

# Power Grid Corporation (POWGRI)

₹ 188

## Capitalisation rate disappoints...

- PowerGrid reported Q3FY19 results that were muted as the capitalisation rate was below expectations. Reported revenues came in at ₹ 8417.2 crore vs. estimate of ₹ 8621.1 crore. Transmission revenues were in line with estimates for Q3FY19, which grew 13% YoY. On the other hand, consultancy revenues grew 8.9% YoY while telecom revenues increased ~12.9% YoY
- On the negative side, capitalisation for Q3FY19 came in at ₹ 6860 crore vs. expectation of ₹ 8000 crore. For 9MFY19, the same is at ₹ 12745 crore while for TBCB projects the same was at ₹ 3902 crore. The company now expects total capitalisation of ₹ 26000 crore for FY19E while the same for the standalone business will be at ₹ 20000-21000 crore. Capex for FY19E will be ₹ 25000 crore while the same for 9MFY19 was at ₹ 18242 crore
- EBITDA was at ₹ 7569.4 crore, higher than our estimate of ₹ 7414.1 crore. Lower-than-expected employee & other costs was the key reason for the beat
- Consequently, PAT came in at ₹ 2331.2 crore

### Capitalisation of Q3FY19 below estimates

The capitalisation for Q3FY19 was at ₹ 6860 crore, which was below estimates. For 9MFY19, the same was at ₹ 16646 crore (including TBCB projects while the regulated capitalisation for 9MFY19 was at ₹ 12745 crore). As per the management, capitalisation target for has been scaled down to ₹ 26000 crore (includes ₹ 6000 crore for TBCB projects) while the same for FY20E has been pegged at ₹ 25000 crore.

### FY20 capex, capitalisation scaled down, share of TBCB to rise

Even on the capex side, FY19E capex will be at ₹ 25000 crore while the same for FY20E has been significantly scaled down to ₹ 18000 crore, which has led to EPS downgrade of ~3% for FY20E. The management expects to increase the capitalisation-capex ratio to above 1.0x for FY19E and FY20E. The current CWIP is at ₹ 40262 crore vs. ₹ 34500 crore QoQ and has projects worth ₹ 77000 crore to be capitalised in the next two to three years. Going ahead, the company has clear visibility on projects like TBCB segment (₹ 7000 crore) and integration of wind capacity (30000 MW), solar UMPPs and nuclear. However, visibility emerges from TBCB projects that are competitively bid and have RoEs below the regulated business model.

### Eyeing diversification by focusing new areas of growth

In addition to the base business, the company is making efforts to diversify and take exposure to renewables by battery storage (two modes in pilot projects to be completed by December 2018), EV charging infrastructure and railways.

### Higher share of TBCB to limit expansion of multiples; downgrade to HOLD

Rising capitalisation of TBCB projects and higher share of the same in the upcoming projects will lead to a decline in the return profile of the company from FY20E onwards. We expect the company's RoE to decline to 15.1% in FY20E from 16.5% in FY19. Similarly, lower capex would also impact the PAT CAGR from 14% earlier to 12% now in FY18-20E. Hence, we believe that P/B multiples will see moderation, going ahead. We downgrade the stock from BUY to **HOLD** as we now value it at 1.4x P/BV of FY20.

Rating matrix	
Rating	Hold
Target	₹ 200
Target Period	12-15 months
Potential Upside	6%

What's Changed?	
Target	Chnaged from ₹215 to ₹200
EPS FY19E	Unchanged
EPS FY20E	Chnaged from ₹22.2 to ₹21.7
Rating	Chnaged from Buy to Hold

Quarterly Performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	8,471.2	7,507.0	12.8	8,283.0	2.3
EBITDA	7,988.4	6,914.5	15.5	7,379.4	8.3
EBITDA (%)	94.3	92.1	219 bps	89.1	521 bps
Adj. PAT	2,331.2	2,032.4	14.7	2,309.5	0.9

