

# Power Grid

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
39,502	11,861
<b>Bloomberg</b>	<b>PWGR IN</b>
Equity Shares (m)	5,232
M.Cap.(INRb)/(USD\$)	995.6 / 14.3
52-Week Range (INR)	212 / 173
1, 6, 12 Rel. Per (%)	-1/-3/-21
12M Avg Val (INR M)	1297
Free float (%)	44.6

## Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	384.7	396.3	425.4
EBITDA	336.3	357.9	384.4
PAT	100.3	109.5	118.7
EPS (INR)	19.2	20.9	22.7
Gr. (%)	16.0	9.2	8.4
BV/Sh (INR)	112.9	125.7	139.6
RoE (%)	17.7	17.5	17.1
RoCE (%)	7.5	8.0	8.2
P/E (x)	9.9	9.1	8.4
P/BV (x)	1.7	1.5	1.4

Estimate change



TP change



Rating change


**CMP: INR190 TP: INR233 (+22%)**
**Buy**

## One-offs offsets impact of receivable provisioning

### Valuation attractive; Maintain Buy

4QFY19 standalone (S/A) reported PAT grew 52% YoY to INR30.5b, boosted by prior-period sales and other likely one-offs on annual tariff adjustments. For FY19, S/A reported PAT rose ~21% YoY to INR99.4b even as gross block (proxy for regulated equity) grew by ~12% YoY. The growth was aided by prior-period revenue of ~INR2.8b and other one-offs.

- S/A capitalization stood at INR192b in FY19 (INR64b in Q4FY19) v/s INR273b in the previous year. Group capitalization stood at INR258b.
- PAT of TBCB companies increased INR1.5b YoY to INR1.9b in FY19 on commissioning of three projects (to seven now) and a weaker base.
- Consol. PAT grew by a healthy 22% YoY to INR100.3b, led by a 15% YoY increase in gross block and a weaker base in TBCB.
- PWGR took a provision of INR3.9b pertaining to delay in payment by a private generator that is under stress. This is surprising given the assured return model of PWGR. PWGR loses revenue for the period when a generator defaults/relinquishes on a transmission line and until the asset is transferred under the POC mechanism.

### Valuations attractive; Maintain Buy

PWGR's capitalization target of INR200-250b for FY20 could see some slippages as it is subject to timely commissioning of the Raigarh-Pugalur HVDC project where there is risk of delays due to right-of-way issues. This could lead to slower growth in FY20. While new transmission projects have slowed down in recent years, we believe there is a huge scope for long-term growth, driven by demand, renewables, increased requirement of flexibility and efficiency in the market. At CMP, the stock is trading attractively at 1.5x FY20E P/BV. RoE is strong at ~16-17%, while cost of equity (CoE) is ~10-11%. PWGR has ~INR700b (incl. CWIP) of projects pending capitalization that provides visibility of earnings growth. Maintain Buy with a DCF-based target price of INR233.

## Quarterly Performance (standalone) – INR million

Y/E March	FY18				FY19				FY18	FY19	FY19 Vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4Q			4QE (%)
<b>Sales</b>	<b>72,509</b>	<b>72,528</b>	<b>74,050</b>	<b>79,699</b>	<b>83,365</b>	<b>86,880</b>	<b>83,116</b>	<b>97,287</b>	<b>299,597</b>	<b>375,280</b>	<b>74,154</b>
Change (%)	19.5	16.4	14.1	17.3	15.0	19.8	12.2	22.1	16.2	25.3	-7.0
<b>EBITDA</b>	<b>62,699</b>	<b>65,560</b>	<b>66,364</b>	<b>66,826</b>	<b>71,365</b>	<b>73,774</b>	<b>74,098</b>	<b>83,041</b>	<b>261,449</b>	<b>326,910</b>	<b>73,154</b>
Change (%)	16.8	17.5	14.0	17.2	13.8	12.5	11.7	24.3	15.3	25.0	9.5
As of % Sales	86.5	90.4	89.6	83.8	85.6	84.9	89.2	85.4	87.3	87.1	98.7
Depreciation	21,311	22,350	23,186	24,065	24,506	25,483	26,047	25,970	90,913	102,007	25,397
Interest	17,624	18,673	19,555	20,055	21,406	23,095	22,753	23,660	75,907	90,914	20,941
Other Income	2,085	2,397	2,781	2,876	3,006	4,069	4,190	3,922	10,139	14,990	4,098
<b>PBT</b>	<b>25,848</b>	<b>26,934</b>	<b>26,405</b>	<b>25,582</b>	<b>28,458</b>	<b>29,265</b>	<b>29,488</b>	<b>37,332</b>	<b>104,769</b>	<b>148,978</b>	<b>30,913</b>
Tax	5,324	5,523	5,996	5,536	6,053	6,170	6,177	6,792	22,379	49,593	6,407
Effective Tax Rate (%)	20.6	20.5	22.7	21.6	21.3	21.1	20.9	18.2	21.4	33.3	20.7
<b>Reported PAT</b>	<b>20,524</b>	<b>21,410</b>	<b>20,408</b>	<b>20,047</b>	<b>22,405</b>	<b>23,095</b>	<b>23,312</b>	<b>30,540</b>	<b>82,390</b>	<b>99,386</b>	<b>24,507</b>
Change (%)	14.0	14.1	5.7	4.6	9.2	7.9	14.2	52.3	9.6	20.6	22.2

