

February 3, 2020

Q3FY20 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	224		224	
Sales (Rs. m)	389,186	434,769	389,186	434,769
% Chng.	-	-	-	-
EBITDA (Rs. m)	339,370	379,119	339,370	379,119
% Chng.	-	-	-	-
EPS (Rs.)	21.8	25.8	21.8	25.8
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	341	354	389	435
EBITDA (Rs. bn)	293	309	339	379
Margin (%)	85.8	87.2	87.2	87.2
PAT (Rs. bn)	99	102	114	135
EPS (Rs.)	19.0	19.4	21.8	25.8
Gr. (%)	20.6	2.1	12.1	18.6
DPS (Rs.)	8.6	8.9	10.0	11.9
Yield (%)	4.6	4.8	5.3	6.3
RoE (%)	17.5	16.6	17.2	18.7
RoCE (%)	10.3	9.6	10.0	10.9
EV/Sales (x)	6.7	6.5	5.9	5.2
EV/EBITDA (x)	7.8	7.5	6.8	6.0
PE (x)	9.9	9.7	8.6	7.3
P/BV (x)	1.7	1.5	1.4	1.3

Key Data

PGRD.BO | PWGR IN

52-W High / Low	Rs.216 / Rs.173
Sensex / Nifty	39,872 / 11,708
Market Cap	Rs.980bn / \$ 13,720m
Shares Outstanding	5,232m
3M Avg. Daily Value	Rs.4159.2m

Shareholding Pattern (%)

Promoter's	54.96
Foreign	27.28
Domestic Institution	13.28
Public & Others	4.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.9)	(11.0)	(1.5)
Relative	0.9	(17.2)	(9.9)

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Steady quarter, defensive play on reasonable valuations

Quick Pointers:

- During the quarter, capitalisation stood at Rs52.3bn of which TBCB accounted for Rs0.6bn.
- Capitalization guidance of Rs200-250bn for FY20E has been maintained.
- Management has guided for capex of Rs105bn (Vs. Rs150bn in FY20E) and capitalisation of Rs150bn for FY21E.

Power Grid Corporation of India (PGCIL) reported steady set of 3QFY20 earnings which were broadly in-line with our estimates. PAT for the quarter came in at Rs27bn against PLe of Rs25bn on account of higher other income and lower effective tax rate of 23% compared to 39% in 3QFY19. Capex /Capitalisation came in at Rs39.5/52bn during the quarter. Management has maintained its capitalisation guidance of Rs220-250bn, subject to commissioning the Raipur-Pugalur line. On YTD basis, the company has won projects worth Rs610bn of which TBCB accounts for Rs130bn which augurs well for the future growth. The company won Rs2.9bn orders in 3QFY20 mainly comprising of TBCB projects and has a strong visibility over next two-three years on the back of Rs660bn orders in hand and strong upcoming opportunity from Renewable (GEC). We expect PGCIL to deliver 13% earnings growth over FY19-21E. The stock is trading reasonable valuations of 1.6x/1.5x FY20/21E P/BV. We maintain our Buy rating with TP of Rs224.

Steady quarter: Sales came in at ~Rs90bn (up 6% YoY) vs (PLe ~Rs91bn) mainly led by growth in transmission segment which grew 6.6% YoY, while consultancy segment de-grew by 7.7% YoY and telecom remained flat for the quarter. EBITDA increased by 4% YoY to Rs79bn with EBITDA margins expanding by 30bps YoY due to better sales performance. PBT (including net movement in regulatory deferral account) declined by 9% YoY to Rs35bn on back of rise in depreciation expense (up 8% YoY) and interest expense (up 8.7% YoY). Other income increased by 23.5% YoY at Rs5bn (PLe ~Rs4bn). Adj. PAT came in at Rs27bn (PLe Rs25bn), up 14.6% YoY due to lower effective tax rate of 22.9% (PLe ~25%) compared to 39% in 3QFY19 and higher other income. Capex/Capitalisation came in at Rs39.5/52bn during the quarter

Guidance for Capitalization of Rs200-250bn for FY20E maintained: PGCIL's standalone capex during 3QFY20 was Rs39.5bn and capitalization was Rs52bn. The capitalization of Rs200-250bn for FY20E has been maintained led by commissioning of 800 KV Raigarh-Pugalur HVDC project (Rs210bn) as various headwinds due to ROW issues in Tamil Nadu has been stabilized. For FY20, management maintains the capex guidance of Rs150bn (out of which TBCB Rs20bn) and a capex of Rs105bn and capitalisation of Rs150bn for FY21E.

