

Torrent Power

BSE SENSEX	S&P CNX
37,393	11,257
Bloomberg	TPW IN
Equity Shares (m)	481
M.Cap.(INRb)/(USDb)	114.7 / 1.6
52-Week Range (INR)	277 / 212
1, 6, 12 Rel. Per (%)	-5/-14/0
12M Avg Val (INR M)	361
Free float (%)	46.4

CMP: INR239
TP: INR300 (+26%)
Buy

Operating parameters improve across segments

Higher base though impacted reported performance

EBITDA grew 3% YoY to INR31.9b, while PAT was down 5% YoY to INR8.9b in FY19. The numbers are not comparable to the previous year, as the company used to follow cash-accounting for its regulated distribution business until FY18. Assuming similar accounting even in the previous year, TPW's EBITDA would have increased by ~10% and PBT by ~29%. The strong underlying performance was driven by:

- INR1.4b from the distribution franchisee, as AT&C losses in Bhiwandi and Agra were down by ~240bp/480bp to 14.9%/16.1% in FY19.
- INR0.9b from the regulated distribution circles of Ahmedabad and Surat, led by an increase in regulated equity and ~50bp YoY lower T&D losses in Ahmedabad.
- INR1.2b from thermal efficiency and PLF incentive, as PLF at the AMGen coal plant increased from 71.3% in FY18 to 87.8% at end-FY19.
- INR0.6b from renewable energy (RE) as generation increased 53% YoY.

For 4QFY19, EBITDA was down 4% QoQ to INR7.1b (our estimate: INR7.9b). PAT declined 90% QoQ to INR240m (our estimate: INR1.8b) due to a higher effective tax rate of ~89% (v/s 6.1% in 3QFY19) and lower other income.

Strong positioning and healthy balance sheet; Maintain Buy

We cut our EBITDA estimate by ~5%/3% to INR34.3b/INR39.6b for FY20/21, considering the delay in RE capacity addition. Our PAT estimates are lowered by ~10%/7% to INR9.8b/INR12.3b for FY20/21 owing to a higher effective tax rate and marginally lower other income. We expect a PAT CAGR of ~17% over FY19-21, driven by a further AT&C loss reduction in franchisee, steady growth in regulated distribution, and doubling of RE capacity. TPW is well poised to capitalize on opportunities stemming from distribution privatization, the thrust on RE, and consolidation in the conventional generation sector given its execution track record, expertise and strong balance sheet. We revise our SOTP-based TP to INR300 (prior: INR315). Maintain **Buy**.

Estimate change
TP change
Rating change


Quarterly Performance (Consolidated) – INR m

Y/E March	FY18				FY19				FY18	FY19	FY19	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	30,590	29,151	27,546	28,104	35,281	34,445	32,535	29,248	115,391	131,510	31,281	-6
YoY Change (%)	17.8	8.9	18.4	14.6	15.3	18.2	18.1	4.1			11.3	
Total Expenditure	21,938	20,759	19,607	21,201	27,617	24,577	25,171	22,150	83,504	99,515	23,375	-5
EBITDA	8,652	8,392	7,940	6,903	7,664	9,869	7,364	7,098	31,887	31,995	7,906	-10
Margins (%)	28.3	28.8	28.8	24.6	21.7	28.6	22.6	24.3	27.6	24.3	25.3	
Depreciation	2,777	2,801	2,704	3,033	3,018	3,044	3,074	3,130	11,315	12,265	3,093	1
Interest	2,101	2,131	2,145	2,105	2,292	2,247	2,287	2,163	8,482	8,989	2,472	-12
Other Income	355	850	443	988	523	441	533	399	2,636	1,896	603	-34
PBT	4,129	4,310	3,534	2,752	2,877	5,019	2,537	2,204	14,725	12,636	2,944	-25
Tax	1,397	1,079	1,474	540	604	884	155	1,956	4,489	3,598	1,167	
Rate (%)	33.8	25.0	41.7	19.6	21.0	17.6	6.1	88.7	30.5	28.5	39.6	
MI and Associates	5	4	11	43	15	13	12	9	62	49	-32	
Reported PAT	2,728	3,228	2,049	2,170	2,259	4,122	2,370	240	10,174	8,989	1,809	-87
YoY Change (%)	497.9	129.0	92.1	59.8	-17.2	27.7	15.6	-89.0		-11.6	-16.6	

