

27th Feb 2024

Torrent Power Ltd. – BUY

CMP : Rs. 1,150
Target Price : Rs. 1,460
Upside : 27%
Stop Loss : Rs. 980 (Closing basis)

Investment Thesis

- Torrent Power Limited (TPL) enjoys a strong market position, being the sole power distribution licensee for Ahmedabad, Surat, Gandhinagar, and Dadra Nagar Haveli and Daman & Diu (DNHDD); second licensee for Dahej Special Economic Zone (SEZ) and Dholera Special Industrial Region (DSIR); and the power distribution franchisee for Bhiwandi, Agra and Shil, Mumbra and Kalwa (SMK).
- With the takeover of DNDD, TPL now sells power directly to more than 4.03 million consumers across the domestic, industrial and commercial divisions.
- An urban-centric and diversified customer base enables collection efficiency of nearly 100% in Ahmedabad, Gandhinagar, Surat and Dahej SEZ.
- Its high operational efficiency is reflected in low transmission and distribution (T&D) losses across circles (3.7% for Ahmedabad, 3.2% for Surat [Gujarat] and 0.5% for Dahej in the distribution licence business; and 10% for Bhiwandi [Maharashtra] and 9.5% for Agra [Uttar Pradesh] in the distribution franchise business) in FY23.
- For the SMK (Maharashtra) franchise distribution circle, the T&D losses dropped to 33.5% in FY23 from 44.9% at the time of takeover in FY21.
- Regulated businesses, on average, accounted for about 60% of the revenue and 77% of the Ebitda over the last three fiscals.
- The Prime Minister on February 19, 2024 laid the foundation stone for four projects entailing an investment of approx. Rs.25,000 crs being developed by TPL in the areas of Pumped Storage Hydro, Green Hydrogen and Solar Energy Generation in Uttar Pradesh.
- Increase in contribution from (DNHDD), ramp-up of the Dholera Special Industrial Region (DSIR; Gujarat) and Dahej (Gujarat), further lowering of T&D losses in SMK and increased contribution from the renewables segment are likely to enhance return profile in the long term.
- It will continue to benefit from stable cash flow, backed by regulated tariff structure and high operating efficiency, and the performance of its distribution and generation businesses (Ahmedabad and Surat plants)

Financials

- Torrent's revenue increased at a CAGR of 28.28% over a period of 3 years. Operating and net profit have increased at a CAGR of 11.26% and 18.65% over the same time period

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue* (Rs in Crs)	12,173	14,258	25,694	26,978	31,025
EBITDA*(Rs in Crs)	3,477	3,615	4,789	4,540	5,276
Adj. PAT * (Rs in Crs)	1,296	459	2,165	1,888	2,342
Adj. EPS (Rs.) *	26.86	9.45	44.06	39.29	48.74
PE Multiple (x)	15.80	52.08	11.57	28.5	30.00
RoE (%)	12.67	4.56	19.23	14.64	15.37

Stock Data

Market Cap (Rs. Crs)	53,800
Market Cap (\$ Mn)	6,725
Shares O/S (in Mn)	480.61
Avg. Volume (3 month)	9,20,000
52-Week Range (Rs.)	1,237 / 484

Shareholding Pattern

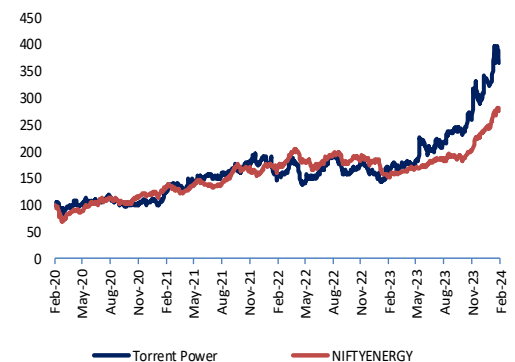
Promoters	53.56 %
FII's	6.13 %
Institutions	21.62 %
Others (incl. body corporate)	18.69 %

Key Ratios

Div Yield	1.16%
TTM PE	29x
ROE	19.6%
TTM EPS (Rs.)	38.5 /-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	11.5	67.5	121.8
NIFTYENERGY	(1.4)	14.5	40.2



- Transmission and distribution accounted for 75% of FY23 revenues, followed by generation (22%), and renewables(3%)
- In Q3FY24, TPL reported revenue and net profit of Rs.6,366 crs and Rs.374 crs, down 1.19% YoY and 46% YoY, respectively. The decrease was mainly due to a reduction in net gain from trading of LNG and merchant power sales.
- TPL expects to commission its 300MW solar plant earlier than expected, by Apr2024, with an improved return profile given the recent reduction in solar module prices. Additionally, the 175MW hybrid project is on track to be commissioned by Dec'25 and will cater to 100% merchant sales, like the Dahej (DGEN) plant.

