

TATA POWER

POWER UTILITIES

20 FEB 2018

Quarterly Update

BUY

Target Price: Rs 136

Shedding non-core assets

Q3 PAT at Rs 6.3 bn beat our estimate of Rs 5.7 bn mainly due to lower-than-expected losses at Mundra UMPP on improving operational metrics. Up-to-mark performance by coal companies (EBITDA up 55% YoY) helped to partially offset Mundra losses and one-off at Maithon plant. Renewables posted steady growth with EBITDA at Rs 14.6 bn in YTDFY18. Net debt as of Dec'17 stood at Rs 463 bn (leverage of 2.7x), with management targeting to reduce it to 2x through divesting non-core assets.

We maintain **BUY** and raise TP to Rs 136 as we (a) upgrade renewable portfolio to 10x EV/EBITDA (from 8x earlier) based on recent market transactions, (b) include valuation of Tata Projects (Tata Power holds 48% stake in Tata Projects) and (c) roll forward to FY20.

CMP : Rs 87
Potential Upside : 56%

MARKET DATA

No. of Shares : 2,705 mn
Free Float : 67%
Market Cap : Rs 235 bn
52-week High / Low : Rs 102 / Rs 76
Avg. Daily vol. (6mth) : 8.5 mn shares
Bloomberg Code : TPWR IB Equity
Promoters Holding : 33%
FII / DII : 27% / 24%

Restructuring on cards: Following suit of Tata Sons, Tata Power (TPWR) has initiated restructuring of its non-core assets and eliminate cross holdings to make the structure linear. TPWR has identified defense, infrastructure, Tata Communications, Penatone, Tata Ceramics as non-core businesses. During the quarter, TPWR initiated the disposal of its defense division and Tata Communication and also started the process to sell its stake in Penatone to Tata Sons. In our opinion, these assets could fetch ~Rs 80 bn over next couple of years.

Cash flow from Arutmin mine: TPWR received ~USD100 mn (of USD 400 mn) from Bakrie Brothers. Management expects to receive the pending amount in tranches

Renewables on strong footing: TPWR added 227 MW of solar capacity in Q3. Renewable portfolio reported revenue and EBITDA of Rs 15 bn and Rs 14.6 bn respectively during YTDFY18. We upgrade TPWR's renewable portfolio to 10x EV/EBITDA (earlier valued at 8x) based on recent transactions. This leads to increase in renewable share in revised SOTP to Rs 48 (from Rs 20 earlier)

Financial summary (Consolidated)

Y/E March	FY17	FY18E	FY19E	FY20E
Sales (Rs mn)	272,113	329,650	345,237	367,904
EBITDA (Rs mn)	51,602	62,244	63,556	69,170
Adj PAT (Rs mn)	17,036	14,678	17,383	20,879
Con. EPS* (Rs.)	-	5.8	6.8	8.2
EPS (Rs.)	6.3	5.4	6.4	7.7
Change YOY (%)	2.7	(13.8)	18.4	20.1
P/E (x)	12.7	14.7	12.4	11.3
RoE (%)	12.9	10.6	11.5	12.6
EV/EBITDA (x)	14.0	11.2	11.0	9.8
DPS	1.3	1.1	1.3	1.5

Source: *Consensus broker estimates, Company, Axis Capital, CMP as on 14 FEB 2018

Key drivers

	(Units)	FY18E	FY19E	FY20E
Coal volume	(mn tons)	62	62	62
Coal realization	(USD/t)	64	60	57
Reg. equity	(Rs bn)	83	91	96

