

Power Grid

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	PWGR IN
Equity Shares (m)	5,232
M.Cap.(INRb)/(USD\$)	934.9 / 11.8
52-Week Range (INR)	216 / 130
1, 6, 12 Rel. Per (%)	1/12/0
12M Avg Val (INR M)	2031

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	394.3	396.6	433.7
EBITDA	346.2	355.6	390.6
Adj. PAT	110.6	106.9	126.0
EBITDA Margin (%)	87.8	89.7	90.1
Cons. Adj. EPS (INR)	21.1	20.4	24.1
EPS Gr. (%)	10.2	-3.3	17.8
BV/Sh. (INR)	123.7	131.7	140.3
Ratios			
Net D:E	2.2	1.8	1.6
RoE (%)	17.9	16.0	17.7
RoCE (%)	7.9	7.8	8.8
Payout (%)	54.1	62.5	66.7
Valuations			
P/E (x)	8.5	8.7	7.4
P/BV (x)	1.4	1.4	1.3
EV/EBITDA(x)	6.7	6.2	5.3
Div. Yield (%)	5.6	6.9	8.7
FCF Yield (%)	21.4	32.1	30.5

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.3	55.0	55.4
DII	16.7	13.3	14.7
FII	27.0	27.3	25.4
Others	5.0	4.5	4.6

FII Includes depository receipts

CMP: INR179 **TP: INR222 (+24%)** **Buy**

Earnings in line on steady transmission performance

Valuations do not price in growth benefits

- Power Grid's (PWGR) 4QFY20 results highlight steady performance in the Transmission segment. Adj. PAT increased 7% YoY even as Consultancy/ Telecom EBIT declined 7%/4% YoY. FY20 capitalization stood at INR182b given the delay in commissioning of Raigarh-Pugalur.
- INR230b worth awards are up for bidding under various schemes; however, we expect some delays. In this context, a declining order book does put a risk of slowdown in growth. However, valuations at 1.3x FY22E P/BV and ~8-9% FY22E dividend yield remain attractive for a company with steady RoEs of ~17%. **Maintain Buy** with a DCF-based TP of INR222/share.

In line with steady growth in core transmission

- Adj. for prior period revenue, INR4.25b of one-off gains on tariff order and INR1.22b of one-time tax, S/A PAT grew 7% YoY to INR28.6b (5% higher than est.). This was on account of better-than-expected performance of the Transmission business. For FY20, Adj. S/A PAT increased 7% YoY to INR103.3b. Profit from its TBCB subsidiaries was up 91% YoY to INR3.7b in FY20.
- Telecom** segment profit declined 4% YoY to INR0.97b. For the **Consultancy** segment, profit decreased 7% YoY to INR0.8b.
- S/A capitalization for the quarter stood at ~INR46b while capex stood at ~INR35b. For FY20, at group level (incl. TBCB), capitalization came in at INR182b with overall capex of INR152b.

Management guides for ~INR200-250b capitalization for FY21

- PWGR has set FY21 capitalization target of INR200-250b. Majority of this capex is toward commissioning of Raigarh-Pugalur (INR150b). According to the company, it has resolved much of the RoW issues faced and plans to commission Bipole-I by Jul'20. Bipole-II and VSC for the line are expected to come up by Dec'20.
- The company noted that it has proposed five TBCB assets to be transferred for InvIT. Trust application has been made and documentation for the same is under process.

Valuations remain attractive; Maintain Buy

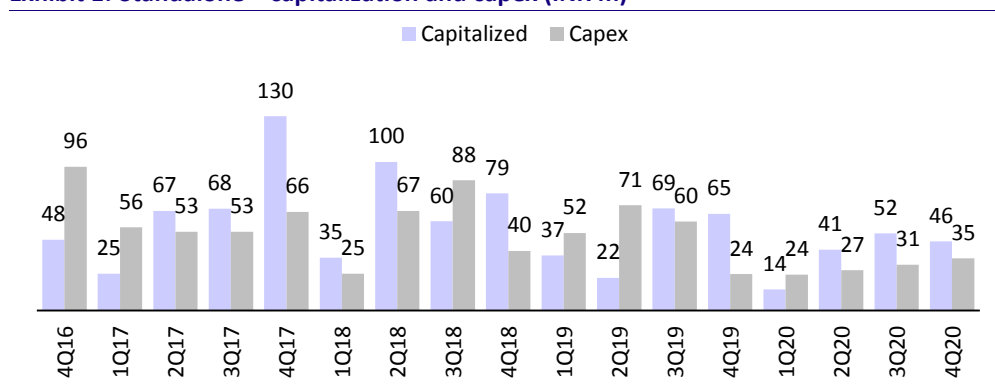
- While awarding of transmission schemes (~INR250b) under renewable integration provides good opportunity for PWGR to win new awards, our checks suggest that challenges exist, which could lead to a deferment in awarding. If new orders do not come in, declining order book could impact the pace of growth in profitability.
- However, the subsequent lower capex (along with removal of DDT) also implies potential of higher dividends (FY22E dividend yield of ~8-9%). Besides, the longer-term picture remains intact as investment in renewable energy and growth in power demand would necessitate the need for transmission works. Valuations at 1.3x FY22E P/BV remains attractive for a company with steady RoEs of ~17% and does not capture any growth potential (EPS FY20-22E: 7% CAGR). **Maintain Buy** with a DCF-based TP of INR222/share.

