

Power Grid

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	PWGR IN
Equity Shares (m)	6,975
M.Cap.(INRb)/(USDb)	1228.4 / 16.5
52-Week Range (INR)	189 / 116
1, 6, 12 Rel. Per (%)	-2/4/-9
12M Avg Val (INR M)	2419

Financials & Valuations (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	400.0	412.2	429.1
EBITDA	353.5	364.0	377.3
Adj. PAT	124.8	131.7	138.3
EBITDA Margin (%)	88.4	88.3	87.9
Cons. Adj. EPS (INR)	17.9	18.9	19.8
EPS Gr. (%)	16.0	5.6	5.0
BV/Sh. (INR)	100.3	110.1	116.4

Ratios

Net D:E	2.0	1.7	1.5
RoE (%)	18.5	18.0	17.5
RoCE (%)	8.1	8.2	8.4
Payout (%)	52.6	61.1	73.3

Valuations

P/E (x)	9.6	9.1	8.7
P/BV (x)	1.7	1.6	1.5
EV/EBITDA(x)	7.3	6.8	6.3
Div. Yield (%)	5.2	7.6	7.8
FCF Yield (%)	16.9	19.7	22.2

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	51.3	51.3	51.3
DII	13.9	13.8	18.3
FII	28.3	28.4	25.3
Others	6.5	6.5	5.0

FII Includes depository receipts

CMP: INR176 TP: INR205 (+16%) Buy

Steady growth in underlying Transmission numbers

Steady growth coupled with higher payouts; maintain Buy

- PWGR's 1QFY22 result highlights the steady growth in its Transmission business, with underlying numbers increasing 12% YoY. Reported standalone PAT rose 3x YoY, led by gains on sale of assets to the InvIT.
- It has won INR90-100b of awards during the past 8-9 months, which is a positive sign, given a declining order book. The capex trajectory is on a decline, and with proceeds from InvIT, we see strong scope for higher dividends. Valuations at 1.6x FY22E P/BV and a 7-8% FY22E dividend yield remain attractive for a company with a steady RoE of 18%. We **maintain our Buy** rating with a DCF-based TP of INR205/share.

Profit boosted by sale of assets; underlying numbers see steady growth

- Standalone PAT rose 3x YoY to INR60.8b due to one-offs related to: a) INR31.7b gain from the sale of assets to InvIT, b) INR2.3b of income – difference in final and provisional tariff, and c) INR10.8b impact of a rebate in 1QFY21.
- Adjusted for prior period sales and above one-offs, PAT stood at INR29.6b (in line with our estimate of INR30.2b).
- Other income fell 19% YoY to INR5.1b, amid lower late payment surcharge income and partly offset by higher dividend from subsidiaries and JVs. Late payment surcharge declined to INR0.6b (v/s INR2.65b in 1QFY21). Dividend from subsidiaries and JVs was higher at INR0.7b v/s INR0.2b in 1QFY21.
- Consultancy EBIT rose over 3x to INR0.7b (v/s INR0.2b in 1QFY21).
- Telecom EBIT fell 73% YoY to INR0.3b. Telecom income in 1QFY22 was impacted by INR0.9b due to rebate to BSNL, with respect to revision of contracts pending for the past three years.
- Capitalization/capex at a group level stood at INR56b/INR11b in 1QFY22.
- Consolidated reported PAT grew over 3x YoY to INR59.9b in 1QFY22. Adjusted for the aforementioned one-offs, PAT grew 5% YoY to INR30.3b in 1QFY22.
- Receivables have risen sequentially to INR71b (v/s INR36b at the end of 4QFY21) due to the second COVID wave, leading to lower collections in Apr'21 and May'21.

Key takeaways from the management interaction

- PWGR is looking at opportunities ushered by the government's distribution reform schemes. The company sees an incremental INR2t of funding/investment needs for DISCOMs for upgrade of their distribution network and Smart Meters. It is looking to engage with DISCOMs for the same and provide technical solutions and investment support.
- PWGR expects capitalization in FY22 to be at INR150b, with a capex of INR75b. For FY23, it expects capitalization to be at INR120-150b, with a capex of INR75-100b.

- The management sees INR108b of upcoming opportunities in inter- and intra-state works. Transmission schemes are being planned in Leh, Gujarat, and Rajasthan, with a total potential cost of INR400b. DPR for Transmission works at Leh has been prepared and submitted.

