



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

Reco/View

Change

Reco: Buy	↔
CMP: Rs. 185	
Price Target: Rs. 220	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

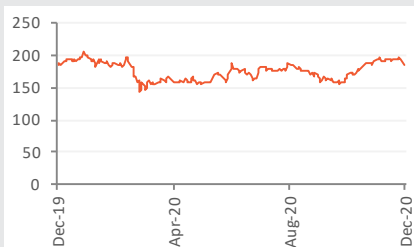
Company details

Market cap:	Rs. 97,020 cr
52-week high/low:	Rs. 211/130
NSE volume: (No of shares)	104.8 lakh
BSE code:	532898
NSE code:	POWERGRID
Free float: (No of shares)	255 cr

Shareholding (%)

Promoters	51
FII	26
DII	16
Others	6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5	10	4	0
Relative to Sensex	-8	-11	-27	-10

Sharekhan Research, Bloomberg

Power Grid Corporation of India Limited

Asset monetization key catalyst; attractive valuation

Power

Sharekhan code: POWERGRID

Company Update

Summary

- Power Grid's regulated RoE model is resilient in current uncertain times and provide strong earnings visibility (19% PAT CAGR over FY21E-FY23E) and RoE of 19%. Unlike thermal power companies, Power Grid does not have overhang of ESG.
- Potential monetisation of 5 TBCB assets worth Rs. 7,164 crore and normalisation of outstanding dues from discoms (Rs. 6,477 crore as of September 2020) are key near-term catalysts. Likely proceeds from InvIT provide room for higher dividends.
- India's aim to expand renewable energy capacity to ~445 GW (vs. 87GW in FY20) would entail a capex of Rs. 2.86 lakh crore in a decade for transmission lines, providing growth opportunity of 8-9% per year for Power Grid.
- Attractive valuation of 1.2x FY23E P/BV, healthy dividend yield of 5% and huge growth opportunity from RE capacity expansion makes us optimistic on the stock. Hence, we maintain a Buy on Power Grid with an unchanged PT of Rs. 220.

India's aim to expand its renewable power capacity to ~445 GW (versus only 87 GW in FY2020) would entail a capital expenditure of Rs. 2.86 lakh crore (as per Power Grid's estimate) in the next decade to augment power transmission lines. This provides strong growth opportunity of 8-9% annually for players such as Power Grid and would drive sustainable earnings growth in medium to long term. Near-term outlook looks promising as company seems to be on track to achieve its capitalisation guidance Rs. 20,000-25,000 crore for FY2021 (already achieved 48% of full year guidance in H1FY2021 despite COVID-19 led disruption in Q1FY2021). Potential asset monetisation of five operational TBCB assets worth Rs. 7,164 crore would help company unlock value and proceeds could provide room for higher dividend payout given limited capex plan of Rs. 105,00 crore for FY2021. A robust order pipeline (of Rs. 41,000 crore) offers earnings growth visibility for the next few years (we expect a 19% PAT CAGR over FY2021E-FY2023E) and RoE remain strong at 17-19%. Moreover, Power Grid is trading at an attractive valuation of 1.2x its FY2022E P/BV (33% discount to its historical average one-year forward P/BV of 1.7x) and offer a healthy dividend yield of 5%. Hence, we maintain a Buy rating on Power Grid with an unchanged PT of Rs. 220.

Our Call

Valuation – Maintain Buy on Power Grid with an unchanged PT of Rs. 220: Power Grid's regulated RoE model is resilient in current uncertain times and provides strong earnings visibility without any concerns of environment, social and governance (ESG) rating. Monetisation of five TBCB assets worth Rs. 7,164 crore and further reduction in outstanding dues from discoms are key near-term catalyst for Power Grid. Power Grid's inexpensive valuation of 1.2x FY2023E P/BV (33% discount to its average historical average one-year forward P/BV at 1.7x), healthy dividend yield of 5% and huge growth opportunity from investment in renewable power capacity makes us positive on the stock. Hence, we maintain our Buy rating on Power Grid with an unchanged PT of Rs. 220.

