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Bloomberg	PWGR IN
Equity Shares (m)	5,232
M.Cap.(INRb)/(USD\$)	924.9 / 12.4
52-Week Range (INR)	213 / 130
1, 6, 12 Rel. Per (%)	-3/0/-15
12M Avg Val (INR M)	2062

#### Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	394.3	406.3	435.1
EBITDA	346.2	365.3	391.8
Adj. PAT	110.6	120.9	127.4
EBITDA Margin (%)	87.8	89.9	90.0
Cons. Adj. EPS (INR)	21.1	23.1	24.4
EPS Gr. (%)	10.2	9.3	5.4
BV/Sh. (INR)	123.7	130.9	139.6

#### Ratios

Net D:E	2.2	1.9	1.7
RoE (%)	17.9	18.2	18.0
RoCE (%)	7.9	8.3	8.8
Payout (%)	54.1	67.6	66.7

#### Valuations

P/E (x)	8.4	7.7	7.3
P/BV (x)	1.4	1.4	1.3
EV/EBITDA(x)	6.7	6.1	5.5
Div. Yield (%)	5.6	7.8	8.8
FCF Yield (%)	21.6	29.1	28.1

#### Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	51.3	51.3	55.4
DII	18.3	16.7	12.2
FII	25.3	27.0	28.0
Others	5.0	5.0	4.5

FII Includes depository receipts

**CMP: INR177 TP: INR221 (+25%) Buy**

## Impact of rebate flows through

### Valuations do not price any growth benefits; Maintain Buy

- Power Grid (PWGR)'s result highlights the impact of rebate (INR10.75b), with reported S/A PAT declining 18.5% YoY to INR28.1b. Adjusted for the same and prior-period revenue, PAT was up 21% YoY.
- INR234b worth of awards would be bid out under various schemes, but we expect some delays. In this context, a declining order book does present the risk of growth slowdown. However, valuations at 1.3x FY22E P/BV and ~9% FY22E dividend yield remain attractive for a company with steady RoEs of ~17%. **Maintain Buy**, with DCF-based TP of INR221/sh.

### Rebate impacts profitability

- Reported S/A PAT was down 18.5% YoY at INR19.8b on account of an INR10.75b rebate (our est.: INR 20b, including the rebate impact). Not accounting for the rebate and prior-period sales, PAT would have been up 21% YoY at ~INR28b, partly aided by other income. Other income was up 49% YoY, aided by higher late payment surcharge (INR2.65b v/s INR0.6b for the previous year). *We note the impact of rebate was baked in our numbers v/s reported by PWGR as an exception, which led to the apparent difference on an adjusted basis.*
- Profit in the **Telecom** segment declined 6% YoY at ~INR1b, and profitability for the **Consultancy** segment decreased 61%YoY at INR0.2b. Profit from TBCB subs was largely flat at INR0.8b.
- Capitalization stood at INR11.8b, while capex was at INR19.1b.

### Maintains capitalization and capex guidance for FY21

- PWGR has maintained its FY21 capex and capitalization targets of INR105b and INR200–250b, respectively. As per the co., it plans to commission Bipole-I of Raigarh Pugalur in the current quarter.
- Receivables increased to INR82b in Jun'20 (from INR49b in Mar'20). Conversely, they reduced to INR75b in Jul'20. Collection efficiency increased June onward and came in at >100% for June and July. INR12.4b has been received under the Atmanirbhar scheme.

