

BUY

TP: Rs 271 | ▲ 32%

TATA POWER

| Power

| 04 February 2023

Growth aided by coal profits again

- Q3 net profit jumped 2x YoY to Rs 9.5bn backed by high coal profits and strong power demand
- Coal profits expected to remain elevated while under-recovery in CGPL to narrow; SPPA of CGPL a key monitorable
- We remain positive on renewable capacity addition and ROE improvement in green companies; maintain BUY and TP of Rs 271

Anupam Goswami

research@bobcaps.in

Strong growth: TPWR posted a 30% YoY increase in revenue to Rs 143bn (including regulated income) in Q3FY23, aided by growth in CGPL and Odisha discoms. Operating profit stood at Rs 25.4bn, up 47% YoY, with a 200bps YoY rise in EBITDA margin due to improved earnings in CGPL (Mundra). Adj. net profit after minority income jumped 2x YoY to Rs 9.5bn owing to higher profits from Indonesian coal joint ventures.

CGPL overhang to narrow but continue: Although losses at CGPL have narrowed under Section 11 due to the Jan'23 CERC order that provides compensation to imported coal-based power producers for higher running costs, we expect the overhang of under-recoveries to the extent of coal profit share to continue. The supplementary power purchase agreement (SPPA) is likely to be in line with the CERC order and, hence, the under-recovery will narrow but continue for coal profits.

Margins in Tata Power Solar to improve: Execution in the Tata Power Solar EPC division was sluggish in Q3 as the company went slow on projects due to high module and commodity prices. With prices now tapering down, we expect a higher execution rate and better margins in Q4.

Profit growth aided by Indonesian Coal JVs: Coal JVs continued to post high net profit, at Rs 10bn in Q3FY23 (vs. Rs 4.2bn in the year-ago quarter) on the back of elevated coal prices. Average HBA price in Q3FY23 stood at ~US\$ 306/t with similar levels in January, indicating that coal JVs profits could remain high.

Maintain BUY: TPWR fell slightly short of our estimates in Q3. We remain positive on the company as it is cautiously adding renewable capacity without compromising on margins. Resolution of CGPL's losses remains a key monitorable, and we estimate that a favourable outcome could carry upside potential of Rs 10-12/sh to our fair value. Key positive drivers at this juncture comprise growth in renewables and ROE improvement in green subsidiaries. We maintain our BUY rating on TPWR and our SOTP-based TP of Rs 271 (implied FY25E P/BV of 2.5x).

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TPWR IN/Rs 205
Market cap	US\$ 8.0bn
Free float	53%
3M ADV	US\$ 24.7mn
52wk high/low	Rs 298/Rs 190
Promoter/FPI/DII	47%/10%/44%

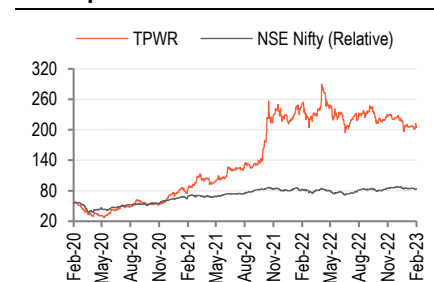
Source: NSE | Price as of 3 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	4,28,157	4,79,068	5,60,054
EBITDA (Rs mn)	72,717	76,066	95,915
Adj. net profit (Rs mn)	27,737	43,749	48,849
Adj. EPS (Rs)	8.7	13.7	15.3
Consensus EPS (Rs)	8.7	12.3	14.8
Adj. ROAE (%)	11.7	17.1	16.7
Adj. P/E (x)	23.7	15.0	13.4
EV/EBITDA (x)	15.0	14.8	11.3
Adj. EPS growth (%)	54.5	109.8	15.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Q3FY23 and 9MFY23 performance

