

# Tata Power

BSE SENSEX  
17,601

S&P CNX  
5,338

Bloomberg TPWR IN  
Equity Shares (m) 2,373.3  
52-Week Range (INR) 123/81  
1,6,12 Rel. Perf. (%) -5/-9/-22  
M.Cap. (INR b) 232.6  
M.Cap. (USD b) 4.2

**CMP: INR98**

**TP: INR77**

**Neutral**

Year End	Net Sales (INR M)	PAT* (INR M)	EPS* (INR)	EPS* Growth (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/Sales	EV/EBIDTA
03/11A	69,185	17,516	7.4	18.4	-	-	7.5	6.2	-	-
03/12A	84,958	17,628	7.4	0.6	13.2	2.0	9.7	6.2	3.6	17.2
03/13E	91,489	12,951	5.5	-26.5	18.0	1.9	8.0	5.5	3.4	17.1
03/14E	95,750	9,777	4.1	-24.5	23.8	1.8	6.7	6.3	3.3	15.7

\*Consol. incl. share of profit from KPC and Arutmin mines, Pre Exceptionals, Fully Diluted

- Consolidated PAT below estimate:** Adjusted consolidated PAT for the quarter stood at INR3.1b (v/s estimate of INR4.9b), led by 1) Higher losses at Mundra UMPP owing to take or pay for Port, shipping and coal (losses at INR1.6b), 2) Losses at Maithon project at INR178m given equipment issues v/s our estimate of marginal profits, 3) KPC/Arutmin mines EBIT stood at INR2.5b v/s estimate of INR5.2b and INR5.1b QoQ. Standalone adjusted PAT for 1Q stood at INR4.1b v/s estimate of INR1.8b due to higher other income at INR3.5b (v/s estimate of INR0.9b), given dividend income of ~INR2b from coal SPV.
- Core profit of coal SPVs impacted:** During 1QFY13, KPC/Arutmin mines sales volumes stood at 00m tons (up/down 00% YoY) and realisation dipped to USD84/ton, vs USD94/ton YoY. Production cash cost increased 21% YoY to USD49/ton, leaving gross contribution at USD35/ton, down from USD45/ton QoQ and USD54/ton YoY. Cash cost stood higher despite muted oil cost. This is due to take or pay charges on Infra facility created for evacuation of coal.
- Subsidiaries performance likely to be muted going forward:** For Maithon project, both the units are now operating but fuel supply could be an issue given delays in rail line for transportation of coal. On Mundra UMPP, management expects loss of ~INR400m/month for FY13E. Coal SPVs profitability has been impacted due to pressure on realisation along with cost increase owing to infrastructure cost. BUMI has guided for realisation of coal at USD90/ton for CY12 and cost savings of USD2-4/ton, unlikely to be attained given recent trends.
- Valuations and View:** Earnings cut by 5-6% for FY13/14E: We cut our consolidated earnings for TPWR by 5-6% for FY13/14E and expect consolidated PAT at INR13b in FY13E (down 36% YoY) and INR10b in FY14E (down 14% YoY). **Neutral.**

