

Pick of the week



Tata Power Company Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 37

Target Price

₹ 55

Potential Upside

48.64%

Investment Argument

- Tata Power (TPWR) reported consolidated PAT of Rs. 4.5 bn, up 94% yoy, for 4QFY20 aided by (1) lower losses at Mundra that benefitted from decline in coal prices, and (2) higher generation from renewable assets which saw capacity addition of 317 MW over the past year.
- Mundra UMPP reported positive EBITDA of Rs. 2 bn for the quarter, a significant improvement over negative EBITDA of Rs. 290 mn in 4QFY19. KIE highlights fuel under-recovery at Mundra reduced to Rs. 0.45 /kwh from Rs. 0.64 /kwh in 4QFY19. This improvement in performance was largely led by an increase in the ratio of blending of lower GCV coal along with decline in international coal prices.
- Tata Power Renewables Energy Ltd (TPREL) reported EBITDA of Rs. 2 bn (+24%) yoy supported by capacity addition of 315 MW. Management maintains that another 700 MW of renewable capacity will be added over the next twelve months requiring a capex of Rs. 30 bn.
- To address leverage concerns, TPWR has set aside a target of asset monetization of non-core assets aggregating Rs. 50 bn for FY21E itself—on the back of continued payments for sale of Arutmin (Rs. 5 bn), potential sale of smaller coal mines in Indonesia, shipping business (Rs. 28 bn), wind assets in South Africa (Rs. 8 bn) and hydro plants in Zambia.
- Indonesian Parliament has approved revision to Coal and Mineral Law which is likely to give a 10 year extension to existing license of KPC mines (mines owned by TPWR) with another extension of 10 years on fulfillment of certain criterion. KPC's license is to expire in December 2021. The new regulation has scrapped capping of mining area to 15,000 hectares upon extension benefitting KPC which has current mining area of 84,900 hectares.
- Sale of non-core investments, resolution of the long pending dispute on compensation for fuel cost under-recovery and renewal of mining lease in Indonesia could be the focal points for investors in Tata Power in the near-term. Management remains hopeful of settling the PPAs for Mundra once the current lockdown is eased.