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	1,43,391	1,10,149	30.2	1,41,628	1.2	4,32,778	3,03,475	42.6
EBITDA	25,448	17,356	46.6	18,925	34.5	64,011	52,779	21.3
EBITDA margin (%)	17.7	15.8	199bps	13.4	438bps	14.8	17.4	(260bps)
Depreciation	8,533	7,581	12.5	8376	1.9	25,129	22,765	10.4
Finance Cost	10,983	9,526	15.3	10,518	4.4	31,761	28,444	11.7
Other Income	2,728	1,056	158.4	1,504	81.5	5,665	6,606	(14.2)
Share of profit of JV/Associates	9,980	6,581	(51.7)	12,194	18.2	30,204	16,469	(83.4)
Exceptional items	0	0	0.0	0	0.0	0	0	0.0
PBT	18,640	7,885	136.4	13,729	35.8	42,989	24,644	74.4
Tax Expense	8,119	2,366	243.1	4,377	85.5	14,281	9,412	51.7
Reported PAT	10,521	5,519	90.6	9,352	12.5	28,709	15,232	88.5
Minority Interest	1,071	1,261	(15.0)	1,161	(7.7)	3,121	2,849	9.6
Adjusted PAT	9,450	4,258	121.9	8,191	15.4	25,588	12,384	106.6
Adj. PAT margin (%)	6.6	3.9	272bps	5.8	81bps	5.9	4.1	183bps
Adj. EPS (Rs)	3.3	1.7	90.6	2.9	12.5	9.0	4.8	88.5

Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

Particulars (Rs mn)	Operating Income		EBITDA		PAT	
	Q3FY23	Q3FY22	Q3FY23	Q3FY22	Q3FY23	Q3FY22
Tata Power (Standalone)	54,960	31,508	28,409	4,823	15,043	(4,071)
Maithon Power	8,087	6,714	2,127	1,396	1,033	318
TPDDL (Delhi Discom)	22,364	21,915	3,285	3,203	1,073	1,083
TPTCL (Power Trading)	7,196	6,269	308	201	214	135
Tata Power Solar System (TPSSL)	14,300	15,619	961	1,646	493	805
TPREL Standalone (Renewable Power)	3,331	2,630	3,060	2,110	(290)	(220)
WREL (Renewable Power)	2,688	2,602	3,020	2,301	1,360	762
Coal SPVs (Investment Companies)	-	-	13	(59)	(2,345)	(622)
TERPL (Shipping Co)	1,839	954	526	324	230	30
TP Central Odisha Dist (CESU)	10,579	10,378	345	927	(317)	343
TP Southern Odisha Dist (SOUTHCO)	5,029	4,019	327	182	(26)	67
TP Western Odisha Dist (WESCO)	16,857	11,989	468	894	273	442
TP Northern Odisha Dist (NESCO)	8,495	6,788	972	877	431	403
TIPL (Overseas Investment Co)	-	-	(28)	55	(296)	(82)
Others	2,707	2,023	1,036	391	(100)	(106)
Total - A	1,58,431	1,23,407	44,828	19,270	16,776	(711)
Joint Venture and Associates	-	-	-	-	9,980	6,581
Total - B	1,58,431	1,23,407	44,828	19,270	26,756	5,869
Eliminations	(15,040)	(13,257)	(16,652)	(858)	(16,234)	(350)
Total - C	1,43,391	1,10,149	28,176	18,412	10,521	5,519

Source: Company, BOBCAPS Research

Fig 3 – Q3FY23: Actual vs. Estimates

Particulars (Rs mn)	Actual	Estimate	Variance (%)	Consensus Estimate	Variance (%)
Revenue	1,43,391	1,48,839	(3.7)	1,38,371	3.6
EBITDA	25,448	20,837	22.1	19,338	31.6
EBITDA margin (%)	17.7	14	375bps	14	377bps
Adjusted PAT	9,450	10,525	(10.2)	9,005	4.9

Source: Company, BOBCAPS Research

Other result highlights

- TPWR's rooftop solar and solar pump segments posted revenue growth of 41% and 138% YoY to Rs 5.8bn and Rs 2bn respectively in Q3FY23. The order book for the rooftop solar business stands at Rs 13bn.
- Tata Power Solar posted an 8% YoY decline in revenue to Rs 14bn and a 38% YoY drop in net profit, impacted by high module and commodity prices in Q3 which prompted the company to delay project execution. At end-Dec'22, Tata Power Solar had a healthy order book of Rs 154bn or 3.9GW.
- TPWR's consolidated revenue stood at Rs 41bn with PAT of Rs 0.4bn. The company had managed to reduce T&D losses in all its four circles to an average of 26%.
- Net debt of the company was at Rs 381bn as on Dec'22, down from Rs 395bn as on Sep'22. Net debt/equity stood at 1.2x compared to 1.32x as on Sep'22 and 1.6x as on Dec'21.

