

# Tata Power

## Struck RE deal, but valuation below our expectation

A consortium led by BlackRock Real Assets shall invest INR40bn (in two tranches over a period of next eight months) for a 10.53% stake in Tata Power Renewables by way of equity/compulsorily convertible instruments. The investment would translate into a base equity valuation of INR340bn and an enterprise value of ~INR500bn for a platform that will house all renewable energy businesses of Tata Power. While the deal is better than the earlier monetisation plan through InvIT (which was likely to be valued at ~8x FY23 EV/EBITDA), it is below our expected equity value of ~INR45bn for the entire renewable portfolio. Accordingly, we have cut our SoTP target price to INR231, from INR277, by assigning the implied equity value to its renewable portfolio, as per the proposed deal. Eventually, we downgrade our rating on TPWR to SELL from REDUCE earlier and expect a weak opening on Monday.

■ **Deal thesis:** Tata Power (TPWR) and its wholly-owned subsidiary, viz. Tata Power Renewable Energy Ltd (TPREL), have entered into binding agreements with GreenForest New Energies Bidco Ltd. (UK) (GreenForest), a consortium led by BlackRock Real Assets along with Mubadala Investment Company, whereby the latter would invest INR40bn (~US\$525mn) by way of equity and compulsorily convertible instruments for a ~10.53% stake in TPREL. This translates into a base equity valuation of INR340bn. The investment will take place in two tranches:

- Tranche 1 of INR20bn through Issuance of Equity shares.
- Tranche 2 of INR20bn through Issuance of 200mn Compulsory Convertible Preference Shares to be converted at a price to be determined based on actual FY23 performance. The conversion is likely to happen by Q1FY24-Q2FY24.

The post-money base equity valuation is INR380bn for a 10.53% equity stake in TPREL, while the pre-money valuation is INR340bn. However, the final shareholding will range from ~9.76% to ~11.43% at the time of final conversion into equity shares, depending on the actual FY23 TPREL EBITDA performance, which would translate to an equity valuation of INR350bn for a 11.43% stake and INR410bn for a 9.76% stake. As per the new structure, TPREL will comprise TPWR's entire green energy portfolio, ranging from utility scale project, EPC, solar rooftop, solar pump, solar manufacturing to EV charging. It has an existing debt of INR16bn and, thus, the enterprise value of TPREL comes to ~INR500-540bn. Also, going ahead, all green energy-related new business segments, viz. battery energy storage or green hydrogen business, will also come under this new TPREL platform.

■ **Downgrade to SELL:** While the fund raise of INR40bn will be used to fund future Capex for renewable portfolio, the deal valuation is below our expectation. We had assumed an equity value of ~INR450bn for TPWR's entire RES portfolio, but the same is executed at base valuation of INR340-INR380bn. Accordingly, we have revised our SoTP TP downward to INR231 from INR277/share by assigning the deal implied multiple to TPREL business. Hence, we now downgrade our rating on TPWR to SELL from REDUCE.

### SELL

CMP(as on 13 April 2022)	INR 273
Target Price	INR 231
NIFTY	17,476

KEY CHANGES	OLD	NEW
Rating	REDUCE	SELL
Price Target	INR277	INR231
	FY22E	FY23E
EPS Change %	-5.8	6.4

#### KEY STOCK DATA

Bloomberg code	TPWR IN
No. of Shares (mn)	3,195
MCap (INR bn) / (\$ mn)	873/11,727
6m avg traded value (INR mn)	13,542
52 Week high / low	INR 298/92

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.3	21.8	184.9
Relative (%)	16.0	26.7	164.7

#### SHAREHOLDING PATTERN (%)

	Dec-21	Sep-21
Promoters	46.9	46.86
FIs & Local MFs	15.57	19.77
FPIs	10.84	11.06
Public & Others	26.73	22.31
Pledged Shares	-	-

