

Buy

Inline Q2; Maintains FY21 capex and capitalisation; Maintain Buy

- Q1 revenues were largely in line (refer Exhibit 1), though PAT was ahead of estimates on higher surcharge and dividend income and lower interest costs. It has done a capex of Rs31bn, while capitalization was Rs106bn, during the quarter mainly due to Raipur Pugalur HVDC line of Rs95bn getting capitalised.
- It has maintained its guidance for a capex of Rs105bn and capitalization of Rs200-250bn in FY21. The current CWIP Rs282bn, while work in hand is Rs410bn. As capex reduces, we believe that it can increase dividend payouts going forward. FY20 payout was at 54%, giving a dividend yield of ~5%.
- We maintain our estimates in FY21 and continue to maintain our Buy rating with a TP of Rs230, valuing it at 1.6 P/BV on FY22E.

Q2 was largely an inline quarter

Q1 revenues were largely in line with estimates (refer Exhibit 1), at Rs90.6bn, +4.3% YoY, though PAT was ahead of estimates at Rs31.2bn on higher surcharge income at Rs2.2bn and dividend from subsidiaries at Rs2.5bn. It has done a capex of Rs31bn, while capitalization was Rs106bn, during the quarter mainly due to Raipur Pugalur HVDC line of Rs95bn getting capitalised. For H1FY21, it has done a capex of Rs50bn, while capitalization was Rs119bn

Capex and capitalization targets unchanged for FY21

Powergrid has maintained its FY21 capex and capitalisation rate. It has guided for a capex of Rs105bn and capitalization of Rs200-250bn in FY21. The current CWIP Rs282bn, while work in hand is Rs410bn lower mainly due to higher capitalization in Q2 on account of the Raipur Pugalur HVDC line. It is also targeting to complete its InVIT in the current financial year, having Rs68bn of assets classified as held for sale.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	90,579	86,850	4.3	89,887	0.8
Total Expense	10,868	11,281	(3.7)	11,116	(2.2)
EBITDA	79,711	75,569	5.5	78,772	1.2
Depreciation	28,967	27,482	5.4	27,970	3.6
EBIT	50,744	48,088	5.5	50,802	(0.1)
Other Income	8,323	4,982	67.1	6,314	31.8
Interest	20,950	23,761	(11.8)	22,786	(8.1)
EBT	38,080	29,308	29.9	23,580	61.5
Tax	6,906	4,037	71.1	3,791	82.2
RPAT	31,174	25,271	23.4	19,789	57.5
APAT	31,174	25,271	23.4	19,789	57.5
			(bps)		(bps)
Gross Margin (%)	100.0	100.0	0	100.0	0
EBITDA Margin (%)	88.0	87.0	99	87.6	37
NPM (%)	34.4	29.1	532	22.0	1240
Tax Rate (%)	18.1	13.8	436	16.1	206
EBIT Margin (%)	56.0	55.4	65	56.5	(50)

CMP	Rs 190
Target / Upside	Rs 230 / 21%
NIFTY	12,749

Scrip Details

Equity / FV	Rs 52,316mn / Rs 10		
Market Cap	Rs 992bn		
	USD 13bn		
52-week High/Low	Rs 211/ 122		
Avg. Volume (no)	1,00,12,200		
Bloom Code	PWGR IN		
Price Performance	1M	3M	12M
Absolute (%)	19	7	(1)
Rel to NIFTY (%)	11	(7)	(9)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	51.3	51.3	51.3
MF/Banks/FIs	5.0	5.0	16.2
FIs	27.0	25.3	26.0
Public / Others	16.7	18.3	6.5

Valuation (x)

	FY21E	FY22E	FY23E
P/E	8.7	6.7	6.5
EV/EBITDA	6.8	6.1	5.9
ROE (%)	16.9	20.3	20.0
RoACE (%)	9.8	10.4	10.5

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	3,94,422	4,37,809	4,59,699
EBITDA	3,39,567	3,77,264	3,95,783
PAT	1,14,075	1,46,993	1,51,824
EPS (Rs.)	21.8	28.1	29.0

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Receivables have improved in Q2

Q1FY21 receivables were impacted by covid-19 rising from Rs.49bn in Q4FY20 to Rs.82bn in Q1FY20. This has now come down to Rs64bn, with outstanding more than 45 days at Rs45bn. It is working on an internal target of bringing down receivables to 45 days. The company has received around Rs.14bn under the Atmarnirbhar scheme and expects more funds under the scheme in H2.

