

# Torrent Power

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	TPW IN
Equity Shares (m)	481
M.Cap.(INRb)/(USD\$)	228.5 / 3.1
52-Week Range (INR)	509 / 293
1, 6, 12 Rel. Per (%)	-1/42/2
12M Avg Val (INR M)	640

## Financials & Valuations (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	118.3	139.5	144.4
EBITDA	32.3	36.6	40.5
Adj. PAT	11.0	14.0	16.2
EBITDA Margin (%)	27.3	26.3	28.0
Cons. Adj. EPS (INR)	22.9	29.2	33.8
EPS Gr. (%)	-18.2	27.4	15.8
BV/Sh. (INR)	211.9	231.7	256.5

## Ratios

Net D:E	0.7	0.7	0.6
RoE (%)	11.4	13.2	13.8
RoCE (%)	8.6	9.7	10.3
Payout (%)	48.0	30.8	26.6

## Valuations

P/E (x)	20.7	16.3	14.1
P/BV (x)	2.2	2.1	1.9
EV/EBITDA(x)	9.3	8.3	7.3
Div. Yield (%)	2.3	1.9	1.9
FCF Yield (%)	7.4	2.2	7.8

## Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	53.6	53.6	53.6
DII	20.5	20.2	19.9
FII	8.1	8.5	8.5
Others	17.8	17.8	18.0

FII Includes depository receipts

**CMP: INR475 TP: INR485 (+2%) Neutral**

## Distribution business recovering

### Price capturing in a demand recovery; reiterate Neutral

- TPW's result highlights the benefit of better demand and lower T&D losses in its distribution franchise (DF) business, leading to a 7%/43% YoY jump in adjusted EBITDA/PAT. However, the numbers were a miss on our estimates.
- While the second COVID wave has delayed the normalization of demand and collections at DFs, we expect TPW's DF business to improve in FY22E/FY23E. However, this remains well captured at the current price. We reiterate our **Neutral** rating with a **TP of INR485/share**.

### Adjusted profit to improve on a recovery in distribution and lower interest costs

- Adjusted EBITDA was up 7% YoY to INR7.5b (est. INR8.1b) in 1QFY22. The miss on our numbers was due to: a) lower than expected improvement in DF, and b) lesser profitability for its gas-based generation.
- Demand for its DF business was up 38% YoY. However, it remains 13% below pre-COVID levels. T&D losses at Bhiwandi fell to 11.6% (v/s 24.5% in 1QFY21), while for Agra it stood at 17.4% (v/s 22.8% in 1QFY21). EBITDA for its DFs rose to INR1.7b v/s INR0.4b in FY21. Collections of arrears have been deferred, given the impact of the second COVID wave.
- EBITDA for gas-based generation was lower at INR1.3b v/s INR2b in FY21 due to lower merchant sales, higher O&M expense, and lowering of Sugan PPA by 25MW.
- Renewable generation declined by 3% YoY to 459MU. EBITDA for the Renewables segment was slightly lower at INR1.75b v/s INR1.85b in FY21.
- Interest costs fell 26% YoY to INR1.6b on the back of lower debt and borrowing costs.
- Adjusted PAT was up 43% YoY at INR2.2b (est. INR2.6b). At the reported level, PAT fell 45% YoY to INR2.1b.

### Key takeaways from the management interaction

- TPW expects demand at its distribution franchise business to reach pre-COVID levels by the end of FY22. Around INR1.3b of excess provisioning has been created, of which 50% pertains to the Shil, Mumbra, and Kalwa (SMK) circle. Recovery of the same from SMK may take some time, but the balance should be recovered in the next three quarters.
- Around 70% of its gas requirements for FY22 have been tied up at USD4.36/mmbtu. The company does not see current gas prices as sustainable, and hence has not made any future bookings. The management plans to contract for FY23 as well.
- It is looking at reviving the 115MW SECI-V project for which the timeline has been extended to Feb'22. The company has the necessary permissions in place and is in the process of acquiring land.

