



Powered by the Sharekhan 3R Research Philosophy

3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score **NEW**

ESG RISK RATING **40.47**
Updated Apr 08, 2022

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

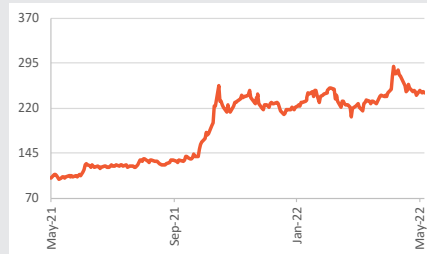
Company details

Market cap:	Rs. 78,350 cr
52-week high/low:	Rs. 298 / 101
NSE volume: (No of shares)	404.3 lakh
BSE code:	500400
NSE code:	TATAPOWER
Free float: (No of shares)	169.8 cr

Shareholding (%)

Promoters	46.9
FII	10.8
DII	15.9
Others	26.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12	-3	5	139
Relative to Sensex	-5	2	14	127

Sharekhan Research, Bloomberg

Tata Power Company Ltd

Strong growth sustains in Q4

Power Utilities	Sharekhan code: TATAPOWER		
Reco/View: Buy	↔	CMP: Rs. 245	Price Target: Rs. 315
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Q4FY22 consolidated adjusted PAT grew by 66% y-o-y to Rs. 653 crore (4% above our estimate) supported by higher standalone profits (rise in dividend income and tax benefit on CGPL merger) and good performance by renewable energy generation business offsetting lower coal profit and weak solar EPC margin.
- Coal mining business disappointed as PAT declined by 36% q-o-q to Rs. 397 crore as January sales was restricted to domestic Indonesian customer at capped price of \$70/tonne and lower sales volume (down 21% q-o-q) because mine operation got impacted due to heavy rains in March.
- Mundra UMPP reported loss of Rs. 484 crore due to lower PLF of 25% and rise in fuel under-recoveries to Rs. 1/unit (versus only Rs. 0.16/unit in Q3FY22). However, management indicated that it is in advanced discussion with Gujarat and is in talks with other states for supplementary PPAs for fuel coal cost pass through. This would reduce fuel under-recoveries and lower losses at Mundra.
- We maintain Buy on Tata Power with an unchanged PT of Rs. 315. At CMP, the stock trades at 3.2x/2.9x FY23E/FY24E P/BV.

Tata Power Company Limited's (TPCL's) Q4FY22 adjusted PAT of Rs. 653 crore (up 66.3% y-o-y) was 4% above our estimate of Rs. 632 crore primarily on the account of higher dividend income and tax benefit from CGPL merger in standalone business (PAT at Rs. 1770 crore versus net loss of Rs. 159 crore in Q4FY21) and good performance from RE business (PAT grew by 64% y-o-y to Rs. 280 crore) led by higher profits (up 2x y-o-y to Rs. 286 crore) from RE generation portfolio partially offset by decline in solar EPC margin to only 2.1% in Q4FY22 versus 6.2% in Q3FY22 due to higher module cost. Coal mining business performance was disappointing with 36% q-o-q decline in PAT at Rs. 397 crore owing to lower volumes of 10.4 mt (down 21% q-o-q) and lower gross margin at \$28.3/tonne as in January sales was restricted to domestic customers at capped price of \$70/tonne and March volumes were impacted by heavy rainfalls. Mundra reported net loss of Rs. 484 crore (versus net loss of Rs. 277 crore in Q4FY21 and Rs. 458 crore in Q3FY22) due to high fuel under-recoveries at Rs. 1/unit (versus Rs. 0.72/Rs. 0.6 per unit in Q4FY21/Q3FY22) and lower PLF of 25% (versus 74%/31% in Q4FY21/Q3FY22). All four Odisha discoms (North, West, Central and South) remained profitable with combined with aggregate PAT of Rs. 109 crore versus only Rs. 42 crore in Q4FY21.

Key positives

- RE power generation (TPREL + WREL) profit grew strongly by 2.1x y-o-y to Rs. 286 crore.
- CGPL merger completed and reflected in tax benefit in standalone business.

Key negatives

- Higher fuel under-recoveries of Rs. 1/unit at Mundra versus only Rs. 0.16/unit in Q3FY22.
- Sequential steep decline of 36% in coal profits due to lower volume and margins.
- Tata Power Solar System reported sharp margin contraction of 410/751 bps y-o-y/q-o-q to 2.1% due to higher module cost.

