

Q4FY19 results ahead of estimates; good defensive stock; maintain Buy
PGCIL's Q4FY19 results were more than our estimates, as year-end accounting adjustments contributed to PAT. PGCIL is a good defensive stock, with growth built in by the strong capitalization, which has peaked in recent years, leading to stronger cash flows. Given lower capex guidance in FY20, we trim our FY20/21 sales and earnings estimates by 4-6%. The regulatory overhang has also passed, with the CERC retaining RoEs at 15.5%. We maintain a **Buy** rating, with a TP of ₹240, a valuation of P/BV 1.7x FY20E.

Q4FY19 more than our estimates, as year-end accounting adjustments help PAT

The revenue from operations increased 18% YoY to ₹92bn and 8.7% QoQ, from ₹84bn in Q3FY19. The EBITDA grew 19%YoY to ₹78bn and 3% QoQ, from ₹75bn. The EBITDA margin rose 102bps YoY and declined 482bps QoQ to 84.5%. Other cost grew 24% YoY to ₹10bn, from ₹8bn, up 139% QoQ. The employee cost de-grew 13.4% YoY to ₹4bn, from ₹4.6bn and de-grew 15% QoQ, from ₹4.7bn. Interest cost rose 18% YoY to ₹24bn, from ₹20bn. The PAT rose 52% YoY to ₹31bn, from ₹20bn. There was a MAT credit of ₹60bn during the quarter, included in the tax expense.

Capex and capitalisation guidance of ₹150bn and ₹250bn in FY20, as capex has reached a peak

The capex and capitalisation in FY19 was ₹258bn (inclusive of TBC capex) and ₹259bn (inclusive of TBCB capitalisation), respectively. The capitalisation outlook for FY20E is also strong, due to a robust CWIP of ₹388bn. For FY20E, the management indicated a capex of ₹150bn (₹20bn in TBCB) and capitalisation of ₹200-250bn. The reducing capex and capitalisation range indicates that PGCIL capex has reached a peak and cash flows should improve from hereon. The total projects in hand are worth ₹610bn. The debt-equity ratio is 71:29, and the company is optimally leveraged.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	92,181	78,144	18.0	84,813	8.7
Total Expense	14,247	12,872	10.7	9,017	58.0
EBITDA	77,934	65,271	19.4	75,796	2.8
Depreciation	25,970	24,065	7.9	26,047	(0.3)
EBIT	51,964	41,206	26.1	49,749	4.5
Other Income	3,922	2,846	37.8	4,089	(4.1)
Interest	23,660	20,055	18.0	22,753	4.0
EBT	32,225	23,997	26.1	31,085	3.7
Tax	1,686	3,894	(56.7)	7,761	(78.3)
RPAT	30,540	20,103	51.9	23,324	30.9
APAT	30,540	20,103	51.9	23,324	30.9
			(bps)		(bps)
Gross Margin (%)	100.0	100.0	0	100.0	0
EBITDA Margin (%)	84.5	83.5	102	89.4	(482)
NPM (%)	33.1	25.7	740	27.5	563
Tax Rate (%)	5.2	16.2	(1099)	25.0	(1974)
EBIT Margin (%)	56.4	52.7	364	58.7	(229)

CMP	₹ 191
Target / Upside	₹ 245 / 28%
BSE Sensex	39,727
NSE Nifty	11,923

Scrip Details

Equity / FV	₹ 52,316mn / ₹ 10
Market Cap	₹ 1,000bn
	US\$ 14bn
52-week High/Low	₹ 213/₹ 173
Avg. Volume (no)	6,317,680
NSE Symbol	POWERGRID
Bloomberg Code	PWGR IN

Shareholding Pattern Mar'19(%)

Promoters	56.3
MF/Banks/FIs	14.1
FIIIs	23.6
Public / Others	4.4

Valuation (x)

	FY19E	FY20E	FY21E
P/E	10.1	8.1	7.0
EV/EBITDA	7.6	5.9	5.4
ROE (%)	17.5	18.4	17.7
RoACE (%)	11.1	9.9	10.8

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	341,191	385,546	420,245
EBITDA	292,821	334,086	363,213
PAT	99,386	123,308	143,858
EPS (₹)	19.0	23.6	27.5