Works in hand: PGCIL's total works in hand stand at Rs610bn as on 3QFY20. Of this, Rs412bn projects are ongoing, while Rs68bn constitute new projects. The company has Rs130bn of TBCB projects in hand.

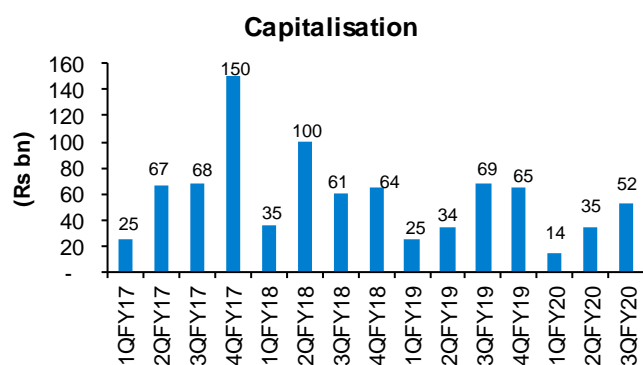
Projects Pipeline: Various renewable energy projects in potential zones are in pipeline, transmission schemes of Rs429bn are expected to be executed of which works of Rs147bn have already been awarded till November 2019, of which Rs29bn have been awarded on RTM basis and Rs110bn worth of TBCB projects have been recommended for implementation. Intra- state transmission works in Jharkhand of estimated Rs54bn are under bidding.

Exhibit 1: PAT higher on account of lower tax, result in line with estimate

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	QoQ gr. (%)	9MFY20	9MFY19	YoY gr. (%)
Net Revenue	89,920	84,813	6.0	86,850	3.5	264,811	248,951	6.4
EBITDA	78,762	75,795	3.9	75,569	4.2	233,296	214,827	8.6
EBITDA Margin (%)	89.7	89.4		89.7		88.1	86.3	
Other Income	5,049	4,089	23.5	4,982	1.3	14,274	11,128	28.3
Depreciation	28,024	26,047	7.6	27,482	2.0	82,096	76,036	8.0
Interest	24,740	22,753	8.7	23,761		72,093	67,254	7.2
Exceptional items	-3,621	-7,089		-3,519		-7,077	-21,616	
Profit before Tax	34,668	38,173	(9.2)	32,827	5.6	100,457	104,280	(3.7)
Tax	7,933	14,850	(46.6)	7,555	5.0	24,172	35,445	(31.8)
Reported PAT	26,735	23,323	14.6	25,271	5.8	76,285	68,835	10.8
Adjusted PAT	26,735	23,323	14.6	25,271	5.8	76,285	68,835	10.8
Net Margin (%)	29.73	27.50		29.10		28.81	27.65	
Adjusted EPS	5.1	4.5		4.8		14.6	13.2	

