

Torrent Power

Estimate change

TP change

Rating change



Bloomberg	TPW IN
Equity Shares (m)	481
M.Cap.(INRb)/(USD\$)	154.9 / 2.1
52-Week Range (INR)	369 / 240
1, 6, 12 Rel. Per (%)	-2/-34/7
12M Avg Val (INR M)	435

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	136.4	134.2	140.1
EBITDA	35.6	32.3	37.3
Adj. PAT	13.5	9.7	14.0
EBITDA Margin (%)	26.1	24.1	26.6
Cons. Adj. EPS (INR)	28.0	20.2	29.2
EPS Gr. (%)	49.7	-27.8	44.4
BV/Sh. (INR)	190.5	206.0	228.7

Ratios

Net D:E	0.9	0.7	0.5
RoE (%)	14.9	10.2	13.4
RoCE (%)	9.6	8.5	10.4
Payout (%)	41.4	32.1	22.2

Valuations

P/E (x)	9.7	15.9	11.0
P/BV (x)	1.4	1.6	1.4
EV/EBITDA(x)	5.9	7.0	5.7
Div. Yield (%)	4.3	2.0	2.0
FCF Yield (%)	14.9	12.2	14.3

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	46.9	37.2	36.2
DII	26.7	31.4	23.9
FII	10.9	12.9	24.2
Others	15.6	18.5	15.7

FII Includes depository receipts

CMP: INR322
TP: INR380 (+18%)
Buy

Profits impacted by distribution biz

Balance sheet healthy; Demand normalizing

- Torrent Power's (TPW) 2QFY21 results highlight the impact of lower volumes on its distribution franchise (DF) business along with certain one-off charges. Adj. PAT was down 32% YoY to INR3.2b while reported PAT was down 73% YoY to INR2.1b.
- TPW's distribution business has been impacted by lower volumes due to the impact of COVID. However, demand and collections have been recovering. Also, its healthy balance sheet should help the company tide over. **Maintain Buy with TP of INR380/share.**

Profitability impacted by weaker distribution business performance

- TPW's 2QFY21 adj. EBITDA declined 21% YoY to INR8.3b (v/s est. INR9.6b) amid higher T&D losses and lower demand for its DF business along with lower renewable generation.
- EBITDA for the quarter is adjusted for one-offs related to (1) INR1b of provisions for doubtful debts, (2) INR0.4b of under-recovery in UnoSugen, and (3) INR0.2b of gain from CERC tariff order for Sugan.
- Power purchase at Bhiwandi was down 31% YoY while Agra came in flat YoY. 1HFY21 T&D loss at Bhiwandi/Agra stood at 23%/16% (v/s 14.2%/14.1% in 1HFY20).
- Renewable generation was down 34% YoY to 482MUs due to ~10pp drop in Wind PLFs YoY.
- Interest costs were down 8%/18% QoQ/YoY to INR2.0b (v/s est. INR2.1b). Adj. PAT decreased 32% YoY to INR3.2b, led by subdued performance of DF and renewables. Reported PAT was down 73% YoY to INR2.0b.

Management commentary highlights

- Demand from end consumers witnessed a fall in both DF (-18% YoY) and DL (-15% YoY) areas. However, sequentially demand has recovered. In Oct'20, Surat witnessed 6% YoY demand growth, while the same was down just 2% YoY at Bhiwandi.
- Collection efficiency in 1HFY21 at Bhiwandi/Agra stood at 96%/90%. In 2QFY21, collection has improved to 95-100%. While INR1b provision has been done, TPW expects to reverse the same over the next 12 months.
- Capex for FY21 stands at ~INR8-9b. However, for the next three years, the company expects an average capex of INR15b. Of this, INR10-12b would be for its license business, which includes INR1b for Dholera.

Strong positioning and healthy balance sheet; Maintain Buy

- COVID-19 has impacted the company's distribution franchise business. Accordingly, we expect 28% YoY decline in profitability (on an adjusted basis) for FY21. But, as demand slowly recovers, we expect TPW's earnings to improve. Outlook for TPW's gas plants has improved with low LNG prices and the recent off-take of UnoSugen PPA. Continued capitalization within regulated distribution and debt repayment would aid earnings. Besides, TPW remains well poised to capitalize on opportunities from the privatization of distribution. We maintain our Buy rating on the company with **TP of INR380/share**, implying 18% upside from current levels.