Quarterly performance (standalone) – INR m

Y/E March	FY19				FY20				FY19	FY20E	FY20	Vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Sales	83,365	86,880	83,116	97,287	87,978	90,369	93,541	106,802	350,648	378,689	92,484	15
Change (%)	15.0	19.8	12.2	22.1	5.5	4.0	12.5	9.8	17.0	8.0	-4.9	
EBITDA	71,365	73,774	74,098	83,041	78,901	79,088	82,383	90,479	302,278	330,851	86,139	5
Change (%)	13.8	12.5	11.7	24.3	10.6	7.2	11.2	9.0	15.6	9.5	3.7	
As of % Sales	85.6	84.9	89.2	85.4	89.7	87.5	88.1	84.7	86.2	87.4	93.1	
Depreciation	24,506	25,483	26,047	25,970	26,591	27,482	28,024	28,636	102,007	110,732	34,575	-17
Interest	21,406	23,095	22,753	23,660	23,591	23,761	24,740	26,044	90,914	98,136	18,056	44
Other Income	3,006	4,069	4,190	3,922	4,243	4,982	5,049	7,051	15,187	21,324	331	2,028
PBT	28,458	29,265	29,488	37,332	32,962	32,827	34,668	42,850	124,544	143,308	30,439	41
Tax	6,053	6,170	6,177	6,792	8,684	7,555	7,933	11,024	25,192	35,196	3,316	
Effective Tax Rate (%)	21.3	21.1	20.9	18.2	26.3	23.0	22.9	25.7	20.2	24.6	10.9	
Reported PAT	22,405	23,095	23,312	30,540	24,279	25,271	26,735	31,827	99,352	108,112	27,123	17
Change (%)	9.2	7.9	14.2	52.3	8.4	9.4	14.7	4.2	20.6	8.8	-11.2	
Adjusted PAT	22,505	23,455	23,581	26,717	23,106	25,097	26,537	28,609	96,258	103,349	27,123	5
Change (%)	8.0	10.3	9.3	17.5	2.7	7.0	12.5	7.1	11.4	7.4	1.5	

Source: MOFSL, Company

Exhibit 1: Standalone – capitalization and capex (INR m)



Source: MOFSL, Company

Exhibit 2: DCF valuation

	Case 1		Base		Case 2				
Rf. Nominal risk free rate	(%)	6.50	(%)	7.00	(%)	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	(%)	10.75	(%)	11.75			
DCFE	INR m	INR/sh.	INR m	INR/sh.	INR m	INR/sh.			
A. FY21-24	131,989	25	271,174	52	129,286	25			
	RoE	Re-Invst	Growth						
	(%)	(%)	(%)						
B. FY25-32	14.00	15	2.1	493,689	94	475,067	91	440,308	84
C. Terminal Value	12.00	10	1.2	464,985	89	415,467	79	334,610	64
Target price (A+B+C)					208			222	173

Source: MOFSL, Company



Management call highlights

Capex

- Capital expenditure for the company stood at ~INR117b on standalone basis and at ~INR153b on consolidated basis for FY20.
- The company aims to incur capex of INR105b on consolidated basis for FY21 at group level.

Capitalization:

- For FY20, capitalization at INR182b is inclusive of INR29b of TBCB.
- PWGR is targeting a capitalization of INR200-250b for FY21 and is largely dependent on Raigarh-Pugalur project.
- Management noted that it has resolved much of the RoW issues faced by the Raigarh-Pugalur project and plans to commission Bipole-I by Jul'20. Bipole-II and VSC for the project are expected to come up by Dec'20.

