

Torrent Power

Estimate change	↔
TP change	↑
Rating change	↔

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Bloomberg	TPW IN
Equity Shares (m)	481
M.Cap.(INRb)/(USD\$b)	161.8 / 2.1
52-Week Range (INR)	358 / 240
1, 6, 12 Rel. Per (%)	-3/18/11
12M Avg Val (INR M)	402

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	136.4	135.8	140.0
EBITDA	35.6	33.9	37.2
Adj. PAT	13.5	10.8	14.2
EBITDA Margin (%)	26.1	25.0	26.5
Cons. Adj. EPS (INR)	28.0	22.4	29.6
EPS Gr. (%)	49.7	-19.9	31.9
BV/Sh. (INR)	190.5	210.7	233.8

Ratios

Net D:E	0.9	0.7	0.5
RoE (%)	14.9	11.2	13.3
RoCE (%)	9.5	9.2	10.5
Payout (%)	41.4	29.0	22.0

Valuations

P/E (x)	12.0	15.0	11.3
P/BV (x)	1.8	1.6	1.4
EV/EBITDA(x)	6.8	6.8	5.7
Div. Yield (%)	3.5	1.9	1.9
FCF Yield (%)	14.3	13.0	15.6

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	53.6	53.6	53.6
DII	19.9	19.6	18.2
FII	8.5	8.8	7.9
Others	18.0	18.1	20.3

FII Includes depository receipts

CMP: INR337 TP: INR392 (+16%) Buy

Distribution biz impacted by lower volumes

Balance sheet healthy; demand normalization is key

- Torrent Power (TPW)'s results highlight the impact of lower volumes on its Distribution Franchise (DF) business. Reported EBITDA, though, was up 16% YoY to INR9.7b, led primarily by a one-off APTEL order benefit of INR2.5b.
- The co.'s Distribution business has been impacted by lower volumes due to the impact of COVID-19. However, demand and collections have been recovering, and a healthy balance sheet would help tide over this wave.

Maintain Buy, with TP of INR392/sh.

One-off APTEL order boosts profitability

- Torrent Power's 1QFY21 adj. EBITDA declined 16% YoY to INR7.0b (v/s our est. of INR 7.1b) amid higher T&D loss and lower demand for the DF business. This was partly offset by the offtake of the UnoSugen PPA.
- EBITDA is adjusted for one-offs related to: 1) gains of INR3.4b on regulatory orders, 2) an INR0.6b impact of the FC waiver for the Distribution License (DL) business, and 3) INR0.1b of COVID-19-related donations.
- Gains on regulatory orders were led by an INR2.5b benefit from an APTEL order related to carrying cost.
- The DF business (including Shil, Mumbra, and Kalwa) witnessed a 37% YoY drop in demand. Furthermore, given the adverse customer mix, T&D loss at Bhiwandi and Agra increased by 10.2% and 3.7% YoY, respectively.
- Interest cost was down 11% YoY to INR2.2b. Adj. PAT decreased 39% YoY to INR1.7b, led by subdued performance from DF. Reported PAT was up 35% YoY to INR3.7b.

Management commentary highlights

- Demand from end consumers fell sharply in both DF (-37% YoY) and DL (-36% YoY). Given the extension of due dates for consumers, collection was also impacted. However, June onwards, collection has recovered. The company expects receivables to normalize by 1HFY21. Debt reduction would continue in FY21.
- Volumes for the DF business are expected to decline ~20% YoY in FY21. T&D loss for Bhiwandi and Agra is expected at 16% and 12.5%, respectively, for FY21.

Strong positioning and healthy balance sheet; maintain Buy

- COVID-19 has impacted the company's Distribution Franchise business. Accordingly, we expect 20% YoY decline in profitability (on an adjusted basis) for FY21. However, as demand gradually recovers, TPW's medium-term story remains intact. The outlook for TPW's gas plants has improved with low LNG prices and the recent offtake of the UnoSugen PPA. Continued capitalization within regulated distribution and debt repayment would aid earnings. Besides, TPW remains well-poised to capitalize on opportunities from distribution privatization. We value the company at INR392/sh using SOTP (Exhibit 1) approach. The regulated distribution business of Ahmedabad and Surat is valued at a PB of ~1.8x given predictable cash flows on regulated equity model. We assign a value of 6.5x EV/EBITDA to the DF business of Bhiwandi and Agra. Renewables business is valued at 8x EV/EBITDA.

