

December 08, 2010

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| Rating | Accumulate |
|----------------|------------|
| Price | Rs1,295 |
| Target Price | Rs1,430 |
| Implied Upside | 10.4% |
| Sensex | 19,696 |

(Prices as on December 08, 2010)
Trading data

| | |
|----------------------------|-------|
| Market Cap. (Rs bn) | 307.3 |
| Shares o/s (m) | 237.3 |
| 3M Avg. Daily value (Rs m) | 601.3 |

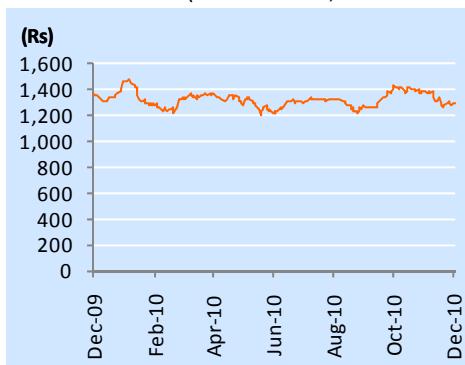
Major shareholders

| | |
|----------------|--------|
| Promoters | 31.81% |
| Foreign | 19.13% |
| Domestic Inst. | 28.56% |
| Public & Other | 20.50% |

Stock Performance

| (%) | 1M | 6M | 12M |
|----------|-------|--------|--------|
| Absolute | (7.0) | 4.1 | (6.1) |
| Relative | (1.5) | (14.4) | (20.4) |

Price Performance (RIC: TTPW.BO, BB: TPWR IN)



Source: Bloomberg

Tata Power

Maithon – the next catalyst

On account of weak Q2FY11 results, standoff with RInfra for 200MWs of power in Mumbai License Area and general overhang on the power sector, Tata Power (TPW) stock has underperformed the Sensex by 17% in YTD (FY11). However, outlook for the company remains considerably **positive** on account of major capacity additions (2650MWs in FY12E), sustained optimism in coal prices and robust performances of its distribution and transmission businesses.

- Maithon project gearing up:** The first unit of 1050MW 'Maithon' thermal power project is expected to commission in Q4FY11 and expected to start contributing fully to FY12 earnings. A 74:26 JV with Damodar Valley Corporation is complete to the extent of 90% and once operational, will contribute Rs13.8bn to top-line, Rs2bn to PAT and Rs3.5bn to free cash flows annually.
- Mundra UMPP on track:** The first UMPP to come on-stream in Mundra would be in Q3FY12 (although efforts are made for an early commissioning) which has FSA with Bumi's KPC and Arutmin mines for 10.1mtpa ($\pm 20\%$). We expect full capacity generation by FY14E which will contribute Rs33bn to the revenues.
- Benefits (Bumi) from increasing coal prices:** With coal volumes/realizations improving on account of robust demand from Japan, China and India, TPW is expected to benefit as Bumi plans to grow its production to 110mtpa by CY2012 from the current 60mtpa.
- Valuations and Outlook:** New projects are likely to double the generation capacity, whereas the existing generation business may face some operational stress in the near future. However, we expect this to be offset by the coal business which could witness a transformed period of high growth aided by rising demand. Future growth prospects (4000MWs) would still remain under veil partly on account of pending necessary approvals for which we reduce our valuations. With 23% of the present generation capacity (668 MWs) coming from clean energy, TPW aims to scale it up to 25% by 2017 (addition of 2500MWs). The company, on a consolidated basis, is trading at P/BV multiple of 2.4x, 2.1x and 1.9x for FY11E, FY12E and FY13E, respectively with limited downside risks. Acquisition of overseas coal assets for Coastal Maharashtra project and outcome of Olympus deal would be a key development, going forward. **Maintain 'Accumulate', with a revised target price of Rs1,430 (Previous TP - Rs1,441).**

| Key financials (Y/e March) | 2009 | 2010 | 2011E | 2012E |
|----------------------------|--------|--------|--------|--------|
| Revenues (Rs m) | 72,362 | 70,983 | 85,426 | 89,490 |
| Growth (%) | 22.3 | (1.9) | 20.3 | 4.8 |
| EBITDA (Rs m) | 11,409 | 18,786 | 17,456 | 18,631 |
| PAT (Rs m) | 6,665 | 6,864 | 6,866 | 7,062 |
| EPS (Rs) | 30.1 | 28.9 | 28.9 | 29.8 |
| Growth (%) | 19.6 | (3.9) | — | 2.9 |
| Net DPS (Rs) | 11.5 | 12.0 | 5.8 | 6.4 |