Work in hand:

- PWGR currently has INR520b worth of work in hand. This consists of ongoing work of INR340b, new projects of INR60b and TBCB projects of INR120b.

Projects up for bidding:

- PWGR has noted that INR160b of inter-state projects and INR70b of intra-state projects are up for bidding.
- PWGR has won INR134b worth awards in FY20. Management expects to win similar awards for FY21.

InvIT

- The company noted that it has proposed five TBCB assets to be transferred for InvIT. Trust application has been made and the documentation for the same is under process.

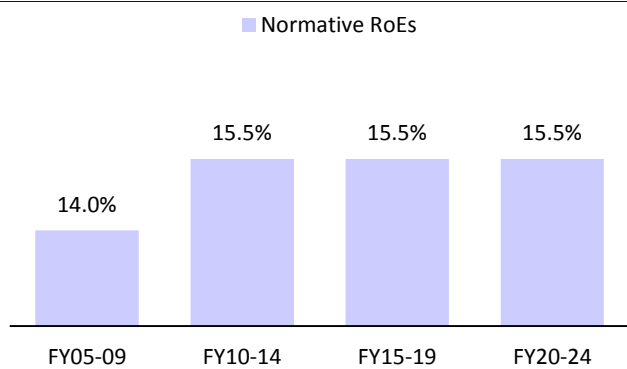
Valuation and view

- **Steady business model:** Continuation of tariff structure and regulated RoE by the CERC (power regulator) for FY20-24 lends visibility to the business model of PWGR. With INR520b worth of work in hand, growth in regulated equity should continue for the next 2-3 years, albeit the rate of annual capitalization could be lower than that seen in recent years. Overall, we expect continued capitalization to drive 7% CAGR in earnings over FY20-22E. Earnings in FY21 though would be largely flat given the announcement of rebate of INR10.75b. However, this is one time and on account of the disruptions caused by COVID-19. The rebate would be provided by the company for its bills in Apr-May'20.
- **Long-term growth – investment in renewables, higher power demand:** From a longer-term perspective, investment in renewable energy and growth in power demand would continue to drive the need for transmission works. INR480b worth projects have been envisaged to be awarded for renewable integration and these are being bid for currently. Moreover, recent project awards win (50% win rate) highlights PWGR's competitive positioning to win such projects as they arrive. According to PWGR, India's vision to reach 450GW of RE capacity by 2030 (from est. 175GW in 2022E) would necessitate incremental investments of INR2.8t within transmission. Overall, the transmission sector is likely to grow at a pace of 8-9% for the next 10 years, providing the base for the sector's long-term growth, as per PWGR.

- Order book slowing down in the near term, but dividend should rise:** With lack of large new orders flowing in, PWGR’s order book has declined from INR1,300b in FY17 to INR520b at end-FY20. A declining order book and capitalization schedule does put a risk of slowdown in growth. However, the subsequent lower capital expenditure (along with removal of DDT) also implies potential of higher dividends. We expect DPS to rise from INR10/share in FY20 to INR15.5/share in FY22E, implying FY22E dividend yield of 8-9%.
- Valuations attractive:** Given an under-penetrated market and strong competitive positioning, PWGR is well positioned to capitalize on the upcoming opportunities/awarding. Valuations at 1.3x FY22E P/BV and ~8-9% dividend yield are attractive for a company with steady RoEs of ~17%. **Maintain Buy** with a DCF-based TP of INR222/share.