Quarterly Performance (consolidated) – INR m

Y/E March	FY20				FY21				FY20	FY21E	FY20 1QE	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	37,361	38,420	30,790	29,835	26,631	37,203	30,623	41,306	136,406	135,763	36,422	-27
YoY Change (%)	5.9	11.5	-5.4	2.0	-28.7	-3.2	-0.5	38.4			-2.5	
Total Expenditure	29,025	27,870	22,386	21,565	19,647	28,149	22,610	31,448	100,846	101,854	29,315	-33
EBITDA	8,337	10,550	8,404	8,270	6,984	9,054	8,013	9,858	35,561	33,909	7,107	-2
Margins (%)	22.3	27.5	27.3	27.7	26.2	24.3	26.2	23.9			19.5	
Depreciation	3,206	3,219	3,268	3,350	3,159	3,245	3,294	3,449	13,043	13,147	3,330	-5
Interest	2,477	2,495	2,349	2,224	2,203	2,125	2,063	1,991	9,546	8,383	2,134	3
Other Income	545	493	365	373	347	506	374	595	1,776	1,821	559	-38
PBT before EO expense	3,199	5,329	3,152	3,069	1,968	4,189	3,031	5,013	14,748	14,201	2,201	-11
Extra-Ord expense	0	0	0	10,000	-2,710	0	0	0	10,000	-2,710	0	
PBT	3,199	5,329	3,152	-6,931	4,678	4,189	3,031	5,013	4,748	16,911	2,201	113
Tax	433	-2,227	-1,055	-4,191	940	1,005	727	1,386	-7,040	4,059	528	
Rate (%)	13.5	-41.8	-33.5	60.5	20.1	24.0	24.0	27.7	-148.3		24.0	
MI and Associates	13	12	12	10	12	2	2	-8	47	8	2	
Reported PAT	2,753	7,544	4,194	-2,749	3,727	3,182	2,301	3,634	11,742	12,844	1,671	123
PAT	2,753	4,742	3,148	2,815	1,667	3,182	2,301	3,634	13,458	10,784	1,671	0
YoY Change (%)	21.9	15.1	32.8	1,075.3	-39.4	-32.9	-26.9	29.1	49.7	-19.9	-39.3	
Margins (%)	7.4	12.3	10.2	9.4	6.3	8.6	7.5	8.8	9.9	7.9	4.6	

Source: MOFSL, Company

Operational highlights

- UnoSugen's plant load factor (PLF) fell to 37% (v/s 42% in the previous year). DGEN's PLF rose to 29%, v/s 10% in the previous year, on higher merchant volumes.
- T&D loss at Bhiwandi and Agra increased by 10.2% and 3.7% YoY, respectively. As for Ahmedabad and Surat distribution, T&D loss stood at 15.4% and 3.2%, respectively, in 1QFY21 v/s 11.6% and 3.3% in 1QFY20.
- PLFs for TPW's Wind business declined ~7.4% YoY to 29%, while Solar PLF was steady at 20%.

Exhibit 1: 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	51,897			(RoE-g)/(CoE-g)	77,316	36,321	120,102
Distribution							
Ahmedabad	22,629	16.0	5.0	1.8	39,826	18,536	58,362
Surat	7,283	16.0	5.0	1.8	12,818	3,439	16,256
Regulatory assets	10,330			1.0	10,330	0	10,330
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						6,465	6,465
Others businesses	EBITDA INR m						
RE projects	6,730			8.0			53,837
Bhiwandi and Agra DFs	7,546			6.5			49,051
SMK DF							4,260
Sugen PPA efficiency earnings	2,096			6.0			12,579
Others							
EV							239,829
Less: Net debt							51,406
MCap							188,423
No. of shares							481
Value per share							392
CMP							337
Upside/(Downside) - %							16

Source: MOFSL, Company



Conference call takeaways

One-off items:

- INR3.4b of claims were received under regulatory orders. This includes an INR2.5b benefit from an APTEL order on carrying cost.
- The co. saw an INR0.61b impact due to the waiver of fixed charges in DL. In addition, the co. made COVID-19-related donations of INR0.12b.

Impact on DF business:

- Volumes for the DF business were down 37% YoY. T&D loss was also higher due to adverse change in the sales mix. In July, volumes for the DF business were down ~25% YoY (Bhiwandi: -41% YoY; Agra: -1% YoY).
- Volumes for the DF business are expected to decline ~20% YoY in FY21. T&D loss of 16% and 12.5% is expected for Bhiwandi and Agra, respectively, for FY21.

Capex:

- The co. expects capex of INR15b p.a. for the DL business for the next three years. However, there could be some slippage on DL capex for FY21 (expected to be INR8b in FY21).