Key Financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	25196.5	29689.1	34375.3	38341.9
EBITDA	22339.5	26397.3	30687.1	34233.4
Net Profit	7524.4	9088.1	10880.9	11345.8
EPS (₹)	14.4	17.4	20.8	21.7

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	13.0	10.8	9.0	8.6
Target P/E	16.0	13.2	11.1	10.6
EV / EBITDA	9.7	8.9	8.1	7.6
P/BV	2.0	1.7	1.5	1.3
RoNW (%)	15.3	16.0	16.5	15.1
RoCE (%)	6.0	6.4	7.0	7.4

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	98825
Total Debt (FY18) (₹ Crore)	127000
Cash and Investments (FY17) (₹ Crore)	2488
EV (₹ Crore)	223337
52 week H/L (₹)	224 / 121
Equity capital (₹ Crore)	5231.6
Face value	₹ 10

Price performance (%)				
	1M	3M	6M	12M
Powergrid	(1.4)	3.6	(1.5)	(7.6)
NTPC	3.1	8.3	6.9	0.1
NHPC	(0.3)	10.8	7.0	1.8

Research Analyst	
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## Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Total sales	8,471.2	8,621.1	7,507.0	12.8	8,283.0	2.3	Transmission revenues were in line with estimates however other segments were below estimates
Other operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Total Income	8,471.2	8,621.1	7,507.0	12.8	8,283.0	2.3	
Personnel cost	475.0	406.3	400.9	18.5	452.9	4.9	
General & Admin exp	426.8	577.4	367.7	16.1	857.6	(50.2)	
Non-recurring exp							
Total expenses	901.8	983.7	768.6	17.3	1,310.6	(31.2)	
EBITDA	7,988.4	7,733.1	6,914.5	15.5	7,379.4	8.3	
EBITDA Margin (%)	94.3	89.7	92.1	219.4	89.1	521.1	
Depreciation	2,604.7	2,600.0	2,318.6	12.3	2,548.3	2.2	
Interest	2,275.3	2,370.8	1,955.5	16.4	2,309.5	(1.5)	
Other Income	419.0	319.0	278.1	50.7	406.9	3.0	
PBT	3,108.4	2,762.3	2,632.1	18.1	2,521.6	23.3	
Total Tax	617.7	663.0	599.6	3.0	617.0	0.1	
Adjusted PAT	2,331.2	2,504.3	2,032.4	14.7	2,309.5	0.9	PAT was below estimates
Key Metrics							
Transmission	8,271.9	8,274.6	7,322.7	13.0	8,153.6	1.5	Transmission revenues were in line with estimates
Consultancy	156.1	183.0	143.4	8.9	138.6	12.6	
Telecom	196.2	163.4	174.3	12.6	161.9	21.2	

Source: Company, ICICI Direct Research

## Change in estimates

(₹ Crore)	FY19E			FY20E		
	Old	New	% Change	Old	New	% Change
Revenue	34,536.6	34,375.3	(0.0)	38,880.9	38,341.9	(0.0)
EBITDA	30,848.3	30,687.1	(0.0)	34,772.4	34,233.4	(0.0)
EBITDA Margin (%)	88.7	89.3	57 bps	89.4	89.3	-15 bps
PAT	10,880.9	10,880.9	(0.0)	11,750.1	11,345.8	(0.0)
EPS (₹)	20.8	20.8	0.0	22.4	22.4	0.0

Source: Company, ICICI Direct Research

## Assumptions

Crore	Current				Earlier	
	FY17	FY18E	FY19E	FY20E	FY19E	FY20E
Capex	24,429	26,000	25,000	18,000	26,500	25,000
Capitalisation	31,000	29,834	21,000	24,000	29,500	30,000

PGCIL's capex will slowdown considerably in FY20E

We have revised down the capitalisation rate of regulated business as share of TBCB in overall capitalisation will increase

