

ADD

TP: Rs 461 | ▲ 7%

TORRENT POWER

Power

21 May 2021

Good results; hopeful on DNH, selective on renewable bids

Torrent Power's (TPW) Q4FY21 EBITDA increased by 11% YoY helped by one-offs and better distribution volumes. PLFs for thermal projects improved but wind power PLFs declined, in line with peers. The company expects clarity on Dadra & Nagar Haveli (DNH) and Daman & Diu (DD) distribution, which is currently sub judice over the next few months. TPW will continue to selectively bid for renewable projects but did not disclose any specific target. We retain ADD with an unchanged Mar'22 TP of Rs 461.

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Good Q4: Core net income came in at ~Rs 4bn, up 24% QoQ in Q4FY21 helped by a Rs 0.5bn one-off provision writeback, which also led to EBITDA growing 11% YoY. Other positives include better distribution volumes (12-15% YoY for Ahmedabad/Surat) helped by a low base in Mar'20. FY21 net income was in line with consensus. EBITDA was flattish (-3% YoY) but beat consensus.

Thermal PLFs improve: PLF for thermal plants rose 230bps YoY to 40.7%. Wind assets saw a drop in PLF to 20.8% vs. 22.7% in Q4FY20. AT&C losses rose 1% in Ahmedabad and Surat in FY21, possibly due to higher domestic demand in H1. Losses in the Agra and Bhiwandi franchisees were up 1.6-3.7%.

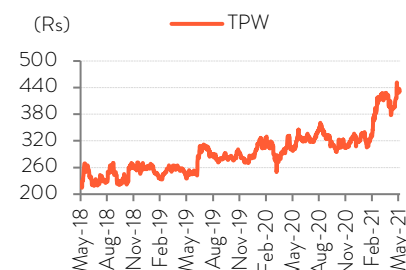
Outlook: TPW expects clarity on the DD and DNH distribution bids (case currently sub judice) over the next few months. The company will continue to bid for renewable projects on a selective basis.

Retain ADD: TPW has a strong presence in the growing distribution sector, but renewal of the flagship Ahmedabad contract in 2025 and tariff renewal this year are concerns. Also, the company's stranded DGen gas plant will continue to struggle for PPAs as demand for gas-based power remains weak. TPW is trading close to its peak consensus FY22E EV/EBITDA of 7.2x. Retain ADD.

Ticker/Price	TPW IN/Rs 431
Market cap	US\$ 2.8bn
Shares o/s	481mn
3M ADV	US\$ 9.2mn
52wk high/low	Rs 457/Rs 293
Promoter/FPI/DII	54%/8%/20%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	1,31,510	1,36,406	1,21,727	1,35,763	1,39,599
EBITDA (Rs mn)	31,995	35,561	34,652	38,354	42,485
Adj. net profit (Rs mn)	8,989	21,742	12,909	15,134	16,240
Adj. EPS (Rs)	18.7	45.2	26.9	31.5	33.8
Adj. EPS growth (%)	(4.6)	141.9	(40.6)	17.2	7.3
Adj. ROAE (%)	3.8	9.0	5.5	6.3	6.4
Adj. P/E (x)	23.0	9.5	16.0	13.7	12.7
EV/EBITDA (x)	8.8	8.0	8.1	7.1	6.3

Source: Company, BOBCAPS Research | P – Provisional

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenue (post indirect taxes)	30,841	29,835	3.4	29,528	4.4	1,21,727	1,36,406	(10.8)
Cost of Revenue	(18,296)	(16,377)	11.7	(17,710)	3.3	(71,302)	(82,657)	(13.7)
Gross Profit	12,545	13,458	(6.8)	11,818	6.2	50,424	53,750	(6.2)
Gross Margin (%)	40.7	45.1	-	40.0	-	41.4	39.4	-
Employee Benefits Expense	(1,059)	(1,245)	(15.0)	(1,339)	(20.9)	(5,389)	(5,321)	1.3
Other Expense	(2,342)	(3,943)	(40.6)	(1,776)	31.9	(10,383)	(12,868)	(19.3)
EBITDA	9,145	8,270	10.6	8,703	5.1	34,652	35,561	(2.6)
% EBITDA margin	29.7	27.7	-	29.5	-	28.5	26.1	-
Depreciation & Amortization	(3,278)	(3,350)	(2.1)	(3,193)	2.7	(12,796)	(13,043)	(1.9)
EBIT	5,866	4,920	19.2	5,510	6.5	21,857	22,518	(2.9)
% EBIT margin	19.0	16.5	-	18.7	-	18.0	16.5	-
Interest Expense	(1,637)	(2,224)	(26.4)	(1,897)	(13.7)	(7,757)	(9,546)	(18.7)
Other Income	324	373	(13.2)	374	(13.2)	985	956	3.0
Total Financials	(1,313)	(1,851)	(29.0)	(1,523)	(13.8)	(6,339)	(7,770)	(18.4)
Pretax Income	4,553	3,069	48.3	3,987	14.2	15,518	14,748	5.2
% margin	14.8	10.3	-	13.5	-	-	10.8	-
Pretax income	4,553	3,069	48.3	3,987	14.2	15,518	14,748	5.2
Non-Recurring	-	(10,000)	(100.0)	-	-	-	(10,000)	(100.0)
Reported Pretax	4,553	(6,931)	(165.7)	3,987	14.2	15,518	4,748	226.8
Taxation	(572)	4,191	(113.6)	(770)	(25.7)	(2,559)	7,040	(136.3)
Net income before minorities	3,981	(2,739)	(245.3)	3,217	23.7	12,959	11,789	9.9
Minorities	(12)	2,749	(100.4)	(12)	(4.9)	(49)	(47)	4.4
Net income after minorities	3,969	10	40,403.1	3,205	23.8	12,909	11,742	9.9
Core net income	3,969	10,010	(60.3)	3,205	23.8	12,909	21,742	(40.6)
% net margin	12.9	33.6	-	10.9	-	10.6	15.9	-