Distribution opportunity:

- The framework for the privatization of DISCOMs is not clear. The co. believes some of the states would go with DF, while some may use the DL model. The govt. has hinted at the privatization of DISCOMs in Union Territories. Odisha is also looking to privatize its distribution circles.

Provisioning:

- The co. has provisioned for just INR40m for receivables in 1Q. A large part was covered in 4QFY20 (INR0.48b). However, there could be some provisioning in the coming quarters.
- Collection efficiency in Bhiwandi stood at 85% (v/s ~100% in FY20), while it was 77% in Agra (v/s ~93% in FY20). TPW expects collection efficiency to improve, reaching 100% in Bhiwandi and 97–98% in Agra by the end of FY21.

Working capital:

- Given the extension of due dates for consumers, collection was also impacted. However, June onwards, collection has recovered. The company expects receivables to normalize by 1HFY21. Debt reduction would continue in FY21.

Merchant volumes:

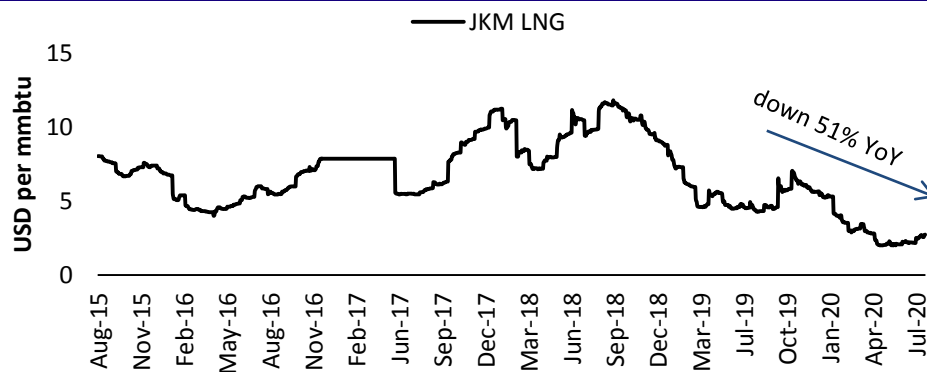
- The co. sold 921MUs of merchant volumes at a contribution of INR38p v/s 783MUs sold at a contribution of INR69p in 1QFY20. The co. had over-contracted gas volumes and was thus keen to sell on the open market, albeit at lower margins.

Valuation and view

- COVID-19 has impacted the company’s Distribution Franchise business in the near term. However, from a medium-term perspective, Torrent Power’s story remains intact. A healthy balance sheet, along with recent debt repayments, would help tide over this wave. Furthermore, low LNG prices and the recent offtake of the UnoSugen PPA have improved the outlook for the co.’s gas plants. While the Unosugen PPA has a ceiling on cost of supply (INR5.6/kWh), current spot contract prices provide a significant cushion.
- The non-commissioning of anticipated RE projects led to uncertainties. However, bank guarantees, as in the case of SECI-III, have provided a cushion. In turn, lower RE capex, along with strong cash flow generation from existing operations, led to debt repayment.
- While FY21 profits (not accounting for one-offs) could be dented on account of the impact on the DF business and lower merchant profit, we expect earnings to recover in FY22. Continued capitalization within regulated distribution, a reduction in T&D loss for the distribution franchise, and debt repayment would aid this. Besides, TPW remains well-poised to capitalize on opportunities from distribution privatization. Maintain Buy and value the company at INR392/sh using SOTP (Exhibit 1) approach. The regulated distribution business of Ahmedabad and Surat is valued at a PB of ~1.8x given predictable cash flows on regulated equity model. We assign a value of 6.5x EV/EBITDA to the DF business of Bhiwandi and Agra. Renewables business is valued at 8x EV/EBITDA.

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

Exhibit 2: JKM LNG Futures (USD/mmbtu)

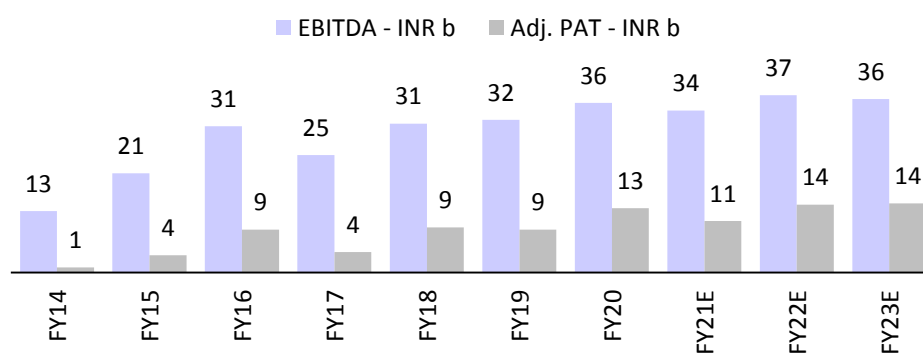


Source: Bloomberg, MOFSL

We expect Adj. PAT to decline 20% in FY21 on the back of lower volumes in the Distr. business, partly offset by the full effect of the UnoSugen PPA and continued capex in the Regulated Distr. business.