Price performance

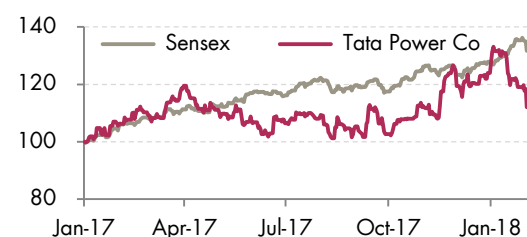


Exhibit 1: Profitability of coal companies helped offset losses at Mundra UMPP

Particulars	Op. Income		EBITDA [^]		PAT	
	Q3FY18	Q3FY17	Q3FY18	Q3FY17	Q3FY18	Q3FY17
Tata Power-Consolidated	7,096	6,710	1,446	1,649	649	699
Standalone & Key Subsidiaries						
Tata Power (Standalone)	1,842	1,675	793	703	502	305
CGPL (Mundra UMPP)	1,650	1,490	79	33	(213)	(244)
MPL (Maithon Power)*	379	624	65	218	(31)	74
TPDDL (Delhi Discom)**	1,835	1,558	278	300	96	114
TPTCL (Power Trading)	903	1,118	8	7	1	3
Tata Power Solar (Solar Mfg)	743	614	56	50	21	30
TPREL (Renewable Power)	89	71	90	88	(4)	14
WREL (Renewable Power)	269	270	259	255	67	(13)
Coal SPVs ^{^A}			388	149	302	91
TERPL	139	121	99	98	74	71
EEPL	81	76	(1)	6	(2)	6
TPIPL			44	4	39	4
Others			13	40	3	5
TOTAL - A	7,930	7,618	2,172	1,951	855	459
Joint Venture and Associates***					457	507
TOTAL - B	7,930	7,618	2,172	1,951	1,312	966
Eliminations#			(726)	(302)	(663)	(266)
TOTAL - C	7,930	7,618	1,446	1,649	649	700

*TPCL stake-74%; **TPCL stake-51% stake; *** TPCL share, ^ including other income, ^A Consolidated at EBITDA & PAT level only

#Eliminations include inter-company transactions and minority interest

Source: Company Q3FY18 presentation

Exhibit 2: Strong performance of coal companies aided by rise in coal realization

Particulars	% Share	OP. INCOME		EBITDA		PAT	
		Q3FY18	Q3FY17	Q3FY18	Q3FY17	Q3FY18	Q3FY17
Joint Ventures							
Coal Companies (KPC, BSSR, AGM)	26% / 30%	2,175	1,899	663	428	339	217
ITPC	50%			83	16	25	29
Coal Infrastructure Companies (NTP)	26%	76	79	73	71	47	33
Cenmergi Pty. Ltd.	50%	62	59	54	42	12	10
Powerlinks Transmision Ltd	51%	20	18	20	18	17	15
Industrial Energy Ltd	74%	58	130	46	74	17	32
Others (incl accounting adjust)						(32)	(92)
Total- Joint Ventures		2,392	2,185	939	650	424	244
Associates							
Panatone Finvest Limited	40%						170
Tata Projects	48%					29	19
Tata Comm	5%						67
Dagachhu	26%					4	5
Nelito	50%						1
Total- Associates						33	262
Grand Total						457	507

Source: Company Q3FY18 presentation

Coal realization was up almost 17% YoY in Q3

Exhibit 3: Improvement in operational metrics at Mundra and higher coal realization at coal companies helped offset Mundra losses

CGPL	Q3FY18	Q3FY17	Qtr Var	%
Revenue	1,650	1,490	160	11%
EBITDA	79	33	46	139%
PAT	(213)	(244)	31	-13%

Incremental EBITDA gain of Rs 46 Cr

Coal & Infrastructure Business	Q3FY18	Q3FY17	Qtr Var	%
Revenue	2,251	1,977	274	14%
EBITDA	736	499	237	47%
PAT	385	250	135	54%

Incremental PAT gain of Rs 135 Cr

Source: Company Q3FY18 presentation

Exhibit 4: Strong operational performance in renewable space

Financial overview of renewables portfolio for YTDQ3FY18				
	TPREL	WALWHAN	WIND ASSETS*	CONSO
Capacity	624	1,153	476	2,253
Revenue	366	873	224	
EBITDA	441	827	200	
PAT	147	197	66	
Net Worth	5,214	1,913	373	5,587
Net Debt	3,012	5,056	700	8,768
*(Tata Power standalone)				
Note: 1. Conso EBITDA & PAT excludes inter company dividend				
2. Conso net worth excludes inter company investments				

Source: Company Q3FY18 presentation

Higher emphasis on improving operational aspects of renewables:

