INITIATING COVERAGE

INDIA GRID TRUST

Covering all bases

India Equity Research| Power

We initiate coverage on India Grid Trust (IndiGrid) with 'BUY' and target price of INR108 on account of: a) it being an excellent play on infrastructure assets (transmission) with long-term perpetual yield along with earnings growth option; b) certainty of high cash flows as IndiGrid earns revenue from contracted tariffs under long-term contracts, eschewing volume risks; and c) ROFO assets boost visibility with 3.5x EBITDA potential and 4x growth in net distributable cash flow, which ensure 3.8% DPU growth over FY18-22E. At CMP, the stock is attractively priced at ~13% yield on FY19E earnings. Interest rate risks, construction delay in ROFO assets and poor liquidity in instrument are key risks.

Whopping INR2.5tn domestic transmission pie over FY18-22E

Grid enhancement projects and distribution reforms are set to drive latent power demand and boost investment opportunities in transmission space. We expect INR0.75tn projects to be awarded under TBCB mode. This presents huge opportunity for IndiGrid via its sponsor Sterlite Power, which has historically maintained 30% market share in TBCB orders. This, along with M&A opportunities in transmission, bodes well for IndiGrid.

Focused business model with minimal counter-party risks

IndiGrid's business model focuses on owning only those power transmission assets which have long-term contracts, stable cash flows and low operating risks. Moreover, transmission projects have a better risk-return profile and are one of the most favoured investment opportunities as compared to other asset class like roads, ports and power generation which depend mostly on operational performance of assets. The certainty of cash flows is higher and can be predicted with accuracy over entire life cycle of 35 years.

Robust revenue visibility, strong cash flow generation potential

From current AUM of INR55bn, IndiGrid is targeting INR300bn plus AUM (INR195bn visibility through ROFO assets) over the next five years via organic as well as inorganic routes. Hence, we expect the NDCF to InvIT holders to catapult 4x to ~INR12.5bn. Further, we estimate 3.8% DPU CAGR over FY18-22 (10% CAGR over FY18-20E).

Outlook and valuations: Attractively priced; initiate with 'BUY'

We like IndiGrid's business model, which entails no volume and tariff revision risks, unlike PGCIL, but fetches similar ~15% return (yield + DPU growth) p.a. We anticipate drop down of all ROFO assets to improve ~400bps to 12.1% over the next four years, led by higher project IRRs and leverage benefits. We initiate coverage with **'BUY'** and target price of INR108 (15% upside) on FY20E, discounting cash flows at 11% COE.

Financials

Year to March	FY18E	FY19E	FY20E
Revenue (INR mn)	4,422	6,719	12,645
EBITDA (INR mn)	4,083	6,162	11,616
DPU (INR)	11.1	12.1	13.4
Yield (%)	11.9	12.9	14.2

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA *(R: NA.BO, B: INDIGRID IN)*

CMP	: INR 94
Target Price	: INR 108
52-week range (INR)	: 100 / 90
Share in issue (mn)	: 284
M cap (INR bn/USD mn)	: 26 / 405
Avg. Daily Vol.BSE/NSE('000)	: 577.9

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2Y18
Promoters *	20.7	20.7	16.7
MF's, FI's &	23.2	22.9	23.1
FII's	30.2	30.4	35.8
Others	25.9	25.9	24.4

** Promoters pledged sha : NIL*
(% of share in issue)

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	(2.0)	0.1	2.1
3 months	(2.4)	(1.2)	1.2
12 months	13.6	NA	NA

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Executive Summary

Domestic transmission opportunity pegged at INR2.5tn over FY18-22

The government has sharpened focus on alleviating congestion via several grid enhancement projects and distribution reforms. These initiatives are envisaged to improve the pace of electrification, driving latent power demand and create opportunities in the transmission space. Over FY18-22, investments in the transmission segment are estimated to jump 1.5x compared to FY12-16 to a whopping INR2.5tn. We estimate ~INR0.75tn of projects to be awarded on tariff based competitive bidding (TBCB) basis, an opportunity for the private sector. Sterlite Power (IndiGrid's sponsor) has maintained ~30% market share in TBCB projects and we expect it to sustain. This, along with burgeoning M&A opportunities in the transmission sector, bodes well for IndiGrid.

Focused business model with minimal counter-party risks

IndiGrid's business model focuses on owning only those power transmission assets which have long-term contracts, stable cash flows and low operating risks. Moreover, risk-return in transmission projects is superior and they are one of the most favoured investment opportunities. Power transmission entails low operating risk due to take-or-pay contracts and payments based on availability and do not carry volume risks. The counter-party risk too is low as payments are from Power Grid Corp (CTU), which pays from a pool of transmission charges. Furthermore, the certainty of cash flows is far higher and can be predicted with accuracy over the entire life cycle of 35 years.

Robust revenue visibility, strong cash flow generation potential

From current AUM of INR55bn, IndiGrid is targeting INR300bn plus AUM (INR195bn visibility through ROFO assets) over the next five years via organic as well as inorganic routes. Hence, we expect the NDCF to InvIT holders to catapult 4x to ~INR12.5bn. We further estimate 3.8% DPU CAGR over FY18-22 (10% CAGR over FY18-20E). <u>We derive comfort from the fact that the first drop down of assets happened in the first eight months of the IPO itself</u>.

Regulations offer ample comfort to investors

SEBI took an innovative step and introduced infrastructure investment trust (InvIT) regulations for infrastructure projects. These regulations go a long way in protecting investors' interests as: a) leverage has been capped at ~1:1 (4:1 in US); b) 90% of net distributable cash flows to be distributed to investors; and c) asset acquisitions to be approved by majority share holders (excluding promoters).

Outlook and valuations: Safe, attractive play; initiate with 'BUY'

IndiGrid is well poised to benefit from burgeoning investment opportunities in the power transmission sector through its experienced sponsor Sterlite Power. Further, ROFO assets provide visibility of 3.5x EBITDA from current level. We strongly believe that drop down of all ROFO assets will improve by ~400bps to 12.1% over the next four years led by higher project IRRs and leverage benefit. Moreover, we like IndiGrid's business model, which does not carry any volume and tariff revision risks, unlike PGCIL and entails strong visibility of DPU growth, but draws broadly similar level of return of ~15% (yield + DPU growth) as the latter. The IndiGrid stock is available at attractive 13% yield on FY19E and is best placed compared to global yield cos (7% yield on average). We initiate coverage with **'BUY'** and TP of INR108 on FY20E using NPV approach (FCFE), discounting cash flow at 11% COE. In our SOTP, we have also assigned terminal value of ~INR2/share as we value potential monetisation of land/scrap value of metals used in projects.

Key risks to our rationale

Interest rate: IndiGrid is often compared to G-sec yields with respect to its IRR. Over the past three-four months, G-Sec yields have hardened ~100bps to 7.3%. We believe the company will maintain a spread of ~150-200bps (IRR) over G-sec in the ensuing two years. However, we perceive interest rate risk, refinance risk and corporate bond spread risk as the key risks which could impact our financial estimates.

Delays in under-construction projects: IndiGrid, with the approval of unit holders, may acquire power transmission projects, including any or all the ROFO assets, which are still under construction and development. Any construction disruptions or delays could impede IndiGrid's ability to exercise its ROFO in respect of assets owned by the sponsor and, in turn, materially impact its financial estimates.

Capital raising: In our base case scenario, we have assumed drop down price of ROFO assets at INR100/share. However, it's not necessary the same will hold true at the time of drop down and accordingly our estimates and target price could vary.

At a Glance

Chart 1: Strong transmission ordering opportunity ...

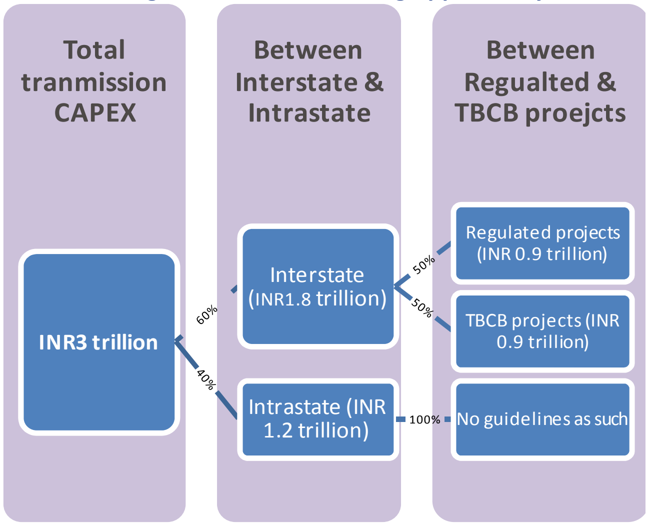


Chart 2: ... to further improve IndiGrid's AUM visibility

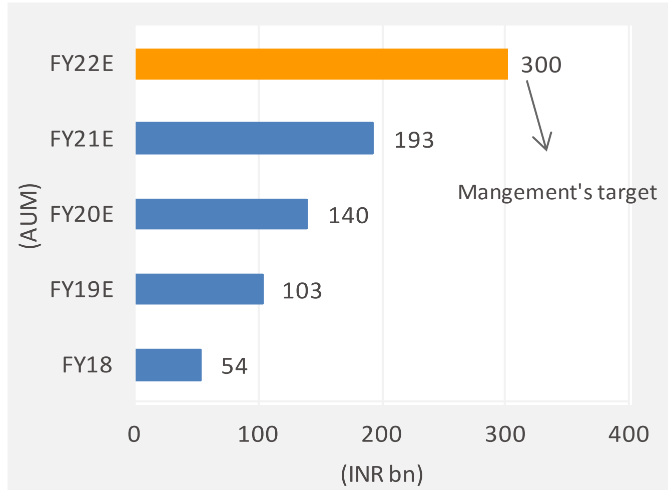


Chart 3: 4x growth in NDCF from ROFO assets....

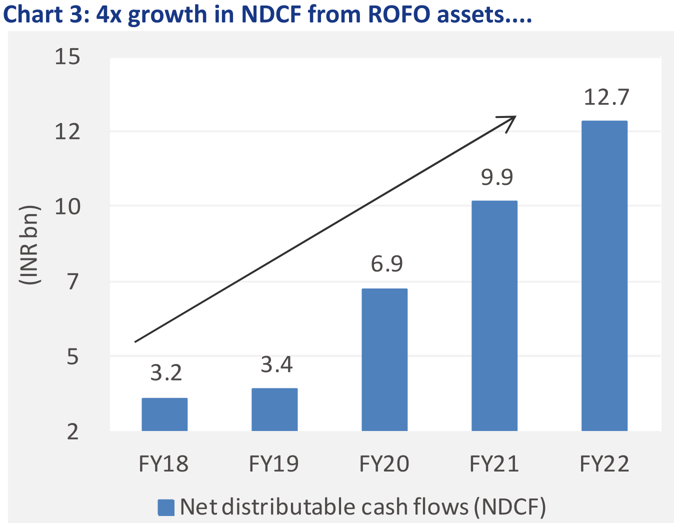


Chart 4: ... leads to 3.8% DPU CAGR, adjusting for dilution

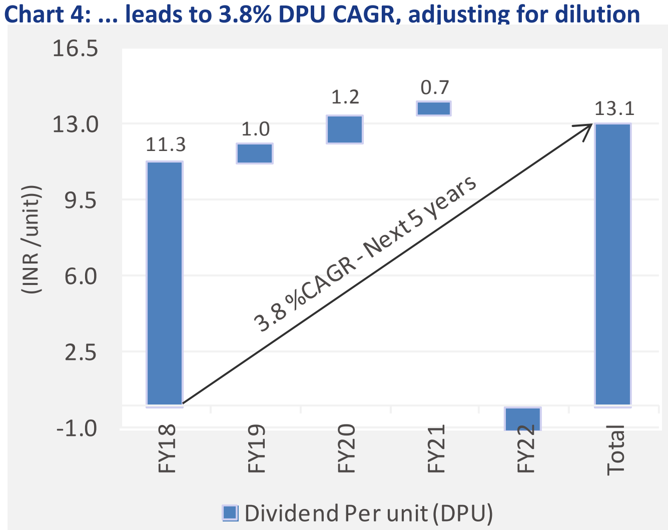


Chart 5: IRR to improve by 400bps ...

