VARDHAMAN CAPITAL

NOTE ON TATA POWER

Date : *10 February 2026*
Sector : *Power & Utilities*
CMP : *370*

Key Points:

Tata Power faced operational and regulatory challenges in Q3 FY26, primarily due to the temporary shutdown of its Mundra imported coal-based plant. This led to a meaningful earnings drag during the quarter. However, management has made substantial progress in resolving key issues related to Supplementary Power Purchase Agreements (SPPA), with Gujarat already near closure and discussions underway with other procuring states.

Management expects Mundra operations to resume within the next few weeks, positioning the company well to benefit from rising power demand during the upcoming summer season. Parallelly, strong execution momentum in renewables, distribution turnaround, and progress in large hydro and PSP projects provide visibility on earnings normalization over the next few months.

Overall, the current challenges appear transitory, while the company's diversified portfolio and conservative balance sheet support medium-term stability and growth.

Why Mundra Matters So Much?

As of early 2026, the Mundra Ultra Mega Power Project (UMPP) accounts for approximately 24.5% of Tata Power's total installed capacity, making it one of the single most critical assets in the company's generation portfolio. Any disruption at Mundra therefore has a disproportionate impact on consolidated earnings, cash flows, and capacity utilization metrics.

What went wrong?

- Mundra (4,000 MW) remained non-operational during the quarter, leading to a significant earnings impact.
- Approximately ₹800 crore loss at PAT level has been booked over the last six months due to lack of capacity charge recovery.
- The shutdown was linked to unresolved SPPA terms with procuring states for imported coal cost pass-through.

Current Status (Turning Point)

- SPPA issues with Gujarat have been resolved except for one final point, expected to close in 2–3 weeks.
- Once finalized, the same framework will be shared with other procuring states for in-principle approval.
- Management expects plant operations to restart by end of the month, aligning with peak summer demand.

Investor View

Given Mundra's 24.5% share of installed capacity, the restart of operations represents a step-change improvement, not an incremental one. This is a timing and regulatory resolution issue rather than a structural asset problem, and normalization at Mundra meaningfully restores earnings visibility for FY26 exit and FY27.

Power Demand Tailwinds

- National peak power demand expected in the 270–280 GW range in summer 2026.
- Demand rebound already visible in December–January.
- Restart of Mundra during high-demand months significantly enhances utilization and cash flows.

Growth Engines Beyond Mundra

1. Renewables & Manufacturing – Scaling Up

- Strong performance from solar cell and module manufacturing:
    - Q3 PAT: ₹251 crore (vs ₹112 crore YoY)
    - 9M FY26 PAT: ₹592 crore (+154% YoY)
- EBITDA margins remain healthy (~24–28%).
- Increasing internal consumption improves cost control and supply certainty.

2. Rooftop Solar – Structural Growth Story

- Executed 372 MW in Q3 vs 173 MW last year.
- 9M rooftop PAT at ₹324 crore (vs ₹110 crore YoY).
- Supported by government programs (Surya Ghar Yojana) and rising C&I demand.

3. Distribution Business – Turnaround Gaining Strength

- Odisha DISCOMs showing sustained operational and financial improvement.
- Q3 profit from Odisha DISCOMs at ₹226 crore (vs ₹86 crore YoY).
- Improved billing efficiency, collection, and loss reduction translating into actual cash flows.

Large Projects – Execution on Track

Pumped Storage Project (Bhivpuri)

- Execution progressing at full pace.

- Management confident of meeting aggressive timelines.

Bhutan Hydro Project

- Construction progressing as planned.
- Long-term clean energy asset with stable returns.

Policy & Regulatory Upside

Electricity Act Amendment

- Expected to be tabled in Parliament during the current budget session.
- Opens up opportunities for parallel distribution licensing.

Distribution Sector Reforms

- Over next 6–9 months, more states may adopt PPP models.
- Incentives likely for financially stressed DISCOMs.

Nuclear Power Optionality

- Active discussions with Government of India, NPCIL, DAE, and NITI Aayog.
- Focus on Small Modular Nuclear Reactors (SMRs).
- Project execution visibility over next 24 months.

Financial Position – Conservative & Resilient

- Net Debt / EBITDA: 3.4x
- Net Debt / Equity: 1.2x
- CAPEX-heavy growth without balance sheet stress.
- Strong internal cash generation from distribution and renewables.

Risks to Monitor

- Delay in final SPPA closure with non-Gujarat states.
- Transmission infrastructure delays affecting renewable evacuation.
- Regulatory uncertainty in distribution reforms.

Conclusion – Investment View

Tata Power's recent underperformance is largely attributable to a temporary operational disruption at Mundra. With resolution imminent and multiple growth levers firing simultaneously-renewables, rooftop solar, distribution turnaround, and policy tailwinds-the company is positioned for earnings recovery over the next few months.

For investors: - Short-term volatility is expected - Medium-term outlook remains constructive. - Any weakness driven by Mundra concerns may offer a strategic accumulation opportunity for long-term investors.
