

Inline Q4; capitalization, capex remains strong

- Revenue from operations increased 16.5% YoY from ₹ 67.1bn to ₹ 78.1bn; up 4.1% QoQ from ₹ 75.1bn.
- EBITDA grew 16.2%YoY from ₹ 56.2bn mn to ₹ 65.2bn; declined 3.2% QoQ from ₹ 67.4bn. EBITDA Margin declined by 24 bps YoY to 83.5%; a decrease of 624 bps QoQ.
- Other cost grew 47.8% YoY to ₹ 8.1bn from ₹ 5.5bn, a growth of 121.5% QoQ. The employee cost declined 12.1% YoY to ₹ 4.7bn from ₹ 5.3bn, an increase of 17.9% QoQ.
- PAT grew by 4.6% YoY to ₹ 20bn from ₹ 19.1bn; de-grew 1.8% QoQ. from ₹ 20.4bn. The board declared a final dividend of ₹ 2.8/share in addition to the interim dividend of ₹ 2.45/share declared in Q3FY18.
- The transmission business grew 13.1% YoY to ₹ 75.2bn; grew by ~3% QoQ from ₹ 73.2bn. The consultancy business grew 29.3% YoY to ₹ 1.9bn; grew 37.6% QoQ. Telecom business grew 19.6% YoY to ₹ 1.7bn.
- In FY18 projects worth ₹ 290bn including TBCB projects completed. Also won three TBCB projects worth ₹ 22.35bn projects with capitalisation likely to be ~ ₹ 40bn
- Indian railway is also working on its own rail transmission line for which the company is working as a consultant. During FY18 four sections of rail electrification consulting project completed 10 months ahead of schedule
- Visible intra-state transmission projects worth ₹ 20bn and TBCB projects worth ₹40bn in the near term and total visible projects worth ₹ 940bn for the long term.
- For FY19 capex and capitalisation of ~₹ 260bn and ~₹ 280bn respectively similar to FY18 capex of ₹ 257.9bn and capitalisation of ₹ 279.2bn
- We maintain **Buy** Rating with TP ₹ 250 with valuation at P/BV 1.7x FY20E.

Q4FY18 Result (₹ Bn)

Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Operating Income	78.1	67.1	16.5	75.1	4.1
Staff Expenditure	4.7	5.4	(12.1)	4.0	17.9
Other Expenditure	8.1	5.5	47.8	3.7	121.5
EBITDA	65.2	56.1	16.2	67.3	(3.2)
Other Income	2.9	3.4	(16.4)	2.7	3.4
Depreciation	24.1	20.6	16.6	23.2	3.8
Interest	20.1	15.5	28.9	19.5	2.6
PBT	23.9	23.4	2.5	27.4	(12.5)
Tax	5.5	5.1	8.9	5.9	(7.7)
Net Profit	20.0	19.3	4.6	20.4	(1.8)
			bps		bps
Other cost (%)	10.4	8.2	221	4.9	553
Staff Cost (%)	6.0	8.0	(197)	5.3	71
EBITDA (%)	83.5	83.8	(24)	89.8	(624)
EBIT (%)	56.4	58.1	(173)	62.6	(618)
PBT (%)	30.7	34.9	(420)	36.5	(581)
NPM (%)	25.7	28.6	(291)	27.2	(152)

CMP	₹ 208
Target / Upside	₹250 /21%
BSE Sensex	35,064
NSE Nifty	10,660

Scrip Details

Equity / FV	₹ 52bn/ ₹ 10/-
Market Cap	₹ 1,086bn
	USD 16.1bn
52-week High/Low	₹226/189
Avg. Volume (no)	7,280,620
NSE Symbol	POWERGRID
Bloomberg Code	PWGR IN

Shareholding Pattern Mar'18 (%)

Promoters	56.9
MF/Banks/FIs	15.8
FIs	21.2
Public / Others	6.0

Valuation (x)

	FY18	FY19E	FY20E
P/E	13.2	11.7	9.4
EV/EBITDA	8.8	8.0	7.2
ROE	15.8	15.8	16.6
ROCE	10.6	11.1	11.7

Estimates (₹ bn)

