

HOLD

TP: Rs 1,140 | ▼ 3%

TORRENT POWER

| Power

| 09 February 2024

Dull quarter; high valuations – maintain HOLD

- Q3 topline flattish with PAT contraction on lower RLNG trading gains; bright spots from higher PLFs and lower T&D losses
- RE expansion on track – 300MW of solar capacity expected in Q1FY25; 175MW hybrid addition in FY26
- We lower FY24-FY26 EPS 22-26%; TP rises to Rs 1,140 (vs. Rs 800) on higher target P/B of 3.6x (vs. 2.3x) but valuations full – retain HOLD

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Slow quarter as bottomline slumps....: TPW posted flattish revenue at Rs 63.7bn, with a 46% YoY decline in PAT to Rs 3.7bn during Q3FY24. This drop can be largely attributed to strategic gains realised by the company in the year-ago quarter on trading of RLNG when gas prices were high. At the time, management deemed it fit to trade in the fuel and pay nominal penalties vis-à-vis the production of gas-based power. We estimate a gas price range of US\$ 10-15/mmbtu as the threshold for power production, beyond which the company may simply trade in gas instead.

...though operational performance remains strong: TPW posted strong operational numbers in Q3 with average thermal PLF rising to 23%, as opposed to 13.4% in QFY23. The company generated 1,994MU of power as against 1,233MU in Q3FY23, a 62% increase YoY. PLF at the DGEN plant, which constitutes 100% merchant power, stood at 5.1% (vs. 0% in Q3FY23).

Distribution business continues to fare well....: The transmission and distribution (T&D) division clocked 19% YoY topline growth and lower T&D losses during the quarter. For 9MFY24, all licensed and franchised distribution areas posted lower T&D losses YoY, except Ahmedabad which posted a marginal 39bps rise.

...with sizeable plans in renewable energy (RE): TPW expects to commission its 300MW solar plant earlier than expected, by Apr'24, with an improved return profile given the recent reduction in solar module prices. Additionally, the 175MW hybrid project is on track to be commissioned by Dec'25 and will cater to 100% merchant sales, like the DGEN plant.

Valuations full – maintain HOLD: We cut our FY24/FY25/FY26 earnings estimates by 22%/24%/26% and BVPS forecasts by 4%/8%/11% to account for the lower profits on RLNG trading. Our TP moves to Rs 1,140 (from Rs 800) as we roll valuations forward to Dec'25E and now value the stock at 3.6x P/B (2.3x earlier), maintaining our multiple at a 15% discount to the current P/B of 4.1x on FY25E. TPW has run up ~50% over the last quarter. Considering the high valuations, we maintain HOLD.

Key changes

Target	Rating
▲	◀ ▶

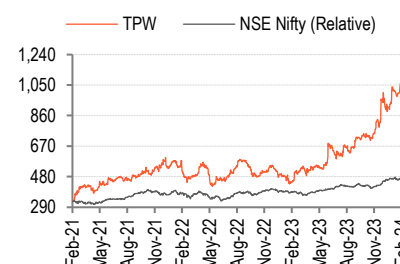
Ticker/Price	TPW IN/Rs 1,173
Market cap	US\$ 6.9bn
Free float	35%
3M ADV	US\$ 9.5mn
52wk high/low	Rs 1,215/Rs 447
Promoter/FPI/DII	54%/6%/40%

Source: NSE | Price as of 9 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,56,941	2,68,513	3,00,445
EBITDA (Rs mn)	47,587	44,293	49,863
Adj. net profit (Rs mn)	21,647	18,458	21,185
Adj. EPS (Rs)	45.0	38.4	44.1
Consensus EPS (Rs)	45.0	50.2	58.4
Adj. ROAE (%)	20.7	15.8	16.1
Adj. P/E (x)	26.1	30.6	26.6
EV/EBITDA (x)	13.6	14.9	13.4
Adj. EPS growth (%)	23.1	(14.7)	14.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

