



DOHA BROKERAGE

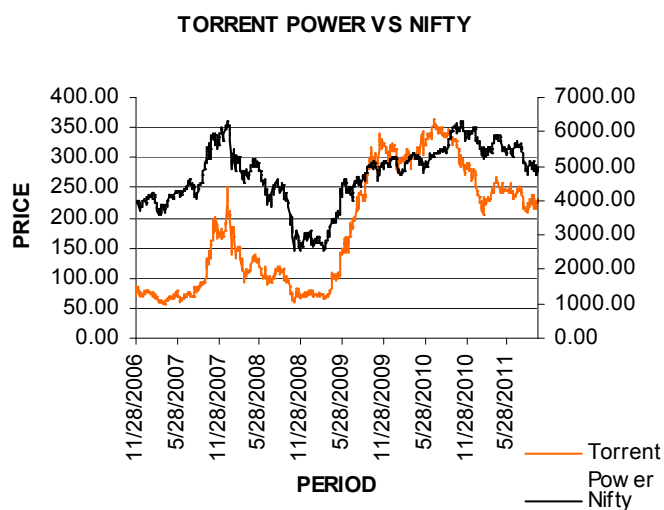
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## Torrent Power Ltd

BUY



Target Price 316.00

CMP 238.65

### Stock Data

NSE Code	TORNPOWER
BSE Code	532779
Bloomberg Code	TPW:IN
Reuters Code	TOPW.NS
52 Week High	335.10
52 Week Low	184.60
Market Cap (cr)	10932.45
Face Value	10.00
DPS	5.50
M Cap/Sales	1.67 times
Stock Beta	0.726
PE Multiple	9.27
P/BV	2.36
EV/EBITDA	6.14
Upside %	32.00

### Powering India to go the extra mile

- Strong Performance:** Even in the midst of slowing growth in the global as well as domestic economy, the company was able to perform well by increasing its revenues consistently by 12%. Profitability of the business has slowly started to improve over the years with the company able to improve its expertise in the field. The company is currently expanding its presence mainly in Gujarat where much of its operations are stationed. The prospects of Gujarat have been improving, and looking forward, Revenue visibility seems to be quite certain at least for the next ten years. The company has also been able to efficiently use the plants in comparison with its peers.
- Indian Economy's fast growth:** Generally the demand for power is linked to the overall development of the economy. But with the power shortages and the fast growth trajectory of our economy, India continues to remain very much power deficient. Indian power sector is currently positioned for private players to take advantage of the opportunities leading way for the company to outperform even in the midst of a global recession.
- Reduction in T&D Losses:** One of the most problems faced by the power industry is the Transmission and Distribution losses in the country. This is due to power theft and poor infrastructure in the rural areas. The company enjoys one of the lowest power T&D loss in the industry.
- High growth in numbers:** The company witnessed an increase in its FY 2010-2011 revenue by 12.23% to Rs. 6,535.64 Crores, increase in PBDIT by 17.68% to Rs. 2,160.40 Crores. Increase in PAT by 27.40% to Rs. 1,065.72 Crores.
- Entrance into the Renewable energy sector:** Entry into renewable energy sector by signing agreement with Enercon (India) Limited to commission the 44 MW Wind power generation project at Lalpur, District Jamnagar, Gujarat.

### Share Holding Pattern



**Company Description:**

Torrent Power is one of the leading brands in the Indian power sector, promoted by the Rs. 9592 crore Torrent Group – a group committed to its mission of transforming life by serving two of the most critical needs - healthcare and power. Torrent Pharmaceuticals Ltd., the flagship company of the Torrent Group, is a major player in the Indian pharmaceuticals industry with a vision of becoming a global entity in the arena. With an all-round experience in generation, transmission and distribution of power, and a proven track record of implementing large power projects, Torrent Power is the most experienced private sector player in Gujarat. Torrent power entered into the power generation business by acquiring two of India's oldest companies- The Surat Electricity Company Ltd and The Ahmedabad Electricity Company Ltd. Torrent turned them into first rate power utilities comparable with the best, in terms of operational efficiencies and reliability of power supply.