Management Commentary

- Tata Power is in advanced discussions with GUVNL and in talks with other states to implement supplementary PPAs for full coal cost pass through w.e.f January 1, 2022. SPPAs are expected to continue until coal prices normalize to pre-COVID levels.
- The company has secured extension of Indonesian coal mining license for 10 years with revised royalty and taxation norms, which would have largely neutral impact on profits from coal business.
- Strong solar EPC order execution of ~555MW in Q4FY22. Management expects solar EPC margin to improve going forward as it looking at contract manufacturing in India and new projects factors in revised pricing term for solar modules.
- Consolidated net debt at Rs. 39,708 crore is largely flat sequentially.

Revision in estimates – We have fine-tuned our FY23-24 earnings estimate to factor FY22 P&L and balance sheet numbers.

Our Call

Valuation – We maintain Buy rating on TPCL with an unchanged PT of Rs. 315: TPCL's focus on business restructuring (CGPL merger) and focus on high growth RE business and entry in to power transmission would play a crucial role for sustained earnings growth and improved earnings quality (expect RoE to improve to 12% in FY24E versus only 7.8% in FY22). Additionally, management's business restructuring plans to increase share of high growth RE business would drive sustained improvement in ESG scores. Moreover, a potential agreement with states for full pass-through of fuel cost would improve earnings growth outlook and support balance sheet deleveraging plan. Hence, we maintain a Buy on Tata Power with an unchanged PT of Rs.315. At CMP, the stock is trading at 3.2x/2.9x FY23E/FY24E P/BV.

Key Risks

- Slower-than-expected ramp-up of RE portfolio and expansion in distribution business,
- Lower-than-expected profitability in Solar EPC business, and
- volatility in international coal prices

Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	32,468	42,816	47,567	51,905
OPM (%)	21.3	17.5	23.8	24.4
Adjusted PAT	1,283	1,741	2,784	3,150
% YoY growth	6.8	35.7	59.9	13.2
Adjusted EPS (Rs.)	4.0	5.4	8.7	9.9
P/E (x)	61.1	45.0	28.1	24.9
P/B (x)	3.5	3.5	3.2	2.9
EV/EBITDA (x)	16.0	15.9	10.2	8.9
RoNW (%)	6.1	7.8	11.8	12.1
RoCE (%)	6.1	6.5	9.6	11.3

Source: Company; Sharekhan estimates

Q4 PAT growth led by higher profits at standalone and RE generation; coal mining and solar EPC disappoint

Q4FY22 adjusted PAT of Rs. 653 crore (up 66.3% y-o-y) was 4% above our estimate of Rs. 632 crore primarily on the account of higher dividend income and tax benefit from CGPL merger in standalone business (PAT at Rs. 1770 crore versus net loss of Rs. 159 crore in Q4FY21) and good performance from RE business (PAT grew by 64% y-o-y to Rs. 280 crore) led by higher profits (up 2x y-o-y to Rs. 286 crore) from RE generation portfolio partially offset by decline in solar EPC margin to only 2.1% in Q4FY22 versus 6.2% in Q4FY22 due to higher module cost. Coal mining business performance was disappointing with 36% q-o-q decline in PAT at Rs. 397 crore owing to lower volumes of 10.4 mt (down 21% q-o-q) and lower gross margin at \$28.3/tonne as in January sales was restricted to domestic customers at capped price of \$70/tonne and March volumes were impacted by heavy rainfalls. Mundra reported net loss of Rs. 484 crore (versus net loss of Rs. 277 crore in Q4FY21 and Rs. 458 crore in Q3FY22) due to high fuel under-recoveries at Rs. 1/unit (versus Rs. 0.72/Rs. 0.6 per unit in Q4FY21/Q3FY22) and lower PLF of 25% (versus 74%/31% in Q4FY21/Q3FY22). All four Odisha discoms (North, West, Central and South) remained profitable with combined with aggregate PAT of Rs. 109 crore versus only Rs. 42 crore in Q4FY22.

