AXIS DIRECT

22 JAN 2018 | Quarterly Update

INDIA GRID TRUST

INFRASTRUCTURE

BUY

Target Price: Rs 105

In-line quarter; ROFO assets to boost DPU

Q3FY18 net profit came in line with our estimate at Rs 688 mn aided by strong operational performance of Initial Portfolio Assets (IPA) with average availability at 99.9%. Net Distributable Cash Flow (NDCF) stood at Rs 1 bn with Dividend Per Unit (DPU) of Rs 2.9/unit paid as interest to unitholders. We believe, IndiaGrid is on track to deliver its FY18 DPU guidance of Rs 9.2 per unit (annualized DPU of Rs 11/unit).

Further, IndiaGrid received unitholders' approval for acquisition of three Right of First Order (ROFO) assets at EV of Rs 15 bn. Acquisition of ROFO assets will be DPU and IRR accretive – will boost DPU by 5% to Rs 11.44/unit and enhance IRR by 100 bps to 9.2%. Entire acquisition is expected to be completed by Q4FY18. We maintain **BUY** with TP of Rs 105.

CMP	: Rs 94
Potential Upside	: 12%
Dividend yield	: 12%
Total return	: 24%

MARKET DATA

No. of Shares	: 284 mn
Free Float	: 100%
Market Cap	: Rs 27 bn
52-week High / Low	: Rs 100 / Rs 90
Avg. Daily vol. (6mth)	: 442,845 shares
Bloomberg Code	: INDIGRID IB Equity

On track to deliver FY18 DPU guidance: IndiaGrid distributed DPU of Rs 6.6/unit during M9FY18. We believe, IndiaGrid remains on track to deliver FY18 DPU guidance of Rs 9.2/unit (annualized DPU of Rs 11/unit) aided by strong operational performance by IPA.

Acquisition of ROFO to draw synergies and boost DPU growth: India Grid received unitholders' approval to acquire ROFO assets at EV of Rs 15 bn. The acquisition will be entirely funded through debt, which will increase IndiaGrid's net-debt/asset from 26% to 47% (within permissible limit of 49%).

These 3 assets have revenue/ EBITDA of Rs 1.8 bn/ Rs 1.7 bn with average 34-35 years of residual transmission asset life. Acquisition of ROFO will expand IndiaGrid' presence from 4 states to 8 states along with ~75% rise in ckms. Acquisition of ROFO will boost DPU by 5% from Rs 11/unit to Rs 11.44/unit.

Maintain BUY on low risk profile, high earnings predictability: IndiaGrid is well positioned to capitalize on strong growth fundamentals of the power transmission sector. Further, acquisition of three ROFO assets to be both DPU and IRR accretive – to boost DPU by 5% to 11.44/unit and enhance IRR by 100 bps to 9.2%. We maintain BUY with TP of Rs 105 on high earnings predictability, strong parentage and average DPU growth of 3-5% p.a.

Key risks: Interest rate risk, operational risk (availability & O&M costs), regulatory risks, conflicts of interest (sponsor is the project manager).

Financial summary (Consolidated)

Y/E March	Sales (Rs mn)	EBITDA (Rs mn)	NDFC (Rs mn)	DPU (Rs/unit)
FY18E	4,741	4,383	2,871	11.0
FY19E	6,525	6,013	3,205	11.4
FY20E	12,350	11,515	6,189	12.2

Source: Company, Axis Capital

Price performance

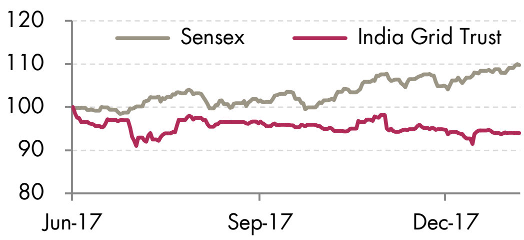

Exhibit 1: Quarterly performance

	Quarter ended		
(Rs mn)	Dec-17	Sep-17	% Chg
Net Sales	**1,267**	**1,323**	**(4.2)**
EBIDTA	1,173	1,223	(4.1)
Other income	15	9	65.0
PBIDT	**1,188**	**1,232**	**(3.6)**
Depreciation	354	344	2.8
Interest	172	279	(38.5)
PBT	662	609	8.7
Tax	(26)	2	-
Adjusted PAT	**688**	**607**	**13.4**
Extra ordinary income/ (exp.)	0	0	-
Reported PAT	**688**	**607**	**13.4**

