

Reinitiating coverage

Utilities

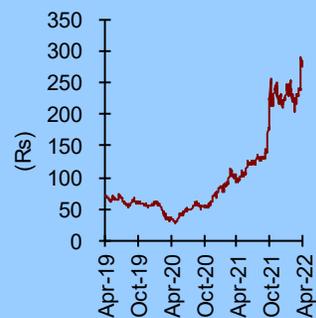
Target price: Rs262

Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	46.8	46.8	46.8
Institutional investors	27.6	30.6	26.2
MFs and others	8.5	8.3	4.5
FI & Banks	0.3	0.3	0.1
Insurance Co	7.5	10.9	10.8
FIIIs	11.3	11.1	10.8
Others	25.6	22.6	27.0

Source: NSE

Price chart



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Tata Power Company

HOLD

RE business stake divestment to bring in growth capital **Rs273**

Tata Power (TPWR) has concluded the long-awaited divestment of stake in its renewables (RE) businesses. It has consolidated all its RE businesses under one holdco – TPREL – and will be raising Rs40bn by offloading 10.53% stake in the same to GreenForest New Energies Bidco Limited (UK), a consortium of BlackRock and Mubadala, all of which will be used as growth capital for TPREL. As per our calculations, the transaction will be at an EV of ~Rs520bn-530bn, with pre-money equity valuation of Rs340bn. As per our estimates, the RE business has been valued at ~12x EV/EBITDA on full capacity commissioned basis (average of our FY23E/FY24E estimates). Though, it is higher than the valuation normally ascribed to a renewable company that listed recently through IPO, we believe, at CMP, the deal is priced-in. Yet we believe the long-term potential of TPWR's businesses is high as it is best placed to participate in RE capacity addition programme of GoI and any discom privatisation. We reinitiate our coverage on TPWR with a HOLD rating and a target price of Rs262. Mundra resolution and RE tendering & ordering pick-up are key near-term drivers.

► **Details of the deal:** TPWR will be raising Rs40bn (~US\$525mn) by offloading 10.53% stake in its renewables arm – TPREL – to GreenForest New Energies Bidco Limited (UK), a consortium led by BlackRock Real Assets with Mubadala Investment Company at a pre-money equity valuation of Rs340bn. Investment will be in two tranches. First tranche of Rs20bn will be received through issuance of equity shares at Rs235.38/sh in the next 2-3 months (closing date of transaction). Second tranche of Rs20bn will be received by Q1FY24 through issuance of 200mn compulsorily convertible preference shares at Rs100/sh. The final shareholding range (9.76%-11.43%) at the time of conversion into equity shares will be based on TPREL's EBITDA performance in FY23. Thus, the post-money equity valuation may be in the range of Rs310bn-Rs370bn. The valuation arrived at (12x FY23E/FY24E average EV/EBITDA as per our calculations) is a composite valuation of the total RE portfolio. At a net worth of Rs68.1bn as at 9MFY22-end for the consolidated RE business, the deal is valued at 5x P/B. Proceeds will be used for investment in growth of the RE businesses under the platform and no part of the proceeds will accrue to the parent TPWR for deleveraging or any other purposes. As per the management, there is no requirement for raising further capital for TPREL on the horizon. Further, no conditions have been put by GreenForest for IPO of TPREL. GreenForest will have the right to nominate one director and one observer on the board of TPREL and its material subsidiaries. Since this transaction is a primary issuance by TPREL, there are no capital gains, hence no tax incidence.

► **Consolidation of all RE businesses under a single holdco, TPREL, which will be the platform for all future RE business executions:** TPREL will be the holding company of all RE verticals. Five RE business verticals under the holdco TPREL will be: 1) utility-scale solar, wind and hybrid generation assets; 2) solar cell and module manufacturing; 3) EPC contracting; 4) rooftop solar infrastructure; 5) solar pumps and EVC infrastructure. All future RE ventures of TPWR will be undertaken through the TPREL platform.