Maintain Buy

Powergrid is looking at a potential opportunity of Rs120bn with Rs160bn on interstate RE transmission projects and Rs20bn for TBCB projects. This would lead to new transmission opportunities for PGCIL. As capex reduces, we believe that it can increase dividend payouts going forward. FY20 payout was at 54%, giving a dividend yield of ~5%. We continue to maintain Buy rating, with TP of Rs.230, based on 1.6xP/BV FY22E.

Exhibit 1: Variance from our estimates

	Actual	DART	Consensus	DART	Consensus	
Rs Mn	Q2FY21	Q2FY21E	Q2FY21E	Var (%)	Var (%)	Comments
Sales	90,579	95,142	94,454	(4.8)	(4.1)	Revenues largely in line with estimates
EBITDA	79,711	82,583	82,352	(3.5)	(3.2)	
EBITDA margins	88.0	86.8	87.2	120.1	81.4	
PAT	31,256	28,606	28,525	9.3	9.6	PAT ahead of estimates due to higher surcharge and dividend income
Pat margins	34.5	30.1	30.2	444.1	430.7	
EPS	6.0	5.5	5.5	9.0	9.3	

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	437,809	(3.5)
EBITDA	339,567	339,567	0.0	390,972	377,264	(3.5)
PAT	109,560	110,652	1.0	146,824	138,645	(5.6)
EPS (Rs)	20.9	21.2	1.0	28.1	26.5	(5.6)

Source: Company, DART

Exhibit 3: Quarterly Performance (Rs Mn)

Particulars (Rs Mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Operating Income	90,579	86,850	4.3	89,887	0.8	180,466	174,891	3.2
Staff Expenditure	4,894	4,846	1.0	4,861	0.7	9,755	9,826	-0.7
Other Expenditure	5,974	6,435	-7.2	6,255	(4.5)	12,229	10,531	16.1
EBITDA	79,711	75,569	5.5	78,772	1.2	158,482	154,533	2.6
Other Income	8,323	4,982	67.1	6,314	31.8	14,637	9,225	58.7
Depreciation	28,967	27,482	5.4	27,970	3.6	56,937	54,072	5.3
EBIT	59,067	53,070	11.3	57,116	3.4	116,182	109,686	5.9
Interest	20,950	23,761	-11.8	22,786	(8.1)	43,736	47,352	-7.6
Exceptional Items	-36	0		-10,750		-10,786	0	
PBT	38,080	29,308	29.9	23,580	61.5	61,659	62,334	-1.1
Tax	6,824	3,617	88.6	7,731	(11.7)	14,555	12,301	18.3
Net Deferrals Income/ (Exp)	-82	-419	-80.4	3,941	102.1	3,858	-482	-899.8
PAT	31,174	25,271	23.4	19,789	57.5	50,963	49,550	2.9
Reported EPS	6.0	4.8		3.8		9.7	9.5	