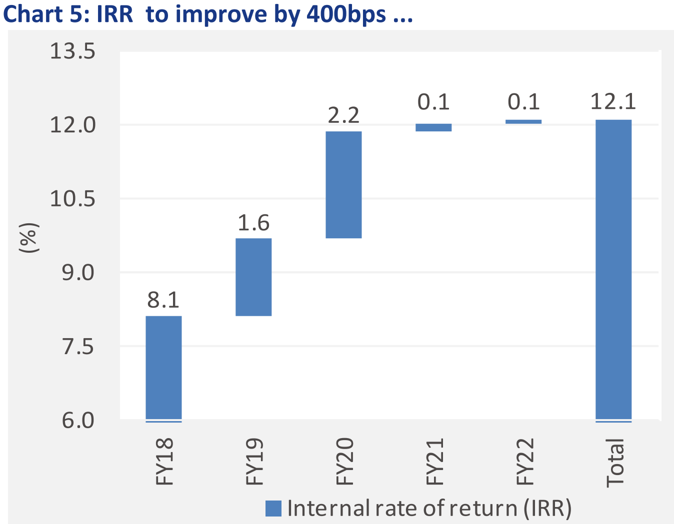
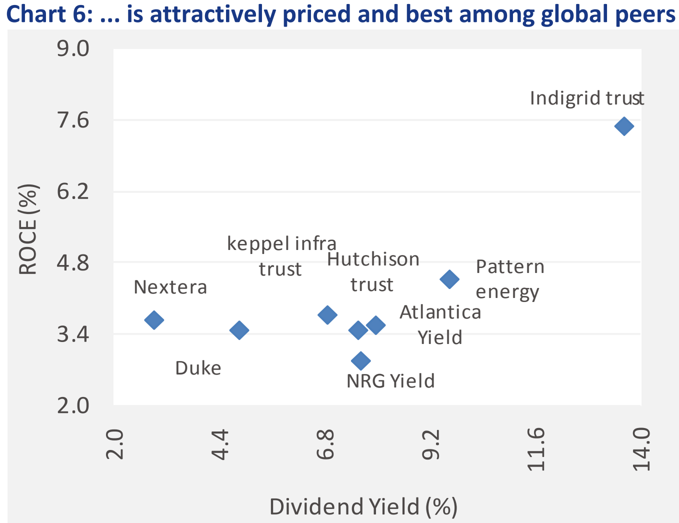


Chart 6: ... is attractively priced and best among global peers



Source: CEA, MOP, Industry, Company, Edelweiss research

Grid enhancement projects and distribution reforms will continue to boost investment opportunities in transmission

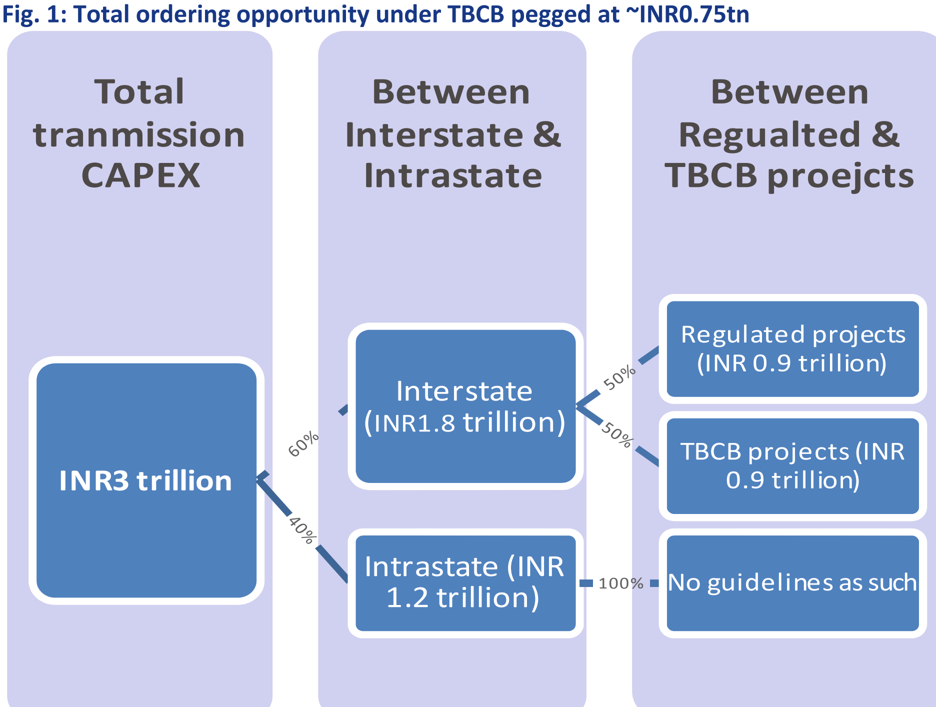
Investment Rationale

Domestic transmission opportunity pegged at INR2.5tn over FY18-22

Though investments in the transmission sector have surged, they have significantly lagged the generation sector. However, now with the government sharpening focus on alleviating congestion via several grid enhancement projects, transmission capacities are expected to clock robust spurt. Further, distribution reforms like *SAUBHAGYA* and *DDJUGY* are likely to revitalise electrification pace, triggering latent power demand and, in turn, creating opportunities in the transmission space.

Over FY18-22, investments in the transmission segment are envisaged at **INR2.5tn,** a whopping 1.5x jump over FY12-16**. We estimate ~INR0.75n of projects to be awarded on tariff-based competitive bidding (TBCB) basis, an opportunity for the private sector, though PGCIL also bids under this mode. We have not built in any TBCB projects under intra-state projects in our estimates.**

Fig. 1: Total ordering opportunity under TBCB pegged at ~INR0.75tn



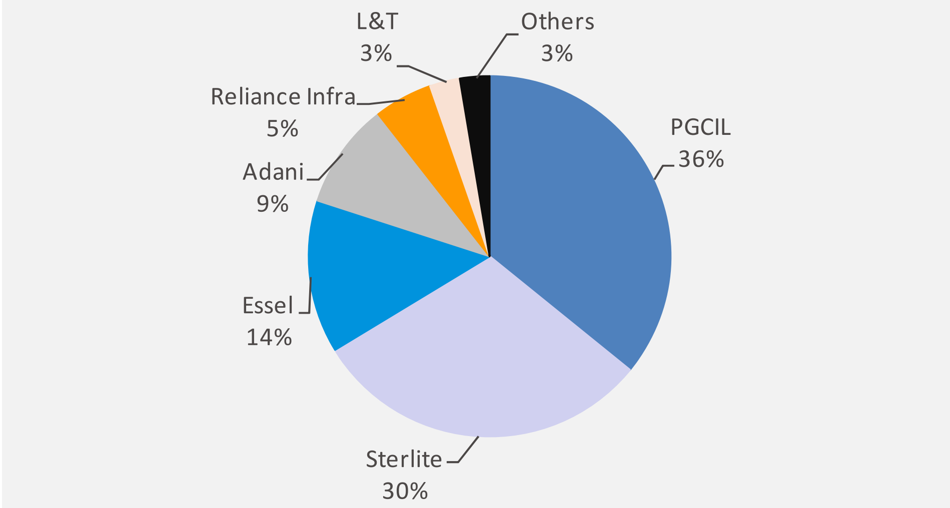
Source: CEA, MOP, Edelweiss research

Private sector participation via TBCB: SGPVL enjoys highest market share

Post opening up of the transmission sector to private players (in January 2011) via the TBCB mode, of the 47 inter-state transmission projects (INR500bn) awarded, 38 have been bagged by private players (SGPVL enjoys 30% market share); balance nine were won by PGCIL. In FY19, the government will sustain focus on accelerating award of transmission projects with a visible pipeline of ~INR80bn.

IndiGrid maintains healthy 30% market share in TBCB projects. INR0.75tn TBCB ordering and M&A opportunities further bolster visibility

Chart 7: Market share of projects awarded under TBCB since inception



Source: CEA, Company, Edelweiss research

Table 1: Projects at bidding stage

Name of the project	Cost (INR bn)	Status
WR-NR Interconnection	10.8	RFP
Ultra Mega Solar Park in Fatehgarh	6.2	RFP
Connectivity and LTA to HPPCL	3.5	RFP
Strengthening in Jharkhand (Package 1-5)	51.8	RFQ
System strengthening Scheme in Northern Region	2.3	Pipeline
Reactive Power Compensation in Northern Region	2.3	Pipeline
ISTS Feed to Navi Mumbai	2.6	Pipeline
New Substation near Vapi area	2	Pipeline
North Eastern Region Strengthening Scheme – IX	0.7	Pipeline
Additional 400 kV outlets from Banaskantha	0.6	Pipeline
TOTAL	**82.8**	

Source: Industry, Company, Edelweiss research

Over the past few months, M&A transactions have gained significant traction in the domestic transmission sector—~INR25bn worth of transactions in past 12 months. We were pleasantly surprised by IndiGrid's recent acquisition of Techno Electric's (third party transaction) Patran power project, which is highly value accretive to existing InvIT holders. M&A transactions are likely to continue as bigger players like Sterlite Power and Adani Transmission scout for inorganic growth opportunities (INR50bn potential). Also, **since for some of the owners, these transmission assets are non-core, they could be potential acquisition targets (refer table3**).

Table 2: Recently concluded M&A transactions

Year	Name of the asset	Ownership	Acquirer	Value (INR mn)
FY17	Maru Transmission	GMR Energy	Adani transmsision	1,800
FY17	Aravali Transmission	GMR Energy	Adani transmsision	3,100
FY18	WRSS Maharashtra	Reliance Infra	Adani transmsision	9,600
FY18	WRSS Gujarat	Reliance Infra	Adani transmsision	6,033
FY18	Patran	Techno Electric	India Grid	2,320

Table 3: Potential M&A opportunity

Name of the project	Owner	Status
Eastern Region System Strengthening Scheme-VI	Essel Infra	Commssioned
Northern Region System Strengthening Scheme, NRSS-XXXI (Part-B)	Essel Infra	Commssioned
Warora-Warangal and Chilakaluripeta – Hyderabad – Kurnool 765 kV link	Essel Infra	Under construction
System strengthening in northern region (NRSS XXXVI) along with LILO of Sikar-Neemrana 400 kV D/C line at Babai(RVPNL)	Essel Infra	Under construction
Transmission System required for evacuation of power from Kudgi TPS	L&T	Commssioned
Transmission system strengthening in Indian system for transfer of power frem new HEP's in Butan	Kalpataru power	Under construction
(NERSS-VI)	Kalpataru power	Under construction
North Eastern Region Strengthening Scheme – IX	Kalpataru power	Under construction

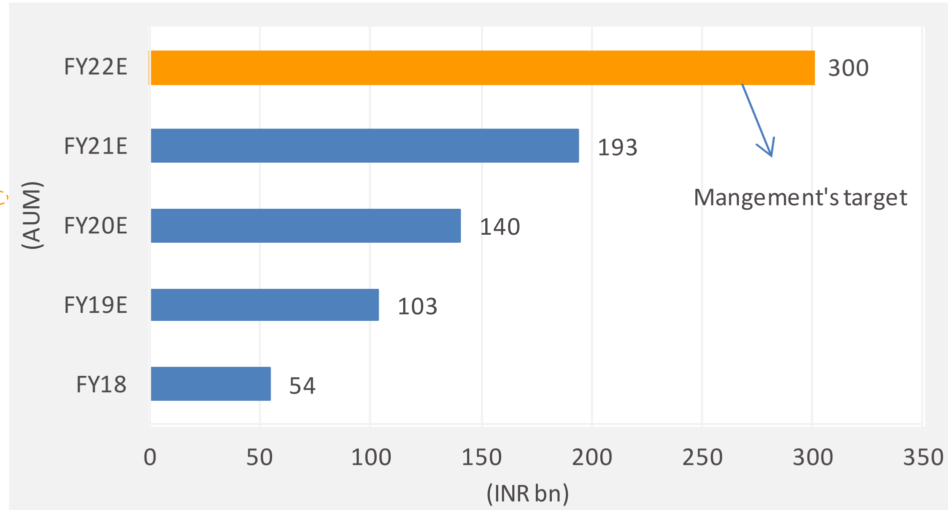
Source: Industry, Edelweiss research

High revenue visibility, robust cash flow generation potential

IndiGrid's business model entails focus of only owning power transmission assets that have long-term contracts, stable cash flows and low operating risks. The company has ROFO arrangement to acquire transmission assets from the sponsor (Sterlite Power). From current AUM of ~INR55bn (including Patran's INR2.3bn), IndiGrid has clear visibility to manage another INR140bn of assets through its ROFO structure. The sponsor continues to bid for new projects under TBCB (recently won INR15bn Goa transmission project). From current AUM of INR55bn (INR195bn including ROFO assets), IndiGrid targets to manage INR300bn plus AUM over the next five years, resorting to organic as well as inorganic routes.

ROFO assets boost strong revenue visibility with 3.5x EBITDA potential

Chart 8: AUM of INR300bn to be led by ROFO assets, new projects over next five years



Source: Company, Edelweiss research

Compared to current EBITDA of INR6bn (post drop down of RAPP + PKTCL + MTL + Patran), balance ROFO assets have potential to generate INR21bn EBITDA, in turn ensuring sustainable growth in net distributable cash flow (NDCF). We expect NDCF to InvIT holders to catapult 4x to ~INR12.7bn.

Post the recent drop down of assets, IndiGrid hit the maximum permissible leverage ratio (49% debt as per SEBI). Hence, for any further drop down of assets, the company will have to raise equity, leading to dilution. We expect 3.8% DPU CAGR over FY18-22. We have not factored in any further third party acquisition.

