

Power Grid Corporation of India

Strong Capitalization trend continues

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Rating	Accumulate
Price	Rs211
Target Price	Rs243
Implied Upside	15.2%
Sensex	33,686
Nifty	10,453

(Prices as on November 03, 2017)

Trading data

Market Cap. (Rs bn)	1,101.8
Shares o/s (m)	5,231.6
3M Avg. Daily value (Rs m)	1119.3

Major shareholders

Promoters	57.90%
Foreign	25.66%
Domestic Inst.	9.66%
Public & Other	6.78%

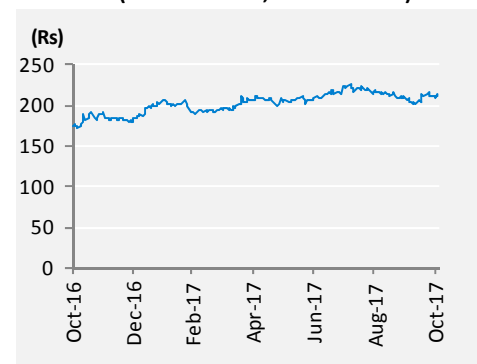
Stock Performance

(%)	1M	6M	12M
Absolute	2.2	(0.1)	20.7
Relative	(4.8)	(12.8)	(2.1)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	16.7	17.5	-4.9
2019	19.6	20.6	-4.5

Price Perf. (RIC: PGRD.BO, BB: PWGR IN)



Source: Bloomberg

■ **Good Overall Performance:** Power Grid Corporation of India (PWG) reported a strong operational performance in 2QFY18. Sales at Rs72.5bn were up 16% YoY (PL: Rs72.5bn) with strong growth in Transmission and Telecom Revenues. Revenue from Transmission segment was up 15.8% to Rs70.6bn, Consultancy was down 24.9% to Rs1.1bn while telecom was up 21.3% to Rs1.7bn. EBITDA was up 15.5% YoY at Rs64.7bn (PL: Rs63.5bn), while EBITDA margins were down by 30bps YoY to 89.3%. Employee cost was up 28.8% YoY to Rs3.2bn due to pay revision. Other income was up 6.4% YoY to Rs2.4bn and PAT was up by 14.4% YoY to Rs 21.4bn (PL: Rs20.6bn).

■ **Expect strong capitalization in FY18:** Asset Capitalization for the quarter remained strong at Rs100bn (up 50% YoY and 186% QoQ). The Capex for Q2FY18 stood at Rs56.5bn (up 7% YoY) that took Gross block to Rs1.6tn and reduced CWIP to Rs350bn. PWG commissioned ~5,696ckm of TL, 18,760MVA of substation and 15,000MW of Inter-regional capacity in Q2FY18. PWG has guided for capex of Rs250bn and Capitalization of ~ Rs300bn FY18. Total work in hand at the end of Q2FY18 stood at Rs1.09tn (Rs880bn ongoing/Rs.30bn new projects/Rs180bn TBCB projects). For the Next 5 years' total investment envisaged in sector is ~Rs2.6tn and of these, PWG expects to spend ~Rs1 tn.

■ **Outlook and Valuation:** The stock is trading at a valuation of 1.8x P/B FY19E and PER of 10.7x FY19E earnings. We expect the stock to deliver Sales and PAT CAGR of 17% & 20%, respectively, over FY16-19E. Strong project execution capabilities, history of meeting targets and visibility on investment plans for next few years gives comfort on earnings visibility. We maintain 'Accumulate' on the stock with Target Price of Rs243.