Key risk

- Slower-than-expected capitalisation of projects (due to delayed project execution amid COVID-19).
- Inability to win new projects under the tariff-based competitive bidding route.

Valuation (Consolidated)

Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	35,059	37,744	40,763	44,839	49,099
OPM (%)	86.2	87.3	83.6	86.0	86.0
Adjusted PAT	10,034	11,059	10,529	12,492	15,003
y-o-y growth (%)	22.3	10.2	(4.8)	18.6	20.1
Adjusted EPS (Rs.)	19.2	21.1	20.1	23.9	28.7
P/E (x)	9.7	8.8	9.2	7.8	6.5
Price/ Book (x)	1.6	1.5	1.4	1.3	1.2
EV/EBITDA (x)	7.6	7.0	6.6	5.8	5.2
RoCE (%)	10.1	10.4	10.4	11.8	12.7
RoE (%)	17.7	17.9	15.8	17.3	18.9

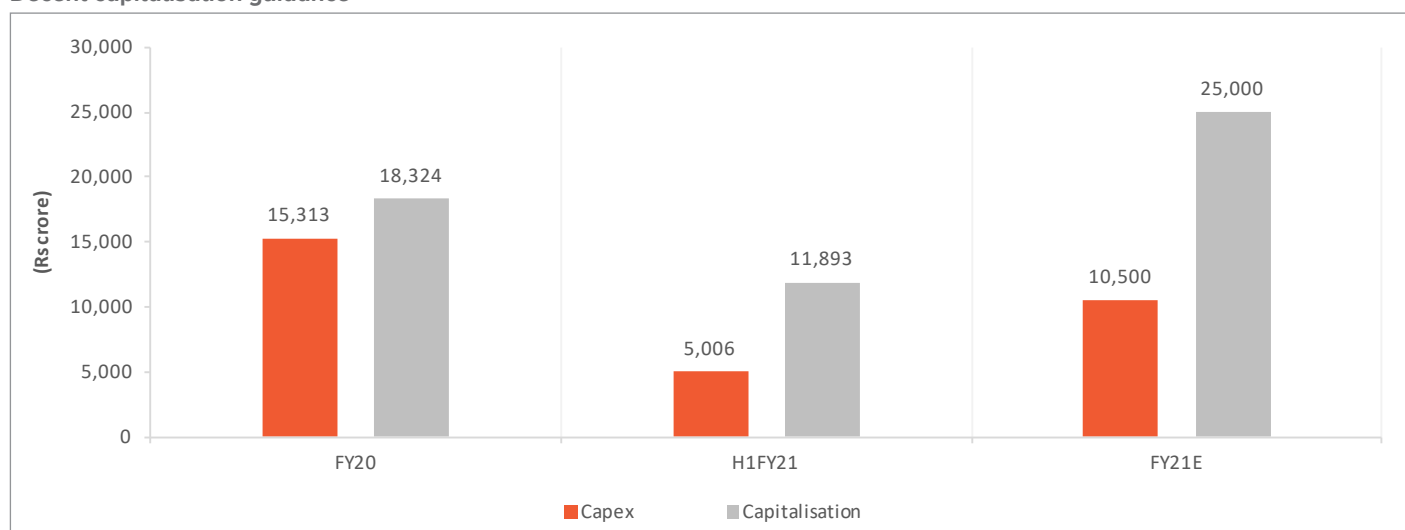
Source: Company; Sharekhan estimates

Raigarh-Pugalur project to aid capitalisation in FY21; long term growth to be driven by RE capacity expansion

Power Grid has guided to complete the 800kV HVDC Raigarh-Pugalur project in FY2021 with capitalisation of Rs. 10,000 crore in H2FY2021 from project (a total of Rs. 9,500 crore has been capitalised till November). With this, the management has guided to achieve capitalization of Rs. 20,000-25,000 crore in FY2021 as compared to Rs. 18,324 crore in FY2020. Moreover, the company has work-in-hand orders worth Rs. 41,000 crore (ongoing projects of Rs. 22,500 crore, new projects at Rs. 6,600 crore, and Rs. 12,000 crore for TBCB), which provides earnings visibility over next few years. The management expects upcoming opportunities worth Rs. 17,900 crore (inter-state transmission works from renewable energy space at Rs. 16,000 crore and intra-state works in TBCB at Rs. 2,000 crore).