Earnings call highlights

- TPWR's EPC segment revenue was hindered by slow order execution due to high module prices in Q3FY23. Prices of polysilicon wafers and modules have now started to taper down in global markets. This should help revive the pace of project execution from Q4.
- The CGPL (Mundra) thermal power unit operated at 37% PLF in Q3FY23. The company is in advanced talks with the stakeholders for an SPPA, after which CGPL can operate at full capacity.
- Management expects the SPPA to be in line with the CERC order and, hence, under-recoveries to the extent of coal profit share will continue.
- AT&C losses in Odisha discoms have reduced to 26% in Q3 compared to 36% a year ago. Management expects Odisha discoms to turn around at the PAT level from Q4FY23.
- Current operational renewable energy capacity stands 3.9GW. About 2.4GW is under construction, which the company plans to commission in the next 18-24 months. TPWR aims to add 2-3GW of renewable capacity every year.
- Construction of the 4GW cell and module manufacturing capacity is on track, with commissioning scheduled for Sep'23.
- Power consumption in Jan'23 increased 12% and is likely to remain high in the upcoming summer season.

Valuation methodology

TPWR is India's largest integrated renewables play. Apart from being a significant renewable energy developer, it has 1.1GW of module and cell manufacturing capacity which it is expanding by another 4GW, which will help the company maintain its strong footing in the EPC space and aid margin improvement from own manufacturing. Long-term resolution at Mundra through a PPA tariff is a key monitorable for the company. We estimate that a favourable outcome, i.e. tariff resolution with a reasonable profit margin, could carry upside potential of Rs 10-12/sh to our fair value.

Key positive drivers at this juncture comprise growth in renewables and ROE improvement in green subsidiaries. We expect ROE to improve over the next few years to ~17% by FY25 on the back of strong growth in EPC and the new energy business which is a low-capital, low-margin but high-ROE segment. As the company's business is becoming more consumer-oriented, the stock warrants a higher valuation in our view.

We maintain our BUY rating on TPWR and our SOTP-based TP of Rs 271 (implied FY25E P/BV of 2.5x), which values the legacy regulated business at Rs 59/sh, renewable assets at Rs 171/sh and non-renewables businesses at Rs 41/sh.

Fig 4 – SOTP valuation

Segment	Method	Multiple (x)	Equity (Rs mn)	ROE (%)	TPWR Stake (%)	Implied Value (Rs mn)	Value (Rs/sh)
Mumbai Operation	P/B	1.5	59,240	16.0	100	88,860	28
Delhi Distribution	P/B	1.5	22,900	16.0	51	17,519	5
Maithon	P/B	1.5	18,500	17.0	74	20,535	6
Power Links	P/B	1.5	4,770	17.0	51	3,649	1
IEL	P/B	1.5	7,250	16.0	74	8,048	3
Odisha discoms	DCF		1,00,364	16.0	51	51,186	16
Regulatory Business							59
Renewables	EV/EBITDA	12.0	60,576	12.0	89	5,45,456	171
Coal Mining Stake	P/E	3.0	18,522		26/30	55,567	17
Mundra UMPP	DCF		39,251		100	39,251	12
Other Assets + Cash & investments						89,024	11
Total Value per Share (Rs)							271

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- lower PLF in CGPL and lower coal profits, which could impact consolidated profit, and
- high commodity and module prices, which could weigh on margins of Tata Power Solar.