Source : BSE

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## SoTP valuation

Business	Segment	Tata power share (%)	Method	Regulated Equity INR bn	RoE	Multiple (x)	Implied Valn (INR bn)	Value/ shr (INR)
Mumbai operations	Generation and T&D	100%	P/BV	43.0	16.5%	2.1	90	28
Mumbai other segments (Wind, Jojobera, Haldia)	Generation	100%	P/BV	7.4	16.0%	2.5	18	6
Powerlinks - 51% stake	Transmission JV	51%	P/BV	4.7	15.9%	2.0	5	1
Delhi distribution (NDPL)	Distribution Licensee	51%	P/BV	18.2	16.9%	2.2	20	6
IEL - 74% stake	Captive – Tata Steel	74%	P/BV	7.3	16.0%	2.0	11	3
Maithon Power	Power generation	74%	DCF				20	6
Bumi stake	Coal mining		EV/EBITDA			5	65	20
Orissa (CESU, WESCO, SOUTCO, NESCO)	Distribution Licensee	51%	DCF				33	10
4GW Mundra UMPP	Power Generation	100%	DCF				47	15
Tata Power Trading	Trading		P/E			10	4	1
International Power Ventures	Power Generation	50%	P/BV	6.5	15.0%	1.8	12	4
<b>Renewable</b>			P/BV	53.0				
	TPREL Power Generation		P/BV	28		12.0	233	73
	WREL (Welspun Acq) Power Generation		P/BV	10.5		12.0	88	28
Tata solar mfg/EPC	EPC	100%	P/E			15	61	19
EV and solar pump business			P/E			12	25	8
<b>Investments</b>	% stake holding							
Tata Projects stake	EPC	48%	EV/EBITDA			7	23	7
Other investments (MFs)							13	4
Cash on books FY21							61	19
Non project debt							-113	-35
Tax saving benefit on Mundra merger							21	7
<b>TPWR SOTP Valuation</b>							<b>737</b>	<b>231</b>

Source: Company, HSIE Research

## Financials (Stand)

### INCOME STATEMENT

INR mn	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>2,78,977</b>	<b>2,68,403</b>	<b>2,98,811</b>	<b>2,91,364</b>	<b>3,24,681</b>	<b>3,96,653</b>	<b>4,20,775</b>	<b>4,53,253</b>
<i>Growth (%)</i>	<i>-2.8</i>	<i>-3.8</i>	<i>11.3</i>	<i>-2.5</i>	<i>11.4</i>	<i>22.2</i>	<i>6.1</i>	<i>7.7</i>
Power & Fuel	1,81,716	1,68,113	1,95,367	1,74,101	2,05,706	2,59,513	2,67,000	2,87,263
Purchase of electricity	82,190	55,973	66,078	64,345	88,390	1,42,018	1,47,609	1,53,012
Employee Cost	12,959	13,819	13,391	14,406	21,565	29,112	30,568	31,179
O&M and Other expenses	22,052	23,741	22,602	23,428	28,125	34,905	33,662	35,353
<b>EBITDA</b>	<b>62,250</b>	<b>62,729</b>	<b>67,451</b>	<b>79,428</b>	<b>69,285</b>	<b>73,122</b>	<b>89,546</b>	<b>99,457</b>
<i>EBITDA Margin (%)</i>	<i>22.3</i>	<i>23.4</i>	<i>22.6</i>	<i>27.3</i>	<i>21.3</i>	<i>18.4</i>	<i>21.3</i>	<i>21.9</i>
<i>EBITDA Growth (%)</i>	<i>-2.8</i>	<i>0.8</i>	<i>7.5</i>	<i>17.8</i>	<i>-12.8</i>	<i>5.5</i>	<i>22.5</i>	<i>11.1</i>
Depreciation	19,886	23,462	23,931	26,336	27,449	25,586	29,169	33,600
<b>EBIT</b>	<b>42,364</b>	<b>39,268</b>	<b>43,520</b>	<b>53,093</b>	<b>41,836</b>	<b>47,536</b>	<b>60,377</b>	<b>65,856</b>
Other Income (Including EO Items)	2,022	4,327	3,862	5,626	4,392	5,194	2,989	4,004
Interest	31,140	37,615	38,252	44,937	40,104	37,590	38,757	37,637
<b>PBT</b>	<b>3,369</b>	<b>1,881</b>	<b>10,163</b>	<b>11,894</b>	<b>12,235</b>	<b>15,140</b>	<b>24,609</b>	<b>32,220</b>
Tax	-458	1,643	10,876	6,360	5,019	5,299	8,613	11,277
<b>RPAT</b>	<b>3,827</b>	<b>238</b>	<b>-713</b>	<b>5,535</b>	<b>7,216</b>	<b>9,841</b>	<b>15,996</b>	<b>20,943</b>
Rate regulated activities	12,173	15,539	14,018	9,526	8,734	7,927	10,862	9,559
EO (Loss) / Profit (Net of Tax)	-295	11,025	12,751	-1,896	-2,399	0	0	0
<b>APAT</b>	<b>15,705</b>	<b>26,803</b>	<b>26,057</b>	<b>13,164</b>	<b>13,551</b>	<b>17,767</b>	<b>26,858</b>	<b>30,502</b>
<i>APAT Growth (%)</i>	<i>98.2</i>	<i>-1.4</i>	<i>-15.7</i>	<i>13.2</i>	<i>5.9</i>	<i>11.4</i>	<i>51.2</i>	<i>13.6</i>
<b>AEPS</b>	<b>5.9</b>	<b>5.8</b>	<b>4.9</b>	<b>5.6</b>	<b>5.0</b>	<b>5.6</b>	<b>8.4</b>	<b>9.5</b>
<i>EPS Growth (%)</i>	<i>98.2</i>	<i>-1.4</i>	<i>-15.7</i>	<i>13.2</i>	<i>5.9</i>	<i>11.4</i>	<i>51.2</i>	<i>13.6</i>