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Conference call takeaways

- Tax charge in 4Q increased due to the annual assessment of MAT credit utilization, leading to a higher deferred tax charge.
- TPW used to follow cash-accounting for its regulated distribution business until FY18. The prior year EBITDA and PBT numbers are boosted by ~INR4.2b on account of true-up related revenue recovery relating to prior years (but booked in FY18 on cash recovery basis). Adjusted for this, TPW's PBT was INR9.8b vs. reported PBT of INR14b in FY18. This distortion is impacting the reported YoY performance comparison.
- Capex for FY19 stood at INR16.9b; FY20 capex for license and distribution franchise to be ~INR16b. In addition, capex on wind projects is estimated at INR38b in FY20/21.
- Increase in other financial assets reflects regulatory assets. Regulatory assets stand at ~INR9.4b, of which ~INR2b has been approved and ~INR7.4b is likely to get approved in the next true-up.

Distribution

- T&D losses at Ahmedabad decreased by 0.7pp YoY to 5.6%; For Surat, losses reduced 0.1pp YoY to 4.2%.
- AT&C losses at Bhiwandi decreased by 2.4pp YoY to 14.9%; For Agra, AT&C loss was lower by 4.8pp YoY to 16.1%.
- Capex for franchise distribution business (incl. Agra, Bhiwandi and Kalwa) expected to be at INR4b per annum over the next three years.
- Expect to operationalize Kalwa in the upcoming year. In the prevailing scenario, management expects to get one distribution area every year. Maharashtra, Uttar Pradesh, Rajasthan and Madhya Pradesh could bid projects under the DF model. On the other hand, Orissa could follow a privatization model.
- Expect AT&C losses to reduce by ~2pp and ~1pp for Agra and Bhiwandi respectively. Every 1pp reduction adds profitability of INR240m for Bhiwandi and INR160m for Agra.
- For Kalwa DF, AT&C loss stands at 47%; Every 1pp reduction to lead to INR65m of profit contribution.

Conventional generation

- Carrying value of DGEN on the books stands at INR43.65b.
- Sugen sold more than 200mWh on the merchant market, with average realization at INR7.4/kWh.
- Sugen has tied up fuel till Dec 2020 at ~USD6.5/mmbtu amounting to at least 75% of capacity. LNG market is oversupplied and the company is looking to tie-up fuel beyond Dec'20.
- AMGen is an embedded generation project for Ahmedabad. It is part of the islanding scheme, which ensures availability of power if national grid collapses. The useful life of project is up to FY27-28. Hence, the project may not necessarily be phased out in Dec'22. Besides, the land value of the project is big and can offset the book value (unrecovered assets: ~INR4.15b).

Renewable

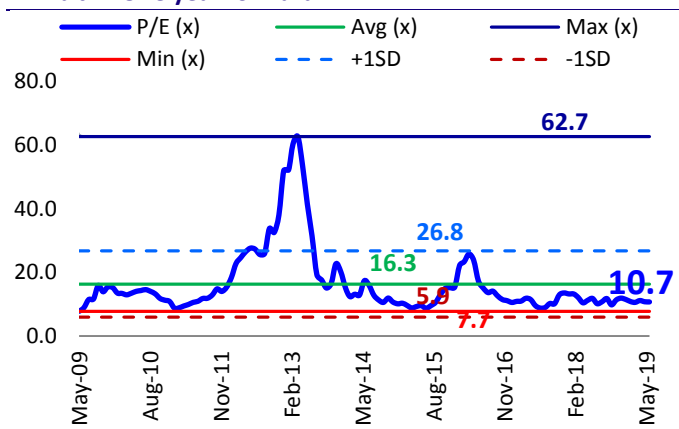
- 851MW of wind projects under development to be funded through long-term loans accounting for 70% of the project cost.
- SECI-I project scaled down to 100MW because of the inability of Inox (EPC) to complete the project.
- For SECI-III, land is an issue and project will get delayed beyond scheduled COD. Change in land allocation policy by Gujarat govt. led to delays. Issues though have been resolved. Govt. will likely extend the scheduled COD. Currently, 27-30% of land has been acquired.
- MSEDCL project is on track, while SECI-V would go ahead upon resolving of land issues. Since the issue pertains to land acquisition, no costs have been incurred.

