

BSE Sensex
15,815

S&P CNX
4,743

CMP: INR94
TP: INR91
Neutral

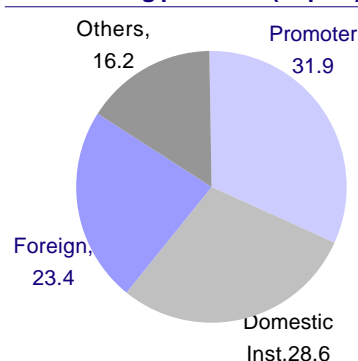

Lighting up Lives!

Bloomberg	TPWR IN
Equity Shares (m)	2,373.3
52-Week Range (INR)	140/81
1,6,12 Rel. Perf. (%)	1/-11/-13
M.Cap. (INR b)	223.1
M.Cap. (USD b)	4.2

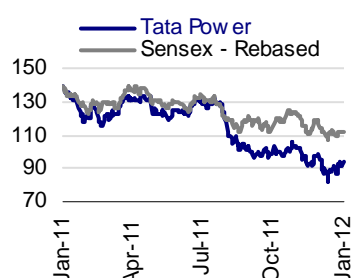
Y/E	March	2011	2012E	2013E
Net Sales (INR b)	69.2	79.7	86.0	
EBITDA (INR b)	15.9	18.2	18.9	
NP* (INR b)	17.5	18.8	21.5	
EPS (INR)*	7.4	7.9	9.0	
EPS Gr. (%)	18.4	7.5	14.0	
BV/Share (INR)	44.8	48.9	53.9	
P/E (x)	12.7	11.9	10.4	
P/BV (x)	2.1	1.9	1.7	
EV/EBITDA (x)	17.9	16.1	15.4	
EV/Sales (x)	4.1	3.7	3.4	
RoE (%)	7.5	12.0	12.3	
RoCE (%)	6.2	6.7	6.1	

* Consolidated; EPS calculated on fully diluted equity

Shareholding pattern % (Sep-11)



Stock performance (1 year)



Production ramp-up at KPC/Arutmin could be muted

Cut FY12/13 earnings, Correction helps build LT investment case

- Tata Power's stock price has corrected 30% over past 6 months, given concerns surrounding losses at Mundra UMPP, delayed ramp-up at KPC/Arutmin mines, etc. TPWR is relatively better placed amongst other IPPs given large part of power business on regulated returns and fuel integration.
- We believe that most known negatives are largely factored in the current valuations, and there exists possibilities to curtail losses. The stock price correction helps build Long Term investment case.

- **Stock price correction helps build LT investment case:** Tata Power's stock price has corrected by 30%+ over past 6 months, given concerns surrounding losses at Mundra UMPP, delayed commissioning at Maithon, lower possible production ramp-up at KPC/Arutmin mines, etc. TPWR is relatively better placed amongst the other IPPs given large part of power business on regulated business, integrated investment providing cushion for UMPP, etc.

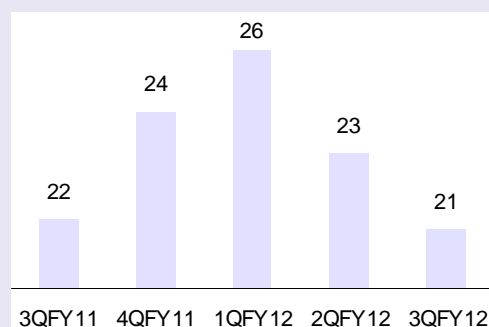
- **Upside possibilities exists:** We believe that most negatives are getting factored in the valuations, and upside possibilities could be 1) savings in fuel cost at Mundra UMPP due to blending of low GCV coal (~20% of fuel cost), 2) tax efficient structure for Mining HOLDCO/UMPP, 3) possible upwards revision for UMPP tariff and 4) reversal of impairment provision given softening coal prices. TPWR provided for MTM losses of INR7.4b in 2QFY12, but it is comfortably positioned as while translational gains from higher earnings at KPC / Arutmin mines can be retained; the increased costs are a pass through by way of higher tariffs in Mundra UMPP.

