

## Power Grid Corporation (POWGRI) ₹ 208

### Soft Q1FY18, capitalisation to pick up pace...

- Power Grid reported its Q1FY18 performance. Though in double digits, the numbers were lower than our estimates largely tracking lower-than-expected growth witnessed in the transmission segment (16.5% YoY growth vs. estimate of 23% YoY). Reported revenues increased 17.3% YoY to ₹ 7181.4 crore (vs. I-direct estimate: ₹ 7519.0 crore). Transmission segment revenue grew to ₹ 6930 crore, up 16.5% YoY. On the other hand, consultancy revenues at ₹ 212 crore were higher than our estimate of ₹ 144.5 crore. However, telecom segment revenues of ₹ 157.7 crore were lower than estimates of ₹ 193.5 crore
- Asset capitalisation totalled ~₹ 3542 crore while capital expenditure was ~₹ 6333 crore. The management expects capitalisation at ₹ 30000 crore in FY18E
- EBITDA for the quarter came in at ₹ 6200 crore with corresponding EBITDA margins at 86% (vs. I-direct estimate of ₹ 6466.3 crore, 86%). Employee expenses for Q1FY18 rose 49.7% YoY to ₹ 406.3 crore on account of pay revision of employees. Finance costs for Q4FY17 were at ₹ 1762.4 crore vs. our estimate of ₹ 1700 crore, on the back of strong asset capitalisation of last few quarters
- PAT in Q1FY18 was at ₹ 2052.4 crore, up 14% YoY vs. our estimate of ₹ 2196.9 crore on account of miss in transmission revenues

#### Q1FY18 capitalisation muted but to recover in FY18E

The capitalisation for Q1FY18 was at ₹ 3542 crore, below our expectations of ₹ 6000-7000 crore. However, in the first month of Q2FY18 i.e. July 2017, the company has capitalised assets to the tune of ₹ 3900 crore. Going ahead, we expect the company to witness asset addition of ₹ 28783 crore and ₹ 31500 crore in FY18E and FY19E, respectively. The company has guided for a capitalisation target of ₹ 30000 crore in FY18E.

#### Capex spend pegged at ₹ 25000 crore for FY18

The company had planned a capex of ₹ 81000 crore over the next 3-3.5 years. As of Q1FY18, the company has incurred a capex of ₹ 6333 crore. PGCIL earns 15.5% RoE on its capitalised asset and is largely a beneficiary of increased capitalisation. It has added ₹ 117000 crore of assets over FY13-17. The management expects to increase the capitalisation-capex ratio to above 1.0x for FY18E and FY19E. In FY17, the company incurred a capex of ₹ 24429 crore. The current CWIP was at ₹ 43118 crore vs. ₹ 38942 crore in Q1FY17. Going ahead, the company has clear visibility of ₹ 124000 crore (to be capitalised over next four to five years) backed by strong visibility in the TBCB segment and integration of wind capacity (30000 MW), solar UMPPs (20000 MW) and nuclear (7000 MW).

#### Eyeing new areas of growth

In addition to the base business, the company is making efforts to diversify and take exposure to renewables by battery storage (two modes in pilot projects to be completed by December 2017) and EV charging infrastructure. To leverage its existing assets, it is also planning a foray into railway electrification, wire business and telecom towers & data centres.

#### Best visibility of performance in power sector; maintain BUY

Given strong asset capitalisation over the last few years and consistency of the same over FY17-19E (average capitalisation of ₹ 30000 crore) would enable PGCIL to report 17% and 20% revenue and PAT CAGR, respectively, over the same period. We believe PGCIL commands best operating matrices across utilities. We upgrade the fair value to ₹ 255 (2x FY19E BV) and maintain **BUY** rating.

