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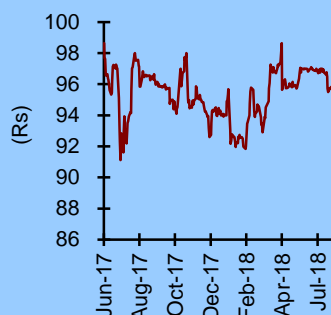
Infrastructure

Target price Rs110

Shareholding pattern

	Sep '17	Dec '17	Mar '18
Promoters	16.7	20.7	20.7
Institutional investors	58.9	53.3	58.5
MFs, FIs	23.1	22.9	29.3
FIIIs	35.8	30.4	29.2
Others	24.4	25.9	20.8

Price chart



INDIA

ICICI Securities

India Grid Trust

BUY
Maintained
Rs96

Poised for strong growth

Reason for report: Q1FY19 results review

India Grid Trust (Indigrid) reported Q1FY19 Distribution per Unit (DPU) of Rs3/unit which was in line with expectations and the Trust remains on track to deliver its FY19E DPU guidance of Rs12/unit. We reiterate our BUY rating with target price of Rs110. Our target price is based on discounting the Distribution per Unit (DPU) of cash flows from the InvIT over the residual life of assets post FY18 at a cost of equity of 11% and assumes injection of another 7 assets into Indigrid over FY19-22E through 3 incremental tranches of fund raising funded by a 51:49 mix of equity and debt.

Based on incremental dilution at Rs100 for balance 3 tranches of asset additions, we expect the IRR returns of the Indigrid Trust to reach ~12% by FY22E (this assumes Rs100/unit as the initial outgo). Our calculation also assumes inclusion of a terminal value for each asset considering perpetual growth rate of 2%, cost of equity 12%, cost of debt of 8.5% and 50% capital gearing. At current levels, the Trust unit offers an attractive cash yield of 12.6%, 14.0% and 14.6% over FY19-21E, respectively, assuming a 100% pay out of the Net Distributable Cash Flow (NDCF) every year.

- **Q1FY19 NDCF of Rs8.5bn leads to DPU of Rs3/unit:** Indigrid reported Q1FY19 EBITDA of Rs14.6bn which was up 10% QoQ on the back of asset acquisitions and adjusting for asset level and Trust level payments, Indigrid generated NDCF of Rs8.5bn of which the Trust will pay out 100% leading to Q1FY19 DPU of Rs3/unit.
- **Aggressive growth plan in place:** Indigrid is targeting to grow its assets under management (AUM) from Rs55bn as of FY18 to ~Rs300bn by FY22E, of which Rs195bn will be from ROFO assets and the balance through organic/inorganic route. It already has 6 assets under management (including Patran, a third party asset) with another 7 assets planned to be added in 3 tranches over FY19-22E.
- **IRR returns the ideal metric to assess performance vs. cash yield:** Typically, investors may look at the cash yield of the instrument by benchmarking the distribution per unit (DPU) for a given year and dividing it with the prevailing price per unit to arrive at the yield. However, in the case of Indigrid, which has a declining tariff trajectory, unless new assets come into the InvIT, the actual annual DPU may see a decline in the medium term. Hence, we believe that an Internal Rate of Return or IRR, based return on the initial cost per unit, is the correct method to compute returns for benchmarking them to G-Sec yields.
- **Future asset injections should also be factored in valuations:** Depending on the nature of underlying assets, they may or may not have a finite life. Hence, for an investor, who buys an InvIT unit today, the IRR return would be a function of the residual cash flows from the underlying assets which flows to the InvIT. However, an Investment Manager for an InvIT has the option of extending the life of the InvIT by bringing in new assets from time to time, by seeking approval of the existing Unit holders and structuring the funding of such acquisitions through a mix of debt and equity at the InvIT level. Hence, we prefer to look at valuations after factoring in the proposed asset injections.

Market Cap	Rs27.1bn/US\$395mn
Bloomberg	INDIGRID IN
Shares Outstanding (mn)	283.8
52-week Range (Rs)	100/91
Free Float (%)	79.3
FII (%)	29.2
Absolute Return 3m (%)	(1.7)

(YE March 31)	FY18	FY19E	FY20E	FY21E
Revenue (Rs bn)	4.5	6.8	12.8	17.8
EBITDA (Rs bn)	4.1	6.3	11.7	16.5
EPS (Rs)	7.3	9.1	8.7	9.2
AUM (Rs bn)	53.8	55.3	104.1	141.2
Distribution/Unit (DPU)	9.6	12.1	13.4	14.0
Cash Yield (%)	12.0	12.6	14.0	14.6

Please refer to important disclosures at the end of this report

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Financial summary (Consolidated)

Table 1: Profit and Loss statement

(Rs mn, year ending Mar 31)

Year ending March	FY18	FY19E	FY20E	FY21E
Net Sales	4,476	6,822	12,754	17,849
Operating Expenses	399	555	1,018	1,388
EBITDA	4,076	6,266	11,737	16,461
% margins	91.1%	91.9%	92.0%	92.2%
Depreciation & Amortisation	1,157	1,542	2,966	4,136
Interest Expenses	1,013	2,131	4,263	5,753
Other Income	129	-	-	-
Recurring PBT	2,036	2,593	4,508	6,572
Less: Taxes	(68)	-	11	26
PAT before Minority/Associate	2,104	2,593	4,498	6,547
Minority/Associate share	-	-	-	-
Net Income (Reported)	2,104	2,593	4,498	6,547

Source: Company data, I-Sec research estimate

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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