

Power Grid (POWGRI)

CMP: ₹ 186

Target: ₹ 220 (19%)

Target Period: 12 months

November 10, 2021

Strong capitalisation, capex...

About the stock: Power Grid is India's largest power transmission utility with transmission lines of 170724 ckt km and 454350 MVA of transformation capacity.

- Power Grid transmits about 50% of total power generated in India to its transmission network
- It also undertakes transmission related consultancy to more than 150 domestic clients and owns and operates 71673 km of telecom network

Q2FY22 Results: PowerGrid reported an in line set of Q2FY22 revenues. As per our expectations, growth rates in the transmission business have settled in the single digit domain given peak of transmission capex is behind us.

- Reported revenues came in at ₹ 9929.2 crore vs. our estimate of ₹ 10028.5 crore, implying growth of 9.6% YoY. However, transmission segment revenues came in at ₹ 9679.6 crore, up 7% However, PAT came in at ₹ 3338.7 crore, below our estimate of ₹ 3471.9 crore as reported other income fell short of our expectations
- Capitalisation of ₹ 13275 crore in H1FY22 with capex of ₹ 3685 crore

What should investors do? Within the power sector, Power Grid has been a steady performer due to strong asset addition in FY16-20. Now with relatively small size of renewable projects growth rate will taper down for the stock, which will be cushioned by a decent dividend yield.

- Maintain BUY rating on the stock

Target Price and Valuation: We value the stock at ₹ 220 i.e. 1.9x FY23E book value.

Key triggers for future price performance:

- Higher than expected IRRs in the competitively bid tariff based competitive bids projects can re-rate the stock. Diversification into smart metering and T&D infrastructure business

Alternate Stock Idea: In the power space, we are bullish on IEX' prospects

- Dominating market share, strong traction in new products and strong opportunity landscape. BUY with a target of ₹ 910/share, (57x FY24E EPS)

Key Financial Summary

₹ Crore	FY19	FY20	FY21	5 Year CAGR (FY16-21E)	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	34119.1	36185.5	37665.7	12.6%	40099.9	42188.3	5.8%
EBITDA	29282.1	31401.7	33055.9	13.8%	35183.9	36927.7	5.7%
Net Profit	9938.9	10811.5	13014.7	14.6%	12879.1	13305.8	1.1%
EPS (₹)	19.0	15.5	18.7		18.5	19.1	
P/E	9.8	12.0	10.0		10.1	9.8	
EV / EBITDA	9.1	8.1	7.9		7.4	7.1	
P/BV	1.8	2.0	1.9		1.7	1.6	
RoNW (%)	15.3	16.9	19.2		17.3	16.3	
RoCE (%)	5.3	6.8	7.5		8.0	8.2	

Source: Company, ICICI Direct Research

BUY



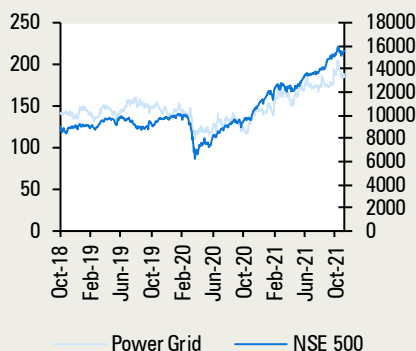
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	130161
Total Debt (FY21) (₹ Crore)	130975
Cash and Investments (FY21) (₹ Crore)	2488
EV (₹ Crore)	258648
52 week H/L (₹)	210 / 134
Equity capital (₹ Crore)	6975.5
Face value	₹ 10

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	51.3	51.3	51.3	51.3
FII	26.7	28.4	28.3	27.9
DII	9.3	7.6	7.8	8.2
Others	12.7	12.6	12.6	12.6

Price Chart



Recent event & key risks

- Key Risk:** (i) High competitive intensity in the TBCB projects and ii) Delay in tendering of projects

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Key takeaways of recent quarter & conference call highlights