Source: Company

Valuation methodology

We estimate a 12% EPS CAGR for TPW over FY21-FY23 as AT&C losses normalise from the higher levels seen in FY21 due to Covid-19 and as commercial operations begin at new renewable plants. Our estimates are in line with consensus and are based on the plant load factor for generation, AT&C losses for the distribution business and growth in the renewables portfolio.

We have a Mar'22 target price of Rs 461 for the company based on an SOTP valuation, arrived at via a DCF assessment of various assets. Our model discounts the cash flows of the company's projects till the current PPA lasts, assuming no extension only for generation plants. For distribution assets under the regulated return model, we have assumed extension of the concession period by another 25 years post-expiry.

Key DCF assumptions include (1) cost of equity of 9.4% based on a risk-free rate of 6.12% as per the 10-year India bond yield as of end-Mar'21, (2) market risk premium of 6.85% based on NYU Stern estimates, (3) beta of 0.48 as per the last two-year weekly returns as of end-Mar'21, and (4) cost of debt of 8.5% factoring in the company's current debt cost.

TPW is trading close to its peak consensus FY22E EV/EBITDA of 7.2x. Our TP of Rs 461 implies 7.2x FY22E EV/EBITDA and translates to an upside of 7%. The company has a strong presence in the growing distribution sector, but renewal of the flagship Ahmedabad contract in 2025 and tariff renewal this year are concerns. Also, the company's stranded DGen gas plant will continue to struggle for PPAs as demand for gas-based power remains weak. Retain ADD.

FIG 2 – REVISED ESTIMATES

(Re bn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	136	140	136	140	0.0	0.0
EBITDA	38	42	37	41	2.7	2.8
EBIT	22	24	22	24	0.9	1.0
Financial Items	(4)	(4)	(4)	(4)	3.9	4.1
Pre-Tax Income	18	20	18	20	0.3	0.3
Net Income	15	16	15	16	0.2	0.3
EPS (Rs)	31.5	33.8	31.4	33.7	0.2	0.3