**Economic Outlook**

Despite concerns about such high inflation, which will be impacting the cost of all commodities including power, India has envisaged 8% GDP growth rate in the years to come. Achieving the planned target requires synchronized efforts from various sectors of the economy. Rapid economic growth has increased the burden on India's infrastructure, which is one of the country's weak spots. An infrastructure deficit is widely considered to be one of the factors that could severely impede India's economic growth. Going forward the government is likely to continue to give strong emphasis to power in the coming years. The government has taken steps for the development of infrastructure in our country. Though there has been a substantial progress in the Much progress is evident in sectors like telecommunication, roads, airports and ports but Power sector continues to lag behind despite various reforms. As the power sector is lagging behind, the government is likely to allocate more revenues for the power development in the coming years to bridge the current demand supply gap in the sector.

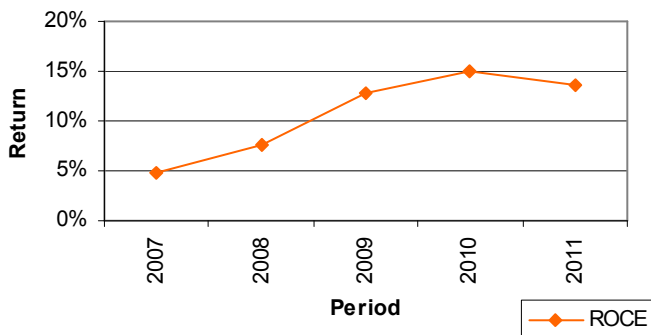
**Industry Analysis**

The infrastructure industry has been growing at a fast pace for the past few years. The growth of the infrastructure in India is very important for the overall healthy growth and development of the economy. Electricity, railways, roads, ports, airports, irrigation, urban and rural water supply and sanitation, already suffer from a substantial deficit from the past in terms of capacities as well as efficiencies in the delivery of critical infrastructure services. Power is an important factor for all these sub sectors. Over the past few years renewable energy has been given more importance by the government and this sub sector seems to be having good prospects in the long term.

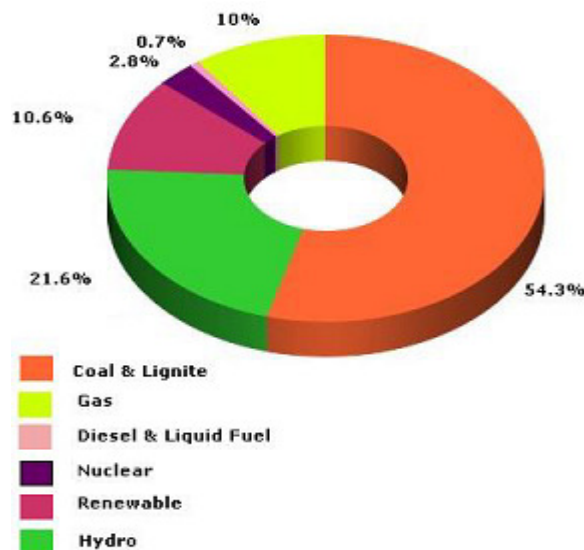
**Generation**

Much of the generation of power is presently in the western part of India. The eastern region is much power deficient and would need a lot of infrastructure spending for India's economic growth to be balanced. Until recently, the role of the private sector was very meager and there was barely any major incentive for the private sector to enter this highly regulated and capital intensive sector. The generation sector has seen high private participation after it was de-licensed by the enactment of the Electricity Act, 2003. The private sector is expected to install about 19,797 MW during the current plan period, contributing about 32% of the capacity to be added.

