

**On Robust Growth Path**
**Buy**
**CMP: Rs.1335**  
**Target: Rs.1610**

|        |       |
|--------|-------|
| Sensex | 17000 |
| Nifty  | 5088  |

**Stock Data**

|                       |             |
|-----------------------|-------------|
| Equity Cap            | Rs.221.4 cr |
| Face Value            | Rs.10       |
| Market Cap.           | Rs.31427cr  |
| Avg. Vol.<br>(2 week) | 0.71 lacs   |
| 52 wk High            | Rs.1518.6   |
| 52 wk Low             | Rs.602      |
| EPS<br>(St. Tr 4Q)    | Rs.47.5     |
| DPS                   | Rs.11.6     |
| P/E                   | 28.1        |
| P/B                   | 3.41        |

**Share Holding Pattern (%)**

|                  |        |
|------------------|--------|
| Promoter         | 31.06% |
| MFs/FIs/Banks    | 7.63%  |
| FIIIs            | 18.26% |
| Bodies Corporate | 0.72%  |
| Ins. Cos.        | 20.08% |
| Public           | 22.25% |

 As on 31<sup>st</sup> Dec'09

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**MATA RESEARCH**

Tata Power Co. Ltd is India's leading private sector integrated power utility company with presence in power generation, transmission and distribution, power trading and coal mining. The company has major expansion plans over the next few years which would sustain the company's status as the major power sector player in the country. The diversified business model provides the company value accretion from the various segments as well as provides it the capability to take advantage of the in cyclical in various segments.

**HIGHLIGHTS**

- ❖ **Expansion Plans on Track:** Tata Power has ambitious capacity expansion plans to raise its installed power generation capacity from 2791 MW to 8242 MW by FY'13. The company has an excellent track record in the timely execution of the power plants' construction. The construction of the major plants viz., Mundra Ultra Mega Power Plant of 4000 MW capacity and Maithon Power Plant of 1050 MW are progressing ahead of the schedule and are expected to contribute significantly to the overall power generation of the country. The company in FY'09 generated 14,807 MUs while the Mundra UMPP alone would generate 29,784 MUs per annum assuming a PLF of 85% while Maithon plant is expected to contribute 7818MUs of power (at 85% PLF), reflecting the high growth potential of the company.
- ❖ **Value Accretion from Coal Mining:** Tata Power has 30% stake in the Indonesian coal mine KPC and Arutmin which during CY'08 generated 53mn tones of coal at the average realization of \$70 per tonne. The stake in the Indonesian coal mines provides a significant contribution to the revenue growth of the company. The Indonesian coal mines have the target of raising the production level to 111mn tonnes by 2012 which would provide quantum jump to the revenue and profitability of the company.
- ❖ **Ensured Fuel Security:** The timely fuel supply is a major concern for the efficiency of the power plants in the country. The company has not only secured fuel supply contracts until 2014 for the existing power plants, it has also ensured fuel supply for its upcoming power projects. The Mundra UMPP has been ensured an annual supply of 10.11mn tonnes of coal from the KPC and Arutmin coal mines in which it has 30% stake which also offers the company pricing benefit.
- ❖ **Increasing Customer Base in Mumbai LA:** The Supreme Court in its judgment in July'08, upheld Tata Power's rights to supply power to retail consumers in Mumbai Licence Area, irrespective of consumption limits. The company is increasing its customer base after the decision.

## VALUATION

Tata Power's diversified business model provides it the value accretion from its various segments. We have valued the stock on the SOTP basis and the fair value of the stock as per the valuation is Rs.1609.8. The prospects of the standalone business remain to be encouraging with the increasing contribution from the increasing customer base as well as the merchant power capacity. The major contributors to the fair value of the company are also its upcoming Mundra UMPP and Maithon Power plant as well as its stake in the Indonesian coal mines. The investments made by the company in the telecom companies, i.e., Tata teleservices Ltd, Tata Communications Ltd and Tata Teleservices Maharashtra Ltd are also major contributors to the embedded value of the company.

The SOTP valuation of the stock gives the fair value of the stock as Rs.1,610.

| S.N.         | Segment                | Stake | Valuation Method          | Rs/Share       |
|--------------|------------------------|-------|---------------------------|----------------|
| 1            | Tata Power Standalone  | 100%  | DCF                       | 632.8          |
| 2            | Mundra UMPP            | 100%  | DCF                       | 205.1          |
| 3            | Maithon Thermal Plant  | 74%   | DCF                       | 50.7           |
| 4            | IEL Jojobera           | 74%   | DCF                       | 11.0           |
| 5            | IEL Jamshedpur         | 74%   | DCF                       | 10.6           |
| 6            | Coal Mining JV         | 30%   | DCF                       | 350.5          |
| 7            | Powerlinks             | 51%   | 2 * FY'12 BV              | 23.9           |
| 8            | NDPL                   | 51%   | 2 * FY'12 BV              | 55.6           |
| 9            | Tata Power Trading Co. | 100%  | 5 * FY'12 EPS             | 34.9           |
| 10           | Telecom Investments    |       | 30% Discount to Valuation | 234.7          |
| <b>Total</b> |                        |       |                           | <b>1,609.8</b> |

At the current market price of Rs.1,335 as on 3<sup>rd</sup> March'10, the stock trades at a PE of 28.1x based on 4Q Trailing EPS of Rs.47.5. The stock is expected to achieve the target of Rs.1,610 over the next 12-15 months. We initiate the coverage on the stock with the 'Buy' recommendation.

## COMPANY PROFILE

*Emergence from a hydro power producer to a diversified player*

*Executing 5242mw power generating capacities*

*Track record of timely project execution*

Tata Power Co. Ltd. was established in 1919 after the merger of the Tata Hydroelectric Power supply Co. and Andhra Valley Power Supply Co. The company commissioned its first power plant, a hydro electric power plant in Khopoli of capacity 72MW in 1915. It established the second hydro station in Bhivpuri (75 MW) in 1919 and third one in Bhira (300 MW) in 1922. In 1960, the company set up its 1,350 MW thermal power plant in Trombay followed by a 475 MW power plant near Jamshedpur in Jharkhand and 87 MW thermal power plant in Belgaum. The company later entered the transmission and distribution business in the Mumbai. The company is now present in all the segments of the power sector viz., generation, distribution, transmission and power trading.

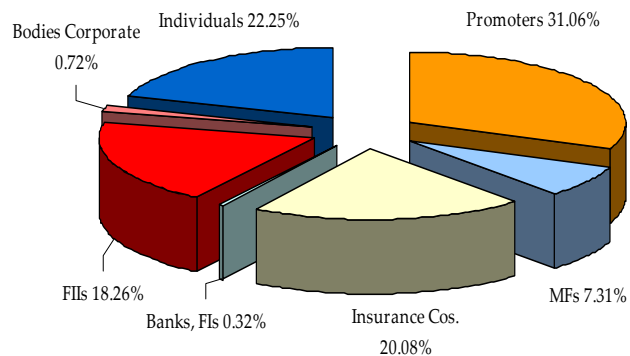
The company has major expansion plans in terms of the new capacities aggregating 5,451MW as of now, which are expected to be commissioned by the end of FY'13. The company has the track record of achieving the timely execution of the power projects which provides high visibility for achieving high power generation volume growth over the next few years.

The company has also acquired 30% stake in the Indonesian coal mines which would not only ensures the fuel supply for the company's upcoming Mundra UMPP but also provides the revenue upside for the company with the high growth expected in the coal production from the coal mines over the next few years as well as the upside in the selling price of the coal in the international markets.

