

Moderation to set in...

Powergrid reported Q4FY19 results that were a mixed bag as revenues and EBITDA were in line with estimates. However, capitalisation booked in Q4FY19 was below expectations. PAT looks optically ahead of estimates given there was one-off adjustment for FY19 booked during the quarter. Going ahead, the management commentary suggests reasonable moderation in the capex and capitalisation trend. We believe this will put the brakes on PAT growth. We now anticipate 7% PAT CAGR in FY19-21E vs. PAT CAGR of 22% witnessed during FY15-18.

Lumpy capitalisation in FY20 coupled with moderate capex

Total capitalisation at the standalone level was at ₹ 19236 crore while that for the TBCB projects was at ₹ 6633 crore. Hence, at the consolidated level, the same was at ₹ 25869 crore. Going ahead, the company has guided for capitalisation and capex of ₹ 20000-25000 crore and ₹ 15000 crore, respectively, at consolidated level. We believe this is significant moderation compared to the capacity additional and capex done in FY12-18, given the lower capacity addition of generation side, no incremental large size HVDC projects and rising share of TBCB projects mainly on the renewable segment, which, in itself, is lower in project value. The impact on the lower run rate of capitalisation will be more pronounced from FY21 onwards. Even the quantum of work in hands is at ₹ 61000 crore, which implies moderation in capacity addition, going ahead. Hence, we believe revenue CAGR for the company will moderate to 11% in FY19-21E. The key risk emanates from the fact that guidance of capitalisation rests on the execution of Raighar –Puglur HVDC project in H2FY20, which if it slips will risk capitalisation target.

TBCB projects ramp up progressing well...

As of now, the company has put seven projects under commercial operation out of which four were operationalised in FY19. Revenues and PAT of the TBCB projects for FY19 were at ₹ 1056 crore and ₹ 262 crore, respectively. The company has also received dividends to the tune of ₹ 87 crore from these projects. The company has capex of ₹ 2500 crore lined up for TBCB projects in FY20E. In terms of projects pipeline, 9300 MW worth of interstate projects are likely to bid out mostly on the renewable side. The company has invested equity to the tune of ₹ 1800 crore.

Valuation & Outlook

Moderation across future capex, rising share of competitively bid projects will impact the earnings performance and investment multiple that the company used to enjoy over the last years. We now forecast 7% PAT CAGR over FY19-21E and cut our P/B multiple at 1.3x FY21E BV. We have a fair value of ₹ 210 per share.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	99500
Total Debt (FY19) (₹ Crore)	141000
Cash and Investments (FY19) (₹ Crore)	2488
EV (₹ Crore)	237500
52 week H/L (₹)	224 / 121
Equity capital (₹ Crore)	5231.6
Face value	₹ 10

Key Highlights

- Total capitalisation at the standalone level was at ₹19236 crore while that for the TBCB projects was at ₹6633 crore. Hence at consolidated level, the same stood at ₹25869 crore.
- Company has guided for a capitalisation of ₹20000-25000 crore while capex is pegged at ₹15000 crore at consolidated level.
- Maintain Hold with a revised target price of ₹ 210

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Key Financial Summary

₹ Crore	FY18	FY19E	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	29689.1	34375.3	38341.9	42428.4	11.1%
EBITDA	26397.3	30687.1	34233.4	37825.5	11.0%
Net Profit	9088.1	10880.9	11345.8	12401.1	6.8%
EPS (₹)	17.4	20.8	21.7	23.7	
P/E	11.2	9.4	9.0	8.2	
EV / EBITDA	9.0	8.2	7.7	7.3	
P/BV	1.8	1.6	1.4	1.2	
RoNW (%)	16.0	16.5	15.1	14.4	
RoCE (%)	5.3	5.8	6.2	6.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q3FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Total sales	8,933.1	8,962.6	7,811.3	14.4	8,471.2	5.5	Transmission revenues were in line with estimates but other segments were below estimates
Other operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Total Income	8,933.1	8,962.6	7,811.3	14.4	8,471.2	5.5	
Personnel cost	403.6	406.3	472.6	(14.6)	475.0	(15.0)	
General & Admin exp	1,021.1	577.4	814.7	25.3	426.8	139.2	
Non-recurring exp							
Total expenses	1,424.7	983.7	1,287.2	10.7	901.8	58.0	
EBITDA	7,900.6	8,111.2	6,811.7	16.0	7,988.4	(1.1)	
EBITDA Margin (%)	88.4	90.5	87.2	123.9	94.3	(586.0)	
Depreciation	2,597.0	2,620.0	2,406.5	7.9	2,604.7	(0.3)	
Interest	2,366.0	2,350.0	2,005.5	18.0	2,275.3	4.0	
Other Income	392.2	313.7	287.6	36.4	419.0	(6.4)	
PBT	2,937.6	3,141.2	2,391.3	22.8	3,108.4	(5.5)	
Total Tax	####	753.9	553.6	####	617.7	(951.1)	
Adjusted PAT	2,769.0	2,387.3	1,837.7	50.7	2,331.2	18.8	PAT was below estimates
Key Metrics							
Transmission	8,698.8	8,571.5	7,518.9	15.7	8,271.9	5.2	Transmission revenues in line with estimates
Consultancy	169.1	190.0	197.2	-14.3	156.1	8.3	
Telecom	192.8	201.1	172.7	11.6	196.2	(1.7)	

