

## Q2FY22 Result Highlights

- **Profits from coal mins along with containment of losses at Mundra drives PAT growth** – Consolidated revenue grew by 18.3% YoY to ₹981.bn, led by a strong performance in standalone business (+15% YoY), inclusion of Odisha business, and healthy growth in solar EPC (+49% YoY). EBITDA, however, declined 16.9% YoY to ₹16.6bn due to a steep rise in Mundra under-recovery and higher module prices. Margin was also impacted by ~718 bps YoY, coming in at 17%. Adjus.PAT, though, rose 36.3% YoY to ₹5.1bn, aided by higher profits for the coal mining business with coal margins reaching a new peak at US\$33/ton, continued strength at Tata Power Solar with revenues of ₹15bn (+49% YoY), and contained losses at Mundra. Earnings performance was dampened by reversal of ₹2bn of revenues pertaining to capacity charges recognized in Q1FY22, single digit margins of 5% in Tata Power Solar due to a sharp increase in underlying project cost, and reversal of deferred tax asset of ₹3.6bn.
- **ESG efforts by Tata Power well appreciated** – Tata Power's transition into the green segment is gaining strong momentum, with nearly 40%/10% market share enjoyed by its EV charging/solar EPC segments. Its solar pump/solar rooftop business continued strong performances with 4x/3x growth during Q2FY22 with the highest-ever order book of ~₹11.8bn in the solar rooftop business. Considering the hot topics of ESG and green, coal is still important factor for the company. The company sold 14.4mnt of coal in Q2FY22, down 4%. The major delta for gross profit is derived from increasing net revenue after royalty. This was at \$72.3/ton, up 91% annually. As coal production cost inches up to \$40.3/ton, The company managed to clock gross profit of \$32.6/ton-as compared to \$7.2/ton in base year. The coal companies (KPC, BSSR, AGM) reported ₹5.2bn in net profit, up 11x annually.
- **CGPL to continue the short-term arrangement even beyond Dec'21** – CGPL has been mandated to supply power to DISCOMs on a short-term, due to power supply crunch. The unit sales were down 68.1% YoY to 2.1bn units due to low utilisation (PAF – 28% v/s 89% YoY; PLF – 25% v/s 79% YoY) due to the rise in international coal prices (FOB – \$66.4 v/s \$43.0 YoY). The arrangement tariff of over ₹4.4/unit is acceptable because spot market is over double the CGPL tariff. In Q2FY22, the CGPL's FOB fuel under recovery was at ₹1.15/unit, similar to ₹1.2/unit in Q1FY22. CGPL is currently at ₹8.6bn losses in Q2FY22-due to low-capacity revenue, lower PLF and reversal of fixed capacity charges. However, on an integrated basis, Mundra and coal companies reported a net PAT of ₹790mn in Q2FY22 v/s a PAT of ₹390mn YoY. The integrated PAT, however, declined on a QoQ basis from ₹1.5bn due to steep losses in Mundra. The merger of CGPL, TPSSL & Af-Taab, is yet to receive NCLT clearance.
- **Maithon power generation witness 32% YoY growth due to higher demand** – Maithon's revenues of ₹7.7bn, an increase of 20% YoY on account of higher off-take during Q2FY22. Interest cost declined 5.5% YoY to ₹350mn on account of pre-payment of term loans resulting in 51% YoY increase in PAT to ₹980mn. Generation increased 32% YoY to 2 BUs units though realization declined 9% YoY to ₹3.9/unit along with cost of production declining 7% YoY to ₹2.9/unit. Regulated equity for Maithon plant remained flat at ₹16.5bn.

## Important Statistics

<b>MCAP (₹ bn)</b>	712.72
<b>52-week H/L (₹)</b>	270/52
<b>NSE Code</b>	TATAPOWER
<b>BSE Code</b>	500400

<b>Shareholding pattern (%)</b>	<b>Sep'21</b>
Promoter	46.9
DII	20.4
FII	11.1
Public &Others	21.6

## Financials

	(₹ mn)			
<b>Particulars</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>1HFY22</b>
Revenues	295,586	291,364	324,681	199,426
EBITDA	64,227	79,428	69,285	40,088
<i>EBITDA Margin (%)</i>	<i>21.7</i>	<i>27.3</i>	<i>21.3</i>	<i>20.1</i>
Net Profit	26,057	13,164	13,551	9,714
EPS (₹)	4.9	5.6	5.0	3.0
DPS (₹)	1.3	1.9	1.6	
RoE (%)	6.2	6.4	6.1	
RoCE (%)	4.0	3.8	5.0	
P/E (x)	45.5	39.8	44.6	
EV/EBITDA (x)	11.6	9.7	11.2	
P/BV (x)	3.3	3.1	3.2	