## Quarterly Performance (Standalone)

Y/E March	FY12				FY13E				(INR Million)		FY13 Variance 1Q (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY12	FY13		
Units Generated	3,889	3,772	3,970	3,599	4,259	3,850	4,100	3,783	15,230	15,992	4,161	2
Total Operating Income	19,212	19,481	22,519	23,747	22,841	21,170	23,925	23,553	84,958	91,489	20,350	
Change (%)	2.9	19.1	36.3	34.7	18.9	8.7	6.2	-0.8	22.8	7.7	5.9	
EBITDA	4,279	4,189	4,751	4,443	3,759	4,745	4,725	4,989	17,662	18,218	4,450	-16
Change (%)	-5.1	19.3	43.2	7.8	-12.1	13.3	-0.6	12.3	14.3	3.1	4.0	
As of % Sales	22.3	21.5	21.1	18.7	16.5	22.4	19.7	21.2	20.8	19.9	21.9	
Depreciation	1,331	1,353	1,512	1,508	1,548	1,550	1,575	1,554	5,704	6,227	1,525	2
Interest	1,124	1,165	1,280	1,388	1,386	1,400	1,475	1,528	4,957	5,789	1,350	3
Other Income	2,476	3,323	4,105	-69	3,456	1,050	1,075	1,115	9,835	6,696	950	264
PBT	4,299	4,995	6,065	1,478	4,281	2,845	2,750	3,022	16,837	12,898	2,525	70
Tax	1,484	1,865	1,483	308	1,158	768	743	814	5,140	3,483	758	
Effective Tax Rate (%)	34.5	37.3	24.5	20.9	27.1	27.0	27.0	26.9	30.5	27.0	30.0	
Reported PAT	2,816	3,130	4,582	1,170	3,123	2,077	2,008	2,209	11,696	9,416	1,768	
Adjusted PAT	2,940	3,658	1,844	2,295	3,721	2,077	2,008	2,209	10,736	10,015	1,768	111
Change (%)	33.9	68.3	23.9	43.1	26.6	-43.2	8.9	-3.7	38.7	-6.7	-39.9	
Consolidated Adjusted PAT	4,158	4,425	5,523	3,522	3,059	2,962	3,338	3,592	17,628	12,951	4,865	-37
Change (%)	-1.0	12.8	34.9	-36.3	-26.4	-33.1	-39.6	2.0	-0.7	-26.5	17.0	

E: MOSL Estimates

**Nalin Bhatt** (NalinBhatt@MotilalOswal.com) +91 22 3982 5429

**Satyam Agarwal** (AgarwalS@MotilalOswal.com) / **Vishal Periwal** (Vishal.Periwal@MotilalOswal.com)

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### Dividend income from coal SPVs boosted 1QFY13 standalone PAT

- TPWR reported standalone revenues of INR22.8b (up 19% YoY), EBITDA of INR3.8b (down 12% YoY), and reported PAT of INR3.1b. PAT adjusted on account of 1) Forex Gain of INR533m and 2) Reversal of prior period revenues during the quarter of INR1.6b. Thus, the adjusted PAT stood at INR4.1b v/s our estimate of INR1.8b, largely owing to higher other income at INR3.5b v/s our estimate of INR0.9b. TPWR booked dividend income of ~INR2b from coal SPV during the quarter. Adjusted for the dividend income (net off tax), the recurring standalone PAT would be ~INR2b.
- Merchant sales for the quarter stood at 211MUs from Haldia project, as Unit-8 Trombay (100MW) is shifted on regulated mechanism from 4QFY12. Realisations for Haldia stood at INR3.3/unit vs INR3.6/unit YoY.

### Consolidated adjusted PAT below estimate

- For 1QFY13, TPWR reported consolidated PAT of INR1.5b. The reported numbers however includes 1) Forex loss of INR453m 2) Reversal of prior period sales of INR1.6b and thus adjusted PAT stood at INR3.1b lower than our estimate of INR4.9b. Lower performance is led by 1) Higher losses at Mundra UMPP owing to take or pay for Port, shipping and coal. Losses for the quarter stood at INR1.6b, 2) Losses at Maithon project at INR178m given equipment issues v/s our estimate of marginal profits, 3) Lower contribution from KPC/Arutmin mines where EBIT stood at INR2.5b v/s our estimate of INR5.2b and INR5.1b QoQ.
- Maithon has seen PAT loss during the quarter led by boiler failure of Unit-1 and resulting in under recoveries (75% capacity on regulated basis) for the unit. However company has mentioned that it is insured for asset restoration and loss of profits.
- For Mundra UMPP, TPWR has guided for loss of ~INR400m/month in FY13E. Coal SPV has seen higher coal processing charges during the quarter at INR5.9b (up INR2.2b QoQ) led by infra facility created (on take or pay charges) for evacuation of coal. Production ramp-up at KPC/Arutmin mine has seen delays and thus it will take time to leverage on the facilities.