Source: Company, ICICI Direct Research

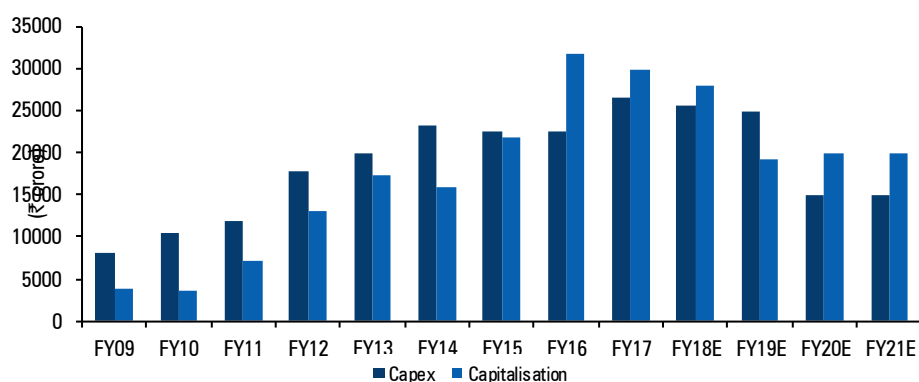
Exhibit 2: Change in estimates

	FY20E			FY21E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue	38,341.9	38,341.9	0.0	-	42,428.4	
EBITDA	34,233.4	34,233.4	0.0	-	37,825.5	
EBITDA Margin (%)	89.3	89.3	0 bps	-	89.2	
PAT	11,345.8	11,345.8	0.0	-	12,401.1	
EPS (₹)	21.7	20.8	(4.1)	-	22.4	

