Initiating Coverage | 19 March 2019
Sector: Utilities

Torrent Power

On growth track, again!

Dhruv Muchhal - Research analyst (Dhruv.Muchhal@motilaloswal.com@MotilalOswal.com); +912261291549
Research analyst: Sanjay Jain (SanjayJain@motilaloswal.com@MotilalOswal.com);+912261291523/Aniket Mittal

Contents | Torrent Power: On growth track, again!

Torrent Power

BSE Sensex	S&P CNX
38,095	11,462

CMP: INR261 **TP: INR315 (+20%)** **Buy**

Stock Info

Bloomberg	TPW IN
Equity Shares (m)	481
M.Cap.(INRb)/(USDb)	125.4 / 1.8
52-Week Range (INR)	277 / 212
1, 6, 12 Rel. Per (%)	3/5/-11
12M Avg Val (INR M)	311
Free float (%)	46.4

Financial Snapshot (INR b)

Y/E March	2019E	2020E	2021E
Sales	133.5	138.4	143.6
EBITDA	32.8	36.6	40.8
NP	10.6	11.1	13.3
EPS (INR)	22.0	23.1	27.6
EPS Gr. (%)	12.1	5.1	19.5
BV/Sh. (INR)	176.6	193.7	215.3
P/E (x)	11.9	11.3	9.5
P/BV (x)	1.5	1.3	1.2
RoE (%)	13.0	12.5	13.5
RoCE (%)	8.8	8.8	9.4

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	53.6	53.6	53.6
DII	18.3	19.6	19.2
FII	7.1	5.8	6.3
Others	21.1	21.1	21.0

FII Includes depository receipts

Torrent Power

Growth engine back on track

Dhruv.Muchhal@motilaloswal.com

Please click here for Video Link

On growth track, again!

Initiating coverage with a Buy rating

Torrent Power (TPL) is engaged in the distribution and generation of electricity. The company has installed generation capacity of 3.7GW and under-construction capacity of 0.8GW. TPL is the sole electricity distributor to the cities of Ahmedabad (incl. Gandhinagar), Surat, Bhiwandi and Agra, with a distribution reach of over 1,367sq.km.

Present across the value chain – from generation to distribution

- TPL has a diversified portfolio spanning (i) regulated electricity distribution, (ii) franchisee-based distribution (DF), (iii) a mix of gas- and coal-based conventional generation and (iv) renewable energy (RE) generation. EBITDA mix is broadly equal across these four categories.
- The company's regulated distribution business is among the most efficient in India, delivering steady growth and generating assured returns. The DF business is turning around; capex requirement is low with no regulatory oversight to cap returns.
- TPL's RE capacity is likely to more than double in two years to 1.4GW; it has an attractive mix of (a) feed-in tariff-based capacities generating a high RoE and (b) under-construction competitively bid projects at >12% equity IRR.
- It has a mix of gas- and coal-based conventional generation capacity of ~3.1GW. Of this, ~1.3GW is under long-term PPA, generating healthy double-digit RoE, while the remaining ~1.8GW (all gas-based) is not utilized.

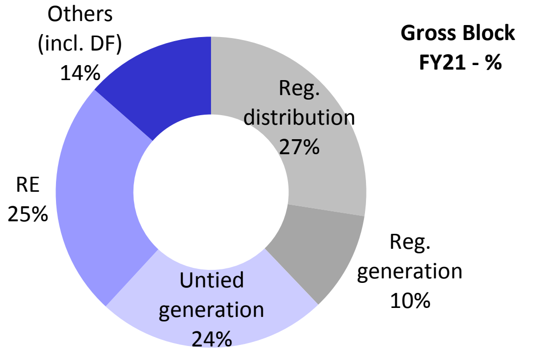
Growth engine back on track

- The sourcing of imported LNG has improved the PLF of its gas plant which is under PPA, the DF business performance has improved now with the risk of contract expiry behind, and the likely doubling of RE capacity has bolstered the growth prospects. Also, privatization of electricity distribution in India is picking up pace gradually, which could provide new growth opportunities.
- We expect EBITDA/adj. PAT CAGR of ~12% to INR40.8b/INR13.3b over FY19-21E, driven by RE, DF and steady growth in regulated distribution. Around 80% of TPL's EBITDA is driven by the stable and predictable segments of regulated distribution/generation and RE.
- Net debt to equity is likely to remain comfortable at ~1x, even as ~30% of the gross block remains unutilized and capex is on an uptrend.

Strong positioning and healthy balance sheet; Initiate with Buy

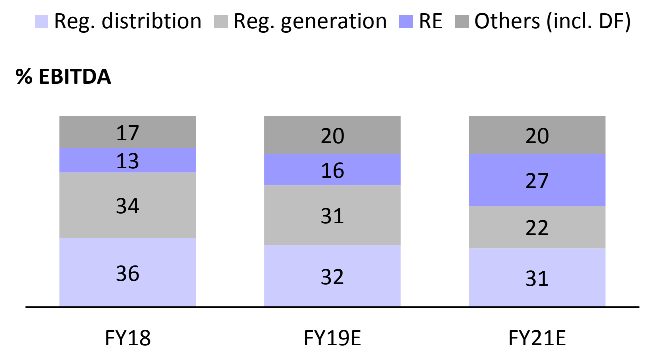
- TPL has one of the best balance sheets in the private power sector. It is present across different segments of the sector, which provides it with a strong platform for future growth. In our view, the company is well poised to capitalize on opportunities stemming from distribution privatization, the thrust on RE, and consolidation in the conventional generation sector. We value the stock on an SOTP basis at INR315/share, implying an upside of 20%. The SOTP method does not capture any value for the shut gas capacity of 1.8GW. The stock trades attractively at ~1.2x FY21E P/BV. We initiate coverage on the stock with a **Buy** rating. Higher LNG prices and lower wind PLF, however, are the potential risk factors.

Exhibit 1: Diversified portfolio



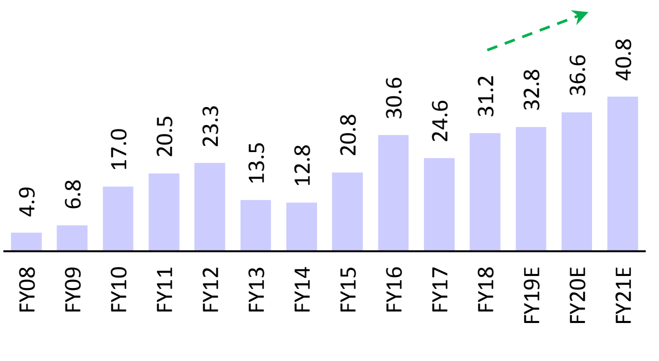
Source: MOFSL, Company

Exhibit 2: ~80% of EBITDA from stable/predictable segments



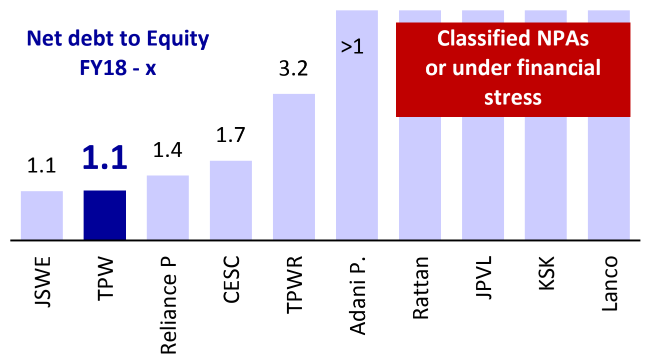
Source: MOFSL, Company

Exhibit 3: EBITDA CAGR of ~12% over FY19-21E



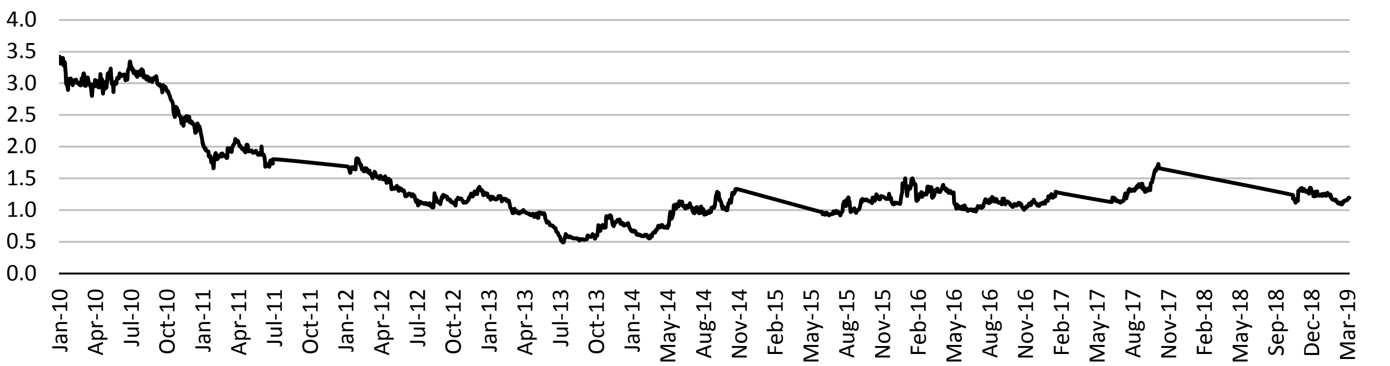
Source: MOFSL, Company

Exhibit 4: Balance sheet best amongst private sector



Source: MOFSL, Company

Exhibit 5: P/BV 1-year forward- x



Source: Bloomberg

Exhibit 6: Utilities sector valuation

	Rating	CMP	TP	Up/(dw)	MCAP	EPS			P/E (x)		P/B(x)		RoE (%)	
		(INR)	(INR)	%	(USD M)	FY19E	FY20E	FY21E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Powergrid	Buy	187	232	24	14,007	18.3	20.8	22.6	10.3	9.0	1.6	1.5	16.7	17.1
NTPC	Buy	154	197	28	18,113	13.3	16.6	19.0	11.5	9.3	1.2	1.1	10.3	12.0
JSW Energy	Neutral	67	73	9	1,573	3.8	4.6	4.1	17.8	14.6	1.0	0.9	5.5	6.5
CESC	Buy	727	800	10	1,382	75.4	80.0	90.6	9.6	9.1	1.1	1.0	11.4	11.2
Tata Power	Neutral	73	69	-5	2,820	2.5	6.6	6.7	28.9	11.0	1.2	1.1	4.3	10.3
NHPC	Buy	25	31	25	3,921	2.2	2.6	3.1	11.3	9.4	0.8	0.8	7.4	8.7
Torrent P	**Buy**	**261**	**315**	**20**	**1,735**	**22.0**	**23.1**	**27.6**	**11.9**	**11.3**	**1.5**	**1.3**	**13.0**	**12.5**
Coal India	Buy	243	281	15	21,954	27.4	29.0	29.9	8.9	8.4	7.3	6.7	84.1	83.7

Source: MOFSL, Company

Present across value chain – from generation to distribution

Positioning and healthy balance sheet provides strong base for growth

Torrent Power (TPL) is present across the value chain from electricity distribution to generation. It is into regulated electricity distribution, franchisee-based distribution, has a mix of gas and coal-based conventional generation capacity and has built its renewable generation capacity over the last few years. It has an installed generation capacity of 3.7GW, under-construction capacity of 0.8GW and distribution reach of over 1,367 sq. km.