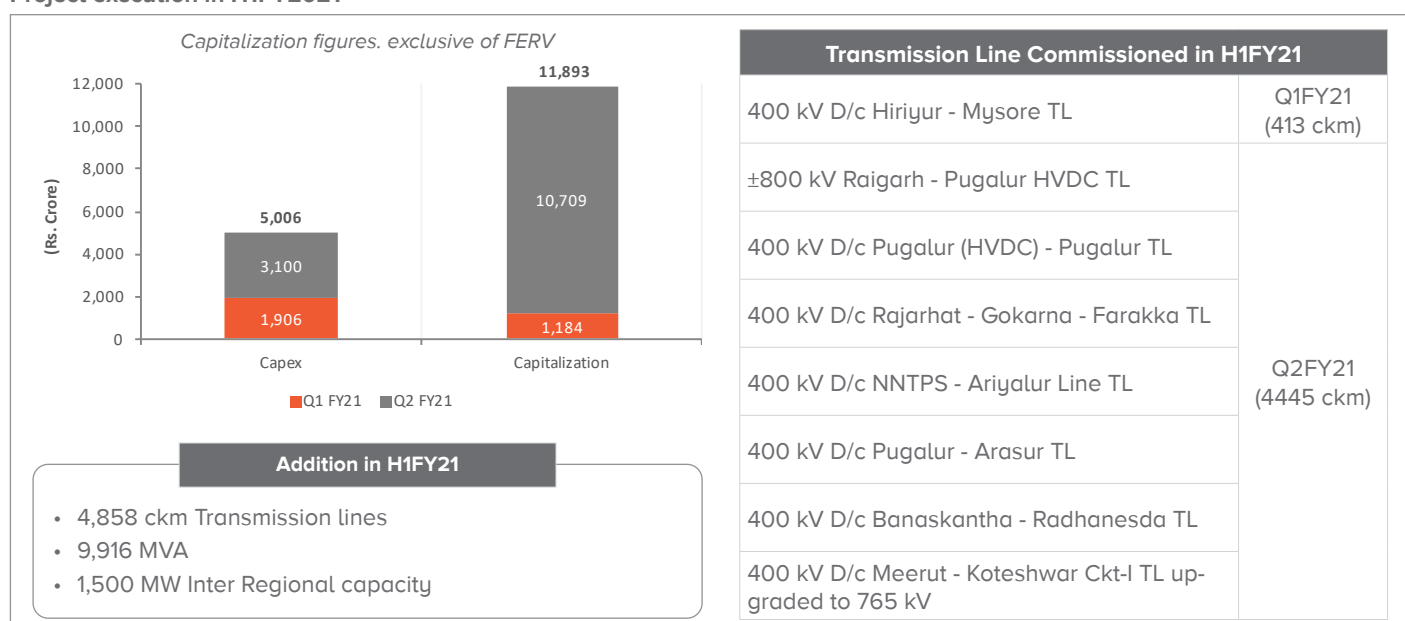
Governments target to take RE capacity to 445 GW by 2030 (from 87GW in FY2020) would require huge capex of Rs. 2.86 lakh crore (as per Power Grid estimates) for building power transmission lines. This provides sustainable long-term growth opportunities for players like Power Grid and an 8-9% growth in power transmission sector seems quite achievable.

