

August 30, 2013

BSE Code: 500400 NSE Code: TATAPOWER Reuters Code: TTPW.NS Bloomberg Code: TPWR:IN

Tata Power Company Ltd (Tata Power), part of the salt-to-steel Tata conglomerate, is country's biggest integrated power company with an installed generation capacity of 8,521 MW from hydro, thermal and renewable energy sources. It has presence in all the segments of the power sector viz. Fuel Security and Logistics, Generation (thermal, hydro, solar and wind), Transmission, Distribution and Trading. The company has 3 operational power projects in Gujarat namely 4,000 MW Mundra UMPP, the 25 MW Mithapur Solar photovoltaic project and the 50.4 MW Saman wind power project. The company aims to generate ~20,000 MW of power by 2020.

## Investor's Rationale

Sensing the rising power demand in the Country, Tata Power has increased the installed capacity that stood at 8,521 MW on March 2013 making it the country's largest private sector power generation company. We believe that the 12th Plan (2012-17), which aimed at producing 118 GW (88 GW of conventional power and 30 GW of renewable) will provide tremendous opportunity to Tata Power.

The country's first 4,000 MW coal based power plant, Mundra UMPP owned by Tata power has generated total utility of ~12,440 MU's during FY13. The company in its future production plans is mulling to produce 26,000 MU's per year. The generated power will be distributed to Gujarat, Rajasthan, Haryana, Punjab and Maharashtra.

Amid timid domestic environment due to fuel shortage, land acquisition, delayed government policies, the Company's is scouting opportunities in foreign markets like Africa, the Middle East, Turkey and South East Asia. Tata Power with the current presence in Indonesia, South Africa and Georgia coupled with new forays aims to produce capacities of around 4,000-5,000 MW from overseas businesses in the next 5-7 years.

Tata Power has acquired a 26% stake in Indonesian miner PT Baramulti Sukses Sarana Tbk (BSSR) as the company has recognised it as a rich source of coal reserves that stood at ~1 bn tonnes. We believe that this deal will support the company to fuel its power generation projects in select geographies, to be developed over next few years.

## Key risk

**Scarcity of coal:** De facto that India imports major part of coal to produce power and at the same time availability of domestic coal has been a major challenge. The 12th plan is targeted to add ~70 GW of capacity through coal based thermal power plants. But with the scarcity of raw material coupled with the its rising price has been steadily declining the hope of achieving the targeted production.

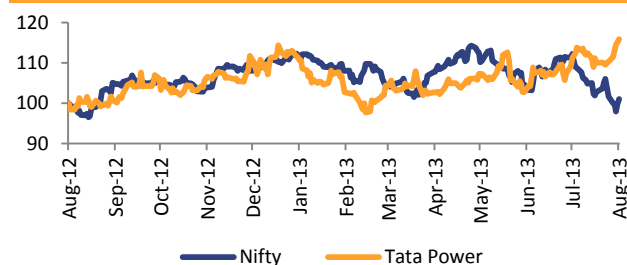
## Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (₹)</b>	75.8
<b>Target (₹)</b>	<b>85</b>
<b>Potential Upside</b>	~12.1%
<b>Duration</b>	Long Term
Face Value (₹)	1
52 week H/L (₹)	113.2/68.2
Adj. all time High (₹)	1.6
Decline from 52WH (%)	33.0
Rise from 52WL (%)	11.0
Beta	1.5
Mkt. Cap (₹bn)	179.8
Enterprise Value (₹bn)	516.8

## Fiscal Year Ended

Y/E	FY12A	FY13A	FY14E	FY15E
Revenue (₹bn)	262.7	333.9	400.7	480.8
EBITDA (₹bn)	51.6	68.1	76.4	85.2
Net Profit (₹bn)	(10.8)	(0.8)	0.7	1.2
Adj EPS (₹)	(4.6)	(0.4)	0.3	0.5
P/E (x)	(16.5)	(210.5)	250.6	142.9
P/BV (x)	1.4	1.4	1.4	1.4
EV/EBITDA (x)	9.0	7.6	7.1	6.5
ROCE (%)	4.0	7.1	8.6	9.7
ROE (%)	(8.2)	(0.7)	0.6	1.0

