

Q1 revenues in line; FY21 Capex and capitalization maintained; Maintain Buy

- Q1 revenues were in line with estimates (refer Exhibit 1), though PAT was ahead of estimates on lower interest costs. It has done a capex of Rs19bn, while capitalization was Rs12bn, during the quarter.
- It has guided for a capex of Rs105bn and capitalization of Rs200-250bn in FY21. The current CWIP Rs363bn, while work in hand is Rs510bn. With reducing capex, we believe that dividends payouts can go up going forward. FY20 payout was at 54%, giving a dividend yield of 6%.
- We maintain our estimates in FY21 and continue to maintain our Buy rating with a TP of Rs220, valuing it at 1.5P/BV on FY22E.

Capex and capitalization targets unchanged for FY21

Q1 revenues in line with estimates (refer Exhibit 1), though PAT (prior to movement in regulatory deferral account) was ahead by 10% due to lower interest costs. It has done a capex of Rs19bn, while. Capitalization for Q1 was Rs12b, as execution was impacted by covid. It has guided for a capex of Rs105bn and capitalization of Rs200-250bn in FY21. The current CWIP Rs363bn, while work in hand is Rs510bn

Covid-19 had an impact on receivables

Q1FY21 receivables were impacted by covid-19 rising from Rs.49bn in Q4FY20 to Rs.82bn in Q1FY20 though it has reduced to Rs.75bn in July 2020 as realizations in June and July shot up to 108% and 127% respectively. The company has a maintain receivable days between 50 to 55 days in FY21 as it expects collections to improve in the coming months. The company has received more than Rs.12bn from AP, UP and Telangana Discoms and expects payback from J&K SEB as well. The company is focusing on reducing debt to reduce the interest costs for FY21.

RE provides potential new opportunity. Maintain Buy

The government has introduced new regulation to exempt transmission charge on RE capacity till FY22. RE capacity of 20000 MW is being commissioned in the near future and presents a potential opportunity of Rs.350bn in interstate RE capacity, with bids worth Rs.120bn already approved; This would lead to new transmission opportunities for PGCIL. We continue to maintain Buy rating, with TP of Rs.220, based on 1.5xP/BV FY22E.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	89,887	88,041	2.1	97,045	(7.4)
Total Expense	11,116	9,077	22.5	16,323	(31.9)
EBITDA	78,772	78,964	(0.2)	80,722	(2.4)
Depreciation	27,970	26,591	5.2	28,636	(2.3)
EBIT	50,802	52,374	(3.0)	52,086	(2.5)
Other Income	6,314	4,243	48.8	7,051	(10.4)
Interest	22,786	23,591	(3.4)	26,044	(12.5)
EBT	23,580	33,025	(28.6)	33,093	(28.7)
Tax	3,791	8,747	(56.7)	1,266	199.3
RPAT	19,789	24,279	(18.5)	31,827	(37.8)
APAT	19,789	24,279	(18.5)	31,827	(37.8)
			(bps)		(bps)
Gross Margin (%)	100.0	100.0	0	100.0	0
EBITDA Margin (%)	87.6	89.7	(206)	83.2	445
NPM (%)	22.0	27.6	(556)	32.8	(1078)
Tax Rate (%)	16.1	26.5	(1041)	3.8	1225
EBIT Margin (%)	56.5	59.5	(297)	53.7	284

CMP	Rs 177
Target / Upside	Rs 220 / 24%
BSE Sensex	38,423
NSE Nifty	11,323

Scrip Details

Equity / FV	Rs 52,316mn / Rs 10
Market Cap	Rs 925bn
	USD 12bn
52-week High/Low	Rs 214/Rs 122
Avg. Volume (no)	11,411,800
NSE Symbol	POWERGRID
Bloomberg Code	PWGR IN

Shareholding Pattern Jun'20(%)

Promoters	51.3
MF/Banks/FIs	18.3
FIIIs	25.3
Public / Others	5.0

Valuation (x)