Key financials (Y/e March)	2016	2017	2018E	2019E
Revenues (Rs m)	206,658	257,165	289,971	329,867
Growth (%)	20.3	24.4	12.8	13.8
EBITDA (Rs m)	182,778	226,015	264,320	300,618
PAT (Rs m)	59,486	74,502	87,260	102,757
EPS (Rs)	11.4	14.2	16.7	19.6
Growth (%)	19.5	25.2	17.1	17.8
Net DPS (Rs)	3.4	4.3	5.0	5.9

Profitability & Valuation	2016	2017	2018E	2019E
EBITDA margin (%)	88.4	87.9	91.2	91.1
RoE (%)	14.7	15.9	16.4	17.3
RoCE (%)	7.0	7.6	7.5	7.8
EV / sales (x)	10.0	8.6	8.1	7.6
EV / EBITDA (x)	11.4	9.7	8.9	8.3
PE (x)	18.5	14.8	12.6	10.7
P / BV (x)	2.6	2.2	2.0	1.7
Net dividend yield (%)	1.6	2.0	2.4	2.8

Source: Company Data; PL Research

Exhibit 1: Q2FY18 Result Overview (Rs m)

Y/e March	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Net Sales	72,528	62,549	16.0	71,814	144,342	123,747	16.6
Expenditure							
O&M expenses	4,491	3,954	13.6	5,774	10,265	8,242	24.5
<i>% of Net Sales</i>	<i>6.2</i>	<i>6.3</i>		<i>8.0</i>	<i>7.1</i>	<i>6.7</i>	
Personnel Cost	3,288	2,553	28.8	4,036	7,324	5,267	39.0
<i>% of Net Sales</i>	<i>4.5</i>	<i>4.1</i>		<i>5.6</i>	<i>5.1</i>	<i>4.3</i>	
Total Expenditure	7,780	6,507	19.6	9,810	17,589	13,510	30.2
EBITDA	64,749	56,041	15.5	62,004	126,753	110,238	15.0
<i>Margin (%)</i>	<i>89.3</i>	<i>89.6</i>		<i>86.3</i>	<i>87.8</i>	<i>89.1</i>	
Other income	2,397	2,253	6.4	2,085	4,482	3,648	22.9
Depreciation	22,350	18,769	19.1	21,311	43,662	36,341	20.1
EBIT	44,796	39,526	13.3	42,777	87,573	77,544	12.9
Interest	18,673	15,876	17.6	17,624	36,297	31,054	16.9
Rate regulated income/(Expenditure)	811	(42)		695	1,506	(46)	
PBT	26,934	23,608	14.1	25,848	52,782	46,445	13.6
Total Taxes	5,523	4,888	13.0	5,324	10,847	9,707	11.7
<i>ETR (%)</i>	<i>20.5</i>	<i>20.7</i>		<i>20.6</i>	<i>20.6</i>	<i>20.9</i>	
Net Profit	21,410	18,720	14.4	20,524	41,934	36,738	14.1
Other Comprehensive income	317	(13)	NA	39	355	157	126.7
Total Comprehensive income	21,727	18,707	16.1	20,563	42,290	36,894	14.6

Source: Company Data, PL Research

Exhibit 2: Q2FY18 Segmental Overview (Rs m)

	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18
Revenues				
Transmission	70,634	61,007	15.8	69,305
Consultancy	1,159	1,542	(24.9)	2,120
Telecom	1,738	1,433	21.3	1,577
Total	73,531	63,982	14.9	73,001
EBIT				
Transmission	42,345	36,750	15.2	40,116
Consultancy	703	1,095	(35.8)	1,564
Telecom	991	684	44.9	730
Total	44,038	38,529	14.3	42,410
EBIT margin %				
Transmission	59.9	60.2		57.9
Consultancy	60.7	71.0		73.8
Telecom	57.0	47.7		46.3
Total	59.9	60.2		58.1

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2016	2017	2018E	2019E
Net Revenue	206,658	257,165	289,971	329,867
Raw Material Expenses	13,943	17,379	12,529	14,158
Gross Profit	192,715	239,787	277,442	315,709
Employee Cost	9,937	13,771	13,122	15,091
Other Expenses	—	—	—	—
EBITDA	182,778	226,015	264,320	300,618
Depr. & Amortization	61,798	76,628	82,825	94,025
Net Interest	51,349	63,038	62,553	70,594
Other Income	5,775	8,649	3,966	4,774
Profit before Tax	75,406	94,998	122,908	140,773
Total Tax	15,920	20,496	35,648	38,016
Profit after Tax	59,486	74,502	87,260	102,757
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	59,486	74,502	87,260	102,757
Avg. Shares O/S (m)	5,231.6	5,231.6	5,231.6	5,231.6
EPS (Rs.)	11.4	14.2	16.7	19.6