## One year Price Chart



## Shareholding Pattern

Shareholding Pattern	Jun'13	Mar'13	Diff.
Promoters	32.47	32.47	-
FII	24.78	24.54	0.24
DII	23.44	23.76	(0.32)
Others	19.31	19.23	0.08

Tata Power with a total operational capacity of 28 MW+ has developed country's first 4000 MW Ultra Mega Power Project at Mundra (Gujarat).

### The country's largest private power generator

Tata Power is one of the leading solar power companies with a total operational capacity of 28 MW+. This includes 25 MW Mithapur Project, Gujarat, 3 MW at Mulshi, Maharashtra, and some rooftop solar installations. The company has successful public-private partnerships in Generation, Transmission and Distribution in India namely "Tata Power Delhi Distribution Limited" with Delhi Vidyut Board for distribution in North Delhi, 'Powerlinks Transmission Ltd.' with Power Grid Corporation of India Ltd. for evacuation of Power from Tala hydro plant in Bhutan to Delhi etc.

Additionally, the firm renowned as one of the largest renewable energy players (installed generation capacity of 1112 MW in FY13) in the country and has established India's first 4,000 MW Ultra Mega Power Project at Mundra (Gujarat) based on super-critical technology.

Tata Power showing keen interest in foreign market has extended its international presence. The company is engaged in executing generation projects (both in India and select international geographies). The strategic overseas investments covers Indonesia through 26% stake in coal mines and a geothermal project; in Singapore through Trust Energy Resources to securitise coal supply and the shipping of coal for its thermal power generation operations; in South Africa through a joint venture called 'Cennergi' to develop projects in South Africa.

With its track record of technology leadership, project execution excellence, world class safety processes, customer care and driving green initiatives, Tata Power is poised for a multi-fold growth and committed to 'lighting up lives' for generations to come.

### Tata Power's generation projects under construction

Fuel Source	Location	Capacity (MW)	Category Total (MW)
Thermal – Waste Heat Recovery	Kalinganagar, Odisha	202.5	202.5
	Dagachhu, Bhutan	126.0	
Hydro	<i>Georgia</i>	400.0	526.0
	Maharashtra, Rajasthan	160.0	
Wind	<i>South Africa</i>	234.0	394.0
	Maharashtra	28.8	
<b>Total</b>			<b>1,151.3</b>

### Tata Power to raise its capacity targeted at 20,000 MW by 2020

The company has 3 operational power projects in Gujarat namely 4,000 MW Mundra UMPP, the 25 MW Mithapur Solar photovoltaic project and the 50.4 MW Saman wind power project. To fuel its Gujarat plant, the company imports ~5 million tonnes (mt) of coal per year. We believe that the huge coal transaction coupled with its acquisition in Indonesia will help the firm to raise its capacity to the targeted 20,000 MW by 2020. Besides, the 4,000 MW Mundra established with the capex of ~₹180.0 bn meets about 2% of the country's energy needs is India's first coal based power plant. Meanwhile, the company is also planning to expand Mundra's generation capacity to 5,600 MW from 4,000 MW currently.

This facility when compared to regular coal-fired power stations revealed that it will save fuel and slash greenhouse gas emissions. Some highlights of the projects are:

- The plant intakes low-sulphur coal for utility generation, hence saves cost.
- The project produces ~750 grams of carbon dioxide kWh as against the national average of 1,259 grams of carbon dioxide kWh.
- The plant having efficiency level of 42% will utilize only 7.2 mt of coal annually, thus reducing carbon emission of 3.6 mt per year.