**Current price bake in a demand recovery; maintain Neutral**

- While the second COVID wave has delayed normalization of demand and collections at its DFs, we expect the company's distribution franchise business to improve in FY22E/FY23E. This, along with continued capex in the regulated distribution business and lower interest costs, should result in 21% PAT CAGR over FY21-23E. With the run-up in the stock over the past six months (+47%), this is well captured.
- With a healthy Balance Sheet, TPW is still well poised to capitalize on opportunities from privatization in the distribution space. We await clarity on successful wins. We maintain our **Neutral** rating with a **SoTP-based TP of INR485/share**.

**Quarterly performance (consolidated) – (INR b)**

Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
<b>Net Sales</b>	<b>26.6</b>	<b>31.3</b>	<b>29.5</b>	<b>30.8</b>	<b>31.0</b>	<b>37.5</b>	<b>34.6</b>	<b>36.4</b>	<b>118.3</b>	<b>139.5</b>	<b>31.6</b>	<b>-2</b>
YoY Change (%)	-28.7	-18.6	-4.1	3.4	16.4	19.9	17.2	18.0	-13.3	17.9	18.8	
Total Expenditure	19.6	23.0	21.2	22.2	23.5	27.5	25.3	26.6	86.0	102.9	23	0
<b>EBITDA</b>	<b>7.0</b>	<b>8.3</b>	<b>8.3</b>	<b>8.6</b>	<b>7.5</b>	<b>10.0</b>	<b>9.3</b>	<b>9.8</b>	<b>32.3</b>	<b>36.6</b>	<b>8.1</b>	<b>-8</b>
Margin (%)	26.2	26.6	28.3	28.0	24.2	26.8	26.8	27.0	27.3	26.3	25.7	
Depreciation	3.2	3.2	3.2	3.3	3.3	3.3	3.3	3.5	12.8	13.4	3.3	-1
Interest	2.2	2.0	1.9	1.6	1.6	1.7	1.6	1.6	7.8	6.5	1.8	-9
Other Income	0.3	0.4	0.4	0.3	0.4	0.3	0.3	0.3	1.4	1.3	0.3	12
<b>PBT before EO expense</b>	<b>2.0</b>	<b>3.5</b>	<b>3.6</b>	<b>4.0</b>	<b>2.9</b>	<b>5.4</b>	<b>4.7</b>	<b>5.0</b>	13.1	18.0	3.4	<b>-13</b>
Extra-Ord. expense	-2.7	1.2	-0.4	-0.5	0.2	0.0	0.0	0.0	-2.4	0.2	0.0	
<b>PBT</b>	<b>4.7</b>	<b>2.3</b>	<b>4.0</b>	<b>4.6</b>	<b>2.7</b>	<b>5.4</b>	<b>4.7</b>	<b>5.0</b>	15.5	17.8	<b>3.4</b>	<b>-19</b>
Tax	0.9	0.3	0.8	0.6	0.7	1.2	1.0	1.1	2.6	3.9	0.7	
Rate (%)	20.1	12.1	19.3	12.6	23.9	22.0	22.0	21.0	16.5	22.0	22.0	
MI and Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0	
<b>Reported PAT</b>	<b>3.7</b>	<b>2.0</b>	<b>3.2</b>	<b>4.0</b>	<b>2.1</b>	<b>4.2</b>	<b>3.6</b>	<b>4.0</b>	<b>12.9</b>	<b>13.9</b>	<b>2.6</b>	<b>-21</b>
<b>PAT</b>	<b>1.6</b>	<b>3.0</b>	<b>2.9</b>	<b>3.6</b>	<b>2.2</b>	<b>4.2</b>	<b>3.6</b>	<b>4.0</b>	<b>11.0</b>	<b>14.0</b>	<b>2.6</b>	<b>-14</b>
YoY Change (%)	-43.4	-37.2	-7.3	26.5	43.3	40.6	25.0	11.3	-18.2	27.4	67.4	

Source: MOFSL, Company

**Operational highlights**

- T&D losses at Bhiwandi/Agra stood at 11.6%/17.4% in 1QFY22 v/s T&D losses of 24.5%/22.8% in 1QFY21.
- Renewable generation fell 3% YoY to 459MUs.
- Power purchase at Bhiwandi/Agra/Ahmedabad/Surat rose 80%/13%/24%/84% YoY.