**Return On Capital Employed**



**FUEL MIX 2010-2011**



**Transmission**

According to the statistics of Central Electricity Authority, transmission lines have grown by over two and half times from around 156,000 ckt. Kms, in March 1985 to more than 403,000 ckt. Kms. in March 2010. From 1997 to 2010, the network had grown by almost 60%. The target is to take the line length to at least 450,000 ckt. Kms by 2012, through additions at 220 kV and above voltages. The country's transmission segment has been undergoing radical changes in the last couple of years. In future, Inter State Transmission System (ISTS) schemes would be built through competitive bidding and many private sector entities would own and operate ISTS elements. The central transmission utility (CTU) - Power Grid Corporation of India Limited- has begun work on introducing ultra high voltage technologies and has initiated a few pilot projects to implement smart grid technologies.

**Distribution**

Power distribution is the final and most crucial link in the power sector value chain and unfortunately, the weakest one in the country. For quite some time, this segment has been struggling with persistently high systemic losses of about 27% to 30%. The sector currently suffers from huge losses arising from technical as well as non-technical factors. It is also plagued by power thefts, technical problems, corruption, dilapidated networks, inadequate metering, poor recovery of dues, lack of consumer orientation and poor operational and financial management. Much more investments are needed for the efficient functioning of the sector.

**Company Performance**

**Generation**

SUGEN Mega Power Plant Near Surat: Out of its total capacity of 1147.5 MW, the power plant caters to the power needs of Ahmedabad, Gandhinagar and Surat to the extent of 835 MW. Additionally, 100 MW is sold on interstate basis, the surplus being sold to others including on short term basis.

AMGEN Power Plant at Ahmedabad: During the year from its 500 MW capacity, the Company achieved Plant Availability Factor of 92.98% (Previous Year-95.81%) and Plant Load Factor of 82.53% (Previous Year - 93.44%) and dispatched 3,327 MUs.

**Distribution**

The distribution sector is still unorganized and the company has expanded its presence in the sector. The main operations of the company are in Ahmedabad, Surat, Bhiwandi and Agra. This division of the company is yet to become fully profitable and is expected to be witnessing growth momentum in the next few years.

### Future Growth Plans

- The company has ambitious plans to expand into the renewable power sector due to India's huge unexplored renewable power resources which mainly include wind and solar power. The Lalpur Wind Project which will include conceptualizing the 44 MW wind power generation project. This is likely to provide a huge growth potential in the near future.

### Risk and Concerns

- Increases in the fuel prices are detrimental for the overall sector. This could affect the profit margins in the coming quarters.
- Transmission risk is likely to be another risk that the company is mainly facing. Power loss has to be tackled effectively for improving the profitability in the long term. Sizable investments will have to be made in this area in the future.
- The Company also bears the risk of adequate availability of technical personnel, which it proposes to overcome through pro-active recruitment and training.
- Transmission and Power Loss continues to be a problem in the power sector.
- Being a capital intensive industry, the company would need to raise capex in the coming years for further expansions. The company already has a substantial amount of debt in its Balance Sheet.