Market Cap	Rs872bn/US\$11.4bn	Year to March	FY21	FY22E	FY23E	FY24E
Reuters/Bloomberg	TOPO.BO/TPWR IN	Revenue (Rs mn)	329,973	301,849	389,959	430,988
Shares Outstanding (mn)	3195.3	Net Income (Rs mn)	12,068	20,327	22,833	29,504
52-week Range (Rs)	298/92	EPS (Rs)	3.9	6.4	7.1	9.2
Free Float (%)	53.2	% Chg YoY	43.9	68.4	12.3	29.2
FII (%)	10.8	P/E (x)	72.3	42.9	38.2	29.6
Daily Volume (US\$'000)	1,77,662	CEPS (Rs)	12.4	15.7	17.0	20.1
Absolute Return 3m (%)	11.3	EV/E (x)	16.9	18.9	17.0	14.9
Absolute Return 12m (%)	184.9	Dividend Yield	0.6	0.6	0.6	0.6
Sensex Return 3m (%)	(4.6)	RoCE (%)	6.9	9.4	9.5	10.1
Sensex Return 12m (%)	21.4	RoE (%)	5.8	9.1	9.5	11.1

► **Huge growth opportunity for the RE business going ahead:**

- **Utility-scale RE:** Currently, TPWR's utility-scale RE portfolio includes 3.3GW of operational and 1.6GW of under-implementation capacity (totaling 4.9GW), majority to be commissioned in FY23. TPWR targets to reach a portfolio of 20GW of RE capacity by FY25. While the opportunity is huge as India targets 500GW of RE capacity by CY30, translating to >30GW of annual opportunities, traction in this space (as well as in solar EPC) will build once the auctions pick speed.
- **Solar cell and module manufacturing:** Tata Power has >30 years of manufacturing experience in modules and cells (includes experience in mono PERC technology). It currently has 550MW of solar cell and 650MW of solar module manufacturing capacity operational. Further, it is planning to set up another 4GW of solar cell + module manufacturing capacity in a single phase in the next 18 months. TPWR has already identified the land with necessary infrastructure in place. Majority of production from this unit will be for captive consumption. Additionally, the company expects to benefit from solar manufacturing PLI incentives of the Govt amounting to Rs15bn over the next five years.
- **EPC contracting:** TPSSL is among the largest solar PV EPC companies in India. It is targeting revenues of >Rs120bn by FY25 with a market share of ~20% vs Rs27.8bn in FY21. Its orderbook as of FY22-end was 3,250MW (LoA awaited for 2GW of projects, including captive), to be commissioned over the next 12-18 months. Company expects a steady-state EBITDA margin of ~10% for this business. TPSSL is also executing India's largest solar and battery storage project of 100MW in Chhattisgarh.
- **Solar rooftop and solar pumps:** In FY22, TPWR had 553MW of solar rooftop order wins and 73MW solar rooftop capacity under PPA model (including under-construction projects). Further, it installed ~28,500 solar pumps in FY22 vs 12,928 in FY21, up 2.2x, through government tenders as well as direct sales. Rooftop solar and solar pumps (through the KUSUM scheme) are expected to get a lot of push from the government going forward. Empanelment under PM KUSUM Scheme-2, which was pending due to litigations till Dec'21, has also started. In the solar rooftop space, the company expects group captive opportunities, apart from retail and commercial installation, to be some of the large-scale opportunities going forward.
- **EVC infrastructure:** Tata Power has installed >15,000 EV chargers cumulatively till date – 13,107 home chargers, 1,871 public chargers, 212 bus chargers and 136 captive (fleet) chargers – under the brand name *TATA Power EZ Charge*. Company has a first-mover advantage in the EVC business. It is looking for more strategic tie-ups with EV manufacturers, oil companies, mobility partners & builders, and development of franchise network. Company's recent tie-ups in the EV infrastructure space include:
 - MoU with TVS Motor Company to collaborate in electric two-wheeler charging ecosystem in India
 - Partnership with Apollo Tyres to deploy charging stations at its vehicle zones across India

