

Retail Equity Research
Torrent Power Ltd.
Power

SELL

BSE CODE : 532779 NSE CODE: TORNTPOWER
BLOOMBERG CODE: TPW:IN SENSEX : 73,057

12 Months Investment Period Rating as per Mid Cap
CMP Rs.1,150 TARGET Rs.1,038 RETURN -10% ↓
(Closing: 20-02-2024)

KEY CHANGES: TARGET ↑ RATING ↔ EARNINGS ↓

Cautious over high valuation.

Torrent Power Ltd. (TPL) is one of the leading power utility companies in India, with functions across generation, transmission, and distribution. It has operations spread across Gujarat, Maharashtra, UP, and Karnataka.

- Q3FY24 saw a decent operational performance with an uptick in the PLFs of thermal and renewable capacity. T&D losses declined in all distribution areas barring Ahmedabad. SMK T&D loss continue to remain high, but shows signs of improvement.
- However, TPL posted flat revenues while lower net gains from LNG trading and merchant power sales dents PBT (47%YoY). Higher depreciation and finance costs offset gains from distribution and renewables.
- Cargo tie-ups indicate plans to tackle summer demand with a focus on tapping merchant power market opportunities. More cargoes are to be booked to benefit from softening gas prices.
- However, we turn cautious over high valuation concerns, execution risks and the now devoid opportunity of gains from LNG trading, which was a key driver for higher profits in the last few quarters.
- Therefore, we value the stock at 2.9X P/Bk over FY26BVPS, and maintain the SELL rating with a target price of Rs.1,038.

Higher operating expense drags PAT

Posting a flat revenue of Rs. 6,366cr. (-1%YoY), a 47%YoY decline was seen in PBT due to lower gains from gas trading and merchant power sales compared to the corresponding period last year. Higher wind capacity availability, an increase in ROE on capitalisation of capex, solar and O&M incentives uplifted renewables and distribution segment EBITDA (16% and 8% YoY YoY, respectively), but the gains were offset by higher depreciation and finance costs. Resultantly, this led to a 46%YoY decline in PAT to Rs. 374cr.

Decent operational performance

With a 5% increase seen in the distributions segment in this quarter, thermal capacities (both coal and gas plants) operated at higher PLFs. Wind capacity PLFs were higher on account of the availability of the 50 MW SECI-I wind power project and contributions from the 115 MW SECI-V project. The distribution segment saw a decline in T&D losses in all distribution areas except Ahmedabad, where the losses were higher by 351bps YoY. The SMK T&D losses continue to remain high at 30.01%, although 1980bps YoY decline was seen in this quarter.

Gearing up for summer

Power demand is expected to increase, presenting an opportunity to sell higher on the merchant market. In order to make the most of this opportunity, the company has additionally tied up 5 cargoes to meet Q4FY24 and Q1FY25 needs. Further bookings of cargo are expected as the natural gas price continues to soften, thereby reducing input costs for thermal generation.

Valuation

We reduce the FY24E/FY25E/FY26E PAT estimates by 4.3%/2.5%/1.2% respectively, as softening gas prices limit the erstwhile opportunistic advantage from LNG trading. We exercise caution over the execution risks in renewable capacity additions, current high valuations, and the recent run-up in the price of the stock. Hence, we value the stock at 2.9X P/Bk on FY26BVPS and maintain the SELL rating with a target price of Rs.1,038.

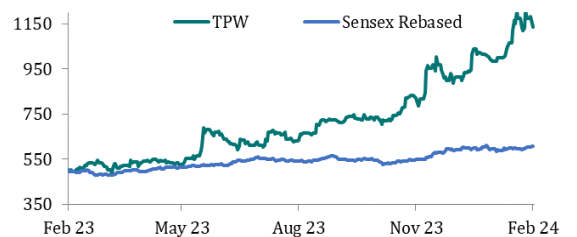
Company Data

Market Cap (Rs cr)	54,495
Enterprise Value (Rs cr)	64,106
Outstanding Shares (Rs cr)	48.1
Free Float	46%
Dividend Yield	3.3%
52 week high (Rs)	1,235
52 week low (Rs)	485
6m average volume (cr)	0.07
Beta	0.9
Face value (Rs)	10.0