Rating matrix	
Rating	Buy
Target	₹ 255
Target Period	12 months
Potential Upside	13%

What's Changed?	
Target	Changed from ₹ 230 to ₹ 255
EPS FY18E	Changed from ₹ 17.3 to ₹ 17.4
EPS FY19E	Unchanged
Rating	Unchanged

Quarterly Performance					
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	7,300.1	6,119.9	19.3	6,712.0	8.8
EBITDA	6,524.9	5,559.1	17.4	6,043.8	8.0
EBITDA (%)	89.4	90.8	-146 bps	90.0	-66 bps
Adj. PAT	2,090.5	1,802.2	16.0	1,907.9	9.6

Key Financials				
₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	20802.2	25196.5	29689.1	34536.6
EBITDA	18345.6	22339.5	26397.3	30848.3
Net Profit	6026.9	7524.4	9088.1	10880.9
EPS (₹)	11.5	14.4	17.4	20.8

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	19.5	15.6	13.0	10.8
Target P/E	20.0	16.0	13.2	11.1
EV / EBITDA	11.5	10.6	9.6	8.6
P/BV	2.8	2.4	2.1	1.8
RoNW (%)	14.1	15.3	15.9	16.3
RoCE (%)	7.1	7.4	7.7	8.1

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	117697.5
Total Debt (FY17) (₹ Crore)	102000
Cash and Investments (FY17) (₹ Crore)	2488
EV (₹ Crore)	217209.5
52 week H/L (₹)	224 / 121
Equity capital (₹ Crore)	5231.6
Face value	₹ 10

Price performance (%)				
	1M	3M	6M	12M
Powergrid	(1.4)	3.6	(1.5)	(7.6)
NTPC	3.1	8.3	6.9	0.1
NHPC	(0.3)	10.8	7.0	1.8

#### Research Analyst

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### Variance analysis

	Q1FY18	Q3FY17E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Total sales	7,300.1	7,519.0	6,119.9	19.3	6,712.0	8.8	Revenues were lower than estimates owing to miss in transmission and consultancy revenues
Other operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Total Income	7,300.1	7,519.0	6,119.9	19.3	6,712.0	8.8	
Personnel cost	406.3	406.3	271.4	49.7	537.4	(24.4)	Employee expenses increased on account 7th pay revisions
General & Admin exp	577.4	577.4	428.8	34.7	556.1	3.8	
Non-recurring exp							
Total expenses	983.7	983.7	700.2	40.5	1,093.5	(10.0)	
EBITDA	6,524.9	6,639.3	5,559.1	17.4	6,043.8	8.0	EBITDA miss was largely on account of lower transmission revenues
EBITDA Margin (%)	89.4	88.3	90.8	(145.6)	90.0	(66.4)	
Depreciation	2,131.1	2,150.0	1,757.3	21.3	2,063.3	3.3	
Interest	1,762.4	1,700.0	1,517.8	16.1	1,555.8	13.3	
Other Income	208.5	172.9	139.4	49.5	342.4	(39.1)	
PBT	2,622.9	2,780.9	2,284.0	14.8	2,416.3	8.6	
Total Tax	532.4	584.0	481.9	10.5	508.3	4.7	
Adjusted PAT	2,090.5	2,196.9	1,802.2	16.0	1,907.9	9.6	PAT was below estimates
<b>Key Metrics</b>							
Transmission	6,930.5	7,181.0	5,838.2	18.7	6,435.0	7.7	Transmission revenues below estimates
Consultancy	163.0	193.5	114.1	42.8	144.0	13.2	
Telecom	157.7	144.5	161.3	-2.2	133.0	18.5	

Source: Company, ICICIdirect.com Research

### Change in estimates

(₹ Crore)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Revenue	29,179.6	29,689.1	1.7	34,536.6	34,536.6	1.7
EBITDA	25,905.8	26,397.3	1.9	30,848.3	30,848.3	1.9
EBITDA Margin (%)	88.7	88.9	21 bps	89.3	89.3	21 bps
PAT	8,385.0	9,088.1	8.4	10,880.9	10,880.9	8.4
EPS (₹)	16.0	17.3	8.4	20.8	20.8	8.4

Source: Company, ICICIdirect.com Research

### Assumptions

Crore	Current				Earlier		Comments
	FY16E	FY17	FY18E	FY19E	FY18E	FY19E	
Capex	22,456	24,429	28,783	31,655	28,783	-	The company's capitalisation/capex ratio is likely to remain above 1-1.2x over FY17E and FY18E
Capitalisation	21,760	31,000	28,783	31,655	28,783	-	