- **Cut FY12/13E earnings, Neutral:** We have cut our FY12/13 earnings by 8% / 3% to factor in lower production from KPC/Arutmin mines (73m ton in FY14, vs 83 m tons), lower contribution from Maithon project (Unit 2 CoD in Sep 2012), lower merchant contribution (100MW Trombay transferred on regulated basis), and tax on dividend received from mining HOLDCO to meet cash flow commitments at UMPP (while dividend gets eliminated in consolidation, tax remains). We now expect TPWR to report consolidated EPS of INR8/sh for FY12E (up 8% YoY) and INR9/sh for FY13E (up 13.4% YoY). SOTP based TP stands at INR91/sh. **Neutral.**

TPWR: Stock price correction of 30%+ over past 6 months (INR/share)



TPWR FY13 PAT: Downgrades have been meaningful (INR b)

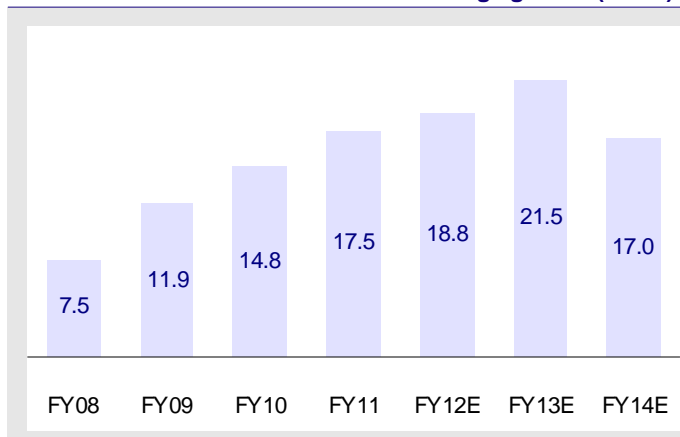


Mundra UMPP: Negatives largely factored; possibilities exists to curtail losses

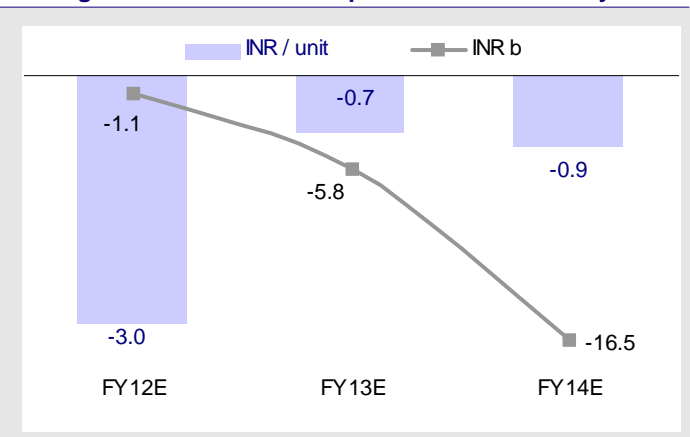
Various options to improve the viability of Mundra UMPP exists

- Mundra UMPP estimated project losses (at INR1.1b in FY12, INR5.9b in FY13 and INR17b in FY14) are largely given constrained PPA structure, and not poor project economics. We calculate the Year 1 all inclusive generation cost from the project at ~INR3.0/unit, which is competitive when compared with tariffs of INR2.5-2.8/unit for several of NTPC's new capacities (based on domestic coal linkages).
- TPWR had charged off an impairment provision of INR8.2b in 2QFY12 on the Mundra UMPP to factor in expectations of increased coal prices, vs its earlier review by US\$9-10/ton. Current estimates factor prices of US\$125-115/ton in FY12-14, and LT average at US\$83/ton. Given recent softening of international coal prices, with RB Index down from US\$123/ton in Mar-11 to US\$103/ton recently; we expect that a large part of these provisions could be possibly reversed in 3Q/4QFY12.
- To provide comfort to the bankers, the company is transferring 75% of its investment in Mining HOLDCO (KPC / Arutmin mines) to Mundra UMPP SPV. This will entail that project funding continues at agreed DER of 75:25, as the bankers had earlier capped the debt funding at 63% of the project cost till further review. However, any dividend received from the overseas subsidiaries will attract tax (FY12 at MAT rate), and thus leads to valuation impairment.
- Options to improve the viability of Mundra UMPP and possibly salvage profitability include: (i) operating the project at contractual norms, which entails 100% recovery of fixed charges at 80% plant availability (PLF of 72-78%), (ii) usage of low grade coal, (iii) possible capacity expansion by 1.6GW (brownfield) and (iv) leveraging tax benefits on losses. Any regulatory concessions can lead to improvements in project economics. We have not factored a large part of these upside possibilities in our estimates.

