



Power Grid Corporation of India Limited

Capitalisation to drive growth; Asset monetisation key catalyst

Power	Sharekhan code: POWERGRID	Result Update
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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. 213	
Price Target: Rs. 245	↑
↑ Upgrade ↔ Maintain ↓ Downgrade	

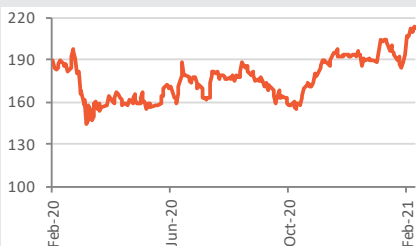
Company details

Market cap:	Rs. 1,11,302 cr
52-week high/low:	Rs. 219 / 130
NSE volume: (No of shares)	109.6 lakh
BSE code:	532898
NSE code:	POWERGRID
Free float: (No of shares)	255 cr

Shareholding (%)

Promoters	51
FII	27
DII	16
Others	6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5	13	21	12
Relative to Sensex	0	-5	-15	-13

Sharekhan Research, Bloomberg

Summary

- Q3FY2021 PAT increased by 24.3% y-o-y to Rs. 3,324 crore, which was 4.7% above our estimate of Rs. 3,174 crore. Robust growth in PAT was led by capitalisation of Rs. 12,574 crore in 9MFY2021 and higher other income (up 25.7% y-o-y).
- Management has guided for capex of Rs. 10,500 crore/Rs. 7,500 crore and asset capitalisation of Rs. 21,000 crore/Rs. 10,000 crore for FY2021E/FY2022E. Work in hand at Rs. 47,100 crore provides earnings visibility (expect a 17% PAT CAGR over FY2021E-FY2023E).
- Monetised five TBCB assets worth Rs. 7,200 crore through the launch of InvIT by March 2021 could help unlock value. Reduction in receivables (through the power sector package of over Rs. 3 lakh crore) would improve the balance sheet.
- Hence, we maintain our Buy rating on Power Grid with a revised PT of Rs. 245, given earnings visibility, attractive valuation of 1.3x its FY2023E P/BV (25% discount to historical P/BV), and healthy dividend yield at 5%.

Power Grid Corporation of India Limited's (Power Grid) Q3FY2021 PAT increased by 24.3% y-o-y to Rs. 3,324 crore, which was 4.7% above our estimate of Rs. 3,174 crore. Robust growth in PAT was led by capitalisation of Rs. 12,574 crore in 9MFY2021 and higher other income (up 25.7% y-o-y). Near-term outlook looks promising as the company seems to be on track to achieve its capitalisation guidance of Rs. 21,000 crore for FY2021E and has guided for capitalisation of Rs. 10,000 crore for FY2022E. Potential asset monetisation of five operational TBCB assets (InvIT likely by end of March 2021) worth Rs. 7,200 crore would help the company unlock value and proceeds could provide room for higher dividend payout given limited capex plan of Rs. 10,500 crore/Rs. 7,500 for FY2021E/FY2022E. A robust order pipeline (of Rs. 47,100 crore) offers earnings growth visibility for the next few years (we expect a 17% PAT CAGR over FY2021E-FY2023E) and RoE remains strong at 18%-19%. Power Grid is trading at an attractive valuation of 1.3x its FY2023E P/BV (25% discount to its historical average one-year forward P/BV of 1.7x) and offers a healthy dividend yield of 5%. Hence, we maintain our Buy rating on Power Grid with a revised PT of Rs. 245.

Key positives

- InvIT for five TBCB assets to be launched before end of March 2021 and could help in value unlocking.
- Management has guided for capex guidance of Rs. 10,500 crore /Rs. 7,500 crore and asset capitalisation of Rs. 21,000 crore/Rs. 10,000 crore for FY2021E/FY2022E.