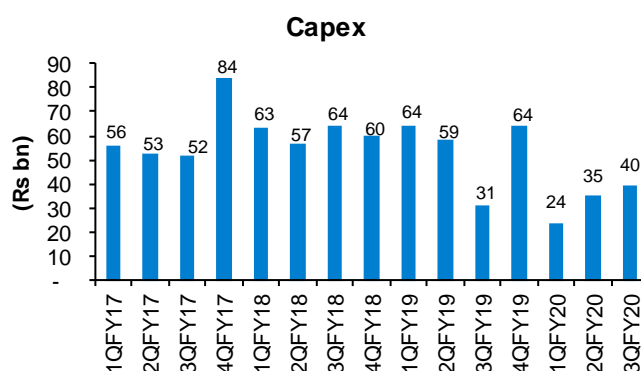
Source: Company, PL

Exhibit 2: Guidance of Rs200-250bn maintained for FY20



Source: Company, PL

Exhibit 3: Capex trend



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	341,191	353,952	389,186	434,769
YoY gr. (%)	14.7	3.7	10.0	11.7
Cost of Goods Sold	-	-	-	-
Gross Profit	341,191	353,952	389,186	434,769
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	17,836	19,809	22,001	24,435
Other Expenses	30,534	25,497	27,815	31,215
EBITDA	292,821	308,646	339,370	379,119
YoY gr. (%)	12.9	5.4	10.0	11.7
Margin (%)	85.8	87.2	87.2	87.2
Depreciation and Amortization	(102,007)	(118,143)	(132,357)	(145,419)
EBIT	190,815	190,503	207,013	233,700
Margin (%)	55.9	53.8	53.2	53.8
Net Interest	(90,914)	(77,145)	(78,923)	(79,632)
Other Income	14,990	15,575	16,200	16,762
Profit Before Tax	114,890	128,932	144,290	170,830
Margin (%)	33.7	36.4	37.1	39.3
Total Tax	(9,764)	25,915	29,002	34,337
Effective tax rate (%)	(8.5)	20.1	20.1	20.1
Profit after tax	124,654	103,017	115,288	136,493
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	99,386	101,517	113,788	134,993
YoY gr. (%)	20.6	2.1	12.1	18.6
Margin (%)	29.1	28.7	29.2	31.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	99,386	101,517	113,788	134,993
YoY gr. (%)	20.6	2.1	12.1	18.6
Margin (%)	29.1	28.7	29.2	31.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	99,386	101,517	113,788	134,993
Equity Shares O/s (m)	5,232	5,232	5,232	5,232
EPS (Rs)	19.0	19.4	21.8	25.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	1,958,336	2,208,059	2,459,600	2,668,682
Tangibles	1,958,336	2,208,059	2,459,600	2,668,682
Intangibles	-	-	-	-
Acc: Dep / Amortization	335,667	453,811	586,168	731,587
Tangibles	335,667	453,811	586,168	731,587
Intangibles	-	-	-	-
Net fixed assets	1,622,669	1,754,249	1,873,432	1,937,095
Tangibles	1,622,669	1,754,249	1,873,432	1,937,095
Intangibles	-	-	-	-
Capital Work In Progress	554,940	457,347	380,149	347,844
Goodwill	-	-	-	-
Non-Current Investments	27,565	30,322	34,870	40,101
Net Deferred tax assets	(100,930)	(90,837)	(90,837)	(90,837)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	12,263	13,673	13,988	15,626
Trade receivables	46,287	48,487	58,378	69,563
Cash & Bank Balance	35,168	66,791	98,103	136,526
Other Current Assets	37,531	35,395	38,919	43,477
Total Assets	2,421,425	2,495,737	2,596,259	2,698,506
Equity				
Equity Share Capital	52,316	52,316	52,316	52,316
Other Equity	536,965	584,426	636,779	698,761
Total Network	589,281	636,742	689,095	751,077
Non-Current Liabilities				
Long Term borrowings	1,310,395	1,365,241	1,380,322	1,390,570
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	43,000	36,550	36,550	36,550
Trade payables	-	-	-	-
Other current liabilities	377,819	366,367	399,455	429,472
Total Equity & Liabilities	2,421,425	2,495,737	2,596,259	2,698,506

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	114,890	128,932	144,290	170,830
Add. Depreciation	102,007	118,143	132,357	145,419
Add. Interest	90,914	77,145	78,923	79,632
Less Financial Other Income	14,990	15,575	16,200	16,762
Add. Other	(81,858)	(17,584)	(7,308)	(6,982)
Op. profit before WC changes	225,953	306,636	348,262	388,899
Net Changes-WC	4,288	(1,474)	(13,729)	(17,382)
Direct tax	(24,894)	(25,915)	(29,002)	(34,337)
Net cash from Op. activities	205,347	279,247	305,530	337,181
Capital expenditures	(190,325)	(33,987)	(41,986)	(31,359)
Interest / Dividend Income	14,990	15,575	16,200	16,762
Others	7,783	854	(4,604)	(5,302)
Net Cash from Invt. activities	(167,552)	(17,558)	(30,390)	(19,899)
Issue of share cap. / premium	-	-	-	-
Debt changes	119,192	48,396	15,081	10,248
Dividend paid	(54,254)	(56,237)	(62,935)	(74,512)
Interest paid	(90,914)	(77,145)	(78,923)	(79,632)
Others	-	-	-	-
Net cash from Fin. activities	(25,977)	(84,986)	(126,777)	(143,896)
Net change in cash	11,818	176,704	148,364	173,387
Free Cash Flow	205,347	279,247	305,530	337,181