UMPP losses to limit consolidated earnings growth (INR b)

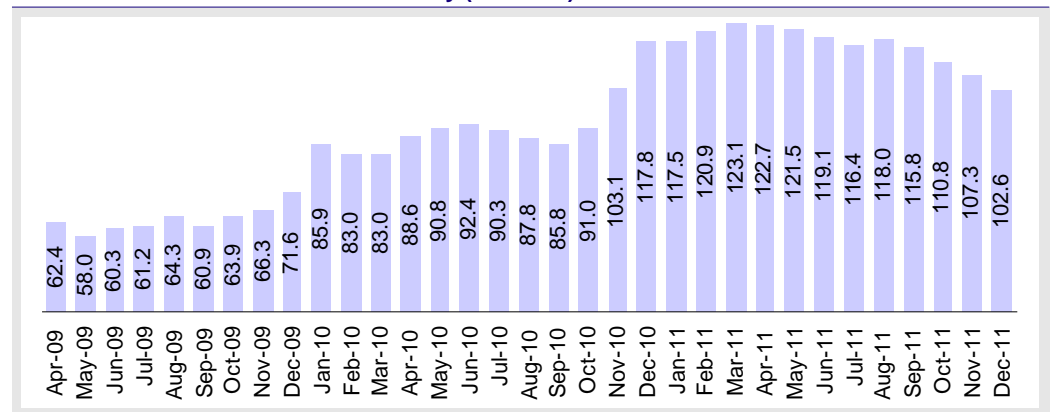


Savings in fuel cost could help lower under recovery



Source: Company/MOSL

RB Index has seen moderation recently (USD/ton)



Source: Bloomberg

KPC/Arutmin mines production ramp-up likely to be muted, Integrated operations could still return decent RoEs

Given various headwinds we have lowered FY14 Bumi production target to 73m ton v/s 83m ton earlier

- For KPC/Arutmin mines, 1HFY12 production stood at 32.5m tons (up 17% YoY) and FY12 volumes are expected at 65m tons (up 12% YoY). We understand that capabilities exist to ramp-up production to 75m tons over the next 18 months. This increase is largely attributed to on-going expansion at KPC/Arutmin mines to make mining operations "all-weather", and increased levels of mechanization. Bumi has reiterated guidance of 100m tons production by 2013/2014, and we believe that this is a function of new mines development, which is contingent on several factors, including coal prices.
- Given the headwinds, we now factor in FY14 production of 73m tons, vs earlier expectations of 83m tons. Post incorporating the same and without taking any benefit from possible savings from use of low calorific value coal, or tariff revision, we note that integrated operations of mining plus UMPP would still yield positive RoEs for TPWR.

TPWR: Net long position on coal declines in FY14, as increased requirement for UMPP not matched with higher production growth (m ton)

