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India | Equity Research | Company Update

Torrent Power

Power/Mining

Priced to perfection; resume coverage with HOLD

Torrent Power has one of the best track records of operating power distribution assets. It is operating five distribution areas – two distribution licensee and three distribution franchisees. It has reduced distribution losses in its areas yielding superior returns in almost all the assets. In addition, it operates 2.8GW of gas-based power plant. The recent decline in gas prices and strong merchant prices bode well for the economics of gas-based power plant. We are baking in improvement in gas-based power plant in FY25-26E. Moreover, it may triple down on renewable assets. It is operating 1.1GW and has tied up further 2GW of assets. However, our TP is factoring in all upsides. We resume coverage on the stock with **HOLD** rating and target price of INR 1,510 per share.

A stupendous track record in distribution

Torrent Power is operating in Ahmedabad and Surat areas with 4.2% and 2.8% of distribution losses. Over the last five years, it has brought down losses by ~300 bps. It is reporting 9.7% and 9.2% loss margins in Bhiwani and Agra franchisee, respectively in FY24. The loss margins declined by 350bps and 277bps in Bhiwani and Agra, respectively over the last 5 years. Lower the losses, higher the profit for distribution assets.

An improvement in economics of gas-based power plant

Torrent Power operates 2.8GW of gas-based power plant. A significant part of operating gas-based power plants (~1.5GW) is operating on merchant basis. Lower gas prices are likely to improve the profitability of gas-based power plant's portfolio. In Q4FY24, gas-based power plant's PLF had improved.

Tripling down on renewable portfolio

Torrent Power is operating 1GW of renewable assets. It has also entered into PPA for additional portfolio of 2GW. As a result, we estimate locked in EBITDA of the portfolio at INR 30bn (from currently INR 10bn).

FY24 profit was muted

FY24 profit came in at INR 18.3bn, down 15% YoY, with profit margin at 6.7%, down 168 bps YoY.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	256,941	271,832	296,741	315,440
EBITDA	47,587	45,592	45,230	51,516
EBITDA Margin (%)	18.5	16.8	15.2	16.3
Net Profit	21,599	18,332	26,535	30,155
EPS (INR)	44.9	38.1	55.2	62.7
EPS % Chg YoY	55.9	(12.4)	40.0	13.6
P/E (x)	35.1	40.1	28.6	25.2
EV/EBITDA (x)	17.9	18.9	17.7	15.8
RoCE (%)	13.5	11.5	13.5	15.2
RoE (%)	20.7	16.4	20.7	21.0

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Market Data

Market Cap (INR)	760bn
Market Cap (USD)	9,092mn
Bloomberg Code	TPW IN
Reuters Code	TOPO.BO
52-week Range (INR)	1,633 /588
Free Float (%)	35.0
ADTV-3M (mn) (USD)	32.2

Price Performance (%)	3m	6m	12m
Absolute	36.4	67.2	132.4
Relative to Sensex	32.6	57.3	110.5

Valuation and outlook

Torrent Power is one of the leading distribution franchises in India with distribution largely based out of Gujarat and surrounding areas. It has gas-based generation capacities (1.1GW tied up with these discoms) but its 1.2GW capacity has been stranded due to lack of demand. However, in FY23, Torrent Power benefited from high gas prices as its generation capacities were not utilised for distribution (owing to high energy costs) and it could sell the gas (fuel) in open market. However, as gas prices have corrected in FY24, profit has remained muted largely owing to reduced gas trading profit.

Parallel license could provide a major fillip to distribution business in domestic market as most distribution companies are making huge operating and financial losses. With expertise in this sector, Torrent Power can gain major share at the expense of public discoms by offering better services. It has already applied for three parallel licenses around Mumbai and expects the approvals by H2FY25.

Recently, it has also applied for setting up PSP projects in Maharashtra; however, there is not much clarity regarding the regulatory structure and the timelines for project execution.

We resume coverage on the stock with **HOLD** rating and an SoTP-based target price of INR 1,510/share.