Quarterly Performance (consolidated) – INR million

Y/E March	FY20				FY21				FY20	FY21E	FY20	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	37,361	38,420	30,790	29,835	26,631	31,287	30,634	45,640	136,406	134,192	37,729	-17
YoY Change (%)	5.9	11.5	-5.4	2.0	-28.7	-18.6	-0.5	53.0			-1.8	
Total Expenditure	29,025	27,870	22,386	21,565	19,647	22,966	22,610	36,631	100,846	101,854	28,149	-18
EBITDA	8,337	10,550	8,404	8,270	6,984	8,321	8,024	9,009	35,561	32,338	9,580	-13
Margins (%)	22.3	27.5	27.3	27.7	26.2	26.6	26.2	19.7			25.4	
Depreciation	3,206	3,219	3,268	3,350	3,159	3,165	3,311	3,579	13,043	13,214	3,245	-2
Interest	2,477	2,495	2,349	2,224	2,203	2,020	2,063	2,096	9,546	8,383	2,125	-5
Other Income	545	493	365	373	347	374	346	466	1,776	1,533	506	-26
PBT before EO expense	3,199	5,329	3,152	3,069	1,968	3,510	2,997	3,800	14,748	12,275	4,715	-26
Extra-Ord expense	0	0	0	10,000	-2,710	1,210	0	0	10,000	-1,500	0	
PBT	3,199	5,329	3,152	-6,931	4,678	2,300	2,997	3,800	4,748	13,775	4,715	-51
Tax	433	-2,227	-1,055	-4,191	940	278	719	1,231	-7,040	3,168	1,132	
Rate (%)	13.5	-41.8	-33.5	60.5	20.1	12.1	24.0	32.4	-148.3		24.0	
MI and Associates	13	12	12	10	12	13	2	-19	47	8	2	
Reported PAT	2,753	7,544	4,194	-2,749	3,727	2,008	2,276	2,588	11,742	10,598	3,582	-44
PAT	2,753	4,742	3,148	2,815	1,667	3,218	2,276	2,588	13,458	9,749	3,582	-10
YoY Change (%)	21.9	15.1	32.8	1,075.3	-39.4	-32.1	-27.7	-8.1	49.7	-27.6	-24.5	

Source: MOFSL, Company

Operational highlights

- UnoSugen PLF plunged to 64% (v/s 70% in previous year). DGEN PLF rose to 11% v/s 9% in the previous year.
- 1HFY21 T&D loss at Bhiwandi/Agra stood at 23%/16% (v/s 14.2%/14.1% in the previous year). For Ahmedabad/Surat distribution, T&D losses stood at 9.3%/3.8% in 1HFY21 (v/s 7.4%/3.4% in 1HFY20).
- PLFs for TPW's wind business declined ~10.4% YoY to 29% while solar PLF was up 1% YoY to 14%.

Exhibit 1: SOTP Valuation

FY22 basis	Reg. E Equity INR m	RoE %	Growth %	Multiple x (RoE-g)/(CoE-g)	Equity Value INR m	Norm. Debt INR m	EV INR m
Regulated businesses	52,587				78,530	37,812	122,807
Distribution							
Ahmedabad	23,229	16.0	5.0	1.8	40,882	19,832	60,714
Surat	7,373	16.0	5.0	1.8	12,976	3,633	16,609
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	6,657			8.0			53,255
Bhiwandi and Agra DFs	7,509			6.5			48,808
SMK DF							4,260
Sugen PPA efficiency earnings	2,096			5.0			10,482
Others							
EV							239,613
Less: Net debt							57,064
MCap							182,549
No. of shares							481
Value per share							380
CMP							322
Upside/(Downside) - %							18