**Meanwhile, Mundra UMPP has generated total utility of ~12,440 MU's during March 2013 and has further aim to generate 26,000 MU's per year. The power produced will be distributed to Gujarat, Rajasthan, Haryana, Punjab and Maharashtra.**

*Tata Power's utility plant 4,000 MW Mundra UMPP, 25 MW Mithapur Solar photovoltaic project and the 50.4 MW Saman wind power project are the strong pillars for generating company's revenue.*

*The company is likely to raise the Mundra power generation capacity to 5,600 MW from 4,000 MW currently which in turn will help to double Tata Power's generating capacity.*

### Mundra UMPP snapshot (4000 MW)

Capacity	<ul style="list-style-type: none"> <li>• 4000 MW (5 X 800 MW)</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Gujarat (1805 MW), Maharashtra (760 MW), Punjab (475 MW), Haryana (380 MW), Rajasthan (380 MW)</li> </ul>
Fuel Requirement & Source	<ul style="list-style-type: none"> <li>• Imported Coal – 10-12 MTPA</li> <li>• Off take agreement with Indocoal for 10.11 ± 20%</li> <li>• Looking for additional mines in Australia, Mozambique, S. Africa, Indonesia</li> </ul>
Funding	<ul style="list-style-type: none"> <li>• Project Cost: ₹170 bn (D/E: 75:25)</li> <li>• As of Q3FY13: Debt drawn – ₹130.1 bn, Equity invested – ₹41.63 bn</li> </ul>
Completion	<ul style="list-style-type: none"> <li>• Linked to evacuation. Unit #1, #2, #3, #4 are operational. Units #5 expected to be commissioned by FY13 end</li> </ul>
External Linkages	<ul style="list-style-type: none"> <li>• 400 kV switchyard was charged on 1 October 2011 with power from PGCIL. It is stabilised and Generator Transformers are charged</li> <li>• External coal handling facility to unload ship directly to main plant commissioned and is in use</li> </ul>
Unit#1-5	<ul style="list-style-type: none"> <li>• Unit#1-5 have been commissioned and COD has been declared.</li> </ul>

Source: FY13 Tata Power's presentation

Tata power after successfully operating its solar and wind power plant has decided to add 150-200 MW of wind and 50 MW of solar power capacity annually.

The company has witnessed a strong revenue growth (29% YoY to ₹93.3 bn) supported by strong support from subsidiaries and segmental performance.

**Tata power's second plant 25 MW Mithapur Solar photovoltaic** has contributed total electricity production of 43,000 MWh during FY13. Mithapur plant uses crystalline silicon PV technology to enhance power generation capacity. Besides, it has executed a 3 MW solar photo-voltaic plant at Mulshi, one of the largest grid-connected solar projects in the State of Maharashtra. The power generated by these solar panels is expected to riasse the company's distribution channel and hence the turnover.

**Tata Power's third 50.4 MW Samana wind power plant** produces 104,970 MWh of energy annually. It's another wind project is in advanced stages of Clean Development Mechanism (CDM) registration with United Nations Framework Convention (UNFCCC). Besides, the company proposes to add 150-200 MW of wind and 50 MW of solar power capacity to be commissioned during FY14.

### Robust Q1FY14 on account of high performance by subsidiaries

Tata Power has posted a strong revenue growth of 29% YoY to ₹93.3 bn during Q1FY14 driven by robust performance of its business segments and subsidiaries. The revenues soared mainly on account of commissioning of all the units in Mundra, Maithon and higher volume traded by Tata Power Trading Company. The topline growth story was further led on improved performance shown by the power segment, up 43% YoY to ₹68.9 bn in Q1FY14.

However, on the bottom line front the consolidated net loss stood at ₹1.1 bn in Q1FY14 as against the net profit of ₹1.4 bn during the same period, last year. The major rationale for the company to witness a loss was due to the higher forex loss that rose by 6.5 times to ₹2.9 bn on realignment of liabilities due to depreciating local currency and higher financing costs, up by 64.3% YoY to ₹9.0 bn related to Mundra project.