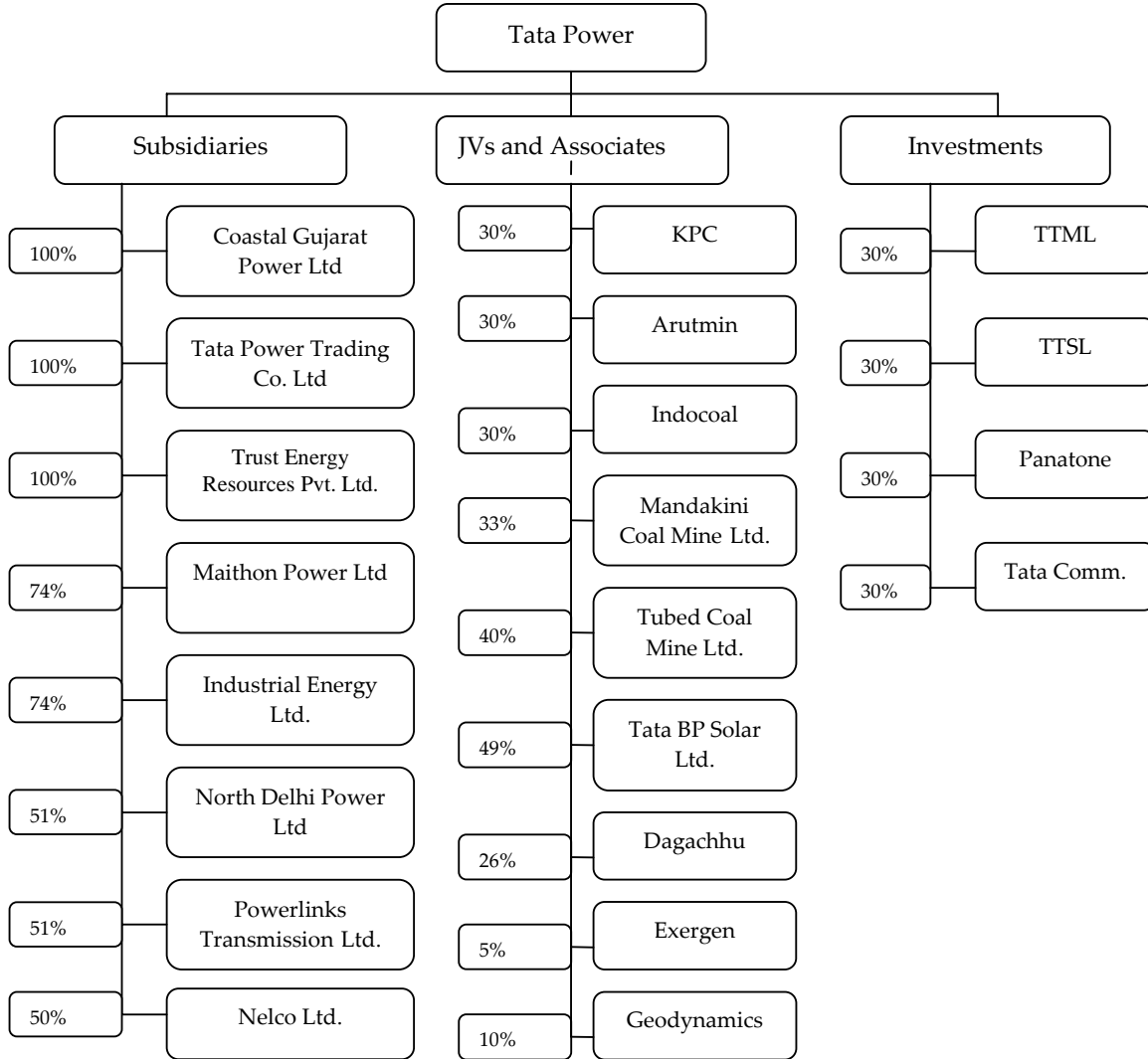
## SHAREHOLDING PATTERN (As on 31st Dec'09):

The shareholding pattern of the company is diversified with the promoters holding 31% of the capital.

The FII investment in the company has remained high at 18.26% which reflects the confidence of the overseas investors in the growth potential of the company.



## CORPORATE STRUCTURE:

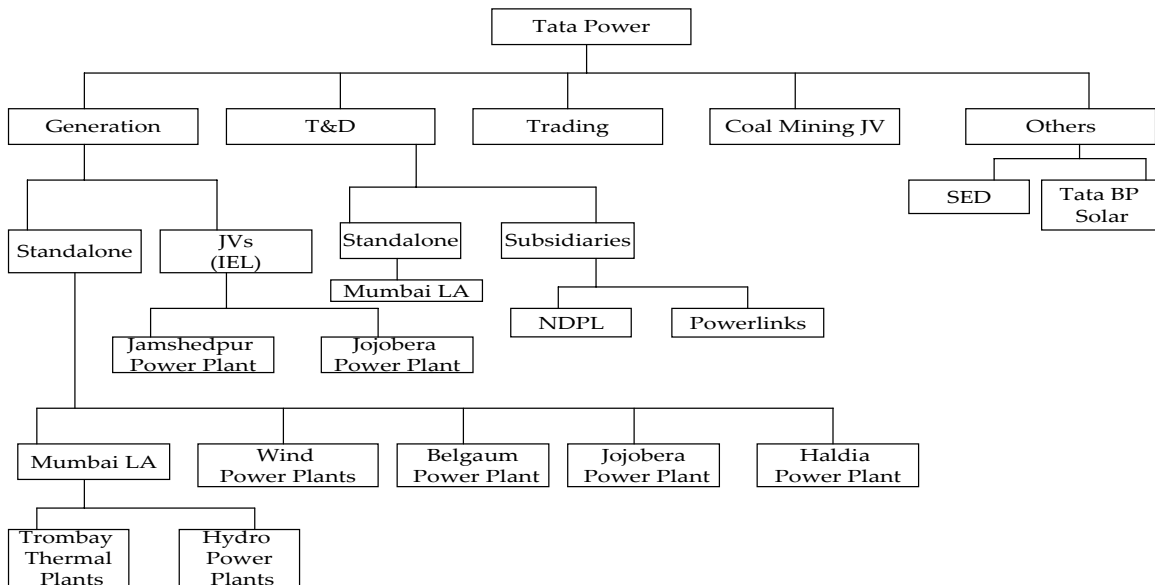


## BUSINESS PROFILE:

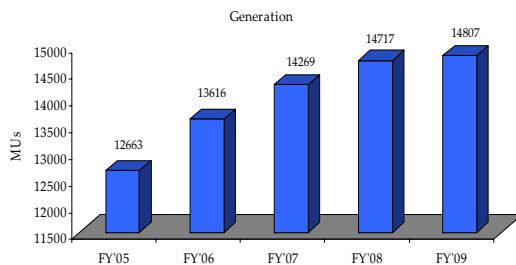
The Business profile of the company is diversified with the presence in various verticals.

### *Diversified Business Model*

- I. Generation
- II. Transmission and Distribution
- III. Power Trading
- IV. Coal Mining JV
- V. Other Business



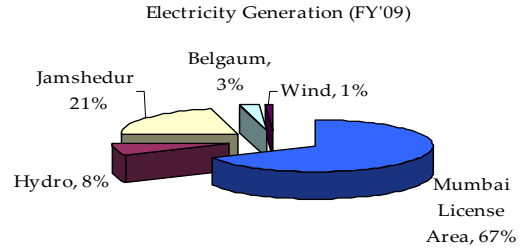
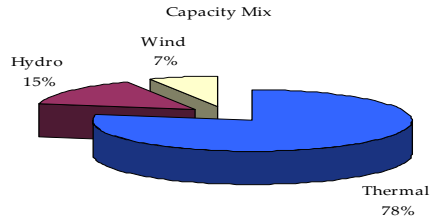
## I. Generation:



The power generation growth of the company has registered a growth of about 4% CAGR over the past four years. The slow pace of the growth has been on account of the stable generation from the Trombay plants where the capacity remained stable over the past few years. However, *with the significant capacity addition over the next few years, the generation is expected to rise substantially.*

### Capacity Mix:

Tata Power's generation capacity is predominantly thermal. The generation during FY'09 was mainly contributed by the Trombay plants (67%).