	FY18	FY19E	FY20E
Net Sales	298	342	397
EBITDA	259	298	346
PAT	80	93	115
EPS (₹)	15.7	17.8	22.1

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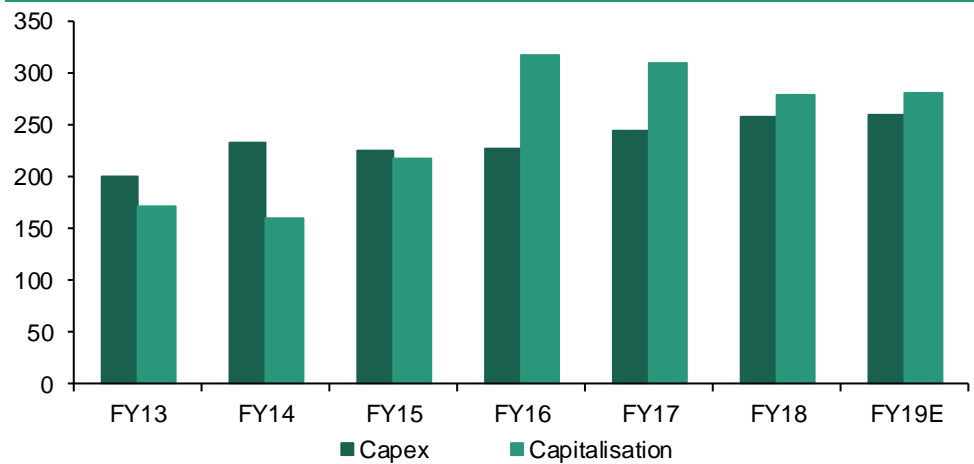
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Looking at non-T&D options too

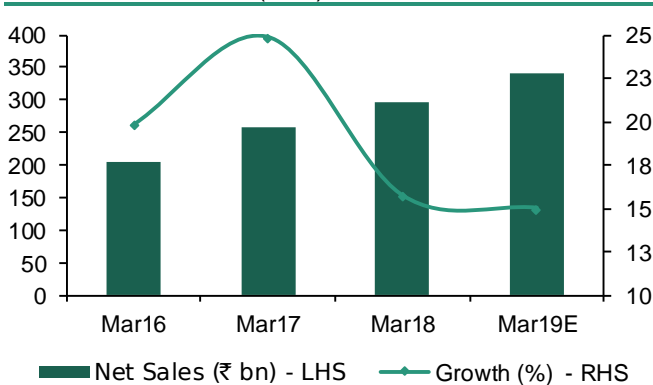
Additional targeted future projects include Electric vehicle charging points with pilot projects at Gurugram, Hyderabad (operations to start in Jun'18) and Chennai metro stations, battery storage project and rail signal modernization work for which JV company will be formed with Indian Railways and Phase-1 to be from Delhi-Mumbai line.

Exhibit 1: Project Efficiency across years (₹ bn)



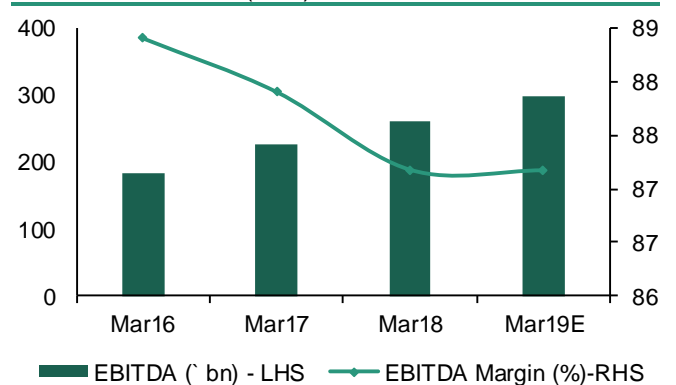
Source: Company, DART

Exhibit 2: Net Sales (₹ bn)