Source: Company, ICICI Direct Research

## Company Analysis

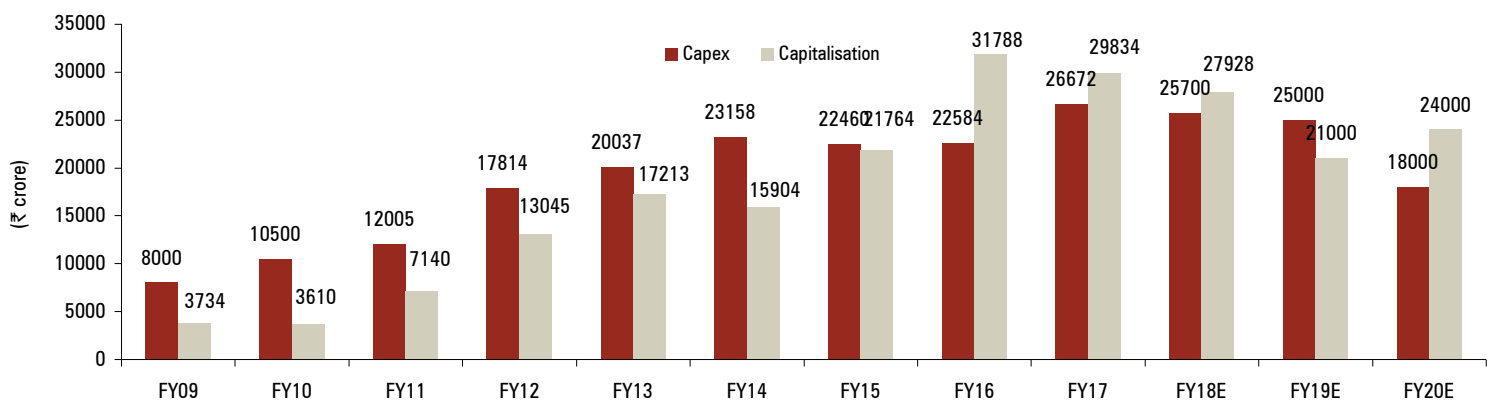
### Capitalisation of Q3FY19 below estimates

The capitalisation for Q3FY19 was at ₹ 6860 crore, below estimates. For 9MFY19, the same was at ₹ 16646 crore (including TBCB projects while the regulated capitalisation for 9MFY19 was at ₹ 12745 crore). As per the management, capitalisation target has been scaled down to ₹ 26000 crore (includes ₹ 6000 crore for TBCB projects) while the same for FY20E has been pegged at ₹ 25000 crore.

### FY20 capex, capitalisation scaled down, share of TBCB to rise

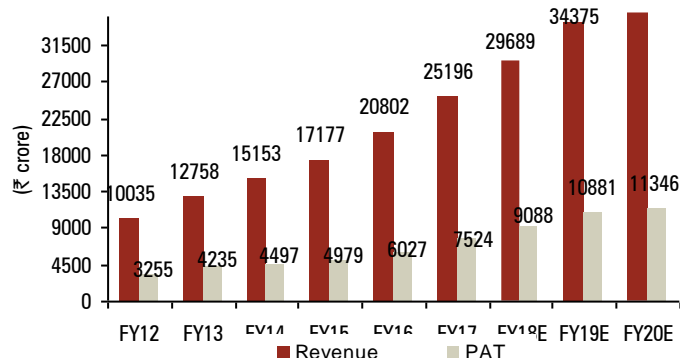
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**Exhibit 1: Trend in capex and capitalisation**