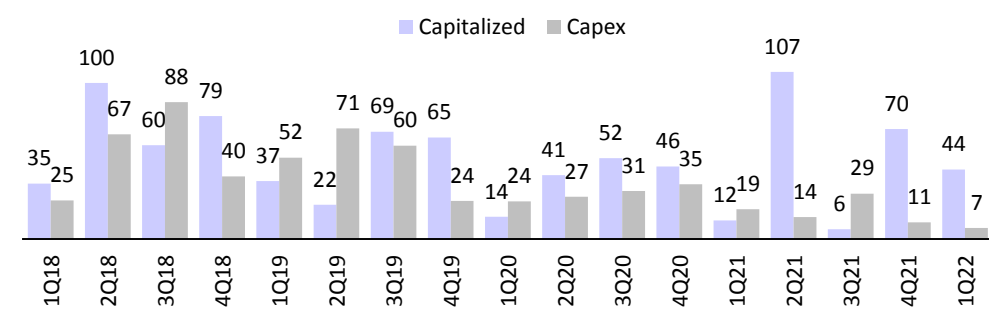
See a case for higher payouts; reiterate Buy

- PWGR is looking at opportunities within the distribution schemes. However, as discussions with DISCOMs are yet to take place and with no model being decided, we await details on this to emerge. Awarding of Transmission schemes under renewable integration does provide an opportunity for new wins. Our checks suggest continued challenges, which have seen a deferment in their awarding. With a declining order book and capex schedule, we see a strong case for higher dividend in the near term.
- With the benefit of sales to InvIT, we see potential for the proceeds being distributed to shareholders. This should aid payout ratios (60-70%) and translate to a DPS of INR26-27/share over the next two years, implying a dividend yield of 7-8%. We see additional distribution potential from: a) share in dividends from SPVs of the InvIT, b) sale of 26% stake in five SPVs, and c) further transfer of assets to the InvIT. Given a 7-8% dividend yield, backed by steady earnings growth (5-6% CAGR) and RoEs of 18%, PWGR remains attractively valued at 1.6x FY22E P/BV. We maintain our Buy rating with a DCF-based TP of INR205/share.

Quarterly performance (standalone) – INR b

Y/E March	FY21				FY22				FY21	FY22E	FY22 1QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Sales	93.8	90.5	100.6	95.8	102.9	97.6	100.6	97.1	380.6	398.2	98.1	5
Change (%)	6.6	0.1	7.5	-10.3	9.7	7.9	0.0	1.4	0.5	4.6	4.6	
EBITDA	82.7	79.6	88.4	83.8	90.9	86.3	88.0	85.2	334.5	350.4	86.6	5
Change (%)	4.8	0.7	7.3	-7.4	9.9	8.4	-0.5	1.6	1.1	4.7	4.7	
As a percentage of sales	88.2	88.0	87.9	87.5	88.3	88.5	87.5	87.8	87.9	88.0	88.3	
Depreciation	28.0	29.0	29.9	30.3	30.3	30.8	31.8	31.6	117.1	124.4	29.7	2
Interest	22.8	21.0	21.5	19.8	23.0	20.5	21.1	18.7	85.0	83.3	22.3	3
Other Income	6.3	8.3	6.3	7.6	5.1	3.6	3.9	2.7	28.6	15.3	3.8	35
Extraordinary Inc./ (Exp.)	-10.8	0.0	0.0	0.0	31.7	0.0	0.0	0.0	-10.8	31.7	0.0	
PBT	27.5	38.0	43.3	41.4	74.4	38.6	39.0	37.7	150.2	189.7	38.3	94
Tax	7.7	6.8	10.1	6.3	13.6	8.1	8.2	10.0	30.9	39.8	8.0	
Effective Tax Rate (%)	28.1	18.0	23.3	15.1	18.3	21.0	21.0	26.4	20.6	21.0	21.0	
Reported PAT	19.8	31.2	33.2	35.2	60.9	30.5	30.8	27.7	119.4	149.9	30.3	101
Change (%)	-18.5	23.4	24.3	10.5	207.5	-2.1	-7.3	-21.2	10.4	25.6	52.9	
Adjusted PAT	28.1	30.6	33.2	32.0	29.6	30.5	30.8	33.0	123.9	123.9	30.3	-2
Change (%)	21.5	22.1	25.3	8.6	5.5	-0.4	-7.3	3.1	18.9	0.0	7.9	