Conference call highlights

- ◆ **Mundra SPPA update** – Tata Power is in advanced discussions with GUVNL to implement supplementary PPAs for fuel coal cost pass through w.e.f January 1, 2022. Discussion for supplementary PPA with other states is underway. The supplementary PPAs are expected to continue until coal prices normalise to pre-COVID levels. At present all 4 units of Mundra UMPP are operational and management has guided for much lower under recovery going forward.
- ◆ **Indonesia coal mining business update** – The company has secured extension of license for 10 years with option to further extend with revised royalty and taxation norms, which would have largely neutral impact over coal imports.
- ◆ **CGPL Merger Synergies** – Company has completed merger of CGPL with Tata Power Standalone w.e.f 1st April 2020 and the benefit of the same is reflected in Q4FY22 standalone results. This provides operational and financial synergies and set off of past losses of CGPL (Carried forward depreciation & business losses are Rs. 12,690 crore and & Rs. 3,822 crores respectively).
- ◆ **Solar EPC order book and margin outlook** – Solar EPC order book declined to Rs. 7,791 crore (large-scale utility order book of Rs. 7,275 crores and solar rooftop order book of Rs. 516 Crores) as compared to order book of Rs. 11,076 crore in Q3FY22. Company has demonstrated a strong execution of its orders (~555 MW AC capacity projects) in the quarter. The management expects solar EPC margin to improve going forward as Tata Power is looking at contract manufacturing in India and new projects factors in revised pricing term for solar modules
- ◆ **Other updates** - 1) TPREL enters into binding agreement with Blackrock & consortium to raise Rs. 4,000 crore and the money to be invested in RE growth projects, 2) TPSSL commissions 555 MW (AC) utility scale projects in Q4; wins LoA for 1 GW Solar Project from SJVN and 3) Net debt at Rs. 39,708 crore is largely flat sequentially.

Results (Consolidated)

Particulars	Rs cr				
	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Revenue	11,960	10,363	15.4	10,913	9.6
Total Expenditure	10,091	8,806	14.6	9,279	8.8
Reported operating profit	1,869	1,556	20.1	1,634	14.4
Other Income	259	95	172.8	106	145.7
EBITDA	2,128	1,652	28.9	1,739	22.3
Interest	1,015	890	13.9	953	6.5
Depreciation	846	663	27.5	758	11.6
Exceptional income/(expense)	0	0	NA	0	NA
Reported PBT	268	98	173.9	29	835.0
Add: Net movement in regulatory deferral account balances (net of tax)	125	16.7	650.9	102	23.0
Add: Share of Profit of Associates and JV	296	348.3	-15.0	658	-55.0
Exceptional income/(expense)	-150	0	NA		NA
PBT after regulatory deferral account and share of profit from JV	539	463	16.4	788	-31.7
Tax	-562	(108)	421.1	237	-337.4
Reported PAT before MI	1,100	570	92.9	552	99.4
Minority Interest	129	88	46.4	126	2.5
Reported PAT after MI	971	482	101.4	426	128.0
Add: Profit from Discontinued Operations	-468	-89	424.3		NA
Reported PAT	503	393	28.0	426	18.2
Adjusted PAT	653	393	66.3	426	53.4
No. of Equity Shares (cr)	319.6	319.6	0.0	319.6	0.0
Reported EPS (Rs.)	1.6	1.2	28.0	1.3	18.2
Adjusted EPS (Rs.)	2.0	1.2	66.3	1.3	53.4
Margins (%)			BPS		BPS
Adjusted OPM	15.6	15.0	60.4	15.0	65.3
Adjusted NPM	5.5	3.8	167.1	3.9	156.1
Effective tax rate	-104.3	-23.3	NA	30.0	NA

Source: Company; Sharekhan Research

TPCL's consolidated performance for Q4FY22

Rs. crore

Particulars	Op Income		EBITDA^^		PAT	
	Q4 FY22	Q4 FY21	Q4 FY22	Q4 FY21	Q4 FY22	Q4 FY21
Consolidated before exceptional items	12,085	10,379	2,253	1,668	775	440
Standalone & Key Subsidiaries						
Tata Power (Standalone)	3,214	3,355	2,243	757	1,770	(159)
MPL (Maithon Power)*	635	561	172	160	72	115
TPDDL (Delhi Discom)**	2,159	1,896	352	252	112	121
TPTCL (Power Trading)	120	31	16	11	12	7
Tata Power Solar (Solar Mfg)	3,481	2,777	77	185	28	136
TPREL Standalone (Renewable Power)	470	245	525	204	131	5
WREL (Renewable Power)	391	313	377	277	155	88
Coal SPVs (Investment Companies)	0	0	(1)	(1)	(66)	(49)
TERPL (Shipping Co)	192	193	48	66	14	34
TP Central Odisha Dist Ltd (CESU)**	962	874	85	(37)	9	(30)
TP Southern Odisha Dist Ltd (SOUTHCO)**	465	310	49	25	31	22
TP Western Odisha Dist Ltd (WESCO)**	1,072	823	85	26	38	(1)
TP Northern Odisha Dist Ltd (NESCO)**	774	-	78	-	31	-
TPIPL (Overseas Investment Co)	-	-	34	(10)	22	(12)
Others	205	192	40	39	(7)	(2)
TOTAL - A	14,139	11,570	4,180	1,954	2,351	275
Joint Venture and Associates	-	-	-	-	296	348
TOTAL - B	14,139	11,570	4,180	1,954	2,647	623
Eliminations#	(2,053)	(1,191)	(1,927)	(286)	(1,873)	(184)
Exceptional Items	-	-	-	-	(142)	42
Discontinued operations	-	-	-	-	-	-
TOTAL - C	12,085	10,379	2,253	1,668	632	481

