Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update | Company Update

Tata Power Company Ltd

Renewable energy business to drive growth

Power Utilities	Sharekhan code: TATAPOWER		
Reco/View: Buy ↔	CMP: Rs. 476	Price Target: Rs. 540 ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS	Positive	↔	Positive
RQ	Positive	↔	Positive
RV	Neutral	↔	Neutral

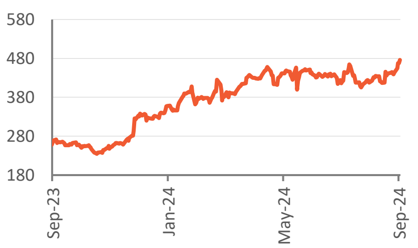
Company details

Market cap:	Rs. 1,52,066 cr
52-week high/low:	Rs. 495 / 231
NSE volume: (No of shares)	14.6 lakh
BSE code:	500400
NSE code:	TATAPOWER
Free float: (No of shares)	169.8 cr

Shareholding (%)

Promoters	46.9
FII	9.5
DII	15.5
Others	28.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.7	10.2	20.7	83.1
Relative to Sensex	7.6	1.1	4.2	53.0

Sharekhan Research, Bloomberg

Summary

- The company's renewable energy capacity stands at 10.5GW with 5.7GW of projects in various stages of implementation. Its operational capacity has reached 4.8GW, comprising 3.8GW of solar and 1GW of wind energy projects.
- Company intends to add 5.7GW of renewable energy capacities in the next three years. Management sees large opportunity from rooftop solar supported by the government with rooftop installations for 1 crore homes in next 3-4 years.
- The 4.3GW solar cell & module plant would be fully operational by Q2FY25. This plant would also get benefit from the large rooftop solar market.
- Tata Power has a well-planned strategy to shift towards clean energy and targets for 2x rise in its PAT by FY2027E over FY2023. We maintain a Buy on Tata Power with a revised PT of Rs. 540. At CMP, the stock trades at 4.1x/3.6x FY25E/FY26E P/BV.

The transmission & distribution (T&D) and renewable business segments of Tata Power are expected to fuel the future growth of the company. Tata Power recently won two transmission projects worth Rs. 4,600 crore while the company's renewable energy capacity stands at 10.5GW with 5.7GW of projects to be completed in next 3 years. The company's total installed capacity (including thermal power) is 15GW. Out of the Rs. 20,000 crore guided capex for FY25, 55-60% would be allocated to renewables and 30% would be for T&D. The rooftop solar and solar EPC businesses are also doing well with a strong outstanding orderbook. With this focused strategy, Tata Power targets to increase the PAT by 2x in FY27 over FY23.

- **Capacity addition:** The company's current capacity is 10.5GW of Renewable Energy and 9GW of thermal energy. Total 5.7GW of Renewable energy capacity and 3GW of third party EPC projects are under pipeline. Company expects to commission 3GW capacity in FY25 and 4GW+ in FY26. The company wants to take on more capacity addition projects but there is a lack of transmission capacity.
- **Other projects:** Under the PM Surya Ghar Yojana, the government intends to do 1 crore rooftop solar installations in next 3-4 years. Tata Power is the leader in this segment with 13% market share. Company's 4.3GW cell and module manufacturing plant in Tamil Nadu is going to be fully operational by Q2. Strong rooftop solar market bodes well for the cell & module demand as well. Tata Power is also working on 2.8GW Pumped Hydro Storage Projects (PSP) with an investment of Rs. 13,000 crore. Company also won two transmission projects recently worth Rs. 4,600 crore in Bikaner-Neemrana & Jalpura-Khurja Transmission Project, under the TBCB regime.
- **Strong profit growth with improving return ratios:** Tata Power is targeting to increase PAT by 2x in FY27 over FY23 levels. Company is expected to clock a revenue/EBITDA/PAT CAGR of 14%/19%/27% over FY24-26 with a RoE of 15% and RoCE of 11.3% in FY26. The debt levels are also expected to remain stable.

Our Call

Valuation – We maintain a Buy on TPCL with a revised PT of Rs. 540: TPCL's focus on business restructuring and high-growth RE business and entry into power transmission would play a crucial role for sustained earnings growth (management targets for 2x rise in its PAT by FY2027E over FY2023) and improved earnings quality. In addition, management's business restructuring plans to increase the share of high growth RE business would help sustain the current valuations. Hence, we maintain Buy on TPCL with a revised price target (PT) of Rs. 540. At the CMP, the stock trades at 4.1x/3.6x its FY2025E/FY2026E P/BV.

Key Risks

1) Slower-than-expected ramp-up of RE portfolio and expansion in distribution business, 2) lower-than-expected profitability in Solar EPC business.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	55,109	61,449	69,138	79,242
OPM (%)	14.0	17.5	18.8	19.2
Adjusted PAT	3,336	3,696	5,011	5,958
% YoY growth	91.6	10.8	35.6	18.9
Adjusted EPS (Rs.)	10.4	11.6	15.7	18.6
P/E (x)	45.6	41.1	30.4	25.5
P/B (x)	5.3	4.7	4.1	3.6
EV/EBITDA (x)	24.6	17.8	13.9	11.3
RoNW (%)	13.0	12.1	14.5	15.0
RoCE (%)	6.1	8.5	10.1	11.3

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector View – Regulated tariffs provide earnings visibility; reforms to strengthen balance sheets of power companies

India's power sector is regulated by the CERC with an availability-based earnings model (fixed RoE on power generation assets) and, thus, the regulated tariff model provides strong earnings visibility for power-generation, transmission & distribution companies. Moreover, the government's power sector package of over Rs. 3 lakh crore announced in the Union Budget some years ago is helping power discoms clear dues of power generation and transmission companies. This would reduce receivables of the power sector and strengthen companies' balance sheets.