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	(%)	7.50
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	(%)	11.25
DCF	INR m	INR/sh.	INR m	INR/sh.	INR m	INR/sh.
A. FY23-24	1,88,897	27	1,87,619	27	1,86,356	27
	RoE	Re-Invest.	Growth			
	(%)	(%)	(%)			
B. FY25-32	14.00	25	3.5	5,88,798	84	5,71,565
C. Terminal Value	12.50	25	3.1	7,37,600	106	6,56,360
D. 15% stake in PG InvIT				2	2	2
Target price (A+B+C+D)		219		205		193

Source: MOFSL, Company

**Key takeaways from the management interaction**■ **Opportunities in distribution:**

- PWGR is looking at opportunities ushered by the government's distribution reform schemes. The company sees an incremental INR2t of funding/investment needs for DISCOMs for upgrade of their distribution network and Smart Meters.
- It is looking to engage with DISCOMs for the same and provide technical solutions and investment support.
- The management said it will be conscious of return (over 14%) and credit quality.

■ **Works in hand:**

- PWGR currently has INR351b worth of works in hand. This consists of ongoing works of INR147b, new projects of INR36b, and TBCB projects of INR168b.

■ **Receivables**

- Trade receivables have risen sequentially to INR71b (v/s INR36b at the end of 4Q) due to the second COVID wave, leading to lower collections in Apr'21 and May'21. But collections have picked up in Jun'21 and Jul'21. We expect a recovery in J&K and UP soon.

■ **Order pipeline**

- The management sees INR108b of upcoming opportunities in inter- and intra-state works. Transmission schemes are being planned in Leh, Gujarat, and Rajasthan, with a total potential cost of INR400b. DPR for Transmission works at Leh has been prepared and submitted. Transmission capex for 5GW at Leh could be at INR210b.

■ **Capex and capitalization**

- PWGR expects capitalization in FY22 to be at INR150b, with a capex of INR75b. For FY23, it expects capitalization to be at INR120-150b, with a capex of INR75-100b.

■ **InvIT**

- The management does not see assets being transferred in FY22. It could look to transfer assets worth INR75b/INR150b in FY23/FY24.

■ Telecom subsidiary

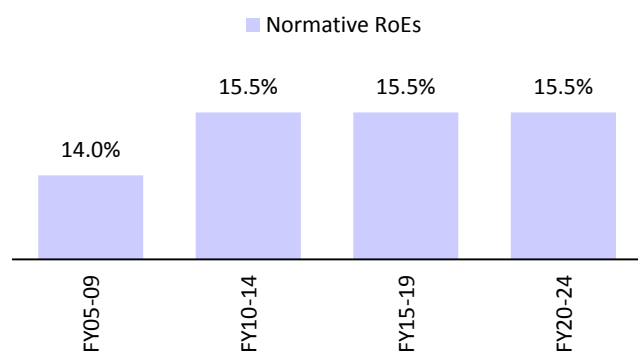
- The company plans to form a separate subsidiary for its Telecom business to insulate it from demands such as AGR dues raised earlier. Also, its growth and business plans can result in a revenue of INR9-10b for FY22.
- Telecom income in 1QFY22 was impacted by INR0.9b due to a rebate to BSNL with respect to the revision in contracts pending for the past three years. There are no plans to monetize the subsidiary in the near term.

