

February 14, 2011

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Rating	Accumulate
Price	Rs1,243
Target Price	Rs1,392
Implied Upside	12.0%
Sensex	18,202

(Prices as on February 14, 2011)
Trading data

Market Cap. (Rs bn)	295.0
Shares o/s (m)	237.3
3M Avg. Daily value (Rs m)	347.3

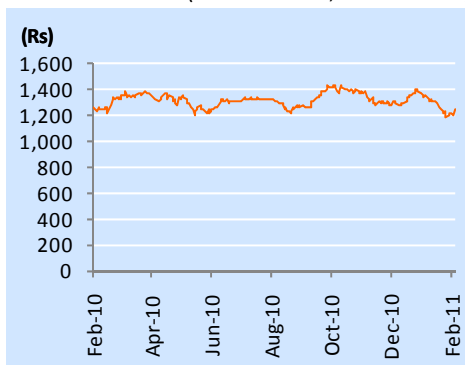
Major shareholders

Promoters	31.81%
Foreign	20.16%
Domestic Inst.	27.89%
Public & Other	20.14%

Stock Performance

(%)	1M	6M	12M
Absolute	(8.8)	(6.3)	(1.8)
Relative	(5.3)	(6.5)	(14.5)

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



Source: Bloomberg

Tata Power

Maithon - the next catalyst

- Standalone analysis:** For Q3FY11, Tata Power Company (TPC) has reported standalone revenue growth of 5.4% YoY at Rs16.5bn, which was lower than our estimates. Generation volumes de-grew by 3.6% YoY but sales increased by 3% on account on demand from changeover customers. Lower generation was on account of lower units from Trombay unit 6 and other regulated areas. Lower merchant realisations at Rs3.7 per unit was on account of lower realisation in Haldia plant. Cost of power purchased increased by Rs122m QoQ on account of higher demand from changeover customers. However, other income got a push on account of higher dividend. Standalone PAT grew by 3.5% YoY to Rs1.5bn on account of lower tax.
- Consolidated analysis:** For Q3FY11, Coal SPV's reported PAT of US\$23.4m, de-growing by 4% YoY. Sales stood at 16m tonnes 6% down YoY, realisations stood at \$73/tonne and cash cost stood at \$37/tonne. Costs were higher on account of heavy and prolonged rains in Indoneasia. NDPL and Power links reported PAT growth of 22% (incentives were however lower by Rs430m in Q3FY11) and 10% respectively. Thus, on a consolidated basis, the company reported sales of Rs44bn de-growth of 1.7% YoY and PATAMI grew by 5.6% to Rs4.4bn.
- Updates:** the company added 20000 customers in Q3FY11 in Mumbai distribution area. Work on the Mundra UMPP has been completed to the extent of 71% and Maithon project Unit 1 PPA would start from April 2011.
- Valuation:** Timely commissioning of Maithon and Mundra Unit 1 would be the key triggers going forward. On the other side higher cash cost at Bumi continues to offset the margin on account of higher realisations. At CMP, TPC is trading at P/BV of 2.2x FY12E estimates and 14.5x P/E on consolidated basis. We maintain **'Accumulate'** on the stock.

Key financials (Y/e March)	2010	2011E	2012E	2013E
Revenues (Rs m)	189,858	194,878	258,379	296,814
Growth (%)	5.1	2.6	32.6	14.9
EBITDA (Rs m)	38,532	43,730	52,969	65,754
PAT (Rs m)	21,386	17,891	19,065	21,585
EPS (Rs)	90.1	75.4	80.3	90.9
Growth (%)	53.6	(16.3)	6.6	13.2
Net DPS (Rs)	12.0	11.1	13.2	13.5

Source: Company Data; PL Research

Profitability & Valuation	2010	2011E	2012E	2013E
EBITDA margin (%)	20.3	22.4	20.5	22.2
RoE (%)	21.4	15.0	14.7	15.2
RoCE (%)	9.4	6.6	6.6	6.7
EV / sales (x)	2.4	2.6	2.2	2.0
EV / EBITDA (x)	11.8	11.8	10.6	9.1
PE (x)	13.8	16.5	15.5	13.7
P / BV (x)	2.6	2.4	2.2	2.0
Net dividend yield (%)	1.0	0.9	1.1	1.1

Source: Company Data; PL Research

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**Q3FY11 Result Overview - Standalone (Rs m)**