The generation business of the company can be bifurcated into:

**(A) Generation Under Standalone Business**

- ❖ Mumbai License Area
  - Trombay Thermal Power Plants (1480MW)
  - Hydro Power Plants (447 MW)
- ❖ Wind Power Plants (144 MW)
- ❖ Belgaum Power Plant (81MW)
- ❖ Jojobera Captive Power Plant (428 MW)
- ❖ Haldia Merchant Power Plant (120MW)

**(B) Generation Under Subsidiaries and JVs:**

- ❖ IEL:
  - Jamshedpur Captive Power Plant 120MW
  - Jojobera Captive Power Plant (120MW)

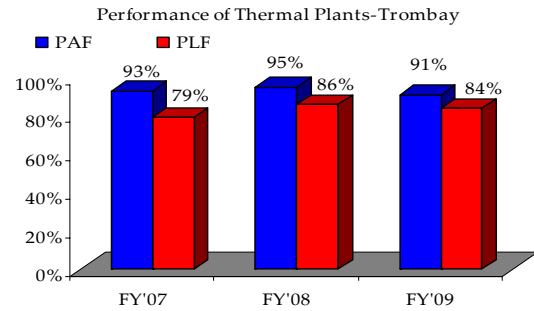
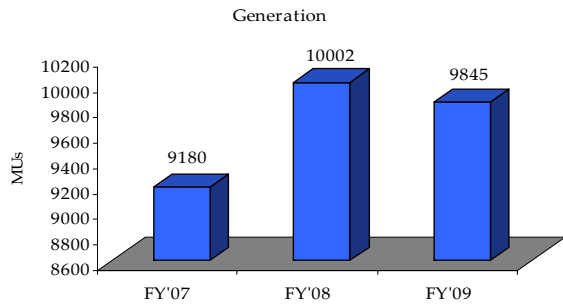
**(A) Generation Under Standalone Business:**

❖ **Mumbai License Area**

Mumbai License Area has total capacity of 1927MW (1480MW of Trombay thermal plants and 447MW hydro plants).

| Units        | Capacity (MW) | Fuel Type       |
|--------------|---------------|-----------------|
| Unit 4       | 150           | Oil & Gas       |
| Unit 5       | 500           | Oil, Coal & Gas |
| Unit 6       | 500           | Oil & Gas       |
| Unit 7       | 180           | Gas             |
| Unit 8       | 150           | Coal            |
| <b>Total</b> | <b>1480</b>   |                 |

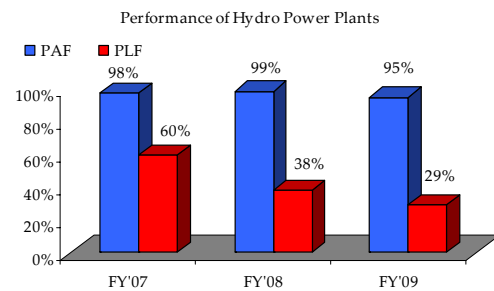
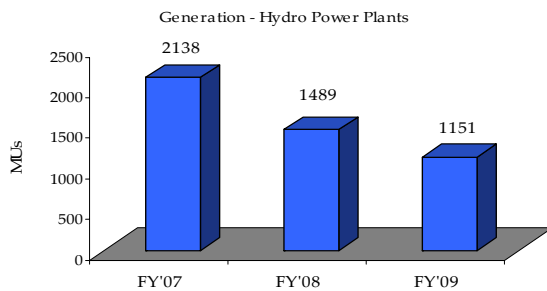
The company has the PPAs with BEST for 800 MW of capacity and 477 MW is sold through Tata Power-Distribution, Unit 8 of Trombay plants which has been recently commissioned would be merchant power based plant. TPL sells 500 MW to Reliance Infra which should last by Mar'10. Post this period, Tata Power would sell this 200MW out of 500MW directly to consumers through its distribution arm in the Mumbai LA, 200MW to Tata Power Trading Co. Ltd. and 100MW to BEST. Many of the customers of Reliance Infra are shifting to Tata Power as the latter is permitted to add more consumers in Reliance distribution area. The performance of Trombay thermal plants has been stable over the past few years and the PLF has been near 85%, which is considered as satisfactory.



➤ **Hydro Power Plants 447MW):**

The company has three hydroelectric power generating stations with aggregate capacity of 447MW, situated in the Raigad district of Maharashtra, Khopoli (72MW), Bhivpuri (75 MW) and Bhira (300 MW). The hydel power plants are amongst the oldest in the country.

The Krishna Water Dispute Tribunal Award determines the amount of water that is available for power generation. So, even though the plant availability is high, the PLF of the plant has been low.



❖ **Wind Power Plants:**

The company has a total installed capacity of 193MW in the wind power segment. During FY'09, the company added 80.6MW of capacity including 36 MW at Gadag (Karnataka), 29.6 MW at Samana (Gujarat) and 15 MW at Sadawaghapur (Maharashtra). Out of the total capacity 99MW is located in Maharashtra, 50 MW in Gujarat and 44 MW in Karnataka.

The power generated was 177 MUs in FY'09 by these wind farms as against 127 MUs during FY'08. The wind power plants usually operate at the PLF of about 20%. The major customers of the wind power are BESCOM in Karnataka and GUVNL (Gujarat Urja Vikas Nigam Ltd.) in Gujarat. In Maharashtra, the company sells power from wind power plants through PPA with Tata Power Co.-Distribution.

❖ **Belgaum Thermal Power Plant:**

Belgaum (Karnataka) thermal power plant of the company has a total installed capacity of 81 MW. The plant runs on heavy fuel oil. The major customer of the power from the plant is Karnataka Power Transmission Corporation Ltd. (KPTCL) which buys power under PPA valid till 2012. The PLF of the plant improved significantly to 63% during FY'09 as compared to 33% in FY'08.

❖ **Jojobera Thermal Power Plant:**

The power plant in Jojobera, Jharkhand, has a capacity of 428 MW through four coal fired units. The plants run on domestic coal. The plant operates for the captive use by Tata Steel. During FY'09, the plant operated at a PLF of 80% as compared to a PLF of 76% during FY'08.

❖ **Haldia Merchant Power Plant:**

Haldia plant has a total capacity of 120 MW. The plant has PPA with Tata Power Trading Co. Ltd. The fuel for the plant is the hot flue gases from Hoogly Metcoke.

**(B) Generation Outside Standalone Business:**

The company has entered into a 74:26 JV with Industrial energy Ltd. (IEL) for setting up of two captive power plants.

❖ **Jamshedpur Power House 6:**

A 120 MW capacity power plant is being constructed at Tata Steel Works, Jamshedpur for captive use of Tata Steel and the coke oven gases of Tata Steel as fuel. The total cost of the project is Rs.490cr. The plant would utilize waste blast furnace and it has been commissioned in May'09.

❖ **Jojobera Unit 5:**

Tata Power is also setting up a 120 MW power plant at Jojobera at a total cost of Rs.620cr. The plant would have the coal linkages with the West Bokaro and Mahanadi Coal fields. The plant is expected to be commissioned in Q4FY'10.

**II. Transmission and Distribution:**

**(A) T&D Under Standalone Business:**

- ❖ T&D Under Mumbai License Area

**(B) T&D Outside Standalone Business:**

- ❖ North Delhi Power Ltd
- ❖ Powerlinks Transmission Ltd

**(A) T&D Under Standalone Business – Mumbai License Area**

The Company supplies power directly to bulk consumers such as Central and Western Railways, Mumbai Port, refineries, textile mills,

*Major T&D service provider in  
Mumbai License area*

fertilizer factories, BARC, Municipal Corporation water pumping plants and other major continuous processes industries requiring uninterrupted power supply. The latest addition to the list is the commercial district at the Bandra-Kurla Complex and major commercial and residential complexes in the suburbs.

Tata Power had 25,400 customers with 2,468 MUs of electricity sold in Mumbai LA during FY'09. It has 17 receiving and distribution stations, 318 consumer substations and 1335 kms of HT and LT cable network in the Mumbai License area. The company has around 1,100 ckm of power cable network comprising of 973 ckm of 220 kV/ 110 kV overhead lines and 124 ckm of 220 kV/ 110 kV underground cables.

*SC order to benefit Tata Power*

Earlier, Tata Power was not allowed to add customers in the Mumbai License Area. The Supreme Court in its judgment in July'08, upheld Tata Power's rights to supply power to retail consumers in Mumbai Licence Area, irrespective of their consumption limits.

The company is increasing its customer base significantly after this decision and plans to develop the infrastructure for the retail supply. As for the transmission business, the company plans new transmission lines for increasing the load capacity and to add 1000 MVA transformer capacity and upgrade the system to 400 kV.

#### **(B) T&D Outside Standalone Business:**

##### **❖ New Delhi Power Ltd.:**

NDPL became a subsidiary of the company from Jan'08. NDPL registered a revenue of Rs.2,479cr for FY'09 as against Rs.2,278cr for FY'08, a YoY growth of 8.8%. The AT&C losses have been reduced from about 23.7% as at the end FY'07 to 10.5% for FY'09. The subsidiary has over 1mn customers with a total of over 5,000MUs of power consumption.

##### **❖ Powerlinks Transmission Ltd.**

The JV with Power Grid Corporation of India Ltd. is operating and maintaining the 1200kms and 400 kV double circuit transmission lines from Tala Hydroelectric Project in Bhutan to New Delhi. The subsidiary earned revenue of Rs.279cr for FY'09 as against Rs.245cr for FY'08.