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	161,511	155,928	245,624	240,860
C/F from Investing	(211,476)	(186,607)	(280,100)	(280,100)
C/F from Financing	58,795	21,272	29,733	47,043
Inc. / Dec. in Cash	8,830	(9,407)	(4,743)	7,803
Opening Cash	20,630	24,537	15,130	10,386
Closing Cash	24,537	15,130	10,386	18,189
FCFF	(183,543)	(194,848)	(107,446)	(120,375)
FCFE	(66,904)	(60,078)	20,102	37,125

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	20.3	24.4	12.8	13.8
EBITDA (%)	23.9	23.7	16.9	13.7
PAT (%)	19.5	25.2	17.1	17.8
EPS (%)	19.5	25.2	17.1	17.8
Profitability				
EBITDA Margin (%)	88.4	87.9	91.2	91.1
PAT Margin (%)	28.8	29.0	30.1	31.2
RoCE (%)	7.0	7.6	7.5	7.8
RoE (%)	14.7	15.9	16.4	17.3
Balance Sheet				
Net Debt : Equity	2.3	2.2	2.2	2.2
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	18.5	14.8	12.6	10.7
P / B (x)	2.6	2.2	2.0	1.7
EV / EBITDA (x)	11.4	9.7	8.9	8.3
EV / Sales (x)	10.0	8.6	8.1	7.6
Earnings Quality				
Eff. Tax Rate	21.1	21.6	29.0	27.0
Other Inc / PBT	7.7	9.1	3.2	3.4
Eff. Depr. Rate (%)	4.1	4.3	4.0	4.0
FCFE / PAT	(112.5)	(80.6)	23.0	36.1

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	427,340	507,914	559,154	631,084
Total Debt	999,137	1,133,906	1,261,454	1,418,954
Other Liabilities	43,815	25,505	25,505	25,505
Total Liabilities	1,470,291	1,667,325	1,846,114	2,075,544
Net Fixed Assets	1,587,974	1,723,810	1,920,985	2,106,960
Goodwill	(21,557)	(48)	—	—
Investments	39,437	13,581	13,681	13,781
Net Current Assets	(135,941)	(71,094)	(88,576)	(45,220)
Cash & Equivalents	24,537	33,406	18,394	24,592
Other Current Assets	91,942	184,811	156,675	190,754
Current Liabilities	252,420	289,311	263,644	260,566
Other Assets	377	1,076	24	24
Total Assets	1,470,290	1,667,325	1,846,114	2,075,544

Quarterly Financials (Rs m)

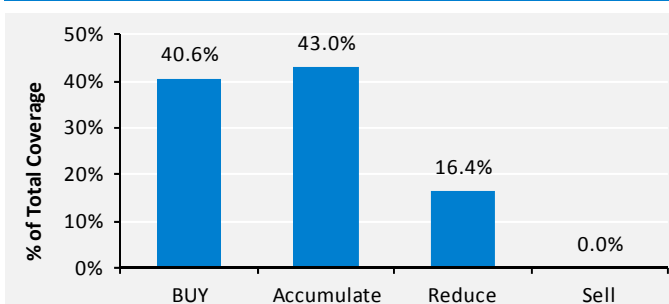
Y/e March	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Revenue	66,298	67,120	71,814	72,528
EBITDA	59,592	56,185	62,004	64,749
% of revenue	89.9	83.7	86.3	89.3
Depr. & Amortization	19,653	20,633	21,311	22,350
Net Interest	14,849	12,134	15,540	16,276
Other Income	1,578	3,424	2,085	2,397
Profit before Tax	25,006	24,247	25,848	26,934
Total Tax	5,706	5,083	5,324	5,523
Profit after Tax	19,300	19,164	20,524	21,410
Adj. PAT	19,300	19,164	20,524	21,410

Source: Company Data, PL Research.

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Reduce	: Underperformance to Sensex over 12-months
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