

**HOLD**

TP: Rs 800 | ▲ 3%

**TORRENT POWER**

| Power

| 10 November 2023

## Gas trading tapers

- Q2 revenue and PBT flattish YoY as gas trading and power sales in the short-term market tapered
- Renewable capacity pipeline stands at 600MW, split equally between solar power due in FY24 and wind power due in FY25
- We cut FY24/FY25/FY26 EPS 6%/5%/4%; TP remains at Rs 800 based on unchanged 2.3x Sep'25E BV multiple – retain HOLD

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**Revenue and PBT flattish:** TPW's Q2FY24 topline inched up 3.8% YoY to Rs 69.6bn with a proportionate 4.9% rise in EBITDA to Rs 12.2bn. Adj. PAT grew 12% YoY to Rs 5.4bn on account of lower taxes while PBT grew only 2% to Rs 7.4bn. The company received incentives of Rs 710mn during Q2. Barring Ahmedabad, TPW reduced transmission & distribution (T&D) losses in all licensed and franchised areas during H1FY24, with the Shil, Mumbra, Kalwa (SMK) region posting 460bps contraction YoY.

**Profit marred by lower gas trading:** The coal and renewable generation as well as licensed businesses saw improved profitability during the quarter. However, TPW's net profit took a hit of Rs 250mn YoY due to (i) lower gains from trading in LNG, visible in the 740bps YoY contraction in generation segment EBIT margin to 12.1%, and (ii) lower merchant sales, visible in the 3% PLF recorded at the DGEN plant. The renewable segment achieved strong 31% YoY topline growth to Rs 3.7bn, largely due to better wind PLF of 36.7% (+900bps YoY) and normalisation of the 115MW wind capacity added in Q1FY24.

**Project status:** The company has operational capacities of 920MW of wind and 263MW of solar power as of H1FY24 and expects to commission 300MW each of solar and wind power by FY24 and FY25 respectively, with no plans for thermal additions going forward. The goal is to combine renewable and gas capacities to provide round-the-clock power to customers. TPW is also exploring opportunities in new energy, including green hydrogen and electric vehicle charging. On the pumped hydro side, the company is waiting for regulatory approvals by the CERC and expects to commission any approved projects within 5-6 years.

**Maintain HOLD:** TPW is one of the strongest plays in the power distribution sector, with a healthy mix of commercial and industrial regions under licensed distribution and impressive T&D loss reduction in franchised areas. However, the ~40% runup in stock price over the past six months factors in the strong fundamentals, leading us to retain our HOLD rating. We lower our FY24/FY25/FY26 EPS estimates by 6%/5%/4% post H1FY24, but our TP remains at Rs 800 as we value the stock at an unchanged P/B multiple of 2.3x on Sep'25E BV, which is 1SD above the 5Y mean.

## Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TPW IN/Rs 778
Market cap	US\$ 4.5bn
Free float	35%
3M ADV	US\$ 3.5mn
52wk high/low	Rs 800/Rs 431
Promoter/FPI/DII	54%/6%/40%

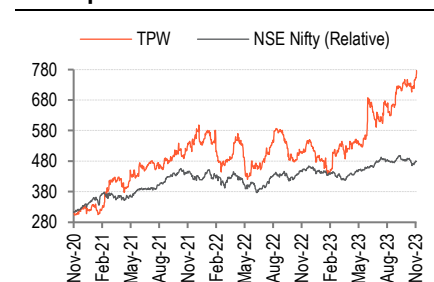
Source: NSE | Price as of 10 Nov 2023

## Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,56,941	2,78,758	3,10,941
EBITDA (Rs mn)	47,587	51,074	57,368
Adj. net profit (Rs mn)	21,647	23,761	27,692
Adj. EPS (Rs)	45.0	49.4	57.6
Consensus EPS (Rs)	45.0	50.2	58.4
Adj. ROAE (%)	20.7	19.9	19.7
Adj. P/E (x)	17.3	15.7	13.5
EV/EBITDA (x)	9.6	9.2	8.2
Adj. EPS growth (%)	23.1	9.8	16.5