### Core profit of coal SPVs impacted owing to higher take or pay charges

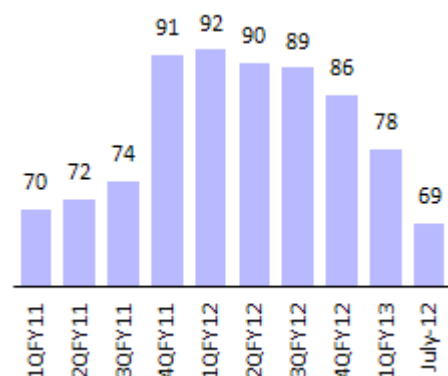
- During 1QFY13, Tata Power's share of revenues from coal mining companies (KPC/Arutmin) stood at INR22.6b (up 14% YoY). Coal production stood at 16.4m tons (vs 15.7m tons QoQ and 15.5m ton YoY). Realizations for the quarter stood at USD84/ton (vs USD92/ton QoQ and USD94/ton YoY). Sales volume for the quarter stood at 16.4m tons vs 15.7m ton QoQ and 15.3m ton YoY.
- Production cash cost increased 21% YoY to USD49/ton, leaving gross contribution at USD35/ton, down from USD45/ton QoQ and USD54/ton YoY. Cash cost stood higher despite muted oil cost. This is due to take or pay charges on Infra facility created for evacuation of coal.
- Contribution from KPC/Arutmin mines may continue to remain under pressure owing to softening coal prices globally. RB Index is down 19% since January 2012 in USD terms. Also, RB Index has come off from average of 121USD/ton in 1QCY11 (Jan-Mar 11) to 94USD/ton in 2QCY12 (Mar-Jun 12) and further to 86USD/ton for the month of July 2012. However the stripping cost/take or pay facility charge has made the gross margin volatile and inflated the production cost.

- BUMI has guided for realisation of coal at USD90/ton for CY12 and going by the current trend, we expect downward revision in realisation guidance. On the cost front too, the guidance was a savings of USD2-4/ton in CY12 as evacuation facilities are mechanised. However, TPWR management informed that lower volumes and rainfall impacted the efficiency for the mines and thus, the benefit of the same was not realised in 1QFY13. Going forward, higher volumes would mean lower cost/ton.

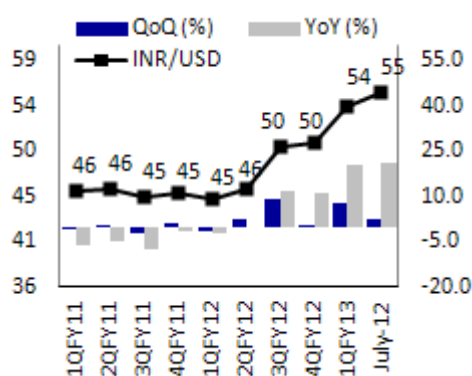
#### Operational / financial performance of mining companies

	1QFY13	1QFY12	Chg (%)	FY13E	FY12	Chg (%)
<b>Operational Details</b>						
Production (m tons)	16	16	6	75	67	12
Sales (m tons)	16	15	7	74	65	13
Realization (US\$/ton)	84	94	-11	82	94	(13)
Production Cash cost (US\$/ton)	49	41	21	44	44	1
<b>Financial Details</b>						
Revenues (INR m)	22,650	19,907	14	96,794	91,965	5
EBIT (INR m)	2,576	7,501	-66	14,746	19,881	(26)

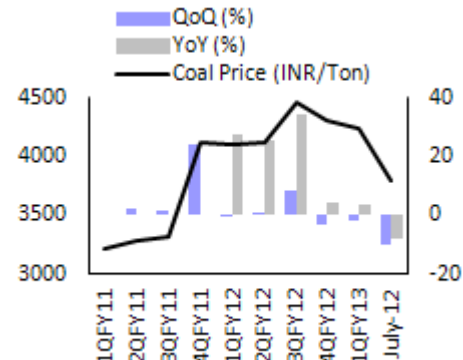
HBA Index (5400 Kcal): July-12 price stood lower at USD69/ton