Source: Company, HSIE Research

### BALANCE SHEET

INR mn	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>SOURCES OF FUNDS</b>								
Share Capital	2,705	2,705	2,705	2,705	3,196	3,196	3,196	3,196
Reserves	1,30,090	1,61,294	1,79,507	1,92,955	2,20,027	2,30,108	2,48,861	2,70,997
<b>Total Shareholders' Funds</b>	<b>1,32,795</b>	<b>1,63,999</b>	<b>1,82,212</b>	<b>1,95,660</b>	<b>2,23,223</b>	<b>2,33,304</b>	<b>2,52,057</b>	<b>2,74,193</b>
Long-term Debt	5,14,453	4,85,892	4,85,060	4,83,759	3,84,812	3,33,152	3,43,152	3,53,152
Short-term Debt								
<b>Total Debt</b>	<b>5,14,453</b>	<b>4,85,892</b>	<b>4,85,060</b>	<b>4,83,759</b>	<b>3,84,812</b>	<b>3,33,152</b>	<b>3,43,152</b>	<b>3,53,152</b>
Deferred revenues & Regulatory deferral A/C credit balance	17,511	19,053	19,598	21,623	9,931	9,931	9,931	9,931
<b>TOTAL SOURCES OF FUNDS</b>	<b>6,83,449</b>	<b>6,89,098</b>	<b>7,08,537</b>	<b>7,24,363</b>	<b>6,47,239</b>	<b>6,08,622</b>	<b>6,40,422</b>	<b>6,75,593</b>
<b>APPLICATION OF FUNDS</b>								
<b>Net Block</b>	<b>5,19,602</b>	<b>4,94,350</b>	<b>4,98,470</b>	<b>5,39,194</b>	<b>5,18,893</b>	<b>5,21,874</b>	<b>5,29,105</b>	<b>5,31,908</b>
CWIP	19,232	16,526	25,757	16,115	35,998	45,998	45,998	45,998
Investments	1,19,570	1,24,289	1,30,181	1,45,348	1,61,965	1,61,965	1,61,965	1,61,965
Other Non-Current Assets								
<b>Total Non-current Assets</b>	<b>6,58,405</b>	<b>6,35,165</b>	<b>6,54,408</b>	<b>7,00,658</b>	<b>7,16,856</b>	<b>7,29,837</b>	<b>7,37,068</b>	<b>7,39,871</b>
Inventories	15,996	16,231	17,064	17,524	18,848	19,561	23,056	27,319
Debtors	1,21,959	1,07,027	1,18,378	1,13,579	1,42,976	1,52,141	1,61,393	1,80,059
Cash & Equivalents	9,540	11,858	7,875	20,942	61,127	17,028	23,968	33,743
ST Loans & Advances	41,848	49,820	43,001	44,037	46,866	54,336	63,405	72,023
<b>Total Current Assets</b>	<b>1,89,343</b>	<b>1,84,935</b>	<b>1,86,318</b>	<b>1,96,081</b>	<b>2,69,816</b>	<b>2,43,066</b>	<b>2,71,822</b>	<b>3,13,144</b>
Creditors	1,59,516	1,26,068	1,27,083	1,67,138	3,28,336	3,53,184	3,57,371	3,66,326
Provisions	4,783	4,934	5,106	5,238	11,097	11,097	11,097	11,097
<b>Total Current Liabilities</b>	<b>1,64,299</b>	<b>1,31,002</b>	<b>1,32,189</b>	<b>1,72,376</b>	<b>3,39,433</b>	<b>3,64,281</b>	<b>3,68,468</b>	<b>3,77,423</b>
<b>Net Current Assets</b>	<b>25,045</b>	<b>53,933</b>	<b>54,129</b>	<b>23,705</b>	<b>-69,617</b>	<b>-1,21,215</b>	<b>-96,646</b>	<b>-64,279</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>6,83,449</b>	<b>6,89,098</b>	<b>7,08,537</b>	<b>7,24,363</b>	<b>6,47,239</b>	<b>6,08,622</b>	<b>6,40,422</b>	<b>6,75,593</b>