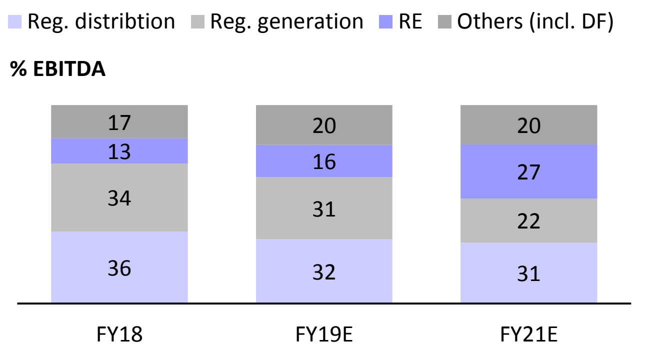
Present across value chain from generation to distribution

- It has **regulated electricity distribution** license in the Tier-1 city of Ahmedabad (incl. Gandhinagar) and in the Tier-2 city of Surat, both in Gujarat. It faces no competition in these circles and its AT&C losses are amongst the lowest. Also, the regulatory norms in these circles are amongst the tightest; hence, we believe it has low regulatory risk. TPL was recent awarded distribution of the Dholera Special Industrial Region (Dholera SIR).
- Its two **Distribution Franchisee** (DF) circles have seen sharp performance improvement in the last few years as uncertainty of contract renewal is behind, capex over the last few years is reaping benefits and institution support has improved. Capex in a DF circle is generally low as basic network infrastructure is already in place, and since the DF model is not subject to regulatory norms, it does not restrict the return potential. It recently won the DF license for Shil, Mumbra & Kalwa area, which is adjacent to one of its existing circles.
- It has ventured aggressively into **renewable energy** (RE) generation. It's installed RE capacity should more than double to 1.4GW by FY21. It has a mix of lucrative feed-in tariff capacities earning healthy double-digit IRRs, and new competitively bid projects at 12-14% equity IRR.
- TPL has **conventional generation** capacity of 3.1GW, mix of gas and coal-based plants. ~1.3GW capacity is under long-term PPAs with its own distribution arm and is earning healthy double-digit RoE, aided by efficient operation and favorable norms. The remaining capacity of 1.8GW (gas-based) is untied. Also, it does not have any under-construction conventional generation plants.

Growth engine back on track

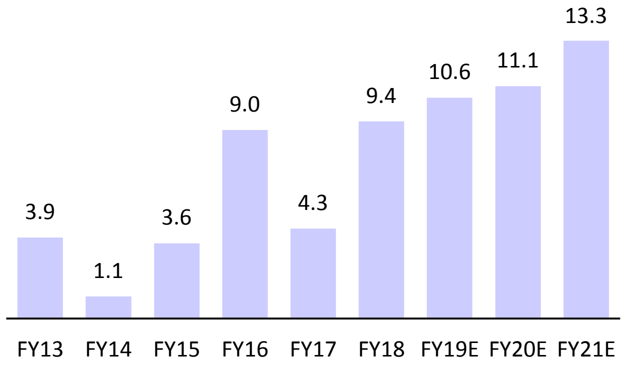
- TPL's growth engine is back on track. The sourcing of imported LNG has improved the PLF of its gas plant which is under PPA, the DF business performance has improved now with the risk of contract expiry behind, and the likely doubling of RE capacity has bolstered the growth prospects. Also, privatization of electricity distribution in India is picking up pace gradually, which could provide new growth opportunities.
- ~80% of TPL's EBITDA is driven by the stable and predictable segments of regulated distribution/generation and RE.
- We expect EBITDA/PAT to increase by CAGR of ~12% over FY19-21E to INR40.8b/INR13.3b, respectively, driven by RE, DF and steady growth in the regulated distribution business.

Exhibit 7: ~80% EBITDA is from stable/predictable segments



Source: MOFSL, Company

Exhibit 8: PAT CAGR of ~12% over FY19-21E (INR b)

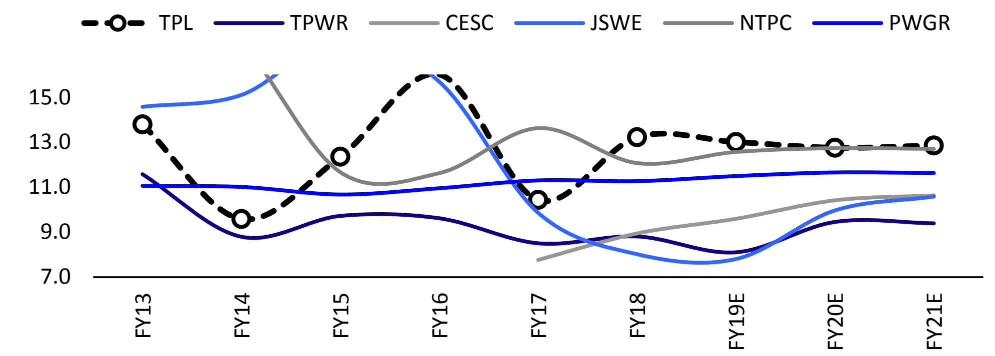


Source: MOFSL, Company

RoIC best amongst the private sector players

- TPL's RoIC is amongst the best in the private power sector players and only marginally lower than the regulated businesses of public sector companies like NTPC and Power Grid, despite no contribution from unutilized gas plants (~25% of gross block by FY21E). These gas plants have a future, in our view, but the timing is uncertain.

Exhibit 9: Consolidated RoIC (pre-tax, %) – best amongst private sector players



Source: MOFSL, Company

Volatility in earnings to reduce on accrual accounting in distribution

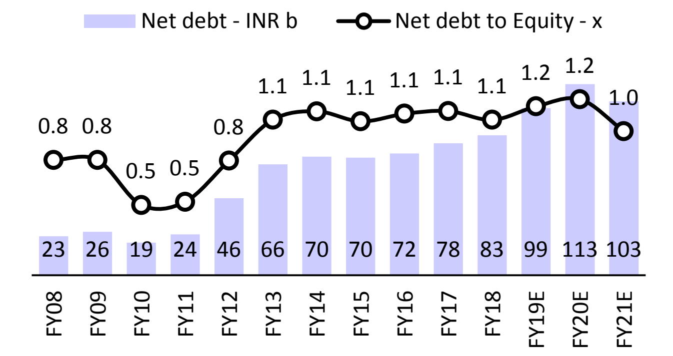
- TPL has moved from cash accounting to accrual accounting for its regulated distribution circles w.e.f. FY19.
- While the regulator allows full pass-through of power purchase cost in tariffs, there is often a lag between incurring cost and the subsequent recovery.
- Other private DISCOMs follow accrual accounting. TPL's earnings were volatile due to cash accounting. The shift to accrual accounting should reduce volatility in reported earnings.

Healthy operating cash flow; Strong balance sheet

- We expect operating cash flow generation to steadily improve. FCF will, however, be negative due to growth capex in RE.
- Leverage ratio is likely to remain comfortable even as capex momentum is expected to increase. While gross block and net block is expected to increase by ~INR85b and ~INR46b, respectively, the net debt is expected to increase by only ~INR20b over FY18-21E, on strong operating cash flow generation.

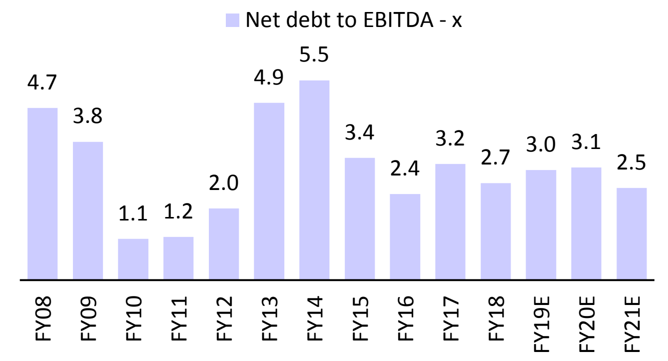
- We expect net debt to equity and net debt to EBITDA to remain steady despite the higher capex, at ~1x and ~2.5x, respectively.
- TPL's leverage ratios are amongst the lowest in private power sector. It is well placed with experience across the power sector value chain – distribution, conventional generation and RE – to capture emerging growth opportunities across the value chain.

Exhibit 10: Net debt to Equity to remain lower despite capex



Source: MOFSL, Company

Exhibit 11: Net debt to EBITDA (x)



Source: MOFSL, Company

Strong positioning and healthy balance sheet; Initiate with Buy

TPL has one of the best balance sheets in the private power sector. It is present across different segments of the sector, which provides it with a strong platform for future growth. In our view, the company is well poised to capitalize on opportunities stemming from distribution privatization, the thrust on RE, and consolidation in the conventional generation sector. We value the stock on an SOTP basis at INR315/share, implying an upside of 20%. The SOTP method does not capture any value for the shut gas capacity of 1.8GW. The stock trades attractively at ~1.2x FY21E P/BV. We initiate coverage on the stock with a Buy rating. Higher LNG prices and lower wind PLF, however, are the potential risk factors.

Regulated distribution provides steady growth

One of the most efficient DISCOMs in India

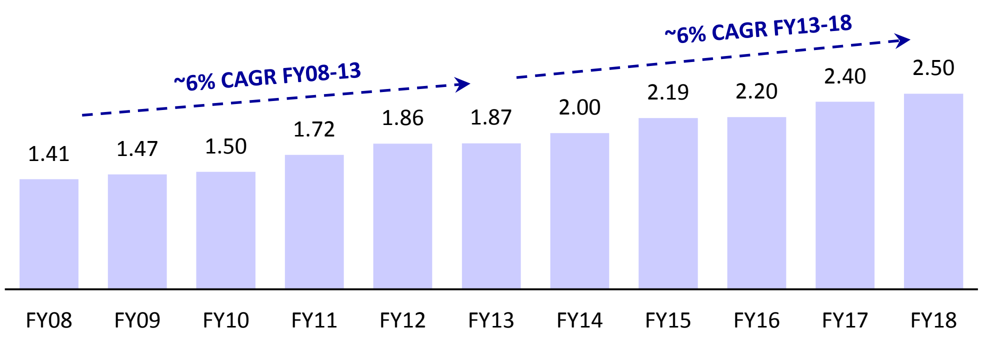
TPL is the only electricity distribution licensee in the city of Ahmedabad (incl. Gandhinagar) and Surat, in the state of Gujarat. It also has license for distribution in Dahej, but on a smaller scale. It operates on a regulated model, with performance and capex monitored by the regulator. Tariff and returns are also fixed by the regulator. It earns normative RoE on invested equity and certain incentive incomes, which are linked to operating parameters.

Steady electricity demand growth in Ahmedabad and Surat

Its license covers a total area of 408sqkm over two cities—Ahmedabad is a Tier-I city and Surat is a Tier-II city. It serves ~2.5m customers and in FY18 met a combined peak demand of ~2.5GW. The distribution license for Ahmedabad is valid till 2025 and for Surat till 2028. Peak electricity demand in Ahmedabad and Surat has grown at ~6% CAGR over the last decade – a mix of customer addition and per capita consumption increase. In its tariff petition, the company has cited that it expects electricity demand to grow by 3-5% up to FY21. We expect peak demand to grow at a higher rate as we expect increase in share of residential customers (who are generally evening peak loaders).