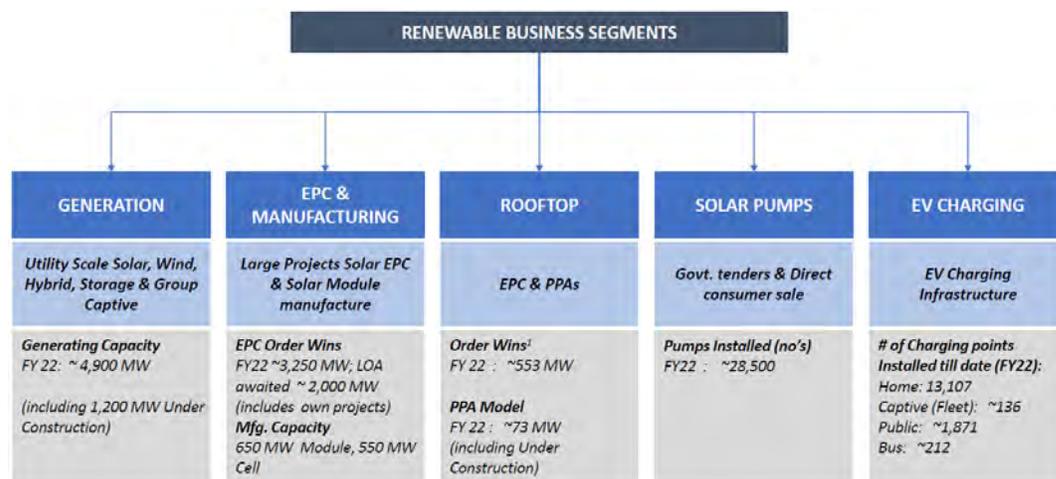
- Tata Power and Amã Stays & Trails have collaborated to set up EV charging stations to promote greener tourism
- **Current valuations of TPWR price-in the deal:** We reinitiate our coverage on TPWR with a **HOLD** rating and a target price of Rs262. The stock is currently trading at FY24E P/E of 29.6x and P/B of 3.3x. At fully commissioned RE capacity, the deal is valued at ~12x EV/EBITDA (average of FY23E/FY24E EBITDA, assuming full commissioned capacity over the next two years), which we believe, at CMP, is priced-in. Yet we believe the long-term potential of the company's businesses are high and TPWR is the best-placed private player in the power sector, with businesses across the value chain. We recommend entering the stock at a lower price vs CMP of Rs273/sh. Mundra resolution and RE tendering and ordering pick-up are the key near-term drivers.

Table 1: SoTP-based valuation

Constituent	Multiple (x)	Amount (Rs mn)	Value (Rs/sh)
Regulated businesses (FY24 regulated equity of Rs100bn)	P/BV at 2x	200,261	63
Coal companies and CGPL (assuming combined steady state EBITDA of Rs35.5bn; although FY22 may be higher)	6x EV/EBITDA FY24E	126,340	40
Renewables	11x EV/EBITDA FY24E (vs 12x average of FY23/24 as per the deal)	360,449	113
Resurgent Power, Tata Projects and Others (Resurgent has won new Transmission projects and hence on growth path)	P/E 20x FY24E	78,284	25
Cash and investments, (-) non-core debt		70,596	22
Total		835,930	262

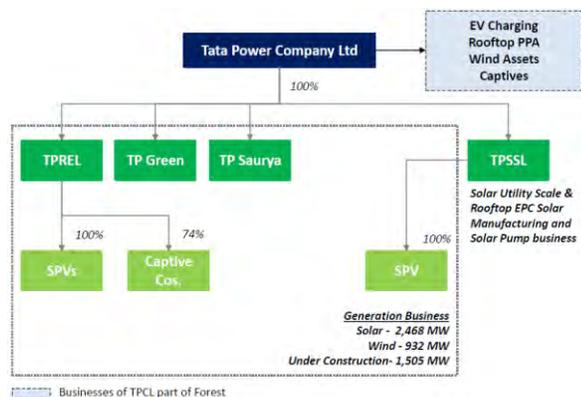
Source: Company data, I-Sec research

Key risks to our call: 1) Delay in deal closure and divestment of capital receipts; 2) delay in RE auctions and orders; 3) higher than expected demand in the distribution areas; 4) lower than expected loss at CGPL.