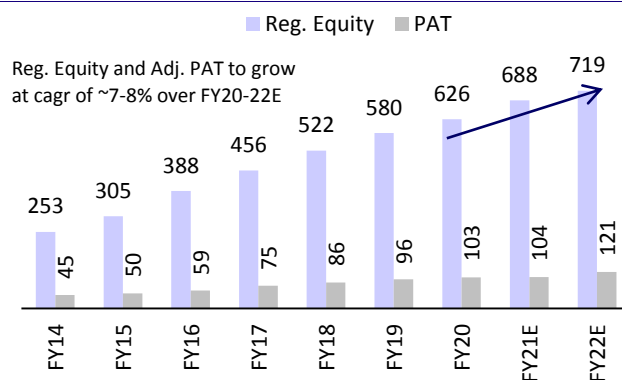
Story in Charts

Exhibit 3: Regulations lend visibility to RoEs



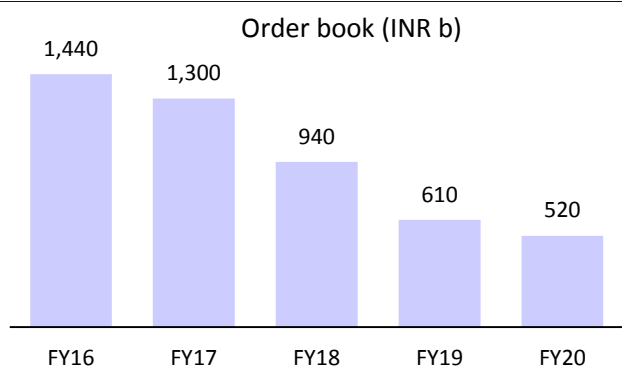
Source: MOFSL, Company

Exhibit 4: Continued capitalization will drive S/A PAT



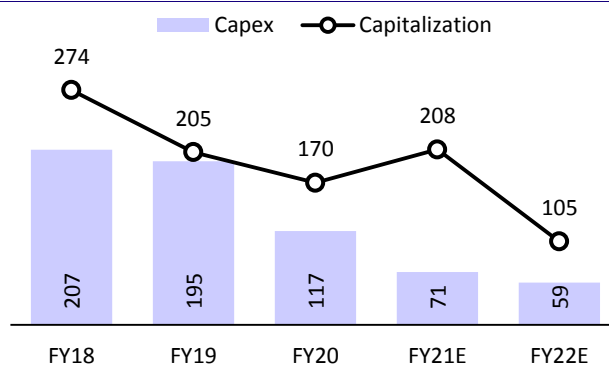
Source: MOFSL, Company

Exhibit 5: Order book though has declined...



Source: MOFSL, Company

Exhibit 6: ...Pace of S/A capitalization and capex could lower



Source: MOFSL, Company

Exhibit 7: But free cash flow at group level to be strong...

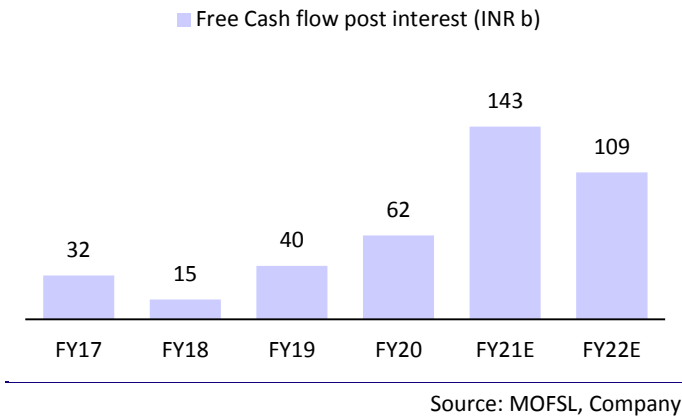


Exhibit 8: ...leading to potentially higher dividends

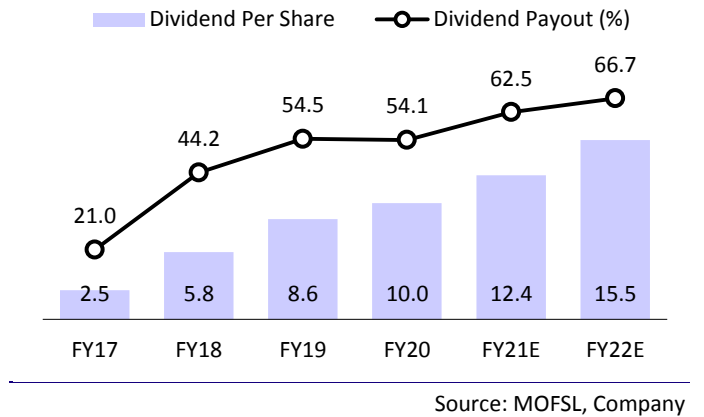
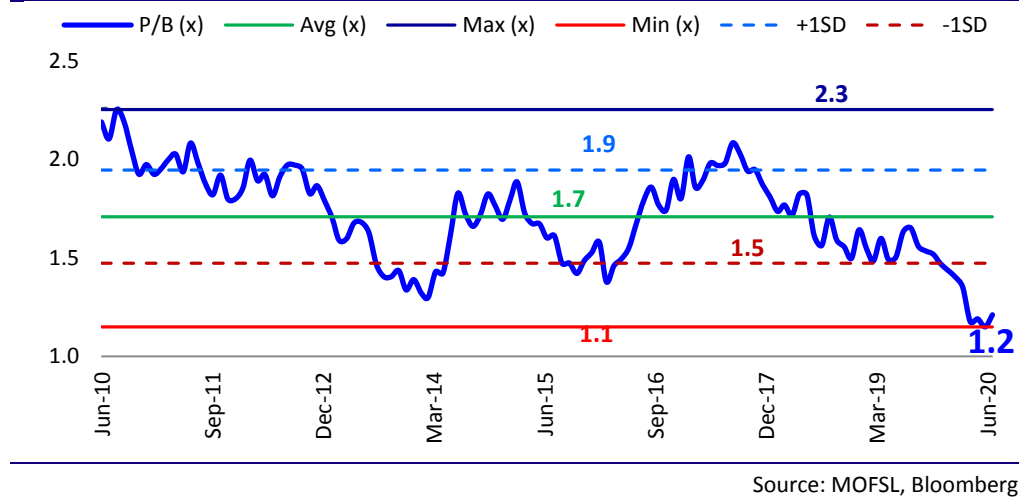


