

Torrent Power

 BSE SENSEX
 50,890

 S&P CNX
 14,982

CMP: INR379
TP: INR437 (+15%)
Buy


Bloomberg	TPW IN
Equity Shares (m)	481
M.Cap.(INRb)/(USD\$)	175.3 / 2.4
52-Week Range (INR)	385 / 240
1, 6, 12 Rel. Per (%)	9/-30/-7
12M Avg Val (INR M)	485
Free float (%)	46.4

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	136.4	134.5	140.7
EBITDA	35.6	32.7	37.8
Adj. PAT	13.5	10.8	14.9
EBITDA Margin (%)	26.1	24.3	26.9
Adj. EPS (INR)	28.0	22.6	30.9
EPS Gr. (%)	49.7	-19.4	37.1
BV/Sh. (INR)	190.5	208.9	231.6

Ratios

RoE (%)	14.9	11.3	14.0
RoCE (%)	9.6	8.8	10.6
Payout (%)	41.4	28.8	26.7

Valuations

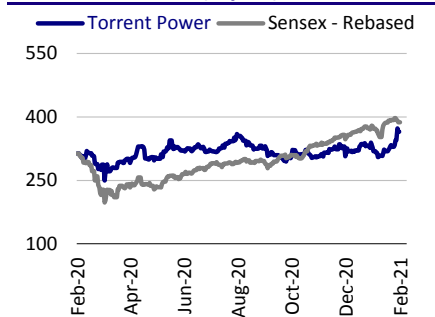
P/E (x)	9.7	16.8	12.2
P/BV (x)	1.4	1.8	1.6
EV/EBITDA(x)	5.9	7.7	6.4
Div. Yield (%)	4.3	1.7	2.2
FCF Yield (%)	12.6	11.2	9.4

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	53.6	53.6	53.6
DII	19.5	19.4	19.9
FII	9.1	9.1	8.1
Others	17.9	17.9	18.4

FII Includes depository receipts

Stock Performance (1-year)



Expanding its distribution presence

- Torrent Power (TPW) has emerged as the highest bidder for the acquisition of 51% stake in Distribution companies (DISCOMs) of the Union Territories of Daman & Diu and Dadra & Nagar Haveli. The takeover would be subject to completion of certain formalities, as per the management.
- The move does not catch us by surprise and is in line with the management's strategy of increasing its presence within the Distribution space. With a healthy Balance Sheet (net debt-to-equity less than 1x) and strong expertise, the company is well armed to capitalize on privatization opportunities within this space.
- Media reports suggest TPW's bid of INR5.55b for the acquisition. Based on the current regulated equity base of the two DISCOMs and regulated RoEs of 16%, the bid appears on the higher side. We await clarity on the same. The company has been an efficient operator in its existing circles in Gujarat, with a strong reduction in AT&C losses and ability to generate returns higher than regulated RoEs.

Steady circles with less than 10% T&D losses and 4-5% demand growth

- A look into the tariff filings indicate a steady circle – albeit with a high industrial mix (over 90%). Aggregate T&D losses have been consistently below 10% over the past five years. Demand in the two circles (including OA sales) has risen by 4-5% CAGR.
- Regulated RoEs stand at 16%, with gross fixed assets rising by 7% CAGR over the past five years.
- The pace of capitalization/regulated equity has seen some slowdown in recent years. However, this could be due to some lumpy projects as capex during the timeframe has been considerably higher.