Source: Company, ICICIdirect.com Research

## Company Analysis

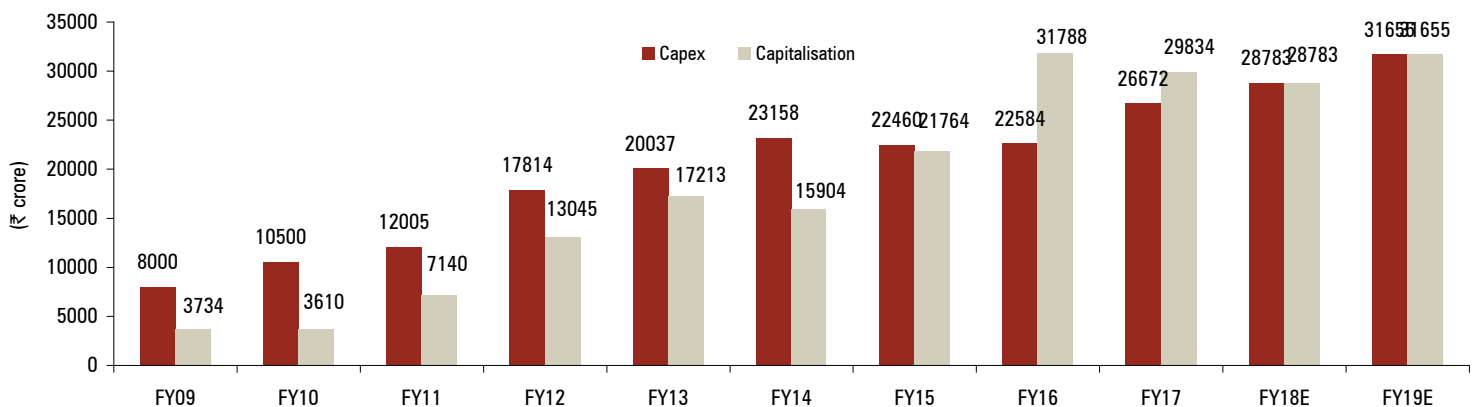
### Q1FY18 capitalisation muted but to recover in FY18E

The capitalisation for Q1FY18 was at ₹ 3542 crore, below our expectations of ₹ 6000-7000 crore. However, in the first month of Q2FY18 i.e. July 2017, the company has capitalised assets to the tune of ₹ 3900 crore. Going ahead, we expect the company to witness asset addition of ₹ 28783 crore and ₹ 31500 crore in FY18E and FY19E, respectively. The company has guided for a capitalisation target of ₹ 30000 crore in FY18E.

### Capex spend pegged at ₹ 25000 crore for FY18

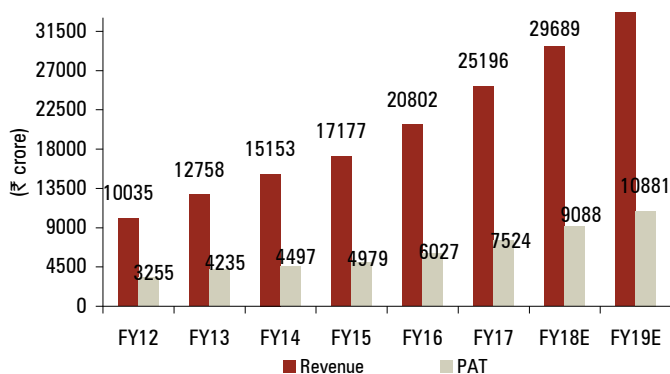
The company had planned a capex of ₹ 81000 crore over the next 3-3.5 years. As of Q1FY18, the company has incurred a capex of ₹ 6333 crore. PGCIL earns 15.5% RoE on its capitalised asset and is largely a beneficiary of increased capitalisation. It has added ₹ 117000 crore of assets over FY13-17. The management expects to increase the capitalisation-capex ratio to above 1.0x for FY18E and FY19E, respectively. In FY17, the company incurred a capex of ₹ 24429 crore. The current CWIP is at ₹ 43118 crore vs. ₹ 38942 crore in Q1FY17. Going ahead, the company has clear visibility of ₹ 124000 crore (to be capitalised over the next four to five years) backed by strong visibility in the TCB segment and integration of wind capacity (30000 MW), solar UMPPs (20000 MW) and nuclear (7000 MW).