Source: Company Data; PL Research

| Profitability & Valuation | 2009 | 2010 | 2011E | 2012E |
|---------------------------|------|------|-------|-------|
| EBITDA margin (%) | 15.8 | 26.5 | 20.4 | 20.8 |
| RoE (%) | 7.9 | 7.1 | 6.3 | 6.1 |
| RoCE (%) | 7.1 | 6.4 | 5.4 | 5.1 |
| EV / sales (x) | 4.7 | 5.0 | 4.6 | 4.4 |
| EV / EBITDA (x) | 29.7 | 18.8 | 22.3 | 21.2 |
| PE (x) | 43.0 | 44.8 | 44.8 | 43.5 |
| P / BV (x) | 3.3 | 2.9 | 2.7 | 2.6 |
| Net dividend yield (%) | 0.9 | 0.9 | 0.5 | 0.5 |

Source: Company Data; PL Research

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**Consolidated Nos. (Rs m)**

| Y/e March | FY10 | FY11E | FY12E |
|-------------------|-------------|-------------|-------------|
| Revenue | 189,858 | 214,059 | 269,710 |
| EBITDA | 38,200 | 54,245 | 75,932 |
| <i>Margin (%)</i> | <i>20.1</i> | <i>25.3</i> | <i>28.2</i> |
| Adj. PAT | 16,500 | 16,462 | 22,299 |
| EPS (Rs) | 69.5 | 69.4 | 94.0 |
| P/BV (x) | 2.7 | 2.4 | 2.1 |

Source: Company Data, PL Research

SOTP Valuation

| Business Areas | Absolute Value (Rs m) | PSV (Rs) | Methodology |
|--|-----------------------|--------------|-------------|
| Mumbai License Area | 124,890 | 417 | DCE/LTSSG |
| Generation (Includes sum of separate valuation of Thermal, Oil, Gas and Hydro Gencos) | 76,693 | 213 | NPV/LTSSG |
| Distribution | 34,662 | 147 | NPV/LTSSG |
| Transmission | 13,536 | 57 | NPV/LTSSG |
| CPP/IPPs | 95,253 | 401 | |
| Coastal Gujarat (Mundra UMPP) | 50,533 | 213 | DCF |
| Maithon | 14,822 | 62 | DCF |
| IEL (Includes separate valuations of group CPPs) | 4,011 | 17 | DCF |
| Merchant/IPP (Includes separate valuations of IPPs) | 25,887 | 109 | DCF |
| JVs/Associates | 29,017 | 113 | |
| Powerlinks (Transmission link from Delhi to Tala) | 7,354 | 22 | NPV/LTSSG |
| NDPL(Delhi Circle) | 11,248 | 47 | LTSSG |
| TPT | 2,400 | 10 | P/E |
| BP solar | 6,359 | 27 | P/E |
| Dagachhu | 800 | 3 | P/BV |
| Geodynamics | 856 | 4 | Mkt Cap |
| Coal Mines | 69,933 | 236 | |
| KPC/Arutmine/Indocoal | 69,933 | 236 | Mkt cap/NPV |
| Other Businesses | 945 | 4 | |
| SED | 945 | 4 | P/E |
| Future Projects | 92,908 | 259 | |
| Upcoming Power Projects - Mandakini & Tubed | 26,398 | 111 | DCF |
| Future Growth | 66,510 | 148 | LTSSG |
| Total Value | 412,946 | 1,430 | |