We build-in a 32% increase in PAT for FY22 on improved power demand and continued debt repayment.

Exhibit 3: TPW EBITDA and PAT



Source: Company, MOFSL

Financials and valuations

Income statement (INR m)									
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	103,960	117,158	100,536	115,121	131,510	136,406	135,763	140,032	140,253
Change (%)	19.8	12.7	-14.2	14.5	14.2	3.7	-0.5	3.1	0.2
EBITDA	20,799	30,616	24,603	31,171	31,995	35,561	33,909	37,159	36,352
% of Net Sales	20.0	26.1	24.5	27.1	24.3	26.1	25.0	26.5	25.9
Deprn. & Amortization	7,205	9,157	10,059	11,315	12,265	13,043	13,147	13,565	13,917
EBIT	13,594	21,459	14,544	19,856	19,730	22,518	20,762	23,595	22,435
Net Interest	9,623	11,308	10,580	8,482	8,989	9,546	8,383	6,776	5,413
Other income	3,662	2,819	1,909	2,636	1,896	1,776	1,821	1,909	1,998
PBT before EO	7,634	12,970	5,873	14,010	12,636	14,748	14,201	18,727	19,020
EO income/(cost)	-230	-74	0	0	0	-10,000	2,710	0	0
PBT after EO	7,404	12,896	5,873	14,010	12,636	4,748	16,911	18,727	19,020
Tax	3,777	3,874	1,576	4,489	3,598	-7,040	4,059	4,495	4,565
Rate (%)	51.0	30.0	26.8	32.0	28.5	-148.3	24.0	24.0	24.0
Reported PAT	3,627	9,022	4,298	9,521	9,038	11,789	12,852	14,233	14,455
Minority and Associates	30	20	8	98	49	47	8	8	8
Adjusted PAT	3,827	9,076	4,290	9,423	8,989	13,458	10,784	14,224	14,446
Change (%)	263.6	137.2	-52.7	119.7	-4.6	49.7	-19.9	31.9	1.6

Balance sheet (INR m)									
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	4,725	4,806	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	96,449	107,550	118,872
Net Worth	65,557	64,705	68,921	77,195	89,702	91,535	101,255	112,356	123,678
Minority Interest	308	301	289	359	374	356	365	373	382
Total Loans	93,547	85,148	87,681	92,981	97,152	88,705	78,705	64,705	51,705
Deferred Tax Liability	8,579	13,061	13,363	14,799	15,654	5,528	6,041	6,608	6,608
Capital Employed	167,990	163,215	170,255	185,334	202,882	186,124	186,365	184,042	182,373
Gross Block	186,848	160,461	187,266	209,170	222,767	241,719	250,727	258,435	264,843
Less: Accum. Deprn.	36,065	9,166	19,226	30,463	42,628	66,026	79,173	92,737	106,655
Net Fixed Assets	150,782	151,295	168,040	178,707	180,139	175,693	171,554	165,698	158,188
Capital WIP	2,330	2,133	3,321	3,925	3,593	5,676	5,676	5,676	5,676
Goodwill	100	100	0	0	0	0	0	0	0
Investments	37	50	66	1,923	2,876	1,160	1,160	1,160	1,160
Curr. Assets	43,076	42,540	36,559	41,335	58,933	53,702	55,886	59,676	65,530
Inventories	2,597	4,202	3,694	4,549	6,270	5,982	6,695	6,906	5,380
Account Receivables	8,924	10,570	9,751	11,305	12,297	12,798	13,018	13,428	13,449
Cash and Bank Balance	23,732	12,856	9,336	9,982	9,549	8,879	10,128	13,299	20,657
Others	7,823	14,912	13,778	15,500	30,817	26,044	26,044	26,044	26,044
Curr. Liability & Prov.	28,338	32,902	37,731	40,556	42,659	50,106	47,910	48,167	48,181
Account Payables	6,339	9,520	9,054	7,534	8,998	11,476	9,280	9,537	9,551
Provisions & Others	21,999	23,382	28,677	33,023	33,661	38,630	38,630	38,630	38,630
Net Curr. Assets	14,738	9,637	-1,172	779	16,274	3,596	7,976	11,509	17,349
Appl. of Funds	167,987	163,215	170,255	185,334	202,882	186,124	186,365	184,042	182,373