**Exhibit 1: Trend in capex and capitalisation**



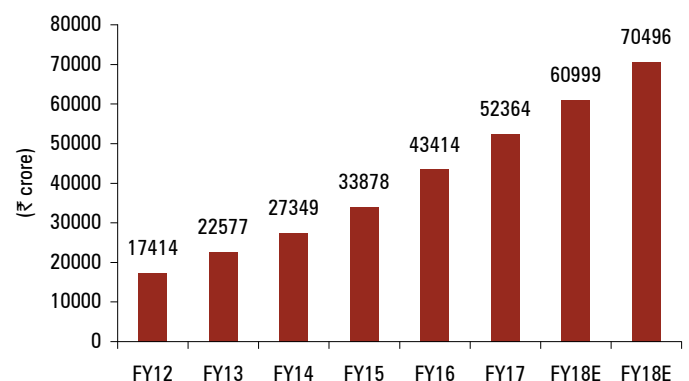
Source: Company, ICICIdirect.com Research

**Exhibit 2: Revenue and PAT trend**



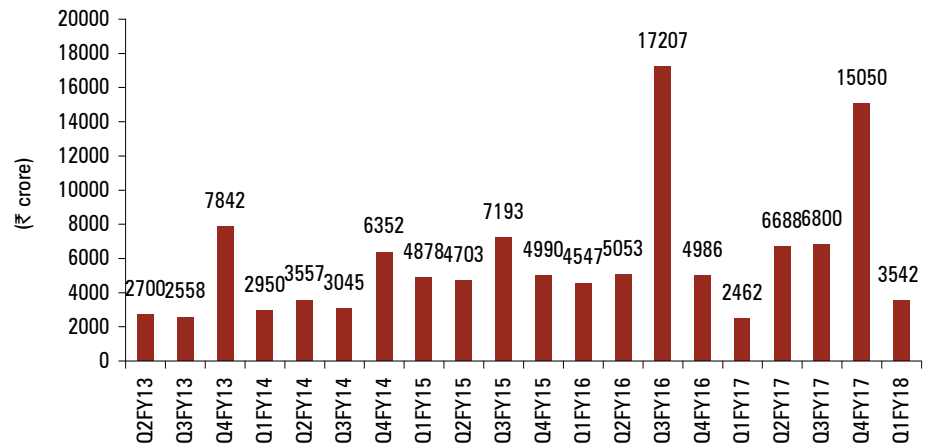
Source: Company, ICICIdirect.com, Research

**Exhibit 3: Regulated asset trend**



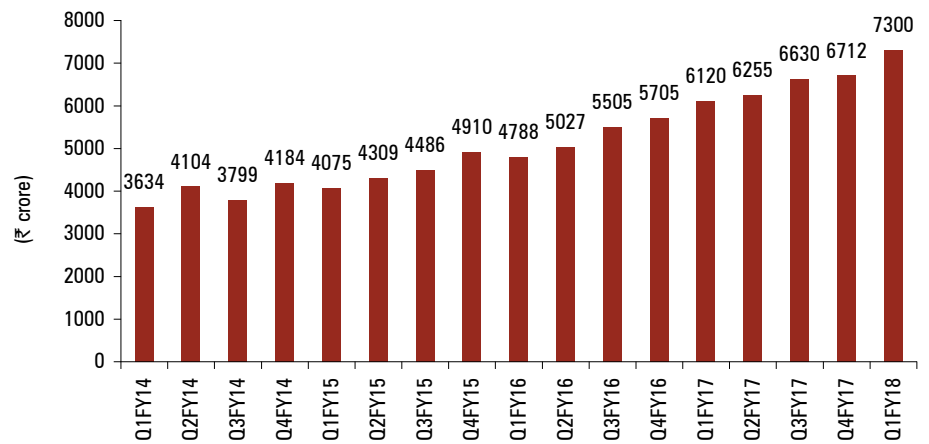
Source: Company, ICICIdirect.com, Research