Peak demand in Ahmedabad and Surat has grown at CAGR of ~6% over the last decade

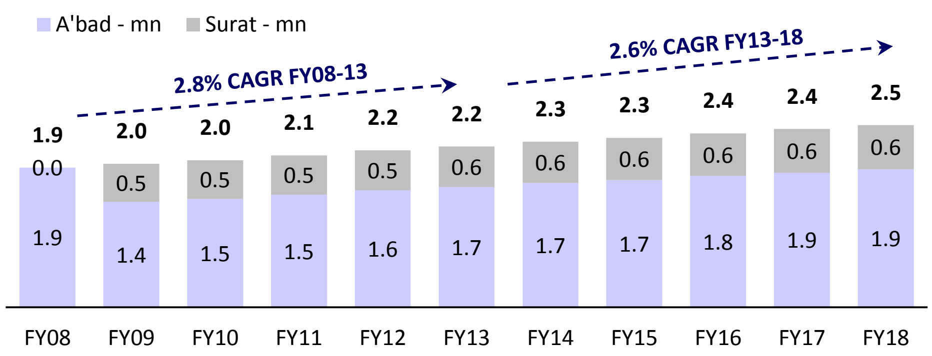
Exhibit 12: Peak demand in Ahmedabad and Surat (GW)



Source: MOFSL, GERC, Company

The customer base in A'bad and Surat has increased at ~3% CAGR over the last decade

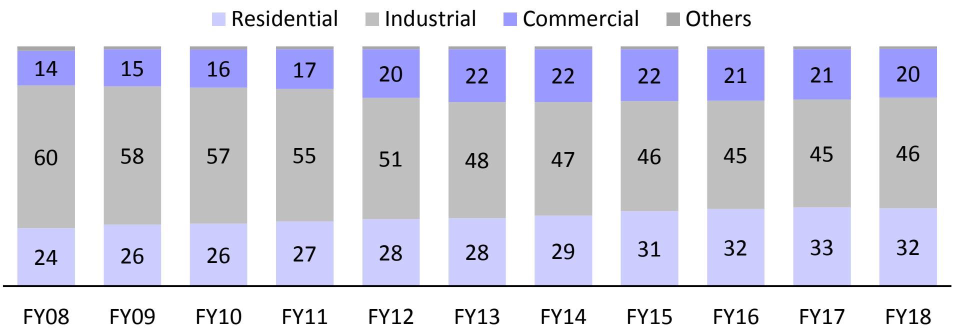
Exhibit 13: Customer base in Ahmedabad and Surat



Source: MOFSL, GERC, Company

More than 65% of electricity sales in Ahmedabad and Surat are to high paying industrial and commercial customers

Exhibit 14: Electricity sales by customer category in Ahmedabad and Surat (%)



Source: MOFSL, GERC, Company

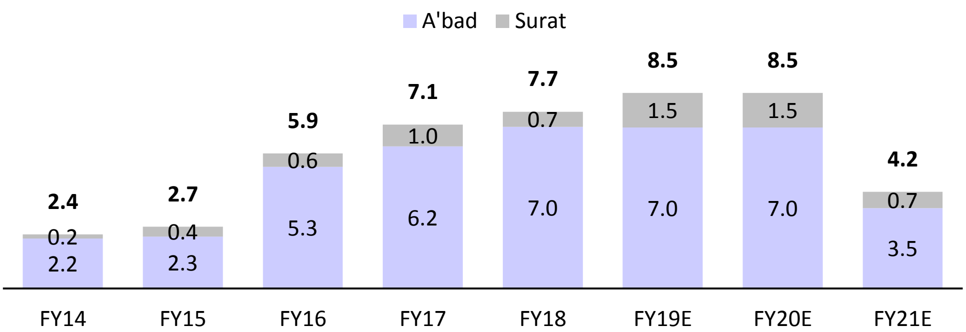
Regulated equity to grow at ~8% CAGR over FY18-21E

Invested equity (or regulated equity) is linked to capitalization (@30% according to the existing regulations in Gujarat). The key driver of capitalization/capex in distribution is the growth in peak electricity demand, which in turn drives demand for laying distribution network, transformers, substations, meters and other back-end infrastructure. Capitalization is also aided by measures to reduce transmission and distribution (AT&C) losses (like smart metering, IT infrastructure, under-grounding of cables, etc.).

Regulated equity in Ahmedabad and Surat circle combined has grown at a CAGR of ~7% over FY13-18 (when the peak demand growth was ~6%). We expect regulated equity to grow at CAGR of ~8% over FY18-21E. The higher growth is on account of increase in spending to cater to demand growth, improve reliability and to further reduce AT&C losses.

Capitalization run-rate is likely to remain high on account of an increase in spending to cater to demand growth, improve reliability and to further reduce AT&C losses

Exhibit 15: Capitalization in Ahmedabad and Surat (INR b)

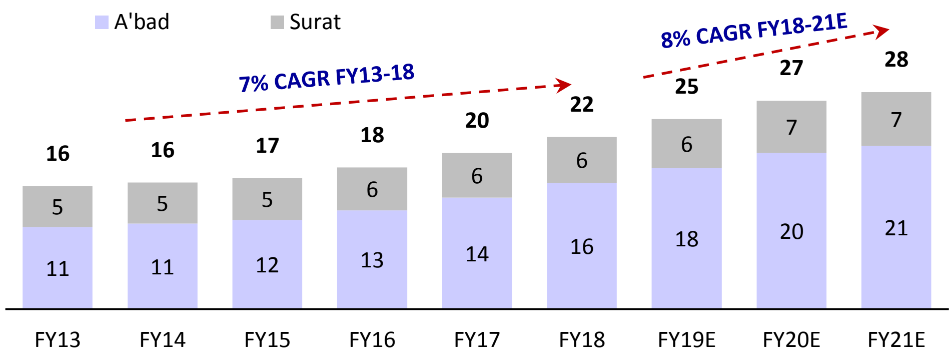


Note: Capitalization is net of deletion and contribution from customers

Source: MOFSL, Company

We expect regulated equity in A'bad and Surat combined to grow at CAGR of ~8% over FY18-21E

Exhibit 16: Regulated equity in Ahmedabad and Surat (INR b)



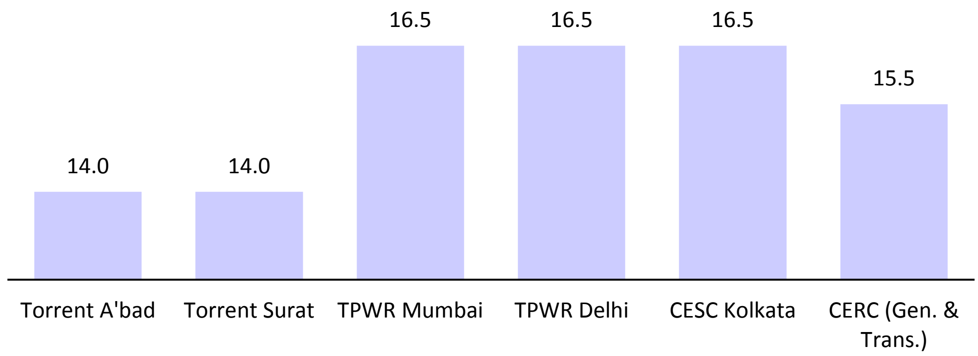
Source: MOFSL, GERC, Company

Normative RoE has very low risk of cuts

Normative RoE is the return fixed by the regulator on regulated equity. It is 14% for the Ahmedabad and Surat circles. The normative RoE is lower than the Central Electricity Regulator's normative RoE of 15.5% (for generation and transmission businesses) and lower than the normative RoE of other private sector DISCOMs in India (Tata Power Mumbai is 16%, CESC's Kolkata is 16.5%). We believe there is very low risk of a cut in the normative RoE in the Ahmedabad and Surat circles.

Normative RoE for Torrent Power is already lower than its regulated peers; hence, we see limited downside risk

Exhibit 17: Normative RoE in Ahmedabad and Surat compared to peers (%)

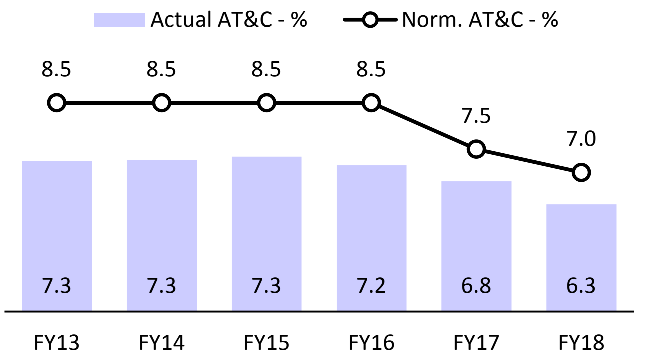


Source: MOFSL, GERC, Company

Amongst the lowest AT&C losses in the country

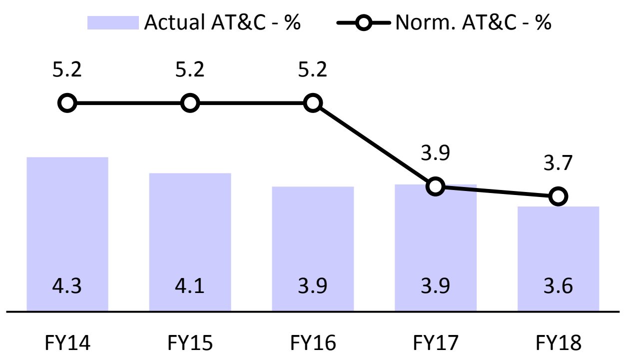
AT&C losses in the Ahmedabad and Surat circle are one of the lowest in the country, and they have continued improving over the years. Losses in Ahmedabad have declined from 7.3% in FY13 to 6.3% in FY18; while in Surat it has declined from 4.2% in FY13 to 3.6% in FY18. The losses are lower than the normative parameters set by the regulator. Incentive income is a function of the difference in the normative and actual AT&C loss (@ of the power purchase cost). We estimate that TPL earns additional RoE of ~1-3% on regulated equity through savings in AT&C losses, which would continue.