**Exhibit 1: SoTP valuation**

<b>FY23E basis</b>	<b>Regulated equity (INR m)</b>	<b>RoE (%)</b>	<b>Growth (%)</b>	<b>Multiple (x)</b>	<b>Equity value (INR m)</b>	<b>Normalized debt (INR m)</b>	<b>EV (INR m)</b>
<b>Regulated businesses</b>	<b>56,035</b>			<b>(RoE-g)/(CoE-g)</b>	<b>97,428</b>	<b>38,067</b>	<b>1,44,069</b>
<b>Distribution</b>							
Ahmedabad	25,494	16.0	6.0	2.2	55,062	20,451	75,514
Surat	8,145	16.0	6.0	2.2	17,592	4,475	22,068
Regulatory assets	11,000			0.9	10,120	0	10,120
<b>Generation</b>							
Sabarmati	4,285	14.0	0.0	1.0	4,285	0	4,285
Sugen	7,110	15.5	0.0	1.5	10,368	13,141	23,509
UnoSugen					4,760	3,814	8,574
<b>Others businesses</b>	<b>EBITDA INR m</b>						
RE projects	8,197			8.5			69,678
Bhiwandi and Agra DFs	8,579			7.5			64,342
SMK DF							7,065
Sugen PPA efficiency earnings	2,159			4.5			9,715
Others (incl. expected dividend)							6,488
<b>EV</b>							<b>3,01,358</b>
Less: Net debt							68,357
<b>M-cap</b>							<b>2,33,001</b>
No. of shares							481
<b>Value per share</b>							<b>485</b>

Source: MOFSL, Company

**Key takeaways from the management interaction**

- The company sold 130MUs in merchant volumes at a contribution of INR0.02/kWh v/s 921MUs sold at a contribution of INR0.38/kWh in 1QFY21.
- TPW expects demand at its distribution franchise business to reach pre-COVID levels by the end of FY22. Around INR1.3b of excess provisioning has been created, of which 50% pertains to the Shil, Mumbra, and Kalwa (SMK) circle. Recovery of the same from SMK may take some time, but the balance should be recovered in the next three quarters.
- Around 70% of its gas requirements for FY22 have been tied up at USD4.36/mmbtu. The company does not see current gas prices as sustainable, and hence has not made any future bookings. The management plans to contract for FY23 as well.
- It is looking at reviving the 115MW SECI-V project for which the timeline has been extended to Feb'22. The company has the necessary permissions in place and is in the process of acquiring land.
- The management is expecting low teen IRRs for the solar project that it has recently bid. It is continuously watching module prices and will take a call on the ordering of the modules. There can be an extension to the COD provided by GUVNL due to the second COVID wave.
- Capex within the distribution license and franchise circles is expected to continue at INR15b p.a., of which DL is INR12b. The management expects DL capex to be higher than INR12b in FY22 due to the spillover of the lower capex in FY21.
- On the retirement of AMGEN, TPW is in discussion with the government and is hopeful on an extension being granted for the project.

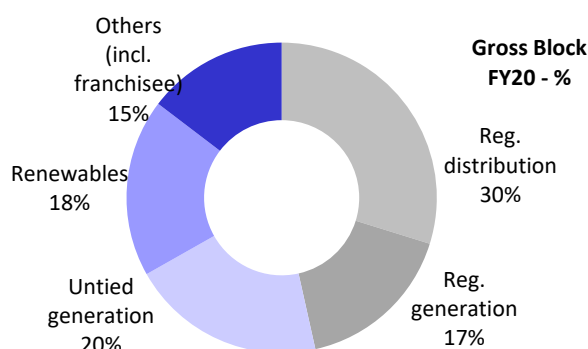
- 25MW of its 75MW PPA with MP for Sugden has been reduced. There is a clause to reduce this further by 25MW after five years.
- The company has won the bid for Daman and Diu, and Dadra and Nagar Haveli. However, the matter is sub judice and the Supreme Court will hear the case. The government is also working on the issuance of LoA. Once the LoA is available, then the handover process can start.

