

INDIA GRID TRUST

INFRASTRUCTURE

07 MAR 2018

Event Update

BUY

Target Price: Rs 105

Acquisitions to fast track growth

India Grid completed acquisition of three ROFO assets (MRP*) from its sponsor, Sterlite Power, at discounted valuation of Rs 14.1 bn vs. Rs 14.9 bn indicated in Oct'17 and Rs 15.7 bn that by independent valuers. India Grid has also signed agreement to acquire third party asset (PTCL#) from Techno Electric for Rs 2.3 bn.

India Grid is a growth plus yield play considering large pipeline of sponsor's assets that can increase AUM by four-fold to Rs 200 bn. Discounted valuation of first ROFO assets increases portfolio IRR to 10% and sets a benchmark for value-accretive acquisitions in future. India Grid has undertaken prudent financing – would raise Rs 10 bn with bullet repayment after 10 years at 8.25% fixed interest rate. Acquisition of these assets would increase Distribution Per Unit (DPU) to Rs 12 from Rs 11.4 earlier. Interest rate remains the key risk.

CMP	: Rs 95
Potential Upside	: 11%
Dividend yield	: 12%
Total return	: 23%

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

Discounted valuation to garner higher IRR: MRP assets acquired at Rs 14.1 bn are at ~5% discount to earlier estimated valuation of Rs 14.88 bn and ~11% discount to those by independent valuers. The discount will increase portfolio IRR to 10% at CMP (vs. our estimate of 9.2% IRR on earlier valuation)

Third party acquisition to fuel growth trajectory: India Grid to acquire Techno Electric's 400kV transmission asset – PTCL – for Rs 2.3 bn. PTCL has residual tenure of 33 years and had an average availability of 99.96% since COD

Prudent financing: Acquisition of MRP assets will be entirely funded through debt: (a) Rs 10 bn loan with bullet repayment after 10 years at 8.25% fixed interest rate and (b) Rs 4.2 bn through short-term loan. Post acquisition, India Grid's debt/asset will increase from 26% to 45% in FY19E, but still below permissible threshold of 49%

Pragmatic acquisitions increase DPU target, maintain BUY: We believe both these above mentioned acquisitions are IRR and DPU accretive; will raise portfolio IRR to 10% (vs. 9.2% earlier) and increase DPU to Rs 12 (vs. Rs 11.4 earlier). We maintain **BUY** with TP of Rs 105 on high earnings predictability, strong parentage, robust pipeline of sponsor's assets and average DPU growth of 3-5%. p.a.

Key risks: Interest rate risk, operational risks (availability & O&M costs), regulatory risks, conflict of interest (sponsor is the project manager), inability to fund future acquisitions and related party transactions for acquisition of ROFO assets

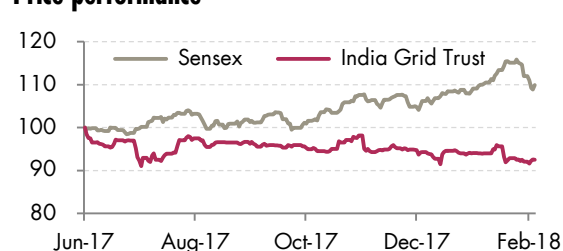
*MRP assets: M- Maheshwaram Transmission Ltd, R- RAPP Transmission Company Ltd, P- Purulia Kharagpur Transmission Company Ltd, #PTCL- Patran Transmission Company Ltd

Financial summary (Consolidated)

Y/E	Sales	EBITDA	NDFC	DPU
March	(Rs mn)	(Rs mn)	(Rs mn)	(Rs/unit)
FY18E	4,741	4,383	2,871	11.0
FY19E	6,525	6,013	3,284	11.8
FY20E	12,350	11,515	6,262	12.5

Source: Company, Axis Capital, CMP as on 27 Feb 2018

Price performance



Discounted valuation to garner higher IRR: Acquired MRP assets from sponsor at ~5% discount will lead to higher equity IRR of 10% vs. 9.2% estimated earlier.