Exhibit 18: AT&C losses in Ahmedabad – Actual & Normative



Source: MOFSL, GERC, Company

Exhibit 19: AT&C losses in Surat – Actual & Normative



Source: MOFSL, GERC, Company

AT&C losses in Ahmedabad and Surat are one of the lowest in the country

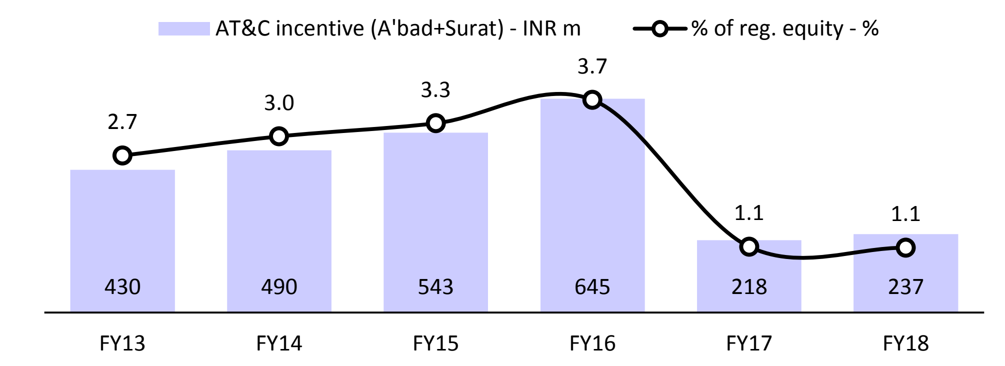
Exhibit 20: AT&C losses in other private DISCOMs and some public DISCOMs - %

Private DISCOMs	
A'bad - TPL	6.3
Surat - TPL	3.6
Kolkata - CESC	9.8
BSES Delhi	10.7
Delhi - Tata	9.5
Public DISCOMs	
AP	8.7
Gujarat	11.7
KAR	14.7
Telangana	14.7

Source: MOFSL, UDAY, Company

TPL earns efficiency incentives of ~1-4% of regulated equity as its losses are lower than the normative losses fixed by the regulator

Exhibit 21: Efficiency incentive through lower AT&C losses



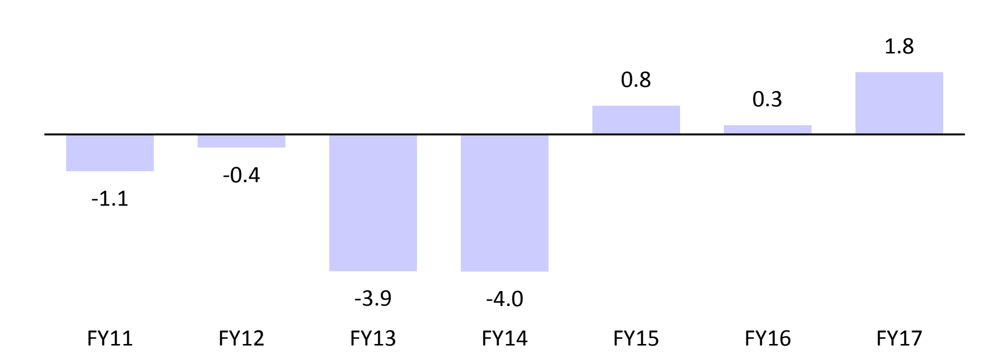
Source: MOFSL, GERC, Company

Move to accrual-based accounting to reduce volatility in reported earnings

TPL has moved from cash accounting to accrual accounting for the regulated distribution circles. While the regulator allows full pass-through of power purchase cost in tariffs, there is often a lag between incurring-of-cost and the recovery. Portion of the difference is routinely adjusted through a mechanism called 'FPPPA adjustment'. However, this is also capped to avoid tariff shocks to consumers (quarterly change restricted to INR0.1/kWh). The 'FPPPA mechanism' was allowed only for identified sources of power purchase until FY14. This had led to longer duration gaps in recovering differential revenue. Cash accounting had led to volatility in reported earnings, which will reduce on adoption of accrual accounting. Other private DISCOMs already follow accrual accounting.

Cash nature accounting of the difference in estimated and actual power purchase cost and prior period revenues led to significant volatility in earnings. Shift to accrual accounting from FY19 will reduce this volatility

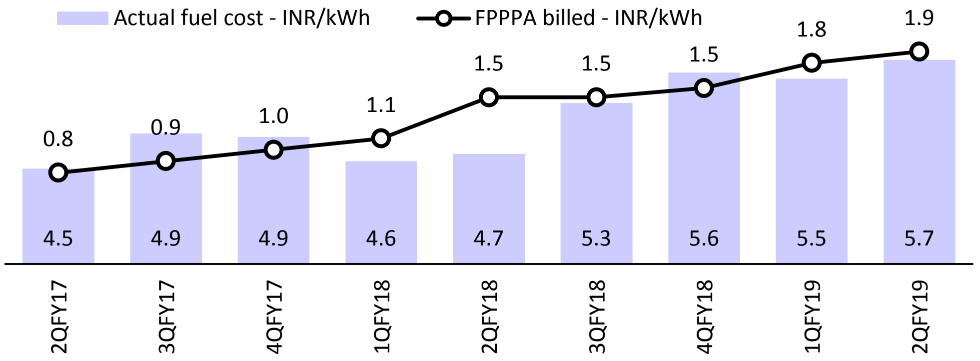
Exhibit 22: (Under)/Over recovery in A'bad circle impacting reported performance (INR b)



Source: MOFSL, GERC, Company

As actual fuel cost increases, the FPPPA billing also increases. This improves revenue recovery and reduces the cash flow drag

Exhibit 23: Movement in actual fuel cost and FPPPA billing



Source: MOFSL, Company

Recently awarded license for Dholera area

TPL was recently awarded distribution license for the Dholera Special Industrial Region (Dholera SIR) of ~920 Sq Kms for 25 years. It is a parallel license besides the existing state DISCOMs - UGVCL/PGVCL. Dholera SIR is a major project under the Delhi-Mumbai Industrial Corridor (DMIC) Project with an aim to make it a global manufacturing hub supported by world class infrastructure. The license is under a regulated model based on post-tax RoE of 14%.

Distribution Franchisees turning around

Contract renewal uncertainty behind

TPL has an electricity distribution franchisee (DF) at Bhiwandi in Maharashtra and at Agra in Uttar Pradesh (UP). DF is a type of contracting of the distribution function by a DISCOM (franchisor).

Reducing AT&C losses—an earnings driver for the DF business

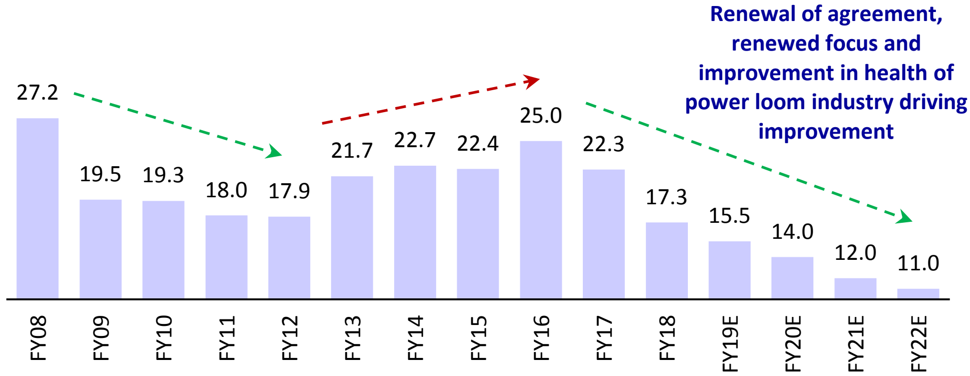
- Unlike the regulated distribution business, the power purchase cost and other operating cost is not a pass-through in the franchisee business.
- Franchisees have no role in setting tariffs for customers. Tariffs applicable to the DISCOM's operating area apply to the DF's area as well. Power purchase cost (per unit) is either negotiated or is put up for bidding. Profitability is driven by the pace and quantum of reduction in AT&C loss.
- Regular capex, including growth capex, is the responsibility of the franchisee. A certain minimum capex program is often negotiated at the time of bidding. Capex is generally low as basic infrastructure is already in place.

Bhiwandi: Uncertainties behind, renewed focus driving growth

- Bhiwandi was the first area to be offered as DF in the country; and it is now a successful case study for similar such models across India.
- The circle was first offered in FY07 for 10 years when AT&C losses were ~45%. TPL, backed by its operational expertise in Ahmedabad and Surat, and institutional support, managed to reduce losses to ~18% in five years until FY12. Bhiwandi was one of the key drivers of strong profit growth until FY12 for TPL.
- However, after FY12, losses gradually mounted to ~22-25% (by FY16-17) due to:
  - Slowdown in the power loom industry —the major customer in Bhiwandi, and the agitation against tariff hikes (by the DISCOM), and
  - The expiry of the franchisee period by end-FY17 leading to under-investment, less focus and loss of key staff due to uncertainties.
- The agreement was renewed in Jan'17 for 10 years. In the first year of operation since renewal, AT&C losses reduced sharply to ~17% in FY18.
- With uncertainty around renewal of the contract now behind and renewed management focus we estimate reduction in AT&C losses to continue. We expect AT&C losses to reduce to ~10% by FY22.

We expect AT&C losses in Bhiwandi to decline from ~17% in FY18 to ~10% by FY22

Exhibit 24: AT&C losses in Bhiwandi (%)



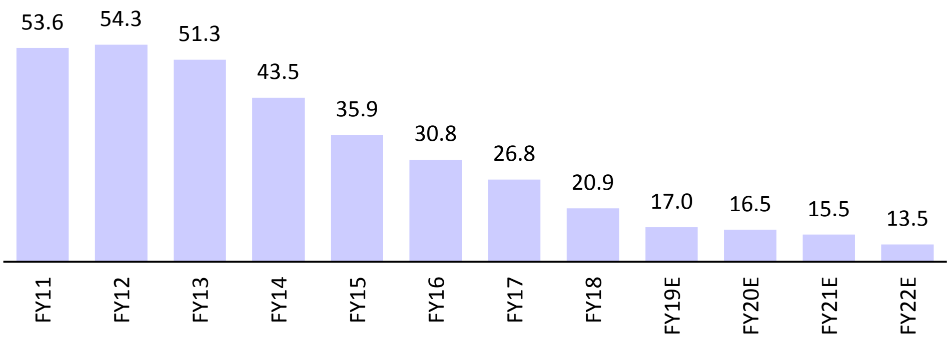
Source: MOFSL, Company

Agra: Capex starting to bear fruits, losses reducing

- The Agra DF was awarded in 2010 for a period of 20 years. The AT&C losses were at ~58% in 2010.
- Unlike Bhiwandi, AT&C losses remained high in Agra in the initial few years. However, over the last four-five years there has been a consistent decline in AT&C losses, these were driven by:
  - Investments over the years, which have started yielding results
  - Under-ground laying of cables leading to less power theft
  - Improving institutional support
  - Equipment upgrade, which reduced technical losses down to the benchmarks
- AT&C losses have declined from ~51% in FY13 to ~21% in FY18. We expect losses to decline further to ~10% by FY23-24, driven by routine capex, better thief monitoring activities and under-grounding of cables.

AT&C losses in Agra have declined consistently over the years as capex is starting to yield results

Exhibit 25: AT&C losses in Agra (%)



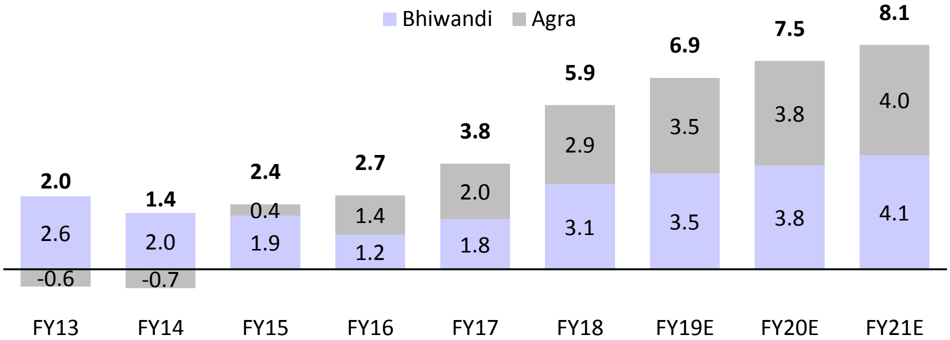
Source: MOFSL, Company

Low-capex earnings growth

- If basic level of infrastructure is in place, a distribution company can achieve sharp loss reduction through basic analytics, better equipment upkeep, close monitoring and better institutional support. At higher levels of losses, a DF business is generally a high-on-service, low-on-capex business.
- We believe TPL's DF areas have potential for low-capex loss reduction.
- We estimate AT&C losses in both the DFs to reduce to low single-digits by FY22-24 on routine capex, better thief monitoring, and renewed focus.
- We estimate EBITDA of DFs to increase ~8% CAGR over FY19-21E on reduction in AT&C. We are not building in any benefit from increase in tariffs, which would drive upside potential to our EBITDA estimates.

