

# Tata Power: Betting on business transformation for future growth

[moneycontrol.com/news/business/earnings/tata-power-betting-on-business-transformation-for-future-growth-7525811.html](https://moneycontrol.com/news/business/earnings/tata-power-betting-on-business-transformation-for-future-growth-7525811.html)

## Focus on restructuring, cost reduction, lower debt and emerging business to support stock valuation

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## Representative image

Tata Power

NSElive

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158.75

7.15 (4.72%)

Volume 111302311

Todays L/H 151.30161.20



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### Highlights

- Restructuring of assets and significant reduction in debt- Strong focus on electric vehicle charging infrastructure- Renewable portfolio growing faster leading to higher profitability- Valuation reasonable at 20 times fiscal 2023 estimated earnings

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Tata Power's transformation from a traditional utility company to a consumer business could be a game changer. Apart from its foray into the renewable space in a big way, its interest in EV charging, home automation, rooftop solar, pumps and micro grid could open up huge opportunities for future growth.

The stock market seems to have taken note of this change in business strategy as the Tata Power stock has recovered to a great extent in the last one year. The stock had fallen from around Rs 160 a share in January 2008 to about Rs 25 a share in March 2020 after the outbreak of the pandemic. It is now almost back to the 2008 level, convincing the market that the change in business strategy is more structural and robust.

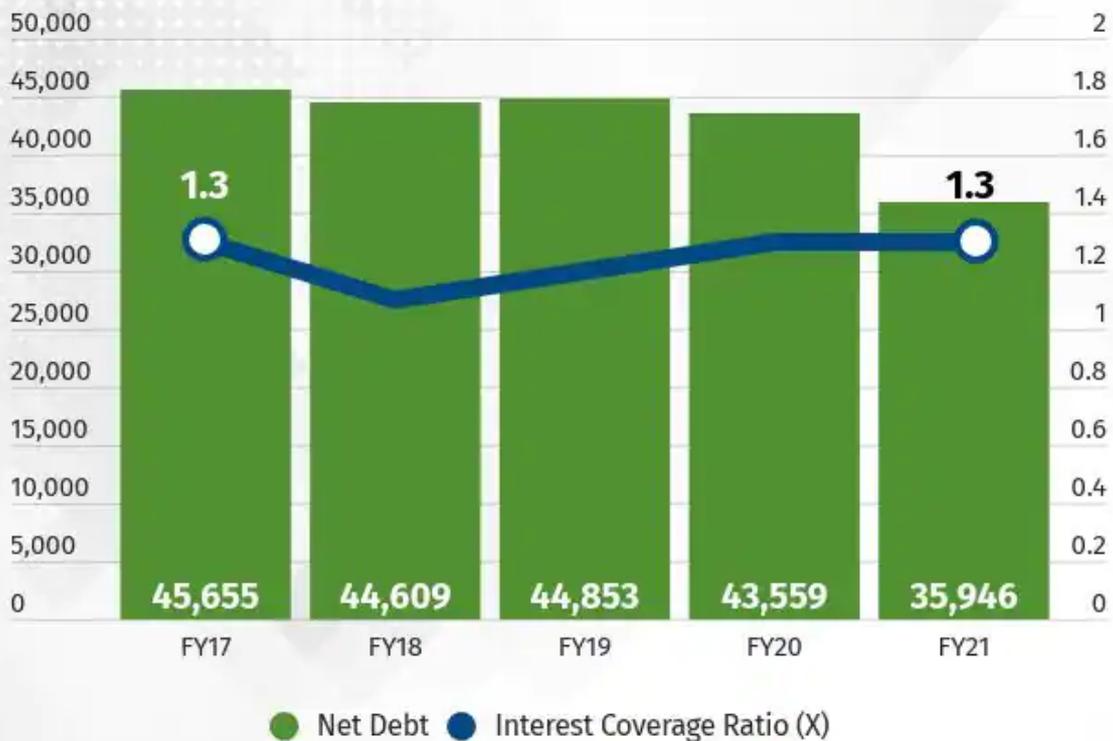
The re-rating could continue on account of improving efficiencies, strong balance sheet, better prospect of earnings growth, stability in the business, very low financial leverage and low dependency on regulated businesses.

### **Resolving past sticky issues**

Its biggest and most sticky issues were deteriorating financial performance and a constant threat to the balance sheet because of the losses in the Mundra UMPP project. The viability of the project has suffered because the company could not pass through the imported coal cost.