### Key Subsidiary Performance: Q1FY14 (values in ₹bn)

Key Subsidiaries	Operating Income		Operating Profit	
	Q1FY14	Q1FY13	Q1FY14	Q1FY13
TPDDL	15.0	14.2	2.6	2.4
Powerlinks	0.6	0.6	0.5	0.6
Industrial Energy Ltd	1.2	1.4	0.6	0.6
TPTCL	11.8	6.4	0.2	0.07
Maithon Power Ltd.	5.8	1.6	1.9	0.5
CGPL	13.5	2.8	1.2	0.1
Tata Power Solar	1.6	0.8	0.06	(0.1)

Source: FY13 Tata Power's presentation

*The firm in order to attain its ambitious aim of producing ~20,000 MW of power by 2020 amid adverse environment is stepping up strategically. It is focusing on foreign markets like Vietnam & Georgia that are moving in high speed as compared to local market.*

Additionally, on Subsidiary front during Q1FY14, Coastal Gujarat Power Limited's (CGPL) revenues grew 377% YoY to ₹13.5 bn. Maithon Power Limited (MPL) has reported revenue of ₹5.8 bn, up 252% YoY and Tata Power Delhi Distribution Limited (TPDDL) witnessed a 5% YoY surge in turnover at ₹15.0 bn. The notable rise from almost all the major subsidiaries has supported well to the company's Q1FY14 performance.

***Tata Power committed to generating 20-25% of its total generation capacity from clean energy sources will continue its robust operations via defeating dynamic micro milieu.***

Looking ahead, the firm to hedge itself from tough environment is following an even approach and hence focusing equally on domestic as well as overseas. Domestically, Tata Power has expanded its solar portfolio through 28.80 MW in the Satara district in Maharashtra and continues to be a lead performer in solar power generation in India. On international front, it will remain expanding its presence via entering new markets like Vietnam with 1,200 megawatts (MW) Long Phu thermal power project and Europe with Hydro project in Georgia.

We believe that this approach will make a strong place for the company to challenge the existing issues like fuel shortages, delayed regulatory clearances etc.

***We believe that with such efficient efforts, the company will able to make it capable of attaining its aim of generating ~20,000 MW of power by 2020.***

### **Probable rise in power tariff will help to offset high coal price**

It seems that Tata Power's troubles with its 4,000 megawatt (MW) Mundra power plant is not going to finish soon. The company is demanding a revision of the tariff in the range of ₹2.90 to ₹3.10 per unit to make the UMPP viable. Currently, the firm is providing power at ₹2.35 to five states Gujarat (1,805 MW), Maharashtra (760 MW), Punjab (475 MW), Haryana (380 MW) and Rajasthan (380 MW). However, with the high rate of imported coal now it's becoming tough for the firm to generate and supply power to the users at the previous rate.

Additionally, a panel appointed by CERC has recommended a tariff hike of 45-55 paise per unit for Tata Power's 4,000-mw ultra mega power project to compensate for an unexpected increase in coal cost. However, the final decision is still to come.

We expect that if the judgment by Central Electricity Regulatory Commission (CERC) goes in Tata Power's favor then it will help to offset the adverse impact of high coal price on the financials of the company

### **Power sector growth momentum to continue in FY14**

As per the data revealed by the Centre for Monitoring Indian Economy (CMIE) the country's total electricity generation is likely to go up by 5.7% in FY14 from 4% rise reported in FY13. CMIE further believe that the power stations in India are expected to generate 963.8 billion units of electricity in FY14 but could go higher on adequate availability of raw materials.