Source: PL Research



Income Statement (Rs m)

| Y/e March | 2009 | 2010 | 2011E | 2012E |
|----------------------------|---------------|---------------|---------------|---------------|
| Net Revenue | 72,362 | 70,983 | 85,426 | 89,490 |
| Raw Material Expenses | 53,070 | 42,973 | 59,054 | 61,576 |
| Gross Profit | 19,293 | 28,010 | 26,372 | 27,913 |
| Employee Cost | — | — | — | — |
| Other Expenses | 7,883 | 9,224 | 8,916 | 9,283 |
| EBITDA | 11,409 | 18,786 | 17,456 | 18,631 |
| Depr. & Amortization | 3,289 | 4,779 | 5,212 | 5,800 |
| Net Interest | 3,278 | 4,230 | 4,324 | 4,801 |
| Other Income | 6,324 | 2,816 | 3,563 | 3,950 |
| Profit before Tax | 11,167 | 12,593 | 11,483 | 11,980 |
| Total Tax | 1,945 | 3,205 | 3,117 | 3,418 |
| Profit after Tax | 9,222 | 9,388 | 8,366 | 8,562 |
| Ex-Od items / Min. Int. | — | — | — | — |
| Adj. PAT | 6,665 | 6,864 | 6,866 | 7,062 |
| Avg. Shares O/S (m) | 221.4 | 237.3 | 237.3 | 237.3 |
| EPS (Rs.) | 30.1 | 28.9 | 28.9 | 29.8 |

Cash Flow Abstract (Rs m)

| Y/e March | 2009 | 2010 | 2011E | 2012E |
|---------------------|----------|----------|----------|----------|
| C/F from Operations | 6,956 | 14,727 | (15,324) | 807 |
| C/F from Investing | (35,171) | (22,701) | (14,008) | (7,181) |
| C/F from Financing | 28,382 | 20,329 | 17,922 | 6,874 |
| Inc. / Dec. in Cash | 168 | 12,355 | (11,409) | 500 |
| Opening Cash | 287 | 455 | 12,809 | 1,400 |
| Closing Cash | 455 | 12,809 | 1,400 | 1,900 |
| FCFF | (20,651) | 1,954 | (26,841) | (10,711) |
| FCFE | 959 | 8,692 | (1,809) | (4,576) |

Key Financial Metrics

| Y/e March | 2009 | 2010 | 2011E | 2012E |
|-------------------------|------|-------|--------|--------|
| Growth | | | | |
| Revenue (%) | 22.3 | (1.9) | 20.3 | 4.8 |
| EBITDA (%) | 21.8 | 64.7 | (7.1) | 6.7 |
| PAT (%) | 20.0 | 3.0 | — | 2.9 |
| EPS (%) | 19.6 | (3.9) | — | 2.9 |
| Profitability | | | | |
| EBITDA Margin (%) | 15.8 | 26.5 | 20.4 | 20.8 |
| PAT Margin (%) | 9.2 | 9.7 | 8.0 | 7.9 |
| RoCE (%) | 7.1 | 6.4 | 5.4 | 5.1 |
| RoE (%) | 7.9 | 7.1 | 6.3 | 6.1 |
| Balance Sheet | | | | |
| Net Debt : Equity | 0.6 | 0.4 | 0.7 | 0.7 |
| Net Wrkng Cap. (days) | — | — | — | — |
| Valuation | | | | |
| PER (x) | 43.0 | 44.8 | 44.8 | 43.5 |
| P / B (x) | 3.3 | 2.9 | 2.7 | 2.6 |
| EV / EBITDA (x) | 29.7 | 18.8 | 22.3 | 21.2 |
| EV / Sales (x) | 4.7 | 5.0 | 4.6 | 4.4 |
| Earnings Quality | | | | |
| Eff. Tax Rate | 17.4 | 25.5 | 27.1 | 28.5 |
| Other Inc / PBT | 56.6 | 22.4 | 31.0 | 33.0 |
| Eff. Depr. Rate (%) | 3.7 | 4.8 | 4.7 | 4.8 |
| FCFE / PAT | 14.4 | 126.6 | (26.3) | (64.8) |