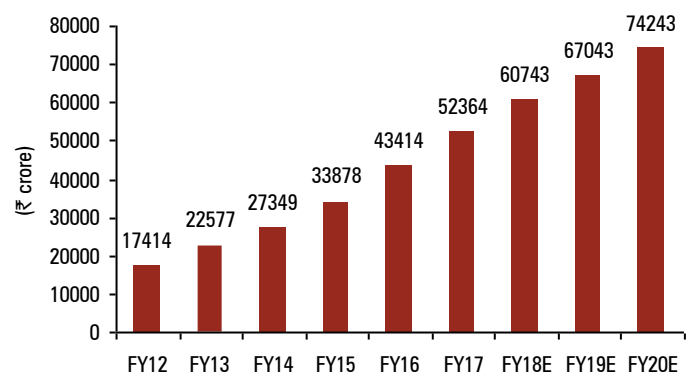
Source: Company, ICICI Direct Research

**Exhibit 2: Revenue and PAT trend**

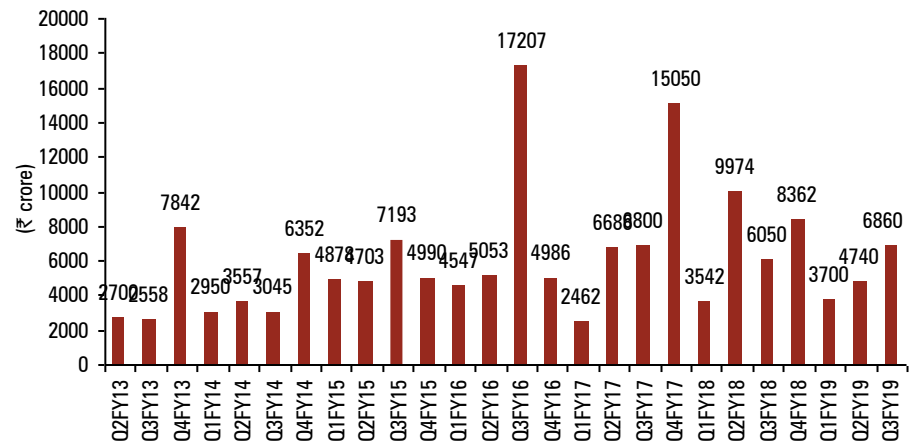


Source: Company, ICICI Direct Research

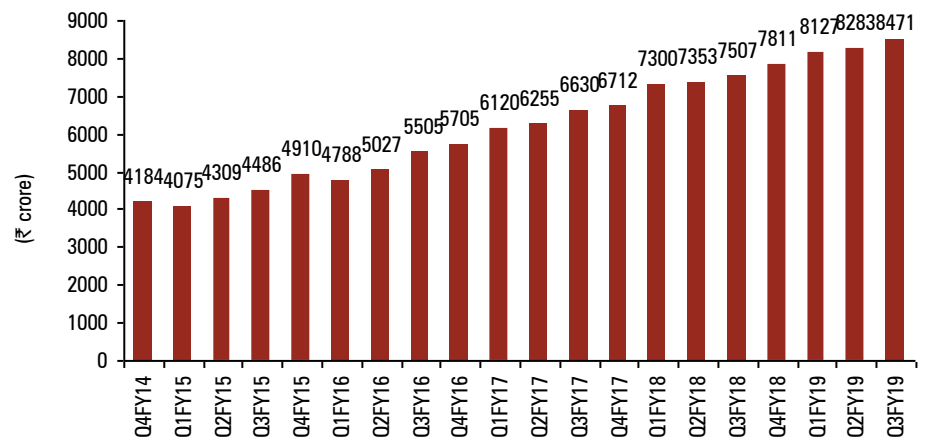
**Exhibit 3: Regulated asset trend**



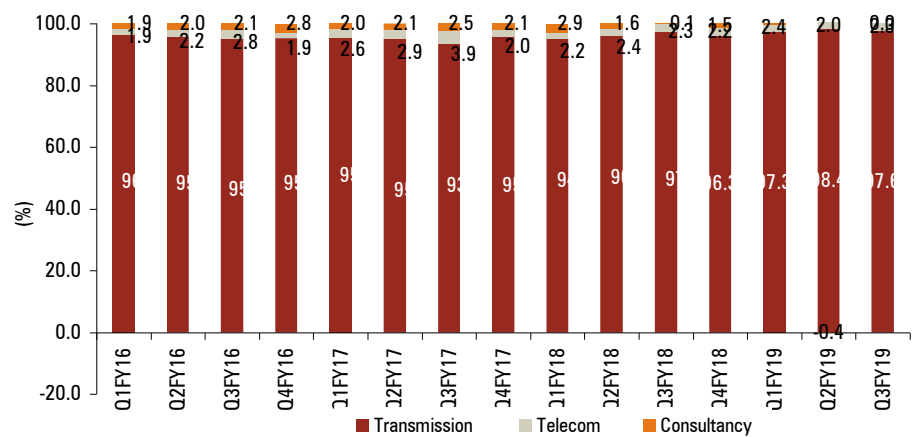
Source: Company, ICICI Direct Research

**Exhibit 4: Quarterly trend in capitalisation**


Source: Company, ICICI Direct Research

**Exhibit 5: Quarterly revenue trend**


Source: Company, ICICI Direct Research

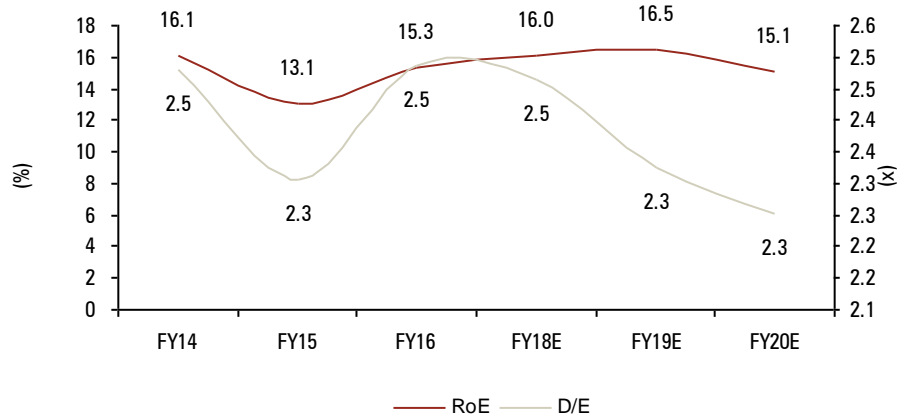
**Exhibit 6: Segmental revenue break-up**


Source: Company, ICICI Direct Research

### PAT to exhibit FY18-20E to drive 12% PAT CAGR over FY18-20E

PGCIL has incurred ₹ 24429 crore capex in FY17 and ~₹ 26000 crore in FY18 while the same was at ₹ 112600 crore in the Twelfth Plan (FY13-17) and capitalised assets worth ₹ 117000 crore in the same period. However, there will be some moderation in regulated business capitalisation whereas the lower RoE TBCB business will gain share in the portfolio. Hence, we expect the standalone capitalisation rate at ₹ 21000 crore and ₹ 24000 crore, respectively, for FY19-20E. Accordingly, we believe PGCIL will deliver revenue and PAT CAGR of 14% and 12%, respectively, in FY18-20E. We expect the company to report PAT of ₹ 10881 crore and ₹ 11346 crore, respectively. We expect RoE of the company to decline from 16.5% in FY19E to 15.1% in FY20E.