Decent capitalisation guidance



Source: Power Grid

Project execution in H1FY2021



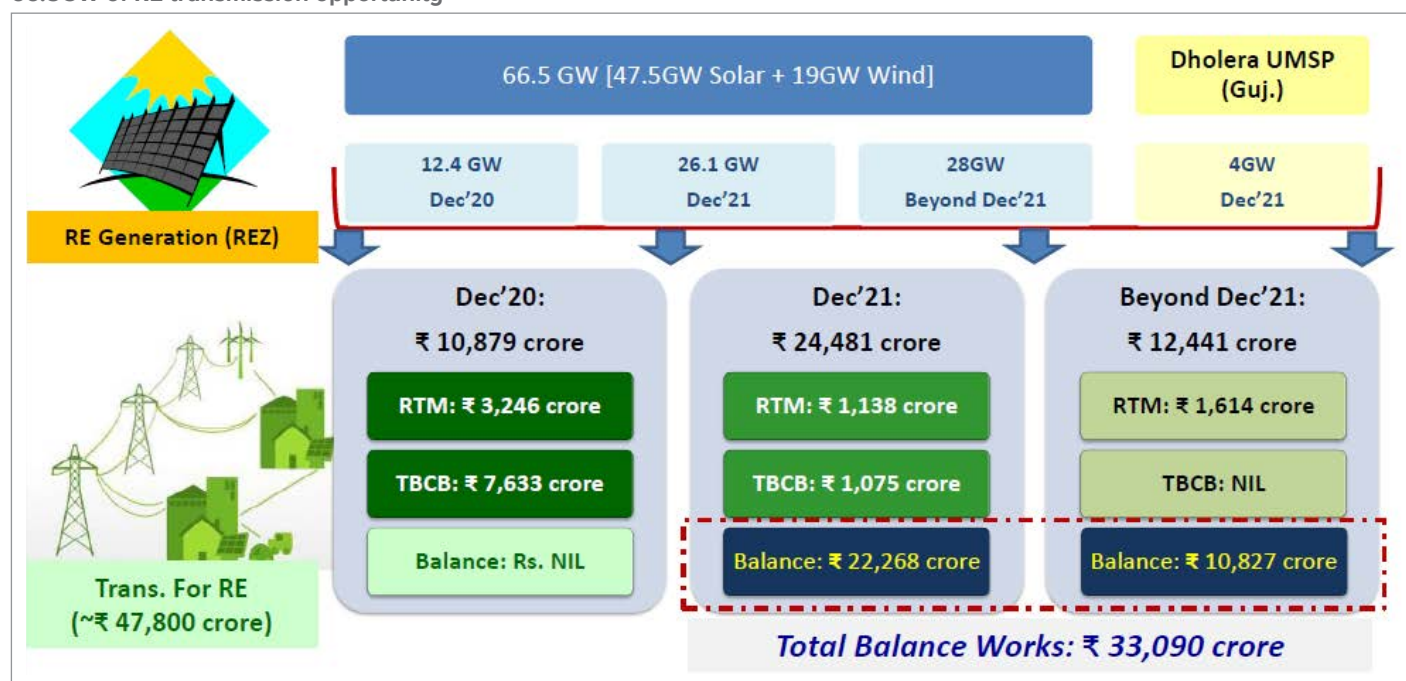
Source: Power Grid

Power Grid expects incremental works worth Rs2.86 lakh crore for power transmission

	2019	2022	2030
GENERATION vis-à-vis POWER & ENERGY DEMAND			
Generation (GW)	356	479	900
RE (GW)	77.6	175	450
Demand (GW)	177.5	225	373
Annual Energy (BU)	1,267	1,566	2,606
TRANSMISSION			
Trans. System	GEC-I & GEC-II	REZ based systems	Perspective
ckm	5,070	16,500	63,200-HVAC 10,800-HVDC
MVA	30,500	1,10,500	66,000-HVAC 24,000-HVDC
Cost (Rs. crore)	15,660	43,200	2,86,000