Valuation and view

- **Steady business model:** Continuation of tariff structure and regulated RoE by CERC (power regulator) for FY20-24 lends visibility to PWGR's business model. With INR410b worth of work in hand, there is growth visibility for the next 2-3 years, but the rate of annual capitalization may be lower than that seen in recent years. We expect continued capitalization to drive 5% earnings CAGR over FY21-23E. This, despite transmission assets of ~INR4b of PAT being transferred to the InvIT.
- **Long-term growth drivers – investment in renewables and 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. Around INR480b of projects are envisaged to be awarded for renewable integration, and are currently being bid out. The recent project award wins (over 50% win rate) highlights PWGR's competitive positioning to win such projects as they arrive. As per the management, India's vision to reach 450GW of RE capacity by CY30 (est. 175GW in CY22) would necessitate incremental investments of INR2.8t within Transmission. It expects the Transmission sector to grow at 8-9% over the next 10 years, providing the basis for long term growth for the sector.
- **Order book slowing down in the near term, but dividend to rise:** With a lack of large new orders flowing in, PWGR's order book has declined to INR410b at the end of FY21 from INR1,300b in FY17. A declining order book and capitalization schedule do pose a risk of a slowdown in growth. However, the subsequent lower capital expenditure, along with proceeds from InvIT, implies potential for higher dividends. We expect DPS to rise to INR13/INR14 per share in FY22E/FY23E, implying a dividend yield of 8%.
- **Valuations attractive:** Given an under-penetrated market and strong competitive positioning, PWGR is well-positioned to capitalize on upcoming opportunities/awarding. Valuations at 1.6x FY22E P/BV and 8% dividend yield are attractive for a company with a steady RoE of 18%. We **maintain our Buy** rating with a DCF-based TP of INR205/share.

