

01 August 2024

India | Equity Research | Q1FY25 results review

Torrent Power

Power/Mining

Spark spread spike spurs profitability

Torrent Power (Torrent) is the largest private operator of gas-based power plants and a significant portion of it is untied. Hitherto, the untied capacity was a drag. However, the rise in electricity demand this summer has improved capacity utilisation of its untied capacity. Further, the spark spread (power prices – cost of gas) has improved to INR 3/unit. As a result, aided by the incremental contribution from merchant sales (~of INR 6bn), it reported 57% YoY growth in operating profit and 88% YoY growth in profit for Q1FY25. However, we do not expect contribution to decline in the next three quarters, leading to moderation in quarterly profit. During the current quarter, the losses in distribution assets increased. We maintain **HOLD** amid expensive valuations.

Strong performance led by merchant sales

Torrent reported strong revenue growth of 23% YoY to INR 90bn in Q1FY25, largely led by higher merchant sales of 1.7BU (vs. 400MU YoY). As a result, EBITDA grew 57% YoY to INR 18.6bn; thus, PBT grew to INR 13.1bn (vs. INR 7.1bn). Of the incremental PBT, INR 5.2bn was contributed by higher merchant sales and INR 1bn stemmed from an increase in regulatory income in distribution license areas; thus, pushing PAT up 88% to INR 10bn.

Strong growth in generation and discom sales

Generation grew 45% to 4.8BU in Q1FY25 led by higher generation from gas-based plants at 3.3BU (vs. 1.9BU YoY). Coal-based generation grew 13% YoY to 766MU and RE generation remained flat YoY at 750MU. Moreover, licensed distribution/distribution franchisee volumes grew 9%/5% YoY to 6.9BU/2BU. Distribution losses inched up slightly for the licensed business while that for franchisees remained on a downward trend.

Locked-in RE capacity grows to 3.4GW

Locked-in RE capacity has grown to 3.4GW, as of Jun'24 and another 1.2GW capacity is awaiting PPA finalisation. Expect RE addition of 2.4GW over the next two years.

Maintain HOLD

We maintain our **HOLD** rating on the stock with a revised TP of INR 1,825.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	2,56,941	2,71,832	3,10,897	3,34,474
EBITDA	47,587	45,592	53,087	62,584
EBITDA Margin (%)	18.5	16.8	17.1	18.7
Net Profit	21,599	18,332	24,746	30,144
EPS (INR)	44.9	38.1	51.5	62.7
EPS % Chg YoY	55.9	(12.4)	30.5	21.8
P/E (x)	41.4	47.3	36.3	29.8
EV/EBITDA (x)	18.1	19.1	15.7	13.5
RoCE (%)	13.5	11.5	14.3	16.8
RoE (%)	20.7	16.4	19.5	21.2

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Market Data

Market Cap (INR)	897bn
Market Cap (USD)	10,716mn
Bloomberg Code	TPW IN
Reuters Code	TOPO.BO
52-week Range (INR)	1,908 /620
Free Float (%)	35.0
ADTV-3M (mn) (USD)	17.6

Price Performance (%)	3m	6m	12m
Absolute	24.3	79.5	175.8
Relative to Sensex	14.6	65.5	152.9

Previous Reports

12-06-2024: [Q4FY24 results review](#)

Outlook and valuation

Torrent 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 a lack of demand. However, in FY23, Torrent 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 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 to come in by H2FY25.

Recently, it has also applied for setting up PSP projects in Maharashtra; however, there is little clarity regarding the regulatory structure and the timelines for project execution.

We maintain our **HOLD** rating on the stock with a revised SoTP-based target price of INR 1,825 (INR 1,510 earlier). The increase in target price is largely owing to increase in DGEN valuation owing to improved outlook on merchant volumes in the future.

Key risks: 1) Benefits from higher gas prices; and 2) delay in execution of PSP projects

Exhibit 1: SoTP-based valuation of INR 1,825/share (In INR mn)

Valuation Scenarios	Valuation Methodology	Parameters	Value
Distribution assets			
Surat & Ahmedabad License Area (includes AMGEN)	3x Regulated equity	Rs 50bn regulated equity	175,153
Bhiwandi	12xFY26 earnings	Rs3.7bn profit per annum	44,915
Agra	12xFY26 earnings	Rs4.9bn profit per annum	58,959
Shil, Mumbai and Kalwa	3x Invested equity	2x Invested equity	7,643
Generation assets			
Sugen	3x Regulated equity	Rs 8bn regulated equity	22,581
Unosugen	3x regulated equity	Rs 5bn Invested equity	15,995
DGEN	10xFY26E EBITDA	Rs15.2bn EBITDA	152,903
Renewables	15XEV/EBITDA	15XEV/EBITDA	349,419
Transmission			
Transmission		2.5x invested equity	10785
Current Assets (regulatory assets + carrying cost)			26000
Cash		At 1x	12,882
Total			877,236
Value/Share (INR)			1825

Source: I-Sec research, Company data

Exhibit 2: Quarterly financial highlights (INR mn)