Source: MOFSL, Company

Conference call takeaways

- EBITDA was impacted by lower demand at DFs and lower wind PLFs.
- Demand from end consumers witnessed a fall in both DF (-18% YoY) and DL (-15% YoY) areas. However, sequentially demand has recovered. In Oct'20, Surat witnessed +6% YoY demand growth, while it was down just 2% YoY at Bhiwandi.
- Collection efficiency in 1HFY21 at Bhiwandi/Agra stood at 96%/90%. In 2QFY21, collection has improved to 99-100%. While INR1b provision has been done, the company expects to recover and reverse the same over the next 12 months.
- Capex for FY21 stands at ~INR8-9b. However, for the next three years, TPW expects an average capex of INR15b. Of this, INR10-12b would be for its license business, which includes INR1b for Dholera.
- Wind PLFs saw 10pp decline and was a trend witnessed across the country. Wind generation was below P90 levels but not below P75.
- Collection efficiency at Bhiwandi/Agra stood at 96%/90% in 1HFY21. In 2QFY21, collection has improved to 95-100%. The company expects to recover the INR1b provision in the coming quarters.
- The company will selectively look at bidding for renewable projects. This would be dependent on its internal parameters and competitive intensity.
- The company sold 480MUs merchant volumes at a contribution of INR24p (v/s 390MUs sold at a contribution of INR72p in 2QFY20).

Valuation and view

- COVID-19 has impacted the company's distribution franchise 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 the company tide over. Furthermore, low LNG prices and the recent off-take of UnoSugen PPA have improved the outlook for the company's gas plants.
- Non-commissioning of anticipated RE projects led to uncertainties; however, bank guarantees as in the case of SECI-III has provided cushion. In turn, lower RE capex along with strong cash flow generation from existing operations has led to debt repayment.
- While FY21 profits (not accounting for one-offs) would be dented on impact of the DF business and lower merchant profit, we expect earnings to recover in FY22E. Continued capitalization within regulated distribution, reduction in T&D losses for distribution franchise and debt repayment would aid this. Besides, TPW remains well poised to capitalize on opportunities from the privatization of distribution. Maintain Buy with an SOTP-based TP of INR380/share.

Financials and Valuations

Income statement							(INR m)
Y/E March	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	100,536	115,121	131,510	136,406	134,192	140,131	140,834
Change (%)	-14.2	14.5	14.2	3.7	-1.6	4.4	0.5
EBITDA	24,603	31,171	31,995	35,561	32,338	37,258	36,933
% of Net Sales	24.5	27.1	24.3	26.1	24.1	26.6	26.2
Deprn. & Amortization	10,059	11,315	12,265	13,043	13,214	13,707	14,216
EBIT	14,544	19,856	19,730	22,518	19,125	23,552	22,717
Net Interest	10,580	8,482	8,989	9,546	8,383	6,776	5,274
Other income	1,909	2,636	1,896	1,776	1,533	1,471	1,458
PBT before EO	5,873	14,010	12,636	14,748	12,275	18,246	18,902
EO income/(cost)	0	0	0	-10,000	1,500	0	0
PBT after EO	5,873	14,010	12,636	4,748	13,775	18,246	18,902
Tax	1,576	4,489	3,598	-7,040	3,168	4,197	4,347
Rate (%)	26.8	32.0	28.5	-148.3	23.0	23.0	23.0
Reported PAT	4,298	9,521	9,038	11,789	10,607	14,050	14,554
Minority and Associates	8	98	49	47	8	8	8
Adjusted PAT	4,290	9,423	8,989	13,458	9,722	14,041	14,546
Change (%)	-52.7	119.7	-4.6	49.7	-27.8	44.4	3.6

Balance sheet							(INR m)
	2017	2018	2019	2020	2021E	2022E	2023E
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	94,203	105,121	116,062
Net Worth	68,921	77,195	89,702	91,535	99,010	109,927	120,868
Minority Interest	289	359	374	356	365	373	382
Total Loans	87,681	92,981	97,152	88,705	78,705	64,705	48,705
Deferred Tax Liability	13,363	14,799	15,654	5,528	5,808	6,178	6,178
Capital Employed	170,255	185,334	202,882	186,124	183,887	181,183	176,133
Gross Block	187,266	209,170	222,767	241,719	250,727	261,435	271,093
Less: Accum. Deprn.	19,226	30,463	42,628	66,026	79,240	92,946	107,162
Net Fixed Assets	168,040	178,707	180,139	175,693	171,487	168,489	163,931
Capital WIP	3,321	3,925	3,593	5,676	5,676	5,676	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	53,379	54,032	53,582
Inventories	3,694	4,549	6,270	5,982	6,618	6,911	5,402
Account Receivables	9,751	11,305	12,297	12,798	12,868	13,437	13,505
Cash and Bank Balance	9,336	9,982	9,549	8,879	7,850	7,641	8,632
Others	13,778	15,500	30,817	26,044	26,044	26,044	26,044
Curr. Liability & Prov.	37,731	40,556	42,659	50,106	47,815	48,173	48,216
Account Payables	9,054	7,534	8,998	11,476	9,185	9,543	9,586
Provisions & 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	5,564	5,859	5,366
Appl. of Funds	170,255	185,334	202,882	186,124	183,887	181,183	176,133