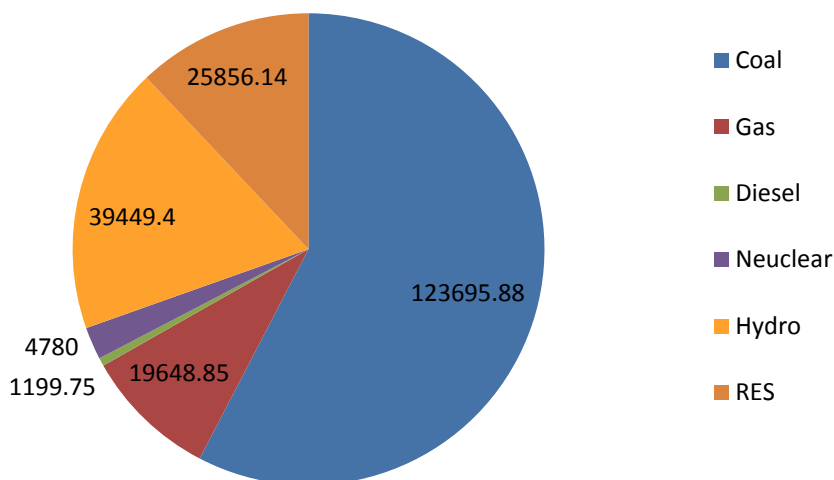
Coal that accounts for 55% of the country energy need is expected to remain in light driven by its lower availability leading to higher imports. According to the data compiled by the Central Statistics Office, the demand for coal is projected to reach 980 mt against the

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expected production of ~795 mt in 12th plan. Besides, considering the estimates of coal production by Coal India Ltd (CIL) the total quantity of coal imports is expected to rise to over 200 mt annually. However, the Ministry of Coal has planned to increase the coal production by an average of 36 million tons per annum in the 12th plan. Besides, the cabinet has approved the price pooling mechanism for coal wherein the impact of high cost of imported coal was proposed to be partially neutralized by blending it with indigenous coal. This major coal issue is now the biggest challenge in front of all the key power players which we believe could get offset only when government will present and execute some effective measures coupled with equal support from the private players.

**The government's consistent reforms in the sector to make the situation feasible is likely to help the company to attain its target of adding 70 GW in the 12th plan, through coal based thermal power plants.**

All India generating installed capacity (MW) (As on 28-02-13)



### Tata Power mitigating bottlenecks to ease its growth momentum

#### Signed agreement with BSSR to deal with coal scarcity and its high price:

Adequate availability of major raw material (coal) for producing power is the biggest challenge for the company which is hampering the production of the firm. Further, the change in Indonesia's mineral export rules has raised the coal cost for Indian buyers, who source 70% of their coal imports from the Southeast Asian nation. However, in a bid to mitigate the risk Tata Power has signed a long term coal supply agreement with subsidiary of the Indonesian company PT Baramulti Sukses Sarana (BSSR) that owns ~1bn tonnes of coal resources in South and East Kalimantan in Indonesia.

#### Eyeing overseas market for clear and quick regulatory clearances:

Domestically, the government delayed decision in issues such as coal price, import export duty, land acquisition, tariff hike etc. are creating production loss to the companies. Tata power is also unable to save itself from the heat. To overcome the situation it is eyeing foreign markets like Veitnam, Georgia, Africa etc. where it believes that the authorities' decisions are transparent and market conditions are favorable.