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



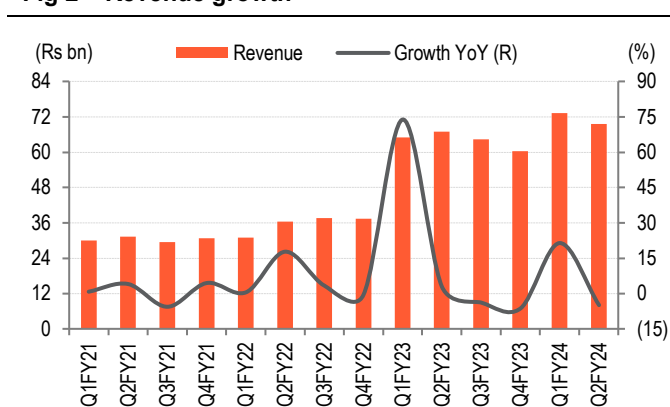
Source: NSE



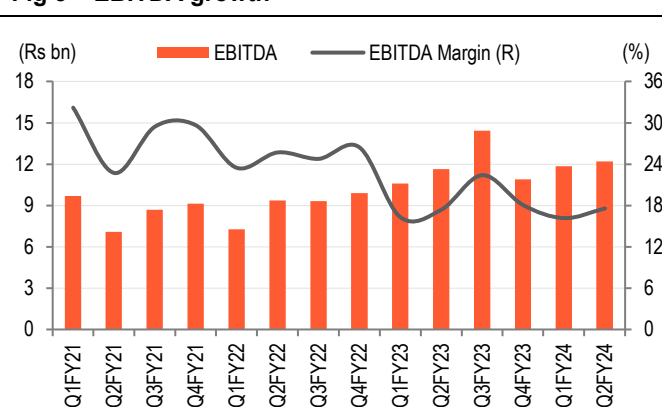
**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	69,609	67,032	3.8	73,276	(5.0)	1,42,885.4	1,32,134.6	8.1
EBITDA	12,214	11,642	4.9	11,848	3.1	24,061.9	22,245.8	8.2
EBITDA Margin (%)	17.5	17.4	18bps	16.2	138bps	16.8	16.8	0bps
Depreciation	3,417	3,186		3,320		6,737.0	6,302.6	
Interest	2,472	2,150		2,273		4,744.4	4,010.0	
Other Income	1,082	941		857		1,938.9	2,023.7	
PBT	7,407	7,246	2.2	7,113	4.1	14,519.4	13,956.9	4.0
Tax	1,981	2,404		1,790		3,771.1	4,094.9	
Adjusted PAT	5,425	4,842	12.1	5,323	1.9	10,748.3	9,862.0	9.0
Exceptional item	-	-		0		0.0	0.0	
Reported PAT	5,425	4,842	12.1	5,323	1.9	10,748.3	9,862.0	9.0
Adj. PAT Margin (%)	7.8	7.2	57bps	7.3	53bps	7.5	7.5	6bps
EPS (Rs)	11.3	10.1	12.1	11.1	1.9	22.4	20.5	9.0