Source: Company Data, PL Research

Key Financial Metrics

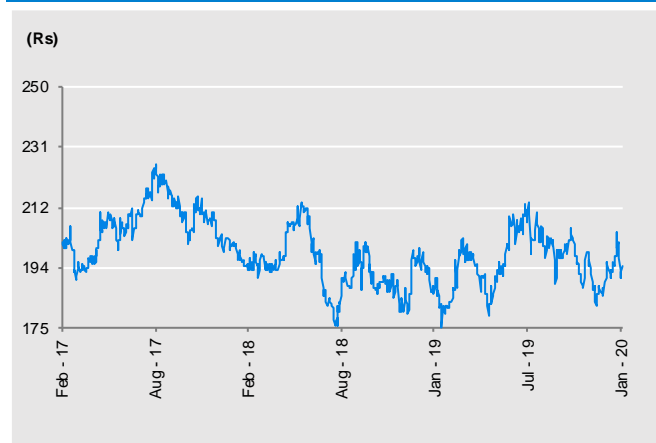
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	19.0	19.4	21.8	25.8
CEPS	(0.5)	(3.2)	(3.5)	(2.0)
BVPS	112.6	121.7	131.7	143.6
FCF	39.3	53.4	58.4	64.5
DPS	8.6	8.9	10.0	11.9
Return Ratio(%)				
RoCE	10.3	9.6	10.0	10.9
ROIC	11.3	7.9	8.4	9.3
RoE	17.5	16.6	17.2	18.7
Balance Sheet				
Net Debt : Equity (x)	2.2	2.1	1.9	1.7
Net Working Capital (Days)	-	-	-	-
Valuation(x)				
PER	9.9	9.7	8.6	7.3
P/B	1.7	1.5	1.4	1.3
P/CEPS	(0.5)	(3.3)	(3.6)	(2.0)
EV/EBITDA	7.8	7.5	6.8	6.0
EV/Sales	6.7	6.5	5.9	5.2
Dividend Yield (%)	4.6	4.8	5.3	6.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	92,181	88,041	86,850	89,920
YoY gr. (%)	18.0	8.3	4.9	6.0
Raw Material Expenses	-	-	-	-
Gross Profit	92,181	88,041	86,850	89,920
Margin (%)	100.0	100.0	100.0	100.0
EBITDA	77,934	78,964	75,569	78,762
YoY gr. (%)	19.4	13.9	8.4	3.9
Margin (%)	84.5	89.7	87.0	87.6
Depreciation / Depletion	25,970	26,591	27,482	28,024
EBIT	51,964	52,374	48,088	50,738
Margin (%)	56.4	59.5	55.4	56.4
Net Interest	23,660	23,591	23,761	24,740
Other Income	3,922	4,243	4,982	5,049
Profit before Tax	(22,028)	32,962	32,827	34,668
Margin (%)	(23.9)	37.4	37.8	38.6
Total Tax	(52,568)	10,438	11,494	10,628
Effective tax rate (%)	238.6	31.7	35.0	30.7
Profit after Tax	30,540	22,524	21,333	24,040
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	30,540	22,524	21,333	24,040
YoY gr. (%)	51.9	0.5	(7.6)	3.1
Margin (%)	33.1	25.6	24.6	26.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	30,540	22,524	21,333	24,040
YoY gr. (%)	51.9	0.5	(7.6)	3.1
Margin (%)	33.1	25.6	24.6	26.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	30,540	22,524	21,333	24,040
Avg. Shares O/s (m)	5,232	5,232	5,232	5,232
EPS (Rs)	5.8	4.3	4.1	4.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	BUY	224	193
2	12-Nov-19	BUY	224	192
3	3-Oct-19	BUY	224	199
4	2-Aug-19	BUY	224	211
5	4-Jul-19	BUY	234	210
6	30-May-19	BUY	224	190
7	5-Apr-19	BUY	247	196

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,514	1,322
2	Ahluwalia Contracts (India)	Accumulate	283	295
3	Apar Industries	Accumulate	646	396
4	Ashoka Buildcon	BUY	167	107
5	Bharat Electronics	Hold	108	101
6	BHEL	Hold	60	45
7	Capacite's Infraprojects	BUY	292	200
8	Container Corporation of India	BUY	652	570
9	Cummins India	Hold	580	601
10	Engineers India	BUY	156	100
11	GE T&D India	Reduce	150	157
12	H.G. Infra Engineering	BUY	304	266
13	IRB Infrastructure Developers	BUY	130	77
14	ITD Cementation India	BUY	80	58
15	J.Kumar Infraprojects	BUY	239	153
16	Kalpataru Power Transmission	BUY	662	421
17	KEC International	BUY	375	311
18	KNR Constructions	BUY	304	278
19	Larsen & Toubro	BUY	1,800	1,294
20	NCC	BUY	108	58
21	PNC Infratech	BUY	264	195
22	Power Grid Corporation of India	BUY	224	193
23	Sadbhav Engineering	BUY	203	125
24	Siemens	BUY	1,687	1,511
25	Simplex Infrastructure	NR	-	31
26	Thermax	Accumulate	1,143	1,106
27	Triveni Turbine	Accumulate	142	97
28	Voltamp Transformers	BUY	1,610	1,250

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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