Exhibit 1: Acquisition at ~5% discount to earlier valuation and ~ 11% discount to that by independent valuers

Asset	Independent valuation by third party (Rs mn)	Previous acquisition consideration (Rs mn)	Final acquisition consideration (Rs mn)
RTCL	3,935	3,738	3,542
PKTCL	6,512	6,186	5,861
MTL	5,218	4,957	4,697
Total	15,666	14,881	14,100

Source: Company

Exhibit 2: Acquisition at discounted valuations to garner higher equity IRR

Particulars	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY53E
Cash Inflow	1,625	1,618	1,610	1,601	1,591	1,581	1,569	1,556		4,190
Cash Outflow:										
Interest	1,132	1,111	1,088	1,065	1,043	1,020	997	974		0
Repayment	255	268	282	282	282	282	282	282		0
Net Cash Flow	238	240	240	253	267	279	290	300		4,190
No. of units	284	284	284	284	284	284	284	284		0
Revised DPU	11.8	11.8	11.8	10.3	10.2	8.5	7.9	8.0		15
Annualised IRR	10.0%									

Source: Company, Axis Capital

Synergies to India Grid upon acquisition of MRP assets

- ◆ Expand presence from four states to eight states
- ◆ ~75% rise in ckms (from 1,936 ckms to 3,360 ckms)
- ◆ MTL, RAPP, and PKTCL has residual tenure of 35,34 and 34 years respectively

Acquisition of MRP assets to be entirely funded through debt. Post the acquisition, India Grid's debt/asset would increase from 26% to 45% in FY19E– yet staying below the permissible threshold of 49%

Third party acquisition to fuel growth trajectory: India Grid to acquire Techno Electric's 400kV transmission asset, PTCL. PTCL has residual tenure of 33 years and average availability of 99.96% since COD.

Exhibit 3: PTCL valuation

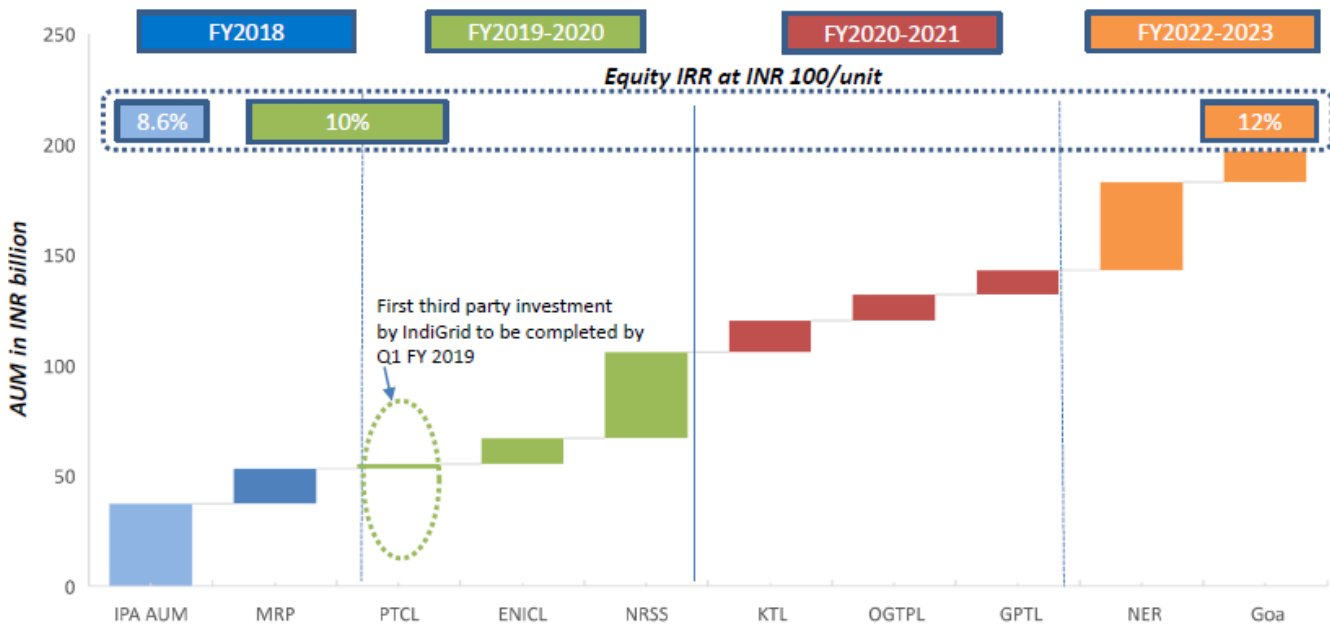
PTCL	(Rs mn)
EV as per independent valuation	2,247
Actual purchase consideration	2,320
Premium over independent valuation	~3%

Source: Company presentation

Exhibit 4: Features of PTCL project

PTCL	
Residual tenure	33 years
Payment mechanism	PoC mechanism
Average availability since COD	99.96%
Transaction likely to be completed by	1QFY19

Source: Company presentation

Exhibit 5: Acquisition of sponsor asset to boost equity IRR of portfolio


Source: Company presentation

Note 1. IPA AUM as of 30 Sep 2017. 2. MRP (MTL, RTCL and PKTCL) AUM as of 30 Jun 2017.