- improved internal grid performance,
- increase in availability, and
- receivables under control

Exhibit 5: Mundra UMPP – performance (ascending order)

(Rs./kWh)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Units sold (MU)	6,629	6,304	7,383	4,876	6,468	6,061
Realization	2.4	2.4	2.4	2.4	2.6	2.7
Fuel cost	1.7	2.0	2.2	2.0	2.2	2.3
Fixed cost	0.7	0.4	0.6	1.0	0.7	0.7

Source: Company, Axis Capital

Exhibit 6: Coal business – performance

(USD/ton)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Volumes (mtpa)	14.8	14.7	14.1	14.5	14.6	14.4
Realization	42.4	53.1	54.9	55.5	58.3	62.3
Cash cost	27.3	33.0	31.7	32.7	34.0	37.0

Source: Company, Axis Capital

Exhibit 7: Regulated assets

(Rs mn)	Q2 FY17	Q3 FY17	Q4 FY17	Q1FY18	Q2FY18	Q3FY18
Mumbai operations	15,810	15,811	15,180	12,720	11,810	12,700
Delhi distribution	47,100	46,500	45,740	43,220	41,730	44,940

Source: Company, Axis Capital

Exhibit 8: Leverage position

(x)	FY15	FY16	FY17	FY18
Net Debt: Equity	2.7	2.6	3.1	2.7

Source: Company, Axis Capital

Exhibit 9: Delhi distribution – key financials

(Rs mn)	Q2 FY17	Q3 FY17	Q4 FY17	Q1FY18	Q2FY18	Q3FY18
Regulated Equity	12,560	12,690	11,630	12,130	12,560	12,310
Core RoE (%)	21.3	35.9	(0.3)	27.7	6.7	31.2

Source: Company, Axis Capital

Exhibit 10: Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-17	Dec-16	% Chg	Sep-17	% Chg	FY18E	FY17	% Chg
Net Sales	70,269	68,360	2.8	76,573	(8.2)	329,650	272,113	21.1
EBIDTA	12,857	15,551	(17.3)	18,498	(30.5)	62,244	51,602	20.6
Other income	911	1,401	(35.0)	1,331	(31.6)	4,394	5,859	(25.0)
PBIDT	13,768	16,952	(18.8)	19,829	(30.6)	66,638	57,461	16.0
Depreciation	5,972	5,318	12.3	5,900	1.2	23,919	19,886	20.3
Interest	8,455	7,010	20.6	9,814	(13.9)	36,177	31,140	16.2
PBT	(658)	4,625	-	4,115	-	6,542	6,436	1.6
Tax	(1,668)	1,591	-	1,553	-	3,271	(458)	-
Minority Interest & associate profit share (net)	1,020	612	66.7	454	124.6	(11,408)	(10,142)	12.5
Adjusted PAT	5,580	4,799	16.3	6,814	(18.1)	14,678	17,036	(13.8)
Extra ordinary income/ (exp.)	749	2,155	(65.2)	(4,129)	-	0	(9,581)	-
Reported PAT	6,330	6,954	(9.0)	2,685	135.7	14,678	17,036	(13.8)
No. of shares (mn)	2,706	2,706	-	2,706	-	2,705	2,705	-
EBIDTA margins (%)	18.3	22.7	-	24.2	-	18.9	19.0	-
PBIDT margins (%)	19.6	24.8	-	25.9	-	20.2	21.1	-
EPS - annualized (Rs.)	8.3	7.1	16.3	10.1	(18.1)	5.4	6.3	(13.8)

Source: Company, Axis Capital

Maintain BUY and raise TP to Rs136: We have raised our SOTP based TP to Rs 136 from Rs 95 earlier as we:

- Upgrade renewable portfolio to 10x EV/EBITDA (from 8x earlier) based on recent market transactions. This leads to increase in renewable share in revised SoTP to Rs 48 (from Rs 20 earlier),
- Introduce valuation of Tata Projects – TPWR holds 48% stake in Tata Projects. We have valued Tata Projects at 8x EV/EBITDA. This leads to addition of Rs17/share value of Tata Projects to our revised TP and
- Roll forward to FY20