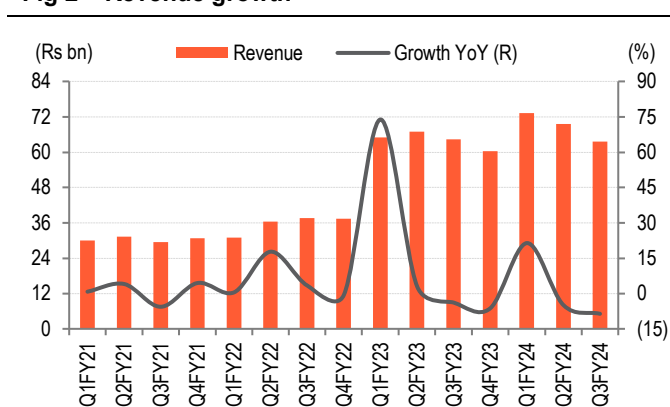
Source: NSE



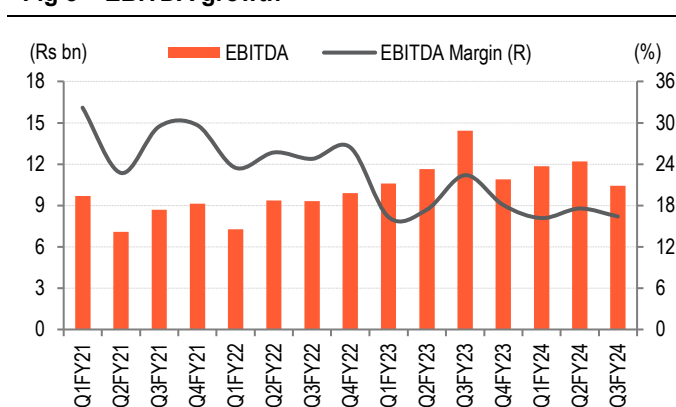
Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	63,661	64,428	(1.2)	69,609	(8.5)	206,546	196,563	5.1
EBITDA	10,441	14,437	(27.7)	12,214	(14.5)	34,503	36,683	(5.9)
EBITDA Margin (%)	16.4	22.4	(601bps)	17.5	(115bps)	16.7	18.7	(196bps)
Depreciation	3,488	3,219		3,417		10,225	9,521	
Interest	2,355	2,280		2,472		7,099	6,290	
Other Income	536	837		1,082		2,475	2,860	
PBT	5,134	9,774	(47.5)	7,407	(30.7)	19,653	23,731	(17.2)
Tax	1,392	2,829		1,981		5,163	6,924	
Adjusted PAT	3,741	6,945	(46.1)	5,425	(31.0)	14,490	16,807	(13.8)
Exceptional item	-	-		0		0	0	
Reported PAT	3,741	6,945	(46.1)	5,425	(31.0)	14,490	16,807	(13.8)
Adj. PAT Margin (%)	5.9	10.8	(490bps)	7.8	(192bps)	7.0	8.6	(154bps)
EPS (Rs)	7.8	14.5	(46.1)	11.3	(31.0)	30.1	35.0	(13.8)

