

Torrent Power

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	TPW IN
Equity Shares (m)	481
M.Cap.(INRb)/(USD\$b)	146 / 1.9
52-Week Range (INR)	339 / 238
1, 6, 12 Rel. Per (%)	5/31/49
12M Avg Val (INR M)	412

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Net Sales	136.4	136.8	139.8
EBITDA	35.6	34.9	37.0
PAT	13.5	11.5	14.0
EPS (INR)	28.0	24.0	29.2
Gr. (%)	49.7	-14.4	21.7
BV/Sh (INR)	190.5	207.9	230.6
RoE (%)	14.9	12.0	13.3
RoCE (%)	9.5	9.5	10.3
Payout (%)	41.4	27.1	22.3

Valuations

P/E (x)	10.9	12.7	10.5
P/BV (x)	1.6	1.5	1.3
Div. Yield (%)	3.8	2.1	2.1
FCF Yield (%)	15.7	13.3	17.1

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	53.6	53.6	53.6
DII	19.6	19.9	17.4
FII	8.8	8.1	7.8
Others	18.1	18.4	21.2

FII Includes depository receipts

CMP: INR304 TP: INR351 (+16%) Buy

Better performance of distribution drives beat

Distribution biz may see near-term impact on lower volumes; Maintain Buy

- Torrent Power's (TPW) 4QFY20 results highlight the improved performance of its distribution businesses (franchise and licensed) along with some benefit of merchant sales. Consol. EBITDA improved 17% YoY to INR8.3b.
- TPW's distribution business may get impacted due to lower volumes owing to the COVID-19 pandemic. However, a healthy balance sheet should help it to tide over this wave. **Maintain Buy with TP of INR351/share.**

Distribution business performance drives beat

- TPW's 4QFY20 EBITDA rose 17% YoY to INR8.3b (v/s est. INR7.4b) amid lower T&D losses and some merchant volumes. This was partly offset by the impact of new CERC norms on Sugem.
- The beat to our estimates was largely led by (1) improved performance of its distribution businesses (both franchise and licensed) amid lower T&D losses, and (2) some merchant volumes. In addition, the company made a provision of (1) INR0.5b for possible cancellation of its SECI-V project, and (2) INR0.5b for bad debts – adj. for which the beat would have been higher.
- Profitability for Sugem was impacted by the new CERC regulations, which has tightened O&M norms and increased sharing on efficiency gains.
- PBT (before exceptions) was up 39% YoY to ~INR3.1b (v/s est. INR2.3b). However, the company took an impairment of INR10b pertaining to its DGEN mega power project. In addition, INR4.4b of one-offs related to tax were reported. Adj. for these items, PAT would have come in at INR2.8b (v/s its reported loss of INR2.7b).

Management commentary highlights

- Gross Debt of the company stood at INR89b by end-FY20 (against ~INR97b during FY19). Further with interest resets, the interest cost for the company is likely to come down.
- Demand from end consumers has witnessed a sharp decline in both DF and DL areas. Collection efficiencies within DF areas, particularly in Bhiwandi, has been impacted
- SECI has not agreed to an extension for TPW's SECI-V project. Accordingly, TPW has taken a provision for the same.

Valuation and view – Strong positioning/healthy balance sheet; Maintain Buy

- COVID-19 is likely to impact TPW's distribution business in the near term. Accordingly, we have cut EPS for FY21/22E by 7%/4% to account for the same. However, from a medium-term perspective, TPW's story remains intact. Outlook for its gas plants has improved with low LNG prices and the recent off-take of UnoSugem PPA. Further, continued capitalization within regulated distribution and debt repayment should also aid earnings. We maintain our **Buy** rating on the company with **TP of INR351/share.**