Previous year numbers are restated
*TPCL stake-74%; **TPCL stake-51%; # Eliminations include inter-company transactions; ^^ including other income

Source: Company

Coal business key performance highlights

Coal Company - KPC	Q4 FY 22	Q3 FY 22	Q2 FY22	Q1 FY 22	Q4 FY 21
Coal Mined (MT)	10.8	12.7	14.4	14.9	14.3
Coal Sold (MT)	10.4	13.1	14.3	15.5	14.1
HBA	183.5	178.8	132.1	92.3	82.7
FOB Revenue (USD/T)	98.0	99.4	84.2	65.5	59.4
Royalty (USD/T)	26.9	14.4	11.9	9.0	8.8
Net Revenue after royalty (USD/T)	71.1	85.0	72.3	56.5	50.7
Cost of Production (USD/T)	44.3	43.3	40.3	36.2	35.6
COGS (\$/T) - Including Inv Movement	42.7	44.9	39.6	37.3	34.0
Gross Profit (USD/T)	28.3	40.1	32.6	19.3	16.6
Net Profit (USD/T)	14.5	14.6	12.5	6.5	5.1

Source: Company

Odisha Discoms performance in Q4FY22

Rs. crore

Q4 Highlights	TPCODL	TPSODL	TPWODL	TPNODL
Purchase (Mus)	1,945	980	2,296	1,286
Sales (Mus)	1,477	745	1,898	1,078
Revenue per unit	6.11	6.24	5.75	6.62
Power Cost per unit	3.08	2.34	3.62	3.44
Actual Technical losses YTD (%)	23.8%	23.4%	19.5%	17.6%
Actual AT&C losses YTD (%)	29.0%	32.5%	29.7%	23.1%
Vesting order Target AT&C losses (%)	23.7%	25.8%	20.4%	19.2%
Income from Operation	962	465	1,136	773
EBITDA	85	49	85	77
PAT	9	31	38	31

Source: Company

TPCL's Debt Profile

Rs. crore

PARTICULARS	CONSOLIDATED				
	Q4 FY22			Q3 FY22	Q4 FY21
	Rupee	Forex	Total	Total	Total
Long term	32,344	384	32,729	28,346	30,045
Short term	6,146	830	6,976	10,838	8,436
Current Maturity of LT	5,093	2,793	7,885	8,179	4,690
Total Debt	43,582	4,008	47,590	47,363	43,171
Less: Cash			7,051	6,370	6,370
Less: Debt against dividend in Coal SPVs			830	1,457	613
Net External Debt			39,708	39,536	36,187
Equity			26,028	24,996	25,250
Net Debt to Equity			1.53	1.58	1.43

Source: Company

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 2021 would help power discoms clear dues of power generation and transmission companies. This would reduce receivables of the power sector and strengthen companies' balance sheets.