**Exhibit 7: Expected RoE and D/E trend, going ahead**

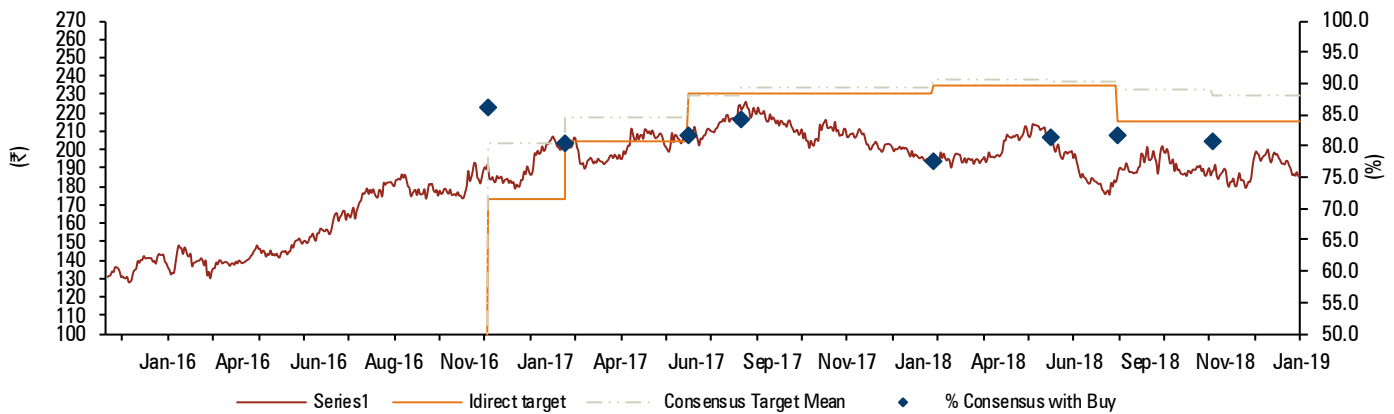


Source: Company, ICICI Direct Research

## Outlook and valuation

Rising capitalisation of TBCB projects and higher share of the same in upcoming projects will lead to a decline in the return profile of the company from FY20E onwards. We expect the RoE to decline to 15.1% in FY20E from 16.5% in FY19. Similarly, lower capex would also impact the PAT CAGR from 14% earlier to 12% now over FY18-20E. Hence, we believe the P/BV multiples will see moderation, going ahead. We downgrade the stock from BUY to **HOLD** as we now value it at 1.4x P/BV of FY20.

## Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

## Key events

Date	Event
Feb-10	Gol divests its ~17% stake in the company by launching an FPO, which got oversubscribed. The issue went for a fresh issue of 42.08 crore shares and equal number of government share dilution. The price was fixed at ₹ 90/share and ~₹ 3787 crore was raised by the Gol
Mar-11	Capitalisation during FY11 reached ₹ 7313 crore as the company inched towards the last year of the Eleventh Five Year Plan
Jan-12	Management guides capital expenditure of ₹ 1 lakh crore for Twelfth Five Year Plan; 82% higher than Eleventh Plan capex target of ₹ 55000 crore
Mar-12	Annual capitalisation reaches ₹ 14,100 crore as the company ended Twelfth Plan with a total capitalisation of ₹ 34715 crore and a capex of ₹ 53288 crore
Mar-13	Achieves its highest ever annual capitalisation of ₹ 17,213 crore. Also surpasses 1,00,000 ckt transmission line capacity, substation capacity of 164,763 MVAs and
Aug-13	Management revises its Twelfth Five Year Plan capex by 10% to ₹ 1,10,000 crore to take up the new business opportunity
Dec-13	Launches second FPO, which got subscribed 6.74 times. The issue comprised 13% fresh equity, which fetched the company ₹ 5,400 crore and ~₹ 1,600 crore was raised by the Gol at the finalised price of ₹ 90/share. Gol now holds 57.9% in the company
Dec-13	CERC proposes stringent 2014-19 draft tariff, which proposes higher availability criteria for incentives that would impact earnings by 2-3%
Feb-14	CERC issues a final tariff order for 2014-19, in line with the draft proposal
Dec-15	Reports highest ever asset capitalisation of ₹ 17,207 crore for the quarter after the commissioning of Biswanath Chariyali-Agra HVDC line in October 2015
Dec-16	The company seems to be on track to meet its capitalisation target of ₹30000 crore for FY17E as till January the company has commissioned assets to the tune of ₹20000 crore.