Await details on the transaction

- Media articles (see [here](#)) indicate that the company has bagged 51% stake for INR5.55b. Given the: a) current regulated equity of INR2.2b in the two circles, b) assuming a growth of 5-6%, and c) regulated RoEs of 16%, the bid appears to be high, implying a value of 4.9x regulated equity.
- However, clarity on this and details of its plan for the circles (initial regulated equity base, capitalization growth and its funding, and AT&C norms) are awaited. TPW has been an efficient operator in its existing circles. Over the years, it has been able to reduce AT&C losses and earn RoEs of ~16% at its Distribution licenses (v/s base RoEs of 14%).
- We do not bake these into our estimates, with the actual takeover yet to take place. Over the past few months, TPW has been taking consistent steps towards leveraging its expertise (as well as Balance Sheet) within the Renewable and Distribution space. While we keep a keen eye on details and value accretion from these projects, the medium term story for existing businesses remains intact. Demand and collections at its Distribution franchise has recovered, and profitability is expected to bounce back in FY22. Its gas plants remain well placed, with gas tie ups and the recent offtake of Unosugen PPA. Continued capitalization within regulated Distribution would continue to aid earnings. Maintain Buy with a SoTP based TP of **INR437/share**.

Exhibit 1: A key snapshot of the circles of Daman & Diu and Dadra & Nagar Haveli

		FY15	FY16	FY17	FY18	FY19	FY20	CAGR/annual capitalization	
Daman & Diu									
Energy Sales (Incl. OA)	MU	1,942	2,108	2,214	2,377	2,434	2,529	5.4	Five year CAGR
Power Purchase	MU	2,215	2,404	2,513	2,606	2,669	2,790	4.7	Five year CAGR
T&D losses (indicative)	%	12.3	12.3	11.9	8.8	8.8	9.3		
Regulated Equity	INR m	NA	NA	420	782	842	872	5.6	Two year CAGR
Capitalization	INR m	572	619	655	553	198	100	450	Avg. capitalization
Capex	INR m	855	288	486	506	480	265	480	Avg. annual capex
Gross Fixed Assets	INR m	3,871	4,490	5,342	5,877	6,075	6,175	9.8	Five year CAGR
Dadra & Nagar Haveli									
Energy Sales (Incl. OA)	MU	5,191	5,523	5,737	5,897	6,072	6,403	4.3	Five year CAGR
Power Purchase	MU	5,692	6,050	6,283	6,549	6,667	6,890	3.9	Five year CAGR
T&D losses (indicative)	%	8.8	8.7	8.7	10.0	8.9	7.1		
Regulated Equity	INR m	NA	NA	1,258	1,299	1,357	1,374	2.9	Two year CAGR
Capitalization	INR m	33	37	339	137	194	57	133	Avg. capitalization
Capex	INR m	572	132	341	153	1,049	1,282	588	Avg. annual capex
Gross Fixed Assets	INR m	3,898	3,935	4,193	4,330	4,524	4,581	3.3	Five year CAGR
Combined									
Energy Sales (Incl. OA)	MU	7,133	7,631	7,951	8,275	8,506	8,932	4.6	Five year CAGR
Power Purchase	MU	7,908	8,453	8,797	9,155	9,336	9,680	4.1	Five year CAGR
T&D losses (indicative)	%	9.8	9.7	9.6	9.6	8.9	7.7		
Regulated Equity	INR m	NA	NA	1,678	2,081	2,199	2,246	3.9	Two year CAGR
Capitalization	INR m	605	656	994	690	392	157	582	Avg. capitalization
Capex	INR m	1,426	420	827	659	1,529	1,547	1,068	Avg. annual capex
Gross Fixed Assets	INR m	7,769	8,425	9,535	10,206	10,598	10,755	6.7	Five year CAGR

Source: JERC, MOFSL

Exhibit 2: SoTP valuation

FY23 basis	Reg. E Equity INR m	RoE %	Growth %	Multiple x	Equity Value INR m	Norm. Debt INR m	EV INR m
Regulated businesses	54,435			(RoE-g)/(CoE-g)	78,881	36,163	120,624
Distribution							
Ahmedabad	24,594	16.0	5.0	1.8	43,285	18,611	61,897
Surat	8,115	16.0	5.0	1.8	14,283	4,410	18,693
Regulatory assets	10,330			0.7	7,231	0	7,231
Generation							
Sabarmati	4,285	14.0	0.0	1.0	4,285	0	4,285
Sugen	7,110	15.5	0.0	1.4	9,796	13,141	22,937
UnoSugen						5,581	5,581
Others businesses							
	EBITDA						
	INR m						
RE projects	7,721			7.5			57,905
Bhiwandi and Agra DFs	8,528			7.5			63,958
SMK DF							5,541
Sugen PPA efficiency earnings	2,140			4.5			9,631
Others							
EV							257,660
Less: Net debt							47,455
MCap							210,205
No. of shares (m)							481
Value per share							437

