

# 11th Nov '24 - Tata Power Q2FY25 results review and Intrinsic Value

## Q2FY25 results review: (results were out on 30th Oct 2024)

1. India's largest vertically integrated power company.
2. Revenue fell 1% YoY to ₹15,247 crore. A sharekhan report says that Tata Power's revenue was affected by the weak power demand in the quarter due to the strong monsoon season.
3. EBITDA up 23% to ₹3,808 crore on the back of ramped up solar manufacturing, favourable regulatory development in distribution and operational efficiency across businesses.
4. Operating margins for Q2FY25 have risen by almost 300 bps YoY to 21%.
5. Net Profit before exceptional items jumps 51% YoY to ₹1,533 crore.
  - a. Net Profit after exceptional items grew by 7% YoY and declined by 8% QoQ.
6. Net Debt increased to ₹43,580 due to higher capex requirements.
7. ESG Ratings have improved significantly over the past 5 years.
8. Generation Portfolio:
  - a. 15.2 GW Total
  - b. 8.8+ GW Thermal
  - c. 4 GW Solar; 1 GW Wind; 0.88 GW Hydro; 0.44 GW Waste Heat Recovery.
  - d. Under construction - 0.6 GW Hydro; 1.12 GW Solar; and 4.73 GW Solar-Hydro Hybrid - Total capacity post project completions will stand at 21.67 GW out of which 59% will be Clean & Green.
9. Transmission Portfolio:
  - a. 4,633 Ckm operational.
  - b. 2,416 Ckm under construction.
10. Solar Utility Scale EPC:
  - a. Order Book at ₹7,485 crore as on 30th Sep 2024.
  - b. 370 MW of orders won - ₹1,500 crore in Q2FY25.
  - c. 261 MW of projects executed.
11. Solar Rooftop:
  - a. Revenue up 39% YoY to ₹439 crore.

- b. Revenue break up for H1FY25 - ₹536 crore in Rooftop C&I; and ₹301 crore in Rooftop Residential.
  - c. Order book stands at ₹684 crore in Q2FY25
  - d. 297 MW orders won in H1FY25.
  - e. Market leader in Solar Rooftop EPC with 13.1% market share. Market growing at 17% CAGR since past 4 years.
12. Tata Power EZ Charge:
- a. 5,675 Public charging points in 590 cities.
  - b. 1,10,769 E4W (Electric 4 Wheeler) home chargers and 1,154 E-Bus charging points deployed.
  - c. Tender won for Delhi-Agra expressway charger deployment.
  - d. MoU signed with Tata Motors for 200 DC fast chargers + 6 months free charging on Tata Power network.
13. Cell & Module Manufacturing:
- a. 2 GW cell line operational; remaining 2 GW to be commissioned in Q3FY25.
  - b. 10+ MW daily module output achieved.
14. Capex:
- a. On track on the planned capex for FY25.
  - b. ₹9,100 crore spent during H1FY25 out of ₹20,000 crore.
  - c. ₹5,200 crore spent in Q2FY25.
15. Management Comments:
- a. All segments continue to witness sustained growth momentum as India sees record power demand and investment in the new Age of Electricity.
  - b. This is the 20th consecutive quarterly PAT growth.
16. Industry Study:
- a. India's power demand up 5.3% YoY despite a muted Q2
  - b. Renewable Energy accounted for 100% capacity additions in India during H1FY25
  - c. Cell & Module prices continue to drop. Coal has stabilised.

### **Intrinsic Value:**

Tata Power has a well-planned strategy to shift towards clean energy and targets for 2x rise in its PAT by FY27E over FY23. The recent developments in the company

also feel to be positive for the long term but there are some contradictory statements here. A sharekhan report says that Tata Power's revenue was affected due to a strong monsoon season but Q2 investor presentation from Tata Power itself says India's power demand was up 5.3% YoY despite a muted Q2. Rightly so, I feel more clarity regarding the flattish revenue growth should be needed before generating a buy call.

### **Current Valuation Status:**

The current valuation of the TATAPOWER stock stands at ₹408.29 per share at 35x Current TTM EPS. This valuation includes a 10% justifiable premium. The premium assigned to the valuation is because:

- a) one of the biggest power companies in India with a strong presence in renewables sector,
- b) in-house manufacturing of solar cells and modules,
- c) government backing in the rooftop solar program,
- d) I feel the margins of the company will expand in the years to come as the benefits of economies of scale and vertical integration will kick in.

### **Target Price:**

I assign an ACCUMULATE rating on the TATAPOWER stock at current level (CMP: ₹432.75). I believe the current price still provides a decent risk - reward ratio. The Target Price for the stock is ₹465.42 per share based on 35x FY25E EPS, including a 10% premium. I believe the flattish revenue growth to be of a short term nature and that the company could see further margin expansion just like in Q2FY25.

This is a report by Chaitanya Sabharwal for [guruspakes.com/markets](https://guruspakes.com/markets)

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