Chart 9: NDCF to catapult 4x over FY18-22E

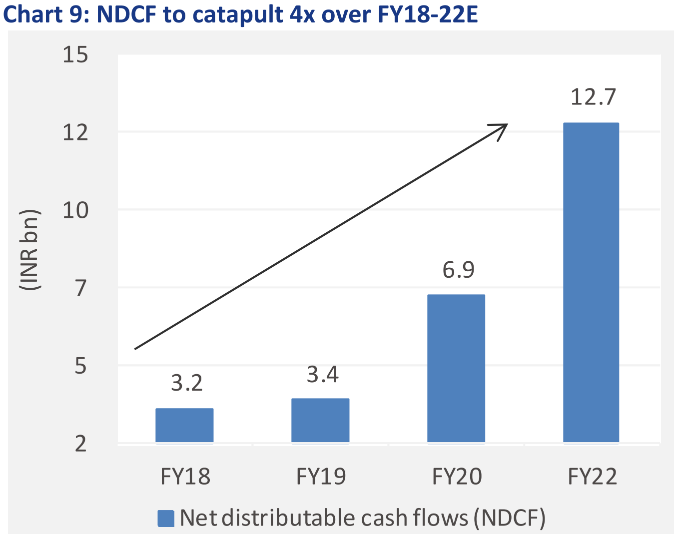
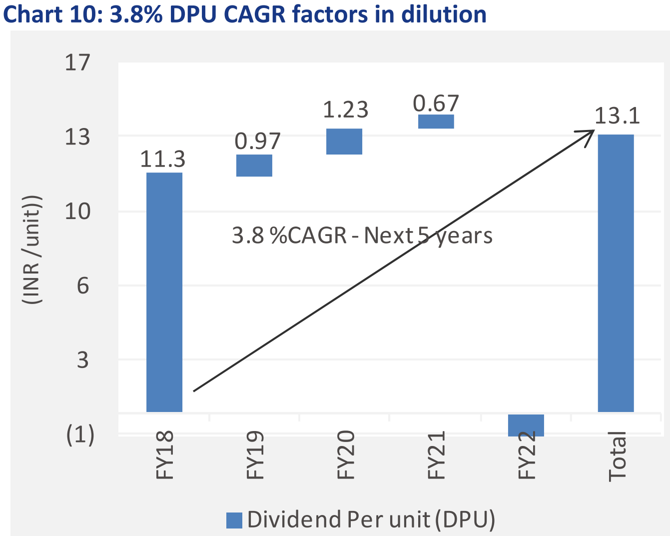


Chart 10: 3.8% DPU CAGR factors in dilution



Source: Company, Edelweiss research

Note: While calculating DPU of ROFO assets, we have assumed fund raising at INR100 which can be different at the time of drop. To that extent, DPU might change.

It's pertinent to note that a decline of INR1/unit in DPU in FY22 is primarily on account of realisation of loss on hedging upon repayment of ECB bonds in the BDTCL project. Excluding this, the dip would be of ~INR0.30/unit.

NDCF to catapult 4x over FY18-22 upon dropdown of assets; DPU growth factoring in dilution estimated to clock ~ 3.8% CAGR over FY18-22

Table 4: Asset-wise and year-wise break up of NDCF over FY18-22

Projects & NDCF (INR bn)	FY18E	FY19E	FY20E	FY21E	FY22E
BDTCL and JTCL	3.2	3.0	2.9	2.7	2.8
Add: MTL+RAPP+PKTCL+PTL		0.4	0.5	0.6	0.6
NDCF post first drop down	3.2	3.4	3.4	3.3	3.4
Add: ENICL and NRSS			3.5	3.5	3.5
NDCF post second drop	3.2	3.4	6.9	6.7	6.9
Add: KGL+GPTL+OGPTL				3.2	3.1
NDCF post third drop	3.2	3.4	6.9	9.9	9.9
Add: NERSS& Goa					2.8
Total NDCF	**3.2**	**3.4**	**6.9**	**9.9**	**12.7**
Growth (%)		8.6	101.2	43.3	27.7

Source: Company, Edelweiss research

We derive comfort from the fact that the first drop down of assets was in the first six months of the IPO itself. While we are assuming drop down of assets (either single or in combination) every year, there could be earlier-than-expected drop down, thus entailing higher-than-expected DPU over FY18-22.

Table 5: Status and potential of ROFO assets

Project	Project cost(INR bn)	COD expected	1st year Rev (INR bn)	1st year EBITDA (INR bn)
ENICL	10.6	Commissioned	1.5	1.4
NRSS	40.78	Oct-18	5.0	4.7
OPGTL	12.43	Aug-19	1.7	1.5
GPTL	11.37	Sep-19	1.5	1.4
KTL	15.05	Jul-19	1.9	1.8
NER-II	39.5	Nov-20	4.1	3.7
Goa	14.5	Jan-21	1.4	1.3

Source: Company, Edelweiss research

We have assumed every fund raising at a price of INR100. Over the entire drop down of ROFO assets over the next four years, total equity dilution will be 83%, 37% and 27% in FY20, FY21 and FY22E, respectively, but it will be DPU accretive overall.

Transmission assets are characterised by low operating risks. Further, IndiGrid's consistent delivery on robust operational efficiencies has led to increased cash flows and hence IRR

Stable cash flows from assets with minimal counter-party risks

- Power transmission projects are characterised by low operating risks. The Initial Portfolio Assets are operational power transmission projects with an operating history of at least a year and there are no construction risks or major capital expenditure requirements.

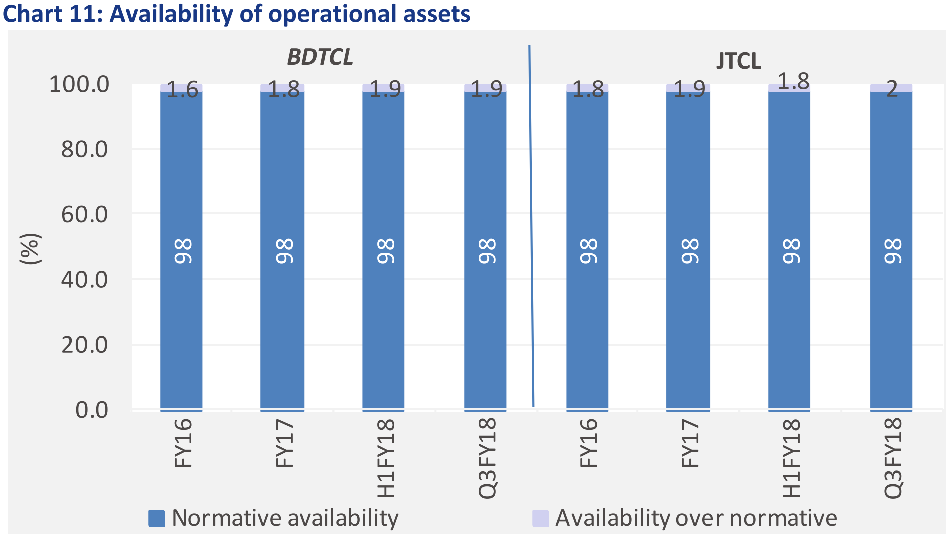
  IndiGrid clocks revenue from contracted tariffs under long-term contracts (up to 35 years) from assets at relatively low operating and maintenance costs.

- Inter-state power transmission projects receive tariffs on the basis of availability, irrespective of the quantum of power transmitted through the line.
- BDTCL and JTCL have maintained annual availability in excess of 98% since commissioning, for which they have earned maximum incentive revenues under respective TSAs. The amount of incentive revenue earned increases as availability rises, with maximum incentive revenue earned for maintaining 99.75% availability.
- Tariffs under TSAs are billed and collected pursuant to the PoC mechanism. Under this mechanism, payments are made to a central payment pool and then distributed proportionately to all transmission service providers, such as Initial Portfolio Assets.

Robust operational efficiencies: Increased cash flows and higher IRR

IndiGrid has consistently delivered robust operational availability by demonstrating higher-than-minimum required availability, thus leading to incentive income. In the past three years of operational history of BDTCL and JTCL, the company has clocked average 99.8% availability in both the assets and earned 3% higher revenue above the contracted revenue. **The importance of incentive income can be judged by the fact that if contracted revenue is higher by 1%, it can improve the project's IRR by ~7-8bps**. Overall, 3% higher-than-contracted revenue will lead to increase in a project's IRR by ~30bps.

Chart 11: Availability of operational assets



Source: Company, Edelweiss research

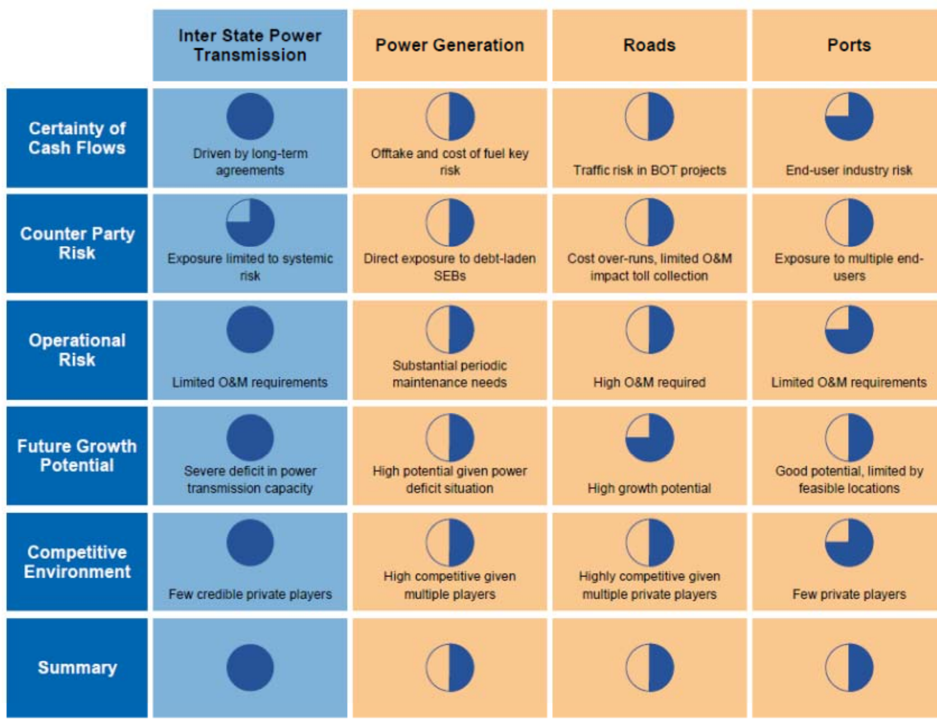
Transmission assets: Best risk-return profile amongst infra peers

Transmission projects have a better risk-return profile and are one of the most favoured investment opportunities. A few reasons in favour of transmission projects are:

1) Returns from various infrastructure projects like roads, ports and power generation depend mostly on operational performance of assets. This, in turn, is dependent on factors on which developers have limited control.
2) In transmission projects (particularly inter-state projects), the revenue counter party is a pool of distribution, reducing the counter-party risk on account of diversification.
3) In case of an inter-state transmission asset, the revenue stream is consistent based on the unitary charge determined at the time of bidding for the entire concession period of 35 years. These charges are independent of the total power transmitted via transmission lines and, hence factors such as volume and traffic do not fluctuate revenue.
4) Moreover, inter-state transmission assets entail limited O&M costs compared to other infrastructure assets. Typically, transmission projects incur relatively low O&M cost of 7-8% of revenue to ensure normative availability. In comparison, road projects incur 35-40% O&M costs.
5) In addition, transmission lines could also be used for providing telecom services, thereby diversifying the revenue profile.

Transmission assets entail better risk-return profile compared to other assets classes; this provides further comfort to investors

Fig. 2: Comparison of other infrastructure assets with transmission assets



Source: Company RHP, Edelweiss research

Strong SEBI regulations with respect to functioning, asset dropdown and special rights to InvIT holders ensure safety

Strong corporate governance/SEBI regulations comforting for investors

Given the significance of infrastructure in the country and paucity of public funds to stimulate their growth, it was imperative to put in place additional financing channels. In this regard, the Securities Exchange Board of India (SEBI) took an innovative step of introducing infrastructure investment trust (InvIT) regulations for infrastructure projects (effective since September 2014).

Being first of its kind, SEBI regulations go a long way to protect interests of investors as:

1) **Leverage capped at ~1:1**: Maximum gearing of 49% permissible with credit rating and unit holders' approval required for gearing above 25%. In developed countries like US, the gearing ratio in similar products is 4:1. Post the recent drop down of four assets, InvIT hit the maximum permissible limit.

2) **90% of NDCF to be distributed to investors**: 90% of net cash flows to be distributed to unit holders at least every six months. InvIT has opted for quarterly distribution of dividend.