### Declining capitalization could impact growth, but valuation remains attractive

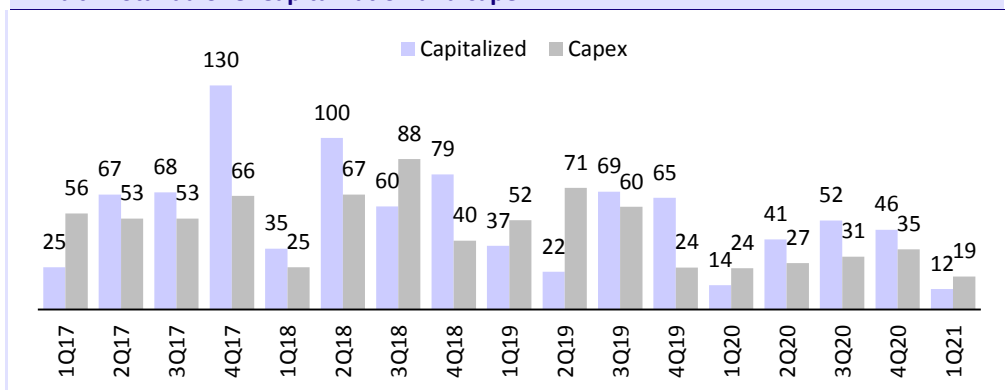
- While the awarding of transmission schemes (~INR250b) under renewable integration provides a good opportunity for PWGR to win new awards, our checks have suggested certain challenges could defer their awarding. If new orders do not come in, a declining order book could impact the pace of growth in profitability.
- However, subsequent lower capex (along with the removal of DDT) also implies potential for higher dividends (FY22E div. yield of ~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 remain attractive for a company with steady RoEs of ~17% and do not capture any growth potential (EPS FY20–22E: 7% CAGR). **Maintain Buy**, with DCF-based TP of INR221/sh.

## Quarterly performance (standalone) – INR m

Y/E March	FY20				FY21				FY20	FY21E	FY21 Vs Est 1QE	Vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
<b>Sales</b>	<b>87,978</b>	<b>90,369</b>	<b>93,541</b>	<b>106,802</b>	<b>93,828</b>	<b>94,764</b>	<b>98,329</b>	<b>102,143</b>	<b>378,689</b>	<b>389,064</b>	<b>83,584</b>	<b>12</b>
Change (%)	5.5	4.0	12.5	9.8	6.6	4.9	5.1	-4.4	8.0	2.7	-5.0	
<b>EBITDA</b>	<b>78,901</b>	<b>79,088</b>	<b>82,383</b>	<b>90,479</b>	<b>82,712</b>	<b>85,186</b>	<b>88,857</b>	<b>91,694</b>	<b>330,851</b>	<b>348,450</b>	<b>75,878</b>	<b>9</b>
Change (%)	10.6	7.2	11.2	9.0	4.8	7.7	7.9	1.3	9.5	5.3	-3.8	
As of % Sales	89.7	87.5	88.1	84.7	88.2	89.9	90.4	89.8	87.4	89.6	90.8	
Depreciation	26,591	27,482	28,024	28,636	27,970	29,728	30,315	31,770	110,732	119,784	28,764	-3
Interest	23,591	23,761	24,740	26,044	22,786	23,288	24,248	25,860	98,136	96,182	23,121	-1
Other Income	4,243	4,982	5,049	7,051	6,314	2,758	2,758	1,960	21,324	13,791	1,958	222
Extraordinary Inc / (Exp)	0	0	0	0	-10,750	0	0	0	0	-10,750	0	
<b>PBT</b>	<b>32,962</b>	<b>32,827</b>	<b>34,668</b>	<b>42,850</b>	<b>27,520</b>	<b>34,928</b>	<b>37,052</b>	<b>36,024</b>	<b>143,308</b>	<b>135,524</b>	<b>25,951</b>	<b>6</b>
Tax	8,684	7,555	7,933	11,024	7,731	8,033	8,522	4,174	35,196	28,460	5,969	
Effective Tax Rate (%)	26.3	23.0	22.9	25.7	28.1	23.0	23.0	11.6	24.6	21.0	23.0	
<b>Reported PAT</b>	<b>24,279</b>	<b>25,271</b>	<b>26,735</b>	<b>31,827</b>	<b>19,789</b>	<b>26,895</b>	<b>28,530</b>	<b>31,850</b>	<b>108,112</b>	<b>107,064</b>	<b>19,982</b>	<b>-1</b>
Change (%)	8.4	9.4	14.7	4.2	-18.5	6.4	6.7	0.1	8.8	-1.0	-17.7	
<b>Adjusted PAT</b>	<b>23,106</b>	<b>25,097</b>	<b>26,537</b>	<b>29,749</b>	<b>28,059</b>	<b>26,895</b>	<b>28,530</b>	<b>32,395</b>	<b>104,489</b>	<b>115,879</b>	<b>19,982</b>	<b>40</b>
Change (%)	2.7	7.0	12.5	11.3	21.4	7.2	7.5	8.9	8.6	10.9	-13.5	