### Valuation and view

- We expect the company's distribution franchise business to improve in FY22E/FY23E. This, along with continued capex in the regulated distribution business and lower interest costs, should result in 21% PAT CAGR over FY21-23E. With the run-up in the stock over the past six months (+47%), this is well captured.
- With a healthy Balance Sheet, TPW is still well poised to capitalize on opportunities from privatization in the distribution space. We await clarity on successful wins. We maintain our **Neutral** rating with a **SoTP-based TP of INR485/share**.

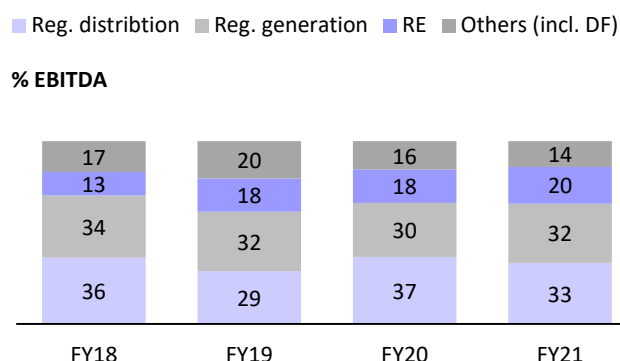
## Story in charts

**Exhibit 2: TPW's diversified portfolio**



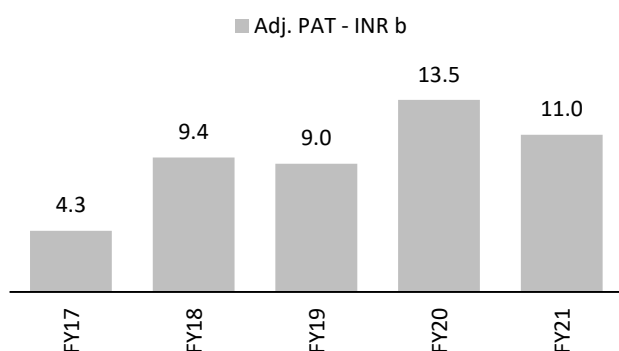
Source: MOFSL, Company

**Exhibit 3: Around 85% of EBITDA accrues from stable/predictable segments**



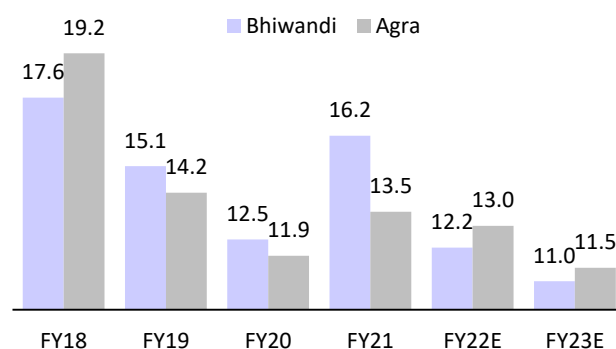
Source: MOFSL, Company

**Exhibit 4: Profitability in FY21 hit due to lower demand from DFs**



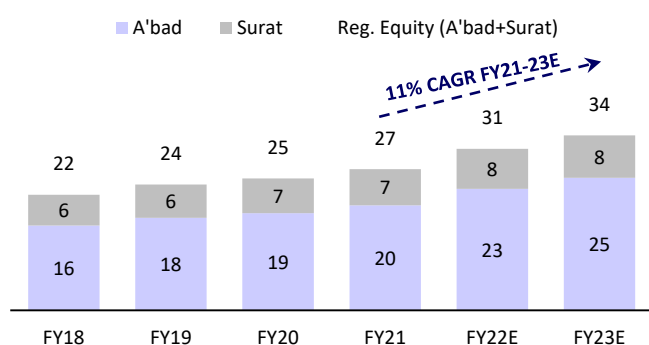
Source: MOFSL, Company

**Exhibit 5: Expect performance of DFs to improve with a reduction in T&D losses over FY22E and FY23E**



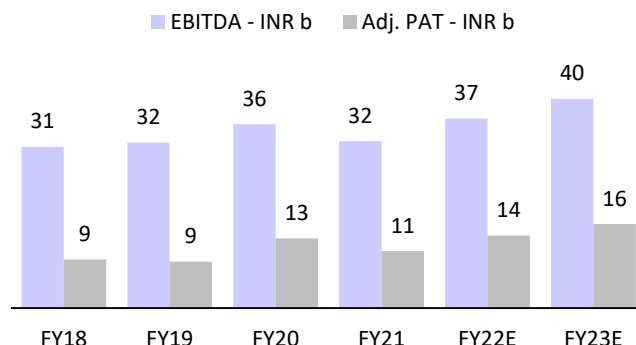
Source: MOFSL, Company

**Exhibit 6: Expect regulated equity in DL to post 11% CAGR over FY21-23E (INR b)...**



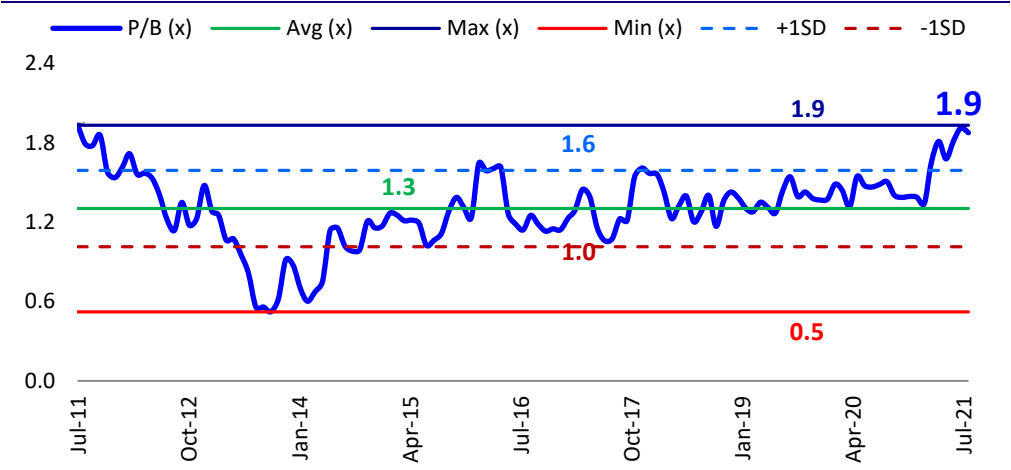
Source: MOFSL, Company

**Exhibit 7: ...leading to 21% PAT CAGR over FY21-23E**



Source: MOFSL, Company