Acquisitions are both IRR and DPU accretive: Acquisition of MRP assets and PTCL will raise portfolio IRR to ~10% and increase DPU to Rs 12. **BUY** with TP of Rs 105 on high earnings predictability, strong parentage, robust pipeline of sponsor's assets and average DPU growth of 3-5%. p.a.

Exhibit 6: Strong pipeline of existing sponsor's assets

	East North Interconnection Ltd (ENICL)	NRSS XXIX Transmission Ltd (NIL)	Odisha Generation Phase Transmission Ltd (OGPTL)	Gurgaon-Palwal Transmission Ltd (GPIL)	Khargone Transmission Ltd (KTL)	NER-II Transmission Limited	Goa Tamnar Transmission Project Ltd.
Overview	2 x 400 kV D/C lines	3x400 kV D/C lines, 1x400/220 kV D/C GIS sub-station	1x765 kV D/C line, 1x400 kV D/C line	5x400kV D/C lines and 3x400/220 kV substations	2x765 kV D/C lines, 1x400 kV D/C line and 1x765/400 kV substation	2x400 kV D/C lines, 2x132 kV D/C lines and 2x400/132 kV substations	2x400 kV D/C quad lines, 1x765 kV D/C line, 2x500 MVA, 400/220 kV substation
Scheduled COD	Commissioned	Oct 2018	Aug 2019	Sep 2019	Jul 2019	Nov 2020	LOI Received on Nov 30, 2017
Length	909 ckms	887 ckms	715 ckms	271 ckms	624 ckms	900 ckms	~500 ckms (tentative)
Revenues (5 yr. avg.)	INR 1,420 Mn	INR 5,030 Mn	INR 1,590 Mn	INR 1,440 Mn	INR 1,860 Mn	INR 4,520 Mn	Tariff adoption order awaited

Source: Company presentation

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)	(1,857)	(3,213)
Other income	37	44	38
Profit before tax	2,441	2,512	5,208
Total taxation	0	0	97
Tax rate (%)	0	0	(2)
Profit after tax	2,441	2,512	5,305
Minorities	0	0	0
Profit/ Loss associate co(s)	0	0	0
Adjusted net profit	2,441	2,512	5,305
Adj. PAT margin (%)	51	39	43
Net non-recurring items	0	0	0
Reported net profit	2,441	2,512	5,305

Balance sheet (Rs mn)

March	FY18E	FY19E	FY20E
Paid-up capital	28,380	28,380	54,092
Reserves & surplus	273	470	820
Net worth	28,653	28,850	54,912
Borrowing	10,491	24,039	47,577
Other non-current liabilities	0	0	0
Total liabilities	39,335	53,153	102,986
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	292	220
Loans & advances	0	0	0
Total current assets	1,330	1,883	3,232
Current liabilities	192	264	497
Net current assets	1,139	1,619	2,735
Other non-current assets	156	215	406
Total assets	39,335	53,153	102,986

Source: Company, Axis Capital

Cash flow (Rs mn)

March	FY18E	FY19E	FY20E
Profit before tax	2,441	2,512	5,208
Depreciation & Amortisation	(1,329)	(1,687)	(3,132)
Chg in working capital	(1,761)	(823)	(2,101)
CF from operations	1,396	1,564	2,967
Capital expenditure	(39,825)	(12,685)	(47,569)
CF from investing	(39,568)	(12,685)	(47,569)
Equity raised/ (repaid)	28,653	197	26,062
Debt raised/ (repaid)	0	0	0
Dividend paid	0	0	0
CF from financing	38,346	11,238	44,530
Net chg in cash	174	118	(72)

Valuation ratios

Y/E March	FY18E	FY19E	FY20E
PE (x)	10.9	10.6	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%

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Research Team

Sr. No	Name	Designation	E-mail
1	Suvarna Joshi	Research Analyst	suvarna.joshi@axissecurities.in
2	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in

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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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