	FY20A	FY21E	FY22E
P/E	8.6	8.4	6.3
EV/EBITDA	7.0	6.7	5.7
ROE (%)	17.5	16.6	20.7
RoACE (%)	9.1	9.6	10.4

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	361,855	394,422	453,586
EBITDA	314,017	339,567	390,972
PAT	108,112	109,560	146,824
EPS (Rs.)	20.7	20.9	28.1

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Exhibit 1: Variance from our estimates

Rs Mn	Actual Q1FY21	DART Q1FY21E	Consensus Q1FY21E	DART Var (%)	Consensus Var (%)	Comments
Sales	89,887	94,133	87,807	(4.5)	2.4	Sales was in line with estimates EBITDA was in line with estimates
EBITDA	78,772	81,703	76,236	(3.6)	3.3	
EBITDA margins	87.6	86.8	86.8	83.9	81.2	PAT was higher due to lower interest cost
PAT	15,849	14,411	21,499	10.0	(26.3)	
Pat margins	17.6	15.3	24.5	232.2	(685.3)	
EPS	3.8	2.8	4.1	37.3	(8.0)	

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY21E			FY22E		
	Earlier	New	Chg. (%)	Earlier	New	Chg. (%)
Sales	394,422	394,422	0.0	453,586	453,586	0.0
EBITDA	339,567	339,567	0.0	390,972	390,972	0.0
PAT	109,560	109,560	0.0	146,824	146,824	0.0
EPS (Rs)	20.9	20.9	0.2	28.1	28.1	-0.1

Source: Company, DART

Exhibit 3: Quarterly Performance (Rs Mn)

Revenues	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Operating Income	88,041	86,850	89,920	97,045	89,887	2.1	(7.4)	88,041	89,887	2.1
Staff Expenditure	4,980	4,846	4,791	4,977	4,861	(2.4)	(2.3)	4,980	4,861	(2.4)
Other Expenses	4,097	6,435	6,366	11,346	6,255	52.7	(44.9)	4,097	6,255	52.7
EBITDA	78,964	75,569	78,762	80,722	78,772	(0.2)	(2.4)	78,964	78,772	(0.2)
Depreciation	26,591	27,482	28,024	28,636	27,970	5.2	(2.3)	26,591	27,970	5.2
Other Income	4,243	4,982	5,049	7,051	6,314	48.8	(10.4)	4,243	6,314	48.8
EBIT	56,616	53,070	55,788	59,136	57,116	0.9	(3.4)	56,616	57,116	0.9
Interest	23,591	23,761	24,740	26,044	22,786	(3.4)	(12.5)	23,591	22,786	(3.4)
PBT	0	0	0	0	(10,750)			0	(10,750)	
Tax	33025	29308	31047	33093	23580	(28.6)	(28.7)	33025	23580	(28.6)
Deferral Acc Balances Inc. / (Exps)	8,684	3,617	7,933	11,024	7,731	(11.0)	(29.9)	8,684	7,731	(11.0)
PAT	(63)	(419)	3,621	9,757	3,941	(6354.9)	(59.6)	(63)	3,941	(6355)
Reported EPS	24,279	25,271	26,735	31,827	19,789	(18.5)	(37.8)	24,279	19,789	(18.5)
Operating Cost as % of Sales										
Staff Cost	5.7	5.6	5.3	5.1	5.4	(24.9)	27.8	5.7	5.4	(24.9)
Other Expenses	4.7	7.4	7.1	11.7	7.0	230.5	(473.3)	4.7	7.0	230.5
Margins (%)						bps	bps			bps
EBITDA	89.7	87.0	87.6	83.2	87.6	(206)	445	89.7	87.6	(206)
EBIT	64.3	61.1	62.0	60.9	63.5	(77)	260	64.3	63.5	(77)
PBT	37.5	33.7	34.5	34.1	26.2	(1128)	(787)	37.5	26.2	(1128)
NPM	27.6	29.1	29.7	32.8	22.0	(556)	(1078)	27.6	22.0	(556)