### Future Prospects

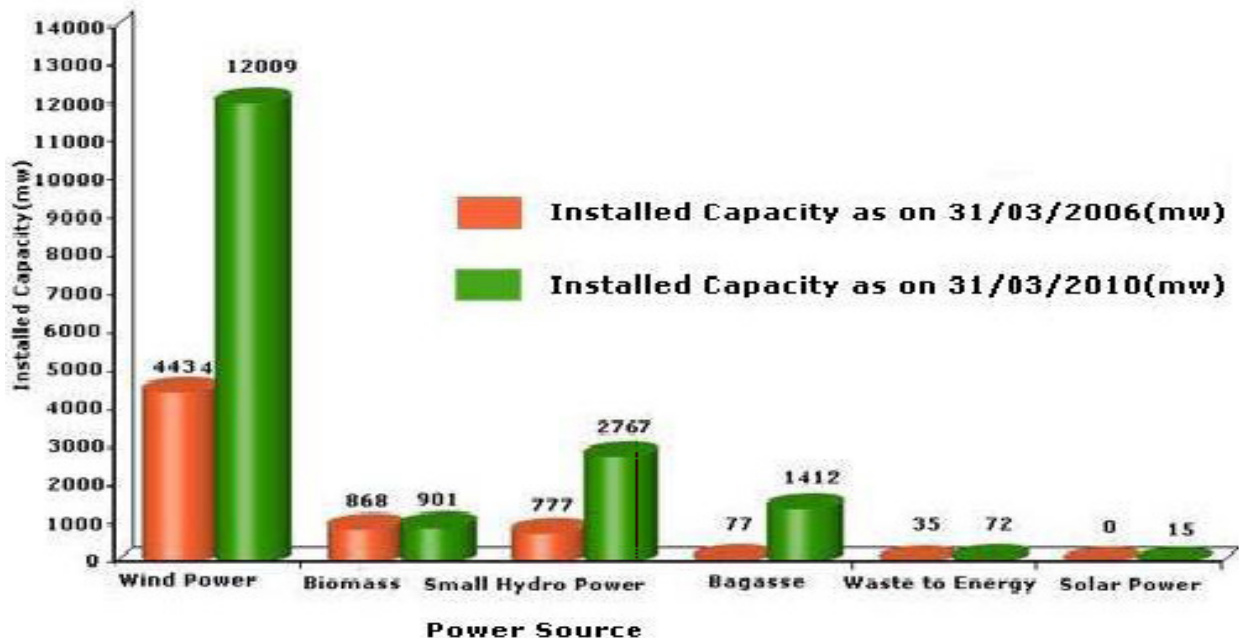
- Torrent Power's latest initiative is a special purpose vehicle – Torrent Power Generation Ltd. for the implementation of a mega power generation plant. This 1100 MW SUGEN Combined Cycle Power Plant is Torrent's answer to the growing demand for power. This project is one of the first Greenfield mega power projects to be setup with LNG as the fuel. LNG has been acknowledged as the most eco-friendly fuel and also offers the benefit of lower generation cost per unit.

### Q2FY12 Results Highlights

Torrent Power has posted consolidated net profit of Rs 3.07 billion for the quarter ended Sept. 30, 2011 as compared to Rs 2.18 billion for the quarter ended Sept. 30, 2010, representing an increase of 40.83%. Total income has increased from Rs. 17.45 billion for the quarter ended September 30, 2010 to Rs. 20.31 billion for the quarter ended September 30, 2011, representing a rise of 16.39%.

### Investment Rationale:

We feel that the company has the ability to outperform in the power generation and distribution space. The company a private player has been able to grow much faster than many of the PSU peers. The Q2FY12 results have been quite impressive. Looking forward the company has started to increase its profitability and we feel that going forward the company should be able to provide higher ROE in the subsequent quarters. The revenue stream for the company seems to be predictable and the profitability of the company is likely to improve in the coming years as the plants begin to operate in full capacity. We are bullish in the prospects of the company and feel that once the interest rate cycle and the capex cycle peak out, the company could see a surge in earnings. The state of Gujarat has emerged as an industrial hub for India. The prospects of the state look to be quite intact and this is likely to continue in the coming years. In the onset of these developments we feel that the company is strategically positioned to take advantage of the situation. The valuation of the stock is also quite reasonable when in comparison to many PSU peers in the sector providing much comfort for entry at these levels. The Return on Equity is also likely to improve after the plants come into full utilization. We have valued the stock in a DCF valuation methodology and recommend a "Buy" on the stock with a one to two year horizon.