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Exhibit 1: Segment wise

Revenues	Q4FY19	Q4FY18	YoY(%)	Q3FY19	QoQ(%)	FY19	FY18	YoY(%)
Revenue								
Transmission	89,838	75,189	19.5	82,719	8.6	333,172	288,354	15.5
Consultancy	1,691	1,972	(14.3)	1,561	8.3	6,157	6,684	(7.9)
Telecom	1,928	1,727	11.6	1,962	(1.7)	7,421	6,784	9.4
Inter-Segment	191	170	12.3	189	0.7	739	682	8.3
Total	93,266	78,718	18.5	86,052	8.4	346,011	301,140	14.9
EBIT								
Transmission	(10,997)	37,342	(129.4)	55,967	(119.6)	156,529	197,903	(20.9)
Consultancy	858	1,255	(31.6)	677	26.7	2,957	4,317	(31.5)
Telecom	1,014	633	60.1	1,088	(6.8)	3,939	3,144	25.3
EBIT Margin			BPS		BPS			BPS
Transmission	(12.2)	49.7	(6,190.5)	67.7	(7,990)	47.0	68.6	(2,165)
Consultancy	50.7	63.6	(1,290.6)	43.4	736	48.0	64.6	(1,657)
Telecom	52.6	36.7	1,591.3	55.4	(286)	53.1	46.3	674

Source: DART, Company

Exhibit 2: Variance from our estimates

	Q4FY19	Q4FY19E	Var (%)
Sales	92,181	90340	2.0
EBITDA	77,934	79578	(2.1)
EBITDA margins	84.5	88.1	(354bps)
PAT	30,540	25106	21.6
Pat margins	33.1	27.79	534bps
EPS	5.8	4.80	21.6

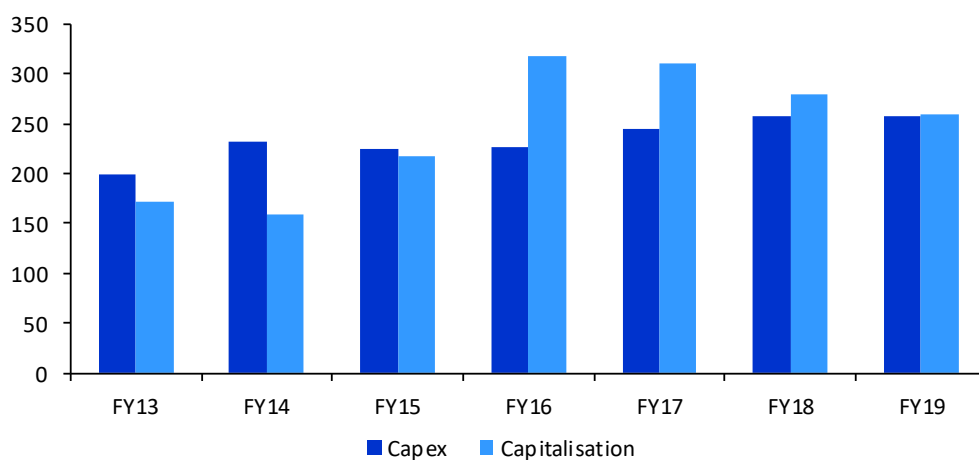
Source: DART, Company

Exhibit 3: Change in estimates

Particulars (₹ mn)	FY20			FY21		
	Earlier	New	Chg. (%)	Earlier	New	Chg. (%)
Sales	396,898	385,546	(2.9)	436,588	420,245	(3.7)
EBITDA	344,349	334,086	(3.0)	377,774	363,213	(3.9)
PAT	115,773	109,203	(5.7)	131,612	123,314	(6.3)
EPS	22.1	20.9	(5.7)	25.2	23.6	(6.3)