Key Risks: a) benefits from increased gas prices b) delay in execution of the Maharashtra PSP

Exhibit 1: SoTP based target price of INR 1510/share

Valuation Scenarios	Valuation Methodology	Parameters	Value
Distribution assets			
Surat & Ahmedabad License Area (includes AMGEN)	3x Regulated equity	INR 50bn regulated equity	168,628
Bhiwandi	10xFY26 earnings	INR 3.7bn profit per annum	44,915
Agra	10xFY26 earnings	INR 4.9bn profit per annum	58,959
Shil, Mumbai and Kalwa	2x Invested equity	2x Invested equity	5,095
Generation assets			
Sugen	2.5x Regulated equity	INR 8bn regulated equity	18,818
Unosugen	2.5x regulated equity	INR 5bn Invested equity	10,664
DGEN	7xFY26E EBITDA	INR 6.6bn EBITDA	45,950
Renewables	15XEV/EBITDA	15XEV/EBITDA	322,867
Transmission			
Transmission		2.5x invested equity	10785
Current Assets (regulatory assets + carrying cost)			26000
Cash		At 1x	12,882
Total			725,564
Value/Share (INR)			1510

Source: I-Sec research

Exhibit 2: Thermal capacity details

Particulars	SUGEN	UNOSUGEN	Amgen	DGEN
Capacity (MW)	1,148	383	362	1200
Plant Type	Gas-based CCPP	Gas-based CCPP	Coal Based	Gas-based CCPP
Location	Near Surat, Gujarat	Near Surat, Gujarat	Ahmedabad, Gujarat	Near Bharuch, Gujarat
COD	August'09	April'13	Apr-88	November'14
Fuel	Domestic and imported	Domestic and imported	Domestic and imported	Imported LNG
PPA	885	278	Embedded generation for licensed area	No tie-up

Source: I-Sec research, Company

Exhibit 3: Distribution license business highlights

Particulars	Ahmedabad	Surat	Dahej	Dholera SIR	DDNDH
Licensed Area	356 sq. km.	52 sq. km.	17 sq. km.	920 sq. km.	603 sq. km.
Peak Demand (FY24)	1,900 MW	757 MW	115 MW	3	1,331 MW
License validity	Till 2025	Till 2028	Till 2034	Till 2044	Till 2047

Source: I-Sec research, Company

Exhibit 4: Distribution franchisee business highlights

Particulars	Bhiwandi	Agra	Shil, Mumbra, Kalwa (SMK)
Licensed Area	721 sq. km.	221 sq. km.	~65 sq. Km.
Peak Demand (FY24)	609 MVA	505 MVA	155 MVA
License validity	25th Jan 2027	31st March 2030	29th Feb 2040

Source: I-Sec research, Company

Exhibit 5: Operational RE assets details

Particulars	Solar	Wind
Capacity (MW)	315	921
Location	Gujarat, Maharashtra & Telangana	Gujarat, Maharashtra, Karnataka, Rajasthan & Madhya Pradesh
COD	FY 12 to FY17	FY 12 to FY 19
Avg Tariff (₹/kWh)	6.16	3.82
PPA	263	921
FY 24 PLF	18%	27%