Exhibit 1: Torrent Power – SOTP Valuation

FY21 basis	Reg. E Equity INR m	RoE %	Growth %	Multiple x	Equity Value INR m	Norm. Debt INR m	EV INR m
Regulated businesses	48,981			(RoE-g)/(CoE-g)	73,884	23,350	97,235
Distribution							
Ahmedabad	21,065	16.0	6.0	1.8	37,955	17,609	55,564
Surat	6,961	16.0	6.0	1.8	12,542	3,365	15,907
Regulatory assets	9,330				9,330	0	9,330
Generation							
Sabarmati	4,515	14.0	0.0	1.0	4,515	0	4,515
Sugen	7,110	15.5	0.0	1.3	9,542	2,377	11,919
Others businesses	EBITDA INR m						
RE projects	10,130			8.0			81,041
Bhiwandi and Agra DFs	8,006			6.5			52,037
Sugen PPA efficiency earnings	2,801			6.0			16,806
Others							
EV							247,119
Less: Net debt							103,050
MCap							144,069
No. of shares							481
Value per share							300

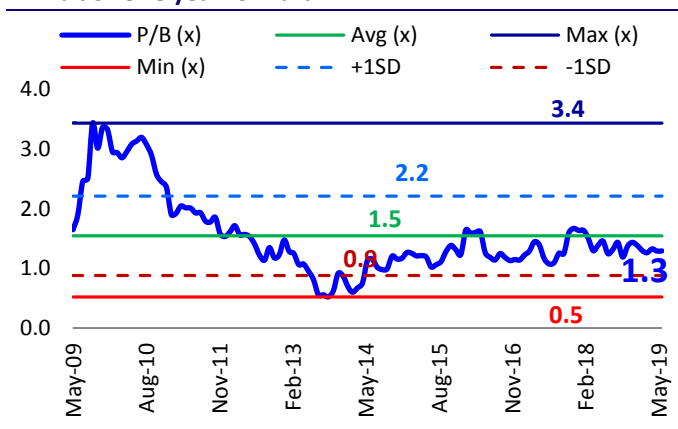
Source: MOFSL, Company

Exhibit 2: One year forward PE



Source: Company, MOFSL

Exhibit 3: One year forward PB



Source: Company, MOFSL

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Net Sales	86,811	103,960	117,158	100,536	115,121	131,510	134,826	141,067
Change (%)	5.6	19.8	12.7	-14.2	14.5	14.2	2.5	4.6
EBITDA	12,833	20,799	30,616	24,603	31,171	31,995	34,316	39,552
EBITDA Margin (%)	14.8	20.0	26.1	24.5	27.1	24.3	25.5	28.0
Depreciation	5,544	7,205	9,157	10,059	11,315	12,265	13,008	14,163
EBIT	7,289	13,594	21,459	14,544	19,856	19,730	21,307	25,389
Interest	7,046	9,623	11,308	10,580	8,482	8,989	9,795	10,547
Other Income	2,506	3,662	2,819	1,909	2,636	1,896	1,991	2,090
Extraordinary items	0	-230	-74	0	0	0	0	0
PBT	2,749	7,404	12,896	5,873	14,010	12,636	13,503	16,932
Tax	1,670	3,777	3,874	1,576	4,489	3,598	3,646	4,572
Tax Rate (%)	60.7	51.0	30.0	26.8	32.0	28.5	27.0	27.0
Min. Int. & Assoc. Share	26	30	20	8	98	49	8	8
Reported PAT	1,053	3,597	9,002	4,290	9,423	8,989	9,849	12,352
Adjusted PAT	1,053	3,367	8,928	4,290	9,423	8,989	9,849	12,352
Change (%)	-72.8	219.9	165.2	-52.0	119.7	-4.6	9.6	25.4

Balance Sheet							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	4,725	4,725	4,806	4,806	4,806	4,806	4,806	4,806
Reserves	57,329	60,832	59,898	64,115	72,389	84,896	91,861	101,329
Net Worth	62,053	65,557	64,705	68,921	77,195	89,702	96,667	106,135
Debt	94,634	93,547	85,148	87,681	92,981	97,205	111,205	113,205
Deferred Tax	7,127	8,579	13,061	13,363	14,799	15,654	16,355	17,235
Total Capital Employed	164,110	167,990	163,215	170,255	185,334	202,935	224,610	236,966
Gross Fixed Assets	130,650	186,848	160,461	187,266	209,170	222,867	243,508	287,034
Less: Acc Depreciation	28,903	36,065	9,166	19,226	30,463	42,728	55,737	69,900
Net Fixed Assets	101,747	150,782	151,295	168,040	178,707	180,139	187,772	217,134
Capital WIP	45,496	2,330	2,133	3,321	3,925	3,593	16,202	249
Investments	0	0	0	0	0	0	0	0
Current Assets	43,923	43,112	42,590	36,625	43,258	61,809	63,463	62,786
Inventory	2,902	2,597	4,202	3,694	4,549	6,270	5,171	5,411
Debtors	8,046	8,924	10,570	9,751	11,305	12,297	12,929	13,527
Cash & Bank	24,218	23,732	12,856	9,336	9,982	9,549	11,670	10,155
Loans & Adv, Others	8,757	7,860	14,962	13,845	17,423	33,693	33,693	33,693
Curr Liabs & Provns	27,156	28,338	32,902	37,731	40,556	42,605	42,827	43,203
Curr. Liabilities	27,156	28,338	32,902	37,731	40,556	42,605	42,827	43,203
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	16,768	14,775	9,687	-1,106	2,702	19,203	20,636	19,583
Total Assets	164,110	167,987	163,215	170,255	185,334	202,935	224,610	236,966