Source: MOFSL, Company

## Exhibit 1: Standalone: Capitalization and capex – INR m



Source: MOSL, 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	
<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. FY22-24	242,066	46	237,004	45	235,578	45	
	<b>RoE</b>	<b>Re-Invt</b>	<b>Growth</b>				
	(%)	(%)	(%)				
B. FY25-32	14.00	15	2.1	517,885	99	489,236	94
C. Terminal Value	12.00	10	1.2	487,774	93	427,858	82
Target price (A+B+C)				238		221	200

Source: Company, MOFSL

## Conference call takeaways

### Works in hand

- PWGR currently has INR510b worth of works in hand. This consists of ongoing works worth INR330b, new projects worth INR60b, and TBCB projects worth INR120b.

### Receivables

- Receivables for PWGR increased to INR82b in Jun'20 (from INR49b in Mar'20). Conversely, they reduced to INR75b in Jul'20. Collection efficiency increased June onward and came in at >100% for June and July.
- INR12.4b has been received under the Atmanirbhar scheme.

### Order pipeline

- The current order pipeline stands at INR234b (INR160b for inter-state and INR74b for intra-state).
- Ordering has been delayed given the postponement of tender timelines and shift in bid opening dates for RE transmission works. The co. expects a pickup in ordering activity going forward.

### Capex and capitalization

- Capitalization stood at INR11.8b, while capex was at INR19.1b for the quarter.
- FY21 guidance of capex and capitalization was maintained at INR105b and INR200–250b, respectively.
- The co. expects Bipole-I of Raigarh Pugalur to get commissioned this quarter.

### Execution

- A pickup has been witnessed in RE-related projects in Rajasthan; Pugalur–Thrissur is also progressing well. However, overall execution pickup is uneven. On the supply side, manufacturers are facing difficulties in restoring production.
- Given the restrictions on imports, the company expects a change in equipment requirements / procurement for upcoming TBCB projects. However, this would not impact existing projects.

### InvIT

- The company noted the process for InvIT is still under deliberation, but is expected to be completed this year.

## Valuation and view

**Steady business model:** The continuation of the tariff structure and regulated RoE by CERC (power regulator) for FY20–24 lends visibility to PWGR's business model. With INR510b worth of works in hand, growth in regulated equity should continue for the next two to three years – albeit the rate of annual capitalization may be lower than seen in recent years. Overall, we expect continued capitalization to drive a 7% CAGR in earnings over FY20–22E. Earnings in FY21, though, would be impacted given the INR10.75b rebate. However, this is a one-time event and attributable to the disruption caused by COVID-19.

**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 of project awards have been envisaged for renewable integration and are currently being bid out. Moreover, the recent project award win (50% win rate) highlights PWGR's competitive positioning to win such projects as they come. As per PWGR, the co. believes India's vision to reach 450GW of RE capacity by 2030 (est.: 175GW

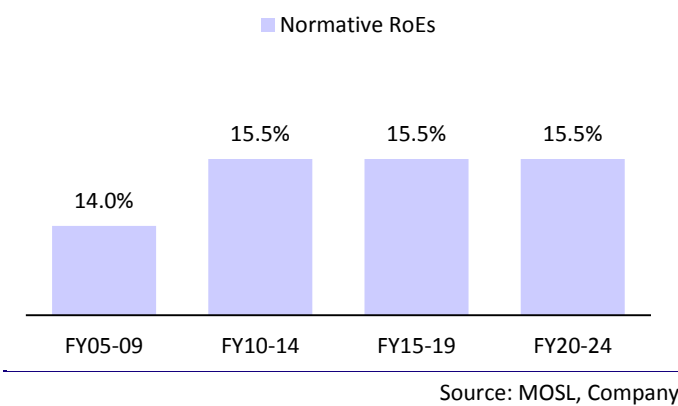
in 2022) would necessitate incremental investments of INR2.8t within Transmission. Overall, the Transmission sector is likely to grow at a pace of 8–9% over the next 10 years, providing the basis for long-term growth for the sector, as per PWGR.