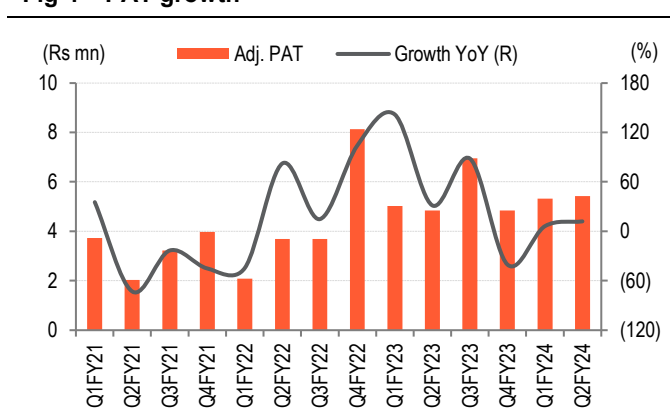
Source: Company, BOBCAPS Research

**Fig 2 – Revenue growth**


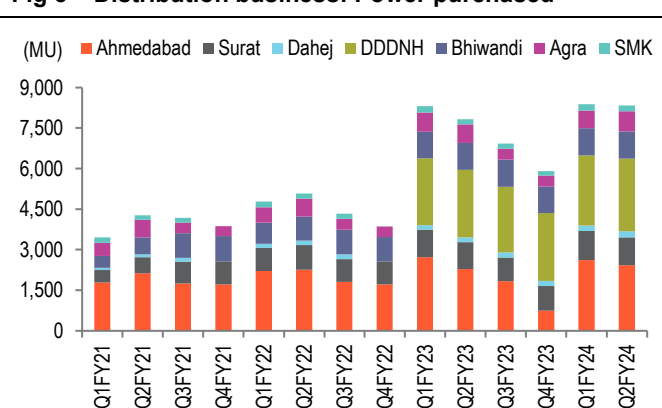
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA growth**


Source: Company, BOBCAPS Research

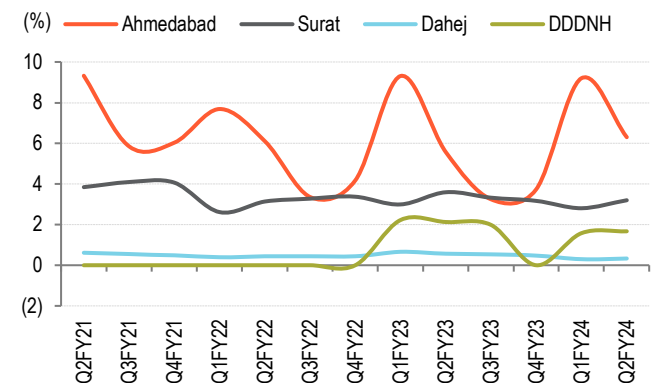
**Fig 4 – PAT growth**


Source: Company, BOBCAPS Research

**Fig 5 – Distribution business: Power purchased**


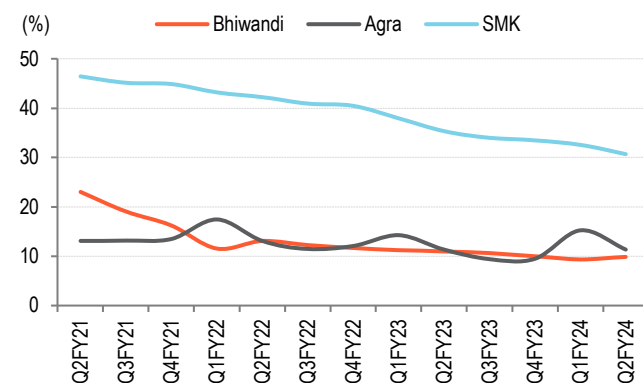
Source: Company, BOBCAPS Research | DDDNH: Dadra &amp; Nagar Haveli, Daman, and Diu