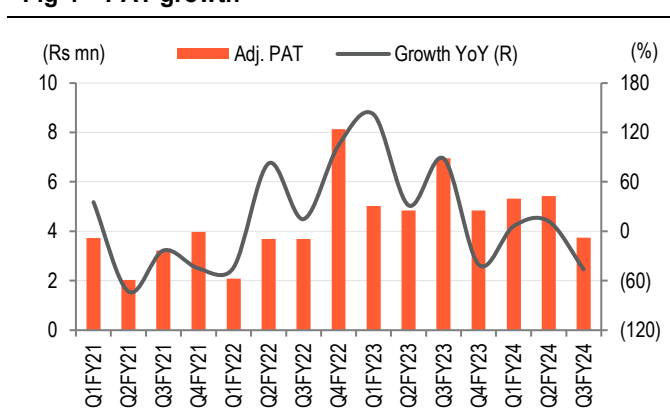
Source: Company, BOBCAPS Research

Fig 2 – Revenue growth


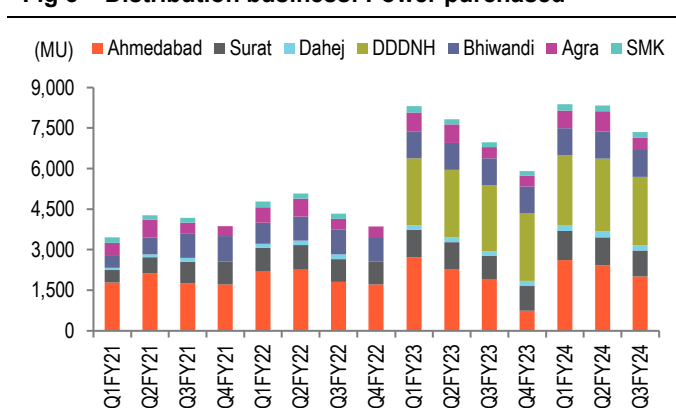
Source: Company, BOBCAPS Research

Fig 3 – EBITDA growth


Source: Company, BOBCAPS Research

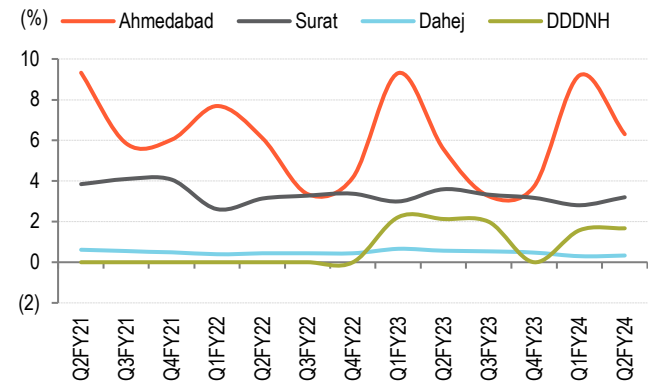
Fig 4 – PAT growth


Source: Company, BOBCAPS Research

Fig 5 – Distribution business: Power purchased


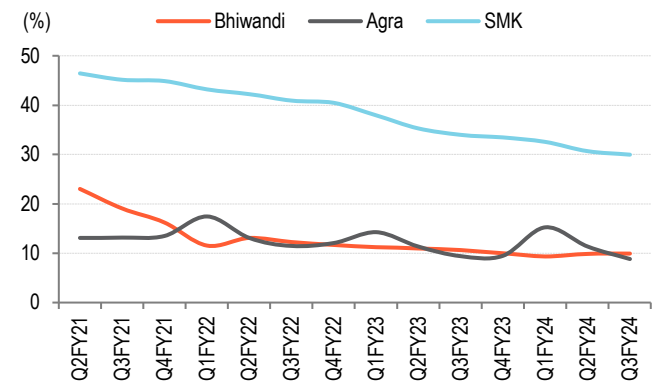
Source: Company, BOBCAPS Research | DDDNH: Dadra & Nagar Haveli, Daman, and Diu; SMK: Shil, Mumbai, Kalwa

Fig 6 – Licensed distribution: T&D loss



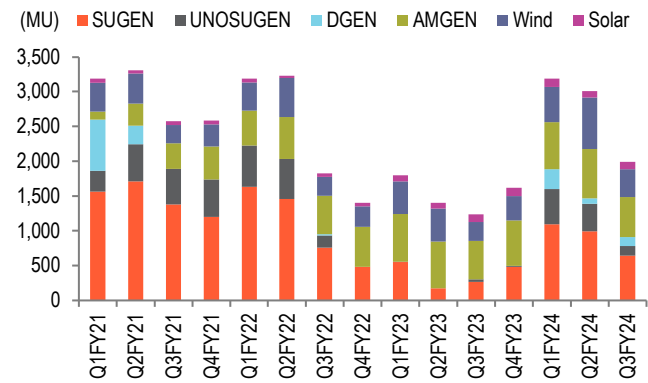
Source: Company, BOBCAPS Research

Fig 7 – Franchised distribution: T&D loss



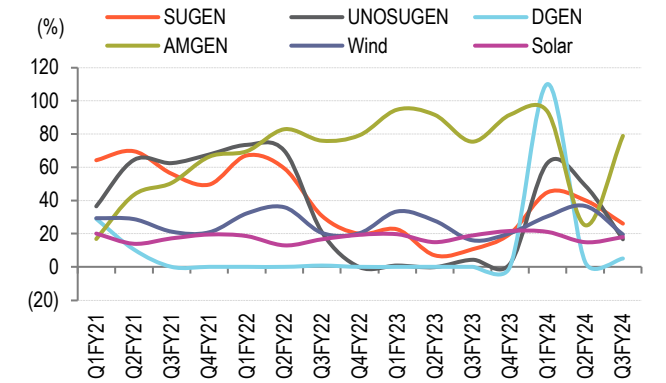
Source: Company, BOBCAPS Research

Fig 8 – Net generation



Source: Company, BOBCAPS Research

Fig 9 – Generation PLF



Source: Company, BOBCAPS Research

Valuation methodology

TPW is a strong play on the Indian distribution sector, but we expect profits to be lower in the near term given a benign gas price outlook in global markets. This implies continued power production by the company and lower gains on RLNG trading, which was one of the key catalysts for higher profits over the last eight quarters.