Conference call highlights

- The company capitalised assets to the tune of ₹ 7633 crore and ₹ 13275 crore as on Q2FY22 and H1FY22 basis, respectively. The capitalisation target for FY23E is expected at ₹ 12000-15000 crore
- The capex incurred during H1FY22 was at ₹ 3695 crore on a standalone basis. For FY22, the company expects a capex of ₹ 7500 crore. For FY23E, the capex will be in the range of ₹ 7500-10000 crore. The company till YTD has done 60% of the yearly capex target
- Gross block as of Q2FY22 was at ₹ 243647 crore while debt was at ₹ 135012 crore
- Total business opportunity was at ₹ 26500 crore worth of projects, which will come up for bidding
- Overdue >45 days were at ₹ 2705 crore vs. ₹ 6145 crore in Q1FY21
- Standalone and consolidated CWIP were at ₹ 11195 crore and ~₹ 15000 crore, respectively
- For FY23, the company expects ₹ 7000-7500 crore worth of TBCB projects to be transferred to InVIT whereas the same will be ₹ 15000 crore by FY24-25 each
- The company plans to foray into the smart metering infra business where it will invest in the smart meter asset development business as floated by the respective state utility. Power Grid aspires to be present across the value chain wherein the company will set up the required infra and manage the O&M business as well. Power Grid plans to invest ₹ 10000-12000 crore over the next four years. On the other hand, the company plans to foray into improving state T&D infra and invest another ₹ 10000-12000 crore over the next four years
- The company has floated a separate telecom subsidiary wherein it will foray into the data centre business by leveraging on the land bank available at various substations

Exhibit 1: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	oY (%)	Q1FY22	QoQ (%)	Comments
Total sales	9,929.2	10,028.5	9,057.9	9.6	9,776.6	1.6	Overall revenues were in line with estimates. Revenues from transmission segment grew 7% YoY
Other operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Total Income	9,929.2	10,028.5	9,057.9	9.6	9,776.6	1.6	
Personnel cost	537.9	406.3	489.4	9.9	518.3	3.8	
General & Admin exp	606.2	577.4	597.4	1.5	686.0	(11.6)	
Non-recurring exp							
Total expenses	1,144.1	983.7	1,086.8	5.3	1,204.3	(5.0)	
EBITDA	9,327.9	9,436.8	8,803.3	6.0	9,081.1	2.7	
EBITDA Margin (%)	93.9	94.1	97.2	(324.6)	92.9	105.7	
Depreciation	3,143.5	3,150.0	2,896.7	8.5	3,026.7	3.9	
Interest	1,959.0	2,400.0	2,095.0	(6.5)	2,297.6	(14.7)	
Other Income	542.8	651.8	832.3	(34.8)	508.8	6.7	
PBT	4,225.4	3,886.8	3,811.6	10.9	6,926.4	(39.0)	
Total Tax	549.0	932.8	682.4	(19.5)	1,359.0	(59.6)	
Adjusted PAT	3,338.3	3,471.9	3,117.4	7.1	6,085.4	(45.1)	PAT was tad below estimates on account of lower than expected other income
Key Metrics							
Transmission	9,697.6	9,757.1	9,034.4	7.3	9,686.2	0.1	
Consultancy	188.0	152.1	108.4	73.4	152.4	23.3	
Telecom	191.0	119.2	190.2	0.4	118.8	60.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E			FY23E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue	40,099.9	40,099.9	0.0	42,188.3	42,188.3	0.0
EBITDA	35,183.9	35,183.9	0.0	36,927.7	36,927.7	0.0
EBITDA Margin (%)	87.7	87.7	0.0	87.5	87.5	0.0
PAT	12,879.1	12,879.1	0.0	13,305.8	13,305.8	0.0
EPS (₹)	18.5	18.5	0.0	19.1	19.1	0.0