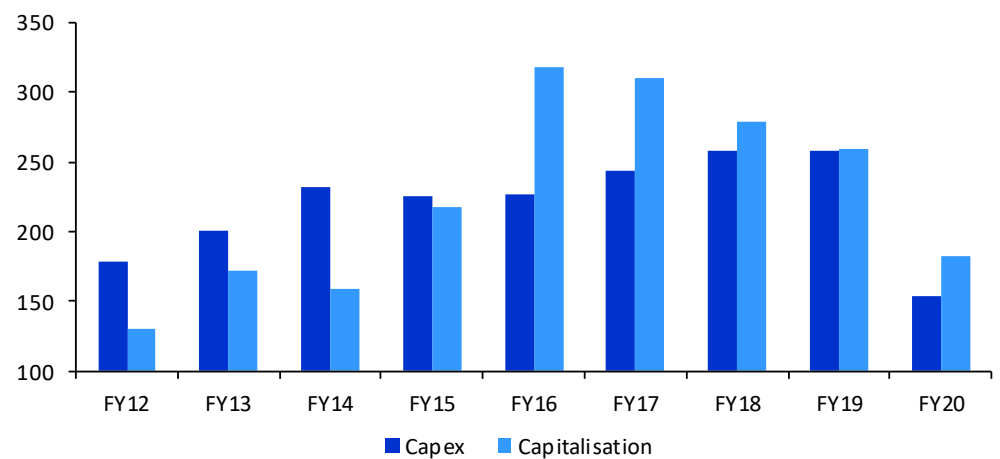
Source: Company, DART

Exhibit 4: Segmental Performance

Revenues	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Revenue										
Transmission	86,512	84,976	88,137	96,004	90,450	4.6	(5.8)	86,512	90,450	4.6
Consultancy	1,263	1,736	1,440	1,741	985	(22.0)	(43.4)	1,263	985	(22.0)
Telecom	1,940	1,987	1,980	1,916	1,876	(3.3)	(2.1)	1,940	1,876	(3.3)
Inter-Segment	200	203	207	90	173	(13.6)	92.9	200	173	(13.6)
Total	89,516	88,495	91,350	99,572	93,139	4.0	(6.5)	89,516	93,139	4.0
EBIT										
Transmission	52,302	51,907	54,824	64,667	57,671	10.3	(10.8)	52,302	57,671	10.3
Consultancy	406	965	602	798	999	146.4	25.2	406	999	146.4
Telecom	1,061	1,129	1,131	971	157	(85.2)	(83.8)	1,061	157	(85.2)
EBIT Margin (%)										
Transmission	60.5	61.1	62.2	67.4	63.8	330	(360)	60.5	63.8	330
Consultancy	32.1	55.6	41.8	45.8	101.4	6935	5559	32.1	101.4	6935
Telecom	54.7	56.8	57.1	50.7	8.4	(4632)	(4229)	54.7	8.4	(4632)

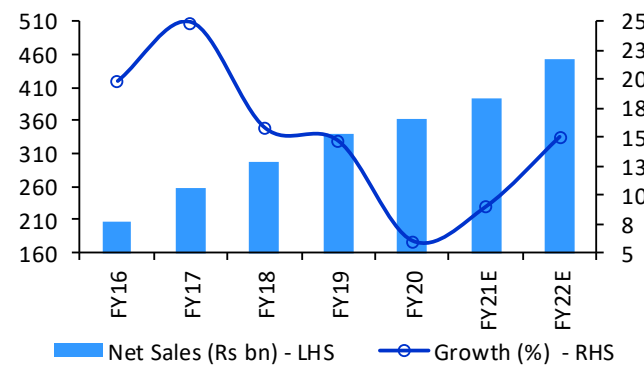
Source: Company, DART

Exhibit 5: Capex and Capitalization (Rs bn)



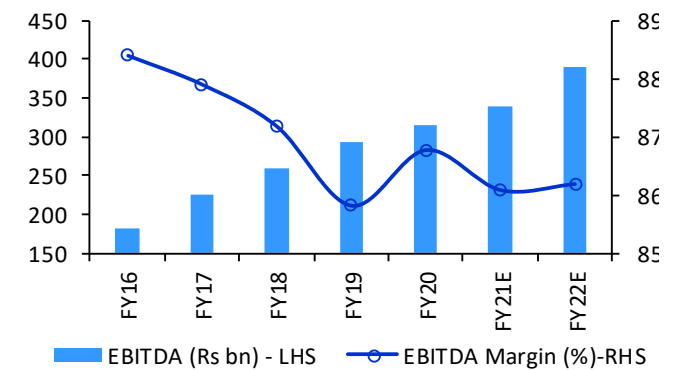
Source: Company, DART

Exhibit 6: Net Sales (Rs bn)