3) **Special rights of InvIT holders**: Unit holders have the ability to:
   - Appoint and remove Investment Managers and Project Managers.
   - Vote on increase in leverage over 25%.
   - **Vote on acquisition or divestment of assets**: All acquisitions made by InvIT must be approved by a majority of the unit holders, excluding the sponsor, with respect to ROFO assets or any other proposed acquisition from the sponsor.
   - Vote on related party transactions.

4) Integrity and independence of board of directors:
   - 50% of the board to be independent.
   - Chairman of the board of Investment Managers is an independent director with experience in governing international infrastructure trusts.
   - Various audit committees like stakeholders' relationship committee, audit committee and the governance & investment committee to be chaired by an independent director.
   - Valuation of assets along with physical inspection to be undertaken by an independent expert periodically.

5) Sponsor to remain invested and hold at least 15% of units of InvIT for a minimum period of three years.

6) At least 90% of InvIT's assets have to be revenue generating for one year or more prior to acquisition, unless the InvIT is listed through the private placement route.

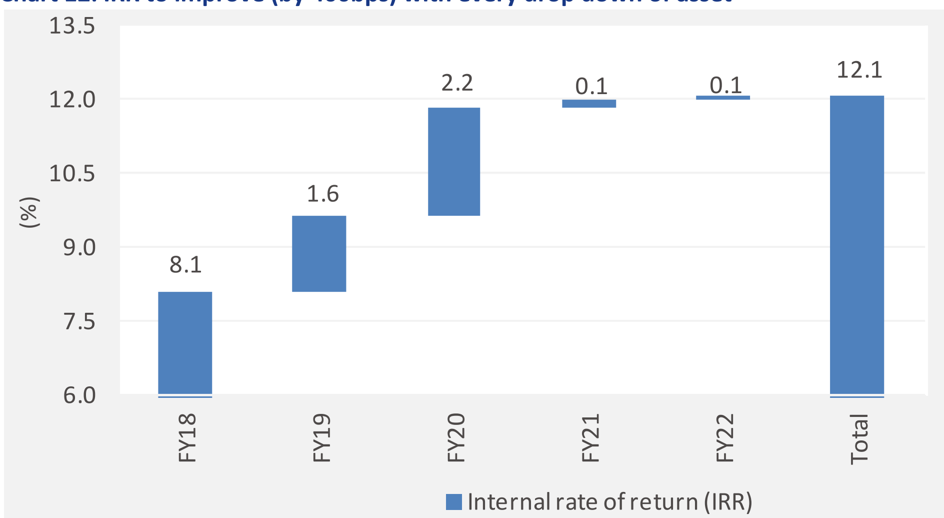
Valuations

IndiGrid (along with its sponsors Sterlite Power) is amongst the largest private transmission players in India with ~30% market share in TBCB projects. The company has six operational assets (including Techno's acquired assets) with EBITDA of ~INR6bn. With completion (drop down) of six greenfield projects under the ROFO agreement, we envisage EBITDA to catapult 4x to ~INR12bn by FY20. **We estimate EBITDA to peak at ~INR21bn by FY22 drawing on existing and under-construction ROFO assets.**

Strong visibility of NDCF, higher IRRs and attractive dividend yield make a compelling case for investment in IndiGrid

Investors often look at IRR while benchmarking infra assets. For IndiGrid, while IRR of initial assets (BDTCL and JTCL) was low at ~8.1%, we believe current and potential drop down of all ROFO assets will improve ~400bps to 12.2% over the next four years. This will be on account of: 1) financing of latest drop down of four assets (MRPP) was completely done via debt at ~8.3% cost of debt, thereby improving overall IRR by 160bps; and 2) NRSS being one of the most profitable and largest assets with project level IRR of ~12%.

Chart 12: IRR to improve (by 400bps) with every drop down of asset



Source: Company, Edelweiss research

Note: FY18 IRR reflects only BDTCL and JTCL projects and not MRP assets, including them the IRR would be ~9.3%

The Street still remains divided on assigning any terminal value to transmission projects primarily due to uncertainty of future events (decentralisation of grids, parallel transmission line network, etc). **We believe, there is rationale for assigning terminal value considering ownership of land and scrap value of metal used.** While the IRR calculated above does not include any terminal value, our valuation includes it and forms 2% of our target value. IRR calculation will be higher by at least 30-40bps if we include the terminal value.

We value IndiGrid on NPV basis: INR108/share

We expect all under-construction projects to drop down by FY21 end. Assuming risk-free return of 7.5% (given current yield on government bonds), risk premium of 5% and beta of 0.8x, our cost of equity stands at 11%. Discounting FCFE with COE of 11%, we arrive at net present value (NPV) of FCFE for all projects at INR51.2bn. Post adding FY19E NDCF of INR3.45bn and NPV of terminal value of ~INR1.3bn, we arrive at an equity value of

INR56bn or INR108/share, implying 15% upside from current level. We have assumed total dilution of ~82% (at INR100/share) as IndiGrid will have to raise equity of ~INR23.5bn to finance ENICL and NRSS assets. Nonetheless, this dilution will be DPU/IRR accretive.

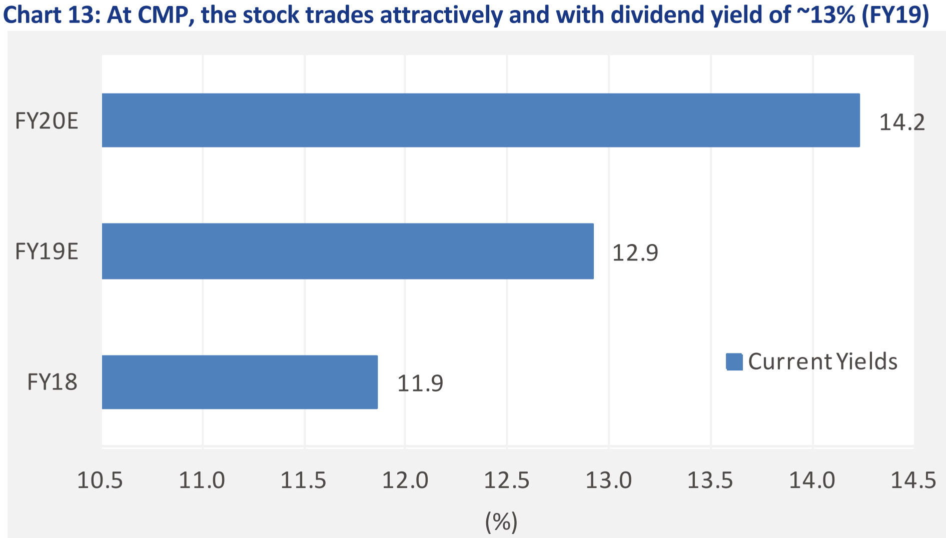
Table 6: We arrive at TP of INR108 on FY20E

		(INR mn)
Cost of equity	**11.0%**	
Rf	7.5%	
Beta	0.7	
Risk premium	5.0%	
		Comments
NPV (FCFE)	51,239	Discounted with COE at 11%.
Add : FY19 cash	3,446	
Add: PV of Terminal Value	1,333	Land monetisation/metal scrap value
Equity value	56,018	
No. of shares	518.4	Dilution due to ENICL and NRSS
Target price	108	

Source: Edelweiss research

Post listing at INR100, the stock has corrected ~6% impacted by liquidity risk in the instrument, G-sec risks, etc. At current level, the stock trades attractively with dividend yield of 11.9%, 12.9% and 14.2% on FY18E, FY19E and FY20E, respectively. This is primarily led by: 1) increase in DPU growth by 10% CAGR over FY18-20E; and 2) lower market price of INR94.

Chart 13: At CMP, the stock trades attractively and with dividend yield of ~13% (FY19)



Source: Edelweiss research

Note: While calculating FY20E dividend yield, we have factored in equity dilution at INR100

Table 7: Sensitivity analysis with respect to interest rates and drop down prices

Cost of debt (50-75bps above Gsec)	NPV (INR mn)	Target Price (INR)
8.00%	5,243	110
8.25%	5,159	108
8.50%	5,075	106
8.75%	4,992	105
9.00%	4,908	103
9.25%	4,824	101
9.50%	4,740	100

Drop down price (INR)	Target price (INR)
90	102
92	103
94	105
96	106
98	107
100	108
102	109

Source: Edelweiss research

In our base case scenario, we have assumed interest rates(Kd) for drop down assets of assets in future at 8.5% and drop down price of INR100/share. However, it's not necessary the same will hold true and at the time of drop down, interest rates as well as price could vary. In our sentivity analysis, our target price varies between 1% and 8% on various assumptions.

Table 8: IndiGrid's valuation multiples versus peer set

Company Name	Mkt Cap. (USD mn)	Ent. Val. (USD mn)	EV/EBITDA		Dividend Yield		ROA	
			FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Next Era Energy Inc	72,884	107,541	11.6	10.7	2.9	3.2	3.7	3.8
Duke Energy Corp	53,337	107,419	11.1	10.6	4.8	5.0	2.4	2.5
Pattern Energy Group	1,756	4,823	11.9	10.7	9.5	9.5	1.5	1.4
NRG Yield	3,067	9,147	9.3	8.6	7.6	8.2	4.2	6.9
Atlantica Yield	1,961	7,547	9.2	8.9	7.9	9.0	2.8	4.9
Hutchison Port Holdings Trust	3,005	69,302	10.5	10.3	7.5	7.7	1.5	1.4
Keppel Infrastructure Trust	1,671	4,198	15.9	15.7	6.8	6.8	1.4	1.5
IndiGrid trust	403	795	8.4	8.4	12.9	14.2	8.5	11.0
Adani Transmission	2,424	3,682	12.2	11.4	0.0	0.0	11.8	11.9
Power Grid	17,389	34,255	8.4	7.7	3.0	3.3	10.7	10.8

Source: Bloomberg, Edelweiss research

IndiGrid, compared to leading global yield players, is not only inexpensive, but also generates much superior returns. While its business is comparable with that of domestic transmission comapnies like PGCIL and Adani Transmission, they are strictly not comparable since IndiGrid is a quasi debt and equity instrument. Yet, in terms of valuation (on EV/EBITDA), its attractive on an average.

Financial Outlook

Dropdown of ROFO assets to boost revenue

We estimate IndiGrid to post consolidated revenue CAGR of ~72% to INR12.6bn over FY18-20. This will be on account of addition of ~3,500cKm of transmission lines and ~ 2,000MVA of transformation capacity over FY18-20E. Post the recent dropdown of assets—Maheshwar, PKTCL, RAPP and Patran—we expect ENICL and NRSS transmission assets to be dropped down towards the fag end of FY19, the impact of which will flow in FY20. Further, we have built in 2% incentive revenue (escalable and non-escalable) in all assets considering strong demonstration of availability in existing BDTCL and JTCL projects.

Chart 14: 3x growth in AUM over FY18-20

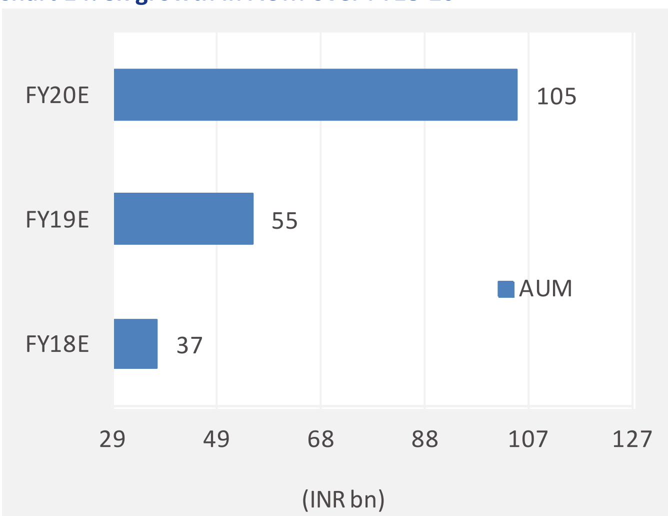
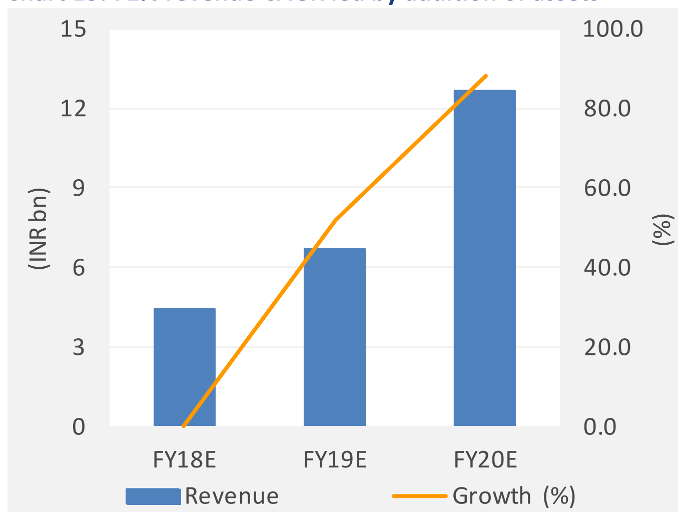