Exhibit 8: Valuations inch up and are trading at +1SD above their historical averages



Source: MOFSL, Bloomberg

## Financials and valuations

Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Sales</b>	<b>1,15,121</b>	<b>1,31,510</b>	<b>1,36,406</b>	<b>1,18,287</b>	<b>1,39,505</b>	<b>1,44,359</b>	<b>1,45,661</b>
Change (%)	14.5	14.2	3.7	-13.3	17.9	3.5	0.9
<b>EBITDA</b>	<b>31,171</b>	<b>31,995</b>	<b>35,561</b>	<b>32,282</b>	<b>36,643</b>	<b>40,468</b>	<b>40,731</b>
% of Net Sales	27.1	24.3	26.1	27.3	26.3	28.0	28.0
Depn. and Amortization	11,315	12,265	13,043	12,796	13,422	14,521	15,505
<b>EBIT</b>	<b>19,856</b>	<b>19,730</b>	<b>22,518</b>	<b>19,487</b>	<b>23,220</b>	<b>25,947</b>	<b>25,226</b>
Net Interest	8,482	8,989	9,546	7,757	6,505	6,421	5,545
Other income	2,636	1,896	1,776	1,418	1,326	1,359	1,327
<b>PBT before EO</b>	<b>14,010</b>	<b>12,636</b>	<b>14,748</b>	<b>13,148</b>	<b>18,042</b>	<b>20,885</b>	<b>21,008</b>
EO income/(cost)	0	0	-10,000	2,370	-210	0	0
PBT after EO	14,010	12,636	4,748	15,518	17,832	20,885	21,008
Tax	4,489	3,598	-7,040	2,559	3,923	4,595	4,622
Rate (%)	32.0	28.5	-148.3	16.5	22.0	22.0	22.0
<b>Reported PAT</b>	<b>9,521</b>	<b>9,038</b>	<b>11,789</b>	<b>12,959</b>	<b>13,909</b>	<b>16,291</b>	<b>16,386</b>
Minority and Associates	98	49	47	49	50	50	50
<b>Adjusted PAT</b>	<b>9,423</b>	<b>8,989</b>	<b>13,458</b>	<b>11,013</b>	<b>14,027</b>	<b>16,241</b>	<b>16,336</b>
Change (%)	119.7	-4.6	49.7	-18.2	27.4	15.8	0.6