We expect EBITDA from DFs to grow at ~8% CAGR over FY19-21E on lower AT&C losses in the circles

Exhibit 26: EBITDA from Bhiwandi and Agra DF (est. INR b)



Source: MOFSL

Privatization is slowly picking pace; TPL well placed to gain

Rajasthan DISCOM privatized four distribution circles in FY17 – three circles were won by CESC and one by Tata Power. In FY19, Maharashtra DISCOM privatized two circles – Malegaon circle was won by CESC and Shil, Mumbra & Kalwa circle was won by TPL. All these circles were awarded on franchisee model. Odisha DISCOM is in process of privatizing one of its distribution areas – offering the circle under then regulated model.

We believe privatization of the distribution function will continue to gather pace as public DISCOMs burdened with high losses and vast operating area take steps to manage their operations. Unlike the past, the recent privatization initiatives are dominated by the few players with wide experience in distribution function. The recent privatization of four distribution circles in Rajasthan saw limited competition. Three circles were won by CESC and one by Tata Power. In the Maharashtra auction too, winners were established players.

TPL is among the few companies in India with experience in electricity distribution. The other notable companies are Tata Power, CESC and Adani Power (with recent acquisition of Reliance Power's business). TPL is the only distribution company in India, which has experience of working under both a regulated and franchisee model. It has expertise in managing the unique issues related to operating in India (e.g., regulatory requirements, handling value-for-money customer class, subsidized tariff structure and unionized operating environment).

While the market potential is huge, competition is limited. Our estimates still do not factor in the company's advantageous position. TPL has the balance sheet strength and considers distribution as a key growth area. Thus, we believe TPL is a well-balanced play on the opening up of the distribution sector in India.

Renewable energy driving growth

Leveraging strong balance sheet and opportunistic deals to drive growth

TPL has renewable energy (RE, wind and solar) installed capacity of 570MW and under construction capacity of 791MW. It ventured into RE to meet the renewable purchase obligation for its Ahmedabad and Surat distribution circle, and is now gradually building its portfolio as an independent producer by competitive bidding of projects.

Feed-in portfolio generating healthy returns

- As at end-FY18, installed capacity of 570MW and under-construction capacity of 50MW were under the lucrative feed-in tariff (long-term 25 years PPA).
- Feed-in tariff is similar to a regulated equity model, providing assured equity return, reimbursement of other capital and operating cost on a normative basis.
- Financially and operationally strong players can generate higher equity returns through their better-than-benchmark performance.
- TPL generates significant savings from its competitive finance cost. The normative interest cost on the feed-in portfolio is ~12% against TPL's consolidated interest cost of ~9-10% in FY18.
- We estimate that TPL is generating high double-digit RoE (normative RoE is ~14%) on its feed-in generation portfolio.
- Feed-in concept for new power projects is now done away with as the competitive bidding route is finding favor/economics with the DISCOMs.

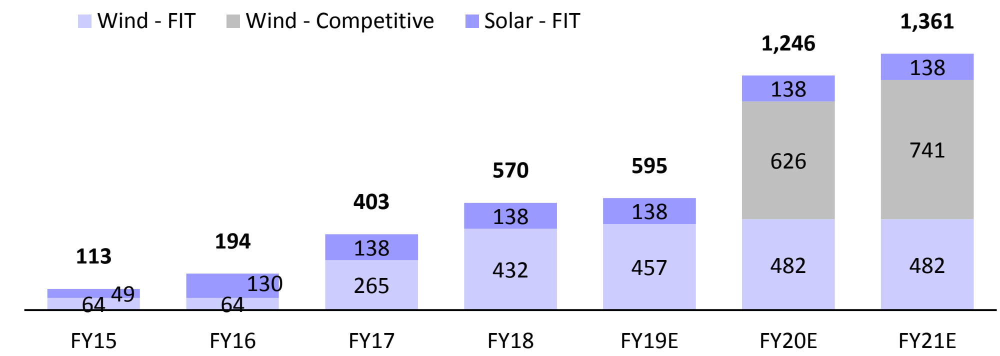
Building RE portfolio through opportunistic competitive bids

- TPL has 791MW of under-construction wind capacity (details in Exhibit 34:). While the tariffs on the competitively bid under-construction capacities is sharply lower than those under the erstwhile feed-in regime (~INR4.19/kWh in Gujarat), we estimate TPL will be able to generate equity IRR of ~12-14% on the projects.
- The lower tariff will be compensated by (a) competitive capital cost of projects given the competitiveness in the wind turbine supplier sector – ~INR60-65m/MW, (b) location in high-wind area, thereby generating higher PLF (the SECI plants are located in the Kutch region of Gujarat, one of the windiest areas in India), and (c) technological innovation, such as higher hub height of the turbines, which would capture higher PLFs.

Installed RE capacity will double in two years to 1.4GW (by FY21)

- TPL's competitive wind projects can generate PLF of ~40-42% due to favorable location and higher-height wind turbines.
- The projects will be commissioned in phases by FY21E and full benefit will start to accrue from FY22E onwards.

Exhibit 27: RE installed capacity to double in two years (MW)



Source: MOFSL, Company

Exhibit 28: Operating RE projects

	Solar	Solar	Wind	Wind	Wind	Wind	Wind
Capacity (MW)	51	87	49.6	201.6	60.8	50.4	120
Location	Patan in Gujarat	Adjacent to SUGEN Plant, Gujarat	Lalpur, Jamnagar in Gujarat	Bhuj in Gujarat	Rajkot in Gujarat	Bhavnagar in Gujarat	Gulbarga & Raichur in Karnataka
COD	2015	2016	2012	2017	32 MW commissioned in 2018; 28.8 MW under implement-ation	27.3 MW commissioned in 2018; 23.1 MW under implementation	2018
Tariff (₹/kWh)	10.03	6.74	4.15	4.19	4.19	4.19	3.74
PPA	FiT with Company's Licensed Distribution business						FiT with GESCOM, Karnataka

Source: Company

Exhibit 29: Under-construction RE projects (wind)

Particulars/ Project	SECI I	SECI III	MSEDCL	SECI V
Capacity (In MW)	150	499.8	126	115
SCOD	Oct, 2018*	Nov, 2019	Jan, 2020	18 Months from PPA effective date
Location (District, State)	Kutch, Gujarat	Kutch, Gujarat	Osmanbad, Maharashtra	Kutch, Gujarat
Fixed Tariff (₹/kWh)	3.46	2.44	2.87	2.76
PPA with	PTC	SECI	MSEDCL	SECI (yet to be signed)
Total Cost (₹ in Crore)	1030	3329	918	800
Debt	670	2330	643	560
Equity	360	999	275	240
Debt : Equity	65:35	70:30	70:30	70:30

150MW SECI I is not considered as it will be transferred to the company in FY22 under an arrangement

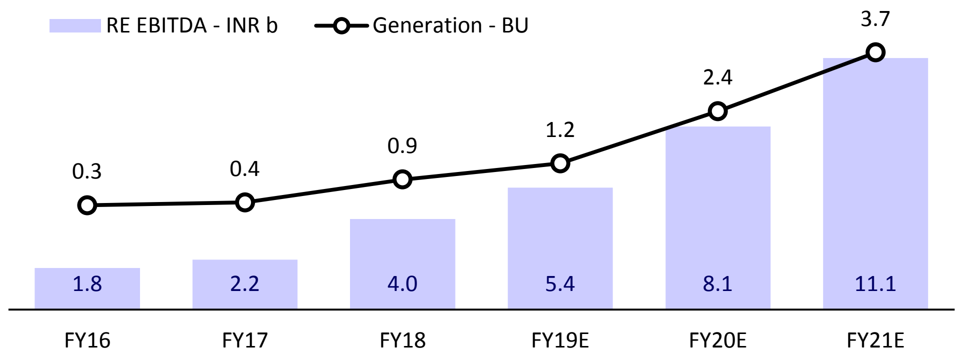
Source: Company

RE EBITDA to more than double in two years on commissioning of projects

- TPL installed RE generation capacity will more than double in the next three years to 1.4GW on commissioning of new projects. Generation will increase by 73% CAGR over FY19-21E to 3.7BU.
- We estimate the RE business revenue to increase at ~44% CAGR over FY19-21E to INR12.3b. The growth in revenue is lower than the growth in generation due to lower tariffs on the under-construction projects.
- EBITDA is expected to increase by a similar ~44% CAGR over FY19-21E, more than doubling to INR11.1b by FY21E.

RE generation will increase by ~73% CAGR over FY19-21E. EBITDA will increase by ~44% to INR11.1b by FY21E on commissioning of new projects and of recently added projects giving full benefits

Exhibit 30: RE generation and EBITDA



Source: MOFSL, Company

RE has huge potential

- India's RE (wind + solar + biomass and others) generation was ~8% of the total generation in FY18. The government wants to increase RE's share to ~15% by FY22 to meet its commitment under the Paris Climate Change Agreement.
- While the government's FY22 target is ambitious, we believe that a combination of a strong policy push and falling cost of RE should also continue to drive opportunities in the segment.
- India's RE installed capacity has more than doubled in the last four years to 69GW in FY18. However, aggressive competition between players has not led to much value-accretive commercial success, particularly in tenders in the last few years. We believe that future opportunities will be huge, but commercial success will depend on how the competition stabilizes.
- TPL has experience, efficient O&M practices and a strong balance sheet (capital support and lower interest cost) to benefit from increase in tendering for RE projects.

