

Q3FY22 Result Highlights

- **Profits grew 73% YoY to ₹5.5bn enabled by coal mines, topline growth of Tata Power Solar along with containment of losses at Mundra** – Consolidated revenue grew by 42% YoY to ₹110.14bn, led by a strong performance in standalone business (+30% YoY), addition of Odisha DISCOMs, higher profits for the coal mining business with coal margins reaching a new peak at US\$40/ton, continued strength at Tata Power Solar with revenues of ₹15.6bn (+69% YoY) and under-recovery at Mundra at historical lows of ₹0.16/kwh resulting in net profit growth of 73% YoY to ₹5.5bn. In 9MFY22, the company had net profit at ₹15.2bn, +65.8% YoY. Tata Power Solar Systems Limited (TPSSL) reported 5% net margin as against 2% in sequential quarter. The company sold 13.1mnt of coal in Q3FY22, down 8%. The biggest driver of gross profit/ton is derived from increasing net revenue after royalty. This was at \$85/ton, +129% annually. As coal production cost inches up to \$45/ ton, it managed to clock gross profit of \$40/ton-as compared to \$7.1/ton in base year. With this, the coal companies (KPC, BSSR, AGM) reported ₹6.2bn in net profit, up 27% annually. However, there were reversal of revenues aggregating ₹3.4bn comprising (1) ₹2.4bn at Mundra for under-recovery of capacity charges recognized previously, (2) ₹540mn at Maithon based on tariff order true-up, and (3) provisions of ₹600mn in the coal companies. Further losses of ₹800mn at Tata Projects during the quarter limited the benefit of higher profits from coal companies, with contribution from associates growing to ₹6.5bn (from ₹1.5bn in Q3FY21).
- **CGPL-Reversal of capacity charges of ₹2.3bn impacted earnings** – Even during power crunch, the blended tariff was ₹3.8/unit. With higher international prices, CGPL's FOB fuel under recovery was at ₹0.16/unit, as compared to ₹0.32/unit in Q3FY21. The coal prices were at \$91/ton, +116% YoY. Even with 31% PLF, CGPL is currently nursing ₹4.6bn under-recovery as compared to ₹3.6bn in base year. The company witnessed reversal of capacity charges of ₹2.3bn recognized in the preceding quarter led to revenues of ₹9.9bn (-41% YoY, +353% QoQ) and EBITDA losses of ₹1.5bn. Debt pre-payments and debt refinancing led to 10% YoY decline in interest cost to ₹2bn and PAT losses of ₹4.6bn. During 9MFY22, the company reported ₹0.76/unit as under-recovery and ₹11bn as net loss. CGPL has outstanding external debt of ₹48.5bn as of Dec'21
- **Tariff jump enabled topline growth in standalone operations** – Tata Power reported standalone revenues of ₹21.6bn (+30% YoY), EBITDA of ₹5.6bn (+12% YoY) and PAT of ₹487mn. Increase in revenues was primarily on account of +30% YoY jump in tariffs (reflecting increase in fuel costs) as the number of units sold remained flat during the quarter. Fuel cost spiked 58% YoY to ₹3.86/kwh. PAT however slid 92% YoY largely on account of the commensurate decrease in other income for the quarter to ₹549mn from ₹7bn in Q3FY21.
- **Tata Power Solar – margins improve favourably, revenue growth strong** – Tata Power Solar reported revenues of ₹15.6bn (+69% YoY, +3% QoQ) on the back of strong order backlog with improved margins of 9.6% (5% in Q2FY22) leading to EBITDA of ₹1.5bn (+114% YoY). It continues to make in-roads into EV charging business with installation of 1,299 charging stations across India however refrained from providing financial metrics for the business segment. Strong jump in the margins led to earnings increase

Important Statistics

MCAP (₹bn)	771.04
52-week H/L (₹)	270/86
NSE Code	TATAPOWER
BSE Code	500400

Shareholding pattern (%)	Dec'21
Promoter	46.9
DII	15.9
FII	10.8
Public & Others	26.4

Financials

Particulars	(₹ mn)			
	FY19	FY20	FY21	9M FY22
Revenues	295,586	291,364	324,681	309,575
EBITDA	64,227	79,428	69,285	58,500
<i>EBITDA Margin (%)</i>	<i>21.7</i>	<i>27.3</i>	<i>21.3</i>	<i>18.9</i>
Net Profit	26,057	13,164	13,551	15,234
EPS (₹)	4.9	5.6	5.0	4.8
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)	12.5	10.5	12.1	
P/BV (x)	3.6	3.7	4.2	

Source: Company Filing, Way2wealth Research

11th February 2022

CMP – ₹241.3/-

 View – **ACCUMULATE**

of 161% on a YoY basis with PAT standing at ₹805mn (PAT margin of 5%) in Q3FY22. During 9MFY22, it clocked ₹1.33bn in net profit, + 45% YoY.