#### **III. Power Trading - Tata Power Trading Co. Ltd.**

Tata Power Trading Co. Ltd traded about 3,000 MUs during FY'09 as compared to 1,711 MUs in the previous year. The revenue earned registered a growth of 145.3% for FY'09 to Rs.2,167cr as compared to Rs.883.5cr the previous year.

#### **IV. Coal Mining Stake:**

Tata Power has taken significant interest in owning the coal assets in order to ensure the fuel supplies for its power business. The coal mining business of the company may be classified into:

- ❖ Stake in Coal Blocks in India
  - Mandakini Coal Co. Ltd.
  - Tubed Coal Blocks
- ❖ Stake in Indonesian Coal Mines
  - KPC
  - Arutmin

#### **❖ Captive Coal Blocks in India:**

**Mandakini Coal Co. Ltd.:** Mandakini coal block, located in the Angul district of Orissa, has been allocated to a JV of the company along-with Monnet Ispat & Energy Ltd. and Jindal Photo Ltd. The company's share is 33%. The block is estimated to have the reserves of 291mn tonnes and 7.5 MTPA may be mined from the block (Tata Power's share – 2.5 MTPA). The company's share of the mined coal is estimated to provide sufficient fuel for a 1,000 MW thermal power plant. The coal production from the block is expected to start by FY'12.

**Tubed Coal Blocks:** The company also has a 40% stake in its JV with Hindalco and Tubed Coal Mines Ltd for the Tubed Coal Blocks. The block is located in Latehar, Jharkhand and has estimated reserves of 120mn tonnes. 5.75million tones is estimated to be mineable per year from the block; out of which, Tata Power would have the share of 2.3 MTPA (40%). The coal production from the block is expected to start by FY'13.

#### **❖ Stake in Indonesian Coal Mines:**

Tata Power acquired 30% stake in the KPC and Arutmin coal mines in 2007. The production during Jan'09 to June'09 was 27mn tonnes while the average selling price was \$66 per tonne. The mines have the target to raise the coal production upto 111mn tonnes by 2012.

Tata Power has 30% stake in Bumi Resources of Indonesia. Bumi's coal mining operations are conducted by its two mining subsidiaries, Kaltim Prima Coal (KPC) and Arutmin located in East and South Kalimantan, Indonesia. The key markets for the mines are whole of Asia, Europe and South America.

KPC and Arutmin together commanded over 28% of the market share of the Indonesian coal production in 2007 and together constituted the second largest coal exporter globally. KPC exported about 87% while Arutmin shipped 92% of its coal production.

Superior Coal Quality:

The mineable coal at the KPC and Arutmin coal mines is of high quality as reflected by the high calorific value of the coal as well as the low sulphur content and low moisture. The high quality of the coal is expected to result in the sustainable demand for the coal of the mines as well as the high realization for the coal.

|                | Operating Mines | Calorific Value (KCal/kg) | Total Sulphur (%) | Total Moisture (%) | Ash (%) |
|----------------|-----------------|---------------------------|-------------------|--------------------|---------|
|                | Sanggatta       |                           |                   |                    |         |
|                | Prima           | 7,100                     | 0.70%             | 10.50%             | 4.00%   |
|                | Pinanag         | 6,290                     | 0.50%             | 17.00%             | 3.50%   |
| <b>KPC</b>     | Melawan         | 5,690                     | 0.30%             | 23.00%             | 2.50%   |
|                | Bengalon        | 6,230                     | 0.90%             | 14.00%             | 4.50%   |
|                | Senakin         | 6,700                     | 0.80%             | 11.00%             | 12.00%  |
| <b>Arutmin</b> | Satul           | 6,800                     | 0.80%             | 10.00%             | 8.00%   |
|                | Mulia Asam-asam | 5,000                     | 0.20%             | 35.00%             | 3.90%   |
|                | Batullicin      | 6,600                     | 1.40%             | 9.00%              | 12.00%  |

Source: KPC and Arutmin

Significant Coal Reserves:

KPC and Arutmin coal mines have coal reserves and resources of 9.49 billion tonnes which are sufficient to provide revenue visibility for many more years to come. The slow growth in production during 2009 was on account of unusually heavy rains and equipment delivery delays which created major bottlenecks. The decline in the realization is on account of the decline in the fuel prices at the global level in view of the ongoing economic constraints. However, given the superior quality of the coal, the demand for the coal in the mines of KPC and Arutmin would improve with the recovery in the economic activity as well the realizations.

| In million tonnes      | Coal Reserves | Coal Resources | Total        |
|------------------------|---------------|----------------|--------------|
| <b>KPC</b>             |               |                |              |
| Sanggatta              | 160           | 3,447          | 3,607        |
| Melawan                | 337           | -              | 337          |
| North Pinang           | 920           | -              | 920          |
| Begalon                | 146           | 977            | 1,123        |
| <b>Total (KPC)</b>     | <b>1,563</b>  | <b>4,424</b>   | <b>5,987</b> |
| <b>Arutmin</b>         |               |                |              |
| Senakin                | 43            | 411            | 454          |
| Satui                  | 84            | 269            | 353          |
| Batullicin             | 25            | 216            | 241          |
| Sub Bituminous         | 407           | 2,047          | 2,454        |
| <b>Total (Arutmin)</b> | <b>559</b>    | <b>2,943</b>   | <b>3,502</b> |

Source: KPC and Arutmin

Balanced Contract Composition:

Bumi Resources balances the fluctuations in the spot market prices with entering into the contracts for medium and long term contracts. Accordingly, the company is currently using 20:80 break-down between the spot and time contracts. The long term contracts have enabled the company to avoid a major drastic decline in the contracted prices for the coal.

**V. Other Businesses:**

❖ **Strategic Electronics Division:**

SED is emerging as the Prime Contractor and Large Systems Integrator in areas such as Launchers, Electronic Warfare, Battlefield Management System, Tactical Communication System, etc. In Mar'09, the SED received the order of Rs.182.46cr to manufacture 16 Wheeled Launchers for the Akash Weapon System to be delivered to the Indian Air Force in the subsequent 33 months.

❖ **Tata BP Solar:**

Tata BP Solar is a 51:49 JV between BP Solar and Tata Power. The JV is a market leader in photovoltaic technology in India with a total turnover of Rs.1,147cr for FY'09. About 75% of the total sales of the JV is from the exports to Europe and USA. The JV has a plant with the solar cell manufacturing facility with the installed capacity of 46 MW and module manufacturing facility with the installed capacity of 88 MW as on Mar'09.

## TPL'S GROWTH PLANS

### ❖ Power Generation Capacity Expansion

*Major Expansion plans*

The company is implementing 5451MW capacity expansion plan which is expected to be completed by the end of FY13.

*1050mw capacity at a cost of Rs.4450cr*

- **Maithon Joint Venture Project to Drive Growth:**

The company is setting up a 1,050 MW (2\*525 MW) JV project in Maithon (Jharkhand) in a 74:26 JV with Damodar Valley Corporation. The project involves an estimated cost of Rs.4,450cr being funded in the debt-equity ratio of 70:30.

*PPA in place*

PPAs have been signed and power evacuation arrangement is set in place. The major buyers of power from the plant are DVC (300 MW), NDPL (300 MW), WBSEB (150 MW) and PSEB (300 MW). Over 72% of the work has been completed.

*To be completed by Apr'11*

The first unit is scheduled to commence operations by Oct'10 and second unit by Apr'11. The total coal requirement for the plant would be 5mn tons per annum which would be procured through the coal linkages with Coal India mines. The efforts are on to sign the fuel sale agreements for the plant.

*Coal linkages with CIL*

- **Mundra UMPP on Fast Track:**

*4000mw at an outlay of Rs.17000cr  
Implementation progressing well*

TPL is setting up 4000mw UMPP (5 x 800mw) at a total cost of Rs.17000cr, through its 100% subsidiary Coastal Gujarat Power Ltd. The project is expected to be completed by 2012 as against 2014 as per the bid conditions. Overall, 42% of the project has been completed and is progressing well.

*Levelised tariff of Rs.2.26 per unit*

The timely execution of the project would result in significant upside in the units generated by the company. At the assumed PLF of 85%, the plant would generate about 29,784MUs which is almost twice of the current generation of 14,807MUs for FY'09.

The project has been awarded to Tata Power at the levelized tariff of Rs.2.26 per unit over the 25 year period. The plant will use the coal from the Indonesian coal mines.