Generation: Efficient operations driving healthy RoE

RE provides some hope for idle gas plants of ~1.8GW

TPL has an installed conventional generation capacity of 3.1GW. Of this, 1.27GW is under long-term PPAs, while the remaining 1.82GW is open capacity. Also, there is no conventional generation capacity under construction currently. The details of the generation assets are below:

Exhibit 31: Installed conventional generation capacity

Plant	Type	Capacity MW	PPA MW	Open MW	Remarks
AMGen Sabarmati	Coal	362	362	0	❖ Tied-up with A'bad and Surat
Sugen	Gas	1,148	910	238	❖ Tied-up with A'bad, Surat & MP
UnoSugen	Gas	383	0	383	❖ Brownfield expansion at Sugen
DGEN	Gas	1,200	0	1,200	
		3,092	**1,272**	**1,820**	

Source: MOFSL, Company

Exhibit 32: Details of generation capacity

Plant	Capacity MW	Nature	Authority	Norm. RoE %	Capital Cost INR m	Capital Cost INR m/MW	Reg. Equity INR m	Norm. Debt INR m
AMGen	362	Regulated	GERC	14.0	11,460	32	4,308	238
Sugen	910	Regulated	CERC	15.5	23,707	26	7,110	6,165
Sugen	238	Open			6,187	26		
UnoSugen	383	Open			17,963	47		
DGEN	1,200	Open			54,002	45		
	3,092				**113,319**	**37**	**11,418**	**6,403**

Source: MOFSL, CERC, GERC, Company

Regulated assets generating healthy returns on efficient operations

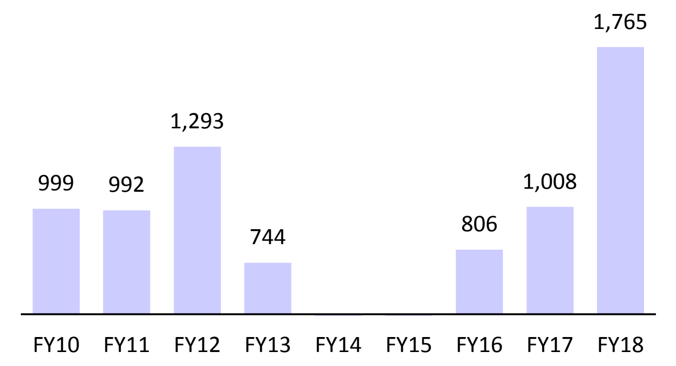
- The capacity under long-term PPA is 1.27GW (AMGen 362MW and Sugen 910MW); this is under a regulated model, with normative RoE of 14% in AMgen and 15.5% in Sugen. The regulated equity was INR11.4b in FY18.
- AMGen is a ~33-year old plant. The incentive earnings are low as the actual operating cost and performance parameters are equal to the normative. We estimate AMGen earns only a base RoE of 14%. The plant is old, but it still operates at a PLF of 65-75% as it is well maintained. The plant may get retired by end-FY22 due to stricter environment norms. It is not designed to meet the stricter sulfur dioxide emission norms, which could be effective from CY22. In any case, we believe the company will be able to recover its invested equity by selling the land on which the plant is located (plant located in the city) and scrap value.
- Sugen is one of the most efficient gas plants in India, and thus benefits significantly from the favorable regulatory norms, in our view. The operating and maintenance cost is well below the normative. The station’s heat rate is also well below the regulator’s benchmark. We estimate that Sugen earns significantly higher RoE than the normative 15.5% due to operating and thermal efficiencies.

- In the past, Sugen suffered due to low domestic gas availability. With domestic gas production unlikely to recover in the medium-term, it has started utilizing the storage-cum-regasification capacity of Petronet LNG's Dahej Terminal with effect from 1st Apr'17. Nine LNG cargoes were imported until 31st Mar'18 and another 26 LNG cargoes are contracted to be delivered by Dec'20.
- Based on news reports, it has locked-in for gas in a Brent crude oil price-linked deal – 10.5% slope to Brent for summer supplies and 13.5% slope for winter supplies.
- There is no growth capex for these plants with absence of minor capex for its upkeep.

Higher gas prices pose some risk to earnings of Sugen

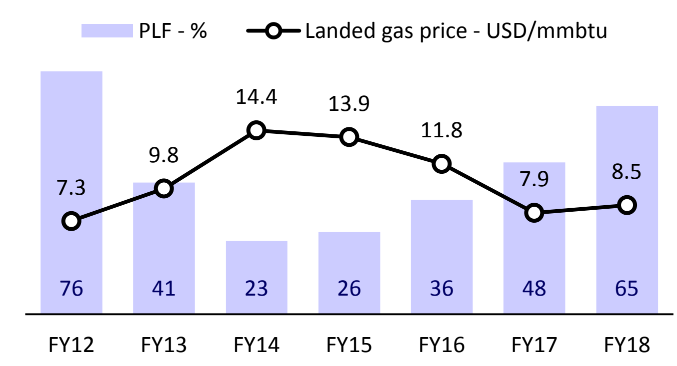
- A significant portion of earnings in Sugen's PPA capacity is driven by efficiency incentives (in O&M cost and better plant operating parameters in terms of station heat rate).
- The station heat rate (SHR) earnings are subject to and will be volatile to the PLF of the plant, which in turn would be influenced by the price of imported gas. When gas prices are low, the generation cost is competitive, which drives higher PLF. Operating parameters of the plant improves as PLF increases.
- In FY18, PLF at Sugen increased from 48% YoY to 65%. We estimate the increase in generation along with an improvement in SHR of the plant as one of the key drivers of improvement in TPL's FY18 earnings.
- In FY14-16 when gas prices increased above USD10/mmbtu and domestic gas was in shortage, the PLF of Sugen fell to less than 40%.
- Higher gas prices and Sugen's relative positioning on the merit order could be a risk to SHR efficiency earnings at Sugen.

Exhibit 33: Sugen SHR savings (INR m)



Est. at norm. SHR of 1,850 and actual 1,750.Source: MOFSL, Company

Exhibit 34: Sugen PLF and landed gas price



Gas price implied from reg. filing and est. Source: MOFSL, Company

Open capacities to remain idle; RE gives some hope

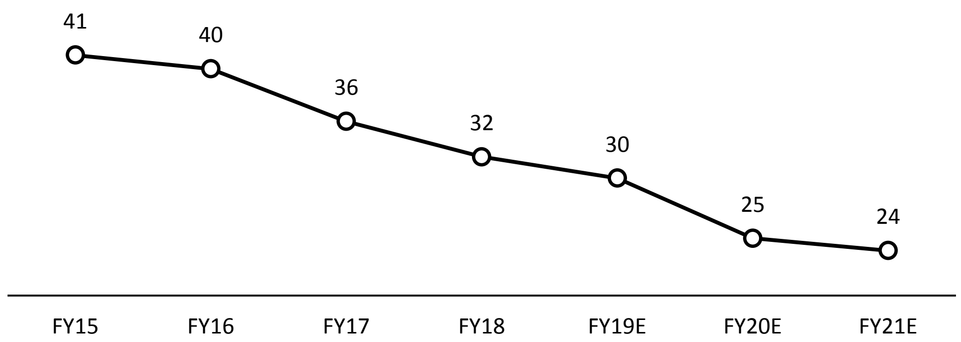
- The open capacity of 1.82GW is all gas-based. There is lack of domestic gas, while imported gas prices are not only volatile, but also exposed to movement in currency. Hence, we believe these plants are unlikely to get into PPAs at least over the medium-term.
- The plants were set up at a time when low-cost domestic gas production was expected to ramp up with Reliance's KG-D6 gas block. But it did not materialize as expected. This left a number of gas-based plants, including TPL's stranded/idle.

- While we see limited opportunity for gas-plants in the near-to-medium term, the intense focus on RE in India could provide some opportunity for gas plants over the long term for their quick ramp-up and ramp-down ability.
- Prices on power exchanges in India during the evening peak hours are rising sharply than the increase in non-peak pricing. As RE penetration rises, this trend could become even sharper.
- Gas-based plants have significantly lower fixed cost than coal-based plants, which makes it economical to provide peaking power support.

Share of idle assets in portfolio declining

- At its peak in FY15, open gas capacities formed ~41% of the consolidated gross block. The upkeep cost, depreciation and finance cost impacted earnings and RoE.
- Over time, with growth in invested capital (into other return generating businesses), the contribution and impact of these un-utilized open gas capacities reduced to ~32% in FY18 and is likely to reduce further to ~24% by FY21E.

Exhibit 35: Gross block of open gas assets as % of consolidated gross block



Consol. gross block is adj. for INDAs restatement. Source: MOFSL, Company

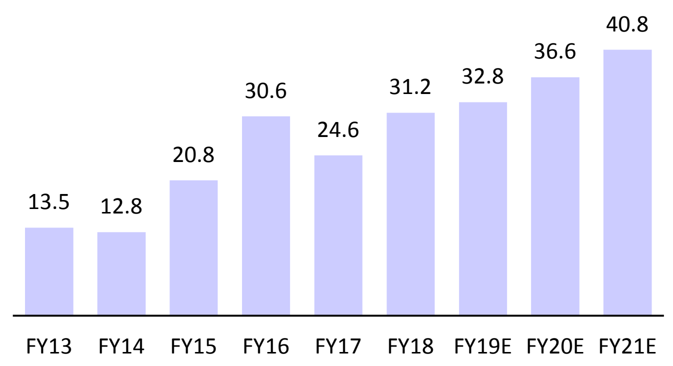
Growth engine back on track

~80% of EBITDA is stable and predictable segments

~80% of EBITDA is stable and predictable segments

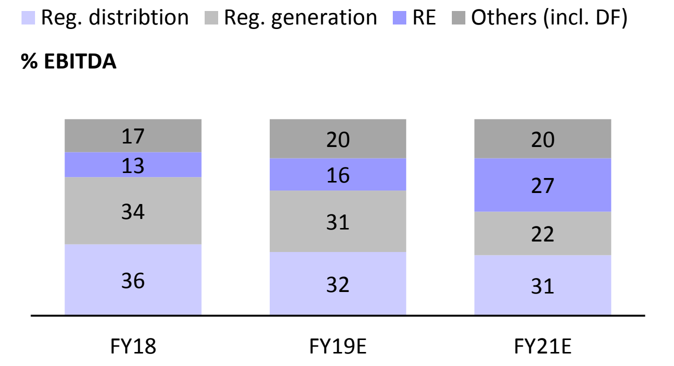
- TPL's growth engine is back on track. The sourcing of imported LNG has improved the PLF of its gas plant which is under PPA, the DF business performance has improved now with the risk of contract expiry behind, and the likely doubling of RE capacity has bolstered the growth prospects. Also, privatization of electricity distribution in India is picking up pace gradually, which could provide new growth opportunities.
- ~80% of TPL's EBITDA is driven by the stable and predictable segments of regulated distribution/generation and RE.
- We expect EBITDA/PAT to increase by CAGR of ~12% over FY19-21E to INR40.8b/INR13.3b, respectively, driven by RE, DF and steady growth in the regulated distribution business.

Exhibit 36: EBITDA CAGR of ~12% over FY19-21E (INR b)



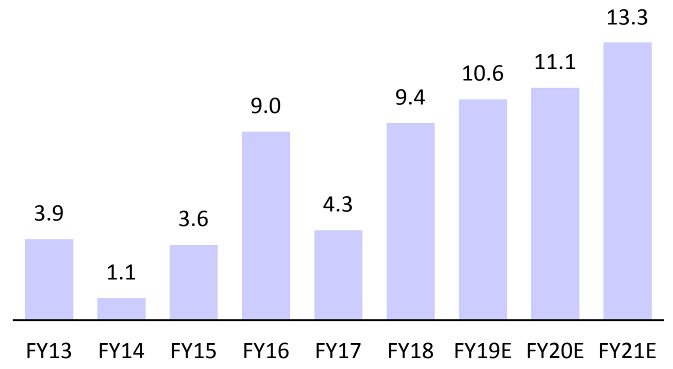
Source: MOFSL, Company

Exhibit 37: ~80% EBITDA from stable/predictable segments



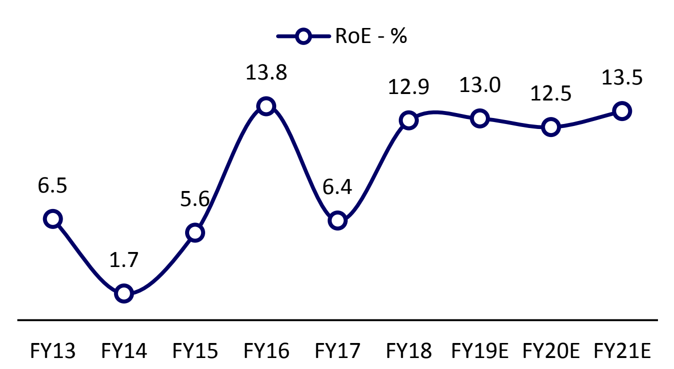
Source: MOFSL, Company

Exhibit 38: PAT CAGR of ~12% over FY19-21E (INR b)