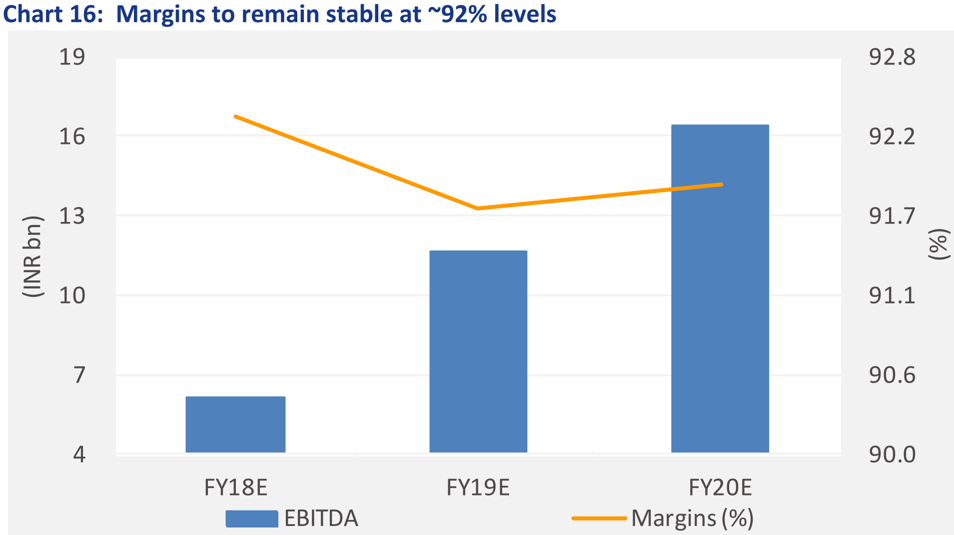
Chart 15: 72% revenue CAGR led by addition of assets



EBITDA to post 72% CAGR

We estimate EBITDA margin of IndiGrid's transmission business to remain healthy at ~92%. With 2x growth in transmission assets over the next two years, we expect EBITDA to post 72% CAGR over FY18-20E, broadly in line with revenue growth.

Chart 16: Margins to remain stable at ~92% levels



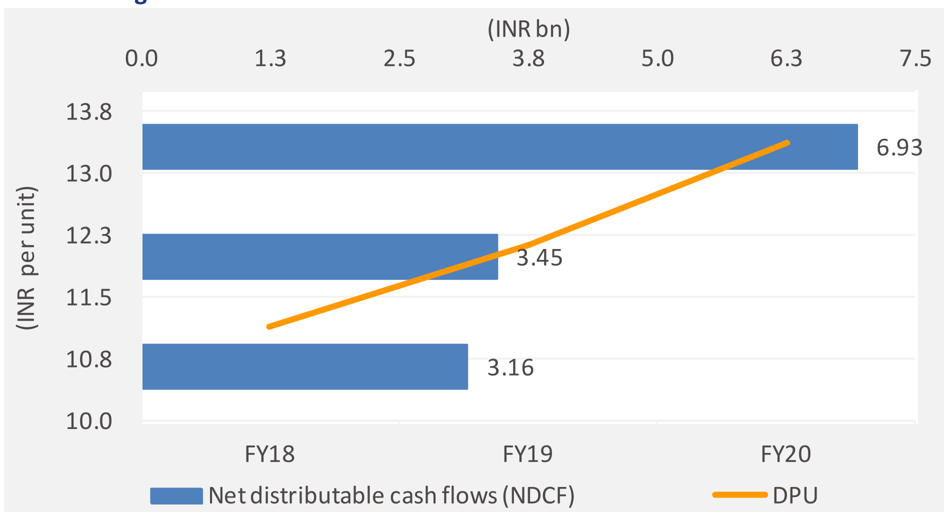
Source: Edelweiss research

DPU growth healthy at 10% CAGR over FY18-20E

The drop down of ROFO assets (four of nine) and recently acquired Patran transmission project will ensure sustainable growth in net distributable cash flows. We expect the NDCF to double from INR3.2bn in FY18 to ~INR7.0bn in FY20E. For drop down of assets—ENICL and NRSS—IndiGrid will have to raise equity, thus leading to dilution.

Hence, we estimate the dividend per unit to increase from INR11.2 (annualised) in FY18 to INR13.4 in FY20, ensuring 10% CAGR over the next two years. We have not built any inorganic growth in our estimates.

Chart 17: Higher revenues and lower cost of debt will drive PAT

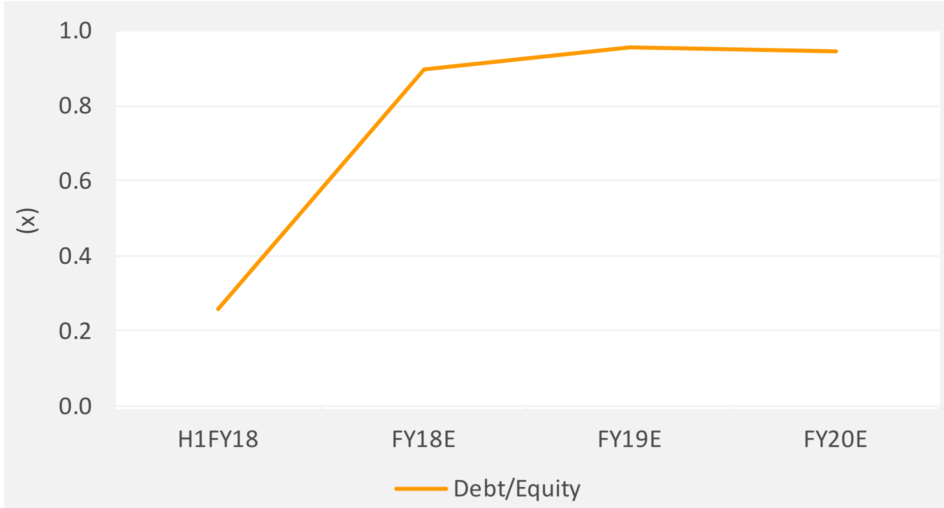


Source: Edelweiss research

Leverage capped at 49%; RoCE to remain stable at ~10%

From initial leverage of ~26% in June 2017, IndiGrid hit the maximum possible leverage limit as per SEBI's regulations of 49% upon drop down of four assets (MRPP). Thus, for any further drop down, the trust will have to raise equity and debt in the 51:49 proportion of the EV (not at the consolidated financials) of that asset. Further, the trust's RoCE at the consolidated level is likely to remain in the 10-11% range over the next two years. This is much better compared to international peers, which are at ~3% average, and broadly in line with PGCIL's RoCE of ~10%.

Chart 18: Maximum possible leverage hit; D/E to stay at ~1:1



Source: Edelweiss research

Note: The debt/Equity ratio is calculated at AUM level and not at the consolidated financials levels

Key Risks

Interest rate fluctuation

IndiGrid is viewed as a hybrid instrument entailing debt and equity features. Being a long tenure and high certainty cash flow instrument, the company is often compared to G-sec yields with respect to its IRR. Over the past three-four months, G-sec yields have hardened by ~75-100bps to 7.3%. We believe the company will maintain a spread of ~150-200bps (IRR) over G-sec in the ensuing two years. However, we perceive interest rate risk, refinance risk and corporate bond spread risk as the key risks which could impact our financial estimates.

Delays in under-construction projects

IndiGrid, with unit holders‘ approval, could acquire power transmission projects, including any or all ROFO assets, which are still under construction and development in accordance with the InvIT. Construction disruptions or delays could impede IndiGrid’s ability to exercise its right of first refusal in respect of assets owned by the sponsor. This , in turn, could materially and adversely affect its financial and operational estimates and projections, its business, prospects, financial condition, results of operations and cash flows.

Capital raising

In our base case scenario, we have assumed drop down price of ROFO assets at INR100/share. However, it’s not necessary the same will hold true at the time of drop down and accordingly our estimates and target price could vary.

Inability to operate at prescribed availability

The power transmission projects being acquired are under an availability-based tariff regime. If availability for a particular line falls below 95%, the trust is liable to pay penalty, which reduces the Annual Transmission Charge IndiGrid receives for the period. The company may be unable to operate and maintain its power transmission projects to achieve the prescribed availability due to various factors.

Revenue loss, repair/replacement costs due to force majeure events

In the event of any of IndiGrid’s power transmission projects getting inoperable due to force majeure events, there’s no assurance that it will be able to successfully apply to obtain a deemed availability certificate to receive tariffs under the force majeure provisions under the TSA. Also, there is no guarantee that insurance will reimburse IndiGrid for repair and replacement costs, either partially or fully, for the period of such force majeure event, which could materially affect its business, prospects, financial condition, results of operations and cash flows.

Delay in payments of point of connection charges to CTU by users

The LTTCs under the PoC mechanism include various state utilities, other distribution licensees and TSUs. These customers have experienced periods of financial weakness in the past. Failure or delay on part of any LTTCs to make timely payments or on the part of distribution licensees or TSUs to make the requisite payments to the CTU could affect the latter’s capability to make the corresponding payments to transmission licensees, including IndiGrid’s portfolio assets.

Investment manager may not be able to execute growth strategy

Investment manager undertakes day-to-day management and control of IndiGrid's business and growth strategy. Except in respect of transactions greater than 5% of the assets which require prior unit holders' approval or the approval of an issuance of units to fund the future acquisitions, IndiGrid's unit holders may not have the opportunity to evaluate the investment manager's decisions regarding specific strategies used or the acquisitions made on the company's behalf or the terms of any such acquisitions, including in respect of ROFO assets.

Company Description

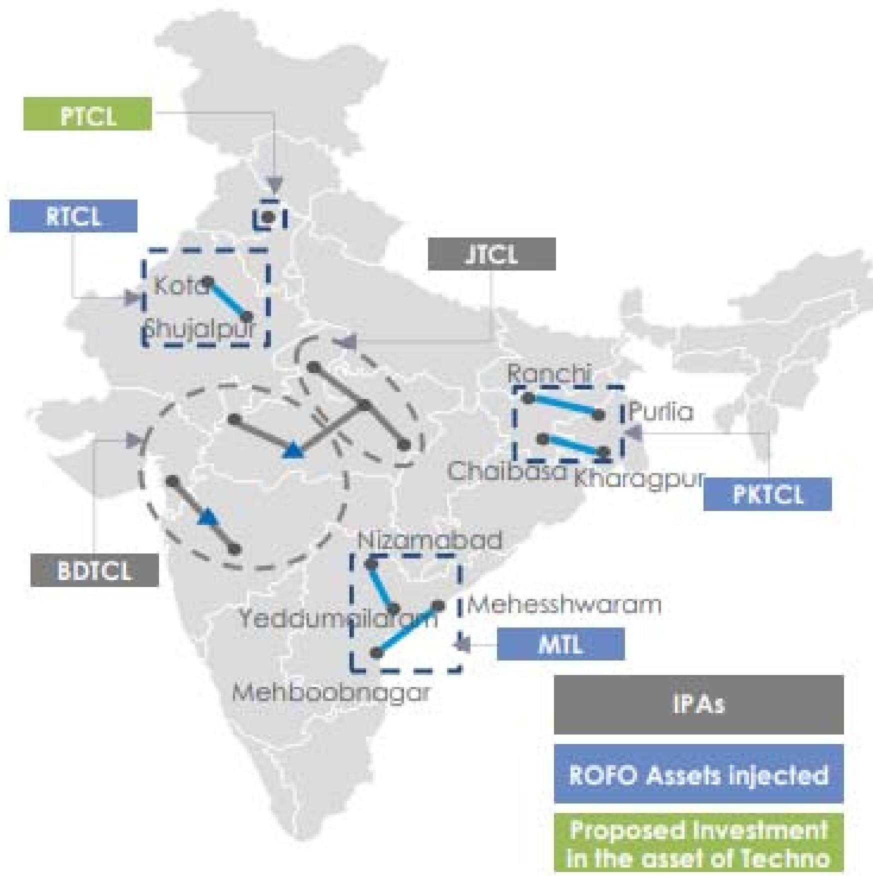
Trust overview

IndiGrid is an infrastructure investment trust (InvIT) established to own inter-state power transmission assets in India. It was established on October 21, 2016, by its sponsor Sterlite Power Grid Ventures and is registered with SEBI in accordance with InvIT regulations. The sponsor, one of the leading independent power transmission companies operating in the private sector, has extensive experience in bidding, designing, financing, constructing and maintaining power transmission projects across India. As an InvIT, IndiGrid is focused on providing stable and sustainable distribution to unit holders.

The sponsor owns 10 inter-state power transmission projects with a total network of 29 power transmission lines of ~6,767ckms and seven sub-stations with 12,630MVA transformation capacity. Some of these projects have been fully commissioned, while others are at different stages of development.