Y/e March	Q3FY11	Q3FY10	YoY gr. (%)	Q2FY11	9MFY11	9MFY10	YoY gr. (%)
Net Sales from Electrical Energy	15,959	15,278	4.5	15,708	49,691	51,757	(4.0)
MUs Generated	3,713	3,851	(3.6)	3,695	11,794	12,157	(3.0)
MUs Sold	3,824	3,714	3.0	3,926	12,283	11,829	3.8
Other Operating Income	560	387	44.7	653	1,867	1,276	46.4
Total Income	16,519	15,665	5.4	16,361	51,559	53,032	(2.8)
Expenditure							
Cost of Electricity Purchased	1,743	326	434.2	1,621	5,802	1,060	447.2
<i>% of Net Sales</i>	<i>10.9</i>	<i>2.1</i>		<i>10.3</i>	<i>11.7</i>	<i>2.0</i>	
Cost of fuel	8,556	9,429	(9.3)	8,530	26,605	31,246	(14.9)
<i>% of Net Sales</i>	<i>53.6</i>	<i>61.7</i>		<i>54.3</i>	<i>53.5</i>	<i>60.4</i>	
Cost of Mat.	137	75	81.2	181	467	174	168.0
<i>% of Net Sales</i>	<i>0.9</i>	<i>0.5</i>		<i>1.2</i>	<i>0.9</i>	<i>0.3</i>	
Employee Cost	1,028	796	29.1	716	2,642	2,416	9.3
<i>% of Net Sales</i>	<i>6.4</i>	<i>5.2</i>		<i>4.6</i>	<i>5.3</i>	<i>4.7</i>	
Other Expenditure	1,737	1,398	24.2	1,803	4,704	4,004	17.5
<i>% of Net Sales</i>	<i>10.9</i>	<i>9.1</i>		<i>11.5</i>	<i>9.5</i>	<i>7.7</i>	
Total Expenditure	13,200	12,024	9.8	12,850	40,220	38,900	3.4
EBIDTA	3,319	3,641	(8.8)	3,510	11,338	14,132	(19.8)
<i>Margin (%)</i>	<i>20.1</i>	<i>23.2</i>	<i>(315.0)</i>	<i>21.5</i>	<i>22.0</i>	<i>26.6</i>	<i>(465.7)</i>
Depreciation	1,286	1,208	6.5	1,327	3,881	3,510	10.6
EBIT	2,033	2,433	(16.4)	2,183	7,458	10,622	(29.8)
Interest	1,095	922	18.8	1,084	2,975	3,117	(4.5)
Other Income	794	329	141.2	1,570	3,621	1,886	92.0
Forex Loss/Gain	58	122	(52.6)	366	442	397	11.5
PBT	1,790	1,963	(8.8)	3,034	8,546	9,788	(12.7)
Tax	260	484	(46.4)	517	1,808	2,706	(33.2)
<i>Tax Rate (%)</i>	<i>14.5</i>	<i>24.6</i>		<i>17.0</i>	<i>21.2</i>	<i>27.7</i>	
Reported PAT	1,531	1,479	3.5	2,517	6,738	7,082	(4.9)

Source: Company Data, PL Research

**Q3FY11 Result Overview - Consolidated (Rs m)**

Y/e March	Q3 FY11	Q3 FY10	YoY gr. (%)	Q2 FY11	9MFY11	9MFY10	YoY gr. (%)
Revenues	44,129	44,884	(1.7)	47,978	143,624	140,652	2.1
Other Operating Income	281	274		117	729	569	28.2
Total Income	44,410	45,158	(1.7)	48,095	144,353	141,220	2.2
Total Expenditure	33,864	39,690	(14.7)	36,722	111,045	114,194	(2.8)
EBIDTA	10,547	5,468	92.9	11,373	33,308	27,026	23.2
<i>Margin (%)</i>	<i>23.7</i>	<i>12.1</i>		<i>23.6</i>	<i>23.1</i>	<i>19.1</i>	
Depreciation	2,490	2,208	12.8	2,470	7,310	6,463	13.1
EBIT	8,057	3,260	147.2	8,903	25,998	20,564	26.4
Interest	2,109	1,853	13.8	2,081	5,908	5,786	2.1
Other Income	462	260	77.5	961	2,032	984	106.5
Forex Loss/Gain	321	125	156.5	2,200	1,017	872	16.6
PBT	6,731	1,792	275.6	9,984	23,139	16,634	39.1
Tax	2,089	265	688.7	2,648	7,627	5,497	38.7
<i>Tax Rate (%)</i>	<i>31.0</i>	<i>14.8</i>		<i>26.5</i>	<i>33.0</i>	<i>33.0</i>	
Reported PAT	4,642	1,527	203.9	7,336	15,512	11,137	39.3
Minority Interests	(227)	(542)		(580)	(1,167)	(936)	24.7
PAT	4,415	986	347.9	6,756	14,346	10,201	40.6
<i>Margin (%)</i>	<i>9.9</i>	<i>2.2</i>		<i>14.0</i>	<i>9.9</i>	<i>7.2</i>	

Source: Company Data, PL Research



Income Statement (Rs m)

Y/e March	2010	2011E	2012E	2013E
Net Revenue	189,858	194,878	258,379	296,814
Raw Material Expenses	99,570	92,802	120,035	132,136
Gross Profit	90,288	102,076	138,344	164,678
Employee Cost	—	—	—	—
Other Expenses	51,756	58,346	85,375	98,924
EBITDA	38,532	43,730	52,969	65,754
Depr. & Amortization	8,777	9,823	16,232	20,023
Net Interest	7,818	8,236	13,250	16,123
Other Income	6,042	5,000	4,230	4,200
Profit before Tax	27,979	30,671	27,717	33,808
Total Tax	6,287	10,000	7,352	11,523
Profit after Tax	21,692	20,671	20,365	22,285
Ex-Od items / Min. Int.	—	2,780	1,300	700
Adj. PAT	21,386	17,891	19,065	21,585
Avg. Shares O/S (m)	237.3	237.3	237.3	237.3
EPS (Rs.)	90.1	75.4	80.3	90.9