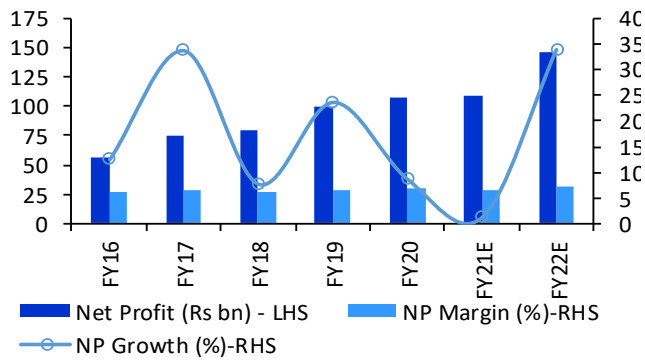


Source: Company, DART

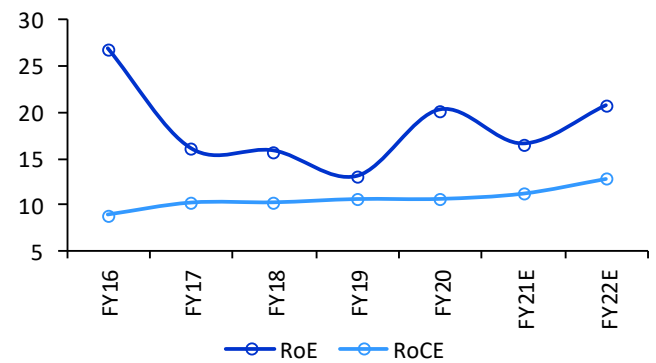
Exhibit 7: EBITDA (Rs bn)



Source: Company, DART

Exhibit 8: Net Profit (Rs bn)


Source: Company, DART

Exhibit 9: RoE & RoCE (%)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	341,191	361,855	394,422	453,586
Total Expense	48,370	47,838	54,855	62,614
COGS	0	0	0	0
Employees Cost	17,836	19,595	21,391	24,416
Other expenses	30,534	28,244	33,464	38,198
EBIDTA	292,821	314,017	339,567	390,972
Depreciation	102,007	110,732	115,731	124,425
EBIT	190,815	203,285	223,836	266,547
Interest	90,914	98,136	87,061	83,053
Other Income	14,990	21,324	23,883	23,883
Exc. / E.O. items	(25,270)	16,834	(10,750)	0
EBT	89,620	143,308	149,908	207,378
Tax	(9,764)	35,196	40,349	60,553
RPAT	99,385	108,112	109,560	146,824
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	99,385	108,112	109,560	146,824

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	52,316	52,316	52,316	52,316
Minority Interest	0	0	0	0
Reserves & Surplus	537,856	592,081	625,757	688,699
Net Worth	590,171	644,397	678,073	741,015
Total Debt	1,353,395	1,354,211	1,404,211	1,384,211
Net Deferred Tax Liability	100,930	113,819	113,819	113,819
Total Capital Employed	2,044,497	2,112,427	2,196,103	2,239,044

Applications of Funds

Net Block	1,638,600	1,703,324	1,687,594	1,663,169
CWIP	335,781	303,996	438,007	440,007
Investments	27,565	37,637	31,082	33,082
Current Assets, Loans & Advances	490,349	553,136	598,730	660,935
Inventories	12,263	14,006	13,289	14,897
Receivables	46,498	48,679	65,080	58,966
Cash and Bank Balances	43,320	53,945	38,561	35,663
Loans and Advances	111,259	134,806	154,902	178,137
Other Current Assets	249,444	264,063	295,817	340,189
Less: Current Liabilities & Provisions	325,663	295,143	305,830	302,168
Payables	3,641	2,257	3,382	3,860
Other Current Liabilities	322,022	292,886	302,448	298,308
sub total				
Net Current Assets	164,686	257,993	292,900	358,766
Total Assets	2,044,497	2,112,427	2,196,103	2,239,044