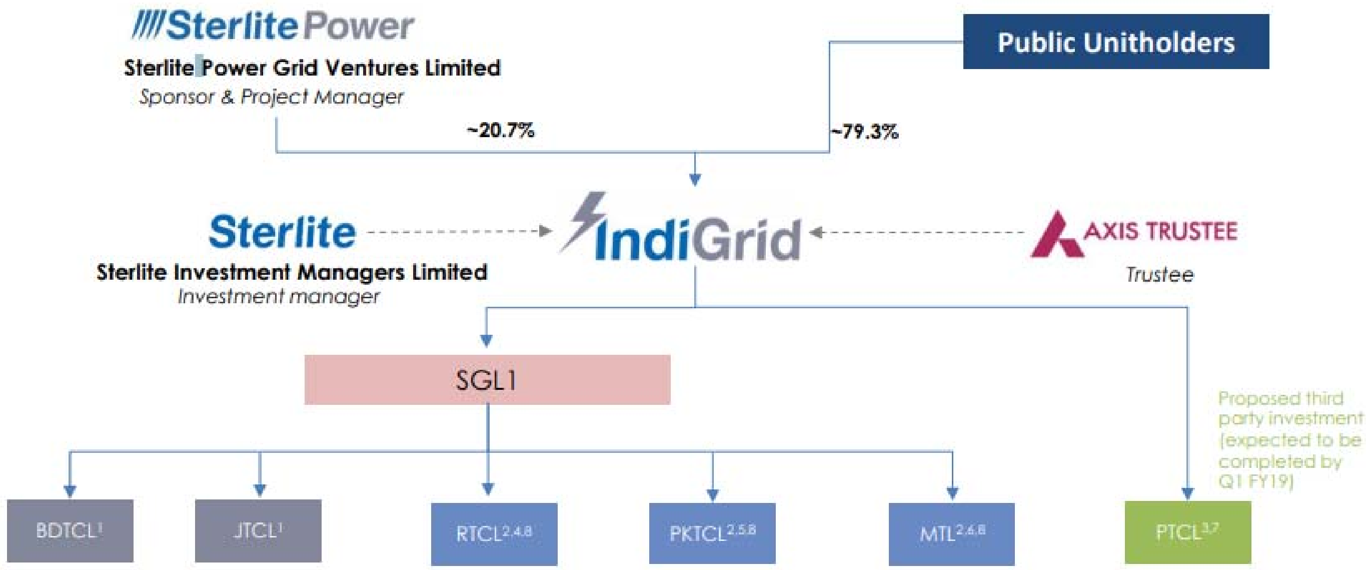
Of the 10 inter-state power transmission projects owned by the sponsor, IndiGrid has acquired five projects with total network of 13 power transmission lines of ~3,361ckms and three sub-stations having 7,000MVA of transformation capacity. Pursuant to the ROFO deed, IndiGrid has 'right of first offer' to acquire the balance eight projects of the sponsor.

Fig. 3: Current assets operated by IndiGrid



Source: Company

Fig. 4: Relationship among IndiGrid, trustee, sponsor, investment manager, project manager and unit holders



Source: Company

ROFO assets

Pursuant to the ROFO deed with the Sponsor, IndiGrid has 'right of first offer' with respect to eight inter-state power transmission projects, having transmission network of 21 power transmission lines of ~4,831ckms and five sub-stations with 6,630MVA transformation capacity.

Under the ROFO deed or otherwise, potential acquisition of power transmission projects will be assessed for their suitability with IndiGrid's investment mandate and subject to mutual agreement between the sponsor and the Investment Manager on behalf of IndiGrid as well as approval by unit holders.

Table 9: ROFO assets snapshot

Project	Location	Status	Description	Route length (ckms)	Term of TSA	Potenital dropdown year
East North Interconnection Limited	Assam, Bihar, West Bengal	Commissioned in November 2014	Two 400 kV D/C lines.	909	25 years	FY19
NRSS XXIX Transmission Limited	Punjab, Jammu and Kashmir	One line commissioned in June, 2016 and other lines are expected to be in operation1 by [illegible]	Three 400 kV D/C lines and one 400/220 kV D/C GIS sub-stations with 630 MVA transmission capacity.	887	35 years	FY19
Odisha Generation Phase II Transmission Limited	Odisha	Expected operation by August, 2019	One 765 kV D/C transmission line and one 400 kV D/C transmission line.	715	35 years	FY20
Gurgaon-Palwal Transmission Limited	Gurgaon and Palwal	Expected operation by September, 2019	Five 400 kV D/C transmission lines, three 400/220 kV substations with 1,000 MVA transmission capacity each and two 400 kV line bays at 400 kV Dhonanda substation.	271	35 years	FY20
Khargone Transmission Limited	Khandwa	Expected operation by July, 2019	One 400 kV D/C transmission lines, two 765 kV D/C transmission line, one 765/400 kV substation with 2 x1,500 MVA transmission capacity at Khandwa and two 765 kV line bays and 7x80 MVAR Switchable line reactors (1 unit as spare)	624	35 years	FY20
NER-II Transmission line	Assam, Bihar, West Bengal	Expected operation by Novemebr , 2020	Two 400 kV D/C lines, Two 132KV DC lines, Two 400/132KV DC lines, Substains (1260MVA)	900	35 years	FY21
Goa-Tamnar Transmission Project Limited	Goa, Chattisgarh	Tariff adoption order awaited	2x400 kV D/C quad lines, 1x765 kV D/C line, 2x500 MVA, 400/220 kV substation	500	35 years	FY21

Source: Company

Table 10: Management overview – Board of Directors

Name	Designation	Qualification	Profile/Role
Pratik Agarwal	CEO & Executive Director	Masters degree in Business Administration from London Business School and a Bachelor's degree from Wharton Business School	10+ years of experience in building core infrastructure businesses in ports, powertransmission and broadband
Tarun Kataria	Additional Independent Director	MBA in Finance from the Wharton School of the University of Pennsylvania and a Chartered Accountant	He has almost 30 years of investment banking and capital markets experience in New York, Hong Kong, Singapore and Mumbai. He is also Independent Non-Executive Director of Mapletree Logistics Trust Management Ltd., manager of Mapletree Logistics Trust, an entity listed on the Singapore Stock Exchange, Independent Non-Executive Director and Chairman of the Audit Committee of HSBC Bank (Singapore) Ltd. In India, Independent Non-Executive Director of Westlife Development Limited and Poddar Housing and Development Limited.
Rahul Asthana	Additional Independent Director	MBA in International business from ICPE University of Ljubljana, Slovenia and a bachelor's degree in Technology (Aeronautical) from Indian Institute of Technology, Kanpur	He served as the Metropolitan Commissioner of Mumbai Metropolitan Region Development Authority where his primary role was planning for the Mumbai Metropolitan region and implementation of large infrastructure projects. He also served as the Chairman of Mumbai Port Trust, the Principal Secretary, Energy of Government of Maharashtra, the Chief Executive Officer and General Manager of Brihanmumbai Electric Supply and Transport.
Shashikant H. Bhojani	Additional Independent Director	Bachelor's of Science degree and a Master's degree in law from the University of Mumbai.	He has 28 years of experience with ICICI Limited, starting as Law Officer and reaching to Board of Directors. He became a a partner at Cyril Amarchand Mangaldas since 2001.He is also an independent Director on the board of directors of L&T Infrastructure Finance company Limited
Kuldip K. Kaura	Additional Non-executive Director	Bachelor's degree in Mechanical Engineering from Birla Institute of Technology & Science, Pilani	He is a business leader with rich experience in cement, natural resources and power generation and transmission sectors. He has served as the Chief Executive Officer and Managing Director of ACC Limited, Director and Chief Executive Officer of Vedanta, Chief Operating Officer of Vedanta Resources Plc. and Managing Director of Sterlite Industries India Limited.
Harsh Shah	CFO & Executive Director	Bachelor's degree from the Nirma Institute of Technology and MBA from the National University of Singapore	10+ years of experience in PE Financing, Mergers and Acquisitions, Infrastructure financing , regulatory and macro economic policy focused on Infrastructure

Source: Company

Taxation in hands of unit holders

Category of unit-holder along with corresponding applicable withholding provisions	Parameters for determining the tax residential status	Withholding tax rate in case of 'Tax Resident'	Withholding tax rate in case of 'Tax Non-Resident' (shall be increased with applicable surcharge and cess)	
			Where the income or the aggregate of such incomes paid or likely to be paid and subject to tax deduction	Effective tax rate (inclusive of surcharge and education cess)
Mutual Fund Section 196	Under Section 10(23D) of the Act, any income earned by a Mutual Fund registered under the SEBI Act, 1992, or a Mutual Fund set up by a public sector bank or a public financial institution, or a Mutual Fund authorised by the Reserve Bank of India would be exempt from income tax.	NIL	Not Applicable	
FPIs Section 194LBA	FPIs are generally regarded as tax non-residents under Indian Income Tax.	Not Applicable	**FPI, being a Trust/AOP**	
			a) is below Rs 5 mn	5.15%
			b) exceeds Rs 5 mn but does not exceed Rs 10 mn	5.66%
			c) exceeds Rs 10 mn	5.92%
			FPI, being a Company	
			a) is below Rs 10 mn	5.15%
			b) exceeds Rs 10 mn but does not exceed Rs 100 mn	5.25%
			c) exceeds Rs 100 mn	5.41%
			FPI, being a Company	
			a) is below Rs 10 mn	5.15%
			b) exceeds Rs 10 mn	5.77%

Source: Company

Industry Overview

Domestic transmission sector to ramp up significantly

The government's focus on providing electricity to rural areas has led to the T&D system being extended to remote villages. While the total length of transmission lines in India has jumped from 358,580cKm in CY07 to 554,774cKm in CY16 (CAGR of 5.5% plus), there has been strong growth in the transmission system (10% CAGR) at higher voltage levels and sub-station capacities (17% CAGR) over the period. This has resulted from the increase in demand for transmission networks to carry bulk power over longer distances, while simultaneously optimising the right of way, minimising losses and improving grid reliability.

Chart 19: Robust spurt in high voltage transmission network

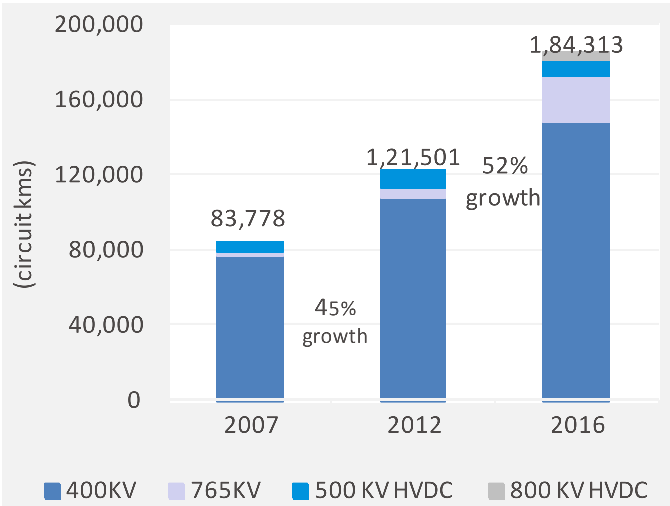
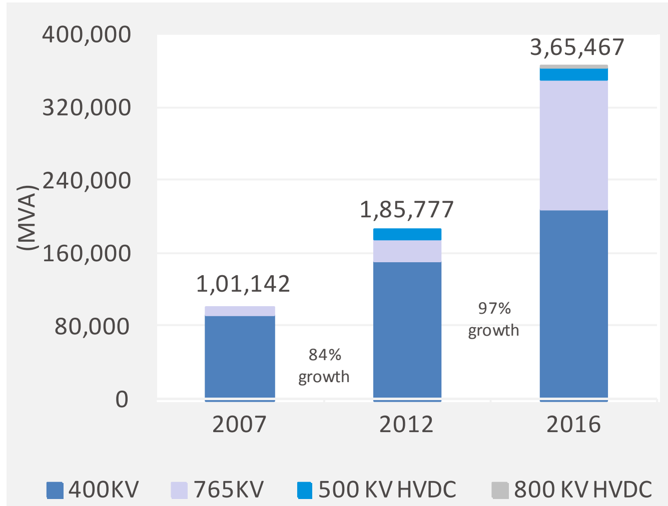


Chart 20: Sub-station capacity jumps 3x (>220KVA)



Source: CEA, Edelweiss research

T&D likely to dominate next five years' investments compared to generation

Going ahead, investments in the transmission sector would be driven by: 1) the need for robust and reliable inter- and intra-state transmission systems; 2) the need to support uninterrupted generation; 3) strong push for renewable energy sector; and 4) rural electrification. The transmission segment's share in total power sector investments is estimated to catapult to 33% over FY18-22 from 20% during FY12-16.