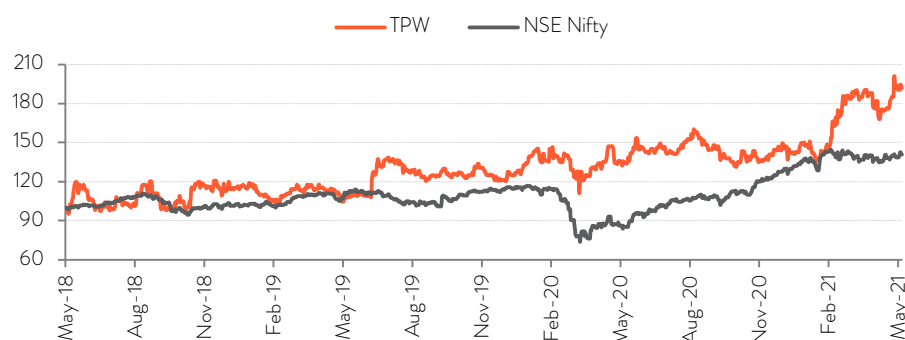
Source: BOBCAPS Research

FIG 3 – SOTP VALUATION

Segment (Rs mn)	EV	Net Debt FY22E	Equity Value	% Share	Contribution to Group Equity Value	EBITDA FY22E	EV/EBITDA (x)
Generation							
Sugen	18,978	5,914	13,064	100	13,064	3,253	5.8
Amgen	592	4,145	(3,553)	100	(3,553)	2,263	0.3
Unosugen	19,031	6,074	12,957	100	12,957	2,585	7.4
Dgen	(2,899)	37,929	(40,828)	100	(40,828)	(300)	9.7
Merchant Market	630	-	630	100	630	72	8.7
Sub – Total (A)	36,332	54,062	(18,360)		(18,360)	7,800	4.7
Renewables (B)	58,151	22,969	35,183	100	35,183	6,551	8.9
Distribution							
Ahmedabad / Gandhinagar	88,459	33,190	55,269	100	55,269	9,256	9.6
Surat	24,508	2,778	21,730	100	21,730	2,278	10.8
Dahej	1,557	343	1,215	100	1,215	187	8.3
Bhiwandi	25,459	1,494	23,965	100	23,965	6,909	3.7
Agra	8,654	7,423	1,230	100	1,230	1,489	5.8
Dholera	1,693	1,892	(198)	100	(198)	231	7.3
Shil, Mumbra and Kalwa (SMK)	309	3,326	(3,017)	100	(3,017)	(913)	(0.3)
Sub-Total (C)	1,50,640	50,446	1,00,194		1,00,194	19,438	7.7
Transmission (D)	2,684	252	2,432	67	1,620	400	6.7
Elimination / Corporate Costs (E)	30,192	(70,683)	1,00,874	100	1,00,874	4,165	7.2
Consolidated (F=A+B+C+D+E)	2,75,315	57,047	2,17,891		2,19,511	38,354	7.2
Number of share (mn) (G)						481	
Price (Rs/sh) (H= G / F)						457	
Target Price (Rs/sh) – (I - H rounded to nearest 1)						461	

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Upside risks include new distribution or renewable project wins, PPAs for the DGen plant and government incentives for gas power plants.
- Downside risks include negative news flow on tariff resetting for Ahmedabad and a sharp rise in gas price which could impact earnings of the UnoSugen plant as it has a ceiling beyond which passthrough on gas cost is disallowed.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	1,31,510	1,36,406	1,21,727	1,35,763	1,39,599
EBITDA	31,995	35,561	34,652	38,354	42,485
Depreciation	(12,265)	(13,043)	(12,796)	(15,991)	(18,500)
EBIT	19,730	22,518	21,857	22,363	23,985
Net interest income/(expenses)	(8,230)	(8,726)	(7,324)	(4,965)	(5,247)
Other income/(expenses)	1,137	956	985	1,000	1,000
Exceptional items	0	(10,000)	0	0	0
EBT	12,636	4,748	15,518	18,398	19,738
Income taxes	(3,598)	7,040	(2,559)	(3,214)	(3,449)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(49)	(47)	(49)	(49)	(49)
Reported net profit	8,989	11,742	12,909	15,134	16,240
Adjustments	0	10,000	0	0	0
Adjusted net profit	8,989	21,742	12,909	15,134	16,240

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	8,098	10,379	9,748	11,159	11,474
Other current liabilities	8,522	13,078	13,101	14,512	14,827
Provisions	832	1,030	1,030	1,030	1,030
Debt funds	88,765	77,996	66,722	62,076	73,440
Other liabilities	28,203	19,668	18,725	18,774	18,823
Equity capital	4,806	4,806	4,806	4,806	4,806
Reserves & surplus	84,896	86,729	97,036	1,06,799	1,18,426
Shareholders' fund	89,702	91,535	1,01,842	1,11,605	1,23,233
Total liabilities and equities	2,45,540	2,36,230	2,35,387	2,41,965	2,65,320
Cash and cash eq.	9,549	8,879	2,024	5,030	5,012
Accounts receivables	12,297	12,798	14,203	13,018	11,474
Inventories	6,270	5,982	4,504	5,207	5,354
Other current assets	17,735	20,578	25,714	25,714	25,714
Investments	2,876	1,160	1,242	1,242	1,242
Net fixed assets	1,79,666	1,75,543	1,73,076	1,77,210	2,02,061
CWIP	35,927	5,674	0	0	0
Intangible assets	173	150	184	184	184
Deferred tax assets, net	36	199	245	245	245
Other assets	(18,987)	5,269	14,196	14,114	14,033
Total assets	2,45,540	2,36,230	2,35,387	2,41,965	2,65,320