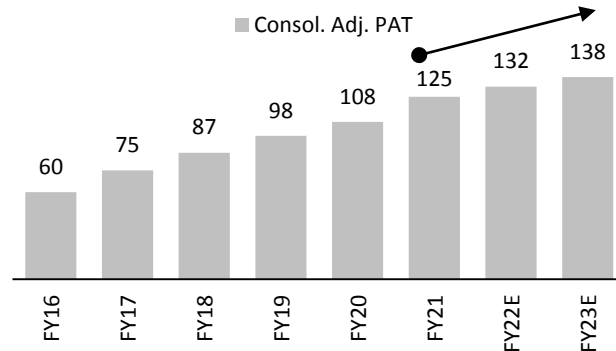
Story in charts

Exhibit 3: Regulations lend visibility to RoEs



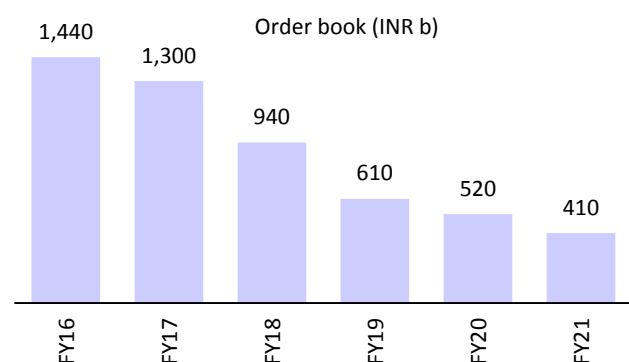
Source: MOFSL, Company

Exhibit 4: Continued capitalization will drive PAT



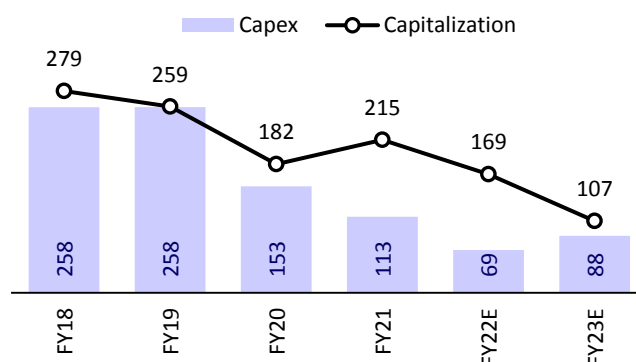
Source: MOFSL, Company

Exhibit 5: Order book declines



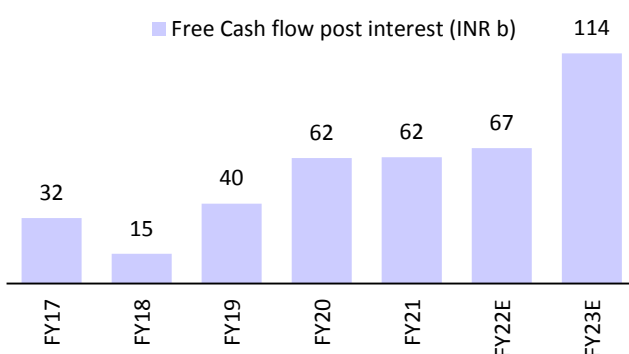
Source: MOFSL, Company

Exhibit 6: Pace of capitalization and capex would lower



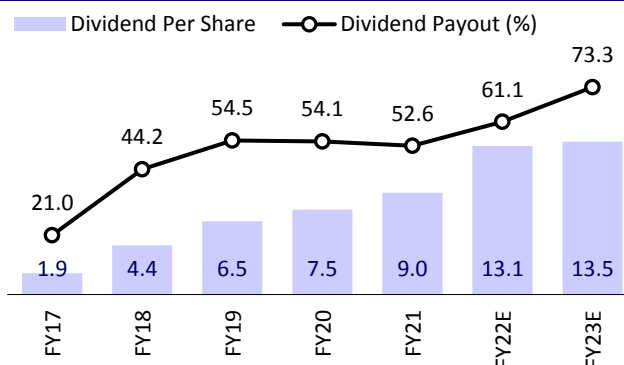
Source: MOFSL, Company

Exhibit 7: Free cash flow at the group level to stay strong...



Source: MOFSL, Company

Exhibit 8: ...potentially leading to higher dividends



Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	2,99,415	3,25,323	3,94,269	4,00,015	4,12,234	4,29,106	4,41,662
Change (%)	16.5	8.7	21.2	1.5	3.1	4.1	2.9
Expenditure	36,296	48,386	48,033	46,467	48,275	51,798	54,972
EBITDA	2,63,119	2,76,937	3,46,236	3,53,548	3,63,960	3,77,308	3,86,690
% of Net Sales	87.9	85.1	87.8	88.4	88.3	87.9	87.6
Depreciation	92,310	1,05,410	1,16,070	1,20,392	1,25,833	1,32,468	1,37,300
Interest	73,241	87,366	95,090	81,347	79,427	79,660	76,905
Other Income	4,891	6,022	9,274	11,837	7,705	8,047	8,520
PBT before EO	1,02,459	90,184	1,44,350	1,63,647	1,66,406	1,73,228	1,81,005
EO income (expense)	0	0	0	-10,786	31,696	0	0
PBT after EO	1,02,459	90,184	1,44,350	1,52,860	1,98,101	1,73,228	1,81,005
Tax	21,955	-8,864	35,308	34,643	43,159	37,740	39,352
Rate (%)	21.4	-9.8	24.5	22.7	21.8	21.8	21.7
Reported PAT	80,504	99,047	1,09,043	1,18,218	1,54,942	1,35,487	1,41,652
Share of JVs and asso.	1,479	1,288	1,551	2,147	2,797	2,797	2,797
Adjusted PAT	86,513	98,052	1,07,623	1,24,795	1,31,749	1,38,284	1,44,449
Change (%)	16.1	13.3	9.8	16.0	5.6	5.0	4.5

Balance Sheet							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	52,316	52,316	52,316	52,316	52,316	52,316	52,316
Reserves	4,91,944	5,38,568	5,94,638	6,47,045	7,15,552	7,59,668	7,99,486
Net Worth	5,44,260	5,90,884	6,46,954	6,99,361	7,67,868	8,11,984	8,51,802
Loans	13,15,030	14,63,764	14,82,696	14,32,100	13,79,758	13,16,572	12,46,273
Deferred Rev. and tax	74,509	1,94,755	2,21,448	2,15,908	2,15,908	2,15,908	2,15,908
Capital Employed	19,33,798	22,49,403	23,51,098	23,47,369	23,63,533	23,44,463	23,13,982
Gross Fixed Assets	17,98,900	20,72,146	22,75,432	24,21,962	25,91,035	26,98,234	28,00,854
Less: Depreciation	2,36,914	3,44,750	4,64,311	5,84,703	7,08,035	8,40,503	9,77,803
Net Fixed Assets	15,61,986	17,27,396	18,11,121	18,37,260	18,83,000	18,57,731	18,23,051
Capital WIP	2,89,496	2,62,311	2,84,492	2,11,095	1,10,746	91,081	72,140
Investments	12,240	12,964	14,311	14,856	14,856	14,856	14,856
Other Assets	2,79,548	4,70,904	4,56,609	4,94,281	5,29,238	5,76,334	6,14,507
Inventory	97,683	1,26,472	81,617	50,952	51,177	51,698	52,114
Debtors	36,400	47,281	50,407	36,755	43,256	45,179	46,261
Cash and Bank Balance	21,890	43,367	54,390	53,587	98,494	1,29,107	1,54,302
Other Current Assets	85,246	1,54,238	1,55,906	1,81,703	1,94,464	2,05,376	2,17,127
Loans and Advances	38,329	99,547	1,14,289	1,71,284	1,41,848	1,44,973	1,44,703
Other Liabilities	2,09,468	2,24,173	2,15,434	2,10,123	1,74,307	1,95,538	2,10,571
Net Current Assets	70,080	2,46,731	2,41,174	2,84,158	3,54,932	3,80,796	4,03,936
Application of Funds	19,33,801	22,49,402	23,51,098	23,47,369	23,63,533	23,44,463	23,13,982