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	53.6	53.6	53.6
FPI's	6.0	6.17	6.13
MFs/Institutions	21.7	21.6	21.6
Public	18.7	18.7	18.7
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	44.3%	70.4%	124.9%
Absolute Sensex	10.8%	12.8%	20.6%
Relative Return*	33.4%	57.6%	104.3%

*over or under performance to benchmark index



Consolidated (cr)	FY24E	FY25E	FY26E
Sales	27,596	30,175	32,735
Growth (%)	7.4	9.3	8.5
EBITDA	4,945	5,652	6,134
EBITDA Margin(%)	17.9	18.7	18.7
PAT Adj.	2,295	2,689	2,894
Growth (%)	6.0	17.1	7.6
Adjusted EPS	48	56	60
Growth (%)	6.0	17.1	7.6
P/E	24.1	20.6	19.1
P/B	4.5	3.8	3.2
EV/EBITDA	13.4	11.8	10.9
ROE (%)	19.0	18.6	16.9
D/E	0.8	0.7	0.6

Quarterly Financials (Consolidated)

(Rs cr)	Q3FY24	Q3FY23	YoY Growth (%)	Q2FY24	QoQ Growth (%)	9MFY24	9MFY23	YoY Growth (%)
Sales	6,366	6,443	(1)	6,961	(9)	20,655	19,656	5
EBITDA	1,044	1,444	(28)	1,221	(15)	3,450	3,668	(6)
EBITDA margins (%)	16	22	-601bps	18	-115bps	17	19	-196bps
Depreciation	349	322	8	342	2	1,022	952	7
EBIT	695	1,122	(38)	880	(21)	2,428	2,716	(11)
Interest	235	228	3	247	(5)	710	629	13
Other Income	54	84	(36)	108	(50)	247	629	(61)
Exceptional Items	0	0	0	0	0	0	0	0
PBT	513	977	(47)	741	(31)	1,965	2,373	(17)
Tax	139	283	(51)	198	(30)	516	692	(25)
Reported PAT	374	695	(46)	543	(31)	1,449	1,681	(14)
Adjustments	0	0	0	0	0	0	0	0
Adj PAT	374	695	(46)	543	(31)	1,449	1,681	(14)
No. of Shares	48	48		48		48	48	
EPS (Rs)	8	14	(46)	11	(31)	30	35	(14)

Change in estimates

Year / Rs cr	Old estimates			New estimates			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	27,039	28,263	29,924	27,596	30,175	32,735	2.1	6.8	9.4
EBITDA	5,084	5,653	5,985	4,945	5,652	6,134	-2.7	0.0	2.5
Margins (%)	18.8	20.0	20.0	17.9	18.7	18.7	-88bps	-127bps	-126bps
Adj. PAT	2,398	2,757	2,928	2,295	2,689	2,894	-4.3	-2.5	-1.2
EPS	49.9	57.4	60.9	47.8	55.9	60.2	-4.3	-2.5	-1.2

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	14,258	25,694	27,596	30,175	32,735
% change	17	80	7	9	8
EBITDA	3,591	4,759	4,945	5,652	6,134
% change	4	33	4	14	9
Depreciation	1,334	1,281	1,362	1,498	1,669
EBIT	2,257	3,478	3,583	4,155	4,465
Interest	628	818	905	952	989
Other Income	235	382	382	382	382
PBT	564	3,041	3,060	3,585	3,858
% change	(64)	439	1	17	8
Tax	105	877	765	896	965
Tax Rate (%)	19	29	25	25	25
Reported PAT	459	2,165	2,295	2,689	2,894
Adj*	1,300	0	0	0	0
Adj PAT	1,759	2,165	2,295	2,689	2,894
% change	36	23	6	17	8
No. of shares (cr)	48	48	48	48	48
Adj EPS (Rs.)	37	45	48	56	60
% change	36	23	6	17	8
DPS (Rs.)	2	3	3	3	3