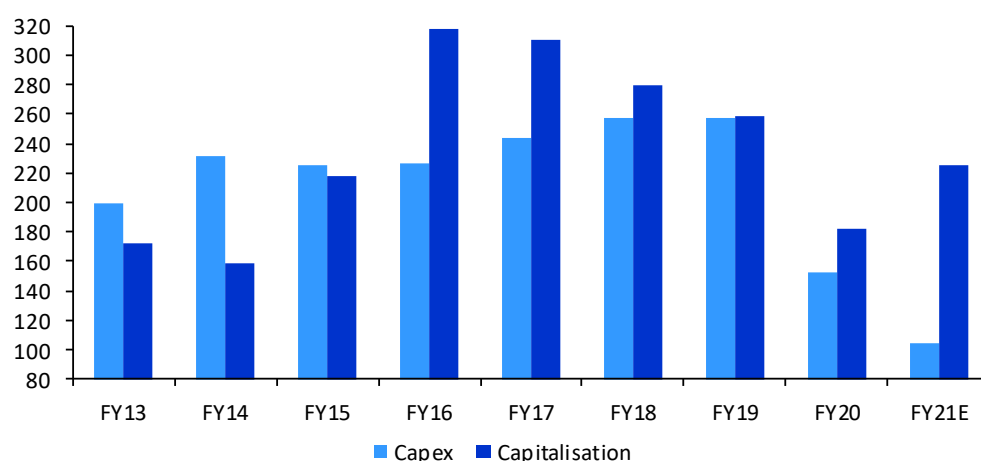
Source: Company, DART

Exhibit 4: Segmental Performance

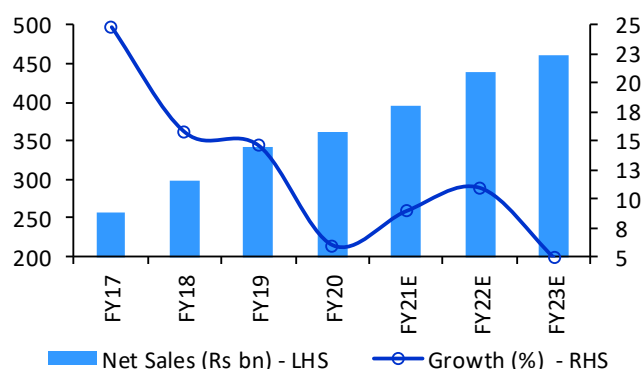
Segmental	Q2FY21	Q2FY20	BPS	Q1FY21	BPS	H1FY21	H1FY20	BPS
Other Cost (%)	6.6	7.4	(81)	7.0	(36)	6.8	6.0	75
Staff Cost (%)	5.4	5.6	(18)	5.4	(0)	5.4	5.6	-21
EBITDA (%)	88.0	87.0	99	87.6	37	87.8	88.4	-54
EBIT (%)	65.2	61.1	411	63.5	167	64.4	62.7	166
PBT (%)	42.0	33.7	829	26.2	1,581	34.2	35.6	-147
NPM (%)	34.4	29.1	532	22.0	1,240	28.2	28.3	-9

Source: Company, DART

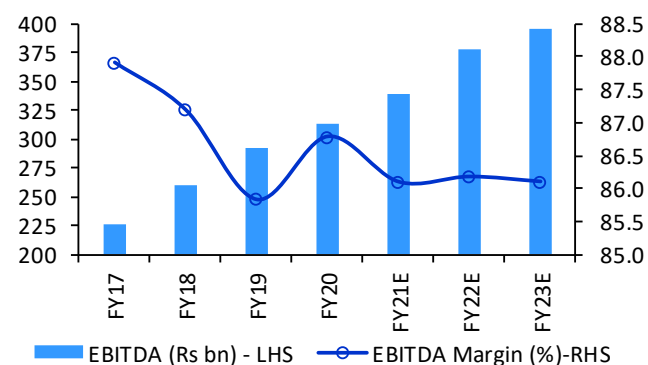
Exhibit 5: Capex and Capitalization (Rs bn)