*Coal from Indonesian mines*

Tata Power has the coal offtake agreement of 10.11mtpa (+ or - 20% at Tata Power's Option) with KPC coal mines in Indonesia. About 45% of the coal to be procured would be on a fixed F.O.B. price of \$36 per tonne while the remaining would be supplied based on the prevailing coal prices in international markets.

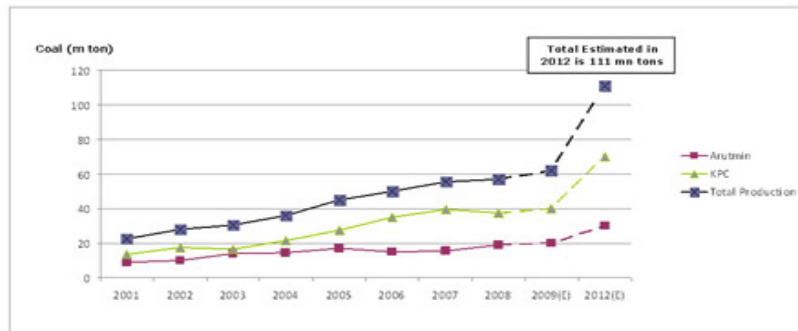
The major customers of the electricity from the plant would be Gujarat (1,805 MW), Maharashtra ((760 MW), Punjab (475 MW), Haryana (380 MW) and Rajasthan (380 MW).

❖ Coal Business Growth

Bumi Resources plans to extend the production capability to 111 mn tonnes by 2012, which is expected to result in significant growth in the revenues of the company, even considering the rates of coal to remain stable in the future.

**Coal Production – World Class & Record Growth**

*Doubling to 60 m tons in 2009 in 6 years  
Increasing to 111 m tons in 2012*



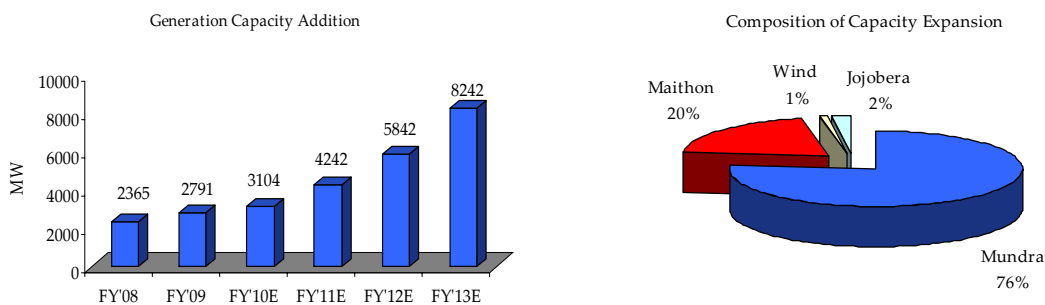
**BUMI owns its infrastructure and is adding mining operating capability**

## INVESTMENT RATIONALE

### ❖ Power Capacity Expansion Programmes on Full Swing:

The company has the installed capacity of 2,791MW which is expected to rise to 8,242MW by FY13. As against the power generation capacity addition at the CAGR of merely 4% over the past four years, the expansion is expected to rise at a CAGR of 31% over the next four years. Out of the total planned capacity expansion (5,451mw), Mundra UMPP forms about three fourths of the incremental capacity.

#### *Major Expansion plans*



### ❖ SC Order to Improve Customer Base in Mumbai LA:

Subsequent upon the Supreme Court order in July'08, the company is increasing its customer base in Mumbai License Area. After the order, the company is increasing its customer base. In Q3FY'10, over 6,200 customers shifted over to Tata Power and over 14,700 changeover applications have been received. During Apr-Dec.'09, the total number of applications received number stands at 16,817. The positive response of the customers in Mumbai LA ensures the leading position of the company as the service provider in the License Area.

### ❖ Coal Assets to be Growth Drivers

- **Ensuring Fuel for Future Power Capacities** - The company plans to set up IPPs for utilizing the captive coal blocks. The company's share of the coal in domestic coal mines is estimated to provide sufficient fuel for a 1,500 MW thermal power plant. The captive coal blocks not only provide fuel security to the company for its existing plants but also enable it to establish new thermal plants in future.
- **Coal Sale from Indonesian Coal Mines to Sustain Growth** - The Indonesian coal mines are expected to increase the coal production significantly over the next few years. These are expected to produce 111mn tonnes of coal by 2012 as against 53mn tonnes in 2008. Even assuming a conservative coal price level of \$65 per tonne, the production growth to 90mn tonnes per annum by FY'12, the coal mining segment would contribute significantly to the growth of the company in future.

|                          | FY'09  | FY'10  | FY'11  | FY'12  |
|--------------------------|--------|--------|--------|--------|
| Coal Price (\$/ tonne)   | 65     | 65     | 65     | 65     |
| Exchange Rate (Rs./\$)   | 48     | 48     | 48     | 48     |
| Production (mn tonnes)   | 60     | 70     | 80     | 90     |
| Total Revenue (Rs. Cr.)  | 18,720 | 21,840 | 24,960 | 28,080 |
| Tata Power's Share (30%) | 5,616  | 6,552  | 7,488  | 8,424  |

- **Coal From Indonesian Mines Providing Fuel Security** - As discussed earlier, the Ultra Mega Power Plant of the company at Mundra would receive imported coal from the coal mines KPC and Arutmin in Indonesia in which it has 30% stake. The company would not only have an ensured fuel supply but would also have the pricing advantage.

❖ **Telecom Investments Providing Upside:**

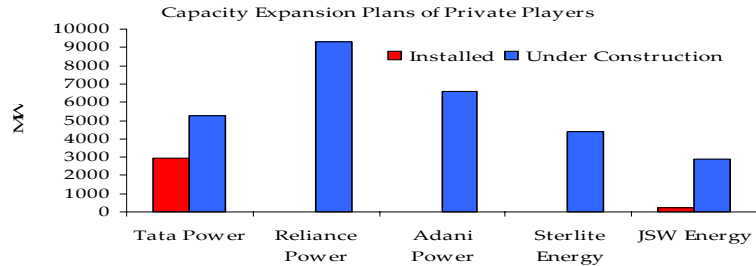
The telecom investments by Tata Power also provide it the value accretion. DOCOMO had acquired 26% stake in Tata Teleservices Ltd for Rs.12,770cr, hence valuing the company at Rs.49,115cr. Tata Teleservices (Maharashtra) Ltd and Tata Communications Ltd have been valued at the market cap.

|                                 | Tata Teleservices Ltd | Tata Teleservices (Maharashtra) Ltd | Tata Communications | Total        |
|---------------------------------|-----------------------|-------------------------------------|---------------------|--------------|
| Market Cap/Valuation (RsCr)     | 49115                 | 4410                                | 8149                |              |
| Tata Power's Shareholding       | 11.20%                | 11.50%                              | 17.20%              |              |
| Tata Power's Attributable Value | 5500.9                | 507.2                               | 1401.6              |              |
| No. of Tata Power's Shares      | 22.1                  | 22.1                                | 22.1                |              |
| Value per share                 | 248.9                 | 22.9                                | 63.4                |              |
| Discount                        | 30%                   | 30%                                 | 30%                 |              |
| <b>Value per share for SOTP</b> | <b>174.2</b>          | <b>16.1</b>                         | <b>44.4</b>         | <b>234.7</b> |

**INDUSTRY OUTLOOK**

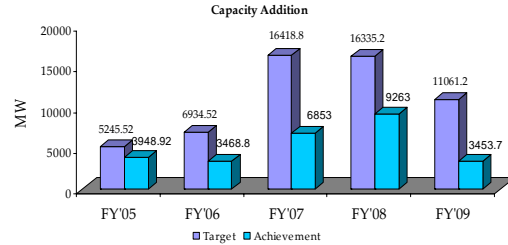
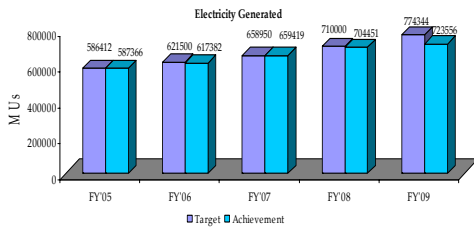
➤ **Leading Among Private Players:**

Tata Power already has an installed capacity of 2791MW as against the other emerging private sector operator which are having major capacity expansion plans but very low existing capacity.