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Total operating Income	36,186	37,666	40,100	42,188	
Growth (%)	6	4	6	5	
Employee Expenses	1,959	2,111	2,126	2,282	
Other expenses	2,824	2,499	2,790	2,978	
Total Operating Expenditure	4,784	4,610	4,916	5,261	
EBITDA	31,402	33,056	35,184	36,928	
Growth (%)	7	5	6	5	
Depreciation	11,073	11,712	12,125	12,917	
Interest	9,814	8,501	8,892	9,425	
Other Income	2,132	2,861	3,005	3,155	
PBT	12,647	15,705	17,172	17,741	
Others	2	3	4	5	
Total Tax	3,520	3,089	4,293	4,435	
PAT	10,811	13,015	12,879	13,306	
Growth (%)	9	20	-1	3	
EPS (₹)	15.5	18.7	18.5	19.1	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit Before Tax	8,962	14,331	15,025	17,172	
Add: Depreciation	10,201	11,073	11,712	12,125	
(Inc)/dec in Current Assets	-2,534	-853	-513	-1,342	
Inc/(dec) in CL and Provisions	4,297	-2,657	-1,328	338	
Others	9,775	7,350	6,339	5,887	
CF from operating activities	30,701	29,244	31,234	34,179	
(Inc)/dec in Fixed Assets	-26,485	-21,856	-20,685	-20,140	
(Inc)/dec in Disposals	27	26	-375	23	
Others	0	0	1	2	
CF from investing activities	(26458)	(21830)	(21059)	(20114)	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	10,583	10,915	10,530	10,058	
Dividend paid & dividend tax	-5,328	-5,223	-8,272	-6,079	
Inc/(dec) in Sec. premium	0	0	1	2	
Others	-9,091	-9,814	-8,501	-8,892	
CF from financing activities	(3836)	(4121)	(6242)	(4911)	
Net Cash flow	408	3,293	3,931	9,150	
Opening Cash	1,137	4,429	8,360	17,510	
Closing Cash	4429	8360	17510	27598	

Source: Company, ICICI Direct

Exhibit 5: Balance Sheet					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Liabilities					
Equity Capital	5,232	5,232	5,232	5,232	
Reserve and Surplus	58,722	62,385	69,185	76,211	
Total Shareholders' funds	63,953	67,617	74,417	81,442	
Total Debt	1,61,065	1,71,595	1,81,653	1,91,712	
AAD	0	0	0	0	
Minority Interest / Others	3,827	3,827	3,827	3,827	
Total Liabilities	228846	243039	259897	276981	
Assets					
Gross Block	2,54,009	2,73,693	2,92,833	3,11,973	
Less: Acc Depreciation	72,154	83,866	95,990	1,08,907	
Net Block	1,81,855	1,89,828	1,96,843	2,03,066	
Capital WIP	55,810	56,810	57,810	58,810	
Total Fixed Assets	2,37,665	2,46,638	2,54,653	2,61,876	
Investments	1,005	1,380	1,356	1,334	
Inventory	1,661	1,440	1,575	1,648	
Debtors	3,799	3,955	4,210	4,430	
Loans and Advances	9,798	10,199	10,858	11,423	
Other Current Assets	4,342	4,520	4,812	5,063	
Cash	4,429	8,360	17,510	27,598	
Total Current Assets	24,030	28,474	38,966	50,161	
Current liabilities	21,428	21,938	22,750	23,534	
Other Liabilities	7,908	6,997	7,811	8,339	
Total Current Liabilities	29,337	28,935	30,561	31,873	
Net Current Assets	-9,824	-4,979	3,887	13,771	
Others Assets					
Application of Funds	228846	243039	259897	276981	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	15.5	18.7	18.5	19.1
Cash EPS	31.4	35.4	35.8	37.6
BV	91.7	96.9	106.7	116.8
DPS	2.3	5.8	6.5	6.3
Cash Per Share	6.3	12.0	25.1	39.6
Operating Ratios (%)				
EBITDA Margin	86.8	87.8	87.7	87.5
PBT / Total Operating income	35.0	41.7	42.8	42.1
PAT Margin	29.9	34.6	32.1	31.5
Debtor days	38.3	38.3	38.3	38.3
Return Ratios (%)				
RoE	16.9	19.2	17.3	16.3
RoCE	6.8	7.5	8.0	8.2
RoIC	6.9	7.7	8.6	9.1
Valuation Ratios (x)				
P/E	12.0	10.0	10.1	9.8
EV / EBITDA	8.1	7.9	7.4	7.1
EV / Net Sales	7.0	6.9	6.5	6.2
Market Cap / Sales	2.7	2.6	2.4	2.3
Price to Book Value	2.0	1.9	1.7	1.6
Solvency Ratios				
Debt/EBITDA	5.1	5.2	5.2	5.2
Debt / Equity	2.5	2.5	2.4	2.4
Current Ratio	0.8	1.0	1.3	1.6
Quick Ratio	0.2	0.3	0.6	0.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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