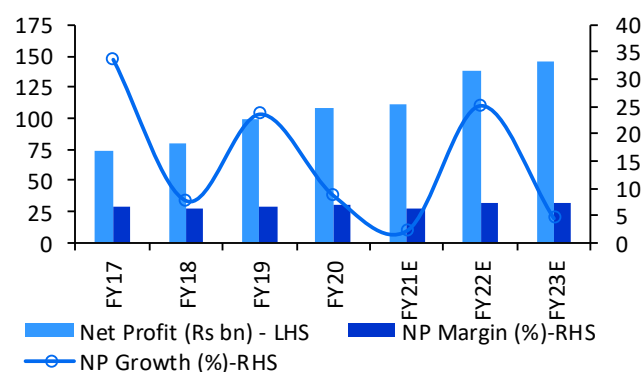
Source: Company, DART

Exhibit 6: Net Sales (Rs bn)


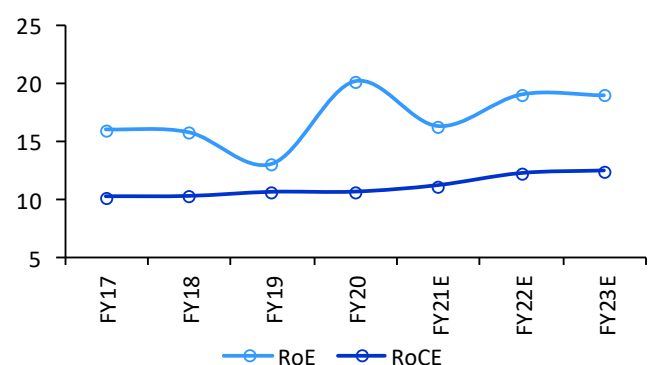
Source: Company, DART

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)	FY20A	FY21E	FY22E	FY23E
Revenue	3,61,855	3,94,422	4,37,809	4,59,699
Total Expense	47,838	54,855	60,545	63,917
COGS	0	0	0	0
Employees Cost	19,595	21,391	23,610	24,924
Other expenses	28,244	33,464	36,935	38,992
EBIDTA	3,14,017	3,39,567	3,77,264	3,95,783
Depreciation	1,10,732	1,15,731	1,24,425	1,34,914
EBIT	2,03,285	2,23,836	2,52,839	2,60,869
Interest	98,136	85,511	81,853	86,053
Other Income	21,324	23,883	23,883	27,705
Exc. / E.O. items	16,834	(10,786)	0	0
EBT	1,43,308	1,51,422	1,94,870	2,02,521
Tax	35,196	37,348	47,876	50,697
RPAT	1,08,112	1,14,075	1,46,993	1,51,824
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,08,112	1,14,075	1,46,993	1,51,824

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	52,316	52,316	52,316	52,316
Minority Interest	0	0	0	0
Reserves & Surplus	5,92,081	6,55,308	6,88,419	7,27,538
Net Worth	6,44,397	7,07,624	7,40,734	7,79,854
Total Debt	13,54,211	13,79,211	13,64,211	14,34,211
Net Deferred Tax Liability	1,13,819	1,13,819	1,13,819	1,13,819
Total Capital Employed	21,12,427	22,00,654	22,18,764	23,27,884

Applications of Funds

Net Block	17,03,324	16,87,594	16,63,169	17,26,161
CWIP	3,03,996	4,38,007	4,40,007	4,42,007
Investments	37,637	31,082	33,082	35,082
Current Assets, Loans & Advances	5,53,136	5,98,106	6,36,387	6,95,712
Inventories	14,006	13,289	14,405	15,122
Receivables	48,679	65,080	56,915	59,761
Cash and Bank Balances	53,945	37,937	25,807	37,354
Loans and Advances	1,34,806	1,54,902	1,77,821	2,03,619
Other Current Assets	2,64,063	2,95,817	3,28,357	3,44,774
Less: Current Liabilities & Provisions	2,95,143	3,00,655	2,97,901	3,12,599
Payables	2,257	3,382	3,733	3,940
Other Current Liabilities	2,92,886	2,97,273	2,94,168	3,08,658
<i>sub total</i>				
Net Current Assets	2,57,993	2,97,451	3,38,486	3,83,114
Total Assets	21,12,427	22,00,654	22,18,764	23,27,884