Source: Power Grid

66.5GW of RE transmission opportunity



Source: Power Grid

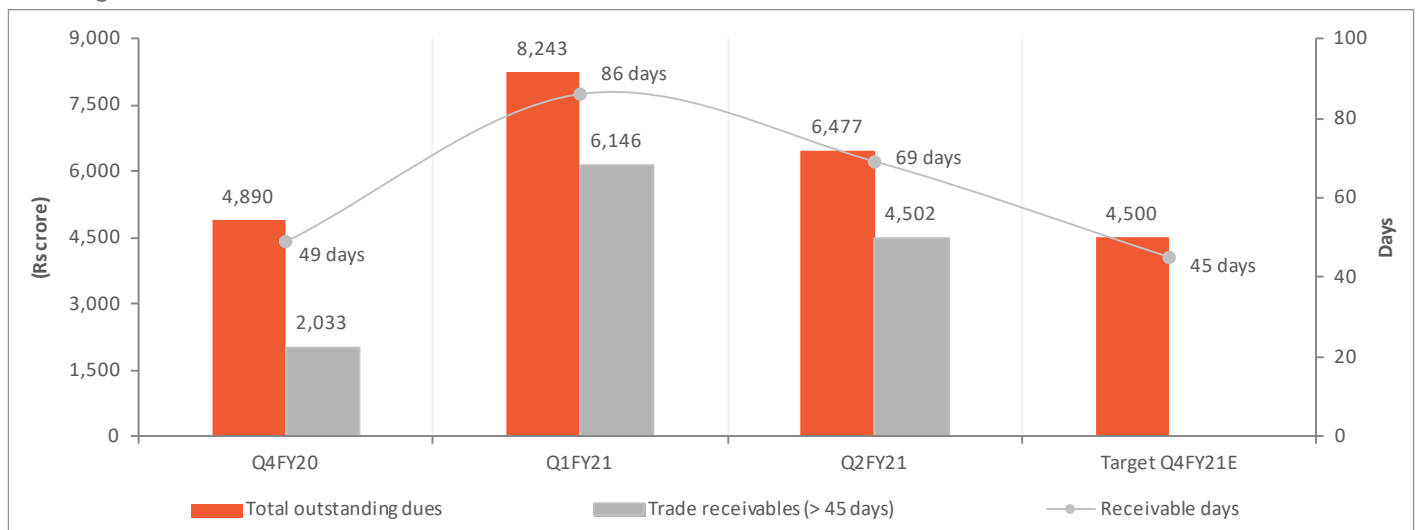
Focus on asset monetization through InvIT

Power Grid has set aside five assets for a proposed sale to Infrastructure Investment Trust (InvIT) as the Cabinet Committee on Economic Affairs has approved asset monetisation of subsidiaries of Power Grid. In the first block, Power Grid plans to monetize the five operational TBCB assets worth Rs. 7,164 crore versus corresponding liabilities of Rs. 280 crore. Power Grid has received in-principle approval from SEBI for creation of an InvIT and the management targets to complete the monetization in FY2021. In our view, proceeds from InvIT could be used for one-time special dividend given limited capex plan of Rs10,500 crore.

Reducing outstanding dues from discoms

Power Grid's outstanding dues reduced to Rs. 6,477 crore from Rs. 8,243 crore at the end of Q2FY2021. The company has settled Rs. 1,391 crore under the Atmanirbhar Bharat scheme. Trade receivables (>45 days) also reduced to Rs. 4,502 crore versus Rs. 6,145 crore at the end of Q1FY2021. Major outstanding dues were from Uttar Pradesh, J&K, Karnataka, Maharashtra, and Telangana. Management targets to lower overall debtors days to 45 by March 2021 as compared to 69 days at the end of Q2FY2021 and total outstanding dues are expected to reduce to Rs. 4,500 crore.