Key Business Highlights

- TPL is a Rs.25,694 crs integrated power utility of the Rs.37,600 crs Torrent Group, one of the largest companies in the country's power sector with presence across the entire power value chain; from generation to transmission and distribution.
- It has an aggregate installed generation capacity of 4,287 MW comprising of 2,730 MW of gas-based capacity, 1,195 MW of renewable capacity and 362 MW of coalbased capacity. Further, Renewable projects of 977 MW are under development. Total generation capacity, including projects under advanced stages of development, is 5,264 MW
- It distributes nearly 28 billion units to over 4.03 million customers in the cities of Ahmedabad, Gandhinagar, Surat, Dahej SEZ and Dholera SIR in Gujarat, Union Territory of Dadra and Nagar Haveli and Daman and Diu (DNH & DD); Bhiwandi, Shil, Mumbra and Kalwa in Maharashtra and Agra in Uttar Pradesh.
- Its power generation plants are in Sabarmati (AMGEN; a 362-MW coal-based station) in Ahmedabad, Surat (1,147.5 MW gas-based SUGEN plant with 382.5 MW expansion), and DGEN (1,200 MW gas-based combined cycle power plant in Dahej).

Valuation

It is trading at P/E of 29.6 vs industry PE of 26, which suggests a reasonably premium valuation. We forecast company's revenues will grow 5% in FY24 and 10% in FY25 on the back of increased electricity demand from industries and residences in TPL's area of operations. The operating and net profit margin are maintained as per FY23 due to increased operational efficiencies of the company. We are valuing Torrent Power at FY25E EPS of Rs.48.74 to arrive at a **BUY** rating with a **target price of Rs.1,460**, translating to an **upside of ~27%**.

Risk & Concern

- The 1,200 MW DGEN plant, which accounts for about 30% of the operational power generation capacity, has been stranded because of lack of approved power purchase agreements (PPAs) and non-availability of LNG at affordable prices. The unit operated at limited plant load factor (PLF) in FY20, FY21 and H1FY24, aided by favourable LNG prices and bilateral contracts.
- Regulatory changes in power tariffs, and environmental regulations can impact profitability and operational costs
- Coal and gas price fluctuations can affect generation costs and margins.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Crs)

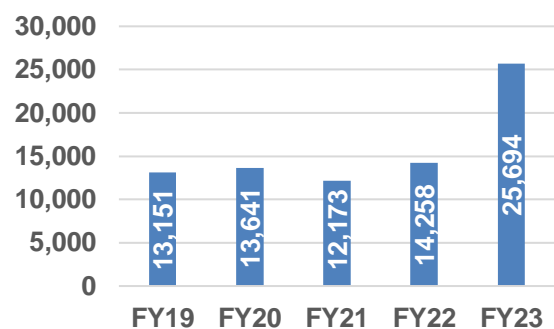


Figure 2: EBITDA & EBITDA Margin Trend

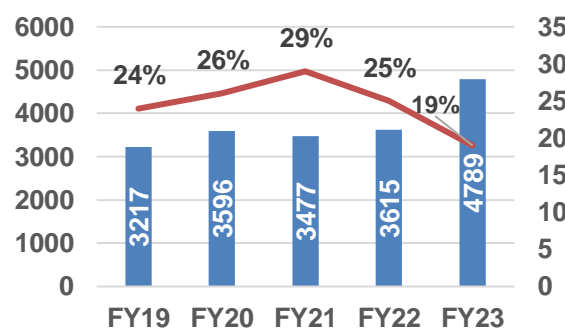


Figure 3: PAT & PAT Margin Trend

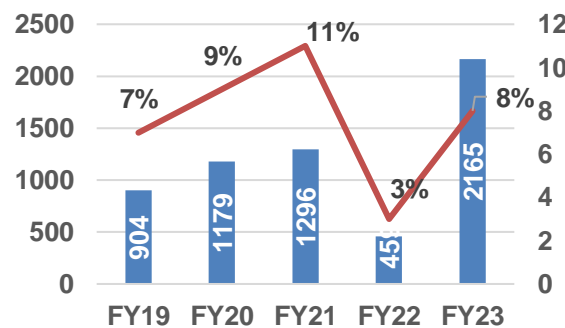
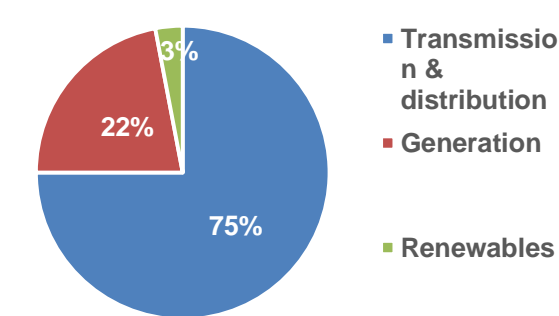


Figure 4: Segment-wise Revenue (FY23)



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