Exhibit 1: Quarterly Performance (consolidated) – INR m

Y/E March	FY19				FY20				FY19	FY20	FY20 4QE	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	35,281	34,445	32,535	29,248	37,361	38,420	30,790	29,835	131,510	136,406	28,593	4
YoY Change (%)	15.3	18.2	18.1	4.1	5.9	11.5	-5.4	2.0			-2.2	
Total Expenditure	27,617	24,577	25,171	22,150	29,025	27,870	22,386	21,565	99,515	100,846	21,229	2
EBITDA	7,664	9,869	7,364	7,098	8,337	10,550	8,404	8,270	31,995	35,561	7,364	12
Margins (%)	21.7	28.6	22.6	24.3	22.3	27.5	27.3	27.7	24.3		25.8	
Depreciation	3,018	3,044	3,074	3,130	3,206	3,219	3,268	3,350	12,265	13,043	3,280	2
Interest	2,292	2,247	2,287	2,163	2,477	2,495	2,349	2,224	8,989	9,546	2,294	-3
Other Income	523	441	533	399	545	493	365	373	1,896	1,776	466	-20
PBT before EO expense	2,877	5,019	2,537	2,204	3,199	5,329	3,152	3,069	12,636	14,748	2,256	36
Extra-Ord expense	0	0	0	0	0	0	0	10,000	0	10,000	0	
PBT	2,877	5,019	2,537	2,204	3,199	5,329	3,152	-6,931	12,636	4,748	2,256	-407
Tax	604	884	155	1,956	433	-2,227	-1,055	-4,191	3,598	-7,040	1,510	
Rate (%)	21.0	17.6	6.1	88.7	13.5	-41.8	-33.5	60.5	28.5	-148.3	66.9	
MI and Associates	15	13	12	9	13	12	12	10	49	47	-29	
Reported PAT	2,259	4,122	2,370	240	2,753	7,544	4,194	-2,749	8,989	11,742	775	-455
PAT	2,259	4,122	2,370	240	2,753	4,742	3,148	2,815	8,989	13,458	775	263
YoY Change (%)	-17.2	27.7	15.6	-89.0	21.9	15.1	32.8	1,075.3	-11.6	49.7	223.6	

Source: MOFSL, Company

Operational highlights

- UnoSugen's PLF rose to 68.2% (v/s 0% in the previous year) in 4QFY20 on new PPA of 278MW capacity being kick-started. DGEN witnessed volumes of 197MU at 7.7% PLF.
- T&D losses improved for DFs in Bhiwandi/Agra during FY20 from 15.13%/14.18% to 11.93%/12.51%. As for Ahmedabad/Surat distribution, T&D losses stood at 4.98%/3.43% in FY20 (v/s 5.61%/3.43% in FY19).
- PLFs for TPW's wind business improved ~1.45% YoY to 23.62% while solar PLF declined 0.95% YoY to 19.3% during 4QFY20. For FY20, wind business PLF declined marginally, which stood at 29.76% and Solar PLF stood at 17.14%.

Exhibit 2: SOTP Valuation

FY22 basis	Reg. E Equity INR m	RoE %	Growth %	Multiple x	Equity Value INR m	Norm. Debt INR m	EV INR m
Regulated businesses	50,897			(RoE-g)/(CoE-g)	80,646	36,321	122,548
Distribution							
Ahmedabad	22,629	16.0	6.0	1.9	43,102	18,536	61,638
Surat	7,283	16.0	6.0	1.9	13,872	3,439	17,311
Regulatory assets	9,330			1.0	9,330	0	9,330
Generation							
Sabarmati	4,545	14.0	0.0	1.0	4,545	0	4,545
Sugen	7,110	15.5	0.0	1.4	9,796	14,347	24,143
UnoSugen						5,581	5,581
Others businesses	EBITDA INR m						
RE projects	6,730			8.0			53,837
Bhiwandi and Agra DFs	7,477			6.5			48,602
SMK DF							2,443
Sugen PPA efficiency earnings	2,096			6.0			12,579
Others							
EV							240,008
Less: Net debt							52,567
MCap							187,441
No. of shares							481
Value per share							390
Discounted to FY21- Value per share							351