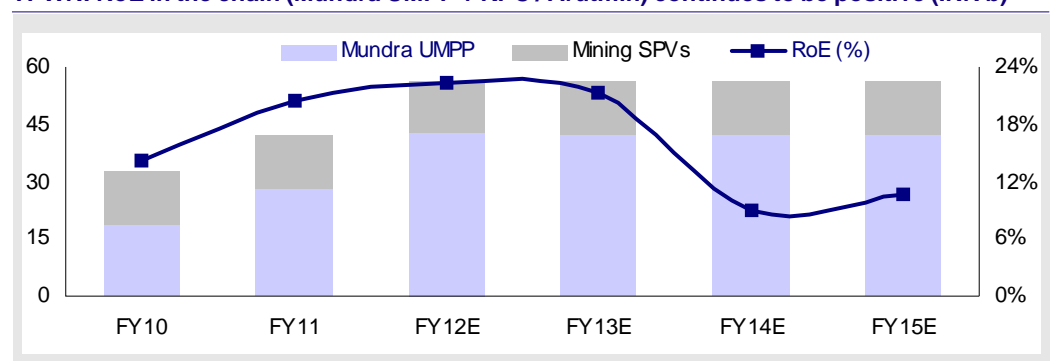
TPWR net long to the tune of 19m ton which declines in FY14 to 16.7m ton

	Production	TPWR Share (30%) (A)	Total Requirement*	Pass through based on CERC Index	Net Exposed * on coal (B)	Long Position (A-B)
FY10	63.1	18.9	0.1	0.0	0.1	18.8
FY11	58.2	17.5	0.3	0.0	0.3	17.2
FY12E	65.2	19.6	0.4	0.1	0.4	19.2
FY13E	69.1	20.7	4.8	2.3	2.5	18.2
FY14E	72.5	21.8	9.8	4.8	5.1	16.7

* Requirement for Munda UMPP (4,000MW) and Trombay (100MW)

Source: Company/MOSL

TPWR: RoE in the chain (Mundra UMPP + KPC / Arutmin) continues to be positive (INR b)



Source: Company/MOSL

Mundra UMPP: Foreign Debt

Agency	Loan (USD m)
Intl. Finance Corporation	450
Asian Development Bank	250
K-Exim/KEIC	1,100

Source: Company/MOSL

Comfortably positioned given the current exchange rate movements

- The PPA structure at Mundra UMPP insulates the project from currency movements at the operational level. Thus, post the recent 8% INR depreciation vs USD in 3QFY12, we calculate the year 1 tariff to increase from INR2.3/unit to INR2.5/unit.
- TPWR continues to be beneficially positioned to the current exchange rate movements, as translational gains from higher earnings at KPC / Arutmin mines can be retained; while the increased costs are a pass through by way of higher tariffs.
- This acts as a natural hedge towards the outstanding forex debt. This includes USD1.8b (towards project capex) for Mundra UMPP and USD900m as perpetual bonds in TPWR standalone / mining SPVs.

Maithon project delayed commissioning; impacting earnings contribution in FY13

Maithon project (1.1GW, 76% stake) has been one of the important contributor to earnings growth in FY13, given the expected commissioning in FY12/1QFY13. Unit 1 (525MW) has already been commissioned, but given the technical challenges, there have been delays in terms of achieving the rated capacity utilization levels. Unit 2 (525MW) commissioning has been delayed and is now expected to be commissioned in Sep 12, given logistics issues on fuel front, etc. This would entail limited earnings contribution at just INR203m in FY12 and INR1.4b in FY13.

Cut earnings estimates, Correction helps build LT investment case, TPWR relatively better placed IPP

- We cut our FY12/13 earnings by 8% / 3% to factor in lower production from KPC/ Artumin mines (at 73m ton in FY14, vs 83 m tons), delayed commissioning of Maithon project (Unit 2 CoD in Sep 2012), lower merchant contribution (100MW Trombay now transferred on regulated basis), and tax on dividend received from mining HOLDCO to meet cash flow commitments at UMPP (while dividend gets eliminated in consolidation, tax remains). We now expect TPWR to report consolidated EPS of INR8.0/sh for FY12E (up 8.0% YoY) and INR9.0/sh for FY13E (up 13.4% YoY).
- We believe that most negatives are getting factored in the valuations, while there exists possibilities of upside from 1) savings in fuel cost at Mundra UMPP due to blending of low GCV coal (~20% of fuel cost), 2) tax efficient structure for Mining HOLDCO/UMPP, 3) possible upwards revision for UMPP tariff and 4) reversal of impairment provision given softening coal prices. We believe that TPWR is still relatively better placed amongst other private IPPs and stock correction helps build LT investment case.
- Our SOTP based TP on the stock stands at INR91/share. Maintain **Neutral**.