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	21,255	24,784	25,705	31,125	34,740
Interest expenses	9,076	8,643	8,087	4,474	4,759
Non-cash adjustments	(1,355)	1,669	(1,370)	(459)	(463)
Changes in working capital	28,975	35,096	32,422	35,140	39,036
Other operating cash flows	(33,704)	(33,839)	(34,968)	(33,248)	(37,324)
Cash flow from operations	24,246	36,354	29,876	37,031	40,749
Capital expenditures	(19,887)	(13,337)	(12,960)	(20,043)	(43,270)
Change in investments	0	0	0	0	0
Other investing cash flows	834	1,100	2,856	0	0
Cash flow from investing	(19,053)	(12,237)	(10,103)	(20,043)	(43,270)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	4,185	(8,535)	(10,927)	(4,646)	11,364
Interest expenses	(9,076)	(8,643)	(8,087)	(4,474)	(4,759)
Dividends paid	(2,925)	(9,683)	(2,686)	(5,371)	(4,613)
Other financing cash flows	9,466	28,662	22,789	14,491	(1,992)
Cash flow from financing	1,650	1,800	1,089	0	0
Changes in cash and cash eq.	(204)	(249)	161	3,005	(17)
Closing cash and cash eq.	9,549	8,879	2,024	5,030	5,012

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	18.7	24.4	26.9	31.5	33.8
Adjusted EPS	18.7	45.2	26.9	31.5	33.8
Dividend per share	5.0	11.6	11.0	9.4	10.1
Book value per share	186.6	190.5	211.9	232.2	256.4

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	2.1	2.1	2.3	2.0	1.9
EV/EBITDA	8.8	8.0	8.1	7.1	6.3
Adjusted P/E	23.0	9.5	16.0	13.7	12.7
P/BV	2.3	2.3	2.0	1.9	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	71.1	147.4	83.2	82.3	82.3
Interest burden (PBT/EBIT)	64.0	65.5	71.0	82.3	82.3
EBIT margin (EBIT/Revenue)	15.0	16.5	18.0	16.5	17.2
Asset turnover (Revenue/Avg TA)	55.8	56.6	51.6	56.9	55.0
Leverage (Avg TA/Avg Equity)	2.8	2.7	2.4	2.2	2.2
Adjusted ROAE	10.8	24.0	13.4	14.2	13.8

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	14.2	3.7	(10.8)	11.5	2.8
EBITDA	2.6	11.1	(2.6)	10.7	10.8
Adjusted EPS	(4.6)	141.9	(40.6)	17.2	7.3
Profitability & Return ratios (%)					
EBITDA margin	24.3	26.1	28.5	28.3	30.4
EBIT margin	15.0	16.5	18.0	16.5	17.2
Adjusted profit margin	6.8	15.9	10.6	11.1	11.6
Adjusted ROAE	3.8	9.0	5.5	6.3	6.4
ROCE	9.8	11.5	11.6	11.8	11.8
Working capital days (days)					
Receivables	34	34	43	35	30
Inventory	17	16	14	14	14
Payables	22	28	29	30	30
Ratios (x)					
Gross asset turnover	0.6	0.6	0.5	0.5	0.5
Current ratio	1.1	1.0	1.0	1.0	1.0
Net interest coverage ratio	2.4	2.6	3.0	4.5	4.6
Adjusted debt/equity	1.0	0.9	0.7	0.6	0.6

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

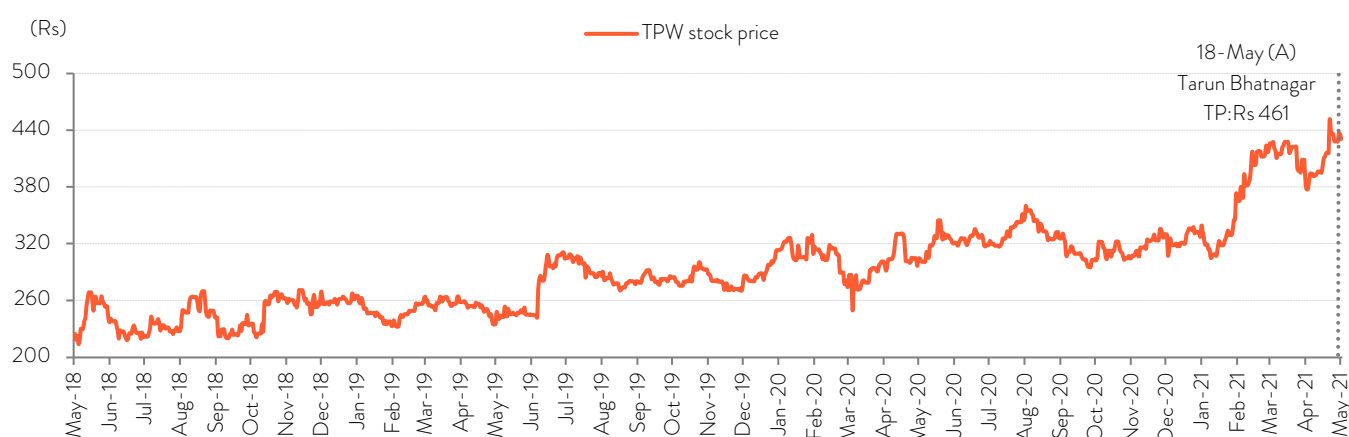
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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, A – Add, R – Reduce, S – Sell

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