**Order book slowing in near term, dividend to rise:** With the lack of large new orders flowing in, PWGR’s order book declined to INR520b at the end of FY20 from INR1,300b in FY17. A declining order book and capitalization schedule do present the risk of growth slowdown. However, subsequently lower capital expenditure (along with the removal of DDT) further implies potential for higher dividends. We expect DPS to rise from INR10/sh in FY20 to INR15.7/sh in FY22, implying FY22 dividend yield of ~9%.

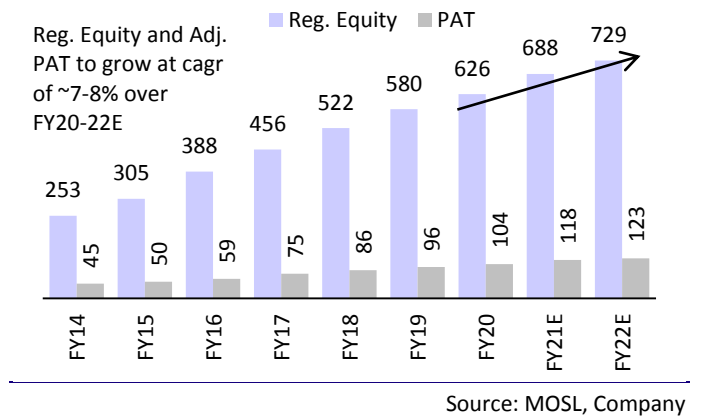
**Valuations attractive:** Given an underpenetrated market and strong competitive positioning, PWGR is well-positioned to capitalize on upcoming opportunities/awarding. Valuations at 1.3x FY22E P/BV and ~9% dividend yield are attractive for a company with steady RoEs of ~17%. **Maintain Buy**, with DCF-based TP of INR221/sh.

## Story in charts

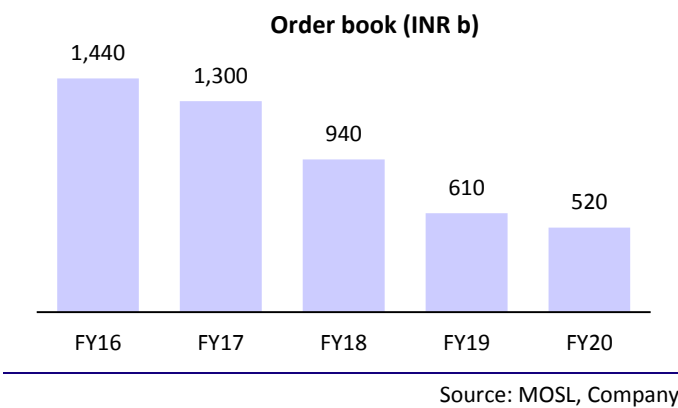
**Exhibit 3: Regulations lend visibility to RoEs**



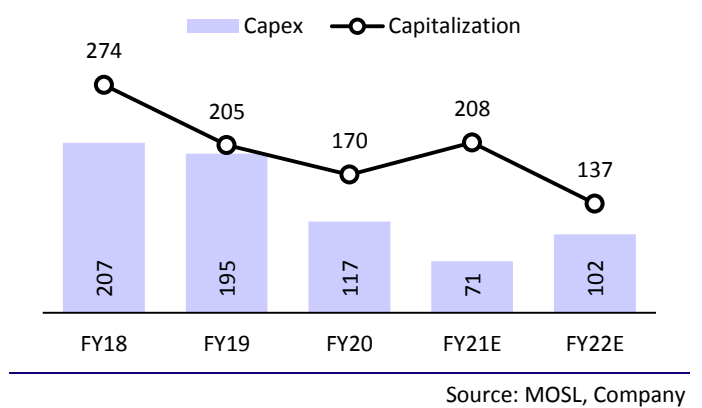
**Exhibit 4: Continued capitalization would drive S/A PAT**



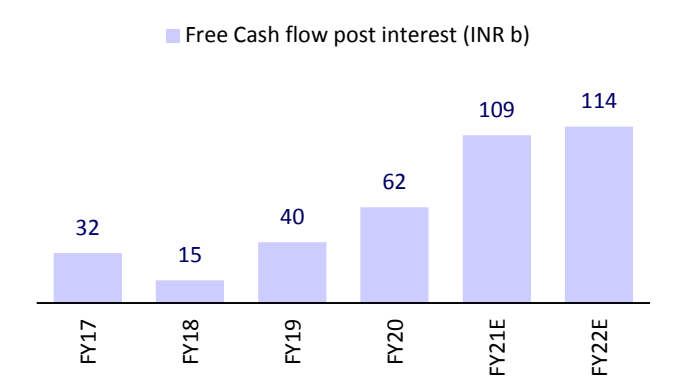
**Exhibit 5: Order book has declined...**