Source: MOFSL, Company

Exhibit 39: RoE to remain stable (%)

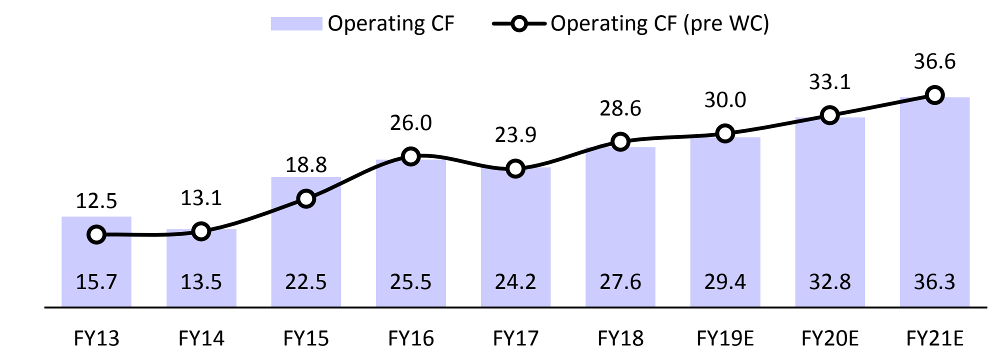


Source: MOFSL, Company

Operating cash generation steadily improving

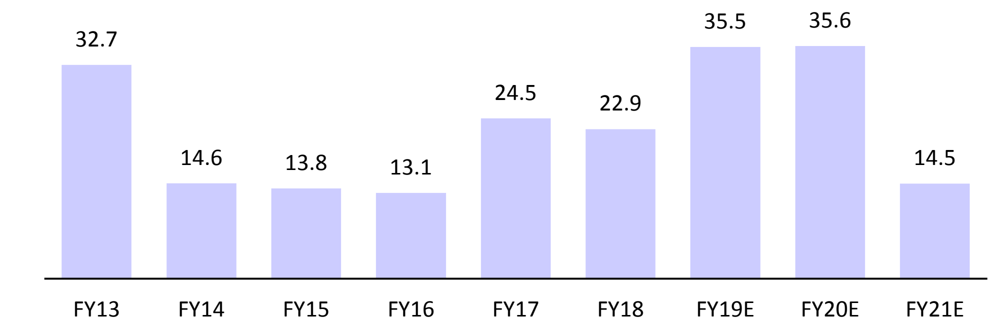
- We expect operating cash flow (OCF) generation to steadily improve. We expect OCF to increase from ~INR28b in FY18 to ~INR36b by FY21E.
- OCF will be used to fund capex for RE capacity addition. FCF generation, thus, will remain low.

Exhibit 40: Operating cash flow steadily improving (INR b)



Source: MOFSL, Company

Exhibit 41: Capex intensity to increase (INR b)

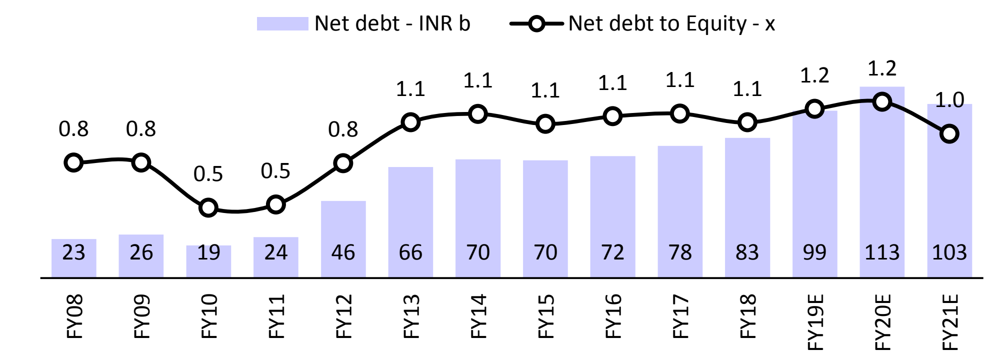


Source: MOFSL, Company

Low leverage provides strong base for growth

- TPL has historically maintained a very low leverage ratio. The net debt to equity has never exceeded ~1.2x despite the capex phase and unutilized assets. The net debt to EBITDA increased to ~5x for a brief period in FY13 and FY14 (due to abnormally low earnings), but otherwise has remained below ~3x.
- We expect the leverage ratios to remain comfortable even as capex momentum is expected to increase. While gross block and net block is expected to increase by ~INR86b and ~INR46b, net debt is expected to increase by only ~INR20b over FY18-21E, on strong operating cash flow generation.
- We expect net debt to equity to remain steady despite the higher capex, at ~1x.
- ~80% of cash flows/operating profit is fairly predictable and secured. Torrent Power can comfortably increase leverage giving the company a strong base for future growth.
- TPL has one of the most comfortable balance sheets amongst the private sector power players, but the company is still earning RoE similar to competitors. It is very well placed with experience across the power sector value chain – distribution, conventional generation and RE – to capture potential growth opportunities.

Exhibit 42: Net debt to Equity comfortable despite increase in capex (x)

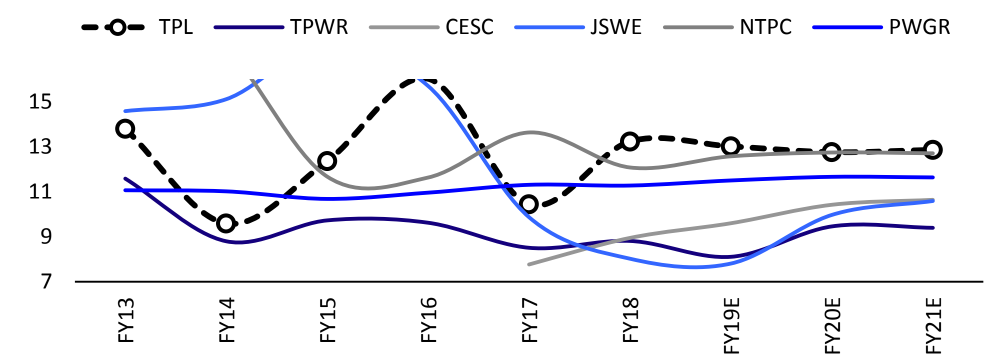


Source: MOFSL, Company

Return ratios best amongst the private sector players

- TPL's RoIC is amongst the best in the private power sector space and only marginally lower than the regulated business of public sector companies like NTPC and Power Grid.
- This, despite no contribution from the unutilized gas plants (~25% of gross block by FY21E, adjusting for which RoIC will be ~12% in FY21E). These gas plants have a future, in our view, but the timing is uncertain.

Exhibit 43: RoIC (pre-tax, %) – best amongst private power sector



Source: MOFSL, Company

Valuation

Initiate with TP of INR315/share, with a Buy rating

We value TPL using SOTP due to the different nature of its various businesses.

Valuation attractive; Initiate with Buy

TPL has one of the best balance sheets in private power sector. Presence in different segments of the sector provides it a strong base for future growth. Its 1.8GW of gas-based generation capacity, representing ~32% of gross block, is unutilized due to lack of economics of gas-based power generation. We are not building in any benefit for the same, but believe that with rising RE penetration in India, it could become valuable at some juncture. Excluding the drag of these unutilized assets, TPL's RoIC is amongst the best in industry. We value the stock on SOTP basis at INR315/share, upside of 20%. The stock is attractive trading at ~1.2x FY21E P/BV due to a healthy balance sheet, option value of gas plants and strong industry positioning. We initiate on the stock with a 'Buy' rating.

- **Regulated business – distribution:** This segment is a fairly predictable cash flow business with steady growth. Regulated equity is the key driver of earnings. We value it as a multiple to the regulated equity base. We assume core RoE of 16% (base RoE of 14% + incentives) and growth rate of 6% over the long-term.
- **Regulated business – generation:** The cash flows are predictable, but growth in existing assets is unlikely. Regulated equity is the key driver of earnings. It is also valued as a multiple to the regulated equity base. We assume the respective base RoE of the plants (14% or 15.5%) but do not give any value to growth.
- **Renewable energy:** The cash flow of the existing business portfolio is fairly certain. We value the business at 8x EV/EBITDA.
- **Distribution franchisee:** The businesses are volatile, unlike the regulated and the RE business. We value it at 6.5x EV/EBITDA.
- **Sugen's efficiency earnings:** Sugen is ~79% under PPA, but the plant earns higher returns than the normative due to its efficient operations and favorable regulatory norms. We value these efficiency earnings at ~6x EV/EBITDA as they can be volatile.

Exhibit 44: Target price calculation on FY21 basis

	Reg. E Equity INR m	RoE %	Growth %	Multiple x	Equity Value INR m	Norm. Debt INR m	EV INR m
Regulated businesses	**48,981**			**(RoE-g)/(CoE-g)**	**72,018**	**23,106**	**95,124**
Distribution							
Ahmedabad	21,065	16.0	6.0	1.8	37,955	17,365	55,320
Surat	6,961	16.0	6.0	1.8	12,542	3,365	15,907
Regulatory assets	9,330			@90%	8,397	0	8,397
Generation							
Sabarmati	4,515	14.0	0.0	1.0	4,515	0	4,515
Sugen	7,110	15.5	0.0	1.3	9,542	2,377	11,919
Others businesses	**EBITDA INR m**						
RE projects	11,096			8.0			88,771
Bhiwandi and Agra DFs	8,115			6.5			52,746
Sugen PPA efficiency earnings	2,801			6.0			16,806
Others							
EV							**254,380**
Less: Net debt							103,167
MCap							**151,213**
No. of shares							481
Value per share							**315**

Source: MOFSL, Company

We do not ascribe any value to the unutilized gas capacity of 1.82GW. While we believe gas plants will have a future as RE penetration increases in India, the likelihood in near-to-medium term is low. Assuming these gas plants eventually get utilized for peaking power support, able to run at ~20% PLF and earn a contribution margin of ~INR0.5-1.5/kWh, the potential value could be ~INR22-67/share.

Exhibit 45: Potential value of an unutilized gas capacity of 1.82GW

Contribution margin	**INR/kWh**	**0.50**	**1.50**
Merchant-gas capacity	**MW**	**1,820**	**1,820**
Sugen		238	238
Unosugen		383	383
Dgen		1,200	1,200
Generation	MU	3,189	3,189
PLF	%	20.0	20.0
Variable cost of gen.	**INR/kWh**	**4.73**	**4.73**
LNG FoB price	USD/mmbtu	7.2	7.2
In-land trans./conversion/others	USD/mmbtu	2.0	2.0
Landed cost of LNG	USD/mmbtu	9.2	9.2
USDINR	x	70	70
Mark-up on variable cost	INR/kWh	0.50	1.50
Revenue per unit	**INR/kWh**	**5.23**	**6.23**
Incremental contribution margin	**INR m**	**1,594**	**4,783**
O&M cost	INR m	159	478
Incremental EBITDA	INR m	1,435	4,305
Tax @ of 25%	INR m	359	1,076
Incremental PAT	INR m	1,076	3,228
Potential value @ 10x PE	INR m	10,762	32,285
Potential value @ 10x PE	INR/sh.	22	67

Source: MOFSL, Company

Key risks

- **Higher imported gas prices** would impact the PLF of its gas plant under long-term PPA, thereby impacting earnings driven by thermal efficiency of the plant.
- **Lower PLF in new wind capacities**: The equity IRR on wind power plants under construction is subject to achieving the projected PLF of 40-42%. Torrent believes it would be able to achieve such high PLF based on the location of the plant, technology developments over the years and a higher hub height.
- **Slower-than-expected pace of reduction on AT&C losses in the DF area:** DF business' profitability is driven by reduction in AT&C losses. Losses in TPL's DF areas have scope for significant loss reduction (in Ahmedabad and Surat its losses are sub-7%, against losses in DFs of upwards of 15%). A slower-than-expected reduction in AT&C losses in DFs would impact earnings.