➤ **Performance of the Power Sector in Recent Years:**

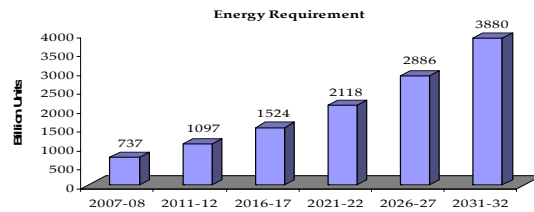
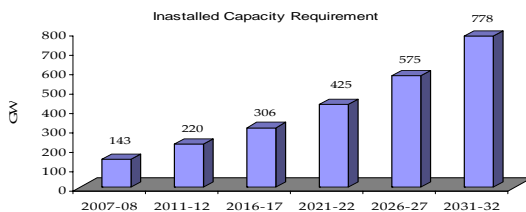
The performance of the power sector in the recent years has been less than satisfactory and the country has fallen short of the targeted generation as well as capacity addition.



Source: CEA

➤ **Strong Demand to Continue:**

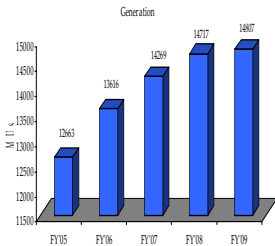
The capacity addition at a robust pace is imperative to sustain the growth of the nation. The primary reasons for the shortfalls witnessed in previous plan periods are delays in acquiring sites and obtaining approvals, equipment shortages and the inability to achieve financial closure. According to Report of the Expert Committee on Integrated Energy Policy issued by the Planning Commission the energy requirement considering 8% GDP growth over the next 24 years is as under:



Source: Integrated Energy Policy, Planning Commission

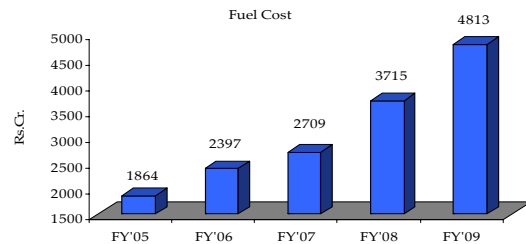
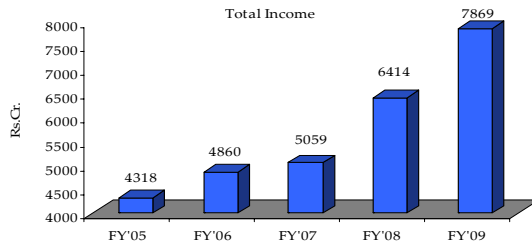
**FINANCIAL ANALYSIS (Standalone):**

➤ **High Revenue Growth:**



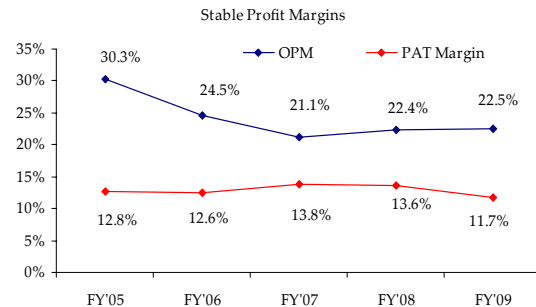
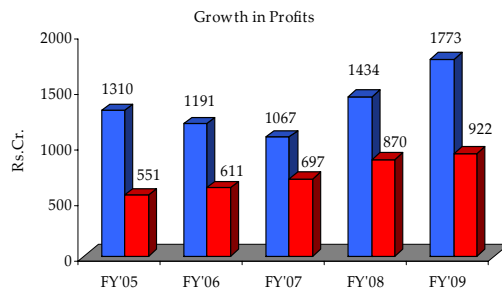
Total income of the company grew at the CAGR of 16.2% over the past four years to Rs.7,869cr in FY'09 on account of the high growth in the fuel prices (26.8% CAGR) over the same period. The fuel cost which constitutes about 80% of the total cost in case of power sector companies, is a pass through cost which is reflected in the higher realizations.

The units generated over the past four years have registered a CAGR of only 4% on account of the low capacity addition.

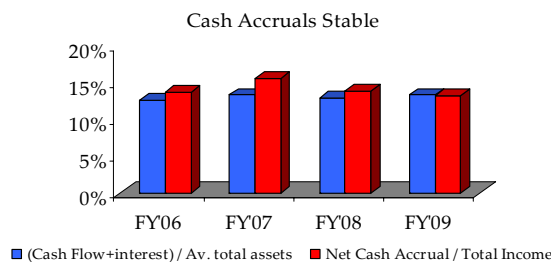


➤ **Stable Profit Margins:**

Operating profit of the company has grown at the CAGR of 7.9% over the past four years and PAT by 13.7% over the same period. Since the cost of production is passable to the customers, the profitability margins are more or less stable in the range of 22-24%. As per the power tariff policies in the country, the return on the equity is assured.



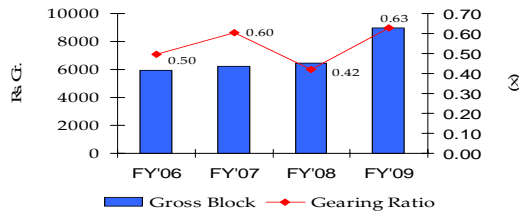
➤ **Cash Flows Stable:**



The cash accruals of the company have remained stable over the last four years. The company has maintained low cash balances over the past two year as it increased its investments significantly over the past two years.

However, the cash accruals over the past two years have been sufficient to sustain the expansion plans.

## ➤ High Credit Quality:



The company has maintained its overall gearing ratio at the low levels despite the capital intensive nature and the debt: equity funding in ratio 70:30.

The low gearing ratio provides the company sufficient leverage capacity.

## Financial Performance (9m FY'10):

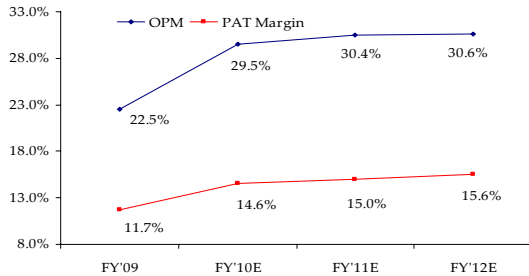
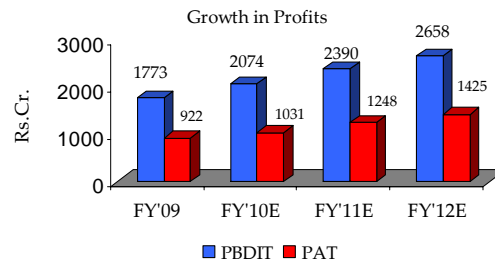
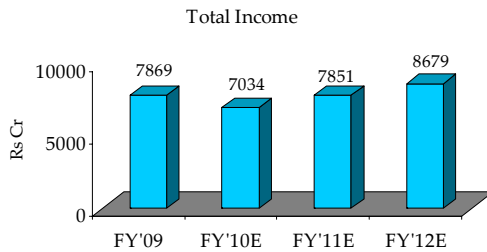
- ❖ Total income of the company has declined by 9.1% for the 9mFY'10 on account of the sharp decline in the fuel cost by 20.6% which is a pass through cost for the company.
- ❖ The drastic fall in the fuel cost has led to the operating profit rising by 43.1% for the period.
- ❖ The cost of power purchased has also decline as the company purchased significantly lower number of units during 9mFY'09.

| Particulars             | Rs.Cr.        |               |              |
|-------------------------|---------------|---------------|--------------|
|                         | 9mFY'10       | 9mFY'09       | Growth       |
| Units Generated (MUs)   | 12157         | 11241         | 8.1%         |
| <b>Total Inc.</b>       | <b>5531.9</b> | <b>6083.5</b> | <b>-9.1%</b> |
| Fuel Cost               | 3124.6        | 3935.2        | -20.6%       |
| Cost of Power Purchased | 106.0         | 445.5         | -76.2%       |
| Employee Cost           | 241.6         | 215.6         | 12.1%        |
| Other Exp.              | 418.2         | 339.8         | 23.1%        |
| Total Expenditure       | 3890.4        | 4936.2        | -21.2%       |
| <b>PBDIT</b>            | <b>1641.5</b> | <b>1147.3</b> | <b>43.1%</b> |
| Depreciation            | 351.0         | 230.3         | 52.4%        |
| Interest                | 311.7         | 215.4         | 44.7%        |
| PBT                     | 978.8         | 701.7         | 39.5%        |
| Tax                     | 270.6         | 134.0         | 102.0%       |
| <b>PAT</b>              | <b>708.2</b>  | <b>567.7</b>  | <b>24.8%</b> |

**FINANCIAL PROJECTIONS(Standalone):**

**Consistent Growth to Sustain:** Total income of the company is expected to register a decline for FY10 on account of the decline in the fuel cost for the year. Subsequently, total income is expected to rise on account of the expected rise in the fuel cost, expected improvement in the units produced from Jojobera and Belgaum plants as well as the increased contribution from the Haldia merchant power plant.