The 4000 MW CGPL Mundra project was a big component in its portfolio and Tata Power supported it financially. Close to Rs 11,000-12,000 crore cash was infused into the project from internal accruals — mainly cash from the regulated business and borrowed funds. Its debt peaked to about Rs 50,000 crore by fiscal 2017 on a net worth of about Rs 13,000 crore and the interest coverage shrank to a mere one time, resulting in losses and impacting credit worthiness as well as its ability to raise funds.

# NET DEBT AND INTEREST COVERAGE RATIO (X)

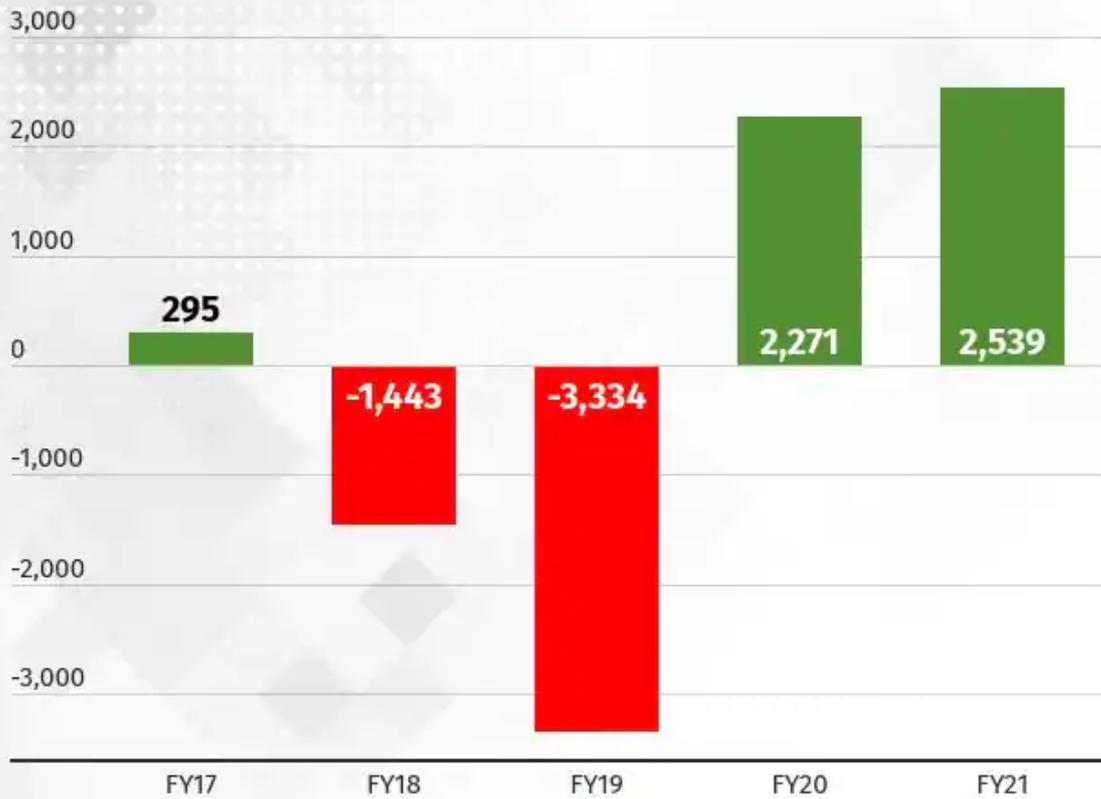


(in Rs Crore), Source: Company



The issue of fresh equity, divestment, monetisation of assets and stake sale in Indonesian coal mines helped the company to reduce debt meaningfully. While the balance sheet is now viable, the second important step it took is to allocate capital into more remunerative and less risky businesses such as renewables.