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)							
EPS	12.4	14.1	15.4	17.9	18.9	19.8	20.7
Book Value	78.0	84.7	92.7	100.3	110.1	116.4	122.1
DPS	4.4	6.5	7.5	9.0	13.1	13.5	15.0
Div. Payout (incl. Tax.)	44.2	54.5	54.1	52.6	61.1	73.3	78.1
Valuation (x)							
P/E	13.9	12.3	11.2	9.6	9.1	8.7	8.3
Cash P/E	6.7	5.9	5.4	4.9	4.7	4.4	4.3
EV/EBITDA	9.5	9.5	7.6	7.3	6.8	6.3	5.9
Price/Book Value	2.2	2.0	1.9	1.7	1.6	1.5	1.4
Dividend Yield (%)	2.5	3.8	4.3	5.2	7.6	7.8	8.7
Profitability Ratios (%)							
RoE	16.6	17.3	17.4	18.5	18.0	17.5	17.4
RoCE	7.5	9.3	7.9	8.1	8.2	8.4	8.7
Turnover Ratios							
Debtors (Days)	44	53	47	34	38	38	38
Inventory (Days)	64	84	59	38	39	37	36
Leverage Ratio							
Net Debt/EBITDA	4.9	5.1	4.1	3.9	3.5	3.1	2.8
Debt/Equity (x)	2.4	2.5	2.3	2.0	1.8	1.6	1.5

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PBT before EO Items	1,03,938	84,531	1,49,465	1,55,753	1,66,406	1,73,228	1,81,005
Depreciation	92,310	1,05,410	1,16,070	1,20,392	1,25,833	1,32,468	1,37,300
Interest	73,241	87,366	95,090	81,347	79,427	79,660	76,905
Others	-3,616	33,927	-28,805	-17,455	-7,705	-8,047	-8,520
(Inc.)/Dec. in WC	-16,181	-54,619	4,271	-25,050	-53,227	4,750	2,054
Direct Taxes Paid	-22,591	-22,808	-25,687	-21,865	-43,159	-37,740	-39,352
CF from Operations	2,27,101	2,33,807	3,10,405	2,93,122	2,67,573	3,44,318	3,49,392
(Inc.)/Dec. in FA	-2,61,799	-2,24,507	-1,13,671	-93,636	-68,723	-87,534	-83,679
(Pur.)/Sale of Investments	4,784	36,137	3,249	3,906	37,683	10,844	11,317
CF from Investments	-2,57,015	-1,88,370	-1,10,423	-89,730	-31,040	-76,690	-72,362
Equity raised	0	0	0	0	0	0	0
Grants etc.	0	0	0	0	0	0	0
(Inc.)/Dec. in Debt	1,19,924	1,33,169	-17,317	-45,854	-52,343	-63,186	-70,298
Interest Paid	-70,480	-1,02,924	-1,17,301	-91,137	-79,427	-79,660	-76,905
Dividend Paid	-36,598	-54,554	-53,440	-68,220	-91,553	-94,169	-1,04,632
CF from Fin. Activity	12,847	-24,308	-1,88,058	-2,05,211	-2,23,322	-2,37,014	-2,51,835
Inc./Dec. in Cash	-17,067	21,129	11,924	-1,819	13,211	30,614	25,195
Add: Beginning Balance	38,957	22,237	42,466	55,406	53,587	66,798	97,412
Closing Balance	21,890	43,367	54,390	53,587	66,798	97,412	1,22,606

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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