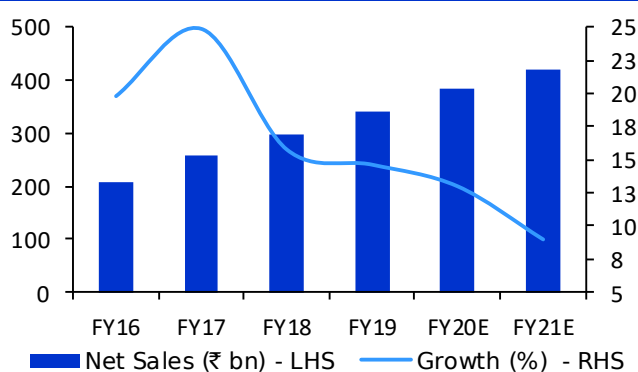
Source: DART, Company

Exhibit 4: Capex and Capitalisation (₹ bn)



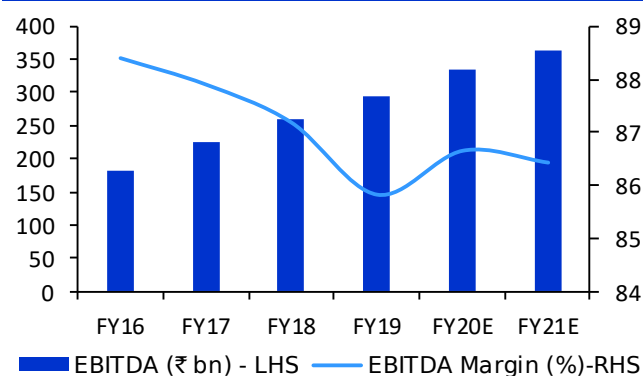
Source: DART, Company

Exhibit 5: Net Sales (₹ bn)



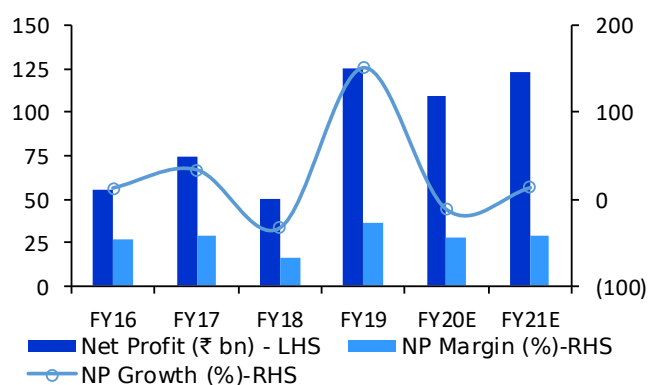
Source: Company, DART

Exhibit 6: EBITDA (₹ bn)



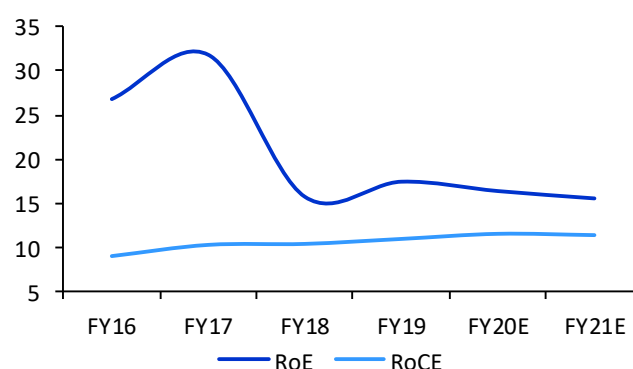
Source: Company, DART

Exhibit 7: Net Profit (₹ bn)



Source: Company, DART

Exhibit 8: RoE & RoCE (%)



Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	297,646	341,191	385,546	420,245
Total Expense	38,148	48,370	51,460	57,033
COGS	0	0	0	0
Employees Cost	15,991	17,836	20,102	21,936
Other expenses	22,157	30,534	31,359	35,097
EBIDTA	259,498	292,821	334,086	363,213
Depreciation	90,913	102,007	109,311	119,609
EBIT	168,586	190,815	224,775	243,604
Interest	75,907	90,914	72,176	65,744
Other Income	10,017	14,990	16,488	18,467
Exc. / E.O. items	32,842	(25,269)	0	0
EBT	135,538	89,621	169,088	196,327
Tax	53,092	(9,764)	45,780	52,469
RPAT	82,447	99,386	123,308	143,858
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	82,447	99,386	123,308	143,858