**Fig 6 – Licensed distribution: T&D loss**



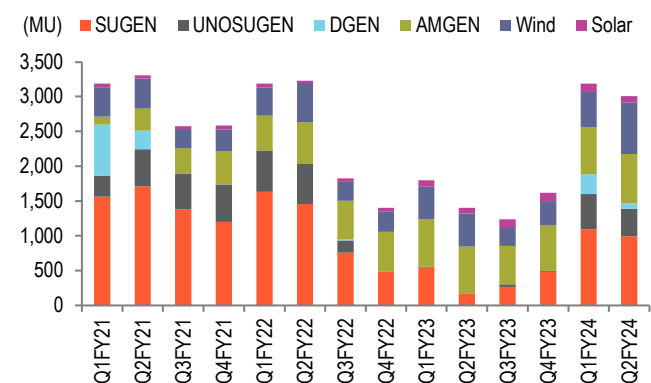
Source: Company, BOBCAPS Research

**Fig 7 – Franchised distribution: T&D loss**



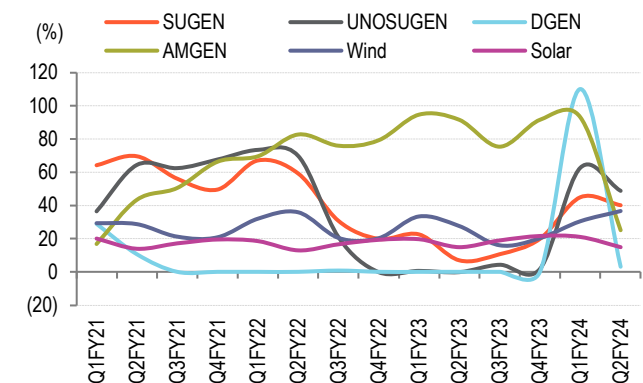
Source: Company, BOBCAPS Research

**Fig 8 – Generation: Net generation**



Source: Company, BOBCAPS Research

**Fig 9 – Generation: PLF**



Source: Company, BOBCAPS Research

## Valuation methodology

TPW is one of the strongest plays in India's power distribution sector with an established network of 4mn consumers, a healthy mix of commercial and industrial regions under licensed distribution, and impressive T&D loss reduction in franchised areas. We expect the company to continue to shrink distribution losses through smart metering and improved infrastructure.

Despite strong fundamentals, we retain HOLD on TPW as the ~40% runup in stock price over the last six months largely prices in the positives. We lower our FY24/FY25/FY26 EPS estimates by 6%/5%/4% to incorporate the H1FY24 performance, but our TP remains at Rs 800 as we value the stock at an unchanged P/B multiple of 2.3x on Sep'25E BV, which is one standard deviation above the five-year mean.

**Fig 10 – Revised estimates**

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	2,78,758	3,10,941	3,42,849	2,81,915	3,14,398	3,44,734	(1.1)	(1.1)	(0.5)
EBITDA	51,074	57,368	63,590	52,957	59,279	65,110	(3.6)	(3.2)	(2.3)
PAT	23,761	27,692	31,365	25,162	29,113	32,499	(5.6)	(4.9)	(3.5)
EPS (Rs)	49.4	57.6	65.3	52.4	60.6	67.6	(5.7)	(4.9)	(3.5)
EBITDA Margin (%)	18.3	18.4	18.5	18.8	18.9	18.9	(50bps)	(40bps)	(30bps)

Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- acquisition of Puducherry and newer distribution circles that come up for bidding, and
- scale-up of round-the-clock power ahead of the market given strong gas-based plant capacity.

Key downside risks are:

- an inability to further shrink T&D losses, and
- regulatory clampdown on gas trading by the government.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
CESC	CESC IN	1.4	89	108	BUY
NTPC	NTPC IN	28.6	243	290	BUY
Power Grid Corp	PWGR IN	23.9	211	250	BUY
Tata Power	TPWR IN	9.8	251	271	BUY
Torrent Power	TPW IN	4.5	778	800	HOLD

