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A COMPANY THAT—despite undergoing a rapid transition—has continued reporting extraordinary growth for 12 consecutive quarters. This would perhaps be the most appropriate description of Tata Power. But in these times of Industry 4.0, where there is a discernible global shift towards renewable energy (RE) sources, the company's road to transformation is not without its fair share of challenges. More so if you are an entity with a 107-year-old legacy that has 68 subsidiaries in India and overseas, along with 34 joint ventures and five associates across the entire power value chain.

"What is important for us is consistent performance... [which] is reflected in the market price and market capitalisation," Praveer Sinha, CEO & Managing Director, tells *BT* on a busy November afternoon. "We have successfully come out of several challenges and our performance will help us give better returns to shareholders," adds Sinha, even as he regularly checks his phone for any important updates from across the company's gargantuan network.

During the BT500 period under review (October 2021-September 2022), the Tata Power stock outperformed the benchmark BSE Sensex, growing 36 per cent, compared with the Sensex's 2.8 per cent fall. However, volatility has been much higher with the 52-week high touching ₹298, while the low has been ₹156.60, over the period under review.

The company has done fairly well during this period in terms of winning new solar Engineering, Procurement and Construction (EPC) orders and also bringing down the Aggregate Technical & Commercial (AT&C) losses at the three power utilities during the Covid-19-induced lockdowns, say analysts. Other noteworthy developments at the company include raising capital from a consortium led by BlackRock Real Assets to the

TATA POWER

- **RANK 2022/2021** 69/128
- **AVERAGE MARKET CAP*** ₹73,417 crore (134.3%)
- **TOTAL INCOME** ₹43,922.9 crore (30.4%)
- **PAT** ₹680.6 crore (11.3%)
- **ROE** 3.1%
- **TTM P/E MULTIPLE** 28.80

*FROM OCTOBER 1, 2021 TO SEPTEMBER 30, 2022; TOTAL INCOME, PAT AND ROE FOR FY22; P/E MULTIPLE AS OF NOVEMBER 7, 2022; TTM: TRAILING 12 MONTHS; **FIGURES** IN BRACKETS ARE PERCENTAGE CHANGE YoY; RESULTS ARE ON A CONSOLIDATED BASIS **SOURCE** ACE EQUITY

LIVE WIRE

AS TATA POWER EVOLVES INTO A POWER SOLUTIONS PROVIDER, POWER DISTRIBUTION, NON-REGULATED BUSINESSES AND RENEWABLES WILL BE DRIVING THE 107-YEAR-OLD COMPANY'S GROWTH

BY **MANISH PANT**

tune of ₹4,000 crore in two phases by divesting 10.53 per cent stake in Tata Power Renewables as part of the company's renewables push. "The investment would translate into a base equity valuation of ₹34,000 crore and an enterprise value of nearly ₹50,000 crore for a platform that will house all the RE businesses of Tata Power and will meet the equity capex requirement for the firm for [the] next three-four-year period," says Anuj Upadhyay, Institutional Research Analyst at HDFC Securities.

The increased green energy adoption in the country has positively impacted Tata Power's growth and, in turn, its earnings. The company has leveraged its first-mover advantage to capture significant market share across various business verticals like solar EPC, solar pumps, solar rooftop installations and electric vehicle (EV) charging, says Upadhyay.

"We are on a journey where we see a humongous opportunity, especially in areas of renewable business. Whatever we are doing here in India is just the tip of the iceberg," declares Sinha.

BUT THIS EXPANSION has also thrown up unique challenges. One is the delay in execution of solar EPC contracts due to a steep rise in module prices, which went up by up to 60 per cent to over ₹25 per watt. This also dented margins across its solar EPC division during Q4FY22 and Q1FY23. However, the margins were restored during Q2FY23, implying that the aggressive tenders have been executed and all newly bid or upcoming tenders include the high module prices.

Tata Power's Mundra Ultra Mega Power Plant (MUMPP), being run by Coastal Gujarat Power Ltd (CGPL) SPV (special purpose vehicle) in Kutch district, reported a loss of ₹484 crore due to lower Plant Load Factor (PLF) of 25 per cent and rise in fuel under-recoveries to ₹1 per unit from ₹0.16 per unit in Q3FY22. The company management has said that it is in advanced discussions with Gujarat and other states for supplementary power purchase agreements (PPAs) for fuel cost pass-through. This would reduce fuel under-recoveries and lower losses at Mundra.

From May this year, CGPL has been booking sales under Section 11 of the Electricity Act. This notification, which has been extended up to December 31, provides for full compensation of the cost of power generation by the buyer along with a certain profit to be determined by the regulatory body Central Electricity Regulatory Commission (CERC). The Ministry of Power has given an interim tariff based on which CGPL has been billing the buyers. "For capacity charges, CERC's recent favourable order helped recognise ₹460 crore additional revenue during Q2FY23—₹150 crore pertaining to Q1FY23. We believe, once CERC approves the tariff, ₹400-500 crore under-recovery of variable charges may be reversed in the coming quarters, resulting in further increase in profits," says ICICI Securities in its review of Tata Power's second quarter results.

"While the company seems to be taking the right steps in terms of diversifying its revenue model, it is the balance sheet that is still not out of risk. If you were to look at reported debt to Ebitda, it's currently 3.5 times," says Harshavardhan Dole, Energy Analyst at IIFL Securities. As Dole explains, typically, such high debt to Ebitda is vulnerable to cyclicality of businesses such as coal and solar EPC, where even the slightest compression may

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CEO & MD, TATA POWER

"There are only a handful of companies in India that can make a significant dent on consumer behaviour. Tata Power is one of them"

HARSHAVARDHAN DOLE
ENERGY ANALYST, IIFL SECURITIES