Source: Company, ICICI Direct Research

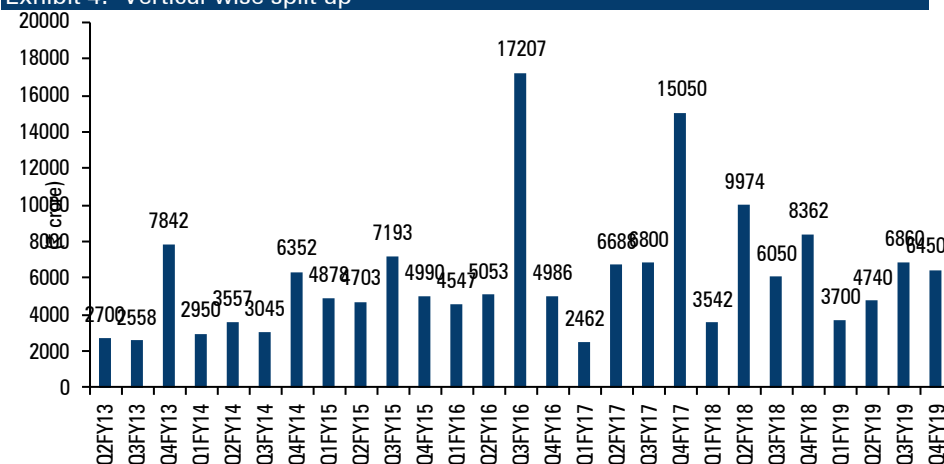
Key Metrics

Exhibit 3: Trend in capitalisation and capex over FY19-21E



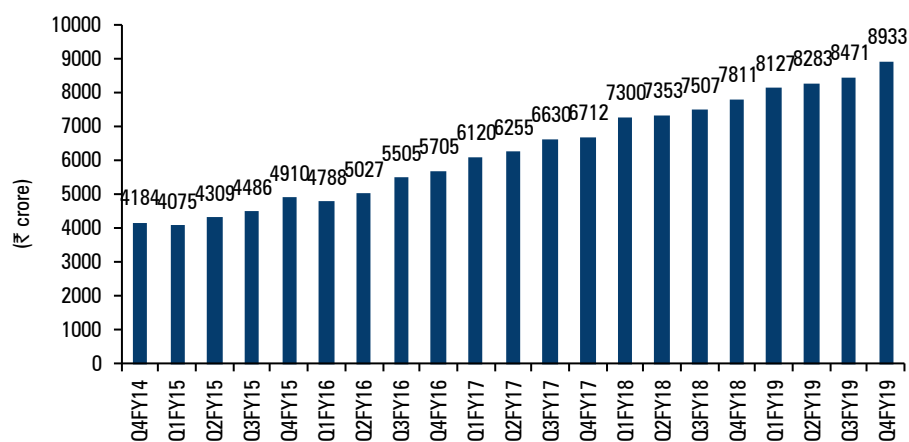
Source: Company, ICICI Direct Research

Exhibit 4: Vertical-wise split up



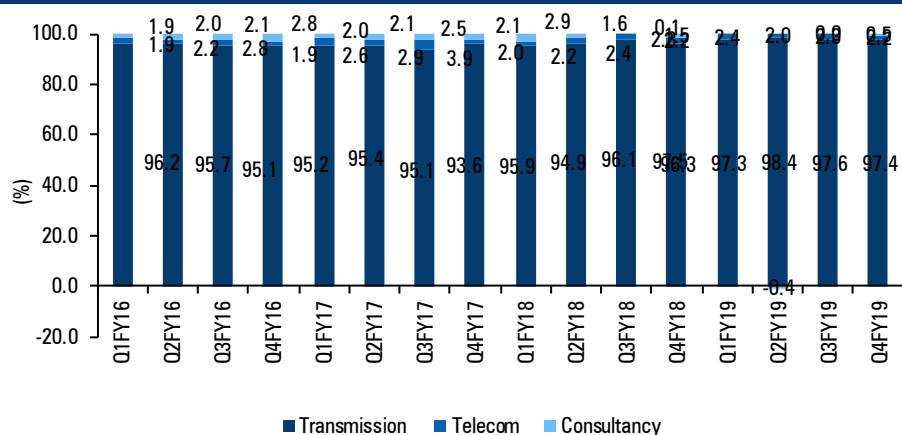
Source: Company, ICICI Direct Research

Exhibit 5: Service line wise break-up



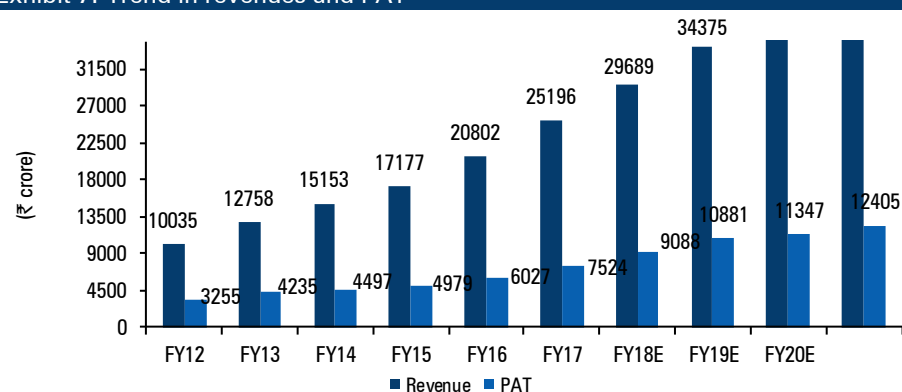
Source: Company, ICICI Direct Research

Exhibit 6: Client & human resource matrix



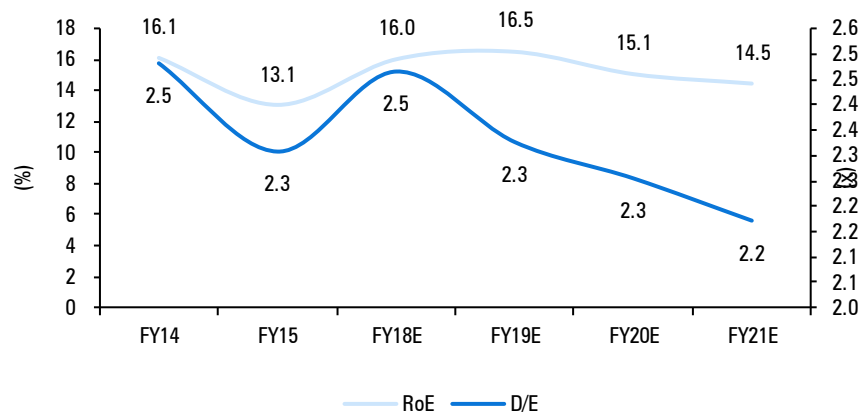
Source: Company, ICICI Direct Research

Exhibit 7: Trend in revenues and PAT



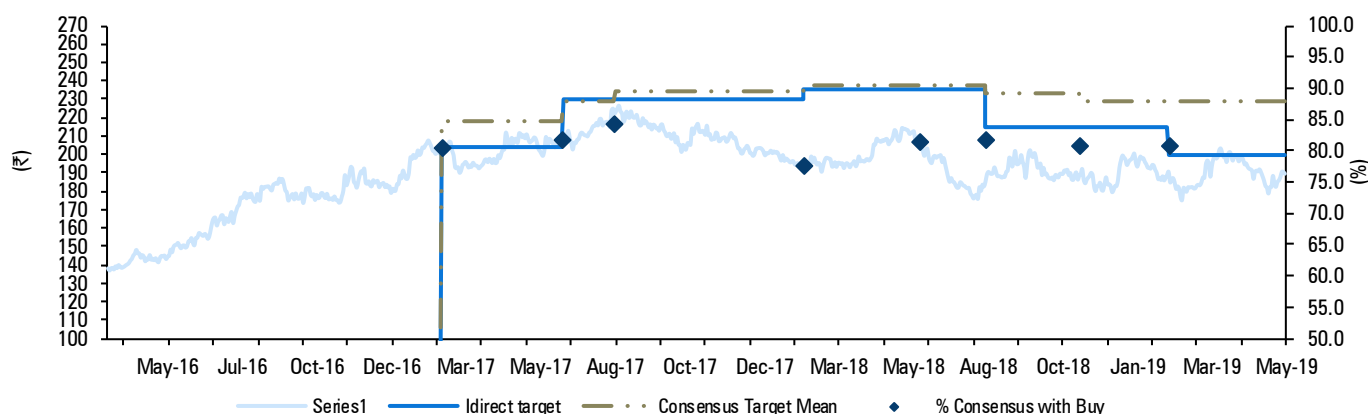
Source: Company, ICICI Direct Research

Exhibit 8: RoEs & D/E



Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: 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-Mar-19	0.0	117.7	-0.2
6	Vontobel Asset Management, Inc.	31-Mar-19	0.0	88.4	33.7
7	LIC Mutual Fund Asset Management Company Ltd.	31-Dec-18	0.0	57.1	0.0
8	BlackRock Institutional Trust Company, N.A.	31-Mar-19	0.0	56.1	0.9
9	FIL Investment Management (Singapore) Ltd.	28-Feb-19	0.0	42.0	4.9
10	SBI Funds Management Pvt. Ltd.	31-Mar-19	0.0	37.9	1.6

Source: Reuters, ICICI Direct Research

Exhibit 11: Recent Activity

Buys			Sells		