Source: Company, HSIE Research

## CASH FLOW STATEMENT

INR Mn	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	3,369	1,881	10,163	11,894	12,235	15,140	24,609	32,220
Non-operating & EO Items	2,022	4,327	3,862	5,626	4,392	5,194	2,989	4,004
Interest Expenses	31,140	37,615	38,252	44,937	40,104	37,590	38,757	37,637
Depreciation	19,886	23,462	23,931	26,336	27,449	25,586	29,169	33,600
Working Capital Change	22,112	-25,029	-3,635	45,516	1,21,815	7,500	-17,629	-22,592
Tax Paid	458	-1,643	-10,876	-6,360	-5,019	-5,299	-8,613	-11,277
<b>OPERATING CASH FLOW ( a )</b>	<b>70,142</b>	<b>63,639</b>	<b>45,738</b>	<b>73,753</b>	<b>1,92,192</b>	<b>75,323</b>	<b>63,303</b>	<b>65,584</b>
Capex	-51,259	4,497	-37,283	-23,948	-27,031	-38,567	-36,400	-36,403
Free Cash Flow (FCF)	18,883	68,136	8,455	49,806	1,65,161	36,756	26,903	29,181
Investments	-73,910	10,820	8,127	-5,642	-7,883	7,927	10,862	9,559
Non-operating Income	2,022	4,327	3,862	5,626	4,392	5,194	2,989	4,004
<b>INVESTING CASH FLOW ( b )</b>	<b>-74,190</b>	<b>-15,179</b>	<b>-3,192</b>	<b>-5,429</b>	<b>-35,852</b>	<b>-25,446</b>	<b>-22,548</b>	<b>-22,840</b>
Debt Issuance/(Repaid)	98,244	-28,561	-832	-1,301	-98,947	-51,660	10,000	10,000
Interest Expenses	-31,140	-37,615	-38,252	-44,937	-40,104	-37,590	-38,757	-37,637
Other Financing activity	-61,931	24,136	-3,811	-4,513	0	0	0	0
Share Capital Issuance	0	0	0	0	26,000	0	0	0
Dividend	-4,156	-4,165	-4,104	-5,006	-3,104	-4,725	-5,058	-5,331
<b>FINANCING CASH FLOW ( c )</b>	<b>1,018</b>	<b>-46,205</b>	<b>-46,998</b>	<b>-55,757</b>	<b>-1,16,155</b>	<b>-93,975</b>	<b>-33,816</b>	<b>-32,969</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-2,567</b>	<b>2,317</b>	<b>-3,983</b>	<b>13,067</b>	<b>40,185</b>	<b>-44,098</b>	<b>6,939</b>	<b>9,776</b>
Opening cash balance	12,108	9,540	11,858	7,874	20,942	61,127	17,028	23,967
<b>Closing Cash &amp; Equivalents</b>	<b>9,540</b>	<b>11,858</b>	<b>7,874</b>	<b>20,942</b>	<b>61,127</b>	<b>17,028</b>	<b>23,967</b>	<b>33,743</b>