Chart 1: Renewables business segments of Tata Power

Source: Company

Chart 2: Existing RE business structure



Source: Company

Chart 3: Post-deal structure

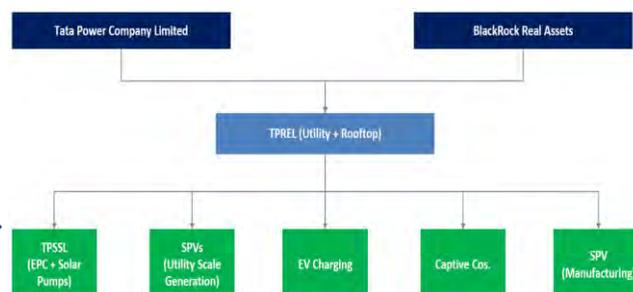


Table 2: TPWR's renewables businesses' consolidated financial performance

Particulars (Rs mn)	9MFY22	9MFY21	Growth (%)	FY21	FY20	Growth (%)
Capacity (MW)	2,956	2,667	11%	2,693	2,630	2%
Revenue	49,040	31,960	53%	58,880	39,770	48%
EBITDA	19,340	17,090	13%	23,520	23,680	-1%
PAT	4,160	2,720	53%	4,470	4,410	1%
Net Worth	68,050	64,420	6%	65,580	65,230	1%
Gross Debt	150,090	117,970	27%	120,790	111,010	9%
Net Debt	140,110	113,880	23%	117,060	106,620	10%

Source: Company data, I-Sec research

Table 3: TPWR's renewables businesses' operational performance

Particulars	FY19	FY20	FY21	9MFY22
Solar pumps				
Solar pumps installed	4,506	12,896	12,928	18,609
Solar pumps revenue (Rs mn)	1,520	2,850	3,670	4,310
EV charging infrastructure				
Public EV chargers installed (cumulative)	65		456	1,299
Home chargers installed (cumulative)			3,000	7,767
Microgrids				
Microgrid installed (cumulative)			161	NA
Solar roof top solutions				
Solar rooftop installation (MW)	86	114	175	553*
Solar rooftop revenue (Rs mn)	3,070	4,040	6,290	8,230
RE capacity and Solar EPC				
Renewables capacity (MW)	2,549	2,630	2,693	2,956
Solar capacity in pipeline (MW)		700	1,314	1,954
TPSSSL Order book - ex-GST (Rs mn)		69,690	87,420	100,260

Source: Company data, I-Sec research

* FY22 data

Financial summary (consolidated)

Table 4: Profit and Loss statement
(Rs mn, year ending March 31)

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Operating Income (Sales)	272,883	289,214	294,927	286,634	329,973	301,849	389,959	430,988
Operating Expenses	220,510	229,743	231,359	211,936	255,404	232,115	311,993	342,720
EBITDA	52,372	59,471	63,568	74,698	74,569	69,734	77,965	88,268
<i>% margins</i>	<i>19.2%</i>	<i>20.6%</i>	<i>21.6%</i>	<i>26.1%</i>	<i>22.6%</i>	<i>23.1%</i>	<i>20.0%</i>	<i>20.5%</i>
Depreciation & Amortisation	19,886	23,981	23,931	26,336	27,449	29,934	31,630	34,781
Gross Interest	31,140	37,230	41,700	44,937	40,104	42,211	43,035	42,262
Other Income	2,022	4,327	3,958	5,626	4,392	3,600	3,800	4,000
Recurring PBT	3,369	2,587	1,895	9,051	11,408	1,188	7,100	15,225
Add: Extraordinaries	(6,515)	11,025	17,458	2,262	(1,093)	-	-	-
Less: Taxes	(458)	1,643	6,561	3,572	4,201	4,259	5,051	7,008
Less: Minority Interest	(2,031)	(2,026)	(2,495)	(2,991)	(3,113)	-	-	-
Net Income (Reported)	7,455	24,756	21,909	10,174	11,274	20,327	22,833	29,504
Recurring Net Income	11,226	16,240	7,124	8,384	12,068	20,327	22,833	29,504