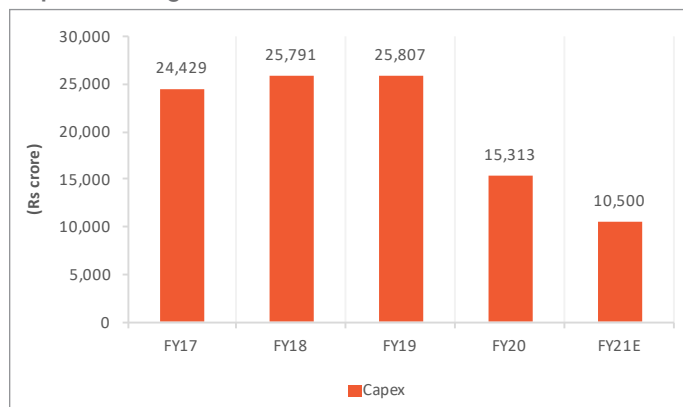
Reducing receivables from discoms



Source: Power Grid

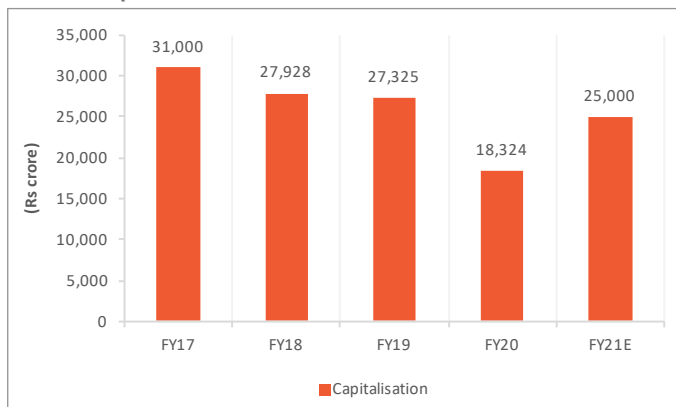
Financials in charts

Capex intensity to moderate



Source: Company, Sharekhan Research

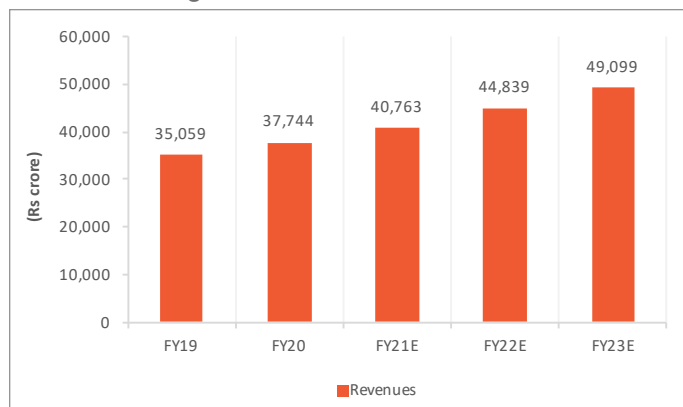
Decent capitalisation outlook



Source: Company, Sharekhan Research

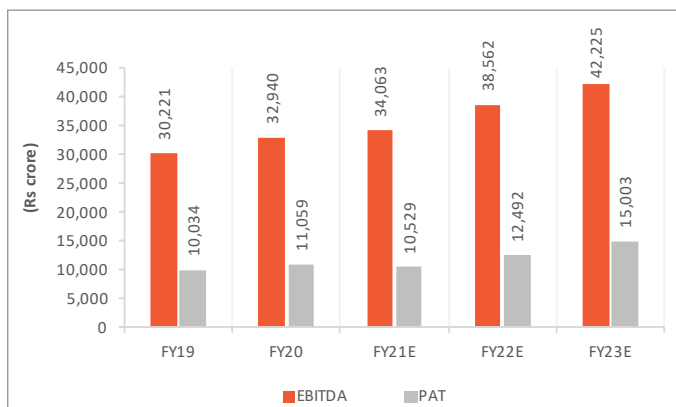
Note: Management target of Rs20000-25000 crore