Key upside risk:

- a favourable outcome of the SPPA in CGPL.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
CESC	CESC IN	1.2	73	108	BUY
NTPC	NTPC IN	19.6	166	210	BUY
Power Grid Corp	PWGR IN	18.3	215	251	BUY
Tata Power	TPWR IN	8.0	205	271	BUY

Source: BOBCAPS Research, NSE | Price as of 3 Feb 2023

Glossary

Glossary of Abbreviations			
AT&C	Aggregate Technical & Commercial Losses	PLF	Plant Load Factor
CERC	Central Electricity Regulatory Commission	PPA	Power Purchase Agreement
DISCOM	Distribution company	SPPA	Supplementary Power Purchase Agreement
EPC	Engineering, Procurement and Construction	T&D	Transmission & Distribution

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	3,27,033	4,28,157	4,79,068	5,60,054	5,85,352
EBITDA	75,387	72,717	76,066	95,915	1,22,124
Depreciation	(27,449)	(31,222)	(34,547)	(34,035)	(40,385)
EBIT	47,938	41,495	41,519	61,880	81,739
Net interest inc./(exp.)	(40,104)	(38,590)	(38,193)	(44,290)	(46,723)
Other inc./(exp.)	4,392	9,200	11,700	11,762	12,828
Exceptional items	0	0	0	0	0
EBT	12,226	12,104	15,025	29,352	47,844
Income taxes	(5,019)	(3,796)	(4,861)	(5,428)	(6,894)
Extraordinary items	(1,093)	(1,503)	0	0	0
Min. int./Inc. from assoc.	11,847	23,570	36,119	29,417	28,138
Reported net profit	14,848	26,234	43,749	48,849	62,048
Adjustments	(1,093)	(1,503)	0	0	0
Adjusted net profit	15,941	27,737	43,749	48,849	62,048

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	71,481	1,04,596	81,383	1,02,631	1,08,378
Other current liabilities	1,03,267	1,25,580	1,27,420	1,24,223	1,37,562
Provisions	8,306	15,630	12,246	12,519	12,707
Debt funds	4,67,080	5,11,951	4,55,715	5,22,608	5,69,649
Other liabilities	1,15,033	1,46,673	1,32,253	1,14,535	1,11,503
Equity capital	3,195	3,195	3,195	3,195	3,195
Reserves & surplus	2,20,027	2,21,220	2,52,325	2,88,909	3,38,485
Shareholders' fund	2,23,222	2,24,415	2,55,520	2,92,104	3,41,680
Total liab. and equities	9,88,388	11,28,845	10,64,536	11,68,620	12,81,480
Cash and cash eq.	58,707	66,407	64,771	65,592	72,017
Accounts receivables	58,048	66,655	66,851	74,607	89,040
Inventories	18,856	42,315	21,850	26,119	27,717
Other current assets	28,839	43,230	32,124	31,604	31,604
Investments	1,31,490	1,41,603	1,41,106	1,41,406	1,41,706
Net fixed assets	4,90,387	5,41,650	5,36,917	6,26,942	7,15,410
CWIP	32,703	46,351	46,351	46,351	46,351
Intangible assets	31,404	32,245	32,245	32,245	32,245
Deferred tax assets, net	1,840	3,346	489	489	489
Other assets	1,36,114	1,45,044	1,21,832	1,23,265	1,24,901
Total assets	9,88,388	11,28,845	10,64,536	11,68,620	12,81,480

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	83,452	66,928	1,22,669	1,03,295	1,32,999
Capital expenditures	(13,659)	(72,330)	(29,814)	(1,24,060)	(1,28,853)
Change in investments	(7,176)	(4,211)	497	(300)	(300)
Other investing cash flows	27,510	13,774	7,020	7,057	7,697
Cash flow from investing	6,676	(62,766)	(22,297)	(1,17,303)	(1,21,456)
Equities issued/Others	31,513	113	0	0	0
Debt raised/repaid	(59,734)	26,570	(56,236)	66,893	47,042
Interest expenses	(40,832)	(31,928)	(38,193)	(44,290)	(46,723)
Dividends paid	(6,975)	(6,588)	(5,432)	(5,432)	(5,432)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(76,028)	(11,832)	(99,862)	17,170	(5,113)
Chg in cash & cash eq.	14,100	(7,669)	511	3,162	6,429
Closing cash & cash eq.	35,700	28,290	31,281	34,440	40,866