**Exhibit 6: ...pace of S/A capitalization & capex could reduce**

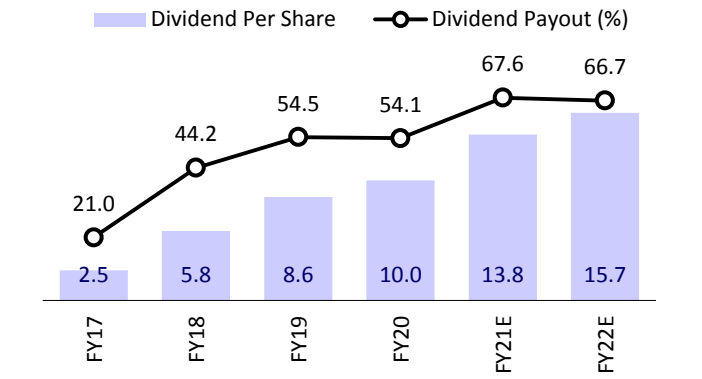


**Exhibit 7: Free cash flow at group level to be strong...**



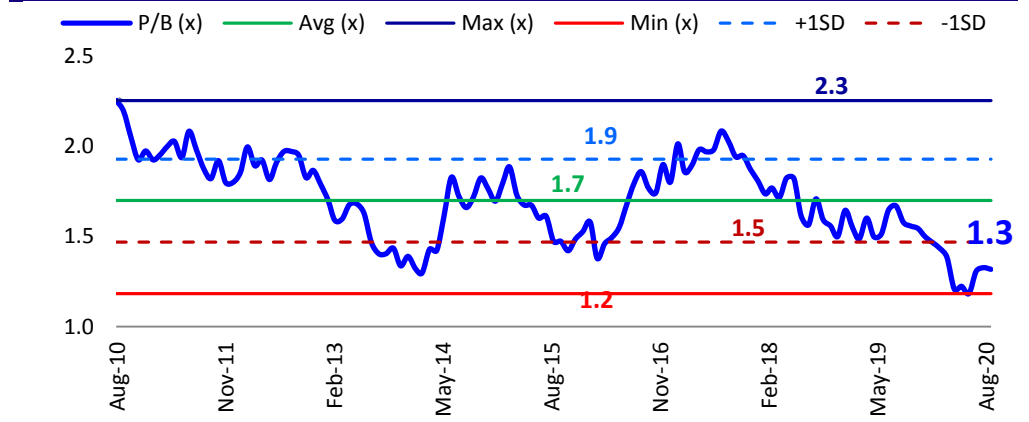
Source: MOSL, Company

**Exhibit 8: ...leading to potential for higher dividends**



Source: MOSL, Company

**Exhibit 9: Stock trades well below its historical averages**



Source: MOSL, Bloomberg

## Financials and valuations

Income statement								(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E	
<b>Net Sales</b>	<b>176,585</b>	<b>206,521</b>	<b>257,039</b>	<b>299,415</b>	<b>325,323</b>	<b>394,269</b>	<b>406,268</b>	<b>435,132</b>	
Change (%)	12.7	17.0	24.5	16.5	8.7	21.2	3.0	7.1	
Expenditure	25,323	23,940	30,467	36,296	48,386	48,033	41,014	43,358	
<b>EBITDA</b>	<b>151,262</b>	<b>182,581</b>	<b>226,572</b>	<b>263,119</b>	<b>276,937</b>	<b>346,236</b>	<b>365,254</b>	<b>391,774</b>	
% of Net Sales	85.7	88.4	88.1	87.9	85.1	87.8	89.9	90.0	
Depreciation	51,733	61,818	77,223	92,310	105,410	116,070	125,728	134,718	
Interest	40,812	50,862	62,036	73,241	87,366	95,090	93,299	95,837	
Other Income	5,745	4,663	5,838	4,891	6,022	9,274	1,976	-2,002	
<b>PBT before EO</b>	<b>64,462</b>	<b>74,563</b>	<b>93,153</b>	<b>102,459</b>	<b>90,184</b>	<b>144,350</b>	<b>148,203</b>	<b>159,216</b>	
EO income (expense)	-421	0	0	0	0	0	-10,750	0	
<b>PBT after EO</b>	<b>64,041</b>	<b>74,563</b>	<b>93,153</b>	<b>102,459</b>	<b>90,184</b>	<b>144,350</b>	<b>137,453</b>	<b>159,216</b>	
Tax	13,579	16,129	20,063	21,955	-8,864	35,308	28,750	33,279	
Rate (%)	21.2	21.6	21.5	21.4	-9.8	24.5	20.9	20.9	
<b>Reported PAT</b>	<b>50,463</b>	<b>58,434</b>	<b>73,090</b>	<b>80,504</b>	<b>99,047</b>	<b>109,043</b>	<b>108,703</b>	<b>125,936</b>	
Share of JVs and asso.			1,418	1,479	1,288	1,551	1,420	1,486	
<b>Adjusted PAT</b>	<b>50,883</b>	<b>58,434</b>	<b>74,507</b>	<b>86,513</b>	<b>100,335</b>	<b>110,594</b>	<b>120,873</b>	<b>127,422</b>	