**Exhibit 4: Quarterly trend in capitalisation**



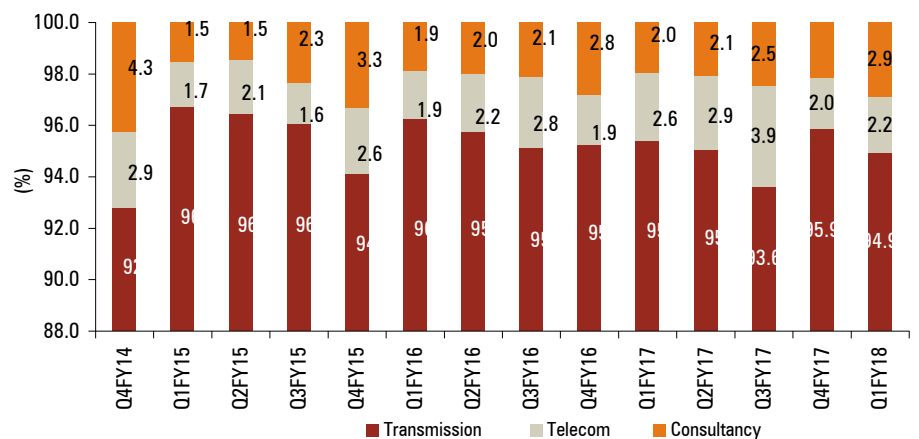
Source: Company, ICICIdirect.com Research

**Exhibit 5: Quarterly revenue trend**



Source: Company, ICICIdirect.com Research

**Exhibit 6: Segmental revenue break-up**

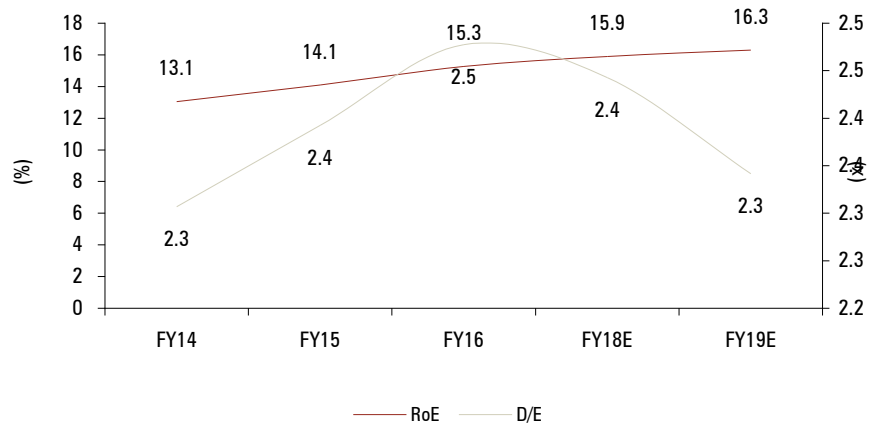


Source: Company, ICICIdirect.com Research

**Strong capitalisation in FY15-19E to drive 20% PAT CAGR over FY17-FY19E**

PGCIL has incurred ₹ 24429 crore capex in FY17 and ₹112600 crore in 12<sup>th</sup> plan (FY13-17) and capitalised assets worth ₹ 117000 crore in the same period. Also, FY18E will witness same robustness of capitalisation that was done in FY17 as the management has guided for a capitalisation of ₹ 30000-35000 crore. We believe this is achievable as the asset of ₹ 5342 crore is already commissioned in Q1FY18E. Accordingly, we believe PGCIL will deliver revenue and PAT CAGR of 17% and 20%, respectively, for FY17-19E. We expect the company to report PAT of ₹ 9088 crore and ₹ 10887 crore, respectively.