Source: MOFSL, Company



Highlights from management commentary

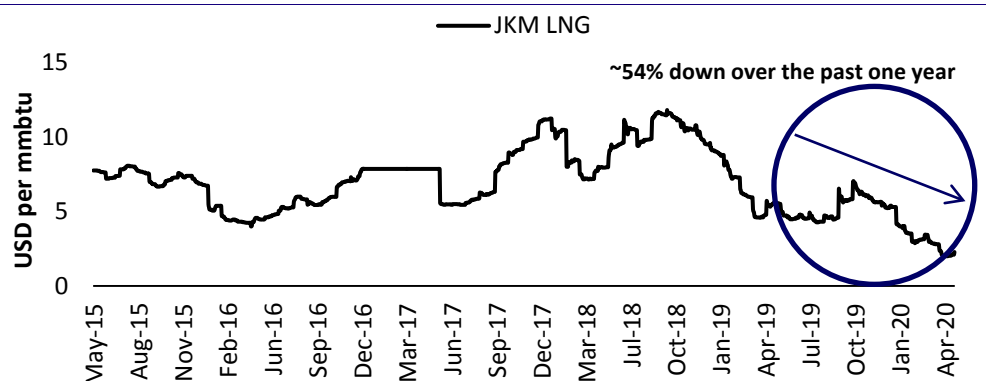
- **Interest Cost:** Gross debt stands at ~INR89b. Due to interest rate resets on its loans, the company expects its weighted average interest rate to decline to 8.15%.
- **Capex:** TPW has revised its capex guidance for FY21. For License Distribution business, the revised capex now stands at ~INR12-12.5b (against previous est. of INR15b) and is ~INR3.5b for Franchisee Distribution.
- **Renewable projects:**
 - SECI has not agreed to an extension for TPW’s SECI-V project (115MW). Accordingly, TPW has taken a provision of INR0.5b for the same.
 - The company is also not looking at bidding for new renewable projects.
- **Distribution franchise:** TPW received Shil, Mumbra and Kalwa regions on 1st Mar’20. However, with the onset of COVID-19, there was a sharp rise in AT&C losses at the circle leading to an impact of INR0.2b. TPW has noted that every 1% reduction in T&D at the circle loss leads to a benefit of INR650m.
- **Drop in demand:** TPW has noted a sharp demand decline for its DL and DF businesses on the back of COVID-19. However, it is hopeful of a recovery in demand during May-Jul’20.

Valuation and view

- COVID-19 is likely to impact TPW’s distribution business in the near term. However, from a medium-term perspective, TPW’s story remains intact. A healthy balance sheet along with recent debt repayments would help it to tide over this wave. Furthermore, low LNG prices and the recent off-take of UnoSugen PPA have improved the outlook for its gas plants. While the Unosugen PPA has a ceiling on the cost of supply (INR5.6/kWh), current spot contract prices provide significant cushion.
- Potential non-commissioning of RE projects has led to uncertainties; however, bank guarantees (in the case of SECI-III) has provided cushion. In turn, strong CF generation and lower RE capex has led to debt repayment.
- While FY21 earnings could be dented due to impact on the DF business and lower merchant sales, we expect a recovery in FY22E. Continued capitalization within regulated distribution, reducing T&D losses within distribution franchise and debt repayment would aid this. Besides, TPW remains well poised to capitalize on opportunities from the privatization of distribution entities. Maintain **Buy** with an SOTP-based TP of INR351.

LNG prices have been on a downward trend. This provides significant cushion with respect to the ceiling for UnoSugen PPA

Exhibit 3: JKM LNG Futures (USD/mmbtu)

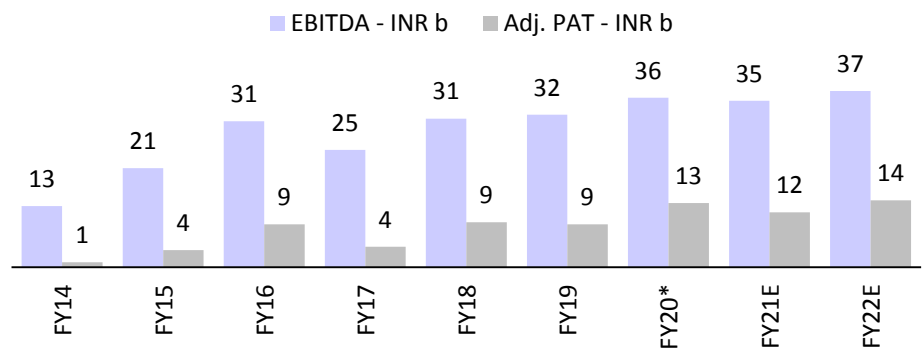


Source: Bloomberg, MOFSL

We expect Adj. PAT to decline 14% in FY21 on the back of lower volumes in distribution business – partly offset by full effect of UnoSugen PPA and continued capex in the regulated distribution business