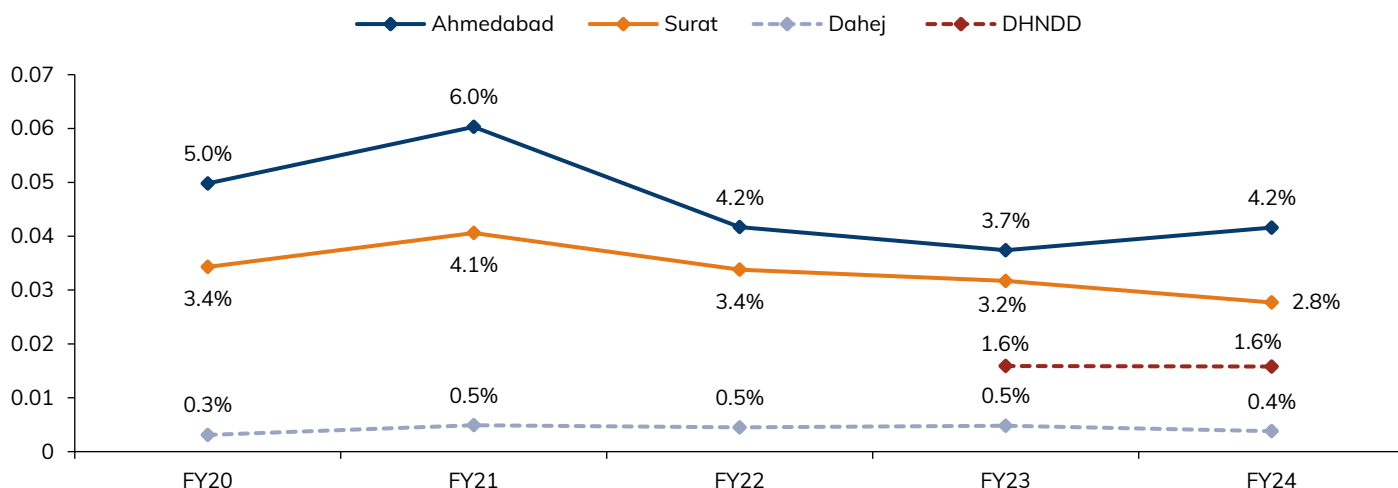
Source: I-Sec research, Company

Exhibit 6: Under-construction RE capacities

Project	Contracted Capacity (MW)	Installed Capacity (MW)	Tariff INR/unit	Off-taker	Expected project cost (INR m)	COD
TPLD Solar	300	420	2.22	Own Discom	18,000	Likely COD by Q1 FY25
MSEDCL Solar	306	425	3.1	MSEDCL	15,500	SCOD by September 2025
SECI XII Wind	300	300	2.94	SECI	25,000	SCOD by December 2025
SECI XVI Wind	100	102	3.6	SECI	9,250	SCOD: 24 months from PPA
Airpower Hybrid	200	200	Merchant	Merchant	14,000	COD progressively by Dec 2025
TPLD Hybrid	450	825	3.65	Own Discom	55,000	SCOD: 24 Months from PPA
REMCL Hybrid	100	368	4.25	REMCL	26,000	SCOD: 24 months from PPA
C&I Projects	288	435	Multiple	Multiple	19,000	COD progressively over 2 years
Total	2,044	3,075			181,750	

Source: I-Sec research, Company

Exhibit 7: Distribution losses trend at license businesses (%)



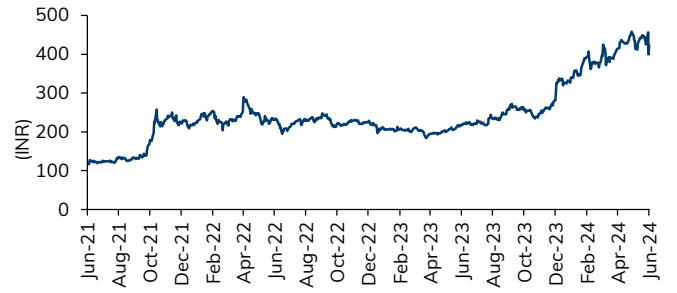
Source: I-Sec research, Company data

Exhibit 8: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	53.6	53.6	53.6
Institutional investors	27.8	27.8	27.9
MFs and others	16.0	16.4	16.0
FIs/Banks	0.1	0.1	0.1
Insurance	5.5	5.2	5.4
FIIIs	6.2	6.1	6.4
Others	18.6	18.6	18.5

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	256,941	271,832	296,741	315,440
Operating Expenses	12,236	15,041	15,793	16,583
EBITDA	47,587	45,592	45,230	51,516
EBITDA Margin (%)	18.5	16.8	15.2	16.3
Depreciation & Amortization	12,810	13,775	14,380	15,565
EBIT	34,777	31,817	30,850	35,951
Interest expenditure	8,182	9,434	4,050	4,787
Other Non-operating Income	3,819	3,443	2,837	2,854
Recurring PBT	30,414	25,826	29,637	34,018
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	8,767	6,866	3,101	3,863
PAT	21,647	18,960	26,535	30,155
Less: Minority Interest	(47)	(628)	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	21,647	18,332	26,535	30,155
Net Income (Adjusted)	21,647	18,332	26,535	30,155