Currency: INR at 55/USD depreciated 3% in July 2012



Coal (5400kcal) in INR terms for July-12 is down 10% vs 1Q



Source: Company/MOSL

#### Subsidiary/associate companies performance

- **North Delhi Power** (51% stake) reported 1QFY13 net profit of INR739m v/s INR1483m YoY owing to lower ATE/true up orders at INR49m 1QFY13 (v/s INR1.2b YoY)
- **Powerlinks Transmission** (51% stake) reported PAT of INR262m, (up 2% YoY) while Tata Power Trading Company (100% stake) reported PAT of INR84m in 1QFY13, vs INR256m YoY on the back of lower volume growth.
- **Coastal Gujarat project Limited** (CGPL, SPV housing Mundra UMPP) reported revenue of INR2.8b, however owing to higher fixed cost (ports charges on take or pay, higher O&M and Coal) led to PAT loss of INR1.6b.
- **Maithon** reported revenue of INR1.9b and reported PAT loss of INR178m v/s loss of INR150m YoY.

**Financials of subsidiaries/associate companies (INR m)**

	1QFY13	1QFY12	Chg (%)	FY13E	FY12	Chg (%)
<b>North Delhi Power</b>						
Revenues	14,786	12,057	22.6	43,824	51,947	(16)
Net Profit	739	1,483	(50.2)	2,906	3,386	(14)
<b>Powerlinks Transmission</b>						
Revenues	679	696	(2.4)	2,903	2,816	3
Net Profit	262	256	2.3	1,098	1,128	(3)
<b>Tata Power Trading</b>						
Revenues	6,442	6,621	(2.7)	25,245	19,267	31
Net Profit	79	84	(6.0)	276	199	39
<b>Maithon</b>						
Revenues	1,925	0	NA	11,741	3,697	218
Net Profit	-178	-150	18.7	1,152	-1,740	LP
<b>CGGPL (Mundra)</b>						
Revenues	2,851	0	NA	23,931	80	-
Net Profit	-1,648	0	NA	-4,321	-3,797	14

Source: Company/MOSL

**Valuations and View, Neutral**

- We cut our consolidated earnings for TPWR by 5-6% for FY13/14E and now expect consolidated PAT at INR13b in FY13E (down 36% YoY) and INR10b in FY14E (down 14% YoY). **Neutral**.

## Tata Power: an investment profile

### Company description

The Tata Power Company Limited (TPC) is India's largest private sector power generating company with an installed capacity of ~5GW. It has merchant power portfolio of 100MW of the current installed capacity. TPWR's operational capacity is expected to increase by ~3.0GW by FY14. Additionally, company is working on project development of 6.2GW, of which 1.5GW of projects are based on captive coal blocks.

### Key investment arguments

- Equity funding requirement for entire 3GW of projects under construction largely met. Returns on these projects are capped and thus provide limited upside.
- Share of profit from KPC/Arutmin mines contributes ~50% of consolidated net profit and thus, sensitivity of US\$1/ton variance in coal realizations in FY13E and FY14E is 2%.
- Future growth in capacity from projects under development (6.2GW) could be equity dilutive.

### Key investment risks

- RB Index has come off from average of 121USD/ton in 1QCY11 (Jan-Mar 11) to 94USD/ton in 2QCY12 (Mar-Jun 12) and further to 86USD/ton for the month of July 2012. This poses risks to TPWR earnings given its net long position on the coal.

### Recent developments

- Tata Power has written to CERC for tariff revision for Mundra Project where-in it has petitioned for escalation for non- escalation part of the fuel energy.
- Production cash cost increased 21% YoY to USD49/ton highest since Tata Power acquired stake in the KPC/Arutmin

### Valuations and view

- We cut our consolidated earnings for TPWR by 5-6% for FY13/14E and now expect consolidated PAT at INR13b in FY13E (down 36% YoY) and INR10b in FY14E (down 14% YoY). **Neutral**.

### Sector view

- CPSUs are our preferred sectoral theme, given acceleration in earnings growth and comfortable valuations. We are Neutral on private IPPs, given our cautious view on merchant prices. We believe that SEB finances will witness a gradual improvement going forward.