TPWR: SOTP based price target INR91/share

	INR m	INR/Sh	Business Segment	Method
Power Business (Mumbai, IPPs, etc)	86,711	37	Power Utility	DCF, WACC 10.4%
Defense Business	3,569	1	Defense	EV/EBIDTA 15x FY12E
Delhi Distribution	23,577	7	Power Distribution	PER, 12x FY12E
Tata BP Solar	9,350	4	Solar Cells, etc	PER, 10x FY12E
Powerlinks Transmission	3,342	1	Power Transmission, Generation, etc	ROE ~18-20%, 1.4x FY12 P/BV
India Energy Ltd	5,916	2	Power Exchange	10x FY12E PER
Investments				
- Tata Sons	12,574	5	Investment Company	Value of investment, Discount of 20% to Market Value
- Aftaab Investments	4,112	2	Investment Company	Value of investment, Discount of 20% to Market Value
- Telecom Investments	27,036	11	Investments in Tata Tele and VSNL	Tata Tele: At 3x EV/sales for FY09 (~50% discount to DOCOMO valuations), Discount of 20% to Market value for other investment
Power projects under development				
- Mundra, KPC / Mining Investment	46,590	20	Power project, Coal mines	DCF, Project NPV
- Maithon Power Project	9,263	4	Power generation	DCF, Project NPV, Cost of equity at 13.5%
Power projects pipeline				
Naraj Marthapur	7,078	3	Power generation	DCF, Project NPV, Cost of equity at 16%
Tubed IPP	8,012	3	Power generation	DCF, Project NPV, Cost of equity at 16%
Liquid investments/Cash (net)				
Govt Bonds, MF, etc	14,216	6	Investments	Book value of Investment till March 2011
Cash in Hand	8,373	4		Book value
Less: Debt	51,167	22		Excluding debt on existing regulatory business
	224,141	91		

Source: MOSL

Financials and Valuation

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Total Revenues	72,362	70,983	69,185	79,685	85,977	
Cost of Energy purchase	4,935	2,517	7,842	8,532	9,363	
Cost of fuel	48,135	40,456	34,851	41,876	46,064	
Administ. & Other Exps	7,883	9,224	10,577	11,106	11,661	
EBITDA	11,409	18,786	15,914	18,171	18,889	
% of Total Revenues	15.8	26.5	23.0	22.8	22.0	
Depreciation	3,289	4,779	5,101	5,185	5,449	
Interest	3,278	4,230	4,620	4,831	6,289	
Other Income	6,324	2,816	4,936	10,729	15,270	
PBT	11,167	12,593	11,129	18,884	22,421	
Tax	-1,945	-3,205	-1,703	-6,232	-7,399	
Rate (%)	-17.4	-25.4	-15.3	-33.0	-33.0	
Reported PAT	9,222	9,388	9,425	12,653	15,022	
Change (%)	6.0	1.8	0.4	34.2	18.7	
Recurring PAT	5,152	7,148	7,748	13,305	15,022	
Change (%)	3.4	38.7	8.4	71.7	12.9	
Consolidated PAT	11,864	14,799	17,516	18,826	21,467	
Change (%)	58.2	24.7	18.4	7.5	14.0	
Dividend (Inc. tax)	2,870	3,230	3,085	3,085	3,085	