**Exhibit 7: Expected RoE and D/E trend, going ahead**

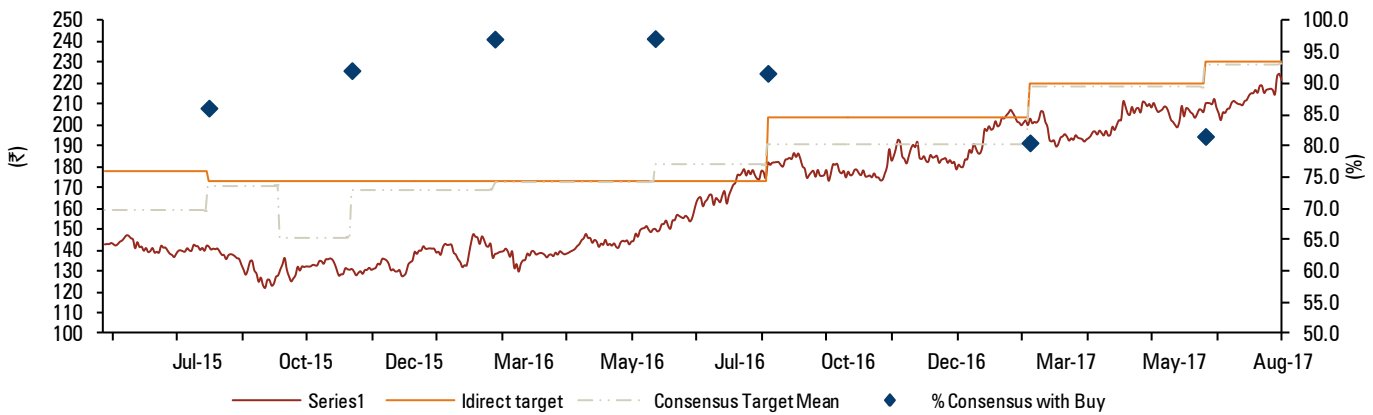


Source: Company, ICICIdirect.com Research

## Outlook and valuation

Given strong asset capitalisation over the last few years and consistency of the same over FY17-19E (average capitalisation of ₹ 30000 crore) would enable PGCIL to report 17% and 20% revenue and PAT CAGR, respectively, over the same period. We believe PGCIL commands the best operating matrices across utilities. We upgrade the fair value to ₹ 255/share (2x FY19E BV) and maintain **BUY** rating.

## Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

## Key events

Date	Event
Feb-10	Gol divests its ~17% stake in the company by launching an FPO, which got oversubscribed. The issue went for a fresh issue of 42.08 crore shares and equal number of government share dilution. The price was fixed at ₹ 90/share and ~₹ 3787 crore was raised by the Gol
Mar-11	Capitalisation during FY11 reached ₹ 7313 crore as the company inched towards the last year of the Eleventh Five Year Plan
Jan-12	Management guides capital expenditure of ₹ 1 lakh crore for Twelfth Five Year Plan; 82% higher than Eleventh Plan capex target of ₹ 55000 crore
Mar-12	Annual capitalisation reaches ₹ 14,100 crore as the company ended Twelfth Plan with a total capitalisation of ₹ 34715 crore and a capex of ₹ 53288 crore
Mar-13	Achieves its highest ever annual capitalisation of ₹ 17,213 crore. Also surpasses 1,00,000 ckt transmission line capacity, substation capacity of 164,763 MVAs and
Aug-13	Management revises its Twelfth Five Year Plan capex by 10% to ₹ 1,10,000 crore to take up the new business opportunity
Dec-13	Launches second FPO, which got subscribed 6.74 times. The issue comprised 13% fresh equity, which fetched the company ₹ 5,400 crore and ~₹ 1,600 crore was raised by the Gol at the finalised price of ₹ 90/share. Gol now holds 57.9% in the company
Dec-13	CERC proposes stringent 2014-19 draft tariff, which proposes higher availability criteria for incentives that would impact earnings by 2-3%
Feb-14	CERC issues a final tariff order for 2014-19, in line with the draft proposal
Dec-15	Reports highest ever asset capitalisation of ₹ 17,207 crore for the quarter after the commissioning of Biswanath Chariyali-Agra HVDC line in October 2015
Dec-16	The company seems to be on track to meet its capitalisation target of ₹30000 crore for FY17E as till January the company has commissioned assets to the tune of ₹20000 crore.