# FREE CASH FLOW



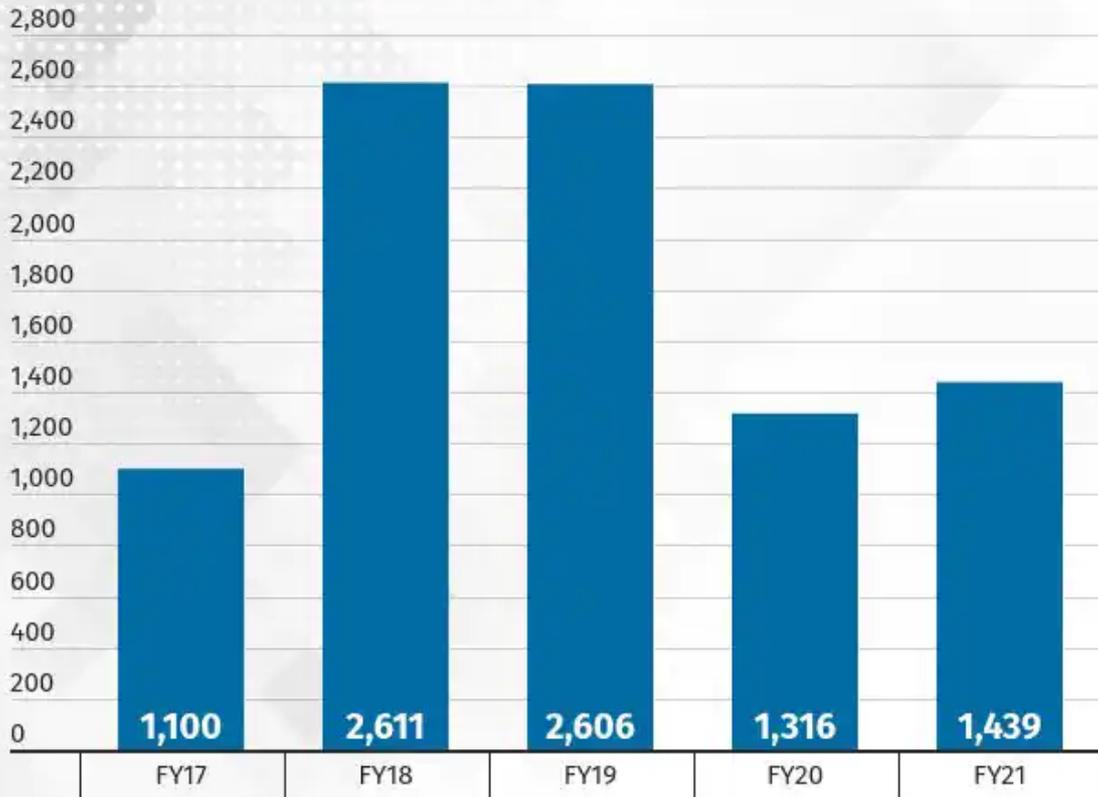
(in Rs crore), Source: Company



## Improving balance sheet

Financially the situation has drastically improved with net debt to equity now quite comfortable at around 1.5 times as against 7.4 times in fiscal 2017. Moreover the sharp focus on business restructuring, cost rationalisation and other measures have resulted in a significant improvement in profitability. By the end of fiscal 2021, the profit before tax has jumped more than six-fold to around Rs 1986 crore from Rs 300 crore in fiscal 2017.

# NET PROFIT AFTER TAX



(in Rs crore), Source: Company



Financials are expected to improve further with a strong growth in earnings on the back of a consistent performance by the regulatory assets (power generation and distribution business), a surge in coal mining profitability following the recent increase in coal prices, tax benefits (Mundra UMPP accumulated losses), and a large contribution from the high growth in the renewable portfolio. During the June quarter of the current fiscal, its solar pump business saw a strong 8-fold growth whereas solar rooftop grew 4 times on a year-on-year basis. Its EV charging business is already gaining strong foothold with about 40 per cent market share and having about 5100 charging points.

# TATA POWER RENEWABLE ENERGY LIMITED

Particulars	FY21	FY20
Generation Sales (MUs)	2329	2162
Net sales (₹ crore)	1025	975
PAT (₹ crore)	13	-51

(in Rs crore), Source: Company



Moreover, the renewable business is poised to deliver high growth. Tata Power has a total power generation capacity of 12808 MW. Out of this, 3574 MW comes from renewable projects. Further, close to 1500 MW is under construction. By 2023, the company is aiming to reach close to 5000 MW in renewables.

On top of these initiatives, the deleveraging of the balance sheet will continue with the net debt to equity target of 1 times. In the coming months, the company is planning to list its renewable assets portfolio through InvITs to reduce its debt further. The earnings from the core utility portfolio and the high contribution from the renewables along with the deleveraging of the balance sheet should lead to a strong growth in earnings over the next 2-3 years.

# RETURN ON EQUITY



source: Company



While the stock has seen a sudden spike recently, even at the current level of around Rs 151 per share, it is reasonably valued at 20 times fiscal 2023 estimated earnings.

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