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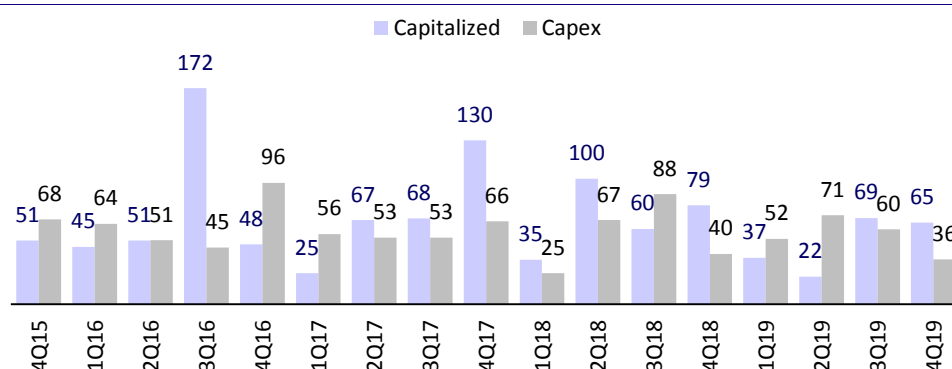
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## Conference call highlights

- **Capex & capitalization:** Standalone FY19 capex stood at INR218b. Standalone capitalization stood at INR192b for the year. Capitalization of TBCB projects was INR62b. The company guided for FY20 capex of INR150b and capitalization of INR200-250b.
- **TBCB projects:** INR94b of TBCB projects have been capitalized so far. The remaining TBCB project work in hand stands at INR90b.
- **New projects:** The company highlighted that INR190b of projects are under various stages of bidding. INR93b pertains to inter-state projects, mainly related to green energy corridor. Another INR97b worth of projects are related to intra state projects.
- **Provision:** The company has taken a provision of INR3.9b pertaining to payment delay related to a private generator under financial stress. This is due to the gap between the generator defaulting/relinquishing the transmission line and the subsequent transfer to POC mechanism. PWGR highlighted that it may require provisioning of INR1b annually for the next two years.
- **Raigarh Pugalur:** PWGR highlighted that while terminal works for its Raigarh Pugalur (INR210b) project are progressing well, issues related to RoW remain. The company's FY20 capitalization guidance could be at risk if these issues persist.
- **FY20-24 regulatory norms:** The company highlighted that it does not expect any significant impact of the new tariff norms.

## Exhibit 1: Capitalization and capex – INR m



Source: MOFSL, Company

## Exhibit 2: DCF valuation

	Case 1		Base		Case 2	
Rf. Nominal risk free rate	(%)	6.50	(%)	7.30	(%)	8.00
B. Beta		0.75		0.75		0.75
Km. Equity Risk premium	(%)	5.00	(%)	5.00	(%)	5.00
Cost of equity (Rf+Km x B)	(%)	10.25	(%)	11.05	(%)	11.75
<b>DCFE</b>	<b>INR m</b>	<b>INR/sh.</b>	<b>INR m</b>	<b>INR/sh.</b>	<b>INR m</b>	<b>INR/sh.</b>
A. FY19-22	89,901	17	88,932	17	88,098	17
	<b>RoE</b>	<b>Re-Invest</b>	<b>Growth</b>			
	(%)	(%)	(%)			
B. FY25-32	14.00	35	4.9	607,786	116	575,476
C. Terminal Value	12.00	20	2.4	668,670	128	552,390
Target price (A+B+C)				261		233
CMP				190		190
Upside (%)				37.4		22.3
BV				126		126
P/BV				2.1		1.8