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	80,004	91,008	128,718	141,074
of which cash & cash eqv.	11,313	13,561	30,551	36,721
Total Current Liabilities & Provisions	55,469	61,445	64,933	69,025
Net Current Assets	24,535	29,564	63,785	72,049
Investments	159	170	1,420	2,670
Net Fixed Assets	192,692	218,023	154,881	176,958
ROU Assets	-	-	-	-
Capital Work-in-Progress	26,247	24,724	24,880	25,041
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	-	-	-	-
Total Assets	243,633	272,480	244,966	276,718
Liabilities				
Borrowings	104,961	115,850	74,386	91,612
Deferred Tax Liability	9,688	12,337	9,337	6,337
provisions	-	-	-	-
other Liabilities	18,884	23,676	25,626	26,839
Equity Share Capital	4,806	4,806	4,806	4,806
Reserves & Surplus	105,294	115,811	130,811	147,124
Total Net Worth	110,100	120,617	135,617	151,930
Minority Interest	-	-	-	-
Total Liabilities	243,633	272,480	244,966	276,718

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	50,394	38,857	23,685	43,625
Working Capital Changes	2,482	(2,780)	(17,231)	(2,094)
Capital Commitments	(47,803)	(37,583)	48,605	(37,803)
Free Cashflow	2,592	1,274	72,289	5,823
Other investing cashflow	(11,662)	(8,747)	(1,750)	(1,750)
Cashflow from Investing Activities	(59,465)	(46,329)	46,855	(39,553)
Issue of Share Capital	-	-	-	-
Interest Cost	(8,182)	(9,434)	(4,050)	(4,787)
Inc (Dec) in Borrowings	13,977	10,890	(41,464)	17,226
Dividend paid	(14,995)	(9,228)	(11,535)	(13,842)
Others	23,323	17,494	3,500	3,500
Cash flow from Financing Activities	14,122	9,721	(53,549)	2,097
Chg. in Cash & Bank balance	5,052	2,248	16,990	6,170
Closing cash & balance	11,313	13,561	30,551	36,721

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	45.0	39.4	55.2	62.7
Adjusted EPS (Diluted)	44.9	38.1	55.2	62.7
Cash EPS	71.6	66.8	85.1	95.1
Dividend per share (DPS)	26.0	16.0	20.0	24.0
Book Value per share (BV)	229.1	251.0	282.2	316.1
Dividend Payout (%)	57.7	40.6	36.2	38.3
Growth (%)				
Net Sales	80.2	5.8	9.2	6.3
EBITDA	32.5	(4.2)	(0.8)	13.9
EPS (INR)	55.9	(12.4)	40.0	13.6
Valuation Ratios (x)				
P/E	35.1	40.1	28.6	25.2
P/CEPS	22.1	23.7	18.6	16.6
P/BV	6.9	6.3	5.6	5.0
EV / EBITDA	17.9	18.9	17.7	15.8
P / Sales	3.0	2.8	2.6	2.4
Dividend Yield (%)	1.6	1.0	1.3	1.5
Operating Ratios				
Gross Profit Margins (%)	23.3	22.3	20.6	21.6
EBITDA Margins (%)	18.5	16.8	15.2	16.3
Effective Tax Rate (%)	28.8	26.6	10.5	11.4
Net Profit Margins (%)	8.4	7.0	8.9	9.6
NWC / Total Assets (%)	5.4	5.9	13.6	12.8
Net Debt / Equity (x)	0.8	0.8	0.3	0.3
Net Debt / EBITDA (x)	2.0	2.2	0.9	1.0
Profitability Ratios				
RoCE (%)	13.5	11.5	13.5	15.2
RoE (%)	20.7	16.4	20.7	21.0
RoC (%)	13.5	11.5	13.5	15.2
Fixed Asset Turnover (x)	1.4	1.3	1.6	1.9
Inventory Turnover Days	15	11	11	11
Receivables Days	41	30	42	41
Payables Days	97	75	73	72

Source Company data, I-Sec research

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