(INR mn)	Q1FY24	Q4FY24	Q1FY25	% ch qoq	% ch yoy
Net sales	73,276	65,286	90,337	38%	23%
EBITDA	11,848	11,089	18,579	68%	57%
OPM (%)	16.2	17.0	20.6	358.1	439.8 bps
Other inc.	857	969	763	-21%	-11%
Interest	2,273	2,335	2,601	11%	14%
Depreciation	3,320	3,550	3,595	1%	8%
PBT	7,113	6,173	13,147	113%	85%
PAT	5,323	4,470	9,963	123%	87%
Reported PAT	5,173	4,302	9,722	126%	88%
EPS (INR)	11.1	9.3	20.7	123%	87%

Source: I-Sec research, Company data

Exhibit 3: Operating metrics trend

Operating metrics	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% ch qoq	% ch yoy
Own Generation (MU)							
AMGEN	675.0	705.0	577.0	761.6	765.6	1%	13%
SuGEN	1,094.0	989.0	643.0	890.0	1,500.9	69%	37%
UnsoSugen	509.0	402.0	136.0	259.2	493.2	90%	-3%
DGEN	283.0	78.0	131.0	473.0	1,332.4	182%	371%
Wind	505.0	743.0	398.0	419.5	570.8	36%	13%
Solar	263.0	89.0	109.0	176.5	172.1	-3%	-35%
Total	3,329.0	3,006.0	1,994.0	2,979.8	4,835.0	62%	45%
T&D Losses (%)							
Ahmedabad	9.2%	6.3%	3.6%	4.2%	9.9%	577 bps	73.0 bps
Surat	2.8%	2.4%	2.8%	2.8%	3.4%	63 bps	59.0 bps
AT&C Loses (%)							
Bhiwandi	9.4%	9.9%	9.9%	9.6%	10.7%	101 bps	129.0 bps
Agra	15.3%	11.4%	8.9%	9.2%	14.6%	539 bps	(70.0) bps
SMK	32.6%	30.7%	30.0%	30.0%	29.9%	(4) bps	(265.0) bps

Source: I-Sec research, Company data

Exhibit 4: Thermal asset details

Particulars	SUGEN	UNOSUGEN	Amgen	DGEN
Capacity (MW)	1,148	383	362	1200
Plant Type	Gas-based CCP	Gas-based CCP	Coal Based	Gas-based CCP
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 data

Exhibit 5: Licensed distribution asset details

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 data

Exhibit 6: Licensed franchisee details

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 data

Exhibit 7: Operational RE asset 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 data

Exhibit 8: RE capacity addition pipeline

Project	Contracted	Installed	Tariff INR/unit	Off-taker	Expected	COD
	Capacity (MW)	Capacity (MW)			project cost (INR mn)	
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	348	560	Multiple	Multiple	27,000	COD progressively over 2 years
Total	2,104	3,200			189,750	

Source: I-Sec research, Company data

Conference call highlights

Q1FY25 result operational and financial highlights

- Generation grew 45% to 4.8BU in Q1FY25 led by higher generation from gas-based plants at 3.3BU (vs 1.9BU YoY).
- Coal based generation grew 13% YoY to 766MU and RE generation remained flat YoY at 750MU.
- Licensed distribution and distribution franchisee volumes grew 9% and 5% YoY to 6.9BU and 2BU, respectively.
- Distribution losses inched up slightly for licensed business while that for franchisees remained on a downward trend.
- Torrent reported strong revenue growth of 23% YoY to INR 90bn in Q1FY25, largely led by higher merchant sales of 1.7BU (vs. 400MU YoY).
- EBITDA grew 57% YoY to INR 18.6bn; thus, PBT grew to INR 13.1bn (vs INR 7.1bn).
 - Of the incremental PBT, INR5.2bn was contributed by higher merchant sales
 - INR 1bn was from increase in regulatory income in distribution license areas.
- As a result, PAT grew 88% YoY to INR 10bn in Q1FY25.

Strong merchant sales

- Merchant sales for Q1FY25 stood at 1.7BU (vs 400MU YoY and 1.4BU for FY24).
- Merchant sales are a combination of sales under Section-11, NVVN tender, bilateral contracts and exchange sales.
- It expects a similar opportunity to arise again in the pre-winter season.

RE capacity addition

- Operational RE capacity stands at 1.3GW as of Jun'24, of which wind is 921MW and solar stands at 403MW

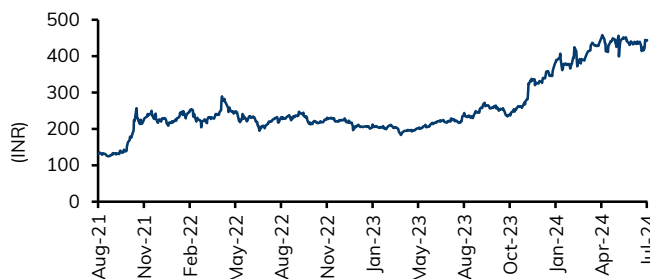
Moreover, it has RE capacity pipeline of 3.2GW, of which 2GW is locked-in capacity and expects to sign PPAs for the rest in the coming quarters.