**Balance Sheet (Consolidated)**

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Share Capital	2,373	2,373	2,373	2,373
Reserve and surplus	129,928	126,054	124,399	123,285
<b>Net Worth</b>	<b>132,301</b>	<b>128,427</b>	<b>126,772</b>	<b>125,658</b>
Minority Interest	16,313	20,646	20,646	20,646
Special Appro.to Project Cost including Capital Grant	5,430	5,425	5,425	5,425
Service line contributions from consumers	4,013	4,506	4,506	4,506
Loan funds	319,199	351,465	381,311	400,376
Provisions	19,315	19,430	19,624	19,821
Current Liabilities	101,267	123,170	141,645	162,892
Other long term liability	11,813	9,491	8,542	7,688
Net Deferred Tax Liability	6,471	10,254	10,254	10,254
<b>Total Equity &amp; Liabilities</b>	<b>616,121</b>	<b>672,814</b>	<b>718,725</b>	<b>757,266</b>
Fixed assets	354,683	379,867	410,257	438,874
Goodwill on Consolidation	48,444	57,241	57,241	57,241
Loans and Advances	37,767	49,038	49,038	49,038
Investments	34,229	31,201	31,201	31,201
Current Assets	82,709	83,728	92,101	99,469
Other Assets	58,206	71,490	78,639	78,639
Deferred Tax asset	83	249	249	249
<b>Total Assets</b>	<b>616,121</b>	<b>672,814</b>	<b>718,725</b>	<b>757,266</b>

**Key Ratios (Consolidated)**

Y/E	FY12A	FY13A	FY14E	FY15E
EBITDA Margin (%)	19.7	20.4	19.1	17.7
EBIT Margin (%)	7.7	11.7	12.4	12.0
NPM (%)	(4.2)	(0.3)	0.2	0.3
ROCE (%)	4.0	7.1	8.6	9.7
ROE (%)	(8.2)	(0.7)	0.6	1.0
Adj EPS (₹)	(4.6)	(0.4)	0.3	0.5
P/E (x)	(16.5)	(210.5)	250.6	142.9
BVPS (₹)	55.8	54.1	53.4	53.0
P/BVPS (x)	1.4	1.4	1.4	1.4
EV/Operating Income (x)	1.8	1.6	1.4	1.2
EV/EBITDA (x)	9.0	7.6	7.1	6.5
EV/EBIT (x)	23.0	13.2	10.9	9.6

**Profit & Loss Account (Consolidated)**

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
<b>Total Operating Income</b>	<b>262,702</b>	<b>333,946</b>	<b>400,736</b>	<b>480,883</b>
Operating Expenses	211,012	265,807	324,285	395,628
<b>EBITDA</b>	<b>51,690</b>	<b>68,139</b>	<b>76,451</b>	<b>85,255</b>
Depreciation	13,346	20,517	26,672	27,472
Exceptional Items	(18,000)	(8,500)	0	0
<b>EBIT</b>	<b>20,343</b>	<b>39,122</b>	<b>49,779</b>	<b>57,783</b>
Interest	15,270	26,355	34,262	40,429
<b>PBT</b>	<b>5,072</b>	<b>12,767</b>	<b>15,517</b>	<b>17,354</b>
Tax	14,755	11,780	12,958	14,253
<b>Profit after tax</b>	<b>(9,682)</b>	<b>987</b>	<b>2,559</b>	<b>3,101</b>
Share of Profit&Loss of Associate	(1,193)	(1,842)	(1,842)	(1,842)
<b>Net Profit</b>	<b>(10,876)</b>	<b>(854)</b>	<b>718</b>	<b>1,259</b>

**Valuation and view**

Tata Power after posting strong revenue growth in Q1FY14 has pulled its socks again to report a robust result in the coming quarters. Going ahead, the firm expects that the CERC favorable decision on Mundra tariff hike could act as a trigger for shooting up the growth momentum, thereby reducing the losses. Besides, the company aims to generate 26,000 MW, with 4,000 MW of distribution and secure 50 mtpa of fuel resources by 2020. To attain this, it is emphasizing highly on foreign operations. We believe that firm's evenly split approach will help it to accomplish its objective along with maintaining the profitability, going ahead.

At a current market price (CMP) of ₹75.8, the stock trades at P/BV of 1.4x FY14E and EV/EBITDA of 7.1x FY14E, earnings. We recommend 'BUY' with a target price of ₹85, which implies potential upside of ~12.1% to the CMP from 1 year perspective.



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