Balance Sheet							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	4,806	4,806	4,806	4,806	4,806	4,806	4,806
Reserves	72,389	84,896	86,729	97,036	1,06,570	1,18,485	1,30,495
<b>Net Worth</b>	<b>77,195</b>	<b>89,702</b>	<b>91,535</b>	<b>1,01,842</b>	<b>1,11,376</b>	<b>1,23,291</b>	<b>1,35,302</b>
Minority Interest	359	374	356	364	414	464	514
Total Loans	92,981	97,152	88,705	77,806	82,806	73,806	59,806
Deferred Tax Liability	14,799	15,654	5,528	5,275	5,453	5,453	5,453
<b>Capital Employed</b>	<b>1,85,334</b>	<b>2,02,882</b>	<b>1,86,124</b>	<b>1,85,287</b>	<b>2,00,048</b>	<b>2,03,013</b>	<b>2,01,074</b>
Gross Block	2,09,170	2,22,767	2,41,719	2,39,286	2,55,344	2,83,227	2,94,710
Less: Accum. Deprn.	30,463	42,628	66,026	66,026	79,448	93,969	1,09,474
<b>Net Fixed Assets</b>	<b>1,78,707</b>	<b>1,80,139</b>	<b>1,75,693</b>	<b>1,73,260</b>	<b>1,75,896</b>	<b>1,89,259</b>	<b>1,85,237</b>
Capital WIP	3,925	3,593	5,676	8,377	18,594	8,377	8,377
Goodwill	0	0	0	0	0	0	0
Investments	1,923	2,876	1,160	1,242	1,242	1,242	1,242
<b>Curr. Assets</b>	<b>41,335</b>	<b>58,933</b>	<b>53,702</b>	<b>52,508</b>	<b>53,842</b>	<b>53,980</b>	<b>56,148</b>
Inventories	4,549	6,270	5,982	4,504	6,115	6,328	6,385
Account Receivables	11,305	12,297	12,798	14,203	13,377	13,843	13,967
Cash and Bank Balance	9,982	9,549	8,879	5,440	5,988	5,449	7,435
Others	15,500	30,817	26,044	28,361	28,361	28,361	28,361
<b>Curr. Liability and Prov.</b>	<b>40,556</b>	<b>42,659</b>	<b>50,106</b>	<b>50,101</b>	<b>49,526</b>	<b>49,845</b>	<b>49,930</b>
Account Payables	7,534	8,998	11,476	10,909	10,334	10,653	10,739
Provisions and Others	33,023	33,661	38,630	39,192	39,192	39,192	39,192
<b>Net Curr. Assets</b>	<b>779</b>	<b>16,274</b>	<b>3,596</b>	<b>2,407</b>	<b>4,316</b>	<b>4,136</b>	<b>6,218</b>
<b>Appl. of Funds</b>	<b>1,85,334</b>	<b>2,02,882</b>	<b>1,86,124</b>	<b>1,85,287</b>	<b>2,00,048</b>	<b>2,03,013</b>	<b>2,01,074</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>19.6</b>	<b>18.7</b>	<b>28.0</b>	<b>22.9</b>	<b>29.2</b>	<b>33.8</b>	<b>34.0</b>
Cash EPS	43.1	44.2	55.1	49.5	57.1	64.0	66.2
BV/Share	160.6	186.6	190.5	211.9	231.7	256.5	281.5
DPS	2.2	5.0	11.6	11.0	9.0	9.0	9.0
Payout (%)	11.2	26.7	41.4	48.0	30.8	26.6	26.5
<b>Valuation (x)</b>							
P/E	11.7	13.8	9.7	20.7	16.3	14.1	14.0
Cash P/E	5.3	5.8	4.9	9.6	8.3	7.4	7.2
P/BV	1.4	1.4	1.4	2.2	2.1	1.9	1.7
EV/EBITDA	6.2	6.6	5.9	9.3	8.3	7.3	6.9
Dividend Yield (%)	1.0	1.9	4.3	2.3	1.9	1.9	1.9
<b>Return Ratios (%)</b>							
RoE	12.9	10.8	14.9	11.4	13.2	13.8	12.6
RoCE (post-tax)	8.6	8.0	9.6	8.6	9.7	10.3	10.0
RoIC (post-tax)	8.3	7.9	9.7	8.7	10.2	10.9	10.3
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	0.6	0.7	0.8	0.7	0.8	0.8	0.8
Asset Turnover (x)	0.6	0.6	0.7	0.6	0.7	0.7	0.7
Debtor (Days)	36	34	34	44	35	35	35
Inventory (Days)	14	17	16	14	16	16	16
<b>Leverage Ratio (x)</b>							
Net Debt/EBITDA	2.7	2.7	2.2	2.2	2.1	1.7	1.3
Debt/Equity	1.1	1.0	0.9	0.7	0.7	0.6	0.4

### Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>EBITDA</b>							
WC	-922	-4,729	1,258	-2,546	-1,361	-359	-96
Others	586	-161	2,512	2,697	-210	0	0
Direct taxes (net)	-3,200	-2,859	-2,977	-2,558	-3,745	-4,595	-4,622
<b>CF from Op. Activity</b>	<b>27,635</b>	<b>24,246</b>	<b>36,354</b>	<b>29,876</b>	<b>31,327</b>	<b>35,514</b>	<b>36,013</b>
Capex	-23,866	-19,887	-13,337	-12,960	-26,275	-17,666	-11,483
<b>FCFF</b>	<b>3,769</b>	<b>4,359</b>	<b>23,017</b>	<b>16,916</b>	<b>5,052</b>	<b>17,848</b>	<b>24,530</b>
Interest income	771	768	696	999	1,326	1,359	1,327
Investments in subsidiaries/assoc.	-17	-19	0	2,881	0	0	0
Others	-763	2,194	1,100	-25	0	0	0
<b>CF from Inv. Activity</b>	<b>-23,875</b>	<b>-16,944</b>	<b>-11,541</b>	<b>-9,105</b>	<b>-24,948</b>	<b>-16,307</b>	<b>-10,156</b>
Share capital	0	0	0	0	0	0	0
Borrowings	5,276	4,175	-8,535	-10,927	5,000	-9,000	-14,000
Finance cost	-8,285	-9,076	-8,643	-8,087	-6,505	-6,421	-5,545
Dividend	-1,310	-2,925	-9,683	-2,686	-4,326	-4,326	-4,326
Others	1,205	90	1,379	-2,511	0	0	0
<b>CF from Fin. Activity</b>	<b>-3,114</b>	<b>-7,736</b>	<b>-25,483</b>	<b>-24,210</b>	<b>-5,830</b>	<b>-19,747</b>	<b>-23,870</b>
<b>(Inc.)/Dec. in Cash</b>	<b>646</b>	<b>-434</b>	<b>-670</b>	<b>-3,439</b>	<b>548</b>	<b>-540</b>	<b>1,986</b>
Opening balance	9,336	9,982	9,549	8,879	5,440	5,988	5,449
<b>Closing balance (as per the B/S)</b>	<b>9,982</b>	<b>9,548</b>	<b>8,879</b>	<b>5,440</b>	<b>5,988</b>	<b>5,449</b>	<b>7,435</b>



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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