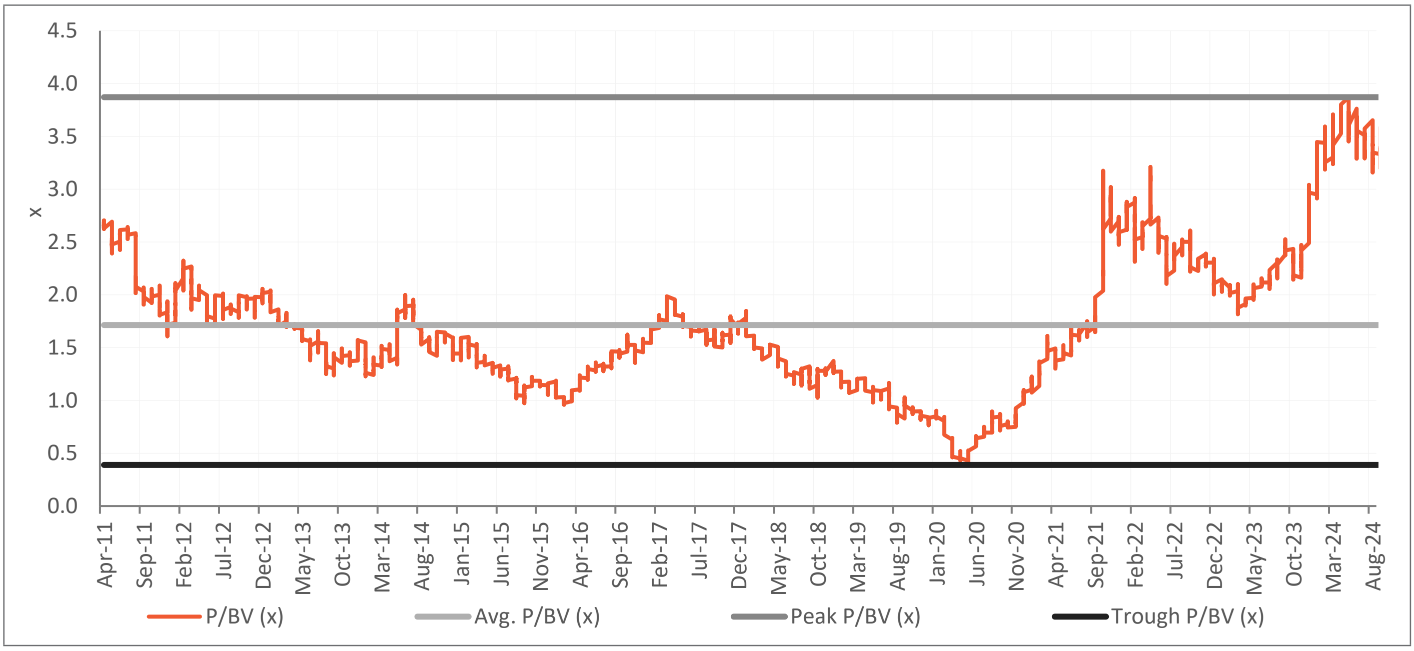
■ Company Outlook – Focus on distribution and RE business to drive robust earnings growth

TPCL has a well-planned strategy to shift towards clean energy and targets a 2x rise in its PAT (before minority) by FY2027E over FY2023. We believe growth would be largely driven by distribution and RE business. We expect PAT to register a CAGR of 27% over FY2024-FY2026E with healthy RoE of ~15% in FY2026E.

■ Valuation – We maintain a Buy on TPCL with a revised PT of Rs. 540

TPCL's focus on business restructuring and high-growth RE business and entry into power transmission would play a crucial role for sustained earnings growth (management targets for 2x rise in its PAT by FY2027E over FY2023) and improved earnings quality. In addition, management's business restructuring plans to increase the share of high growth RE business would help sustain the current valuations. Hence, we maintain Buy on TPCL with a revised price target (PT) of Rs. 540. At the CMP, the stock trades at 4.1x/3.6x its FY2025E/FY2026E P/BV.

One-year forward P/BV (x) band



Source: Sharekhan Research

About company

Tata Power is India's largest integrated private power company with presence in power generation (capacity of 15010 MW), spanning across the entire power value chain - from renewable and conventional energy generation to transmission & distribution (largest private sector player with a customer base of 12.5 million), trading, storage solutions and solar cells and module manufacturing and Solar EPC (largest solar EPC player in India). Tata Power's clean energy capacity is 6150MW, which constitutes 41% of its total capacity.

Investment theme

Tata Power's core earnings are resilient even in demand down cycle as it gets regulated returns on power generation and distribution assets. The company's focus to shift from a B2G to B2C model would drive robust earnings growth (to be driven by RE and distribution business) over the next 4-5 years. Potential improvement in ESG rating could re-rate the company.

Key Risks

- Slower-than-expected ramp-up of RE portfolio and expansion in distribution business.
- Lower-than-expected profitability in Solar EPC business. Likely continued under-recoveries for Mundra UMPP.

Additional Data

Key management personnel

Dr. Praveer Sinha	Managing Director and CEO
Mr. Sanjeev Churiwala	Chief Financial Officer
Mr. Vispi S. Patel	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.78
2	Vanguard Group Inc/The	1.84
3	Nippon Life India Asset Management	1.83
4	BlackRock Inc	1.58
5	Quant Money Managers Ltd	1.10
6	Axis Asset Management Co Ltd/India	0.67
7	Franklin Resources Inc	0.66
8	Mirae Asset Financial Group	0.65
9	SBI Funds Management Ltd	0.59
10	ICICI Prudential Asset Management	0.59

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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