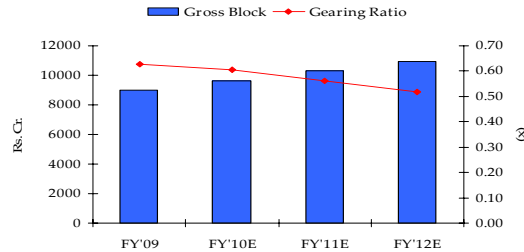
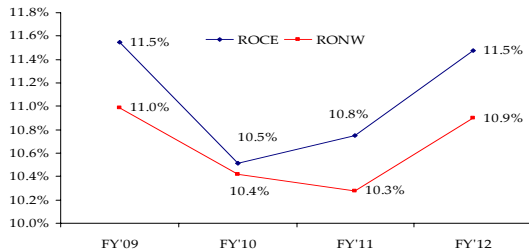
Total income of the company is expected to rise to Rs.8679cr for FY'12. The operating profit is expected to register a growth of 14.4% to Rs.2658cr and PAT to Rs.1425cr at the CAGR of 15.6% by FY'12.



**Profit Margins to Remain Stable:** The operating profit and PAT margins are expected to remain stable over the next few years on account of the fuel cost which constitutes about 80% of the total cost being a pass through cost.

Secondly the tariff fixing accounts for increase in interest cost as well as depreciation, which protects the bottomline of the power producers.

**Gearing Ratio to Remain in Control:** The gearing ratio of the company is expected to remain low on account of high internal accrual and low capex in the company (on standalone basis).



**Return Ratios to Improve:** ROCE of the company is expected to improve significantly over the next few years on account of the high growth expected in PAT (with merchant power plant coming on stream) as well as the lower pace of growth in gross block as the company is only going to incur maintenance capex on the standalone basis.

## Valuation:

Tata Power is on the robust growth path on account of:

- High capacity expansion of 5451MW leading to the total installed capacity of 8242MW by FY'13 as against 2791MW now. The major contributors to the growth would be the Mundra UMPP (4000MW) and Maithon Power Plant (1050MW).
- The robust growth expected in the Indonesian coal mines in which it has 30% stake. The production is expected to rise to 111mn tonnes by 2012 as against 53mn tonnes for 2008.
- The telecom investments by the company also provide it the value accretion.



The SOTP valuation of the stock gives the fair value of the stock as Rs.1,610. The details are given in table on page-2 of this report.

At the current market price of Rs.1,335 as on 3<sup>rd</sup> March'10, the stock trades at a PE of 28.1x based on 4Q Trailing EPS of Rs.47.5. The stock is expected to achieve the target of Rs.1,610 over the next 12-15 months.

We initiate the coverage on the stock with the 'Buy' recommendation.

## PEER GROUP COMPARISON:

|                  | <i>Tata Power</i> | <i>NTPC</i> | <i>NLC</i> | <i>Reliance Power</i> |
|------------------|-------------------|-------------|------------|-----------------------|
| Revenues (Rs cr) | 7868.58           | 44313.8     | 3545.9     | 360.38                |
| YOY growth (%)   | 22.32%            | 14.52%      | 0.68%      | 171.90%               |
| OPM (%)          | 22.54%            | 24.20%      | 26%        | 74.12%                |
| PAT Margin (%)   | 11.72%            | 18.26%      | 23.15%     | 51.72%                |
| ROCE             | 11.54%            | 12.59%      | 8.10%      | 1.83%                 |
| RONW             | 10.99%            | 14.14%      | 8.93%      | 1.36%                 |
| EPS (Rs)         | 41.65             | 9.81        | 4.89       | 0.78                  |

**FINANCIAL PERFORMANCE**
**Profit & Loss Account**
**Rs. Cr.**

| Particulars         | FY'06         | FY'07         | FY'08         | FY'09         |
|---------------------|---------------|---------------|---------------|---------------|
| Net Sales           | 4532.2        | 4715.3        | 5915.9        | 7236.2        |
| Other Income        | 327.5         | 344.0         | 497.9         | 632.4         |
| <b>Total Income</b> | <b>4859.8</b> | <b>5059.3</b> | <b>6413.8</b> | <b>7868.6</b> |
| Cost of Sales       | 3668.7        | 3991.9        | 4979.3        | 6095.3        |
| PBDILT              | 1191.1        | 1067.4        | 1434.5        | 1773.3        |
| Depreciation        | 278.3         | 291.9         | 290.5         | 328.9         |
| PBILT               | 912.7         | 775.5         | 1144.0        | 1444.4        |
| Interest            | 165.3         | 189.5         | 173.9         | 327.8         |
| Op. Profit bfr. Tax | 747.4         | 586.0         | 970.1         | 1116.7        |
| Extra-ord. Items    | 0.0           | 0.0           | 0.0           | 0.0           |
| PBT                 | 747.4         | 586.0         | 970.1         | 1116.7        |
| Tax                 | 136.9         | -110.8        | 100.2         | 194.5         |
| <b>PAT</b>          | <b>610.5</b>  | <b>696.8</b>  | <b>869.9</b>  | <b>922.2</b>  |

**Balance Sheet**
**Rs. Cr.**

| Particulars        | FY'06         | FY'07         | FY'08          | FY'09          |
|--------------------|---------------|---------------|----------------|----------------|
| <b>Assets</b>      |               |               |                |                |
| F.Assets           | 3214.8        | 3811.4        | 4687.2         | 5951.7         |
| Invest             | 3412.2        | 3570.2        | 4430.0         | 5443.5         |
| NCA                | 1668.2        | 2278.8        | 2017.3         | 2495.4         |
| C.A.               | 2973.0        | 4042.3        | 3875.5         | 4681.1         |
| CurLiab.           | 1304.9        | 1763.5        | 1858.3         | 2185.8         |
| <b>Total Cap.</b>  | <b>8295.2</b> | <b>9660.3</b> | <b>11134.5</b> | <b>13890.6</b> |
| <b>Liabilities</b> |               |               |                |                |
| Share Cap          | 197.9         | 197.9         | 220.7          | 221.4          |
| Reserves           | 5357.7        | 5835.2        | 7878.2         | 8470.9         |
| Misc Exp. Not w/o  | 15.5          | 6.2           | 1.7            | 0.0            |
| Net Worth          | 5540.2        | 6026.9        | 8097.2         | 8692.4         |
| Term Liab          | 2755.0        | 3633.4        | 3037.3         | 5198.2         |
| <b>Total Cap.</b>  | <b>8295.2</b> | <b>9660.3</b> | <b>11134.5</b> | <b>13890.6</b> |

**Key Ratios**

| Particulars       | FY'06  | FY'07  | FY'08  | FY'09  |
|-------------------|--------|--------|--------|--------|
| Gr Tot Inc.       | 12.6%  | 4.1%   | 26.8%  | 22.7%  |
| Gr PAT            | 10.7%  | 14.1%  | 24.8%  | 6.0%   |
| PBDIT Mar         | 24.5%  | 21.1%  | 22.4%  | 22.5%  |
| PAT Mar           | 12.6%  | 13.8%  | 13.6%  | 11.7%  |
| ROCE              | 11.2%  | 8.6%   | 11.0%  | 11.5%  |
| RONW              | 11.5%  | 12.0%  | 12.3%  | 11.0%  |
| Gearing (x)       | 0.50   | 0.60   | 0.38   | 0.60   |
| Ov. Gearing (x)   | 0.50   | 0.60   | 0.42   | 0.63   |
| Current Ratio (x) | 2.28   | 2.29   | 2.09   | 2.14   |
| Int. Cov. (x)     | 5.52   | 4.09   | 6.58   | 4.41   |
| Drs. Turnover     | 5.54   | 3.99   | 4.44   | 5.24   |
| Sales Per Sh.     | 245.54 | 255.62 | 290.58 | 355.34 |
| EPS (Rs.)         | 25.84  | 29.49  | 36.82  | 39.03  |
| Csh EPS (Rs.)     | 43.52  | 51.06  | 53.17  | 60.81  |
| DPS (Rs.)         | 8.51   | 9.51   | 10.94  | 11.56  |
| BV (Rs.)          | 279.92 | 304.51 | 366.85 | 392.54 |