Source: BOBCAPS Research, NSE | Price as of 10 Nov 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>1,42,576</b>	<b>2,56,941</b>	<b>2,78,758</b>	<b>3,10,941</b>	<b>3,42,849</b>
EBITDA	35,910	47,587	51,074	57,368	63,590
Depreciation	13,339	12,810	15,694	17,398	19,419
EBIT	22,571	34,777	35,380	39,970	44,171
Net interest inc./(exp.)	6,282	8,182	7,899	7,667	7,433
Other inc./(exp.)	2,350	3,819	4,200	4,620	5,082
Exceptional items	0	0	0	0	0
EBT	18,640	30,414	31,681	36,923	41,821
Income taxes	1,053	8,767	7,920	9,231	10,455
Extraordinary items	13,000	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>4,587</b>	<b>21,647</b>	<b>23,761</b>	<b>27,692</b>	<b>31,365</b>
Adjustments	13,000	0	0	0	0
<b>Adjusted net profit</b>	<b>17,587</b>	<b>21,647</b>	<b>23,761</b>	<b>27,692</b>	<b>31,365</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	12,616	17,333	18,329	19,594	20,665
Other current liabilities	27,576	35,435	56,166	62,103	67,808
Provisions	2,746	2,641	2,641	2,641	2,641
Debt funds	91,426	1,05,414	1,01,772	98,776	95,763
Other liabilities	16,072	23,413	25,400	28,333	31,240
Equity capital	4,806	4,806	4,806	4,806	4,806
Reserves & surplus	94,626	1,05,294	1,24,248	1,46,654	1,72,252
Shareholders' fund	99,432	1,10,100	1,29,054	1,51,460	1,77,058
<b>Total liab. and equities</b>	<b>2,50,227</b>	<b>2,99,102</b>	<b>3,38,130</b>	<b>3,67,673</b>	<b>3,99,941</b>
Cash and cash eq.	3,523	3,435	5,156	505	2,940
Accounts receivables	16,027	22,463	25,966	29,816	35,694
Inventories	5,376	8,203	10,692	11,927	16,908
Other current assets	24,396	32,549	36,659	40,891	48,844
Investments	2,737	7,878	7,878	7,878	7,878
Net fixed assets	1,67,594	1,81,159	2,05,465	2,26,067	2,32,848
CWIP	12,973	26,247	28,476	31,763	35,022
Intangible assets	1,233	9,274	9,274	9,274	9,274
Deferred tax assets, net	0	0	0	0	0
Other assets	16,170	7,894	8,564	9,553	10,533
<b>Total assets</b>	<b>2,50,227</b>	<b>2,99,102</b>	<b>3,38,129</b>	<b>3,67,673</b>	<b>3,99,941</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>31,672</b>	<b>34,558</b>	<b>51,080</b>	<b>42,976</b>	<b>38,748</b>
Capital expenditures	(17,597)	(27,498)	(40,000)	(38,000)	(26,200)
Change in investments	(4,549)	(4,542)	0	0	0
Other investing cash flows	(2,685)	(120)	(911)	(1,344)	(1,332)
<b>Cash flow from investing</b>	<b>(24,831)</b>	<b>(32,160)</b>	<b>(40,911)</b>	<b>(39,344)</b>	<b>(27,532)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	6,279	13,220	4,258	4,671	4,420
Interest expenses	(6,282)	(8,182)	(7,899)	(7,667)	(7,433)
Dividends paid	(7,020)	(10,618)	(4,806)	(5,287)	(5,767)
Other financing cash flows	2,004	2,170	0	0	0
<b>Cash flow from financing</b>	<b>(5,019)</b>	<b>(3,410)</b>	<b>(8,448)</b>	<b>(8,283)</b>	<b>(8,781)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,821</b>	<b>(1,012)</b>	<b>1,721</b>	<b>(4,651)</b>	<b>2,435</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,523</b>	<b>3,435</b>	<b>5,156</b>	<b>505</b>	<b>2,940</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	9.5	45.0	49.4	57.6	65.3
Adjusted EPS	36.6	45.0	49.4	57.6	65.3
Dividend per share	9.0	26.0	10.0	11.0	12.0
Book value per share	206.9	229.1	268.5	315.1	368.4

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.2	1.8	1.7	1.5	1.4
EV/EBITDA	12.5	9.6	9.2	8.2	7.4
Adjusted P/E	21.3	17.3	15.7	13.5	11.9
P/BV	3.8	3.4	2.9	2.5	2.1