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	1,898	4,322	4,422	5,083	5,527
Non-cash adj.	1,433	57	140	55	24
Changes in W.C	(163)	(924)	(468)	(356)	(130)
C.F. Operation	3,167	3,456	4,094	4,782	5,421
Capital exp.	(1,760)	(2,750)	(3,035)	(4,161)	(4,592)
Change in inv.	214	(184)	(96)	(105)	(116)
Other invest.CF	(937)	(282)	0	0	0
C.F – Investment	(2,483)	(3,216)	(3,131)	(4,266)	(4,708)
Issue of equity	0	0	0	0	0
Issue/repay debt	697	1,397	550	300	300
Dividends paid	(702)	(1,062)	(144)	(144)	(144)
Other finance.CF	(497)	(677)	(905)	(952)	(989)
C.F – Finance	(502)	(341)	(499)	(796)	(833)
Chg. in cash	182	(101)	464	(280)	(120)
Closing cash	289	188	652	372	252

BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	289	188	652	372	252
Accounts Receivable	1,603	2,246	2,344	2,563	2,780
Inventories	538	820	842	907	952
Other Cur. Assets	283	144	257	331	359
Investments	469	959	1,055	1,160	1,276
Gross Fixed Assets	27,104	29,664	30,864	32,864	35,264
Net Fixed Assets	16,759	18,125	17,963	18,466	19,197
CWIP	1,297	2,625	4,325	6,325	8,325
Intangible Assets	123	756	892	1,053	1,244
Def. Tax (Net)	35	39	39	39	39
Other Assets	3,411	3,620	4,007	4,464	4,843
Total Assets	25,023	29,910	32,763	36,067	39,654
Current Liabilities	4,064	5,322	5,615	6,049	6,562
Provisions	274	264	265	289	314
Debt Funds	9,099	10,496	11,046	11,346	11,646
Other Liabilities	1,643	2,818	2,677	2,677	2,677
Equity Capital	481	481	481	481	481
Reserves & Surplus	9,463	10,529	12,680	15,225	17,974
Shareholder's Fund	9,943	11,010	13,161	15,706	18,455
Total Liabilities	25,023	29,910	32,763	36,067	39,654
BVPS (Rs.)	207	229	274	305	358

RATIOS

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	25.2	18.5	17.9	18.7	18.7
EBIT margin (%)	15.8	13.5	13.0	13.8	13.6
Net profit mgn.(%)	12.3	8.4	8.3	8.9	8.8
ROE (%)	17.5	20.7	19.0	18.6	16.9
ROCE (%)	10.3	13.4	12.7	13.2	12.7
W.C & Liquidity					
Receivables (days)	38.7	27.3	30.4	29.7	29.8
Inventory (days)	12.6	9.6	11.0	10.6	10.4
Payables (days)	152.4	89.5	97.4	96.4	96.1
Current ratio (x)	0.6	0.6	0.7	0.7	0.6
Quick ratio (x)	0.5	0.5	0.6	0.5	0.5
Turnover & Leverage					
Gross asset T.O (x)	0.5	0.9	0.9	0.9	1.0
Total asset T.O (x)	0.6	0.9	0.9	0.9	0.9
Int. coverage ratio (x)	3.6	4.3	4.0	4.4	4.5
Adj. debt/equity (x)	0.9	1.0	0.8	0.7	0.6
Valuation					
EV/Sales (x)	2.3	1.4	2.4	2.2	2.0
EV/EBITDA (x)	9.1	7.4	13.4	11.8	10.9
P/E (x)	13.4	11.3	24.1	20.6	19.1
P/BV (x)	2.4	2.4	4.5	3.8	3.2

Recommendation summary (Last 3 Years)



Dates	Rating	Target
28-Mar-23	ACCUMULATE	550
22-Jun-23	ACCUMULATE	747
12-Dec-23	SELL	833
21-Feb-24	SELL	1,038

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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