Source: Company, ICICIdirect.com Research

## Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Change
1	Government of India	30-Jun-17	0.6	3028.8	0.0
2	Capital Research Global Investors	30-Jun-17	0.0	232.0	-24.0
3	Life Insurance Corporation of India	30-Jun-17	0.0	121.2	0.0
4	Comgest S.A.	30-Apr-17	0.0	119.4	0.2
5	ICICI Prudential Asset Management Co. Ltd.	30-Jun-17	0.0	86.7	-1.0
6	HDFC Asset Management Co., Ltd.	31-Mar-17	0.0	70.2	5.1
7	Vontobel Asset Management, Inc.	30-Apr-17	0.0	50.6	-1.6
8	T. Rowe Price International (UK) Ltd.	30-Jun-17	0.0	49.2	-0.3
9	Norges Bank Investment Management (NBIM)	31-Dec-16	0.0	39.4	0.0
10	Wellington Management Company, LLP	31-May-17	0.0	35.2	0.1

Source: Reuters, ICICIdirect.com Research

## Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	57.90	57.90	57.90	57.90	57.90
FII	26.49	27.16	26.77	26.56	25.60
DII	8.23	7.88	8.09	8.48	9.53
Others	7.38	7.06	7.24	7.06	6.97

## Recent Activity

Buys			Sells		
Investor Name	Value (US\$ M)	Shares (Million)	Investor Name	Value (US\$ M)	Shares (Million)
HDFC Asset Management Co., Ltd.	19.1	7.1	Capital Research Global Investors	-25.0	-9.2
DSP BlackRock Investment Managers Pvt. Ltd.	11.2	4.1	The Vanguard Group, Inc.	-16.7	-6.2
Birla Sun Life Asset Management Company Ltd.	8.1	3.0	Capital World Investors	-13.6	-5.0
SBI Funds Management Pvt. Ltd.	5.3	2.0	T. Rowe Price International (UK) Ltd.	-8.6	-3.2
Fidelity Worldwide Investment (UK) Ltd.	3.9	1.5	TIAA Global Asset Management	-6.7	-2.5



## Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Total operating Income	20,802	25,196	29,689	34,537	
Growth (%)	13	21	21	18	
Employee Expenses	981	1,103	1,211	1,233	
Other expenses	1,476	1,754	2,080	2,455	
Total Operating Expenditure	2,457	2,857	3,292	3,688	
EBITDA	18,346	22,339	26,397	30,848	
Growth (%)	15	24	22	18	
Depreciation	6,183	7,448	8,640	9,950	
Interest	5,023	5,714	6,621	7,499	
Other Income	479	335	352	356	
PBT	7,619	9,512	11,488	13,755	
Others	0	0	0	0	
Total Tax	1,592	1,988	2,401	2,874	
PAT	6,027	7,524	9,088	10,881	
Growth (%)	21	25	21	20	
EPS (₹)	11.5	14.4	17.4	20.8	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Profit Before Tax	7,619	9,512	11,488	13,755	
Add: Depreciation	6,183	7,448	8,640	9,950	
(Inc)/dec in Current Assets	(2,125)	(2,246)	(2,169)	(2,499)	
Inc/(dec) in CL and Provisions	1,077	(3,012)	9	5,091	
Others	3,909	4,323	4,941	5,487	
CF from operating activities	16,663	16,025	22,909	31,784	
(Inc)/dec in Fixed Assets	(22,674)	(35,834)	(31,783)	(33,655)	
(Inc)/dec in Disposals	120	120	(280)	29	
Others	0	0	0	0	
CF from investing activities	(22,555)	(35,714)	(32,063)	(33,627)	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	11,664	19,863	17,465	16,814	
Dividend paid & dividend tax	(1,111)	(1,235)	(1,235)	(1,235)	
Inc/(dec) in Sec. premium	0	0	0	0	
Others	(5,023)	(5,714)	(6,621)	(7,499)	
CF from financing activities	5,530	12,913	9,609	8,081	
Net Cash flow	(362)	(7,175)	764	6,236	
Opening Cash	10,129	9,766	2,591	3,355	
Closing Cash	9,766	2,591	3,355	9,591	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
<b>Liabilities</b>					
Equity Capital	5,232	5,232	5,232	5,232	
Reserve and Surplus	37,502	44,054	51,907	61,553	
Total Shareholders funds	42,734	49,286	57,139	66,785	
Total Debt	102,240	122,102	139,567	156,381	
AAD	0	0	0	0	
Minority Interest / Others	3,568	3,827	3,827	3,827	
Total Liabilities	148,542	175,215	200,533	226,993	
<b>Assets</b>					
Gross Block	150,052	179,886	208,668	240,324	
Less: Acc Depreciation	34,341	41,789	50,429	60,379	
Net Block	115,711	138,097	158,240	179,945	
Capital WIP	43,810	49,810	52,810	54,810	
Total Fixed Assets	159,521	187,907	211,050	234,755	
Investments	807	1,087	1,058	1,031	
Inventory	824	1,057	1,228	1,473	
Debtors	2,738	3,024	3,266	3,626	
Loans and Advances	5,633	6,822	8,039	9,351	
Other Current Assets	3,137	3,024	3,563	4,144	
Cash	9,766	2,591	3,355	9,591	
Total Current Assets	22,097	16,517	19,451	28,186	
Current liabilities	26,646	20,516	20,267	23,869	
Other Liabilities	1,548	5,262	6,241	8,592	
Total Current Liabilities	28,194	25,779	26,508	32,461	
Net Current Assets	(11,787)	(13,779)	(11,575)	(8,793)	
Others Assets					
Application of Funds	148,542	175,215	200,533	226,993	