Exhibit 9: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	53.6	53.6	53.6
Institutional investors	27.8	27.9	27.9
MFs and others	16.4	16.0	14.2
FIs/Banks	0.1	0.1	0.1
Insurance	5.2	5.4	5.2
FIIIs	6.1	6.4	8.4
Others	18.6	18.5	18.5

Source: Bloomberg

Exhibit 10: Price chart



Source: Bloomberg

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	2,56,941	2,71,832	3,10,897	3,34,474
Operating Expenses	12,236	15,041	15,793	16,583
EBITDA	47,587	45,592	53,087	62,584
EBITDA Margin (%)	18.5	16.8	17.1	18.7
Depreciation & Amortization	12,810	13,775	13,890	15,033
EBIT	34,777	31,817	39,196	47,552
Interest expenditure	8,182	9,434	9,479	10,366
Other Non-operating Income	3,819	3,443	3,459	3,476
Recurring PBT	30,414	25,826	33,177	40,661
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	8,767	6,866	8,431	10,517
PAT	21,647	18,960	24,746	30,144
Less: Minority Interest	(47)	(628)	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	21,647	18,960	24,746	30,144
Net Income (Adjusted)	21,647	18,960	24,746	30,144

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	80,004	91,008	1,14,343	1,22,176
of which cash & cash eqv.	11,313	13,561	11,493	11,527
Total Current Liabilities & Provisions	55,469	61,445	68,031	73,190
Net Current Assets	24,535	29,564	46,312	48,986
Investments	159	170	1,420	2,670
Net Fixed Assets	1,92,692	2,18,023	1,65,136	1,87,212
ROU Assets	-	-	-	-
Capital Work-in-Progress	26,247	24,724	24,880	25,041
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	-	-	-	-
Total Assets	2,43,634	2,72,480	2,37,748	2,63,910
Liabilities				
Borrowings	1,04,961	1,15,850	74,386	91,612
Deferred Tax Liability	9,688	12,337	9,337	6,337
provisions	-	-	-	-
other Liabilities	18,884	23,676	20,197	15,831
Equity Share Capital	4,806	4,806	4,806	4,806
Reserves & Surplus	1,05,294	1,15,811	1,29,022	1,45,324
Total Net Worth	1,10,100	1,20,617	1,33,828	1,50,130
Minority Interest	-	-	-	-
Total Liabilities	2,43,634	2,72,480	2,37,748	2,63,910

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	50,394	38,857	19,820	42,536
Working Capital Changes	2,482	(2,780)	(18,816)	(2,641)
Capital Commitments	(47,803)	(37,583)	38,840	(37,270)
Free Cashflow	2,592	1,274	58,660	5,266
Other investing cashflow	(11,662)	(8,747)	(1,750)	(1,750)
Cashflow from Investing Activities	(59,465)	(46,329)	37,090	(39,020)
Issue of Share Capital	-	-	-	-
Interest Cost	(8,182)	(9,434)	(9,479)	(10,366)
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	(58,978)	(3,482)
Chg. in Cash & Bank balance	5,052	2,248	(2,068)	34
Closing cash & balance	11,313	13,561	11,493	11,527

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	45.0	39.4	51.5	62.7
Adjusted EPS (Diluted)	44.9	38.1	51.5	62.7
Cash EPS	71.6	66.8	80.4	94.0
Dividend per share (DPS)	26.0	16.0	20.0	24.0
Book Value per share (BV)	229.1	251.0	278.4	312.4
Dividend Payout (%)	57.7	40.6	38.8	38.3
Growth (%)				
Net Sales	80.2	5.8	14.4	7.6
EBITDA	32.5	(4.2)	16.4	17.9
EPS (INR)	55.9	(12.4)	30.5	21.8
Valuation Ratios (x)				
P/E	41.4	47.3	36.3	29.8
P/CEPS	26.1	27.9	23.2	19.9
P/BV	8.1	7.4	6.7	6.0
EV / EBITDA	18.1	19.1	15.7	13.5
P / Sales	3.0	2.8	2.5	2.3
Dividend Yield (%)	1.4	0.9	1.1	1.3
Operating Ratios				
Gross Profit Margins (%)	23.3	22.3	22.2	23.7
EBITDA Margins (%)	18.5	16.8	17.1	18.7
Effective Tax Rate (%)	28.8	26.6	25.4	25.9
Net Profit Margins (%)	8.4	7.0	8.0	9.0
NWC / Total Assets (%)	5.4	5.9	14.6	14.2
Net Debt / Equity (x)	0.8	0.8	0.5	0.5
Net Debt / EBITDA (x)	2.0	2.2	1.2	1.2
Profitability Ratios				
RoCE (%)	13.5	11.5	14.3	16.8
RoE (%)	20.7	16.4	19.5	21.2
RoC (%)	13.5	11.5	14.3	16.8
Fixed Asset Turnover (x)	1.4	1.3	1.6	1.9
Inventory Turnover Days	15	11	11	11
Receivables Days	41	30	43	41
Payables Days	97	75	75	73

Source Company data, I-Sec research

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