## KEY FINANCIALS

PROFIT & LOSS ACCOUNT	FY10A	FY11A	FY12E	FY13E	FY14E
<b>Income</b>					
Net Sales	5824.18	6535.43	7188.97	8087.59	9138.98
Other Income	132.48	391.59	195.80	244.74	305.93
Total Income	5956.66	6927.02	7384.77	8332.34	9444.91
<b>Expenditure</b>					
Electrical Energy Purchased	1395.04	1475.86	1689.41	1941.02	2193.36
Administration & Other Expenses	2725.76	3290.76	3019.37	3073.29	3564.20
Service line contribution APDRP Grant and Others	(16.04)	(21.72)	(28.45)	(37.27)	(48.83)
Total Expenses	4104.76	4744.90	4680.32	4977.03	5708.73
Operating Profit	<b>1719.42</b>	<b>1790.53</b>	<b>2508.65</b>	<b>3110.56</b>	<b>3430.25</b>
<b>EBITDA</b>	1851.90	2182.12	2704.44	3355.30	3736.18
Interest	314.06	338.90	360.35	447.95	446.63
<b>PBDT</b>	<b>1537.84</b>	<b>1843.22</b>	<b>2344.09</b>	<b>2907.35</b>	<b>3289.55</b>
Depreciation	351.39	414.40	488.95	520.73	545.79
<b>Profit Before Tax</b>	<b>1186.45</b>	<b>1428.82</b>	<b>1855.14</b>	<b>2386.62</b>	<b>2743.76</b>
Tax	349.90	363.10	519.44	668.25	768.25
<b>Reported Net Profit</b>	<b>836.55</b>	<b>1065.72</b>	<b>1335.70</b>	<b>1718.37</b>	<b>1975.51</b>
Contingency Reserve	1.00	1.00	1.00	1.00	1.00
Profit after Contingency Reserve	835.55	1064.72	1334.70	1717.37	1974.51
Balance brought over from previous year	229.12	499.40	862.12	1503.07	2285.74
<b>Profit available for Appropriation</b>	<b>1064.67</b>	<b>1564.12</b>	<b>2196.82</b>	<b>3220.43</b>	<b>4260.25</b>
General Reserve	400.00	400.00	400.00	450.00	450.00
Proposed Dividend	141.73	259.85	252.15	416.05	686.48
Corporate Dividend Tax	23.54	42.15	41.60	68.65	113.27
<b>Balance carried to Balance Sheet</b>	<b>499.40</b>	<b>862.12</b>	<b>1503.07</b>	<b>2285.74</b>	<b>3010.50</b>
<b>Key Financial Ratios</b>					
<i>Earning Per Share</i>	17.71	22.56	28.27	36.38	41.82
<i>Cash EPS</i>	25.14	31.33	38.62	47.39	53.37
<i>Earnings Yield</i>	7.42%	9.45%	11.85%	15.24%	17.52%
<i>DPS</i>	3.00	5.50	5.34	8.81	14.53
<i>Dividend Yield</i>	1.26%	2.30%	2.24%	3.69%	6.09%
<i>P/E</i>	13.48	10.58	8.44	6.56	5.71
<i>P/BV</i>	2.85	2.36	1.79	1.54	1.31
<i>ROCE</i>	11.70%	13.58%	14.37%	15.57%	16.00%
<i>ROIC</i>	19.15%	18.19%	21.41%	22.12%	21.56%
<i>Debt Equity</i>	0.81	0.64	0.48	0.51	0.43
<i>PAT Margin</i>	14.36%	16.31%	18.58%	21.25%	21.62%
<i>EBITDA Margin</i>	31.80%	33.39%	37.62%	41.49%	40.88%
<i>PBT Margin</i>	20.37%	21.86%	25.81%	29.51%	30.02%
<i>EV/EBITDA</i>	7.18	6.14	4.76	3.91	3.45
<b>BALANCE SHEET</b>	<b>FY10A</b>	<b>FY11A</b>	<b>FY12E</b>	<b>FY13E</b>	<b>FY14E</b>
<b>Sources Of Funds</b>					
Equity Share Capital	472.45	472.45	472.45	472.45	472.45
Reserves & Surplus	3487.70	4314.68	5817.75	6834.06	8155.12
<b>Networth</b>	<b>3960.15</b>	<b>4787.13</b>	<b>6290.20</b>	<b>7306.51</b>	<b>8627.57</b>
Secured Loans	3133.31	2818.51	2677.58	3293.71	3129.02
Unsecured Loans	57.98	240.99	325.34	439.20	592.93
Deferred Tax Liability	258.94	358.29	462.19	445.41	574.58
<b>Other Fund</b>					
Service Line & Security Deposits from Customers	424.05	465.92	343.66	378.03	415.83
<b>Current Liabilities &amp; Provisions</b>					
Current Liabilities	876.98	974.32	1016.55	1121.46	1282.38
Provisions	358.04	433.97	426.95	471.01	538.60
<b>Total Liabilities</b>	<b>9069.45</b>	<b>10079.13</b>	<b>11542.47</b>	<b>13455.32</b>	<b>15160.90</b>
<b>Application Of Funds</b>					
Gross Block	7590.53	8080.69	8890.02	9467.88	9923.41
Less: Accum. Depreciation	1058.72	1466.46	1955.41	2476.14	3021.93
Net Block	<b>6531.81</b>	<b>6614.23</b>	<b>6934.61</b>	<b>6991.73</b>	<b>6901.48</b>
Capital Work in Progress	170.67	537.71	749.05	1344.41	2098.46
Investments	358.17	964.37	1035.42	1594.28	2123.42
<b>Current Assets Loans and Advances</b>					
Inventories	144.05	263.45	397.81	363.94	411.20
Sundry Debtors	542.94	609.30	831.58	868.32	1076.20
Cash and Bank Balance	1171.43	926.27	1413.81	1894.45	2112.12
Loans and Advances	150.38	163.80	180.18	398.20	438.02
<b>Total Assets</b>	<b>9069.45</b>	<b>10079.13</b>	<b>11542.47</b>	<b>13455.33</b>	<b>15160.90</b>