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	4.6	8.2	13.7	15.3	19.4
Adjusted EPS	5.0	8.7	13.7	15.3	19.4
Dividend per share	2.2	2.1	1.7	1.7	1.7
Book value per share	69.9	70.2	80.0	91.4	106.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.4	2.5	2.4	1.9	2.0
EV/EBITDA	14.8	15.0	14.8	11.3	9.4
Adjusted P/E	41.2	23.7	15.0	13.4	10.6
P/BV	2.9	2.9	2.6	2.2	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	121.4	216.7	291.2	166.4	129.7
Interest burden (PBT/EBIT)	25.5	29.2	36.2	47.4	58.5
EBIT margin (EBIT/Revenue)	14.7	9.7	8.7	11.0	14.0
Asset turnover (Rev./Avg TA)	33.1	37.9	45.0	47.9	45.7
Leverage (Avg TA/Avg Equity)	4.4	5.0	4.2	4.0	3.8
Adjusted ROAE	6.7	11.7	17.1	16.7	18.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	12.2	30.9	11.9	16.9	4.5
EBITDA	(11.8)	7.3	2.1	23.9	27.4
Adjusted EPS	10.8	54.5	109.8	15.0	30.9
Profitability & Return ratios (%)					
EBITDA margin	23.1	17.0	15.9	17.1	20.9
EBIT margin	14.7	9.7	8.7	11.0	14.0
Adjusted profit margin	4.9	6.5	9.1	8.7	10.6
Adjusted ROAE	6.7	11.7	17.1	16.7	18.2
ROCE	6.9	5.6	5.8	7.6	9.0
Working capital days (days)					
Receivables	64	56	50	48	55
Inventory	21	36	16	17	17
Payables	79	88	61	66	67
Ratios (x)					
Gross asset turnover	0.7	0.8	0.9	0.9	0.8
Current ratio	0.9	0.9	0.9	0.9	0.9
Net interest coverage ratio	1.2	1.1	1.1	1.4	1.7
Adjusted debt/equity	2.1	2.3	1.8	1.8	1.7

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

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BUY – Expected return >+15%

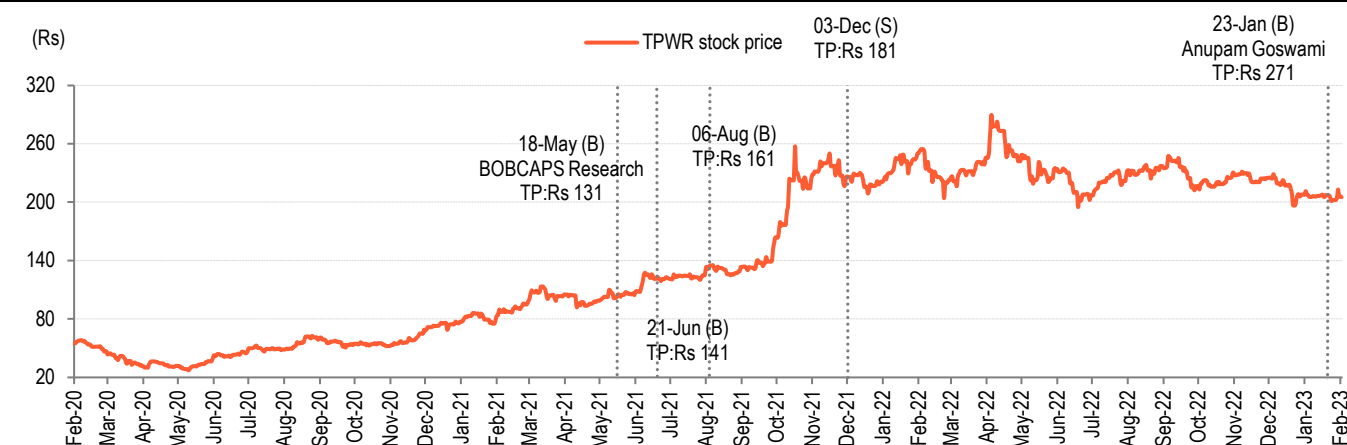
HOLD – Expected return from -6% to +15%

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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