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	100.0	100.0	100.0	100.0
EBIDTA Margin	85.8	86.8	86.1	86.2
EBIT Margin	55.9	56.2	56.8	58.8
Tax rate	(10.9)	24.6	26.9	29.2
Net Profit Margin	29.1	29.9	27.8	32.4
(B) As Percentage of Net Sales (%)				
COGS	0.0	0.0	0.0	0.0
Employee	5.2	5.4	5.4	5.4
Other	8.9	7.8	8.5	8.4
(C) Measure of Financial Status				
Gross Debt / Equity	2.3	2.1	2.1	1.9
Interest Coverage	2.1	2.1	2.6	3.2
Inventory days	13	14	12	12
Debtors days	50	49	60	47
Average Cost of Debt	7.0	7.2	6.3	6.0
Payable days	4	2	3	3
Working Capital days	176	260	271	289
FA T/O	0.2	0.2	0.2	0.3
(D) Measures of Investment				
AEPS (Rs)	19.0	20.7	20.9	28.1
CEPS (Rs)	38.5	41.8	43.1	51.8
DPS (Rs)	8.3	10.0	10.0	12.0
Dividend Payout (%)	43.8	48.4	47.8	42.8
BVPS (Rs)	112.8	123.2	129.6	141.6
RoANW (%)	17.5	17.5	16.6	20.7
RoACE (%)	10.9	9.1	9.6	10.4
RoAIC (%)	9.8	10.0	10.6	12.2
(E) Valuation Ratios				
CMP (Rs)	177	177	177	177
P/E	9.3	8.6	8.4	6.3
Mcap (Rs Mn)	925,207	925,207	925,207	925,207
MCap/ Sales	2.7	2.6	2.3	2.0
EV	2,207,716	2,187,836	2,259,775	2,240,672
EV/Sales	6.5	6.0	5.7	4.9
EV/EBITDA	7.5	7.0	6.7	5.7
P/BV	1.6	1.4	1.4	1.2
Dividend Yield (%)	4.7	5.7	5.7	6.8
(F) Growth Rate (%)				
Revenue	14.6	6.1	9.0	15.0
EBITDA	12.8	7.2	8.1	15.1
EBIT	13.2	6.5	10.1	19.1
PBT	(14.5)	59.9	4.6	38.3
APAT	20.6	8.8	1.3	34.0
EPS	20.6	8.8	1.3	34.0

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	302,144	261,446	272,260	305,891
CFI	(273,255)	(206,275)	(246,632)	(126,052)
CFF	(25,903)	(121,692)	(99,425)	(177,990)
FCFF	64,931	85,990	38,249	203,891
Opening Cash	21,704	43,320	53,945	38,561
Closing Cash	43,320	53,945	38,561	35,663

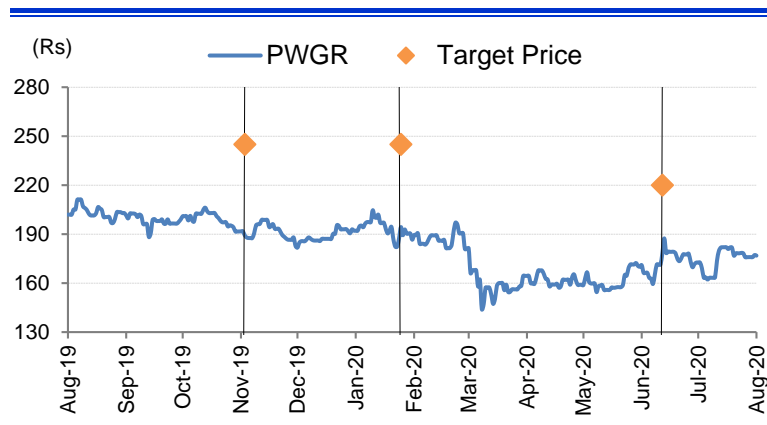
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Buy	245	189
Feb-20	Buy	245	194
Jun-20	Buy	220	179

*Price as on recommendation date

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