<b>CASH FLOW STATEMENT</b>	<b>FY10A</b>	<b>FY11A</b>	<b>FY12E</b>	<b>FY13E</b>	<b>FY14E</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Net Profit before Tax	1186.45	1428.82	1219.32	1509.15	1804.88
Depreciation	335.35	392.68	319.98	375.87	448.53
Movements in working capital	85.60	(8.31)	75.66	62.50	123.20
Others	285.80	142.90	235.79	224.00	190.40
Cash generated from operations	1893.20	1956.09	1850.74	2171.52	2567.01
Tax Paid	(227.35)	(248.01)	(341.41)	(422.56)	(505.37)
<b>Net cash flow from operating activities</b>	<b>1665.85</b>	<b>1708.08</b>	<b>1509.33</b>	<b>1748.96</b>	<b>2061.64</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Purchase of fixed assets, net of reimbursements	(560.49)	(865.40)	(405.90)	(564.63)	(601.33)
Others	13.14	(594.98)	(705.73)	(670.45)	(838.06)
<b>Net Cash used for investing activities</b>	<b>(547.35)</b>	<b>(1460.38)</b>	<b>(1111.64)</b>	<b>(1235.08)</b>	<b>(1439.39)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Borrowings from banks net	386.90	285.96	(56.58)	(620.01)	56.54
Dividend Paid	(109.94)	(164.49)	(252.15)	(416.05)	(686.48)
Interest expense	(320.15)	(347.66)	(360.35)	(285.95)	(292.73)
Others	(376.43)	(331.20)	212.00	316.98	483.56
<b>Net Cash generated from financing activities</b>	<b>(419.62)</b>	<b>(557.39)</b>	<b>(457.08)</b>	<b>(1005.03)</b>	<b>(439.12)</b>
<b>NET CHANGE IN CASH &amp; CASH EQUIVALENTS</b>	<b>698.88</b>	<b>(309.69)</b>	<b>(59.38)</b>	<b>(491.15)</b>	<b>183.14</b>

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