### EPS: MOSL forecast v/s Consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	5.5	7.5	-26.3
FY14	4.1	7.1	-42.4

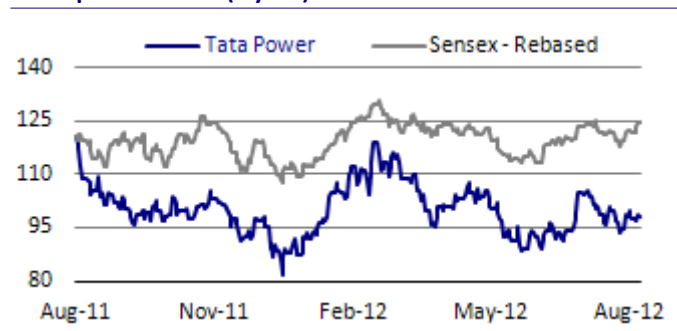
### Shareholding Pattern (%)

	Jun-12	Mar-12	Jun-11
Promoter	31.8	31.8	31.8
Domestic Inst	25.6	26.5	28.5
Foreign	26.2	25.1	23.6
Others	16.4	16.5	16.1

### Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
98	77	-20.9	Neutral

### Stock performance (1 year)





## Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
<b>Total Revenues</b>	<b>69,185</b>	<b>84,958</b>	<b>91,489</b>	<b>95,750</b>	
Cost of Energy purchase	7,842	6,475	7,090	3,437	
Cost of fuel	34,851	46,369	51,006	56,106	
Administ. & Other Exps	10,577	14,452	15,174	15,933	
<b>EBITDA</b>	<b>15,914</b>	<b>17,662</b>	<b>18,218</b>	<b>20,274</b>	
% of Total Revenues	23.0	20.8	19.9	21.2	
Depreciation	5,101	5,704	6,227	5,449	
Interest	4,620	4,957	5,789	8,239	
Other Income	4,936	9,835	6,696	5,680	
<b>PBT</b>	<b>11,129</b>	<b>16,837</b>	<b>12,898</b>	<b>12,266</b>	
Tax	-1,703	-5,140	-3,483	-3,925	
Rate (%)	-15.3	-30.5	-27.0	-32.0	
<b>Reported PAT</b>	<b>9,425</b>	<b>11,696</b>	<b>9,416</b>	<b>8,341</b>	
Change (%)	0.4	24.1	-19.5	-11.4	
<b>Recurring PAT</b>	<b>7,748</b>	<b>10,736</b>	<b>9,416</b>	<b>8,341</b>	
Change (%)	8.4	38.5	-12.3	-11.4	
<b>Consolidated PAT</b>	<b>17,516</b>	<b>17,628</b>	<b>12,951</b>	<b>9,777</b>	
Change (%)	18.4	0.6	-26.5	-24.5	
Dividend (Inc. tax)	3,085	2,967	3,085	3,085	

\* Incl share of profit from Bumi Resources

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	2,373	2,373	2,373	2,373	
Reserves	104,046	112,776	119,106	124,362	
<b>Net Worth</b>	<b>106,419</b>	<b>115,149</b>	<b>121,479</b>	<b>126,735</b>	
Loans	69,893	81,000	106,000	101,000	
Capital Cont. from cust.	644	644	644	644	
Approp. to project cost	5,336	5,336	5,336	5,336	
<b>Capital Employed</b>	<b>182,292</b>	<b>202,129</b>	<b>233,460</b>	<b>233,715</b>	
		15,372			
Gross Fixed Assets	105,189	120,561	120,561	120,561	
Less: Depreciation	47,360	53,224	59,451	64,901	
<b>Net Fixed Assets</b>	<b>57,829</b>	<b>67,337</b>	<b>61,109</b>	<b>55,660</b>	
Capital WIP	14,695	0	0	0	
Investments	79,399	105,536	119,651	133,875	
Deffered Tax Asset	-2,151	-2,151	-2,151	-2,151	
<b>Curr. Assets</b>	<b>60,127</b>	<b>66,622</b>	<b>89,475</b>	<b>81,392</b>	
Inventory	6,296	8,105	8,444	8,823	
Debtors	19,743	25,417	26,481	27,668	
Cash & Bank Balance	8,373	9,885	27,834	14,686	
Loans & Advances	25,715	23,215	26,715	30,215	
<b>Current Liab. &amp; Prov.</b>	<b>27,607</b>	<b>35,215</b>	<b>34,624</b>	<b>35,061</b>	
Sundry Liabilities	20,583	26,497	27,607	28,844	
Provisions	7,025	8,717	7,018	6,217	
<b>Net Current Assets</b>	<b>32,520</b>	<b>31,407</b>	<b>54,850</b>	<b>46,331</b>	
<b>Application of Funds</b>	<b>182,292</b>	<b>202,129</b>	<b>233,460</b>	<b>233,715</b>	