Financials and valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Basic (INR)									
EPS	8.1	18.9	8.9	19.6	18.7	28.0	22.4	29.6	30.1
Cash EPS	23.4	37.9	29.9	43.1	44.2	55.1	49.8	57.8	59.0
BV/Share	138.8	134.6	143.4	160.6	186.6	190.5	210.7	233.8	257.3
DPS	1.5	6.0	0.0	2.2	5.0	11.6	6.5	6.5	6.5
Payout (%)	18.5	31.7	0.0	11.2	26.7	41.4	29.0	22.0	21.6
Valuation (x)									
P/E	20.2	12.3	25.8	11.7	18.0	12.0	15.0	11.3	11.2
Cash P/E	7.0	6.1	7.7	5.3	7.6	6.1	6.7	5.8	5.7
P/BV	1.2	1.7	1.6	1.4	1.8	1.8	1.6	1.4	1.3
EV/EBITDA	7.1	6.0	7.7	6.2	7.8	6.8	6.8	5.7	5.3
Dividend Yield (%)	0.9	2.6	0.0	1.0	1.5	3.5	1.9	1.9	1.9
Return Ratios (%)									
RoE	6.0	13.9	6.4	12.9	10.8	14.9	11.2	13.3	12.2
RoCE (post-tax)	6.9	9.8	6.6	8.4	8.5	9.5	9.2	10.5	10.1
RoIC (post-tax)	7.7	9.9	6.3	8.1	8.4	9.6	9.3	10.8	10.7
Working Capital Ratios									
Fixed Asset Turnover (x)	0.7	0.8	0.6	0.6	0.7	0.8	0.8	0.8	0.9
Asset Turnover (x)	0.6	0.7	0.6	0.6	0.6	0.7	0.7	0.8	0.8
Debtor (Days)	31	33	35	36	34	34	35	35	35
Inventory (Days)	9	13	13	14	17	16	18	18	14
Leverage Ratio (x)									
Net Debt/EBITDA	3.4	2.4	3.2	2.7	2.7	2.2	2.0	1.4	0.9
Debt/Equity	1.1	1.1	1.1	1.1	1.0	0.9	0.7	0.5	0.3

Cash flow statement

(INR m)

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
EBITDA	20,799	30,616	24,603	31,171	31,995	35,561	33,909	37,159	36,352
WC	3,759	-534	236	-922	-4,729	1,258	-3,130	-363	1,518
Others	-847	-1,412	385	586	-161	2,512	2,710	0	0
Direct taxes (net)	-1,197	-3,167	-1,056	-3,200	-2,859	-2,977	-3,546	-3,927	-4,565
CF from Op. Activity	22,514	25,503	24,168	27,635	24,246	36,354	29,943	32,870	33,306
Capex	-12,575	-16,349	-21,745	-23,866	-19,887	-13,337	-9,008	-7,708	-6,408
FCFF	9,939	9,155	2,423	3,769	4,359	23,017	20,935	25,162	26,898
Interest income	1,482	1,410	732	771	768	696	1,821	1,909	1,998
Investments in subs/assoc.	-13	-13	-16	-17	-19	0	0	0	0
Others	161	202	113	-763	2,194	1,100	0	0	0
CF from Inv. Activity	-10,945	-14,750	-20,916	-23,875	-16,944	-11,541	-7,187	-5,799	-4,410
Share capital	0	0	0	0	0	0	0	0	0
Borrowings	-1,190	-8,055	2,442	5,276	4,175	-8,535	-10,000	-14,000	-13,000
Finance cost	-11,694	-11,818	-10,334	-8,285	-9,076	-8,643	-8,383	-6,776	-5,413
Dividend	-321	-3,442	-62	-1,310	-2,925	-9,683	-3,124	-3,124	-3,124
Others	1,149	1,686	1,182	1,205	1,660	1,800	0	0	0
CF from Fin. Activity	-12,055	-21,629	-6,771	-3,114	-6,166	-25,062	-21,507	-23,900	-21,537
(Inc)/Dec in Cash	-486	-10,876	-3,520	646	1,136	-249	1,250	3,170	7,358
Opening balance	24,218	23,732	12,856	9,336	9,982	9,549	8,879	10,128	13,299
Closing balance (as per B/S)	23,732	12,856	9,336	9,982	11,118	9,300	10,128	13,299	20,657

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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