We build in a 22% increase in PAT for FY22E on improved power demand and continued debt repayment

Exhibit 4: TPW EBITDA and PAT



Note: *FY20 PAT has been adjusted for INR8.3b of one-time deferred tax credit and INR10b of provision for DGEN

Source: Company, MOFSL

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2015	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	103,960	117,158	100,536	115,121	131,510	136,406	136,769	139,790
Change (%)	19.8	12.7	-14.2	14.5	14.2	3.7	0.3	2.2
EBITDA	20,799	30,616	24,603	31,171	31,995	35,561	34,914	36,917
EBITDA Margin (%)	20.0	26.1	24.5	27.1	24.3	26.1	25.5	26.4
Depreciation	7,205	9,157	10,059	11,315	12,265	13,043	13,558	13,859
EBIT	13,594	21,459	14,544	19,856	19,730	22,518	21,356	23,058
Interest	9,623	11,308	10,580	8,482	8,989	9,546	8,010	6,660
Other Income	3,662	2,819	1,909	2,636	1,896	1,776	1,821	1,835
Extraordinary items	-230	-74	0	0	0	-10,000	0	0
PBT	7,404	12,896	5,873	14,010	12,636	4,748	15,167	18,233
Tax	3,777	3,874	1,576	4,489	3,598	-7,040	3,640	4,376
Tax Rate (%)	51.0	30.0	26.8	32.0	28.5	-148.3	24.0	24.0
Min. Int. & Assoc. Share	30	20	8	98	49	47	8	8
Reported PAT	3,597	9,002	4,290	9,423	8,989	11,789	11,527	14,030
Adjusted PAT	3,367	8,928	4,290	9,423	8,989	13,458	11,519	14,021
Change (%)	219.9	165.2	-52.0	119.7	-4.6	50.0	-14.4	20.2
Balance Sheet							(INR Million)	
Y/E Mar	2015	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	4,725	4,806	4,806	4,806	4,806	4,806	4,806	4,806
Reserves	60,832	59,898	64,115	72,389	84,896	86,729	95,124	106,021
Net Worth	65,557	64,705	68,921	77,195	89,702	91,535	99,930	110,827
Debt	93,547	85,148	87,681	92,981	97,152	89,000	79,000	65,000
Deferred Tax	8,579	13,061	13,363	14,799	15,654	5,528	5,988	6,547
Total Capital Employed	167,990	163,215	170,255	185,334	202,882	186,420	185,283	182,748
Gross Fixed Assets	186,848	160,461	187,266	209,170	222,767	231,364	240,372	248,080
Less: Acc Depreciation	36,065	9,166	19,226	30,463	42,628	55,671	69,229	83,089
Net Fixed Assets	150,782	151,295	168,040	178,707	180,139	175,693	171,142	164,991
Capital WIP	2,330	2,133	3,321	3,925	3,593	5,676	5,676	5,676
Investments	0	0	0	0	0	1,160	1,160	1,160
Current Assets	43,112	42,590	36,625	43,258	61,809	53,702	54,980	58,781
Inventory	2,597	4,202	3,694	4,549	6,270	5,982	6,745	6,896
Debtors	8,924	10,570	9,751	11,305	12,297	12,798	13,115	13,409
Cash & Bank	23,732	12,856	9,336	9,982	9,549	8,879	9,077	12,433
Loans & Adv, Others	7,860	14,962	13,845	17,423	33,693	26,044	26,044	26,044
Curr Liabs & Provns	28,338	32,902	37,731	40,556	42,659	49,811	47,675	47,860
Curr. Liabilities	28,338	32,902	37,731	40,556	42,659	49,811	47,675	47,860
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	14,775	9,687	-1,106	2,702	19,150	3,891	7,305	10,921
Total Assets	167,987	163,215	170,255	185,334	202,882	186,420	185,283	182,748