Exhibit 11: Valuation of Tata Projects

Valuation of Tata projects	(Rs mn)
FY20 EBITDA	12,116
Implied EV at 8x multiple	96,931
less: Debt	5,302
Add: Cash in hand	2,942
Implied Fair Value of Tata Projects	94,571
% holding by TPWR	48%
Value per share to TPWR (Rs/shr)	17

Source: Company, Axis Capital

Exhibit 12: Comparative valuations of EPC players

EV/EBITDA	Dilip Buildcon	Sadbhav	J Kumar KNR	PNC Infra	Infratech	NCC Ltd	Ahluwalia Contracts	JMC projects	ITD Cementation	Avg.
FY18	11.9	19.62	14.55	7.8	17.85	12.38	10.3	9.45	12.89	13.0
FY19	9.98	16.7	13.34	6.29	12.54	9.51	8.82	8.18	11	10.7
FY20	9.01	14.59	11.82	5.19	9.08	8.17	7.56	7.43	9.06	9.1

Source: Bloomberg, Axis Capital

Exhibit 13: Valuation of Tata Power Company Limited (TPWR)

	Value (Rs bn)	(Rs/shr)	Comment
Mumbai power business	66	24	Standalone power: generation, T&D @ 1.5x equity
Other power businesses	75	28	Power links (transmission), Delhi distribution, and IEL (generation JV with Tata Steel) @ 2x core equity
Valn Bumi stake (net of debt)	92	34	Valued at 6x FY20E EV/EBITDA
Value of 1GW Maithon	16	6	NPV disc @ CoE of 13% (100% cost plus)
Value of 4GW Mundra UMPP	(122)	(45)	Base case: no CT; NPV @ CoE of 14%
Strategic Engineering division	8	3	Valued at 20x FY20E EV/ EBITDA
International Power Ventures	16	6	Invested equity of USD 156 mn, valued at P/B of 1.5x
Renewable	129	48	Valued at 10x FY20 EV/EBITDA for consolidated renewable
Investments	42	16	20% holdco discount for Tata Communication; NIL value for unlisted TTSL; 25% discount to sale proceeds from Aruitmin mines of USD 401 mn
Tata Projects	95	17	Valued at 8x FY20E EV/ EBITDA
Target price	322	136	

Source: Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Net sales	272,113	329,650	345,237	367,904
Other operating income	-	-	-	-
Total operating income	272,113	329,650	345,237	367,904
Cost of goods sold	(181,716)	(198,846)	(205,655)	(207,526)
Gross profit	90,397	130,804	139,582	160,378
<i>Gross margin (%)</i>	<i>33.2</i>	<i>39.7</i>	<i>40.4</i>	<i>43.6</i>
Total operating expenses	(38,794)	(68,561)	(76,026)	(91,208)
EBITDA	51,602	62,244	63,556	69,170
<i>EBITDA margin (%)</i>	<i>19.0</i>	<i>18.9</i>	<i>18.4</i>	<i>18.8</i>
Depreciation	(19,886)	(23,919)	(21,826)	(22,412)
EBIT	31,717	38,325	41,730	46,758
Net interest	(31,140)	(36,177)	(35,159)	(33,771)
Other income	5,859	4,394	4,394	4,394
Profit before tax	6,436	6,542	10,965	17,381
Total taxation	458	(3,271)	(3,509)	(5,562)
<i>Tax rate (%)</i>	<i>(7.1)</i>	<i>50.0</i>	<i>32.0</i>	<i>32.0</i>
Profit after tax	6,894	3,271	7,456	11,819
Minorities	(2,031)	(2,360)	(2,540)	(2,667)
Profit/ Loss associate co(s)	12,173	13,768	12,467	11,727
Adjusted net profit	17,036	14,678	17,383	20,879
<i>Adj. PAT margin (%)</i>	<i>6.3</i>	<i>4.5</i>	<i>5.0</i>	<i>5.7</i>
Net non-recurring items	(9,581)	-	-	-
Reported net profit	7,455	14,678	17,383	20,879