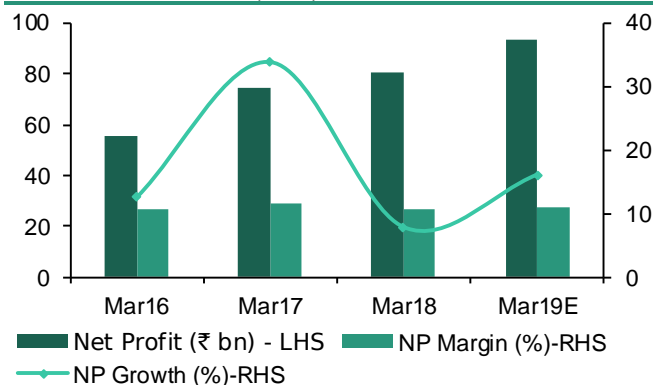
Source: Company, DART

Exhibit 3: EBITDA (₹ bn)



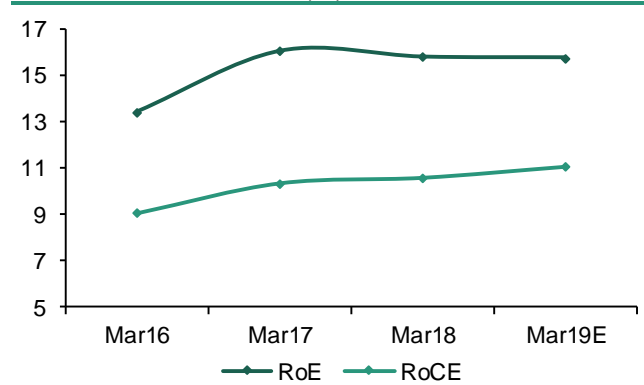
Source: Company, DART

Exhibit 4: Net Profit (₹ bn)



Source: Company, DART

Exhibit 5: RoE & RoCE (%)



Source: Company, DART

Income Statement (₹ bn)

Particulars	Mar17	Mar18P	Mar19E	Mar20E
Operating Income	257	298	342	397
Total Expenditure	31	38	44	50
Employee Benefits Exp.	14	16	18	21
Other Expenses	17	22	26	30
Other Income	9	10	12	14
EBIDTA (Excl. OI)	226	259	298	346
EBIDTA (Incl. OI)	235	270	310	360
Interest	63	76	87	94
Depreciation	63	76	87	94
Profit Before Tax	95	103	119	148
Tax	20	22	26	32
Net Profit	75	80	93	115

Balance Sheet (₹ bn)

Particulars	Mar17	Mar18P	Mar19E	Mar20E
Sources of Funds				
Equity Capital	52	52	52	52
Other Reserves	446	492	585	700
Net Worth	498	544	637	753
Secured Loans	1,113	1,216	1,339	1,449
Loan Funds	1,113	1,216	1,339	1,449
Deferred Tax Liability	26	26	26	26
Total Capital Employed	1,686	1,843	2,059	2,284
Applications of Funds				
Gross Block	1,497	1,769	2,020	2,303
Less: Accumulated Dep.	142	233	337	455
Net Block	1,355	1,536	1,683	1,848
Capital Work in Progress	358	303	305	307
Investments	13	16	18	20
Current Assets, Loans & Advances				
Inventories	9	10	13	15
Sundry Debtors	32	36	44	52
Cash and Bank Balance	33	15	36	40
Loans and Advances	108	94	108	124
Other Current Assets	76	96	97	106
<i>sub total</i>	258	251	298	337
Less: Current Liabilities & Provisions				
Current Liabilities	253	257	271	293
Provisions	8	7	7	7
<i>sub total</i>	261	264	278	300
Net Current Assets	(3)	(13)	20	37
Total Assets	1,686	1,860	2,010	2,172

E – Estimates

Cash Flow (₹ bn)