- **Maithon realisation declined due to inching production cost** – Maithon reported revenues of ₹6.7bn, an increase of 2% YoY on account of realisation dipping by 4% against unit sales increase of 2% during the quarter. Maithon accounted for reversal of prior period revenues of ₹540mn on account of CERC orders for preceding periods. Higher fuel costs and interest payments in conjunction to weak realisation led to EBITDA and PAT declining 22% and 51% respectively, on YoY basis. Generation increased 6% YoY to 1.8 BUs though realization declined 4% YoY to ₹3.8/unit along with cost of production inching up 3% YoY to ₹3.1/unit. Regulated equity for Maithon plant remained flat at ₹16.5bn.
- **Renewables capacity addition remains weak** – With portfolio of 2.95GW, Tata Power Renewable Energy (TPREL) reported EBITDA of ₹2.2bn (+25% YoY) in Q3FY22 due to higher generation from wind assets. Installed capacity increased to 1,751 MW in the quarter. PAT loss stood at ₹180mn for the quarter against ₹170mn in Q3FY21. Units generated increased to 701 MUs (+16% YoY) on higher capacity base with flattish PLF witnessed across wind assets at 12% and solar at 22% (v/s 23% in Q3FY21). The net-worth of this arm is ₹64bn with a net debt of ₹12.8bn

 Welspun Renewables Energy (WPREL) reported EBITDA of ₹2.2bn (-10% YoY) owing to generation dipping 5% YoY at 360 MUs due to lower PLFs for wind assets. Reduction in interest cost to ₹820mn (-16% YoY) on account of debt repayment and lower depreciation of ₹590mn (₹720mn in Q3FY21) led to 16% YoY increase in PAT to ₹750mn.
- **Committed to divestment of the renewable business by Mar'22** – Tata Power management committed to divestment of the renewable business by Mar'22, without being specific on incremental details. The renewable business continues to gain in size across development business (pipeline of 1.9 GW), and EPC order book of ₹100bn. Unconfirmed media reports talk of potential transaction (US\$600 mn) for an equity valuation of US\$6 bn, which could accrue as much as ₹75/share to the renewable business. Monetisation of the renewable business has been a long-standing milestone for Tata Power that has been deferred over the past several quarters. Tata Power's net debt was maintained at ₹395bn as the large part of operating cash flows remain invested in capex for the renewable business while the balance is used for interest payments as incremental disinvestments remain contained.
- **Distribution circles in Odisha – AT&C losses continues** – Distribution circles in Odisha across all the regions – North, West, Central and South reported cumulative revenues of ₹33bn, EBITDA of ₹3bn and PAT of ₹1.25bn. The four distribution circles purchased 6.7 BUs of power against sales of 5.4 BUs in Q3FY22.

View

Tata Power's business reorientation towards clean energy is gaining heft with 25% profits already accruing from RE. In our view, value unlocking through RE monetisation, exit from the coal mining business and Mundra resolution are the key catalysts for the stock in the near to medium term. The past capital allocation was driven by 39% in coal/CGPL, 32% in regulated business and 29% in renewables. The path ahead will have 49% of regulated business (with 31% coming from T&D) and 32% in renewables. The strength in near-term earnings on the back of improved coal margins (US\$40/ton in Q3FY22) as well as potential fuel-cost pass through at Mundra UMPP. However, with the prices of imported coal have started reversing aggressively and the power deficit experienced in the post monsoon period has also eased—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 & pump business **we continue to maintain our ACCUMULATE stance at current levels of P/BV 4.2x FY21x.**

Financial Performance

Particulars	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY	QoQ	9M	9M	YoY
	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	(%)	(%)	FY22	FY21	(%)
Revenue	76,317	76,778	70,710	66,708	64,530	82,898	77,555	101,274	101,324	98,102	110,149	42.0	12.3	309,575	224,983	37.6
EBITDA	21,671	22,560	18,050	15,798	17,313	20,012	19,968	14,456	23,452	16,636	18,412	-7.8	10.7	58,500	57,293	2.1
EBITDA Margin %	28.4	29.4	25.5	23.7	26.8	24.1	25.7	14.3	23.1	17.0	16.2	-903	-24	18.9	25.5	-657
Adj. PAT	2,799	3,504	1,647	2,835	2,294	3,710	3,184	3,929	4,657	5,057	5,520	73.4	9.2	15,234	9,188	65.8

Source: Company, Way2Wealth

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Name of the analyst	Jayakanth Kasthuri
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