Exhibit 9: Stock trades well below its historical averages



Financials and Valuations

Income statement								(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	
Net Sales	176,585	206,521	257,039	299,415	325,323	394,269	396,604	433,749	
Change (%)	12.7	17.0	24.5	16.5	8.7	21.2	0.6	9.4	
Expenditure	25,323	23,940	30,467	36,296	48,386	48,033	41,014	43,114	
EBITDA	151,262	182,581	226,572	263,119	276,937	346,236	355,591	390,635	
% of Net Sales	85.7	88.4	88.1	87.9	85.1	87.8	89.7	90.1	
Depreciation	51,733	61,818	77,223	92,310	105,410	116,070	125,728	133,955	
Interest	40,812	50,862	62,036	73,241	87,366	95,090	94,455	97,325	
Other Income	5,745	4,663	5,838	4,891	6,022	9,274	-2,024	-2,002	
PBT before EO	64,462	74,563	93,153	102,459	90,184	144,350	133,385	157,354	
EO income (expense)	-421	0	0	0	0	0	0	0	
PBT after EO	64,041	74,563	93,153	102,459	90,184	144,350	133,385	157,354	
Tax	13,579	16,129	20,063	21,955	-8,864	35,308	27,896	32,888	
Rate (%)	21.2	21.6	21.5	21.4	-9.8	24.5	20.9	20.9	
Reported PAT	50,463	58,434	73,090	80,504	99,047	109,043	105,489	124,465	
Share of JVs and asso.			1,418	1,479	1,288	1,551	1,420	1,486	
Adjusted PAT	50,883	58,434	74,507	86,513	100,335	110,594	106,909	125,951	
Change (%)	10.9	14.8	27.5	16.1	16.0	10.2	-3.3	17.8	

Balance sheet								(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	
Share Capital	52,316	52,316	52,316	52,316	52,316	52,316	52,316	52,316	
Reserves	332,071	387,383	446,339	491,944	538,568	594,638	636,640	681,693	
Net Worth	384,387	439,699	498,655	544,260	590,884	646,954	688,956	734,009	
Loans	962,434	1,085,449	1,189,879	1,315,030	1,463,764	1,452,700	1,389,040	1,309,710	
Deferred Rev. & tax	73,030	82,169	74,184	74,509	194,755	221,448	221,448	221,448	
Capital Employed	1,419,852	1,607,318	1,762,718	1,933,798	2,249,403	2,321,102	2,299,444	2,265,167	
Gross Fixed Assets	1,204,801	1,214,908	1,519,616	1,798,900	2,072,146	2,266,556	2,502,615	2,618,819	
Less: Depreciation	292,891	63,965	142,837	236,914	344,750	455,435	581,163	715,117	
Net Fixed Assets	911,911	1,150,942	1,376,779	1,561,986	1,727,396	1,811,121	1,921,452	1,903,702	
Capital WIP	404,760	354,021	296,750	289,496	262,311	259,557	107,959	50,094	
Investments	2,196	9,185	11,650	12,240	12,964	14,311	14,311	14,311	
Other Assets	288,776	278,769	271,272	279,548	470,904	481,543	497,099	531,507	
Inventory	139,241	109,163	94,963	97,683	126,472	106,552	30,594	30,404	
Debtors	22,070	27,395	31,319	36,400	47,281	50,407	62,941	58,724	
Cash & Bank Balance	29,886	22,434	33,536	21,890	43,367	54,390	131,889	159,590	
Other Current Assets	51,864	82,260	71,952	85,246	154,238	140,179	142,776	155,331	
Loans & Advances	45,717	37,518	39,501	38,329	99,547	130,016	128,899	127,458	
Other Liabilities	187,791	185,600	193,732	209,468	224,173	245,431	241,377	234,446	
Net Current Assets	100,985	93,170	77,539	70,080	246,731	236,113	255,722	297,061	
Application of Funds	1,419,852	1,607,318	1,762,718	1,933,801	2,249,402	2,321,102	2,299,444	2,265,167	