Financials and Valuations

Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)								
EPS	2.2	7.1	18.6	8.9	19.6	18.7	20.5	25.7
Cash EPS	14.0	22.4	37.6	29.9	43.1	44.2	47.6	55.2
Book Value	131.3	138.8	134.6	143.4	160.6	186.6	201.1	220.8
DPS	0.5	1.5	6.0	0.0	2.2	5.0	5.0	5.0
Payout (incl. Div. Tax.)	22.4	21.0	32.3	0.0	11.2	26.7	24.4	19.5
Valuation(x)								
P/E	42.2	22.9	12.5	25.8	11.7	12.8	11.6	9.3
Cash P/E	6.7	7.3	6.2	7.7	5.3	5.4	5.0	4.3
Price / Book Value	0.7	1.2	1.7	1.6	1.4	1.3	1.2	1.1
EV/Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	8.9	7.1	6.0	7.7	6.2	6.3	6.2	5.5
Dividend Yield (%)	0.5	0.9	2.6	0.0	1.0	2.1	2.1	2.1
Profitability Ratios (%)								
RoE	1.7	5.3	13.7	6.4	12.9	10.8	10.6	12.2
RoCE	4.2	6.9	9.8	6.6	8.4	8.5	8.3	9.0
Turnover Ratios (%)								
Asset Turnover (x)	0.5	0.6	0.7	0.6	0.6	0.6	0.6	0.6
Debtors (No. of Days)	34	31	33	35	36	34	35	35
Inventory (No. of Days)	12	9	13	13	14	17	14	14
Creditors (No. of Days)	27	22	23	31	21	22	22	22
Leverage Ratios (%)								
Net Debt/Equity (x)	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0

Cash Flow Statement

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
(INR Million)								
Adjusted EBITDA	12,833	20,799	30,616	24,603	31,171	31,995	34,316	39,552
Non cash opr. exp (inc)	539	-847	-1,412	385	586	0	0	0
(Inc)/Dec in Wkg. Cap.	406	3,759	-534	236	-922	-16,935	689	-462
Tax Paid	-253	-1,197	-3,167	-1,056	-3,200	-2,755	-2,944	-3,692
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	13,524	22,514	25,503	24,168	27,635	12,305	32,061	35,399
(Inc)/Dec in FA & CWIP	-12,545	-12,575	-16,349	-21,745	-23,866	-18,101	-33,250	-27,573
Free cash flows	979	9,939	9,155	2,423	3,769	-5,797	-1,190	7,826
(Pur)/Sale of Invt	0	0	0	0	0	0	0	0
Others	1,455	1,630	1,599	829	-9	3,236	1,991	2,090
CF from Inv. Activity	-11,090	-10,945	-14,750	-20,916	-23,875	-14,865	-31,260	-25,483
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	13,806	-1,190	-8,055	2,442	5,276	14,000	14,000	2,000
Interest Paid	-6,951	-11,694	-11,818	-10,334	-8,285	-8,989	-9,795	-10,547
Divd Paid (incl Tax) & Others	129	828	-1,757	1,120	-105	-2,884	-2,884	-2,884
CF from Fin. Activity	6,984	-12,055	-21,629	-6,771	-3,114	2,127	1,321	-11,431
Inc/(Dec) in Cash	9,418	-486	-10,876	-3,520	646	-434	2,122	-1,515
Add: Opening Balance	14,800	24,218	23,732	12,856	9,336	9,982	9,549	11,670
Closing Balance	24,218	23,732	12,856	9,336	9,982	9,549	11,670	10,155

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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