Change (%)	10.9	14.8	27.5	16.1	16.0	10.2	9.3	5.4	
<b>Balance sheet</b>								<b>(INR m)</b>	
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	632,375	677,918	
<b>Net Worth</b>	<b>384,387</b>	<b>439,699</b>	<b>498,655</b>	<b>544,260</b>	<b>590,884</b>	<b>646,954</b>	<b>684,691</b>	<b>730,234</b>	
Loans	962,434	1,085,449	1,189,879	1,315,030	1,463,764	1,452,700	1,389,040	1,338,770	
Deferred Rev. & tax	73,030	82,169	74,184	74,509	194,755	221,448	221,448	221,448	
<b>Capital Employed</b>	<b>1,419,852</b>	<b>1,607,318</b>	<b>1,762,718</b>	<b>1,933,798</b>	<b>2,249,403</b>	<b>2,321,102</b>	<b>2,295,179</b>	<b>2,290,453</b>	
Gross Fixed Assets	1,204,801	1,214,908	1,519,616	1,798,900	2,072,146	2,266,556	2,502,615	2,651,163	
Less: Depreciation	292,891	63,965	142,837	236,914	344,750	455,435	581,163	715,881	
<b>Net Fixed Assets</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>1,811,121</b>	<b>1,921,452</b>	<b>1,935,282</b>	
Capital WIP	404,760	354,021	296,750	289,496	262,311	259,557	107,959	60,246	
Investments	2,196	9,185	11,650	12,240	12,964	14,311	14,311	14,311	
<b>Other Assets</b>	<b>288,776</b>	<b>278,769</b>	<b>271,272</b>	<b>279,548</b>	<b>470,904</b>	<b>481,543</b>	<b>492,834</b>	<b>538,610</b>	
Inventory	139,241	109,163	94,963	97,683	126,472	106,552	74,604	74,776	
Debtors	22,070	27,395	31,319	36,400	47,281	50,407	62,941	60,180	
Cash & Bank Balance	29,886	22,434	33,536	21,890	43,367	54,390	83,614	115,626	
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	132,697	
<b>Other Liabilities</b>	<b>187,791</b>	<b>185,600</b>	<b>193,732</b>	<b>209,468</b>	<b>224,173</b>	<b>245,431</b>	<b>241,377</b>	<b>257,996</b>	
<b>Net Current Assets</b>	<b>100,985</b>	<b>93,170</b>	<b>77,539</b>	<b>70,080</b>	<b>246,731</b>	<b>236,113</b>	<b>251,457</b>	<b>280,614</b>	
<b>Application of Funds</b>	<b>1,419,852</b>	<b>1,607,318</b>	<b>1,762,718</b>	<b>1,933,801</b>	<b>2,249,402</b>	<b>2,321,102</b>	<b>2,295,179</b>	<b>2,290,453</b>	