Cash Flow Abstract (Rs m)

Y/e March	2010	2011E	2012E	2013E
C/F from Operations	38,050	50,393	50,092	60,939
C/F from Investing	18,508	54,835	83,469	57,891
C/F from Financing	(45,231)	(106,233)	(134,664)	(112,899)
Inc. / Dec. in Cash	11,328	(1,005)	(1,103)	5,931
Opening Cash	11,780	23,108	22,103	21,000
Closing Cash	23,108	22,103	21,000	26,931
FCFF	5,127	(22,812)	(47,382)	(12,807)
FCFE	48,162	34,743	(3,882)	35,175

Key Financial Metrics

Y/e March	2010	2011E	2012E	2013E
Growth				
Revenue (%)	5.1	2.6	32.6	14.9
EBITDA (%)	5.6	13.5	21.1	24.1
PAT (%)	64.7	(16.3)	6.6	13.2
EPS (%)	53.6	(16.3)	6.6	13.2
Profitability				
EBITDA Margin (%)	20.3	22.4	20.5	22.2
PAT Margin (%)	11.3	9.2	7.4	7.3
RoCE (%)	9.4	6.6	6.6	6.7
RoE (%)	21.4	15.0	14.7	15.2
Balance Sheet				
Net Debt : Equity	1.4	1.8	2.0	2.1
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	13.8	16.5	15.5	13.7
P / B (x)	2.6	2.4	2.2	2.0
EV / EBITDA (x)	11.8	11.8	10.6	9.1
EV / Sales (x)	2.4	2.6	2.2	2.0
Earnings Quality				
Eff. Tax Rate	22.7	32.6	26.5	34.1
Other Inc / PBT	21.3	16.3	15.3	12.4
Eff. Depr. Rate (%)	4.8	4.2	5.2	5.5
FCFE / PAT	225.2	194.2	(20.4)	163.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011E	2012E	2013E
Shareholder's Funds	114,005	124,609	135,197	148,230
Total Debt	184,469	242,024	285,524	333,506
Other Liabilities	26,467	32,404	35,232	39,567
Total Liabilities	324,941	399,037	455,953	521,304
Net Fixed Assets	224,658	298,093	354,653	405,580
Goodwill	42,744	40,232	38,523	35,232
Investments	30,823	35,233	37,232	45,123
Net Current Assets	22,821	21,917	22,023	32,369
<i>Cash & Equivalents</i>	<i>23,108</i>	<i>22,103</i>	<i>21,000</i>	<i>26,931</i>
<i>Other Current Assets</i>	<i>73,794</i>	<i>85,860</i>	<i>96,178</i>	<i>111,758</i>
<i>Current Liabilities</i>	<i>74,081</i>	<i>86,046</i>	<i>95,155</i>	<i>106,320</i>
Other Assets	3,896	3,562	3,522	3,000
Total Assets	324,941	399,037	455,953	521,304

Quarterly Financials (Rs m)

Y/e March	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Net Revenue	17,950	18,679	16,361	16,519
EBITDA	4,654	4,509	3,510	3,319
<i>% of revenue</i>	<i>25.9</i>	<i>24.1</i>	<i>21.5</i>	<i>20.1</i>
Depr. & Amortization	1,270	1,267	1,327	1,286
Net Interest	948	796	1,084	1,095
Other Income	533	1,275	1,935	852
Profit before Tax	2,970	3,721	3,034	1,790
Total Tax	499	1,032	517	260
Profit after Tax	2,472	2,234	2,517	1,531
Adj. PAT	2,472	2,234	2,517	1,531

Key Operating Metrics

Y/e March	2010	2011E	2012E	2013E
Units Sold Mus- Std	15,574.0	16,371.4	17,788.7	18,246.1
Units Generated Mus - Std	15,946.0	15,793.8	18,479.9	18,951.2
Avg Realisation Rs/pu - Std	4.4	4.1	4.0	4.3
Coal Sales MTPA	61.9	63.8	70.2	77.2

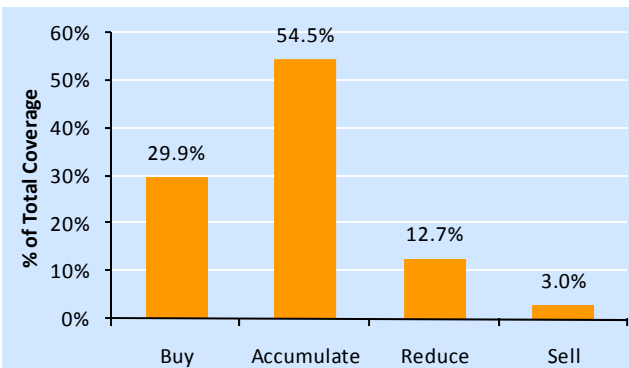
Source: Company Data, PL Research.

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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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