Particulars	Mar17	Mar18P	Mar19E	Mar20E
Profit before tax	95	103	119	148
Depreciation & w.o.	77	91	104	118
Net Interest Exp	63	76	87	94
Direct taxes paid	(20)	(22)	(23)	(29)
Change in Working Capital	(5)	(21)	1	3
(A) CF from Opt. Activities	210	227	288	334
Capex	(184)	(217)	(253)	(285)
Free Cash Flow	26	10	35	49
(B) CF from Invt. Activities	(201)	(200)	(265)	(299)
Inc./(Dec.) in Debt	103	103	123	110
Interest exp net	(60)	(78)	(87)	(94)
Dividend Paid (Incl. Tax)	(16)	(33)	(37)	(46)
(C) CF from Financing	27	(8)	(0)	(29)
Net Change in Cash	36	19	23	6
Opening Cash balances	22	33	15	36
Closing Cash balances	33	15	36	40

Important Ratios

Particulars	Mar17	Mar18P	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	87.9	87.2	87.2	87.3
Interest / Sales	24.5	25.5	25.4	23.7
Tax/PBT	21.6	21.8	21.8	21.8
Net Profit Margin	29.2	27.7	27.2	29.1
(B) As Percentage of Net Sales				
Employee Benefits Exp.	5.4	5.4	5.2	5.2
Other Expenses	6.7	7.4	7.7	7.6
(C) Measures of Financial Status				
Debt / Equity (x)	2.2	2.2	2.1	1.9
Interest Coverage (x)	3.7	3.6	3.6	3.8
Average Cost of Debt (%)	6.3	6.8	7.1	7.1
Debtors Period (days)	45.7	44.6	47.5	47.5
Closing stock (days)	12.9	12.7	14.0	13.7
Inventory Turnover Ratio (x)	28.3	28.7	26.1	26.6
Fixed Assets Turnover (x)	0.2	0.2	0.2	0.2
W.C. Turnover (x)	(86.5)	(22.7)	17.1	10.8
Non-Cash WC (₹ Bn)	(36.4)	(28.2)	(16.3)	(3.7)
(D) Measures of Investment				
EPS (₹) (excl EO)	14.4	15.7	17.8	22.1
CEPS (₹)	29.0	33.1	37.7	44.7
DPS (₹)	2.5	5.3	5.9	7.3
Dividend Payout (%)	17.5	33.3	33.0	33.0
Profit Ploughback (%)	82.5	66.7	67.0	67.0
Book Value (₹)	95.2	104.0	121.8	143.9
RoANW (%)	16.1	15.8	15.8	16.6
RoACE (%)	10.4	10.6	11.1	11.7
RoAIC (%)	10.5	10.7	11.2	11.9
(E) Valuation Ratios				
CMP (₹)	208	208	208	208
P/E (x)	14.4	13.2	11.7	9.4
Market Cap. (₹ Bn)	1,086	1,086	1,086	1,086
MCap/ Sales (x)	4.2	3.7	3.2	2.7
EV (₹ Bn)	2,166	2,287	2,389	2,495
EV/Sales (x)	8.4	7.7	7.0	6.3
EV/EBDITA (x)	9.6	8.8	8.0	7.2
P/BV (x)	2.2	2.0	1.7	1.4
FCFF Yield (%)	6.3	3.2	6.6	6.1
Dividend Yield (%)	1.2	2.5	2.8	3.5

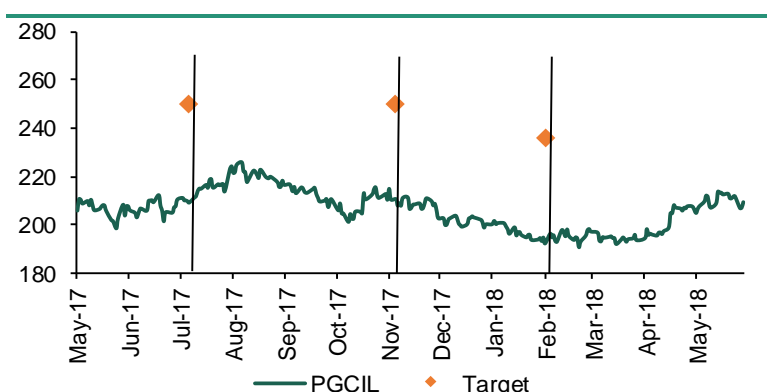
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
June-17	Buy	250	216
Nov-17	Buy	250	211
Feb-18	Buy	236	194

* As on Recommendation Date

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