**Cash Flow Statement**

| Particulars         | FY'06  | FY'07   | FY'08   | FY'09   |
|---------------------|--------|---------|---------|---------|
| PAT                 | 610.5  | 696.8   | 869.9   | 922.2   |
| Depreciation        | 278.3  | 291.9   | 290.5   | 328.9   |
| Misc Exo w/o        | 0.0    | 0.0     | 0.0     | 0.0     |
| Change in WC        | -432.5 | -233.4  | -1077.5 | -461.3  |
| Op. Cash Flow       | 456.4  | 755.3   | 82.9    | 789.7   |
| Chg. In GB          | -458.9 | -305.0  | -252.5  | -2503.6 |
| Chg. In WIP         | 225.8  | -569.2  | -900.7  | 920.6   |
| Chg. In Inv.        | 90.8   | -158.0  | -859.9  | -1013.5 |
| Csh Flw Inv. Act.   | -142.3 | -1032.2 | -2013.1 | -2596.5 |
| Pay. of Div.        | 191.9  | 220.2   | 282.4   | 300.8   |
| Chg. in Term Liab   | -105.0 | 878.4   | -596.1  | 2160.9  |
| Chg. in Share Cap.  | 0.0    | 0.0     | 22.8    | 0.7     |
| Chg in Share Prem.  | 0.0    | 0.0     | 1376.0  | 48.2    |
| Csh Fl fr. Fin. Act | -296.9 | 658.2   | 520.3   | 1909.0  |
| Op Cash Balance     | 979.6  | 990.55  | 1367.72 | 28.7    |
| Cl. Cash Balance    | 990.6  | 1367.7  | 28.7    | 45.5    |

**FINANCIAL PROJECTIONS**
**Operational Performance**
**Rs. Cr.**

| Particulars         | FY' 09        | FY' 10E       | FY'11E        | FY' 12E       |
|---------------------|---------------|---------------|---------------|---------------|
| Net Sales           | 7236.2        | 6274.8        | 6940.3        | 7586.3        |
| Oth. Inc.           | 632.4         | 758.8         | 910.6         | 1092.7        |
| <b>Total Income</b> | <b>7868.6</b> | <b>7033.6</b> | <b>7850.9</b> | <b>8679.0</b> |
| Cost of Sales       | 6095.3        | 4959.5        | 5460.9        | 6020.8        |
| PBDILT              | 1773.3        | 2074.0        | 2390.0        | 2658.2        |
| Depreciation        | 328.9         | 415.2         | 443.2         | 471.1         |
| PBILT               | 1444.4        | 1658.8        | 1946.8        | 2187.1        |
| Fin. Charges        | 327.8         | 422.0         | 530.0         | 560.0         |
| Op Pr. bfr. Tax     | 1116.7        | 1236.8        | 1416.8        | 1627.1        |
| Ext.-ord. Items     | 0.0           | 0.0           | 0.0           | 0.0           |
| PBT                 | 1116.7        | 1236.8        | 1416.8        | 1627.1        |
| Less: Tax           | 194.5         | 210.3         | 240.9         | 276.6         |
| <b>PAT</b>          | <b>922.2</b>  | <b>1026.6</b> | <b>1175.9</b> | <b>1350.5</b> |

**Balance Sheet**
**Rs. Cr.**

| Particulars           | FY'09          | FY' 10E        | FY'11E         | FY'12E         |
|-----------------------|----------------|----------------|----------------|----------------|
| <b>Assets</b>         |                |                |                |                |
| Fixed Assets          | 5951.7         | 6256.5         | 6513.3         | 6742.2         |
| Investments           | 5443.5         | 5493.5         | 5693.5         | 5993.5         |
| NCA/NWC               | 2495.4         | 5924.1         | 6327.2         | 6832.4         |
| Current Assets        | 4681.1         | 7709.8         | 8412.9         | 9118.2         |
| Current Liab.         | 2185.8         | 1785.8         | 2085.8         | 2285.8         |
| <b>Tot. Cap. Emp.</b> | <b>13890.6</b> | <b>17674.1</b> | <b>18534.0</b> | <b>19568.1</b> |
| <b>Liabilities</b>    |                |                |                |                |
| Share Capital         | 221.4          | 236.3          | 236.3          | 236.3          |
| Reserves              | 8470.9         | 10780.4        | 11637.1        | 12668.3        |
| Misc. Exp.            | 0.0            | 0.0            | 0.0            | 0.0            |
| Net Worth             | 8692.4         | 11016.7        | 11873.4        | 12904.6        |
| Term Liab.            | 5198.2         | 6657.4         | 6660.6         | 6663.6         |
| <b>Tot. Cap. Emp.</b> | <b>13890.6</b> | <b>17674.1</b> | <b>18534.0</b> | <b>19568.1</b> |

**Key Ratios**

| Particulars     | FY' 09 | FY' 10E | FY'11E | FY' 12E |
|-----------------|--------|---------|--------|---------|
| Gr Tot Inc.     | 22.68% | -10.61% | 11.62% | 10.55%  |
| Gro PAT         | 6.01%  | 11.32%  | 14.55% | 14.84%  |
| PBDIT Mar       | 22.54% | 29.49%  | 30.44% | 30.63%  |
| PAT Mar         | 11.72% | 14.59%  | 14.98% | 15.56%  |
| ROCE            | 11.54% | 10.51%  | 10.75% | 11.48%  |
| RONW            | 10.99% | 10.42%  | 10.27% | 10.90%  |
| Gearing (x)     | 0.60   | 0.60    | 0.56   | 0.52    |
| Ov. Gearing (x) | 0.63   | 0.60    | 0.56   | 0.52    |
| Curr. Ratio (x) | 2.14   | 4.32    | 4.03   | 3.99    |
| Int. Cov. (x)   | 4.41   | 3.93    | 3.67   | 3.91    |
| Drs. Turnover   | 5.24   | 5.07    | 6.10   | 5.83    |
| Sales Per Share | 355.34 | 297.68  | 332.27 | 367.32  |
| EPS (Rs.)       | 39.03  | 43.45   | 49.77  | 57.16   |
| Csh EPS (Rs.)   | 60.8   | 61.0    | 68.5   | 77.1    |
| DPS (Rs.)       | 11.56  | 11.50   | 11.50  | 11.50   |
| BV(Rs.)         | 392.54 | 466.26  | 502.52 | 546.16  |

**Cash Flows**
**Rs. Cr.**

| Particulars         | FY' 09  | FY' 10E | FY'11E | FY' 12E |
|---------------------|---------|---------|--------|---------|
| PAT                 | 922.2   | 1026.6  | 1175.9 | 1350.5  |
| Depreciation        | 328.9   | 415.2   | 443.2  | 471.1   |
| Misc Exo w/o        | 0.0     | 0.0     | 0.0    | 0.0     |
| Change in WC        | -461.3  | -10.0   | -360.0 | -460.0  |
| Op. Cash Flow       | 789.7   | 1431.8  | 1259.1 | 1361.6  |
| Chg. In GB          | -2503.6 | -670.0  | -650.0 | -650.0  |
| Chg. In WIP         | 920.6   | -50.0   | -50.0  | -50.0   |
| Chg. In Inv.        | -1013.5 | -50.0   | -200.0 | -300.0  |
| Csh Flw Inv. Act.   | -2596.5 | -770.0  | -900.0 | -1000.0 |
| Pay. of Div.        | -300.8  | -319.3  | -319.3 | -319.3  |
| Chg. in Trm Liab    | 2160.9  | 1459.2  | 3.3    | 2.9     |
| Chg. in Sh. Cap.    | 0.7     | 14.8    | 0.0    | 0.0     |
| Chg in Sh. Prem.    | 48.2    | 1602.2  | 0.0    | 0.0     |
| Csh Fl fr. Fin. Act | 1909.0  | 2757.0  | -316.0 | -316.3  |
| Op Cash Bal.        | 28.7    | 45.5    | 3464.2 | 3507.3  |
| Cl. Cash Bal.       | 45.5    | 3464.2  | 3507.3 | 3552.5  |

|                     |                        |  |                |
|---------------------|------------------------|--|----------------|
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