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	100.0	100.0	100.0	100.0
EBIDTA Margin	86.8	86.1	86.2	86.1
EBIT Margin	56.2	56.8	57.8	56.7
Tax rate	24.6	24.7	24.6	25.0
Net Profit Margin	29.9	28.9	33.6	33.0
(B) As Percentage of Net Sales (%)				
COGS	0.0	0.0	0.0	0.0
Employee	5.4	5.4	5.4	5.4
Other	7.8	8.5	8.4	8.5
(C) Measure of Financial Status				
Gross Debt / Equity	2.1	1.9	1.8	1.8
Interest Coverage	2.1	2.6	3.1	3.0
Inventory days	14	12	12	12
Debtors days	49	60	47	47
Average Cost of Debt	7.2	6.3	6.0	6.2
Payable days	2	3	3	3
Working Capital days	260	275	282	304
FA T/O	0.2	0.2	0.3	0.3
(D) Measures of Investment				
AEPS (Rs)	20.7	21.8	28.1	29.0
CEPS (Rs)	41.8	43.9	51.9	54.8
DPS (Rs)	10.0	11.0	12.0	13.0
Dividend Payout (%)	48.4	50.4	42.7	44.8
BVPS (Rs)	123.2	135.3	141.6	149.1
RoANW (%)	17.5	16.9	20.3	20.0
RoACE (%)	9.1	9.8	10.4	10.5
RoAIC (%)	10.0	10.6	11.6	11.6
(E) Valuation Ratios				
CMP (Rs)	190	190	190	190
P/E	9.2	8.7	6.7	6.5
Mcap (Rs Mn)	9,92,171	9,92,171	9,92,171	9,92,171
MCap/ Sales	2.7	2.5	2.3	2.2
EV	22,54,801	23,02,363	22,97,493	23,53,946
EV/Sales	6.2	5.8	5.2	5.1
EV/EBITDA	7.2	6.8	6.1	5.9
P/BV	1.5	1.4	1.3	1.3
Dividend Yield (%)	5.3	5.8	6.3	6.9
(F) Growth Rate (%)				
Revenue	6.1	9.0	11.0	5.0
EBITDA	7.2	8.1	11.1	4.9
EBIT	6.5	10.1	13.0	3.2
PBT	59.9	5.7	28.7	3.9
APAT	8.8	5.5	28.9	3.3
EPS	8.8	5.5	28.9	3.3

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,61,446	2,66,749	3,10,534	3,55,973
CFI	(2,06,275)	(2,46,632)	(1,26,052)	(2,27,266)
CFF	(1,21,692)	(1,29,162)	(1,71,790)	(97,276)
FCFF	85,990	32,738	2,08,534	1,56,067
Opening Cash	43,320	53,945	37,937	25,807
Closing Cash	53,945	37,937	25,807	37,354

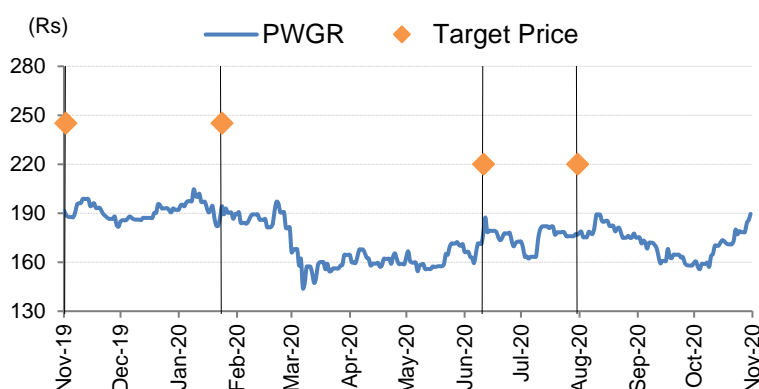
E – Estimates

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
Aug-20	Buy	220	177

*Price as on recommendation date

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