Source: MOFSL

Financials and valuations

Income Statement (INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	100,536	115,121	131,510	136,406	134,540	140,679	141,878
Change (%)	-14.2	14.5	14.2	3.7	-1.4	4.6	0.9
EBITDA	24,603	31,171	31,995	35,561	32,686	37,807	37,977
% of Net Sales	24.5	27.1	24.3	26.1	24.3	26.9	26.8
Deprn. and Amortization	10,059	11,315	12,265	13,043	12,821	13,395	14,100
EBIT	14,544	19,856	19,730	22,518	19,865	24,412	23,876
Net Interest	10,580	8,482	8,989	9,546	8,001	6,611	5,638
Other income	1,909	2,636	1,896	1,776	1,533	1,582	1,589
PBT before EO	5,873	14,010	12,636	14,748	13,397	19,382	19,827
EO income/(cost)	0	0	0	-10,000	1,860	0	0
PBT after EO	5,873	14,010	12,636	4,748	15,257	19,382	19,827
Tax	1,576	4,489	3,598	-7,040	3,204	4,458	4,560
Rate (%)	26.8	32.0	28.5	-148.3	21.0	23.0	23.0
Reported PAT	4,298	9,521	9,038	11,789	12,053	14,925	15,267
Minority and Associates	8	98	49	47	50	50	50
Adjusted PAT	4,290	9,423	8,989	13,458	10,849	14,875	15,217
Change (%)	-52.7	119.7	-4.6	49.7	-19.4	37.1	2.3

Balance Sheet (INR m)

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	4,806	4,806	4,806	4,806	4,806	4,806	4,806
Reserves	64,115	72,389	84,896	86,729	95,608	106,517	117,529
Net Worth	68,921	77,195	89,702	91,535	100,414	111,323	122,335
Minority Interest	289	359	374	356	406	456	506
Total Loans	87,681	92,981	97,152	88,705	78,705	70,705	56,705
Deferred Tax Liability	13,363	14,799	15,654	5,528	5,533	5,926	5,926
Capital Employed	170,255	185,334	202,882	186,124	185,058	188,411	185,472
Gross Block	187,266	209,170	222,767	241,719	250,727	264,685	278,918
Less: Accum. Deprn.	19,226	30,463	42,628	66,026	78,847	92,242	106,342
Net Fixed Assets	168,040	178,707	180,139	175,693	171,880	172,442	172,575
Capital WIP	3,321	3,925	3,593	5,676	5,676	8,276	5,676
Goodwill	0	0	0	0	0	0	0
Investments	66	1,923	2,876	1,160	1,160	1,160	1,160
Curr. Assets	36,559	41,335	58,933	53,702	55,285	55,510	55,117
Inventories	3,694	4,549	6,270	5,982	6,635	6,167	6,219
Account Receivables	9,751	11,305	12,297	12,798	12,901	13,490	13,605
Cash and Bank Balance	9,336	9,982	9,549	8,879	9,705	9,810	9,250
Others	13,778	15,500	30,817	26,044	26,044	26,044	26,044
Curr. Liability and Prov.	37,731	40,556	42,659	50,106	48,942	48,977	49,056
Account Payables	9,054	7,534	8,998	11,476	10,312	10,347	10,426
Provisions and Others	28,677	33,023	33,661	38,630	38,630	38,630	38,630
Net Curr. Assets	-1,172	779	16,274	3,596	6,342	6,533	6,061
Appl. of Funds	170,255	185,334	202,882	186,124	185,058	188,411	185,472