Investor Name	Value (US\$ M)	Shares (Million)	Investor Name	Value (US\$ M)	Shares (Million)
Vontobel Asset Management, Inc.	96.50	33.73	UBS Asset Management (UK) Ltd.	-33.1	-12.4
FIL Investment Management (Hong Kong) Limited	15.69	6.08	Fullerton Fund Management Company Ltd.	-10.5	-4.0
FIL Investment Management (Singapore) Ltd.	12.74	4.93	Norges Bank Investment Management (NBIM)	-6.7	-2.4
Schafer Cullen Capital Management, Inc.	8.60	3.01	Pzena Investment Management, LLC	-4.4	-1.7
CI Investments Inc.	7.67	2.69	Geode Capital Management, L.L.C.	-4.0	-1.6

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	56.27	56.20	56.34	55.37
FII	23.08	23.57	24.01	25.43
DII	15.64	15.26	15.18	14.57
Others	5.01	4.97	4.47	4.63

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating Income	29,689	34,375	38,342	42,428
Growth (%)	21	16	12	11
Employee Expenses	1,211	1,233	1,232	1,254
Other expenses	2,080	2,455	2,876	3,349
Total Operating Expenditure	3,292	3,688	4,109	4,603
EBITDA	26,397	30,687	34,233	37,826
Growth (%)	24	16	12	10
Depreciation	8,640	9,950	11,271	12,593
Interest	6,621	7,338	8,195	9,061
Other Income	352	356	360	364
PBT	11,488	13,755	15,127	16,534
Others	1	1	2	3
Total Tax	2,401	2,874	3,782	4,134
PAT	9,088	10,881	11,346	12,401
Growth (%)	21	20	4	9
EPS (₹)	17.4	20.8	21.7	23.7