Source: Company, ICICI Direct Research

## Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Position Change
1	Government of India	31-Dec-18	0.6	2947.9	0.1
2	Life Insurance Corporation of India	31-Dec-18	0.1	335.4	0.0
3	ICICI Prudential Asset Management Co. Ltd.	31-Mar-18	0.0	220.5	94.1
4	HDFC Asset Management Co., Ltd.	31-Mar-18	0.0	155.1	16.0
5	Comgest S.A.	31-Dec-18	0.0	70.0	-47.4
6	LIC Mutual Fund Asset Management Company Ltd.	31-Dec-18	0.0	57.1	0.0
7	Vontobel Asset Management, Inc.	30-Sep-18	0.0	54.7	-39.3
8	BlackRock Institutional Trust Company, N.A.	31-Dec-18	0.0	48.6	0.2
9	FIL Investment Management (Singapore) Ltd.	30-Nov-18	0.0	37.4	0.7
10	SBI Funds Management Pvt. Ltd.	31-Dec-18	0.0	33.7	-0.1

Source: Reuters, ICICI Direct Research

## Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	56.91	56.91	56.27	56.20	56.34
FII	24.44	21.23	23.08	23.57	24.01
DII	8.19	15.77	15.64	15.26	15.18
Others	10.46	6.09	5.01	4.97	4.47

## Recent Activity

Buys			Sells		
Investor Name	Value (US\$ M)	Shares (Million)	Investor Name	Value (US\$ M)	Shares (Million)
Government of India	9.00	3.46	Comgest S.A.	-128.3	-49.4
MD Financial Management Inc.	7.31	2.68	Vontobel Asset Management, Inc.	-98.8	-38.1
Sjunde AP-fonden	6.83	2.50	ICICI Prudential Asset Management Co. Ltd.	-66.2	-25.5
Nuveen LLC	4.80	1.85	Capital Research Global Investors	-11.4	-4.2
Life Insurance Corporation of India	4.30	1.66	T. Rowe Price International (UK) Ltd.	-9.2	-3.5

Source: Reuters, ICICI Direct Research

## Financial summary

Profit and loss statement				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Total operating Income	25,196	29,689	34,375	38,342
Growth (%)	13	21	21	18
Employee Expenses	1,103	1,211	1,233	1,232
Other expenses	1,754	2,080	2,455	2,876
Total Operating Expenditure	2,857	3,292	3,688	4,109
EBITDA	22,339	26,397	30,687	34,233
Growth (%)	15	24	22	18
Depreciation	7,448	8,640	9,950	11,271
Interest	5,714	6,621	7,338	8,195
Other Income	335	352	356	360
PBT	9,512	11,488	13,755	15,127
Others	0	1	2	3
Total Tax	2,401	2,401	2,874	3,782
PAT	7,524	9,088	10,881	11,346
Growth (%)	21	25	21	20
EPS (₹)	14.4	17.4	20.8	21.7

Source: Company, ICICI Direct Research

Cash flow statement				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Profit Before Tax	9,512	11,488	13,755	15,127
Add: Depreciation	7,448	8,640	9,950	11,271
(Inc)/dec in Current Assets	(2,246)	(2,169)	(2,419)	(2,185)
Inc/(dec) in CL and Provisions	(3,012)	9	2,897	75
Others	4,323	4,941	5,326	5,548
CF from operating activities	16,025	22,909	29,509	29,836
(Inc)/dec in Fixed Assets	(35,834)	(31,783)	(33,655)	(32,888)
(Inc)/dec in Disposals	(280)	29	27	26
Others	0	0	0	0
CF from investing activities	(36,114)	(31,754)	(33,628)	(32,862)
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	19,863	17,465	13,451	16,431
Dividend paid & dividend tax	(1,420)	(1,543)	(1,729)	(1,852)
Inc/(dec) in Sec. premium	0	0	0	0
Others	(5,714)	(6,621)	(7,338)	(8,195)
CF from financing activities	12,728	9,300	4,385	6,384
Net Cash flow	(7,360)	455	266	3,358
Opening Cash	9,766	2,406	2,861	3,127
Closing Cash	2,406	2,861	3,127	6,485