SWOT analysis

Strength

- Stable and predictable cash flows with no input price risk
- Present across the value chain in power sector from distribution to generation
- Healthy balance sheet to capture growth opportunities in distribution privatization, RE and consolidation in conventional generation

Weaknesses

- Regulated distribution and generation subject to regulatory oversight, capping return potential
- Lack of availability of economical domestic gas exposes to imported LNG

Opportunities

- Privatization of distribution in India; TPL is amongst the few listed private sector companies with experience in distribution function
- In-organic opportunities in conventional generation given TPL's strong balance sheet
- Ambitious renewable energy generation targets would provide growth opportunities

Threats

- Distribution generation along with falling cost of storage could reduce reliance on grid supply, impacting growth
- Changes in regulations
- License renewal risk for its distribution circles

Management team

Mr. Jinal Mehta, Managing Director

Mr. Jinal Mehta holds a Bachelor of Business Studies (BBS) and Master of Business Administration (MBA) degree in International Business and Finance. He has more than twelve years of experience in the power sector. Mr. Mehta was involved in the implementation of 1,147.5 MW SUGEN Mega Power Project and subsequently shouldered the responsibility of its operations as its COO. He was also involved in the implementation of 382.5 MW SUGEN Expansion (i.e. SUGEN 40) and subsequently was responsible for implementation of the DGEN Mega Power Project (1200 MW). Prior to taking over as Managing Director of Torrent Power w.e.f. 1st Apr'18; he was responsible for the distribution business of the company for a period of four years.

Mr. Sanjay Dalal, Chief Financial Officer

Mr. Sanjay Dalal is a Chartered Accountant and graduate in law. He has varied and rich experience of 33 years in power, pharmaceuticals and textiles. He has been associated with the Torrent Group from 2000 onwards. During his association with the Torrent Group, he was involved mainly with the pharmaceutical business and power generation business in multifarious roles covering business operations and finance. As Executive Director, Mr. Dalal was involved in the generation operations and procurement of gas. He has wide knowledge in the areas of accounting, finance, taxation, restructuring, etc.

Financials and valuations

Income Statement							(INR Million)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Net Sales	**103,960**	**117,158**	**100,536**	**115,121**	**133,542**	**138,381**	**143,594**
Change (%)	19.8	12.7	-14.2	14.5	16.0	3.6	3.8
Total Expenses	83,161	86,542	75,933	83,950	100,740	101,747	102,764
EBITDA	**20,799**	**30,616**	**24,603**	**31,171**	**32,803**	**36,634**	**40,829**
% of Net Sales	20.0	26.1	24.5	27.1	24.6	26.5	28.4
Depn. & Amortization	7,205	9,157	10,059	11,315	12,228	13,508	14,773
EBIT	**13,594**	**21,459**	**14,544**	**19,856**	**20,575**	**23,126**	**26,056**
Net Interest	9,623	11,308	10,580	8,482	9,298	10,714	10,902
Other income	3,662	2,819	1,909	2,636	2,100	2,205	2,315
PBT before EO	**7,634**	**12,970**	**5,873**	**14,010**	**13,376**	**14,617**	**17,469**
EO income/(cost)	-230	-74	0	0	0	0	0
PBT after EO	7,404	12,896	5,873	14,010	13,376	14,617	17,469
Tax	3,777	3,874	1,576	4,489	2,809	3,508	4,193
Rate (%)	51.0	30.0	26.8	32.0	21.0	24.0	24.0
Reported PAT	**3,627**	**9,022**	**4,298**	**9,521**	**10,567**	**11,109**	**13,277**
Minority and Associates	30	20	8	98	8	8	8
Adjusted PAT	**3,367**	**8,928**	**4,290**	**9,423**	**10,559**	**11,100**	**13,268**
Change (%)	219.9	165.2	-52.0	119.7	12.1	5.1	19.5

Balance Sheet							(INR Million)
	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	4,725	4,806	4,806	4,806	4,806	4,806	4,806
Reserves	60,832	59,898	64,115	72,389	80,064	88,281	98,665
Net Worth	**65,557**	**64,705**	**68,921**	**77,195**	**84,871**	**93,087**	**103,472**
Minority Interest	308	301	289	359	368	376	384
Total Loans	93,547	85,148	87,681	92,981	106,981	120,981	110,981
Deferred Tax Liability	8,579	13,061	13,363	14,799	14,799	14,799	14,799
Capital Employed	**167,990**	**163,215**	**170,255**	**185,334**	**207,018**	**229,243**	**229,636**
Gross Block	186,848	160,461	187,266	209,170	224,503	280,255	294,793
Less: Accum. Deprn.	36,065	9,166	19,226	30,463	42,691	56,199	70,972
Net Fixed Assets	**150,782**	**151,295**	**168,040**	**178,707**	**181,811**	**224,056**	**223,821**
Capital WIP	2,330	2,133	3,321	3,925	24,044	3,925	3,925
Goodwill	100	100	0	0	0	0	0
Investments	37	50	66	1,923	1,923	1,923	1,923
Curr. Assets	**43,076**	**42,540**	**36,559**	**41,335**	**41,258**	**41,648**	**42,591**
Inventories	2,597	4,202	3,694	4,549	5,122	5,308	5,508
Account Receivables	8,924	10,570	9,751	11,305	12,805	13,269	13,769
Cash and Bank Balance	23,732	12,856	9,336	9,982	7,830	7,572	7,814
Others	7,823	14,912	13,778	15,500	15,500	15,500	15,500
Curr. Liability & Prov.	**28,338**	**32,902**	**37,731**	**40,556**	**42,018**	**42,310**	**42,624**
Account Payables	6,339	9,520	9,054	7,534	8,996	9,287	9,601
Provisions & Others	21,999	23,382	28,677	33,023	33,023	33,023	33,023
Net Curr. Assets	**14,738**	**9,637**	**-1,172**	**779**	**-760**	**-661**	**-33**
Appl. of Funds	**167,987**	**163,215**	**170,255**	**185,334**	**207,018**	**229,243**	**229,636**

Financials and valuations

Ratios

	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)							
EPS	**7.1**	**18.6**	**8.9**	**19.6**	**22.0**	**23.1**	**27.6**
Cash EPS	22.4	37.6	29.9	43.1	47.4	51.2	58.3
BV/Share	138.8	134.6	143.4	160.6	176.6	193.7	215.3
DPS	1.5	6.0	0.0	2.2	5.0	5.0	5.0
Payout (%)	21.0	32.3	0.0	11.2	22.8	21.6	18.1
Valuation (x)							
P/E	22.9	12.5	25.8	11.7	11.9	11.3	9.5
Cash P/E	7.3	6.2	7.7	5.3	5.5	5.1	4.5
P/BV	1.2	1.7	1.6	1.4	1.5	1.3	1.2
EV/EBITDA	7.1	6.0	7.7	6.2	6.9	6.5	5.6
Dividend Yield (%)			0.0	1.0	1.9	1.9	1.9
Return Ratios (%)							
RoE	5.3	13.7	6.4	12.9	13.0	12.5	13.5
RoCE (post-tax)	6.9	9.8	6.6	8.4	8.8	8.8	9.4
RoIC (post-tax)	7.7	9.9	6.3	8.1	9.1	9.0	9.2
Working Capital Ratios							
Fixed Asset Turnover (x)	0.7	0.8	0.6	0.6	0.7	0.6	0.6
Asset Turnover (x)	0.6	0.7	0.6	0.6	0.6	0.6	0.6
Debtor (Days)	31	33	35	36	35	35	35
Inventory (Days)	9	13	13	14	14	14	14
Leverage Ratio (x)							
Net Debt/EBITDA	3.4	2.4	3.2	2.7	3.0	3.1	2.5
Debt/Equity	1.1	1.1	1.1	1.1	1.2	1.2	1.0

Cash flow statement

(INR Million)

	2015	2016	2017	2018	2019E	2020E	2021E
EBITDA	**20,799**	**30,616**	**24,603**	**31,171**	**32,803**	**36,634**	**40,829**
WC	3,759	-534	236	-922	-612	-358	-386
Others	-847	-1,412	385	586	0	0	0
Direct taxes (net)	-1,197	-3,167	-1,056	-3,200	-2,809	-3,508	-4,193
CF from Op. Activity	**22,514**	**25,503**	**24,168**	**27,635**	**29,382**	**32,768**	**36,251**
Capex	-12,575	-16,349	-21,745	-23,866	-35,451	-35,634	-14,538
FCFF	**9,939**	**9,155**	**2,423**	**3,769**	**-6,070**	**-2,866**	**21,713**
Interest income	1,482	1,410	732	771	2,100	2,205	2,315
Investments in subs/assoc.	-13	-13	-16	-17	0	0	0
Others	161	202	113	-763	0	0	0
CF from Inv. Activity	**-10,945**	**-14,750**	**-20,916**	**-23,875**	**-33,351**	**-33,429**	**-12,223**
Share capital	0	0	0	0	0	0	0
Borrowings	-1,190	-8,055	2,442	5,276	14,000	14,000	-10,000
Finance cost	-11,694	-11,818	-10,334	-8,285	-9,298	-10,714	-10,902
Dividend	-321	-3,442	-62	-1,310	-2,884	-2,884	-2,884
Others	1,149	1,686	1,182	1,205	0	0	0
CF from Fin. Activity	**-12,055**	**-21,629**	**-6,771**	**-3,114**	**1,818**	**402**	**-23,786**
(Inc)/Dec in Cash	**-486**	**-10,876**	**-3,520**	**646**	**-2,152**	**-259**	**242**
Opening balance	24,218	23,732	12,856	9,336	9,982	7,830	7,572
Closing balance (as per B/S)	**23,732**	**12,856**	**9,336**	**9,982**	**7,830**	**7,572**	**7,814**

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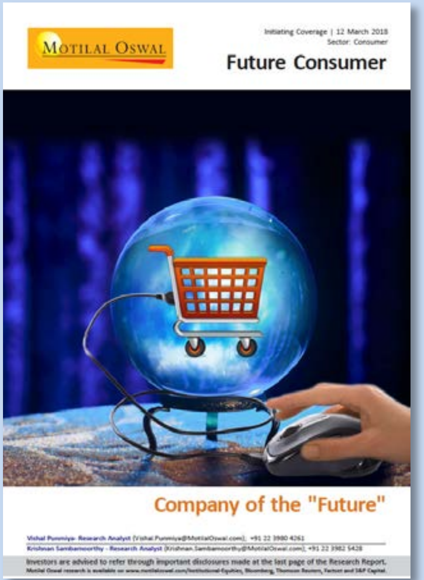

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