Source: Company data, I-Sec research

Table 5: Balance sheet
(Rs mn, year ending March 31)

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Assets								
Total Current Assets	189,299	210,802	222,610	237,553	266,586	251,420	257,943	269,864
<i>of which cash & cash eqv.</i>	<i>9,543</i>	<i>11,858</i>	<i>7,875</i>	<i>20,942</i>	<i>61,127</i>	<i>60,945</i>	<i>42,686</i>	<i>43,509</i>
Total Current Liabilities & Provisions	133,222	127,622	121,837	121,811	186,828	186,828	186,828	186,828
Net Current Assets	56,077	83,180	100,774	115,742	79,758	64,592	71,115	83,036
Investments	119,570	124,289	130,181	145,348	131,491	171,491	171,491	171,491
<i>of which</i>								
<i>Other Marketable</i>	<i>23,769</i>	<i>13,173</i>	<i>10,284</i>	<i>13,322</i>	<i>12,284</i>	<i>12,284</i>	<i>12,284</i>	<i>12,284</i>
Net Fixed Assets	486,313	481,339	468,806	492,779	554,891	556,957	560,826	569,545
<i>of which</i>								
<i>Capital Work-in-Progress</i>	<i>21,779</i>	<i>16,526</i>	<i>25,757</i>	<i>16,115</i>	<i>35,998</i>	<i>45,998</i>	<i>55,998</i>	<i>35,998</i>
Non CA/Goodwill	26,181	20,943	20,023	21,802	35,545	35,545	35,545	35,545
Total Assets	688,141	709,751	719,783	775,671	801,684	828,583	838,977	859,616
Liabilities								
Borrowings	503,154	500,892	500,060	498,759	446,709	505,680	495,496	488,672
Deferred Tax Liability	48,503	36,103	30,845	72,931	117,480	67,480	67,480	67,480
Equity Share Capital	2,705	2,705	2,705	2,705	3,196	3,196	3,196	3,196
<i>Face Value per share (Rs)</i>	<i>1</i>							
Reserves & Surplus*	115,090	149,897	164,507	177,955	205,027	220,401	238,281	262,831
Net Worth	117,795	152,602	167,212	180,660	208,223	223,596	241,476	266,027
Total Liabilities	688,141	709,751	719,783	775,671	801,684	828,583	838,977	859,616

Source: Company data, I-Sec research

Table 6: Cashflow statement
(Rs mn, year ending March 31)

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Operating Cashflow	25,281	28,391	25,137	31,686	33,967	46,661	50,664	60,285
Working Capital Changes	7,165	(24,788)	(21,577)	(1,901)	76,169	14,985	(24,783)	(11,097)
Capital Commitments	(72,694)	(34,323)	(20,178)	(62,438)	(76,741)	(72,000)	(35,500)	(43,500)
Free Cashflow	(40,247)	(30,720)	(16,618)	(32,653)	33,394	(10,354)	(9,619)	5,687
Cashflow from Investing Activities	(36,285)	20,162	6,847	2,588	5,430	3,600	3,800	4,000
Issue of Share Capital	642	-	-	-	30,441	-	-	-
Buyback of shares	-	-	-	-	-	-	-	-
Inc (Dec) in Borrowings	86,946	(2,262)	(832)	(1,301)	(52,050)	58,971	(10,184)	(6,825)
Dividend paid	(3,526)	(4,236)	(4,237)	(4,244)	(4,192)	(4,953)	(4,953)	(4,953)
Extraordinary Items	(6,515)	11,025	17,458	2,262	(1,093)	-	-	-
Chg. in Cash & Bank balance	(2,565)	2,315	(3,983)	13,067	40,185	(182)	(18,259)	824