Source: Company, ICICI Direct Research

Balance sheet				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Liabilities				
Equity Capital	5,232	5,232	5,232	5,232
Reserve and Surplus	43,869	51,413	60,566	70,059
Total Shareholders funds	49,101	56,645	65,797	75,291
Total Debt	122,102	139,567	153,018	169,449
AAD	0	0	0	0
Minority Interest / Others	3,827	3,827	3,827	3,827
Total Liabilities	175,030	200,039	222,643	248,567
Assets				
Gross Block	179,886	208,668	240,324	272,211
Less: Acc Depreciation	41,789	50,429	60,379	71,650
Net Block	138,097	158,240	179,945	200,562
Capital WIP	49,810	52,810	54,810	55,810
Total Fixed Assets	187,907	211,050	234,755	256,372
Investments	1,087	1,058	1,031	1,005
Inventory	1,057	1,228	1,473	1,691
Debtors	3,024	3,266	3,609	4,026
Loans and Advances	6,822	8,039	9,308	10,382
Other Current Assets	3,024	3,563	4,125	4,601
Cash	2,406	2,861	3,127	6,485
Total Current Assets	16,332	18,957	21,642	27,184
Current liabilities	20,516	20,267	23,394	23,424
Other Liabilities	5,262	6,241	6,874	8,053
Total Current Liabilities	25,779	26,508	30,267	31,477
Net Current Assets	(13,964)	(12,069)	(13,143)	(8,810)
Others Assets				
Application of Funds	175,030	200,039	222,643	248,567

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Per share data (₹)				
EPS	14.4	17.4	20.8	21.7
Cash EPS	28.6	33.9	39.8	43.2
BV	93.9	108.3	125.8	143.9
DPS	2.2	1.8	2.3	2.5
Cash Per Share	4.6	5.5	6.0	12.4
Operating Ratios (%)				
EBITDA Margin	88.7	88.9	89.3	89.3
PBT / Total Operating income	37.8	38.7	40.0	39.5
PAT Margin	29.9	30.6	31.7	29.6
Debtor days	43.8	40.2	38.3	38.3
Return Ratios (%)				
RoE	15.3	16.0	16.5	15.1
RoCE	6.0	6.4	7.0	7.4
RoIC	6.1	6.5	7.1	7.6
Valuation Ratios (x)				
P/E	13.0	10.8	9.0	8.6
EV / EBITDA	9.7	8.9	8.1	7.6
EV / Net Sales	8.6	7.9	7.2	6.8
Market Cap / Sales	3.9	3.3	2.8	2.6
Price to Book Value	2.0	1.7	1.5	1.3
Solvency Ratios				
Debt/EBITDA	5.5	5.3	5.0	4.9
Debt / Equity	2.5	2.5	2.3	2.3
Current Ratio	0.6	0.7	0.7	0.9
Quick Ratio	0.1	0.1	0.1	0.2

Source: Company, ICICI Direct Research



## ICICI Direct coverage universe (Utilities)

Sector / Company	CMP	Target	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
CESC (CESC)	685	765	Buy	9,076	45.2	69.0	75.0	29.6	18.0	14.0	8.7	7.0	6.2	12.1	13.6	14.1	8.4	10.4	10.1
NTPC (NTPC)	140	147	Hold	114,447	11.9	12.4	13.4	11.8	11.3	10.4	10.0	10.5	10.3	6.8	5.9	6.6	9.9	9.8	10.1
Power Grid (POWGRI)	188	200	Hold	98,825	17.4	20.8	21.7	10.8	9.0	8.7	8.9	8.1	7.6	6.4	7.0	7.4	16.0	16.5	15.1

Source: Company, ICICI Direct Research

#### **RATING RATIONALE**

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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## ANALYST CERTIFICATION

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