We cut our FY24/FY25/FY26 earnings estimates by 22%/24%/26% and BVPS forecasts by 4%/8%/11% to account for the lower profits on RLNG trading. Our TP moves to Rs 1,140 (from Rs 800) as we roll valuations forward to Dec'25E and now value the stock at 3.6x P/B (2.3x earlier), maintaining our multiple at a 15% discount to the current P/B of 4.1x on FY25E. TPW has run up ~50% over the last quarter. Considering the high valuations, we maintain HOLD.

Fig 10 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	268,513	300,445	332,069	278,758	310,941	342,849	(3.7)	(3.4)	(3.1)
PAT	18,458	21,185	23,314	23,761	27,692	31,365	(22.3)	(23.5)	(25.7)
Book Value	123,751	139,650	157,196	129,054	151,460	177,058	(4.1)	(7.8)	(11.2)
BVPS	257	291	327	268.6	315.1	368.4	(4.1)	(7.8)	(11.2)

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- higher gains from trading RLNG driving up profits,
- acquisition of newer distribution circles, and
- scale-up of round-the-clock power ahead of the market given strong gas-based plant capacity.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	1,42,576	2,56,941	2,68,513	3,00,445	3,32,069
EBITDA	35,910	47,587	44,293	49,863	55,345
Depreciation	13,339	12,810	13,601	15,160	17,080
EBIT	22,571	34,777	30,692	34,703	38,265
Net interest inc./(exp.)	6,282	8,182	9,608	10,303	11,411
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	25,284	29,021	31,936
Income taxes	1,053	8,767	6,827	7,836	8,623
Extraordinary items	13,000	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	4,587	21,647	18,458	21,185	23,314
Adjustments	13,000	0	0	0	0
Adjusted net profit	17,587	21,647	18,458	21,185	23,314

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	12,616	17,333	17,656	18,932	20,015
Other current liabilities	27,576	35,435	54,005	59,918	65,593
Provisions	2,746	2,641	2,641	2,641	2,641
Debt funds	91,426	1,05,414	1,01,135	98,123	95,092
Other liabilities	16,072	23,413	24,467	27,377	30,258
Equity capital	4,806	4,806	4,806	4,806	4,806
Reserves & surplus	94,626	1,05,294	1,18,945	1,34,843	1,52,390
Shareholders' fund	99,432	1,10,100	1,23,751	1,39,650	1,57,196
Total liab. and equities	2,50,227	2,99,102	3,28,420	3,51,406	3,75,561
Cash and cash eq.	3,523	3,435	(2,590)	(15,909)	(23,488)
Accounts receivables	16,027	22,463	25,012	28,810	34,572
Inventories	5,376	8,203	10,299	11,524	16,376
Other current assets	24,396	32,549	35,311	39,511	47,308
Investments	2,737	7,878	7,878	7,878	7,878
Net fixed assets	1,67,594	1,81,159	2,07,558	2,30,398	2,39,518
CWIP	12,973	26,247	27,429	30,691	33,921
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	8,249	9,230	10,202
Total assets	2,50,227	2,99,102	3,28,420	3,51,406	3,75,560

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	31,672	34,558	43,544	34,313	28,740
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)	(483)	(1,333)	(1,320)
Cash flow from investing	(24,831)	(32,160)	(40,483)	(39,333)	(27,520)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	6,279	13,220	5,328	7,291	8,380
Interest expenses	(6,282)	(8,182)	(9,608)	(10,303)	(11,411)
Dividends paid	(7,020)	(10,618)	(4,806)	(5,287)	(5,767)
Other financing cash flows	2,004	2,170	0	0	0
Cash flow from financing	(5,019)	(3,410)	(9,086)	(8,299)	(8,798)
Chg in cash & cash eq.	1,821	(1,012)	(6,025)	(13,319)	(7,579)
Closing cash & cash eq.	3,523	3,435	(2,590)	(15,909)	(23,488)