Chart 21: Generation dominated past five years' investments

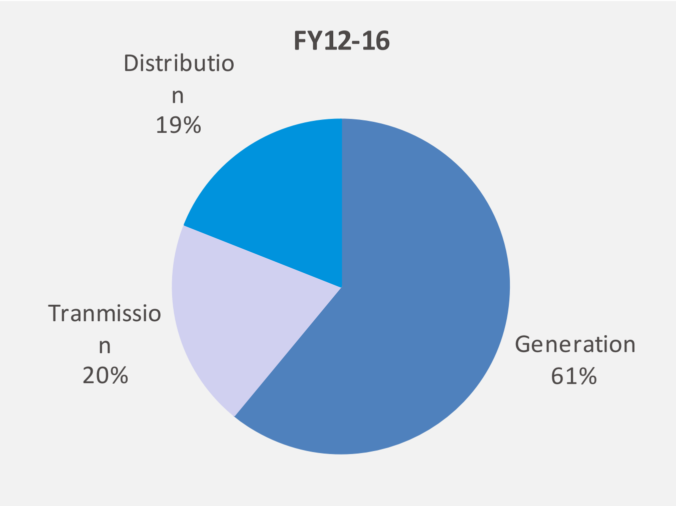
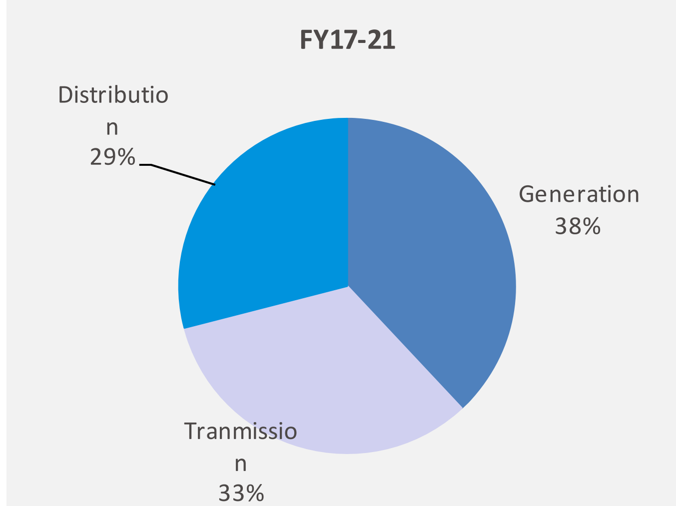


Chart 22: T&D to dominate next five years' investments



Source: Crisil research

Power transmission: Key growth drivers

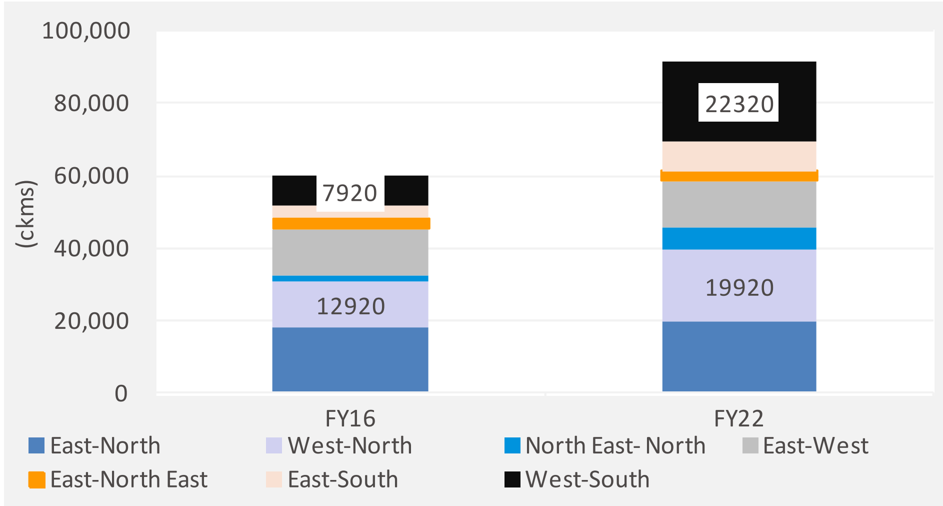
The Indian National Grid has evolved over 60 years and recently achieved *'One Nation One Grid'* status. Although the inter-regional transmission capacity is still low, grid unification has helped bridge the gap between the load and demand centres in India. Going forward, key growth drivers for power transmission are:

1) **Widening gap between inter-regional power demand-supply to drive transmission capacity additions**: According to the latest draft National Thermal Policy (December 2016), total power generation capacity in India will rise to ~435GW by March 2022 from 310GW in March 2017. However, the upcoming generation capacity is predicted to not be evenly spread across the country. Most upcoming renewable capacities are expected to be concentrated in the Western and Southern regions, while thermal capacities are expected to be bunched up close to coal mines in the East. As a result, there will be inter-regional import/export demands, which will have to be catered through inter-regional transmission corridors. Despite healthy inter-regional transmission additions on account of seasonal differences and time of day demand differences, large inter-regional transmission capacities will be required to prevent grid fluctuations.

   The Ministry of Power (Perspective Transmission Plan 2014-34) pegs deficits in North and South at 18,500-22,200MW and 11,500MW-15,900MW, respectively, depending on the season. The West region's surplus is estimated at 11,500-15,900MW during the summer/winter peaks and winter-off peak conditions, while during the monsoon peak, surplus is expected to drop to ~2,000MW.

   To cater to the above import/export requirement, a number of inter-regional transmission corridors have been planned and some of these high-capacity transmission corridors are at various stages of implementation. According to CEA's estimates, inter-regional transmission capacity requirement is likely to jump to ~91GW by FY21 from ~60GW in FY16.

Chart 23: Inter-regional transmission capacity to catapult 50% over FY17-21



Source: CEA

2) **Strong government support to drive transmission investments:** The government's several initiatives has supported the transmission segment including: a) increased concession period of a transmission asset; b) relaxed norms to speed up project construction; and c) implemented *UDAY* scheme to boost power demand, which in turn will eventually result in rise in transmission requirements.

Need for inter-regional transmission capacity, Green Energy corridors and latent power demand are some of the key growth drivers of transmission sector

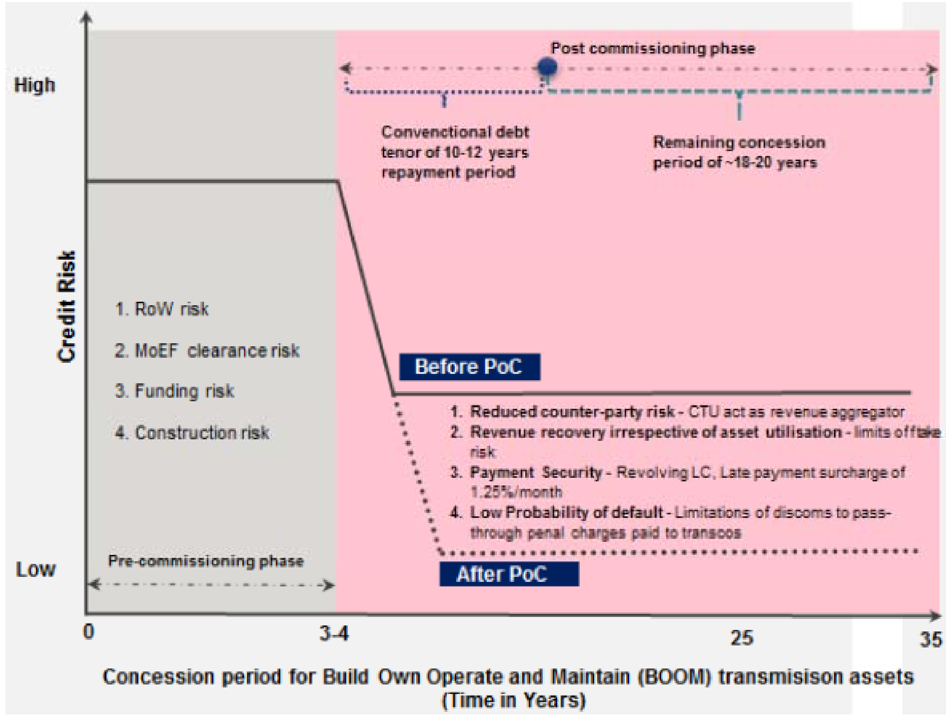
3) **Need to develop Green Energy Corridors**: Over the next four-five years, power generation is primarily expected from renewable capacities, and which will mostly be concentrated in select belts and far-flung areas. The government has already implemented measures to develop transmission capacities to support renewable capacity additions in India. Such initiatives include setting up of solar pooling stations and integrating solar & wind projects into the National Grid under Green Energy Corridors.

4) **Conventional power generation capacity additions to necessitate concomitant transmission capacity:** As of February 2017, ~80GW power generation projects are under construction, of which, ~50GW projects are expected to be commissioned over FY18-22. This, coupled with an estimated increase of ~6-7% in power demand, is expected to necessitate augmenting of transmission capacities.

Investment enablers

- **Operational power transmission projects have minimal risks:** During the project construction phase, transmission assets face execution risks including right of way, forest & environment clearances, jump in raw material prices, etc. However, post commissioning, with implementation of the PoC mechanism, there are limited off-take and price risks. Thus, operational transmission projects entail annuity-like cash flows and steady project returns.

Fig. 5: Credit risk through a transmission project's life cycle



Source: DRHP

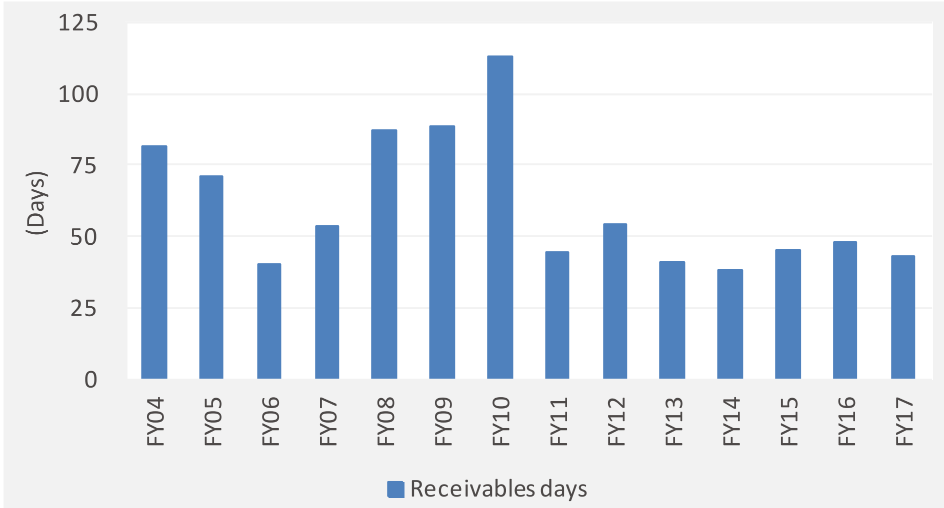
Once the construction is complete and project is operational, power transmission projects have minimal risks with no collection risk

- **Availability-based regime:** According to TSA, a transmission line developer is liable to earn incentive (if availability is more than 96% for HVDC and more than 98% for HVAC) in the ratio of the transmission charge paid or actually payable at the end of the contract year. Also, in case of low availability, the transmission licensee is liable to pay a penalty under TSA, which will be apportioned in favour of customers. Maintaining availability in excess of the targeted availability gives the relevant asset the right to claim incentives at pre-determined rates, ensuring an adequate upside to maintaining availability.

- **Counter-party risk diversified:** Given pan-India aggregation of revenue among all TSPs (not asset specific billing), counter-party risk is diversified. As load growth increases, the pool of beneficiaries as well as transmission providers are likely to rise, resulting in further diversification. Considering that no single counter-party is over 15% of the pool, weighted average credit quality of the pool is significantly better than individual constituents. If a particular beneficiary delays or defaults, the delay or shortfall is pro-rated amongst all licensees. Thus, delays or defaults by a particular beneficiary will have limited impact, which will be proportionate to its share in overall ISTS.

- **Collection risk offset owing to presence of CTU**: According to CERC (sharing of inter-state transmission charges and losses) regulations, 2010, PGCIL has been assigned the responsibility of carrying out activities including raising of transmission charge bills on behalf of all ISTS licensees, collecting the amount and disbursing the same to ISTS licensees. The CTU functions as a single point of contact between transmission licensees and users. Thus, a private transmission licensee no longer needs to collect transmission charges from multiple discoms for each transmission project. The transmission revenue payable to the licensee is disbursed by CTU on monthly basis. Moreover, CTU's collection track record is fairly good and the receivables collection cycle has improved considerably in past few years. PGCIL does not have any history of payment default to TSP under the PoC mechanism.

Chart 24: PGCIL's average receivables at ~45 days



Source: PGCIL

- **Payment security:** The TSA has an arrangement for payment security, which reduces under-recovery of revenue. Payment security is available by way of a revolving letter of credit of the required amount that can be utilised to meet the revenue requirement in case of a shortfall.