Decent revenue growth



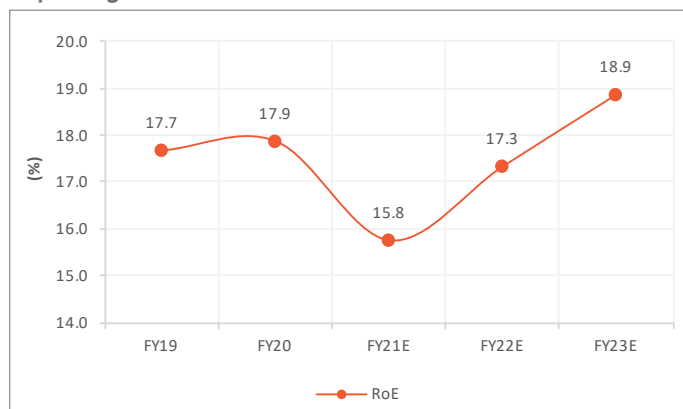
Source: Company, Sharekhan Research

EBITDA/PAT CAGR of 11%/19% over FY21E-FY23E



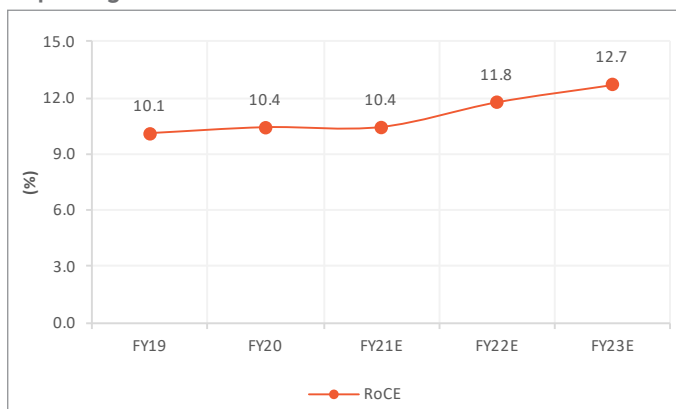
Source: Company, Sharekhan Research

Improving RoE trend



Source: Company, Sharekhan Research

Improving RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Regulated tariffs offer earnings visibility; reforms to strengthen companies' balance sheets

India's power sector is regulated by the CERC with an availability-based earnings model (fixed RoE on power transmission assets) and, thus, regulated tariff model provides strong earnings visibility for power transmission companies. Moreover, the government's power sector liquidity infusion package of Rs. 90,000 crore to clear dues of power generation and transmission companies by discoms would reduce receivables of the power sector and strengthen companies' balance sheet.

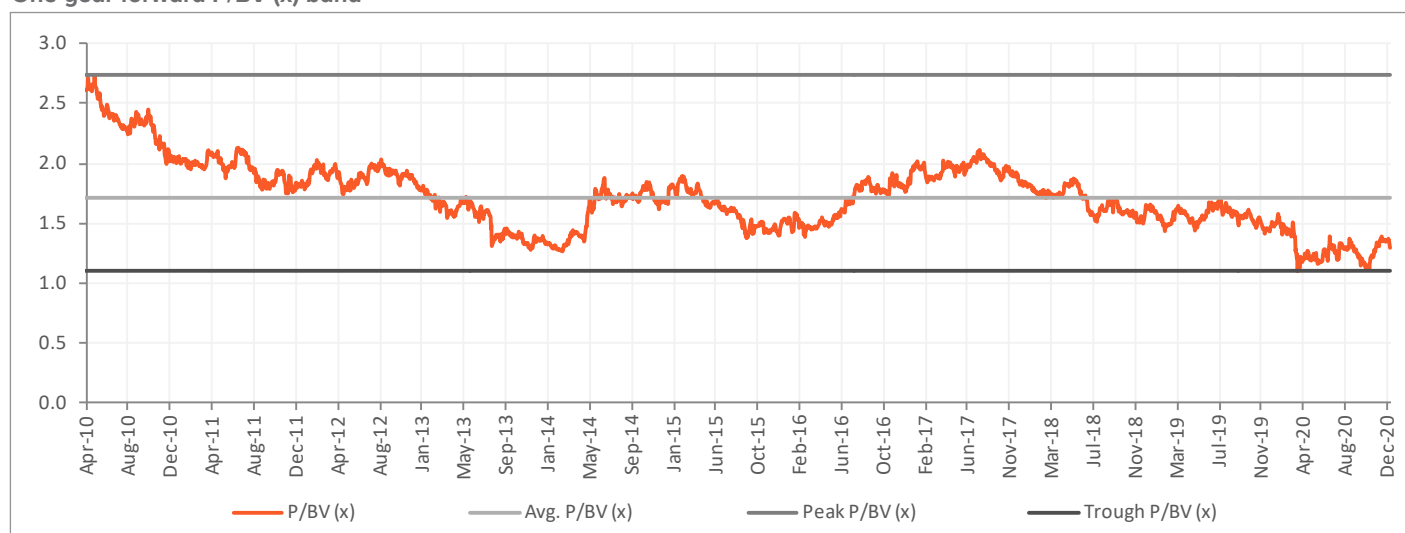
■ Company Outlook – Strong order book provides earnings visibility; FY2021E asset capitalisation target of Rs. 20,000-25,000 crore