Source: Company, Axis Capital

Exhibit 2: Potential returns to unit holder at 15% CAGR

	FY18E*	FY19E	FY20E	CAGR (FY18-20E)
DPU (Rs)	11.0	11.4	12.2	5%
IndiGrid target price	97.6	105.0	112.9	-
Accumulated DPU (Rs)	11.0	22.5	34.7	-
Total shareholders return (pre tax)	108.7	127.5	147.6	15.0%

Source: Company, Axis Capital; * Annualised

AXIS DIRECT

Financial summary (Consolidated)

Profit & loss (Rs mn)

March	FY18E	FY19E	FY20E
Net sales	4,741	6,525	12,350
Other operating income	0	0	0
Total operating income	4,741	6,525	12,350
Cost of goods sold	0	0	0
Gross profit	4,741	6,525	12,350
Gross margin (%)	100	100	100
Total operating expenses	(358)	(512)	(835)
EBITDA	4,383	6,013	11,515
EBITDA margin (%)	92	92	93
Depreciation	(1,329)	(1,687)	(3,132)
EBIT	3,054	4,325	8,383
Net interest	(650)	(1,920)	(3,276)
Other income	37	44	38
Profit before tax	2,441	2,449	5,146
Total taxation	0	0	97
Tax rate (%)	0	0	(2)
Profit after tax	2,441	2,449	5,243
Minorities	0	0	0
Profit/ Loss associate co(s)	0	0	0
Adjusted net profit	2,441	2,449	5,243
Adj. PAT margin (%)	51	38	42
Net non-recurring items	0	0	0
Reported net profit	2,441	2,449	5,243

Balance sheet (Rs mn)

March	FY18E	FY19E	FY20E
Paid-up capital	28,380	28,380	54,092
Reserves & surplus	273	465	811
Net worth	28,653	28,845	54,903
Borrowing	10,491	24,819	48,342
Other non-current liabilities	0	0	0
Total liabilities	39,335	53,928	103,741
Gross fixed assets	38,921	53,815	105,239
Less: Depreciation	(1,329)	(3,016)	(6,148)
Net fixed assets	37,592	50,799	99,091
Add: Capital WIP	0	0	0
Total fixed assets	37,592	50,799	99,091
Total Investment	257	257	257
Inventory	0	0	0
Debtors	1,039	1,430	2,707
Cash & bank	174	1,067	976
Loans & advances	0	0	0
Total current assets	1,330	2,658	3,988
Current liabilities	192	264	497
Net current assets	1,139	2,394	3,491
Other non-current assets	156	215	406
Total assets	39,335	53,928	103,741

Source: Company, Axis Capital

Cash flow (Rs mn)

March	FY18E	FY19E	FY20E
Profit before tax	2,441	2,449	5,146
Depreciation & Amortisation	(1,329)	(1,687)	(3,132)
Chg in working capital	(1,520)	(734)	(1,800)
CF from operations	1,636	1,526	3,145
Capital expenditure	(39,785)	(12,476)	(47,285)
CF from investing	(39,528)	(12,476)	(47,285)
Equity raised/ (repaid)	28,653	192	26,050
Debt raised/ (repaid)	0	0	0
Dividend paid	0	0	0
CF from financing	38,346	12,210	45,984
Net chg in cash	454	1,259	1,845

Valuation ratios

Y/E March	FY18E	FY19E	FY20E
PE (x)	10.9	10.9	5.0
EV/ EBITDA (x)	8.4	8.4	6.4
EV/ Net sales (x)	7.8	7.7	6.0
PB (x)	0.9	0.9	0.5
Dividend yield (%)	11%	12%	13%

Source: Company, Axis Capital

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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