Source: Company, ICICIdirect.com Research

Key ratios		FY16	FY17	FY18E	FY19E
<b>Per share data (₹)</b>					
EPS		11.5	14.4	17.4	20.8
Cash EPS		23.3	28.6	33.9	39.8
BV		81.7	94.2	109.2	127.7
DPS		2.2	1.8	2.0	2.0
Cash Per Share		18.7	5.0	6.4	18.3
<b>Operating Ratios (%)</b>					
EBITDA Margin		88.2	88.7	88.9	89.3
PBT / Total Operating income		36.6	37.8	38.7	39.8
PAT Margin		29.0	29.9	30.6	31.5
Debtor days		48.0	43.8	40.2	38.3
<b>Return Ratios (%)</b>					
RoE		14.1	15.3	15.9	16.3
RoCE		7.1	7.4	7.7	8.1
RoIC		7.6	7.5	7.9	8.5
<b>Valuation Ratios (x)</b>					
P/E		19.5	15.6	13.0	10.8
EV / EBITDA		11.5	10.6	9.6	8.6
EV / Net Sales		10.1	9.4	8.6	7.7
Market Cap / Sales		5.7	4.7	4.0	3.4
Price to Book Value		2.8	2.4	2.1	1.8
<b>Solvency Ratios</b>					
Debt/EBITDA		5.6	5.5	5.3	5.1
Debt / Equity		2.4	2.5	2.4	2.3
Current Ratio		0.8	0.6	0.7	0.9
Quick Ratio		0.3	0.1	0.1	0.3

Source: Company, ICICIdirect.com Research



### ICICIdirect.com coverage universe (Utilities)

Sector / Company	CMP (₹)	Target TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY16	FY17	FY18E	FY16	FY17	FY18E	FY16	FY17	FY18E	FY16	FY17	FY18E	FY16	FY17	FY18E
CESC (CESC)	940	900	Hold	11,334	27.5	45.2	58.2	29.6	18.0	14.0	7.0	7.4	6.3	12.8	12.0	12.7	5.7	8.5	8.9
NTPC (NTPC)	168	176	Hold	131,268	12.5	13.0	14.4	13.5	12.9	11.7	11.7	10.2	10.0	8.0	7.7	8.1	12.9	11.0	11.1
Power Grid (POWGRI)	220	255	Buy	115,095	11.5	14.0	17.3	17.7	14.6	12.8	10.9	10.2	9.3	7.1	7.4	7.7	14.1	15.3	15.9

Source: Company, ICICIdirect.com Research

## **RATING RATIONALE**

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