E: MOSL Estimates

Ratios		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
<b>Basic EPS (INR) (Recu.)</b>	<b>3.3</b>	<b>4.5</b>	<b>4.0</b>	<b>3.5</b>	
<b>Consolidated EPS</b>	<b>7.4</b>	<b>7.4</b>	<b>5.5</b>	<b>4.1</b>	
<b>Fully Diluted Cons. EPS</b>	<b>7.4</b>	<b>7.4</b>	<b>5.5</b>	<b>4.1</b>	
<b>CEPS (INR)</b>	<b>5.4</b>	<b>6.9</b>	<b>6.6</b>	<b>5.8</b>	
Book Value	44.8	48.5	51.2	53.4	
DPS	1.3	1.3	1.3	1.3	
Payout (incl. Div. Tax.)	45.2	39.8	27.6	32.8	
<b>Valuation (x)</b>					
P/E		13.2	18.0	23.8	
EV/EBITDA		17.2	17.1	15.7	
EV/Sales		3.6	3.4	3.3	
Price/Book Value		2.0	1.9	1.8	
Dividend Yield (%)		1.3	1.3	1.3	
<b>Profitability Ratios (%)</b>					
RoE	7.5	9.7	8.0	6.7	
RoCE	6.2	6.2	5.5	6.3	
<b>Turnover Ratios</b>					
Debtors (Days)	104.2	109.2	105.6	105.5	
Inventory (Days)	33.2	34.8	33.7	33.6	
Asset Turnover (x)	0.4	0.4	0.4	0.4	
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.7	0.7	0.9	0.8	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
<b>PBT before EO Items</b>	<b>11,129</b>	<b>16,837</b>	<b>12,898</b>	<b>12,266</b>	
Add : Depreciation	5,101	5,704	6,227	5,449	
Interest	4,620	4,957	5,789	8,239	
Less : Direct Taxes Paid	1,703	5,140	3,483	3,925	
(Inc)/Dec in WC	937	2,625	-5,494	-4,629	
<b>CF from operations</b>	<b>20,084</b>	<b>24,981</b>	<b>15,938</b>	<b>17,400</b>	
Extra-ordinary Items	1,677	961	0	0	
<b>CF from oper. incl EOI</b>	<b>18,407</b>	<b>24,020</b>	<b>15,938</b>	<b>17,400</b>	
(Inc)/dec in FA	-15,336	-516	0	0	
(Pur)/Sale of Investment:	-12,512	-26,138	-14,114	-14,224	
<b>CF from investments</b>	<b>-27,848</b>	<b>-26,653</b>	<b>-14,114</b>	<b>-14,224</b>	
(Inc)/Dec in Network	1,841	961	0	0	
(Inc)/Dec in Debt	11,173	11,107	25,000	-5,000	
(Inc)/Dec in Cap.Contrib.	-270	0	0	0	
Less : Interest Paid	4,620	4,957	5,789	8,239	
Dividend Paid	3,085	2,967	3,085	3,085	
<b>CF from Fin. Activity</b>	<b>5,039</b>	<b>4,145</b>	<b>16,126</b>	<b>-16,324</b>	
<b>Inc/Dec of Cash</b>	<b>-4,403</b>	<b>1,512</b>	<b>17,950</b>	<b>-13,148</b>	
Add: Beginning Balance	12,776	8,373	9,885	27,834	
<b>Closing Balance</b>	<b>8,373</b>	<b>9,884</b>	<b>27,834</b>	<b>14,686</b>	

E: MOSL Estimates

**N O T E S**

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## Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com