	(34,060)	(34,798)
Dividends paid	(5,992)	(5,263)	(4,953)	(7,792)	(11,000)
Other financing cash flows	42,677	77,420	56,389	24,393	44,797
<b>Cash flow from financing</b>	<b>(4,209)</b>	<b>1,552</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Chg in cash &amp; cash eq.</b>	<b>17,228</b>	<b>15,227</b>	<b>(42,673)</b>	<b>2,652</b>	<b>1,768</b>
<b>Closing cash &amp; cash eq.</b>	<b>28,267</b>	<b>66,122</b>	<b>23,449</b>	<b>26,101</b>	<b>27,869</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	3.8	3.5	6.1	8.6	13.4
Adjusted EPS	3.8	3.5	5.0	8.6	13.4
Dividend per share	1.6	1.6	2.4	3.4	5.4
Book value per share	72.3	69.9	69.6	75.7	85.7

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	2.9	2.7	1.8	1.5	1.5
EV/EBITDA	11.0	11.6	11.1	8.5	6.8
Adjusted P/E	35.5	38.8	26.8	15.7	10.1
P/BV	1.9	1.9	1.9	1.8	1.6

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	48.1	53.0	64.7	67.4	72.5
Interest burden (PBT/EBIT)	41.8	43.7	57.6	68.5	69.9
EBIT margin (EBIT/Revenue)	17.6	14.8	9.2	11.4	15.1
Asset turnover (Rev./Avg TA)	33.5	34.4	46.8	50.1	51.0
Leverage (Avg TA/Avg Equity)	4.6	4.5	4.5	4.5	4.2
Adjusted ROAE	5.4	5.3	7.2	11.8	16.6

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(2.5)	11.4	44.4	11.3	6.8
EBITDA	13.2	(2.8)	0.0	26.1	29.7
Adjusted EPS	82.3	(8.6)	44.8	70.8	55.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	26.6	23.2	16.1	18.2	22.1
EBIT margin	17.6	14.8	9.2	11.4	15.1
Adjusted profit margin	3.5	3.4	3.4	5.3	7.7
Adjusted ROAE	5.4	5.3	7.2	11.8	16.6
ROCE	8.7	7.4	6.3	8.5	11.4
<b>Working capital days (days)</b>					
Receivables	55	56	56	56	56
Inventory	22	21	21	21	21
Payables	64	80	80	80	80
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.5	0.7	0.7	0.6
Current ratio	0.4	0.5	0.4	0.5	0.5
Net interest coverage ratio	1.2	1.2	1.3	1.8	2.4
Adjusted debt/equity	2.5	1.9	1.9	1.8	1.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

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

**BUY** – Expected return >+15%

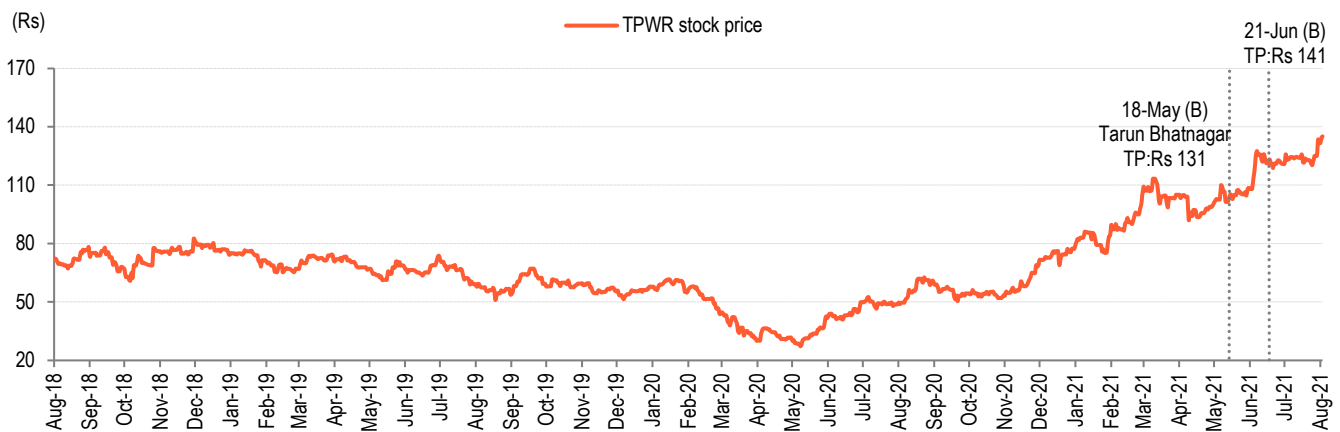
**HOLD** – Expected return from -6% to +15%

**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.

### Ratings and Target Price (3-year history): TATA POWER (TPWR IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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