Source: Company data, I-Sec research

Table 7: Key ratios*(Year ending March 31)*

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)								
EPS(Basic Recurring)	4.2	6.0	2.6	3.1	3.8	6.4	7.1	9.2
Diluted Recurring EPS	4.2	6.0	2.6	3.1	3.9	6.4	7.1	9.2
Recurring Cash EPS	11.5	14.9	11.5	12.8	12.4	15.7	17.0	20.1
Dividend per share (DPS)	1.3	1.3	1.3	1.6	1.6	1.6	1.6	1.6
Book Value per share (BV)	43.5	56.4	61.8	66.8	65.2	70.0	75.6	83.2
Growth Ratios (%)								
Operating Income	(25.2)	6.0	2.0	(2.8)	15.1	(8.5)	29.2	10.5
EBITDA	(34.5)	13.6	6.9	17.5	(0.2)	(6.5)	11.8	13.2
Recurring Net Income	8.1	44.7	(56.1)	17.7	43.9	68.4	12.3	29.2
Diluted Recurring EPS	8.1	44.7	(56.1)	17.7	26.7	62.0	12.3	29.2
Diluted Recurring CEPS	(8.9)	29.3	(22.8)	11.8	(3.7)	27.2	8.4	18.0
Valuation Ratios (x)								
P/E	65.8	45.5	103.7	88.1	72.3	42.9	38.2	29.6
P/CEPS	23.7	18.4	23.8	21.3	22.1	17.4	16.0	13.6
P/BV	6.3	4.8	4.4	4.1	4.2	3.9	3.6	3.3
EV / EBITDA	23.5	20.6	19.4	16.3	16.9	18.9	17.0	14.9
EV / Operating Income	4.5	4.2	4.2	4.2	3.8	4.4	3.4	3.1
EV / Operating FCF	(30.6)	(40.0)	(74.1)	(37.2)	37.7	(127.2)	(137.8)	231.7
Operating Ratios								
Operating expenses / Revenue	80.8	79.4	78.4	73.9	77.4	76.9	80.0	79.5
Other Income / PBT (%)	60.0	167.2	208.9	62.2	38.5	302.9	53.5	26.3
Effective Tax Rate (%)	42.1	22.8	15.3	20.9	27.3	-	-	-
NWC / Total Assets (%)	6.8	10.0	12.9	12.2	2.3	0.4	3.4	4.6
Inventory Turnover (days)	21.4	20.5	21.1	22.3	20.8	25.0	25.0	25.0
Receivables (days)	76.4	55.5	75.2	74.8	86.5	80.0	80.0	80.0
Payables (days)	146.8	137.3	119.8	124.2	124.2	115.0	115.0	115.0
D/E Ratio (x)	4.2	3.2	2.9	2.6	1.9	2.0	1.9	1.7
Return/Profitability Ratios (%)								
Recurring Net Income Margins	4.1	5.6	2.4	2.9	3.7	6.7	5.9	6.8
RoCE	4.8	7.0	6.4	6.7	6.9	9.4	9.5	10.1
RoNW	9.5	10.6	4.3	4.6	5.8	9.1	9.5	11.1
Dividend Payout Ratio	31.3	21.7	49.4	50.0	39.5	24.4	21.7	16.8
Dividend Yield	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6
EBITDA Margins	19.2	20.6	21.6	26.1	22.6	23.1	20.0	20.5

Source: Company data, I-Sec research

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