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	94.4	71.2	75.0	75.0	75.0
Interest burden (PBT/EBIT)	82.6	87.5	89.5	92.4	94.7
EBIT margin (EBIT/Revenue)	15.8	13.5	12.7	12.9	12.9
Asset turnover (Rev./Avg TA)	58.7	93.5	87.5	88.1	89.3
Leverage (Avg TA/Avg Equity)	2.5	2.7	2.6	2.4	2.3
<b>Adjusted ROAE</b>	<b>17.5</b>	<b>20.7</b>	<b>19.9</b>	<b>19.7</b>	<b>19.1</b>

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	17.1	80.2	8.5	11.5	10.3
EBITDA	3.6	32.5	7.3	12.3	10.8
Adjusted EPS	35.7	23.1	9.8	16.5	13.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	25.2	18.5	18.3	18.4	18.5
EBIT margin	15.8	13.5	12.7	12.9	12.9
Adjusted profit margin	12.3	8.4	8.5	8.9	9.1
Adjusted ROAE	17.5	20.7	19.9	19.7	19.1
ROCE	13.6	15.0	15.1	15.7	16.0
<b>Working capital days (days)</b>					
Receivables	41	32	34	35	38
Inventory	14	12	14	14	18
Payables	32	25	24	23	22
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.9	0.9	0.9	0.9
Current ratio	0.8	1.0	0.9	0.9	1.0
Net interest coverage ratio	4.0	4.7	5.0	5.8	6.6
<b>Adjusted debt/equity</b>	<b>0.9</b>	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>	<b>0.5</b>

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

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**BUY** – Expected return >+15%

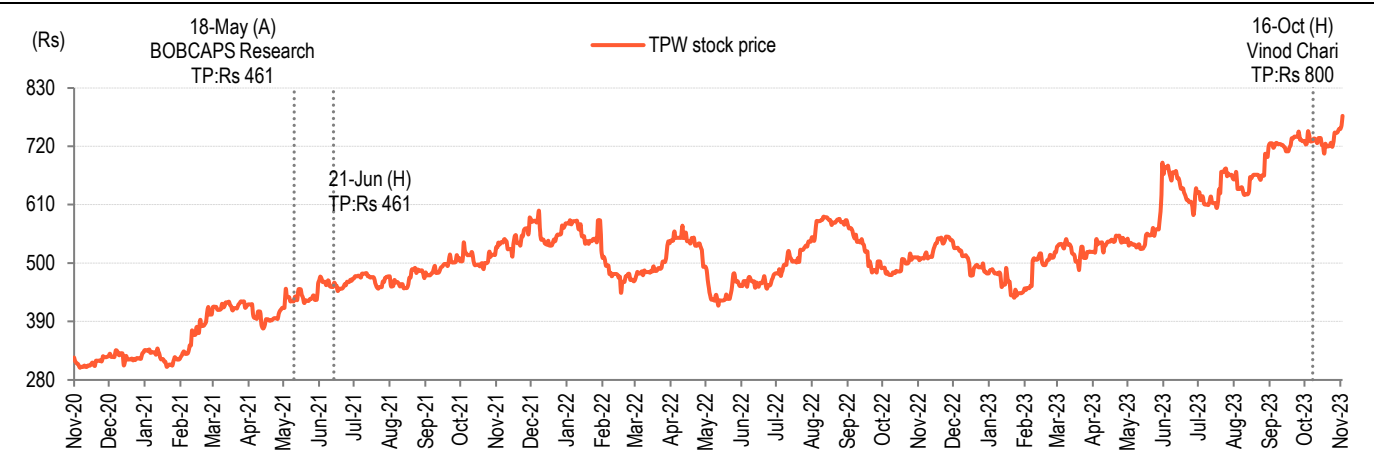
**HOLD** – Expected return from -6% to +15%

**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): TORRENT POWER (TPW IN)



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

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