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

| Y/e March | 2009 | 2010 | 2011E | 2012E |
|-------------------------------|----------------|----------------|----------------|----------------|
| Shareholder's Funds | 86,924 | 106,238 | 113,106 | 119,126 |
| Total Debt | 51,982 | 58,720 | 83,752 | 89,887 |
| Other Liabilities | 1,144 | 2,111 | 1,333 | 1,444 |
| Total Liabilities | 140,050 | 167,068 | 198,191 | 210,458 |
| Net Fixed Assets | 59,517 | 62,290 | 71,893 | 72,905 |
| Goodwill | — | — | — | — |
| Investments | 54,435 | 66,886 | 70,894 | 68,075 |
| Net Current Assets | 26,098 | 37,893 | 55,402 | 69,475 |
| <i>Cash & Equivalents</i> | 455 | 12,809 | 1,400 | 1,900 |
| <i>Other Current Assets</i> | 46,356 | 46,766 | 83,757 | 100,307 |
| <i>Current Liabilities</i> | 20,713 | 21,683 | 29,755 | 32,732 |
| Other Assets | — | — | 2 | 3 |
| Total Assets | 140,050 | 167,069 | 198,191 | 210,458 |

Quarterly Financials (Rs m)

| Y/e March | Q3FY10 | Q4FY10 | Q1FY11 | Q2FY11 |
|--------------------------|---------------|---------------|---------------|---------------|
| Net Revenue | 15,352 | 17,950 | 18,679 | 16,361 |
| EBITDA | 3,327 | 4,654 | 4,509 | 3,510 |
| <i>% of revenue</i> | 21.7 | 25.9 | 24.1 | 21.5 |
| Depr. & Amortization | 1,208 | 1,270 | 1,267 | 1,327 |
| Net Interest | 922 | 948 | 796 | 1,084 |
| Other Income | 452 | 533 | 1,275 | 1,935 |
| Profit before Tax | 1,649 | 2,970 | 3,721 | 3,034 |
| Total Tax | 484 | 499 | 1,032 | 517 |
| Profit after Tax | 1,166 | 2,472 | 2,234 | 2,517 |
| Adj. PAT | 1,166 | 2,472 | 2,234 | 2,517 |

Key Operating Metrics

| Y/e March | 2009 | 2010 | 2011E | 2012E |
|-----------------------|----------|----------|----------|----------|
| Units Sold Mus | 14,703.0 | 15,574.0 | 17,608.6 | 18,023.3 |
| Units Generated Mus | 14,807.0 | 15,946.0 | 18,293.3 | 18,720.8 |
| Avg Realisation Rs/pu | 4.8 | 4.4 | 4.8 | 4.9 |

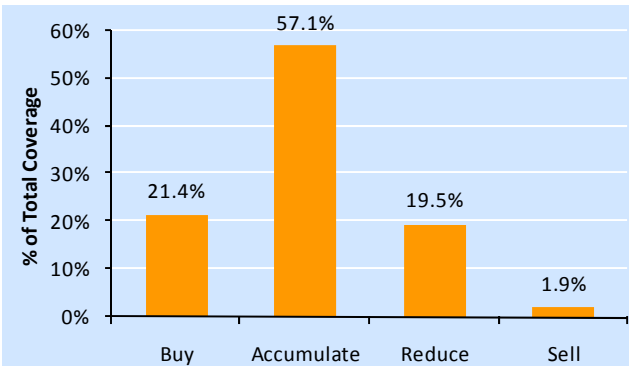
Source: Company Data, PL Research.

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PL's Recommendation Nomenclature

| | | | |
|-----------------------|--|--------------------------|--|
| BUY | : Over 15% Outperformance to Sensex over 12-months | Accumulate | : Outperformance to Sensex over 12-months |
| Reduce | : Underperformance to Sensex over 12-months | Sell | : Over 15% underperformance to Sensex over 12-months |
| Trading Buy | : Over 10% absolute upside in 1-month | Trading Sell | : Over 10% absolute decline in 1-month |
| Not Rated (NR) | : No specific call on the stock | Under Review (UR) | : Rating likely to change shortly |

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