Source: Company, MOFSL

Financials and valuations

Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)							
EPS	8.9	19.6	18.7	28.0	22.6	30.9	31.7
Cash EPS	29.9	43.1	44.2	55.1	49.2	58.8	61.0
BV/Share	143.4	160.6	186.6	190.5	208.9	231.6	254.5
DPS	0.0	2.2	5.0	11.6	6.5	8.3	8.8
Payout (%)	0.0	11.2	26.7	41.4	28.8	26.7	27.6
Valuation (x)							
P/E	25.8	11.7	13.8	9.7	16.8	12.2	12.0
Cash P/E	7.7	5.3	5.8	4.9	7.7	6.4	6.2
P/BV	1.6	1.4	1.4	1.4	1.8	1.6	1.5
EV/EBITDA	7.7	6.2	6.6	5.9	7.7	6.4	6.0
Dividend Yield (%)	0.0	1.0	1.9	4.3	1.7	2.2	2.3
Return Ratios (%)							
RoE	6.4	12.9	10.8	14.9	11.3	14.0	13.0
RoCE (post-tax)	7.2	8.6	8.0	9.6	8.8	10.6	10.4
RoIC (post-tax)	7.0	8.3	7.9	9.7	8.9	11.0	10.7
Working Capital Ratios							
Fixed Asset Turnover (x)	0.6	0.6	0.7	0.8	0.8	0.8	0.8
Asset Turnover (x)	0.6	0.6	0.6	0.7	0.7	0.7	0.8
Debtor (Days)	35	36	34	34	35	35	35
Inventory (Days)	13	14	17	16	18	16	16
Leverage Ratio (x)							
Net Debt/EBITDA	3.2	2.7	2.7	2.2	2.1	1.6	1.2
Debt/Equity	1.1	1.1	1.0	0.9	0.7	0.5	0.4

Source: Company, MOFSL

Cash Flow Statement (INR m)

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
EBITDA	24,603	31,171	31,995	35,561	32,686	37,807	37,977
WC	236	-922	-4,729	1,258	-1,920	-86	-89
Others	385	586	-161	2,512	1,860	0	0
Direct taxes (net)	-1,056	-3,200	-2,859	-2,977	-3,199	-4,064	-4,560
CF from Op. Activity	24,168	27,635	24,246	36,354	29,427	33,657	33,328
Capex	-21,745	-23,866	-19,887	-13,337	-9,008	-16,558	-11,633
FCFF	2,423	3,769	4,359	23,017	20,419	17,099	21,695
Interest income	732	771	768	696	1,533	1,582	1,589
Investments in subs./assoc.	-16	-17	-19	0	0	0	0
Others	113	-763	2,194	1,100	0	0	0
CF from Inv. Activity	-20,916	-23,875	-16,944	-11,541	-7,475	-14,976	-10,044
Share capital	0	0	0	0	0	0	0
Borrowings	2,442	5,276	4,175	-8,535	-10,000	-8,000	-14,000
Finance cost	-10,334	-8,285	-9,076	-8,643	-8,001	-6,611	-5,638
Dividend	-62	-1,310	-2,925	-9,683	-3,124	-3,965	-4,205
Others	1,182	1,205	1,660	1,800	0	0	0
CF from Fin. Activity	-6,771	-3,114	-6,166	-25,062	-21,125	-18,576	-23,843
(Inc.)/Dec. in Cash	-3,520	646	1,136	-249	826	105	-560
Opening balance	12,856	9,336	9,982	9,549	8,879	9,705	9,810
Closing balance (as per B/S)	9,336	9,982	11,118	9,300	9,705	9,810	9,250

Source: Company, MOFSL

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Investment Rating	Expected return (over 12-month)
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