A strong FY2021E capitalisation guidance of Rs. 20,000 crore-25,000 crore and work-in-hand pipeline at ~Rs. 41,000 crore (likely to be completed over the next 3-4 years) provide healthy earnings growth visibility (we expect an 19% PAT CAGR over FY2021E-FY2023E). Capex guidance has also been maintained at Rs. 10,500 crore for FY2021E.

■ Valuation – Maintain Buy on Power Grid with an unchanged PT of Rs. 220

Power Grid's regulated RoE model is resilient in current uncertain times and provides strong earnings visibility without any concerns of ESG. Monetisation of five TBCB assets worth Rs. 7,164 crore and further reduction in outstanding dues from discoms are key near-term catalyst for Power Grid. Power Grid's inexpensive valuation of 1.2x FY2023E P/BV (33% discount to its average historical average one-year forward P/BV at 1.7x), healthy dividend yield of 5% and huge growth opportunity from investment in renewable power capacity makes us positive on the stock. Hence, we maintain our Buy rating on Power Grid with an unchanged PT of Rs. 220.

One-year forward P/BV (x) band



Source: Sharekhan Research

About company

Power Grid is into the power transmission business with the responsibility for planning, implementation, operation, and maintenance of inter-state transmission system and operation of the National and Regional Load Dispatch Centres. The company's segments include transmission, telecom, and consultancy. The transmission segment includes extra-high voltage/high voltage (EHV/HV) networks and grid management. The company owns and operates over 1,63,695 circuit kilometers of EHV transmission lines. Power Grid has approximately 248 sub-stations. The company's Smart Grid enables real-time monitoring and control of power systems.

Investment theme

Power Grid is expected to maintain its strong growth momentum, given ~Rs. 41,000 crore (including CWIP) worth of projects pending for capitalisation, which provides healthy earnings growth visibility over the next few years. Power Grid has a healthy RoE of 18%-19%, decent dividend yield of 5% and is trading at an attractive valuation.

Key Risks

- ♦ Slower-than-expected capitalisation of projects.
- ♦ Inability to win new projects under the tariff-based competitive bidding route.

Additional Data

Key management personnel

K Sreekant	Chairman and Managing Director
M. Taj Mukarrum	Director – Finance
Abhay Choudhary	Director – Projects

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.7
2	HDFC Asset Management Co Ltd	4.1
3	Reliance Capital Trustee Co Ltd	2.5
4	Comgest SA	2.1
5	FIL Ltd	2.0
6	Vanguard Group Inc/The	2.0
7	Republic of Singapore	1.7
8	FMR LLC	1.5
9	SBI Funds Management Pvt Ltd	1.3
10	Government Pension Fund - Global	1.1

Source: Bloomberg

Note: Top 10 shareholders are as per Bloomberg data as on November 12, 2020

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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