Financials and Valuations

Ratios

Y/E Mar	2015	2016	2017	2018	2019	2020	2021E	2022E
EPS	9.73	11.17	14.24	16.54	19.18	21.1	20.4	24.1
Cash EPS	19.6	23.0	29.0	34.2	39.3	43.3	44.5	49.7
Book Value	73.5	84.0	95.3	104.0	112.9	123.7	131.7	140.3
DPS	2.0	2.1	2.5	5.8	8.6	10.0	12.4	15.5
Div.Payout (incl. Tax.)	25.2	0.0	21.0	44.2	54.5	54.1	62.5	66.7
Valuation (x)								
P/E	14.9	16.0	12.5	10.8	9.3	8.5	8.7	7.4
Cash P/E	7.4	7.8	6.2	5.2	4.5	4.1	4.0	3.6
EV/EBITDA	11.2	10.9	9.2	8.5	8.5	6.7	6.2	5.3
Price/Book Value	2.0	2.1	1.9	1.7	1.6	1.4	1.4	1.3
Dividend Yield (%)	1.4	1.2	1.4	3.2	4.8	5.6	6.9	8.7
Profitability Ratios (%)								
RoE	13.9	14.2	15.9	16.6	17.7	17.9	16.0	17.7
RoCE	6.2	6.5	7.2	7.5	9.3	7.9	7.8	8.8
RoIC	8.4	8.6	8.9	8.9	10.6	8.9	9.0	9.9
Turnover Ratios								
Debtors (Days)	46	48	44	44	53	47	58	49
Inventory (Days)	108	94	70	64	84	77	23	23
Current Liabilities (Days)	145	160	142	136	149	176	183	174

Cash flow statement

Y/E Mar	2015	2016	2017	2018	2019	2020	2021E	2022E
(INR m)								
PBT before EO Items	64,041	75,597	94,369	103,938	84,531	149,465	133,385	157,354
Depreciation	51,733	61,818	77,223	92,310	105,410	116,070	125,728	133,955
Interest	40,812	50,862	62,036	73,241	87,366	95,090	94,455	97,325
Others	-4,243	-4,730	-3,264	-3,616	33,927	-28,805	2,024	2,002
(Inc)/Dec in WC	61,903	-19,310	4,495	-16,181	-54,619	4,271	57,890	-13,638
Direct Taxes Paid	-11,519	-14,156	-18,714	-22,591	-22,808	-25,687	-27,896	-32,888
CF from Operations	202,728	150,082	216,144	227,101	233,807	310,405	385,585	344,109
(Inc)/Dec in FA	-294,508	-216,795	-239,244	-261,799	-224,507	-113,671	-84,461	-58,339
(Pur)/Sale of Investments	7,934	1,030	495	4,784	36,137	3,249	-604	-517
CF from Investments	-286,574	-215,765	-238,749	-257,015	-188,370	-110,423	-85,065	-58,856
Equity raised	0	0	0	0	0	0	0	0
Grants etc	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	115,070	117,171	112,506	119,924	133,169	-17,317	-63,660	-79,330
Interest Paid	-37,816	-47,584	-57,000	-70,480	-102,924	-117,301	-94,455	-97,325
Dividend Paid	-13,266	-13,379	-15,921	-36,598	-54,554	-53,440	-64,906	-80,898
CF from Fin. Activity	63,988	56,208	39,586	12,847	-24,308	-188,058	-223,021	-257,552
Inc/Dec of Cash	-19,858	-9,475	16,980	-17,067	21,129	11,924	77,499	27,701
Add: Beginning Balance	49,744	31,909	16,556	38,957	22,237	42,466	54,390	131,889
Closing Balance	29,886	22,434	33,536	21,890	43,367	54,390	131,889	159,590

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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