## Financials and valuations

### Ratios

Y/E Mar	2015	2016	2017	2018	2019	2020	2021E	2022E
<b>EPS</b>	<b>9.73</b>	<b>11.17</b>	<b>14.24</b>	<b>16.54</b>	<b>19.18</b>	<b>21.1</b>	<b>23.1</b>	<b>24.4</b>
Cash EPS	19.6	23.0	29.0	34.2	39.3	43.3	47.1	50.1
Book Value	73.5	84.0	95.3	104.0	112.9	123.7	130.9	139.6
DPS	2.0	2.1	2.5	5.8	8.6	10.0	13.8	15.7
Div.Payout (incl. Tax.)	25.2	0.0	21.0	44.2	54.5	54.1	67.6	66.7
<b>Valuation (x)</b>								
P/E	14.9	16.0	12.5	10.8	9.3	8.5	7.7	7.3
Cash P/E	7.4	7.8	6.2	5.2	4.5	4.1	3.8	3.5
EV/EBITDA	11.2	10.9	9.2	8.5	8.5	6.7	6.1	5.5
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	7.8	8.8
<b>Profitability Ratios (%)</b>								
RoE	13.9	14.2	15.9	16.6	17.7	17.9	18.2	18.0
RoCE	6.2	6.5	7.2	7.5	9.3	7.9	8.3	8.8
RoIC	8.4	8.6	8.9	8.9	10.6	8.9	9.3	9.7
<b>Turnover Ratios</b>								
Debtors (Days)	46	48	44	44	53	47	57	50
Inventory (Days)	108	94	70	64	84	77	55	51
Current Liabilities (Days)	145	160	142	136	149	176	180	176

### Cash flow statement

Y/E Mar	2015	2016	2017	2018	2019	2020	2021E	2022E
<b>PBT before EO Items</b>	<b>64,041</b>	<b>75,597</b>	<b>94,369</b>	<b>103,938</b>	<b>84,531</b>	<b>149,465</b>	<b>148,203</b>	<b>159,216</b>
Depreciation	51,733	61,818	77,223	92,310	105,410	116,070	125,728	134,718
Interest	40,812	50,862	62,036	73,241	87,366	95,090	93,299	95,837
Others	-4,243	-4,730	-3,264	-3,616	33,927	-28,805	-1,976	2,002
(Inc)/Dec in WC	61,903	-19,310	4,495	-16,181	-54,619	4,271	13,880	2,855
Direct Taxes Paid	-11,519	-14,156	-18,714	-22,591	-22,808	-25,687	-28,750	-33,279
<b>CF from Operations</b>	<b>202,728</b>	<b>150,082</b>	<b>216,144</b>	<b>227,101</b>	<b>233,807</b>	<b>310,405</b>	<b>350,384</b>	<b>361,349</b>
(Inc)/Dec in FA	-294,508	-216,795	-239,244	-261,799	-224,507	-113,671	-84,461	-100,835
(Pur)/Sale of Investments	7,934	1,030	495	4,784	36,137	3,249	3,396	-517
<b>CF from Investments</b>	<b>-286,574</b>	<b>-215,765</b>	<b>-238,749</b>	<b>-257,015</b>	<b>-188,370</b>	<b>-110,423</b>	<b>-81,065</b>	<b>-101,352</b>
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	-50,269
Interest Paid	-37,816	-47,584	-57,000	-70,480	-102,924	-117,301	-93,299	-95,837
Dividend Paid	-13,266	-13,379	-15,921	-36,598	-54,554	-53,440	-72,385	-81,879
<b>CF from Fin. Activity</b>	<b>63,988</b>	<b>56,208</b>	<b>39,586</b>	<b>12,847</b>	<b>-24,308</b>	<b>-188,058</b>	<b>-229,345</b>	<b>-227,986</b>
<b>Inc/Dec of Cash</b>	<b>-19,858</b>	<b>-9,475</b>	<b>16,980</b>	<b>-17,067</b>	<b>21,129</b>	<b>11,924</b>	<b>39,974</b>	<b>32,012</b>
Add: Beginning Balance	49,744	31,909	16,556	38,957	22,237	42,466	54,390	94,364
<b>Closing Balance</b>	<b>29,886</b>	<b>22,434</b>	<b>33,536</b>	<b>21,890</b>	<b>43,367</b>	<b>54,390</b>	<b>94,364</b>	<b>126,376</b>

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

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