- **Relatively low probability of default**: Beneficiaries are less likely to default on transmission charges as there is limited alternative infrastructure to supply/off-take power. In fact, transmission licensees have the right to restrict long- /medium-term access to transmission networks. As per CERC's order of September 2, 2015, on regulation of power supply, PGCIL in consultation with Power System Operation Corporation (POSOCO) can deny STOA/MTOA/LTA to the defaulting utility, which can be treated as a transmission constraint and POSOCO may issue a schedule to the defaulting beneficiary in case of transmission constraint.

Transmission: Tariff structure and system availability

Electricity transmission tariff is collected and paid as transmission charges by CTU. The tariff rates comprise a fixed non-escalable charge, a variable escalable charge and incentives for actual availability beyond the target availability of 95%/98% for the Initial Portfolio Assets.

Incentive structure under TSAs can improve the IRR by 20-30bps on overall project

Non-escalable charges and escalable charges: Non-escalable charges are fixed, detailed in the TSA and tariff order and paid as part of transmission charges. These charges are billed on monthly basis by CTU. Escalable charges are a variable, which are only fixed in the TSA and tariff order for first year of scheduled operations and vary in subsequent years according to CERC's escalation index, which is determined by the Commission semi-annually from a formula linked to the inflation rate in India. Any change in the inflation rate directly impacts escalable charges paid and revenue from operations.

Availability determined incentive payments and penalties: The availability-based tariff regime incentivises transmission system operators to provide the highest possible system reliability. System reliability is measured as availability, which is defined as time in hours during a given period for which the transmission system is capable of transmitting electricity at its rated voltage, expressed as a percentage of total hours in the period. CERC's Tariff Regulations provide specific guidance on the calculation of availability and take into account elements in the transmission system (including transmission lines, transformers and substations) as well as the reason for any outages, with force majeure outages being excluded from the calculation. Maintaining availability of 95%/98% entitles the IPA to receive incentive revenue with maximum incentive revenue earned for maintaining availability of 95/98%. ATL receives incentive payments under TSAs of the Initial Portfolio Assets if availability exceeds 95%/98%. If the annual average availability rate falls below 95%/98%, the developer/operator could attract penalties under the TSA, subject to force majeure. In the event of failure to maintain the target availability of 95%/98% for six consecutive months, the LTTC may exercise its right of termination under the TSA. Historically, Initial Portfolio Assets have maintained annual average system availability above 95%/98%, and, accordingly, earned incentives and never been subject to penalties. In FY16 and FY15, incentive payments of INR115.41mn and INR10.35mn, were earned representing 3.26% and 1.73% of revenues from operations, respectively.

Surcharge: In accordance with the Sharing of Charges and Losses Regulations, a transmission licensee is entitled to recover its tariff from ISTS charges collected by CTU. If there is any failure or delay on part of long-term transmission customers (LTTCs) to make the requisite payments to CTU, which affects the CTU's capability to make corresponding payments to the company as a transmission licensee, the developer/operator is entitled to a delayed payment charge from LTTCs at the rate of 15% per year, under CERC regulations.

INVIT's are now allowed to raise funds via issue of non-convertible debentures and bonds. However, such debt securities must not have a convertibility option attached to them. Such debt instruments issued by REITs and InvITs are required to be compulsorily listed on a recognised stock exchange.

Financial Statements

Key Assumptions

Year	FY18E	FY19E	FY20E
Macro			
GDP(Y-o-Y %)	6.5	7.1	7.6
Inflation (Avg)	3.8	4.5	5.0
Repo rate (exit rate)	6.00	6.00	6.50
USD/INR (Avg)	64.5	65.0	66.0
Company			
AUM (INR mn)	53,085	55,332	105,082
NDCF (INR mn)	2,637	3,444	6,811
NDCF distribution(%)	100	100	100
Average Cost of debt(%)	7.9	8.3	8.5

Income statement (INR mn)

Year to March	FY18E	FY19E	FY20E
Income from operations	4,422	6,719	12,645
Other expenses	339	557	1,029
Total operating expenses	339	557	1,029
EBITDA	4,083	6,162	11,616
Dep. & amortisation	1,006	1,565	2,984
EBIT	3,077	4,597	8,631
Interest expense	798	2,111	4,238
Profit before tax	2,280	2,485	4,394
Provision for tax	-	-	9
Reported profit	2,280	2,485	4,384
Adjusted Profit	2,280	2,485	4,384
Eq. shares outstanding (mn)	284	284	518
EPS (INR) basic	8.0	8.8	8.5
Diluted shares (mn)	284	284	518
Adjusted Diluted EPS	8.0	8.8	8.5
Adjusted Cash EPS	11.6	14.3	14.2
DPS	11.1	12.1	13.4

Common size metrics- as % of net revenues

Year to March	FY18E	FY19E	FY20E
Other expenses	7.7	8.3	8.1
Operating expenses	7.7	8.3	8.1
Dep. & amortisation	22.7	23.3	23.6
Interest expenditure	18.0	31.4	33.5
EBITDA margins	92.3	91.7	91.9
Net profit margins (adj.)	51.5	37.0	34.7

Growth metrics (%)

Year to March	FY18E	FY19E	FY20E
Revenues		51.9	88.2
EBITDA		50.9	88.5
PBT		9.0	76.8
Adjusted Profit		9.0	76.4
EPS		9.0	(3.4)

Note: DPS calculation is done on the NDCF and not on PAT

Balance sheet			(INR mn)
As on 31st March	**FY18E**	**FY19E**	**FY20E**
Equity capital	28,287	28,287	51,750
Reserves & surplus	434	(456)	(2,134)
Shareholders funds	28,721	27,831	49,616
Long term borrowings	23,882	25,583	49,913
Total Borrowings	23,882	25,583	49,913
Deferred Tax (Net)	(14)	(14)	(14)
Sources of funds	**52,585**	**53,396**	**99,511**
Gross block	51,771	54,091	102,841
Depreciation	1,006	2,571	5,555
Net block	50,765	51,520	97,286
Total Fixed Assets	50,765	51,520	97,286
Sundry debtors	727	1,104	1,559
Cash and cash equivalents	923	514	162
Other current assets	221	336	632
Total current assets	1,871	1,955	2,353
Trade payable	28	46	85
Ot. Cur. Liab. & Sh. Term Prov.	23	33	43
Total cur. Liab. & prov.	51	79	128
Net Current Assets	1,821	1,876	2,225
Uses of funds	**52,585**	**53,396**	**99,511**
Book value per share (INR)	101	98	96

Free cash flow

Year to March	FY18E	FY19E	FY20E
Reported Profit	2,280	2,485	4,384
Add: Depreciation	1,006	1,565	2,984
Interest (Net of Tax)	797.7	2,111.3	4,237.7
Add: Others	(1,362)	(1,166)	(2,281)
Less:Changes in WC	(464)	(702)	(1,579)
Opertaing cash flow	3,186	5,697	10,904
Less: Capex	51,771	2,320	48,750
Free cash flow	**(48,585)**	**3,377**	**(37,846)**

Cash flow metrics

Year to March	FY18E	FY19E	FY20E
Operating cash flow	3,186	5,697	10,904
Financing cash flow	49,508	(3,786)	37,493
Investing cash flow	(51,771)	(2,320)	(48,750)
NET CASH FLOW	923	(409)	(353)
Capex	(51,771)	(2,320)	(48,750)
Dividend paid	(1,846)	(3,376)	(6,063)

Profitability & liquidity ratios

Year to March	FY18E	FY19E	FY20E
ROAE (%)	15.9	8.8	11.3
ROACE (%)	11.7	8.7	11.3
Debtors (days)	60	50	38
Payable/Advance (days)	30	24	23
Cash conversion cycle	30	26	15
Current ratio	36.8	24.8	18.4
Gross Debt/EBITDA	5.8	4.2	4.3
Adjusted Debt/Equity	0.8	0.9	1.01
Gross Debt/Equity	0.8	0.9	1.0

Operating ratios

Year to March	FY18E	FY19E	FY20E
Fixed assets turnover (x)	0.1	0.1	0.2
Total asset turnover(x)	0.1	0.1	0.2
Equity turnover(x)	0.2	0.2	0.3

Valuation parameters

Year to March	FY18E	FY19E	FY20E
Diluted EPS (INR)	8.0	8.8	8.5
Y-o-Y growth (%)		*9*	*(3)*
CEPS (INR)	11.6	14.3	14.2
Diluted P/E (x)	11.7	10.7	11.1
Price/BV(x)	0.9	1.0	1.0
EV/Sales (x)	11.2	7.7	7.8
EV/EBITDA (x)	12.2	8.4	8.5
Dividend Yield (%)	11.9	12.9	14.2
Basic EPS	8.0	8.8	8.5

Peer comparison valuation

Company Name	Mkt Cap. (USD mn)	Ent. Val. (USD mn)	EV/EBITDA		Dividend Yield		ROA	
			FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Next Era Energy Inc	72,884	107,541	11.6	10.7	2.9	3.2	3.7	3.8
Duke Energy Corp	53,337	107,419	11.1	10.6	4.8	5.0	2.4	2.5
Pattern Energy Group	1,756	4,823	11.9	10.7	9.5	9.5	1.5	1.4
NRG Yield	3,067	9,147	9.3	8.6	7.6	8.2	4.2	6.9
Atlantica Yield	1,961	7,547	9.2	8.9	7.9	9.0	2.8	4.9
Hutchison Port Holdings Trust	3,005	69,302	10.5	10.3	7.5	7.7	1.5	1.4
Keppel Infrastructure Trust	1,671	4,198	15.9	15.7	6.8	6.8	1.4	1.5
IndiGrid trust	403	795	8.4	8.5	12.9	14.2	8.7	11.3
Adani Transmission	2,424	3,682	12.2	11.4	0.0	0.0	11.8	11.9
Power Grid	17,389	34,255	8.4	7.7	3.0	3.3	10.7	10.8

Additional Data

Directors Data

Mr. Pratik Agarwal	CEO & Executive Director	Mr. Tarun Kataria	Additional Independent Director
Mr. Rahul Asthana	Additional Independent Director	Mr. Shashikant H. Bhojani	Additional Independent Director
Mr. Kuldip K. Kaura	Additional Non-executive Director	Mr. Harsh Shah	CFO & Executive Director

Auditors - M/s. SRBC & Co LLP

Holding – Top10

	Perc. Holding		Perc. Holding
DB International Asia	13.31	DB Inter Asia	11.65
BNP Paribas	7.35	Schroders PLC	6.29
Deutsche bank AG	4.92	Jupiter Investment Group	2.67
Schrodes Investment SP	2.06	DSP Blackrock Investment Managers	1.62
Driehaus Caoital LLC	1.06		

*in last one year

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*in last one year

Insider Trades

Reporting Data
No Data Available

*in last one year

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Adani Power	HOLD	SU	H	CESC	BUY	None	None
JSW Energy	HOLD	SP	M	NTPC	BUY	SP	L
Power Grid Corp of India	BUY	SO	L	PTC India	BUY	None	None
Tata Power Co	BUY	SP	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Date: 2018.03.28 15:32:48 +05'30'

Coverage group(s) of stocks by primary analyst(s): Power

Adani Power, CESC, JSW Energy, NTPC, PTC India, Power Grid Corp of India, Tata Power Co

Recent Research

Date	Company	Title	Price (INR)	Recos
15-Feb-18	**Tata Power Company**	Divestments gaining momentum; *Result Update*	87	Buy
12-Feb-18	**CESC**	Inline performance; rerating to continue; *Result Update*	1,008	Buy
06-Feb-18	**JSW Energy**	Higher fuel cost takes a toll; long-term PPA key; *Result Update*	83	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

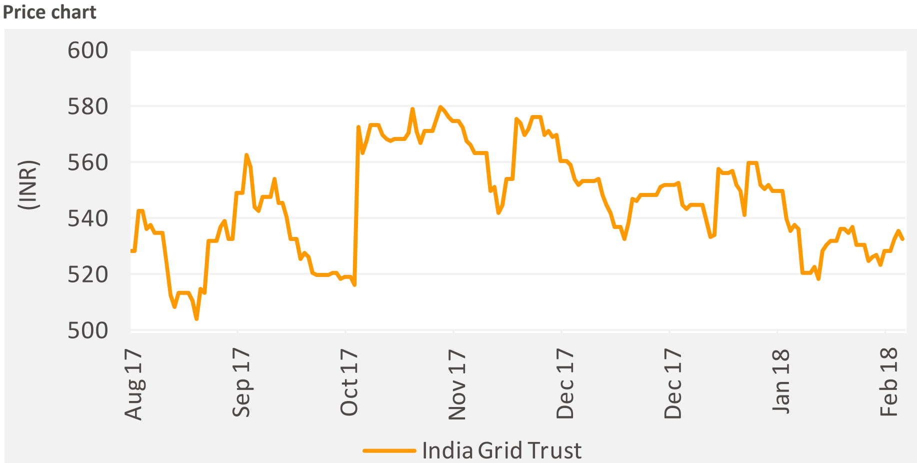
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

Price chart



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