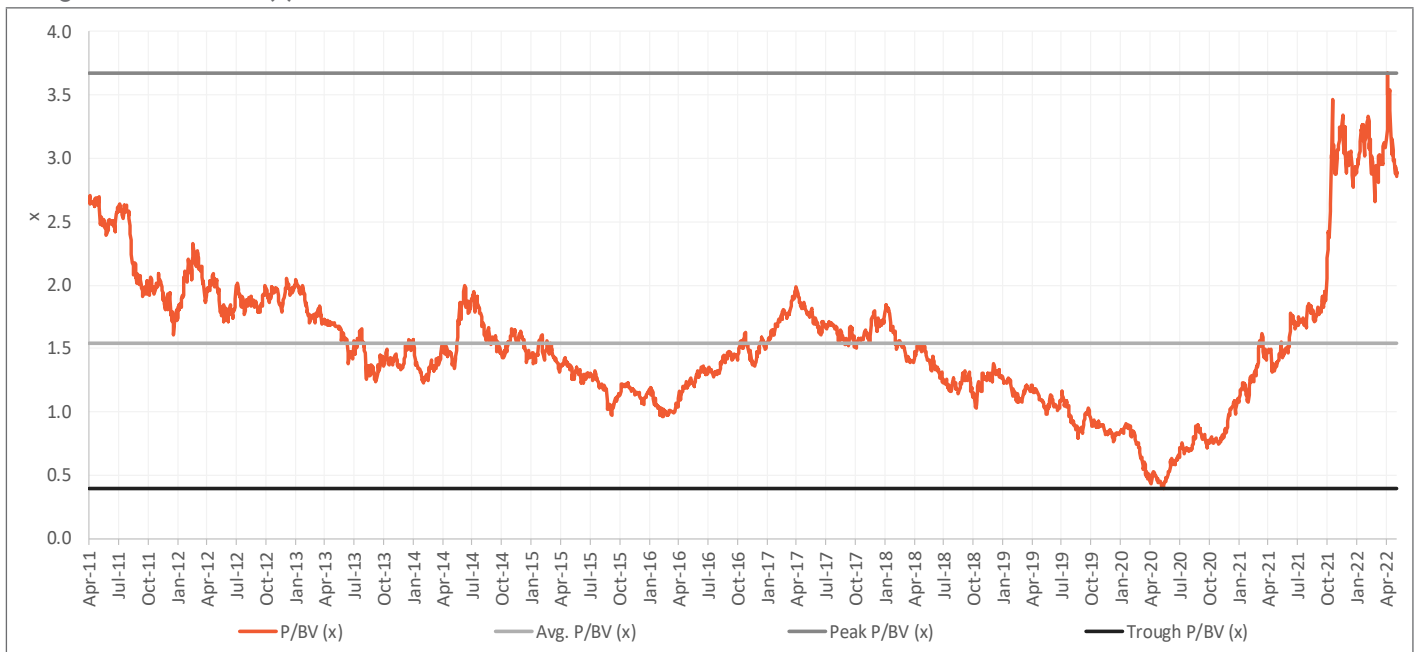
■ Company outlook – Focus on distribution and RE business to drive robust earnings growth

Tata Power has a well-planned strategy to shift towards clean energy and targets to treble PAT to over Rs. 3,600 crore and double RoE to 12% by FY2025 (versus 6% in FY2021). We believe that growth would be driven largely by distribution and the renewable energy (RE) business. We expect PAT to clock a CAGR of 35% over FY2021-FY2024E with a sharp improvement in RoE to 12.1% by FY2024E.

■ Valuation – We maintain Buy rating on TPCL with an unchanged PT of Rs. 315

TPCL's focus on business restructuring (CGPL merger) and focus on high growth RE business and entry in to power transmission) would play a crucial role for sustained earnings growth and improved earnings quality (expect RoE to improve to 12% in FY24E versus only 7.8% in FY22). Additionally, management's business restructuring plans to increase share of high growth RE business would drive sustained improvement in ESG scores. Moreover, a potential agreement with states for full pass-through of fuel cost would improve earnings growth outlook and support balance sheet deleveraging plan. Hence, we maintain a Buy on Tata Power with an unchanged PT of Rs.315. At CMP, the stock is trading at 3.2x/2.9x FY23E/FY24E 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 12808 MW with 69% from thermal and 31% from renewables), transmission, distribution (largest private sector player with a customer base of 11.7 million), trading and Solar EPC (largest solar EPC player in India).

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 and materially improve its RoE to ~9.4% by FY2024E (from just 6.1% in FY2021). Monetisation of renewable assets and potential improvement in ESG rating could re-rate the company while focus on debt reduction would strengthen balance sheet.

Key Risks

- ◆ Slower-than-expected ramp-up of RE portfolio and expansion in distribution business.
- ◆ Lower-than-expected profitability in Solar EPC business. Continued losses at Mundra UMPP in case of high imported coal prices.
- ◆ Volatility in international coal prices

Additional Data

Key management personnel

Mr. Natarajan Chandrasekaran	Chairman
Dr. Praveer Sinha	Managing Director and CEO
Mr. Sanjeev Churiwala	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.8
2	Vanguard Group Inc/The	2.0
3	Blackrock Inc	1.4
4	Matthews International Capital Management LLC	1.3
5	Tata Steel Ltd	1.2
6	HDFC Life Insurance Company Ltd	1.2
7	Matthews PACIFIC Tiger FF	1.1
8	Franklin Resources Inc	0.8
9	Kotak Mahindra Asset Management Co Ltd	0.6
10	L&T Mutual Fund Trustee Ltd	0.5

Source: Bloomberg

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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 deteriorating 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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