Source: MOFSL, Company

## Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Net Sales</b>	<b>156,754</b>	<b>176,585</b>	<b>213,523</b>	<b>257,039</b>	<b>299,415</b>	<b>384,680</b>	<b>396,303</b>	<b>425,391</b>
Change (%)	19.1	12.7	20.9	20.4	16.5	28.5	3.0	7.3
<b>EBITDA</b>	<b>132,639</b>	<b>151,262</b>	<b>186,056</b>	<b>226,572</b>	<b>263,119</b>	<b>336,294</b>	<b>357,937</b>	<b>384,449</b>
EBITDA Margin (%)	84.6	85.7	87.1	88.1	87.9	87.4	90.3	90.4
Depreciation	40,794	51,733	63,022	77,223	92,310	105,410	124,983	135,913
<b>EBIT</b>	<b>91,845</b>	<b>99,529</b>	<b>123,034</b>	<b>149,350</b>	<b>170,809</b>	<b>230,884</b>	<b>232,954</b>	<b>248,537</b>
Interest	32,537	40,812	50,860	62,036	73,241	87,366	96,003	100,235
Other Income	4,707	5,745	4,284	5,838	4,891	6,022	634	1,014
Extraordinary items	-425	-421	-9	0	0	0	0	0
<b>PBT</b>	<b>63,590</b>	<b>64,041</b>	<b>76,450</b>	<b>93,153</b>	<b>102,459</b>	<b>149,541</b>	<b>137,585</b>	<b>149,316</b>
Tax	18,114	13,579	16,304	20,063	21,955	50,494	29,437	31,910
Tax Rate (%)	28.5	21.2	21.3	21.5	21.4	33.8	21.4	21.4
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>45,476</b>	<b>50,463</b>	<b>60,146</b>	<b>74,507</b>	<b>81,983</b>	<b>100,335</b>	<b>109,532</b>	<b>118,741</b>
<b>Adjusted PAT</b>	<b>45,901</b>	<b>50,883</b>	<b>60,155</b>	<b>74,507</b>	<b>86,513</b>	<b>100,335</b>	<b>109,532</b>	<b>118,741</b>
Change (%)	7.2	10.9	18.2	23.9	16.1	16.0	9.2	8.4

Balance Sheet							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	52,316	52,316	52,316	52,316	52,316	52,316	52,316	52,316
Reserves	294,664	332,071	387,383	446,339	491,944	538,568	605,504	678,134
<b>Net Worth</b>	<b>346,979</b>	<b>384,387</b>	<b>439,699</b>	<b>498,655</b>	<b>544,260</b>	<b>590,884</b>	<b>657,820</b>	<b>730,450</b>
Debt	842,196	962,434	1,085,449	1,189,879	1,315,030	1,471,860	1,481,240	1,503,983
Deferred Tax	70,195	73,030	82,169	74,184	74,509	194,755	194,755	194,755
<b>Total Capital Employed</b>	<b>1,259,370</b>	<b>1,419,852</b>	<b>1,607,318</b>	<b>1,762,718</b>	<b>1,933,798</b>	<b>2,257,499</b>	<b>2,333,815</b>	<b>2,429,188</b>
Gross Fixed Assets	982,247	1,204,801	1,214,908	1,519,616	1,798,900	2,069,720	2,316,463	2,548,513
Less: Acc Depreciation	239,730	292,891	63,965	142,837	236,914	342,324	467,307	603,220
<b>Net Fixed Assets</b>	<b>742,517</b>	<b>911,911</b>	<b>1,150,942</b>	<b>1,376,779</b>	<b>1,561,986</b>	<b>1,727,396</b>	<b>1,849,156</b>	<b>1,945,293</b>
Capital WIP	323,911	404,760	354,021	296,750	289,496	289,121	208,213	178,471
Investments	4,234	2,196	9,185	11,650	12,240	12,964	12,964	12,964
<b>Current Assets</b>	<b>344,235</b>	<b>288,776</b>	<b>278,769</b>	<b>271,272</b>	<b>279,548</b>	<b>444,095</b>	<b>445,336</b>	<b>489,493</b>
Inventory	183,914	139,241	109,163	94,963	97,683	99,662	73,503	83,200
Debtors	16,183	22,070	27,395	31,319	36,400	47,281	47,087	47,343
Cash & Bank	49,744	29,886	22,434	33,536	21,890	43,367	62,082	82,297
Loans & Adv, Others	94,395	97,580	119,778	111,453	123,575	253,785	262,663	276,653
<b>Curr Liabs &amp; Provns</b>	<b>155,527</b>	<b>187,791</b>	<b>185,600</b>	<b>193,732</b>	<b>209,468</b>	<b>216,077</b>	<b>181,854</b>	<b>197,033</b>
Curr. Liabilities	155,527	187,791	185,600	193,732	209,468	216,077	181,854	197,033
Provisions	0	0	0	0	0	0	0	0
<b>Net Current Assets</b>	<b>188,708</b>	<b>100,985</b>	<b>93,170</b>	<b>77,539</b>	<b>70,080</b>	<b>228,018</b>	<b>263,482</b>	<b>292,460</b>
<b>Total Assets</b>	<b>1,259,370</b>	<b>1,419,852</b>	<b>1,607,318</b>	<b>1,762,718</b>	<b>1,933,801</b>	<b>2,257,499</b>	<b>2,333,815</b>	<b>2,429,188</b>