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	9.5	45.0	38.4	44.1	48.5
Adjusted EPS	36.6	45.0	38.4	44.1	48.5
Dividend per share	9.0	26.0	10.0	11.0	12.0
Book value per share	206.9	229.1	257.5	290.6	327.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	4.5	2.5	2.5	2.2	2.0
EV/EBITDA	17.8	13.6	14.9	13.4	12.2
Adjusted P/E	32.1	26.1	30.6	26.6	24.2
P/BV	5.7	5.1	4.6	4.0	3.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	94.4	71.2	73.0	73.0	73.0
Interest burden (PBT/EBIT)	82.6	87.5	82.4	83.6	83.5
EBIT margin (EBIT/Revenue)	15.8	13.5	11.4	11.6	11.5
Asset turnover (Rev./Avg TA)	58.7	93.5	85.6	88.4	91.4
Leverage (Avg TA/Avg Equity)	2.5	2.7	2.7	2.5	2.4
Adjusted ROAE	17.5	20.7	15.8	16.1	15.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	17.1	80.2	4.5	11.9	10.5
EBITDA	3.6	32.5	(6.9)	12.6	11.0
Adjusted EPS	35.7	23.1	(14.7)	14.8	10.0
Profitability & Return ratios (%)					
EBITDA margin	25.2	18.5	16.5	16.6	16.7
EBIT margin	15.8	13.5	11.4	11.6	11.5
Adjusted profit margin	12.3	8.4	6.9	7.1	7.0
Adjusted ROAE	17.5	20.7	15.8	16.1	15.7
ROCE	13.6	15.0	12.9	13.3	13.3
Working capital days (days)					
Receivables	41	32	34	35	38
Inventory	14	12	14	14	18
Payables	32	25	24	23	22
Ratios (x)					
Gross asset turnover	0.5	0.9	0.8	0.8	0.9
Current ratio	0.8	1.0	0.8	0.7	0.8
Net interest coverage ratio	4.0	4.7	3.6	3.8	3.8
Adjusted debt/equity	0.9	1.0	0.8	0.7	0.6

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

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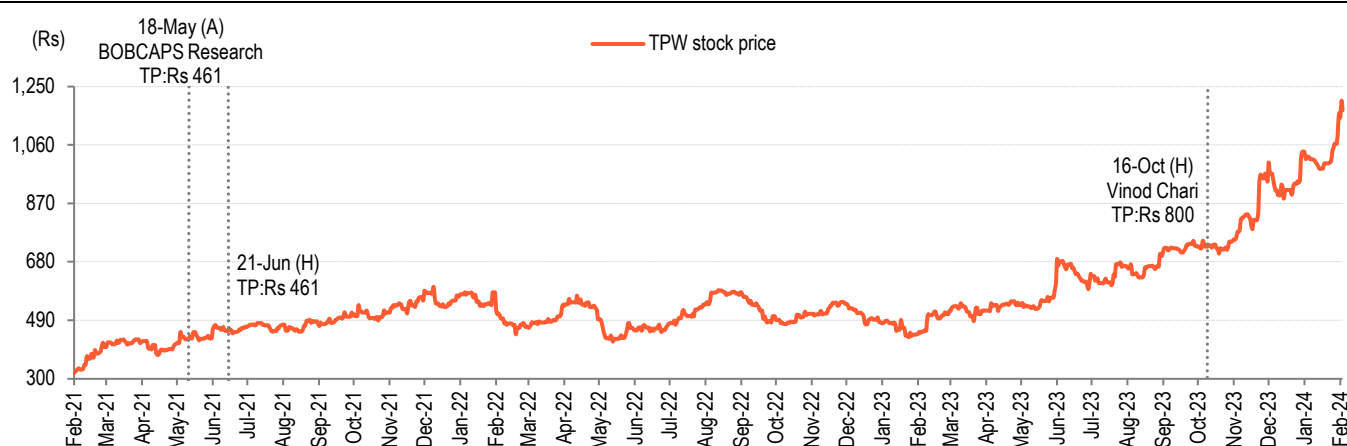
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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