Financials and Valuations

Ratios

Y/E Mar	2015	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
EPS	7.1	18.6	8.9	19.6	18.7	28.0	24.0	29.2
Cash EPS	22.4	37.6	29.9	43.1	44.2	55.1	52.2	58.0
Book Value	138.8	134.6	143.4	160.6	186.6	190.5	207.9	230.6
DPS	1.5	6.0	0.0	2.2	5.0	11.6	6.5	6.5
Payout (incl. Div. Tax.)	21.0	32.3	0.0	11.2	26.7	41.4	27.1	22.3
Valuation(x)								
P/E	22.9	12.5	25.8	11.7	15.4	10.9	12.7	10.5
Cash P/E	7.3	6.2	7.7	5.3	6.5	5.5	5.8	5.3
Price / Book Value	1.2	1.7	1.6	1.4	1.5	1.6	1.5	1.3
EV/EBITDA	7.1	6.0	7.7	6.2	7.1	6.4	6.2	5.4
Dividend Yield (%)	0.9	2.6	0.0	1.0	1.7	3.8	2.1	2.1
Profitability Ratios (%)								
RoE	6.0	13.9	6.4	12.9	10.8	14.9	12.0	13.3
RoCE	6.9	9.8	6.6	8.4	8.5	9.5	9.5	10.3
Turnover Ratios (%)								
Asset Turnover (x)	0.6	0.7	0.6	0.6	0.6	0.7	0.7	0.8
Debtors (No. of Days)	31	33	35	36	34	34	35	35
Inventory (No. of Days)	9	13	13	14	17	16	18	18
Creditors (No. of Days)	22	23	31	21	22	22	22	22
Leverage Ratios (%)								
Net Debt/Equity (x)	1.1	1.1	1.1	1.1	1.0	0.9	0.7	0.5

Cash Flow Statement

(INR Million)

Y/E Mar	2015	2016	2017	2018	2019	2020	2021E	2022E
EBITDA	20,799	30,616	24,603	31,171	31,995	35,561	34,914	36,964
WC	3,759	-534	236	-922	-4,729	1,258	-3,215	-261
Others	-847	-1,412	385	586	-161	2,512	0	0
Direct taxes (net)	-1,197	-3,167	-1,056	-3,200	-2,859	-2,977	-3,180	-3,871
CF from Op. Activity	22,514	25,503	24,168	27,635	24,246	36,354	28,519	32,832
Capex	-12,575	-16,349	-21,745	-23,866	-19,887	-13,337	-9,008	-7,708
FCFF	9,939	9,155	2,423	3,769	4,359	23,017	19,511	25,124
Interest income	1,482	1,410	732	771	1,896	1,776	1,821	1,835
Investments in subs/assoc.	-13	-13	-16	-17	-19	0	0	0
Others	161	202	113	-763	1,066	20	0	0
CF from Inv. Activity	-10,945	-14,750	-20,916	-23,875	-16,944	-11,541	-7,187	-5,873
Share capital	0	0	0	0	0	0	0	0
Borrowings	-1,190	-8,055	2,442	5,276	4,175	-8,480	-10,000	-14,000
Finance cost	-11,694	-11,818	-10,334	-8,285	-9,076	-9,546	-8,010	-6,480
Dividend	-321	-3,442	-62	-1,310	-2,925	-10,798	-3,124	-3,124
Others	1,149	1,686	1,182	1,205	1,660	2,762	0	0
CF from Fin. Activity	-12,055	-21,629	-6,771	-3,114	-6,166	-26,062	-21,134	-23,604
(Inc)/Dec in Cash	-486	-10,876	-3,520	646	1,136	-1,249	198	3,356
Opening balance	24,218	23,732	12,856	9,336	9,982	9,549	8,879	9,077
Closing balance (as per B/S)	23,732	12,856	9,336	9,982	11,118	8,300	9,077	12,433

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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