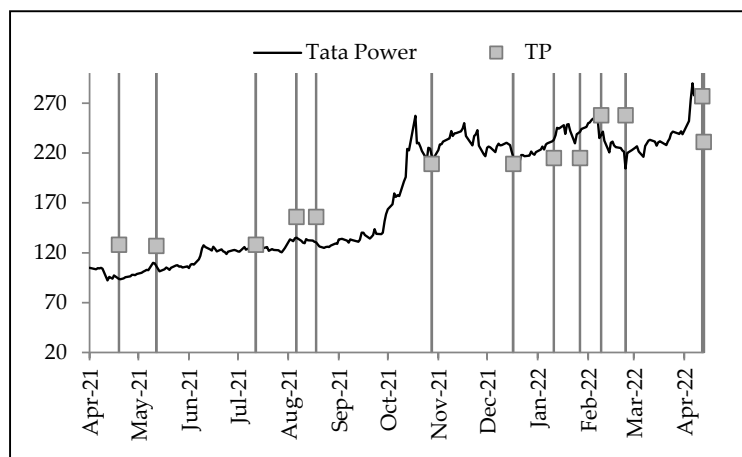
Source: Company, HSIE Research

## KEY RATIOS

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>PROFITABILITY (%)</b>								
GPM	5.4	16.5	12.5	18.2	9.4	-1.2	1.5	2.9
EBITDA Margin	22.3	23.4	22.6	27.3	21.3	18.4	21.3	21.9
EBIT Margin	15.2	14.6	14.6	18.2	12.9	12.0	14.3	14.5
APAT Margin	1.4	0.1	-0.2	1.9	2.2	2.5	3.8	4.6
RoE	10.6	9.3	6.2	6.4	6.1	6.5	9.8	10.4
Core RoCE	4.9	4.6	4.0	3.8	3.3	2.8	2.6	2.5
RoCE	6.4	6.0	5.1	5.5	5.0	5.5	6.6	6.9
<b>EFFICIENCY</b>								
Tax Rate (%)	-13.6	87.3	107.0	53.5	41.0	35.0	35.0	35.0
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.5	0.6	0.7	0.7
Inventory (days)	21	22	21	22	21	18	20	22
Debtors (days)	160	146	145	142	161	140	140	145
Payables (days)	269	224	200	288	469	398	394	378
Cash Conversion Cycle (days)	20	57	57	3	-147	-127	-105	-79
Net Debt/EBITDA (x)	8.1	7.6	7.1	5.8	4.7	4.3	3.6	3.2
Net D/E	3.9	3.0	2.7	2.5	1.7	1.4	1.4	1.3
Interest Coverage	0.7	0.9	0.8	0.8	0.9	0.7	0.6	0.5
<b>PER SHARE DATA</b>								
EPS (INR/sh)	5.9	5.8	4.9	5.6	5.0	5.6	8.4	9.5
CEPS (INR/sh)	13.3	14.5	13.8	15.3	13.6	13.6	17.5	20.1
DPS (INR/sh)	1.5	1.5	1.5	1.9	1.6	1.8	1.8	1.8
BV (INR/sh)	49.1	60.6	67.4	72.3	69.9	73.0	78.9	85.8
<b>VALUATION</b>								
P/E	46.2	46.8	55.5	49.0	54.7	49.1	32.5	28.6
P/BV	5.6	4.5	4.1	3.8	3.9	3.7	3.5	3.2
EV/EBITDA	20.0	19.3	18.0	15.1	17.3	16.3	13.3	12.0
OCF/EV (%)	5.6	5.2	3.8	6.1	16.1	6.3	5.3	5.5
FCF/EV (%)	1.5	5.6	0.7	4.1	13.8	3.1	2.3	2.4
<b>Dividend Yield (%)</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>

Source: Company, HSIE Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
19-Apr-21	97	BUY	128
14-May-21	107	BUY	127
12-Jul-21	125	BUY	128
9-Aug-21	135	BUY	156
18-Aug-21	131	BUY	156
29-Oct-21	218	REDUCE	209
17-Dec-21	217	REDUCE	209
11-Jan-22	233	REDUCE	215
27-Jan-22	230	REDUCE	215
10-Feb-22	238	ADD	258
24-Feb-22	221	ADD	258
12-Apr-22	283	REDUCE	277
16-Apr-22	273	SELL	231

## Rating Criteria

BUY: &gt;+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: &gt;10% Downside return potential

**Disclosure:**

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**Any holding in stock –No**

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