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit Before Tax	9,512	11,488	13,755	15,130
Add: Depreciation	7,448	8,640	9,950	11,274
(Inc)/dec in Current Assets	(2,246)	(2,169)	(2,419)	(2,961)
Inc/(dec) in CL and Provisions	(3,012)	9	2,897	94
Others	4,323	4,941	5,326	5,561
CF from operating activities	16,025	22,909	29,509	29,097
(Inc)/dec in Fixed Assets	(35,834)	(31,783)	(33,655)	(32,956)
(Inc)/dec in Disposals	(280)	29	27	(474)
Others	0	0	0	0
CF from investing activities	(36114)	(31754)	(33628)	(33430)
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	19,863	17,465	13,451	16,715
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)	(8,209)
CF from financing activities	12728	9300	4385	6654
Net Cash flow	(7,360)	455	266	2,322
Opening Cash	9,766	2,406	2,861	3,127
Closing Cash	2861	3127	5448	12372

*calculated, Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	5,232	5,232	5,232	5,232
Reserve and Surplus	51,413	60,566	70,061	80,614
Total Shareholders funds	56,645	65,797	75,293	85,845
Total Debt	139,567	153,018	169,733	186,392
AAD	0	0	0	0
Minority Interest / Others	3,827	3,827	3,827	3,827
Total Liabilities	200039	222643	248853	276064
Assets				
Gross Block	208,668	240,324	272,280	304,222
Less: Acc Depreciation	50,429	60,379	71,653	84,249
Net Block	158,240	179,945	200,627	219,973
Capital WIP	52,810	54,810	55,810	56,810
Total Fixed Assets	211,050	234,755	256,437	276,783
Investments	1,058	1,031	1,505	1,880
Inventory	1,228	1,473	1,691	1,930
Debtors	3,266	3,609	4,795	5,306
Loans and Advances	8,039	9,308	10,387	11,494
Other Current Assets	3,563	4,125	4,603	5,094
Cash	2,861	3,127	5,448	12,372
Total Current Assets	18,957	21,642	26,925	36,196
Current liabilities	20,267	23,394	23,443	24,901
Other Liabilities	6,241	6,874	8,053	9,377
Total Current Liabilities	26,508	30,267	31,496	34,278
Net Current Assets	(12,069)	(13,143)	(9,089)	(2,599)
Others Assets				
Application of Funds	200039	222643	248853	276064

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	17.4	20.8	21.7	23.7
Cash EPS	33.9	39.8	43.2	47.8
BV	108.3	125.8	143.9	164.1
DPS	2.2	1.8	2.3	2.5
Cash Per Share	5.5	6.0	10.4	23.6
Operating Ratios (%)				
EBITDA Margin	88.9	89.3	89.3	89.2
PBT / Total Operating income	38.7	40.0	39.4	39.0
PAT Margin	30.6	31.7	29.6	29.2
Debtor days	40.2	38.3	45.6	45.6
Return Ratios (%)				
RoE	16.0	16.5	15.1	14.5
RoCE	5.3	5.8	6.2	6.7
RoIC	5.3	5.9	6.4	7.0
Valuation Ratios (x)				
P/E	10.9	9.1	8.8	8.0
EV / EBITDA	8.9	8.1	7.7	7.2
EV / Net Sales	8.0	7.3	6.9	6.4
Market Cap / Sales	3.3	2.9	2.6	2.3
Price to Book Value	1.8	1.5	1.3	1.2
Solvency Ratios				
Debt/EBITDA	5.3	5.0	5.0	4.9
Debt / Equity	2.5	2.3	2.3	2.2
Current Ratio	0.7	0.7	0.9	1.1
Quick Ratio	0.1	0.1	0.2	0.4

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (Power)

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)	723	845	Buy	9,580	63.1	86.2	89.1	11.5	8.4	8.1	7.0	7.4	6.4	10.5	9.5	10.1	8.9	11.8	11.1
NTPC (NTPC)	133	136	Hold	114,447	11.1	12.1	12.4	12.0	11.0	10.7	9.5	10.1	9.7	7.9	6.3	5.5	9.6	14.8	10.8
Power Grid (POWGR)	187	200	Hold	98,825	17.4	20.8	21.7	10.8	9.0	8.6	8.9	8.1	7.6	6.4	7.0	7.4	16.0	16.5	15.1

Source: Company, ICICI Direct Research

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Sell: <-15%



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