Financials and Valuations

Ratios

	2017	2018	2019	2020	2021E	2022E	2023E
Basic (INR)							
EPS	8.9	19.6	18.7	28.0	20.2	29.2	30.3
Cash EPS	29.9	43.1	44.2	55.1	47.7	57.7	59.8
BV/Share	143.4	160.6	186.6	190.5	206.0	228.7	251.5
DPS	0.0	2.2	5.0	11.6	6.5	6.5	7.5
Payout (%)	0.0	11.2	26.7	41.4	32.1	22.2	24.8
Valuation (x)							
P/E	25.8	11.7	13.8	9.7	15.9	11.0	10.7
Cash P/E	7.7	5.3	5.8	4.9	6.8	5.6	5.4
P/BV	1.6	1.4	1.4	1.4	1.6	1.4	1.3
EV/EBITDA	7.7	6.2	6.6	5.9	7.0	5.7	5.3
Dividend Yield (%)	0.0	1.0	1.9	4.3	2.0	2.0	2.3
Return Ratios (%)							
RoE	6.4	12.9	10.8	14.9	10.2	13.4	12.6
RoCE (post-tax)	7.2	8.6	8.0	9.6	8.5	10.4	10.3
RoIC (post-tax)	7.0	8.3	7.9	9.7	8.6	10.7	10.5
Working Capital Ratios							
Fixed Asset Turnover (x)	0.6	0.6	0.7	0.8	0.8	0.8	0.9
Asset Turnover (x)	0.6	0.6	0.6	0.7	0.7	0.8	0.8
Debtor (Days)	35	36	34	34	35	35	35
Inventory (Days)	13	14	17	16	18	18	14
Leverage Ratio (x)							
Net Debt/EBITDA	3.2	2.7	2.7	2.2	2.2	1.5	1.1
Debt/Equity	1.1	1.1	1.0	0.9	0.7	0.5	0.3

Cash flow statement

	2017	2018	2019	2020	2021E	2022E	2023E
(INR m)							
EBITDA	24,603	31,171	31,995	35,561	32,338	37,258	36,933
WC	236	-922	-4,729	1,258	-2,996	-504	1,484
Others	385	586	-161	2,512	1,500	0	0
Direct taxes (net)	-1,056	-3,200	-2,859	-2,977	-2,888	-3,826	-4,347
CF from Op. Activity	24,168	27,635	24,246	36,354	27,954	32,928	34,069
Capex	-21,745	-23,866	-19,887	-13,337	-9,008	-10,708	-9,658
FCFF	2,423	3,769	4,359	23,017	18,946	22,220	24,411
Interest income	732	771	768	696	1,533	1,471	1,458
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	-9,237	-8,200
Share capital	0	0	0	0	0	0	0
Borrowings	2,442	5,276	4,175	-8,535	-10,000	-14,000	-16,000
Finance cost	-10,334	-8,285	-9,076	-8,643	-8,383	-6,776	-5,274
Dividend	-62	-1,310	-2,925	-9,683	-3,124	-3,124	-3,605
Others	1,182	1,205	1,660	1,800	0	0	0
CF from Fin. Activity	-6,771	-3,114	-6,166	-25,062	-21,507	-23,900	-24,878
(Inc)/Dec in Cash	-3,520	646	1,136	-249	-1,028	-209	991
Opening balance	12,856	9,336	9,982	9,549	8,879	7,850	7,641
Closing balance (as per B/S)	9,336	9,982	11,118	9,300	7,850	7,641	8,632

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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