

8th February 2021

CMP – ₹90/-

View – ACCUMUALTE

Investment Arguments

- **EPC along with deleveraging leading towards strong quarter** – Tata Power reported PAT of ₹3.3bn (adjusted for one time mining expense of ₹0.6bn) led by sharp decline in interest cost, better coal JV- Mundra hedge, and profitability of CESU at ₹340mn. The solar EPC reported an 8.5% EBITDA Margin and 5% PAT margin (adjusted for FX loss of ₹180mn). The EPC business is recovering and is expected to pick-up, led by the healthy order book at Tata Power Solar. The management expects its solar EPC order book to be completed over the next 1-2 yrs. Mundra saw lower under-recovery of 30 paise per unit given lower coal prices, apart from some efficiency-related savings. Divestment-related measures and infusion of ₹26bn from the promoter has aided debt reduction to ₹395bn.
- **Significant progress at CESU** – Additionally, Tata Power has also won two new distribution licenses (WESCO and SOUTHCO) along with CESU in Odisha. Regulated returns on incremental investment of equity for capex along with reduction in AT&C losses will drive earnings performance at these circles. TPWR has made significant progress in bringing down AT&C losses at CESU to 33% over the past two quarters from 41% in Jun'20 with reported PAT of ₹340mn in Q3FY21.
- **Coal realisation under pressure** – Weak coal prices at US\$44/ton (-17% YoY) were partially offset by a sustained decline in production cost for the second consecutive quarter by 20% YoY to US\$31/ton as management re-negotiated its mining contracts restricting drop in gross profit for the coal business of Tata Power to US\$7/ton (-3% YoY, -1% QoQ) in Q3FY21. Share of attributable profit for the company increased 41% YoY to ₹1.7bn (Coal + Infra) from ₹1.2 bn in Q3FY20.
- **Traction with Industrial and commercial consumers for rooftop** – The management looks to tie-up back-to-back contracts for modules to lower risks of change in module prices. Tata Power Solar's PAT was impacted due to MTM losses of ₹180mn during Q3FY21. The company is witnessing traction with industrial and commercial consumers for rooftop applications. The company expects to undertake more solar pump installations, given the push by the government under the KUSUM scheme. On the recent bidding in Andhra Pradesh, the management stated that it was carried out without consent from the regulator and that the agency was not authorized to undertake the bidding process.
- **Renewables showing improved performance due to higher generation** – TPREL reported EBITDA of ₹1.8bn +4% YoY due to higher generation from wind assets even as capacity addition remained weak at only 9 MW over the year. Higher costs due to increase in consumables for wind assets and insurance expenses resulted in lowered PAT of ₹52mn (loss of ₹40mn in Q2FY21). Units generated increased to 506 MUs (+6% YoY) on account of higher PLF witnessed across wind assets at 14% (12% in Q3FY20) even as solar PLF declined to 23% (24% in Q3FY20). WREL reported EBITDA of ₹2.4bn (+1% YoY) supported by higher generation of 378 MU (+11% YoY) due to higher solar PLF partially offset by increase in spares

Important Statistics

MCAP (₹bn)	287.58
52week H/L (₹)	92/27
NSE Code	TATAPOWER
BSE Code	500400

Financials

Particulars	(₹mn)			
	FY18	FY19	FY20	9M FY21
Revenues	293,312	295,586	291,364	223,407
EBITDA	63,570	64,227	79,428	54,480
EBITDA Margin (%)	21.7	21.7	27.3	24.4
Net Profit	14,458	5,710	10,177	8,637
EPS (₹)	5.3	2.1	3.8	2.7
DPS (₹)	1.3	1.3	1.6	
RoE (%)	10.7	3.6	5.9	
RoCE (%)	6.3	5.5	7.1	
P/E (x)	17.0	42.9	23.7	
EV/EBITDA (x)	17.3	17.4	13.4	
P/BV (x)	1.5	1.5	1.4	

Shareholding pattern (%) Dec'20

Promoter	46.9
DII	24.5
FII	12.4
Public & Others	16.2

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consumption. Reduction in interest cost to ₹982mn (-12.3% YoY) on account of debt repayment and higher other income of ₹110mn (+6% YoY) led to 24% YoY increase in PAT to ₹645mn.

- **Renewable InvIT and Mundra restructuring in advanced stages** – Management indicated that the Renewable InvIT deal is in advanced stages and the announcement is likely before Feb'21. It is possible that some operational assets (total-2.7GW) might not be part of the deal. This should bring the overall debt to the ₹250bn guided level by Mar'21. Tata Power management highlighted that with the international coal prices expected to remain soft, cash flows from Mundra plant are expected to be self-sustaining as the company repaid ₹41.5bn of debt in CGPL leading to net outstanding debt of ₹38bn. While the management continues to remain engaged in discussions with five beneficiary states for compensatory tariff, it highlighted that offered compensation may not necessarily happen as per recommendations proposed in GERC's report. Mundra restructuring is in advanced stages of the NCLT hearing and expected to be concluded by Mar-Apr'21.

View

The company has done well to monetize non-core assets which helped in deleveraging of balance sheet. Future prospects in renewables along with healthy order book in Tata Solar augers well for the company shift from thermal assets. Further debt reduction should lead to lower interest costs in coming quarters. Possible benefits from the merger of CGPL and Tata Power Solar with itself and favorable InvIT valuations provide scope for further upside. Hence, we view it as **ACCUMULATE** at current levels of P/E 23.7x FY20.

Financial Performance

Financial Performance	(₹ mn)													
	Q1FY 20	Q2FY 20	Q3FY 20	Q4FY 20	Q1FY 21	Q2FY 21	Q3FY 21	YoY (%)	QoQ (%)	FY19	FY20	9MFY 21	9MFY 20	YoY (%)
Revenue	76,317	76,778	70,710	66,708	64,530	82,898	75,979	7.5	-8.3	295,586	291,364	223,407	223,805	-0.2
EBITDA	21,671	22,560	18,050	16,298	17,313	20,012	17,155	-5.0	-14.3	64,227	79,428	54,480	44,231	23.2
EBITDA Margin %	28.4	29.4	25.5	24.4	26.8	24.1	22.6			21.7	27.3	24.4	19.8	
Adj. PAT	2,799	3,504	1,647	2,054	2,294	2,988	3,355	103.7	12.3	5,710	10,177	8,637	6,303	37.0

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Tata Power Ltd. as on 08 February 2021

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