Balance sheet (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Paid-up capital	2,705	2,705	2,705	2,706
Reserves & surplus	130,090	141,334	154,649	170,642
Net worth	132,795	144,039	157,354	173,348
Borrowing	528,795	501,920	502,227	479,722
Other non-current liabilities	24,595	24,595	24,595	24,595
Total liabilities	704,874	691,604	707,767	703,923
Gross fixed assets	724,996	751,805	784,388	814,221
Less: Depreciation	(238,590)	(262,509)	(284,335)	(306,746)
Net fixed assets	486,406	489,296	500,053	507,475
Add: Capital WIP	19,232	15,386	15,386	15,386
Total fixed assets	505,638	504,681	515,439	522,861
Total Investment	119,570	119,570	119,570	119,570
Inventory	15,996	18,063	18,917	20,159
Debtors	121,959	117,410	113,503	100,796
Cash & bank	9,540	10,153	13,923	15,171
Loans & advances	31,334	36,126	37,834	40,318
Current liabilities	116,488	131,724	128,744	132,278
Net current assets	62,341	50,028	55,432	44,167
Other non-current assets	17,325	17,325	17,325	17,325
Total assets	704,874	691,604	707,767	703,923

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Profit before tax	6,436	6,542	10,965	17,381
Depreciation & Amortisation	19,886	23,919	21,826	22,412
<i>Chg in working capital</i>	<i>12,573</i>	<i>12,926</i>	<i>(1,635)</i>	<i>12,514</i>
Cash flow from operations	73,084	90,061	75,273	92,243
<i>Capital expenditure</i>	<i>(64,829)</i>	<i>(22,962)</i>	<i>(32,583)</i>	<i>(29,833)</i>
Cash flow from investing	(150,912)	(22,962)	(32,583)	(29,833)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>1</i>
<i>Debt raised/ (repaid)</i>	<i>91,912</i>	<i>(26,874)</i>	<i>306</i>	<i>(22,505)</i>
<i>Dividend paid</i>	<i>(4,114)</i>	<i>(3,435)</i>	<i>(4,068)</i>	<i>(4,885)</i>
Cash flow from financing	56,658	(66,486)	(38,920)	(61,160)
Net chg in cash	(21,170)	613	3,770	1,249

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
OPERATIONAL				
FDEPS (Rs)	6.3	5.4	6.4	7.7
CEPS (Rs)	10.1	14.3	14.5	16.0
DPS (Rs)	1.3	1.1	1.3	1.5
Dividend payout ratio (%)	47.2	20.0	20.0	20.0
GROWTH				
Net sales (%)	(5.2)	21.1	4.7	6.6
EBITDA (%)	(19.5)	20.6	2.1	8.8
Adj net profit (%)	2.7	(13.8)	18.4	20.1
FDEPS (%)	2.7	(13.8)	18.4	20.1
PERFORMANCE				
RoE (%)	12.9	10.6	11.5	12.6
RoCE (%)	5.7	6.1	6.6	7.2
EFFICIENCY				
Asset turnover (x)	0.5	0.5	0.6	0.6
Sales/ total assets (x)	0.3	0.4	0.4	0.4
Working capital/ sales (x)	0.2	0.1	0.1	0.1
Receivable days	163.6	130.0	120.0	100.0
Inventory days	26.5	24.7	24.5	24.6
Payable days	184.9	172.6	159.3	153.9
FINANCIAL STABILITY				
Total debt/ equity (x)	3.4	3.2	2.9	2.5
Net debt/ equity (x)	3.0	2.8	2.5	2.2
Current ratio (x)	1.5	1.4	1.4	1.3
Interest cover (x)	1.0	1.1	1.2	1.4
VALUATION				
PE (x)	12.7	14.7	12.4	11.3
EV/ EBITDA (x)	14.0	11.2	11.0	9.8
EV/ Net sales (x)	2.7	2.1	2.0	1.8
PB (x)	1.8	1.6	1.5	1.4
Dividend yield (%)	1.5	1.2	1.5	1.8
Free cash flow yield (%)	-	0.3	0.2	0.3

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
SELL	Less than -10%

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