## Financials and Valuations

### Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Basic (INR)</b>								
EPS	8.8	9.7	11.2	14.2	16.5	19.2	20.9	22.7
Cash EPS	16.6	19.6	23.0	29.0	34.2	39.3	44.8	48.7
Book Value	66.3	73.5	84.0	95.3	104.0	112.9	125.7	139.6
DPS	2.6	2.0	2.1	2.5	5.8	8.6	6.8	7.4
Payout (incl. Div. Tax.)	35.1	25.2	0.0	21.0	44.2	54.5	40.0	40.0
<b>Valuation(x)</b>								
P/E	12.2	14.9	17.0	13.4	11.5	9.9	9.1	8.4
Cash P/E	6.5	7.4	8.3	6.6	5.6	4.8	4.2	3.9
Price / Book Value	1.6	2.0	2.3	2.0	1.8	1.7	1.5	1.4
EV/EBITDA	10.2	11.2	11.3	9.5	8.7	7.2	6.7	6.3
Dividend Yield (%)	2.4	1.4	1.1	1.3	3.1	4.5	3.6	3.9
<b>Profitability Ratios (%)</b>								
RoE	14.2	13.9	14.2	15.9	16.6	17.7	17.5	17.1
RoCE	6.1	6.2	6.5	7.2	7.5	7.5	8.0	8.2
RoIC	7.9	8.4	8.6	8.9	8.9	8.7	9.2	9.3
<b>Turnover Ratios (%)</b>								
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Debtors (No. of Days)	38	46	48	44	44	45	43	41
Inventory (No. of Days)	165	108	94	70	64	56	48	48
Current Liabilities (Days)	139	145	160	142	136	120	118	115
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	2.3	2.4	2.4	2.3	2.4	2.4	2.2	1.9

### Cash Flow Statement

(INR Million)

Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Adjusted EBITDA	132,639	151,262	186,056	226,572	263,119	336,294	357,937	384,449
Non cash opr. exp (inc)	4,430	5,325	2,221	7,055	6,370	6,022	634	1,014
(Inc)/Dec in Wkg. Cap.	10,137	61,903	-19,310	4,495	-16,181	-136,462	-16,748	-8,764
Tax Paid	-12,302	-11,519	-14,156	-18,714	-22,591	-50,494	-29,437	-31,910
Other operating activities	-2,921	-4,243	-4,730	-3,264	-3,616	113,919	-634	-1,014
<b>CF from Op. Activity</b>	<b>131,983</b>	<b>202,728</b>	<b>150,082</b>	<b>216,144</b>	<b>227,101</b>	<b>269,279</b>	<b>311,752</b>	<b>343,775</b>
(Inc)/Dec in FA & CWIP	-250,288	-294,508	-216,795	-239,244	-261,799	-270,445	-165,835	-202,307
<b>Free cash flows</b>	<b>-118,305</b>	<b>-91,780</b>	<b>-66,713</b>	<b>-23,100</b>	<b>-34,697</b>	<b>-1,165</b>	<b>145,916</b>	<b>141,468</b>
(Pur)/Sale of Invt	4,139	7,934	1,030	495	4,784	7,310	2,018	2,350
Others	0	0	0	0	0	0	0	0
<b>CF from Inv. Activity</b>	<b>-246,149</b>	<b>-286,574</b>	<b>-215,765</b>	<b>-238,749</b>	<b>-257,015</b>	<b>-263,135</b>	<b>-163,817</b>	<b>-199,957</b>
Inc/(Dec) in Net Worth	52,966	0	0	0	0	0	0	0
Inc / (Dec) in Debt	127,244	115,070	117,171	112,506	119,924	156,830	9,380	22,743
Interest Paid	-28,374	-37,816	-47,584	-57,000	-70,480	-87,366	-96,003	-100,235
Divd Paid (incl Tax) & Others	-14,715	-13,266	-13,379	-15,921	-36,598	-54,133	-42,595	-46,112
<b>CF from Fin. Activity</b>	<b>137,121</b>	<b>63,988</b>	<b>56,208</b>	<b>39,586</b>	<b>12,847</b>	<b>15,332</b>	<b>-129,218</b>	<b>-123,604</b>
<b>Inc/(Dec) in Cash</b>	<b>22,955</b>	<b>-19,858</b>	<b>-9,475</b>	<b>16,980</b>	<b>-17,067</b>	<b>21,476</b>	<b>18,716</b>	<b>20,214</b>
Add: Opening Balance	26,789	49,744	31,909	16,556	38,957	21,890	43,367	62,083
<b>Closing Balance</b>	<b>49,744</b>	<b>29,886</b>	<b>22,434</b>	<b>33,536</b>	<b>21,890</b>	<b>43,367</b>	<b>62,083</b>	<b>82,297</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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