

Pick of the Week

- In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.
 - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
 - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP	Target Price *	Potential Upside (%)	Reco
Tata Power	18,730	69.3	77.6	12%	Buy

* Note: Investment horizon Approx. 6-9 months., CMP as on 15th Feb, 2019.

CMP	Target
69.3	77.6

MARKET DATA

No. of Shares	: 270.5 cr
Market Cap	: Rs 18,730 Cr
52-week High / Low	: Rs 90/60
BSE Code	: 500400
NSE Code	: TATAPOWER

Investment Rationale

- Renewables on strong growth trajectory:** The company's renewable portfolio (minus EPC) reported 20% increase in EBITDA in Q3FY19 to Rs 4.7 bn on improvement in PLFs and capacity addition. Moreover, extension of Mumbai PPA for 5 years till FY24 reassures standalone regulated business to remain steady state.
- Underlying EBITDA on track:** Adjusting for the one-offs in the coal companies, Tata Power's underlying EBITDA stood at Rs 25 bn in Q3 (9M: Rs 74 bn – which reassures that TPWR is on track to deliver annualized underlying EBITDA of Rs 100 bn.
- Debt reduction plan to strengthen balance sheet:** Tata Power reduced debt by ~ Rs 3200 cr in Q3 with net D/E at 2.24 x. The company plans to reduce debt / equity to less than 2x by FY2020 through(a) pending receipts from sale of defense business (~ Rs 2200 cr) (b) receipts from Arutmin mine (~Rs 1800 cr) (c) stake sale in Tata Projects (estimated to fetch ~ Rs 3500 cr) and other non-core assets over next 2 years. This is expected to improve bottom line and key driver for EPS growth going forward.
- Mundra UMPP:** The company is undertaking measures such as a) blending low GCV coal (32% in Q3 vs. 10%,YoY), (b) competitive coal procurement, and (c) lower cost of funding by replacement of ECBs with rupee loans– to improve operational efficiencies of plant. Further the management remains optimistic on the tariff revision; outcome to emerge only post upcoming elections. Any positive outcome on tariff revision for Mundra UMPP to provide additional upside.
- We reiterate a BUY with a target of Rs. 77.6**

Financial Summary

Y/E	Sales	PAT	EPS	RoE	RoCE	DPS
March	(Rs Cr)	(Rs Cr)	(Rs)	(%)	(%)	(%)
FY18	26,840	2,408	8.9	8.9	8.6	1.3
FY19E	31,171	1,391	5.3	8.8	5.5	1.4
FY20E	32,432	1,707	6.3	9.4	5.5	1.6

Source: Reuters, Consensus Estimates

No of Stocks Matrix

No of Stocks	< 9m	>9m
Met Target	11	-
Not Met Target	28	-

Performance Matrix

% Return	< 9m	>9m
Met Target	10.68%	-
Not Met Target	(17.52%)	-

Benchmark Performance Matrix

% Return	< 9m	>9m
Met Target	2.25%	-
Not Met Target	(0.58%)	-

Note : performance of the pick of the week is calculated for stocks recommended April-18 To Dec -18

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Sr. No	Name	Designation	E-mail
1	Pankaj Bobade	Research Analyst	pankaj.bobade@axissecurities.in
2	Suvarna Joshi	Research Analyst	suvarna.joshi@axissecurities.in
3	Siji Philip	Research Analyst	Siji.Philip@axissecurities.in
4	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in
5	Ajay Harjani	Research Associate	ajay.harjani@axissecurities.in
6	Kumar Nihal	Research Associate	kumar.nihal@axissecurities.in
7	Omkar Tanksale	Research Associate	omkar.tanksale@axissecurities.in
8	Vishal Advani	Research Associate	vishal.advani@axissecurities.in
9	Kiran Gawle	Associate	kiran.gawle@axissecurities.in

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DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 022 - 4050 8080/022 - 61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, Pandurang Budhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: Anand Shaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.

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