* Incl share of profit from Bumi Resources

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Share Capital	2,214	2,373	2,373	2,373	2,373	
Reserves	78,885	97,614	104,046	113,613	125,550	
Net Worth	81,099	99,988	106,419	115,987	127,924	
Loans	51,982	58,720	69,893	81,000	106,000	
Capital Cont. from cust.	489	914	644	644	644	
Approp. to project cost	5,336	5,336	5,336	5,336	5,336	
Capital Employed	138,906	164,958	182,292	202,967	239,904	
Gross Fixed Assets	89,859	100,108	105,189	120,561	120,561	
Less: Depreciation	37,953	42,581	47,360	52,512	57,961	
Net Fixed Assets	51,905	57,527	57,829	68,048	62,599	
Capital WIP	7,612	4,762	14,695	0	0	
Investments	54,434	66,887	79,399	105,536	119,651	
Deffered Tax Asset	-1,144	-2,078	-2,151	-2,151	-2,151	
Curr. Assets	46,811	59,543	60,127	64,943	96,858	
Inventory	6,441	5,894	6,296	7,335	7,909	
Debtors	15,880	19,763	19,743	23,003	24,803	
Cash & Bank Balance	455	12,776	8,373	11,390	37,431	
Loans & Advances	24,035	21,110	25,715	23,215	26,715	
Current Liab. & Prov.	20,713	21,683	27,607	33,411	37,053	
Sundry Liabilities	14,193	14,657	20,583	23,981	25,857	
Provisions	6,520	7,026	7,025	9,430	11,196	
Net Current Assets	26,098	37,860	32,520	31,533	59,804	
Application of Funds	138,905	164,958	182,292	202,967	239,904	

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2009	2010	2011	2012E	2013E
Basic EPS (INR) (Recu.)	2.3	3.0	3.3	5.6	6.3
Consolidated EPS	5.4	6.2	7.4	7.9	9.0
Fully Diluted Cons. EPS	5.4	6.2	7.4	7.9	9.0
CEPS (INR)	3.8	5.0	5.4	7.8	8.6
Book Value	36.6	42.1	44.8	48.9	53.9
DPS	1.3	1.4	1.3	1.3	1.3
Payout (incl. Div. Tax.)	53.8	55.7	45.2	39.8	23.2

Valuation (x)

P/E	17.5	15.1	12.7	11.9	10.4
EV/EBITDA	22.8	14.3	17.9	16.1	15.4
EV/Sales	3.6	3.8	4.1	3.7	3.4
Price/Book Value	2.6	2.2	2.1	1.9	1.7
Dividend Yield (%)	1.4	1.4	1.4	1.4	1.4

Profitability Ratios (%)

RoE	6.6	7.9	7.5	12.0	12.3
RoCE	6.5	9.2	6.2	6.7	6.1

Turnover Ratios

Debtors (Days)	80.1	101.6	104.2	105.4	105.3
Inventory (Days)	32.5	30.3	33.2	33.6	33.6
Asset Turnover (x)	0.5	0.4	0.4	0.4	0.4

Leverage Ratio

Debt/Equity (x)	0.6	0.6	0.7	0.7	0.8
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Cash Flow Statement

(INR Million)

Y/E March	2009	2010	2011	2012E	2013E
PBT before EO Items	11,167	12,593	11,129	18,884	22,421
Add: Depreciation	3,289	4,779	5,101	5,185	5,449
Interest	3,278	4,230	4,620	4,831	6,289
Less: Direct Taxes Paid	1,945	3,205	1,703	6,232	7,399
(Inc)/Dec in WC	-5,589	560	937	4,004	-2,231
CF from operations	10,199	18,957	20,084	26,673	24,529
Extra-ordinary Items	4,070	2,240	1,677	-652	0
CF from oper. incl EOI	6,129	16,717	18,407	27,325	24,529
(Inc)/dec in FA	-15,933	-7,552	-15,336	-709	0
(Pur)/Sale of Investments	-10,113	-12,452	-12,512	-26,138	-14,114
CF from investments	-26,047	-20,004	-27,848	-26,846	-14,114
(Inc)/Dec in Networth	4,596	15,905	1,841	-652	0
(Inc)/Dec in Debt	21,609	6,738	11,173	11,107	25,000
(Inc)/Dec in Cap.Contrib. from Customers	28	426	-270	0	0
Less: Interest Paid	3,278	4,230	4,620	4,831	6,289
Dividend Paid	2,870	3,230	3,085	3,085	3,085
CF from Fin. Activity	20,086	15,608	5,039	2,539	15,626
Inc/Dec of Cash	168	12,321	-4,403	3,017	26,041
Add: Beginning Balance	287	455	12,776	8,373	11,390
Closing Balance	455	12,776	8,373	11,390	37,431

E: MOSL Estimates

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Tata Power

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|---|----|
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