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	52,316	52,316	52,316	52,316
Minority Interest	0	0	0	0
Reserves & Surplus	491,834	537,856	698,039	823,430
Net Worth	544,150	590,171	750,355	875,746
Total Debt	1,224,203	1,310,395	1,110,395	1,060,395
Net Deferred Tax Liability	100,930	100,930	100,930	0
Total Capital Employed	1,869,284	2,001,499	1,961,683	1,936,145

Applications of Funds

Net Block	1,536,104	1,638,600	1,679,289	1,759,681
CWIP	410,071	461,781	434,271	436,271
Investments	16,082	27,565	20,082	22,082
Current Assets, Loans & Advances	399,777	490,349	409,001	402,386
Inventories	10,385	12,263	15,591	17,352
Receivables	36,390	46,287	50,121	54,632
Cash and Bank Balances	21,704	43,320	114,626	73,578
Loans and Advances	83,000	111,259	123,761	142,288
Other Current Assets	232,216	249,655	84,820	92,454
Less: Current Liabilities & Provisions	325,842	419,393	333,410	333,296
Payables	2,403	3,641	3,215	3,564
Other Current Liabilities	323,439	415,752	330,195	329,732
Net Current Assets	73,935	70,956	75,591	69,091
Total Assets	1,869,284	2,001,499	1,961,683	1,936,145

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	100.0	100.0	100.0	100.0
EBIDTA Margin	87.2	85.8	86.7	86.4
EBIT Margin	56.6	55.9	58.3	58.0
Tax rate	39.2	(10.9)	27.1	26.7
Net Profit Margin	27.7	29.1	32.0	34.2
(B) As Percentage of Net Sales (%)				
COGS	0.0	0.0	0.0	0.0
Employee	5.4	5.2	5.2	5.2
Other	7.4	8.9	8.1	8.4
(C) Measure of Financial Status				
Gross Debt / Equity	2.2	2.2	1.5	1.2
Interest Coverage	2.2	2.1	3.1	3.7
Inventory days	13	13	15	15
Debtors days	45	50	47	47
Average Cost of Debt	6.5	7.2	6.0	6.1
Payable days	3	4	3	3
Working Capital days	91	76	72	60
FA T/O	0.2	0.2	0.2	0.2
(D) Measures of Investment				
AEPS (₹)	15.8	19.0	23.6	27.5
CEPS (₹)	33.1	38.5	44.5	50.4
DPS (₹)	5.8	2.5	3.5	4.5
Dividend Payout (%)	36.8	13.2	14.8	16.4
BVPS (₹)	104.0	112.8	143.4	167.4
RoANW (%)	15.8	17.5	18.4	17.7
RoACE (%)	6.9	11.1	9.9	10.8
RoAIC (%)	9.5	10.0	11.8	13.1
(E) Valuation Ratios				
CMP (₹)	191	191	191	191
P/E	12.1	10.1	8.1	7.0
Mcap (₹ Mn)	1,000,280	1,000,280	1,000,280	1,000,280
MCap/ Sales	3.4	2.9	2.6	2.4
EV	2,186,697	2,239,789	1,975,967	1,965,015
EV/Sales	7.3	6.6	5.1	4.7
EV/EBITDA	8.4	7.6	5.9	5.4
P/BV	1.8	1.7	1.3	1.1
Dividend Yield (%)	3.0	1.3	1.8	2.4
(F) Growth Rate (%)				
Revenue	15.8	14.6	13.0	9.0
EBITDA	14.8	12.8	14.1	8.7
EBIT	12.9	13.2	17.8	8.4
PBT	(20.0)	(33.9)	88.7	16.1
APAT	(44.7)	20.5	24.1	16.7
EPS	(44.7)	20.5	24.1	16.7

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	130,123	347,040	376,272	310,599
CFI	(167,313)	(240,545)	(158,581)	(222,473)
CFF	1,370	10,747	(3,828)	(12,673)
FCFF	(22,049)	169,000	(45,404)	(6,645)
Opening Cash	33,406	21,704	43,320	114,626
Closing Cash	21,704	43,320	114,626	73,578

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

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

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Feb-18	Buy	236	193
May-18	Buy	250	209
Feb-19	Buy	225	190
May-19	Buy	240	

*Price as on recommendation date

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