Source: Company Filing, Way2wealth Research

- **On track to unlock value in RE** – During the Q2FY22 earnings call, the management stated that 3 units of Mundra UMPP are now selling power on actual variable costs, as a short-term measure to tide over power shortage; agreement to amend PPA terms is not finalised yet; plans to unlock value of the RE business are well on track; solar EPC business is facing headwinds due to escalation in module prices; incremental orders are bid after accounting for such volatility (total order book: ₹93bn); outlook on the Indonesian coal business is strong; any potential changes in local laws are likely to, by & large, be profit-neutral; it has set up 1,000 EV charging stations, but their revenue contribution remains insignificant.
- **Execution remains strong in EPC business but margin impacted** – In Q2FY22, the EPC segment reported a revenue of ₹15.1bn (+49% yoy), supported by strong execution. EPC operating profit, however, declined 4.9% YoY to ₹765mn due to a rise in raw material prices. PAT also declined 54.9% YoY to ₹302mn, from ₹669mn YoY. The margin and PAT came in much lower on both QoQ and YoY basis due to the rise in module prices, which led to execution of orders at a low margin. However, going ahead, the new orders are benchmarked with new module prices and, hence, the margin should improve. The order book stands strong at ₹92.6bn (2.8GW), which is to be executed over the next 12-18 months.
- **Walwhan Renewable Energy Limited (WREL) saw strong performance** – The sizeable part of Tata Power consolidated renewable is WREL. This subsidiary maintained 17% PLF for solar and 25% PLF for winds, translating in revenue of ₹2.9bn, up 7% YoY. With 10% decline in interest outgo, the WREL net profit was ₹920mn, up 53% annually. After WREL, the prominent segment in RE is TPREL. With 1748MW-up from 824MW in base year, TPREL reported net profit of ₹590mn, up 7x annually-largely led by higher generation, capacity addition and lower interest cost.
- **Odisha AT&C loss has significant room for development** – Currently, CESU, SOUTHCO, WESCO and NESCO has AT&C losses of 30%, 40%, 35% and 34% respectively. This is expected to narrow at 13.5%, 9.5%, 15% and 9.5% respectively over ten years. Barring WESCO, the remaining 3 DISCOMs have reported net profit.

## View

Near term earnings benefits from improved coal margins as well as fuel-cost pass through at Mundra UMPP (two states have agreed for pass through for a month) augers well for the company. However, prices of imported coal have started reversing aggressively and the power deficit experienced in the post monsoon period is also easing, hence the benefits of fuel pass through as well as higher margins for the coal business are not sustainable. With reducing losses at Mundra, the management targeting monetisation of renewable assets by Mar'22 and robust growth in its solar rooftop and pump business **we continue to maintain our ACCUMULATE stance at current levels of P/BV 3.2x FY21x.**

1<sup>st</sup> November 2021

CMP – ₹223.05/-

 View – **ACCUMULATE**
**Financial Performance**

Particulars	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	YoY (%)	QoQ (%)	1H	1H	YoY (%)
	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22			FY22	FY21	
<b>Revenue</b>	76,317	76,778	70,710	66,708	64,530	82,898	75,979	101,274	101,324	98,102	18.3	-3.2	199,426	147,428	35.3
<b>EBITDA</b>	21,671	22,560	18,050	15,798	17,313	20,012	17,155	14,456	23,452	16,636	-16.9	-29.1	40,088	37,325	7.4
<b>EBITDA Margin %</b>	28.4	29.4	25.5	23.7	26.8	24.1	22.6	14.3	23.1	17.0	-718	-619	20.1	25.3	-522
<b>Adj. PAT</b>	2,799	3,504	1,647	2,835	2,294	3,710	3,355	3,929	4,657	5,057	36.3	8.6	9,714	6,004	61.8

Source: Company, Way2Wealth

1st November 2021

CMP – ₹223.05/-

View – **ACCUMULATE**

## Disclaimer

**Analyst Certification:** I, Jayakanth Kasthuri, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Jayakanth Kasthuri, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

## Disclosure of Interest Statement Tata Power Ltd. as on 1st November, 2021

Name of the Security	Tata Power Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	
Financial Interest	No
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.