Key negatives

- Power transmission companies continue to receive lower interest of 1% per month (as per government guideline) on overdue amount from discoms versus 1.5% per month during pre-COVID period.
- Lower capitalisation of Rs. 681 crore in Q3FY2021 versus Rs. 10,709 crore in Q2FY2021.

Our Call

Valuation – Maintain Buy on Power Grid with a revised PT of Rs. 245: We have increased our FY2021-FY2023 earnings estimates to factor better-than-expected performance in Q3FY2021 and lower interest cost. Power Grid has a robust Rs. 47,100 crore of project pipeline, which provides earnings visibility for the next 2-3 years. Thus, we expect a 17% PAT CAGR over FY2021E-FY2023E along with RoE of 18%-19%. Monetisation of five TBCB assets worth Rs. 7,200 crore and further reduction in outstanding dues from discoms are key near-term catalyst for Power Grid. Power Grid's valuation of 1.3x its FY2023E P/BV (25% discount to its average historical average one-year forward P/BV at 1.7x) is attractive, given regulated RoE model provides earnings visibility and the stock offers healthy dividend yield of 5%. 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 a revised PT of Rs. 245.

Key Risks

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

Valuation (Consolidated)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	35,059	37,744	40,763	44,839	49,099
OPM (%)	86.2	87.3	83.8	86.0	86.0
Adjusted PAT	10,034	11,059	11,538	13,380	15,665
y-o-y growth (%)	22.3	10.2	4.3	16.0	17.1
Adjusted EPS (Rs.)	19.2	21.1	22.1	25.6	29.9
P/E (x)	11.1	10.1	9.6	8.3	7.1
Price/ Book (x)	1.9	1.7	1.6	1.4	1.3
EV/EBITDA (x)	8.0	7.4	7.0	6.1	5.4
RoCE (%)	10.1	10.4	10.5	11.7	12.7
RoE (%)	17.7	17.9	17.1	18.2	19.2

Source: Company; Sharekhan estimates

Better-than-expected performance with strong 24% y-o-y growth in PAT

Q3FY2021 revenue grew by 7.6% y-o-y to Rs. 9,677 crore, marginally above our estimate of Rs. 9,498 crore. Revenue from the transmission business was up 8.4% y-o-y to Rs. 9,552 crore. Operating profit margin (OPM) at 87.4% (largely flat y-o-y) was slightly below our estimate of 88%. Consequently, operating profit at Rs. 8,461 crore (up 7.4% y-o-y; up 6.1% q-o-q) was marginally ahead of our estimate of Rs. 8,358 crore, led by beat in revenue. PAT increased sharply by 24.3% y-o-y to Rs. 3,324 crore, which was 4.7% above our estimate of Rs. 3,174 crore. Strong PAT growth was on the account of healthy capitalisation of Rs. 12,574 crore in 9MFY2021 and high other income (up 25.7% y-o-y). The sharp jump in other income was driven by increase in surcharge income and dividend from subsidiaries.

Q3FY2021 conference call highlights

- ◆ **TBCB asset monetisation (InvIT to be launched by March 2021)** – The company has registered Power Grid Infrastructure Investment Trust (InvIT) with regulator SEBI on January 7, 2021, for monetisation of five TBCB assets (Warora Transmission, Parli Transmission, Jabalpur Transmission, Kala Amb Transmission and Vizag Transmission). The company is targeting to launch InvIT by the end of March 2021. The five TBCB assets are worth Rs. 7,200 crore and amount raised through monetisation would be utilised for new assets.
- ◆ **New projects (won five TBCB projects worth Rs. 5,500 crore)** – Power Grid has won five TBCB projects and has emerged as the highest bidder. The company received Lol for three projects for evacuation of power from Solar Energy Zones in Rajasthan (8.1 GW) and is yet of received Lol for the remaining two projects. Total cost for the five TBCB projects is estimated at Rs. 5,200 crore-5,500 crore and would require 18 months to complete the projects.
- ◆ **Asset capitalisation and capex in Q3FY2021** – Power Grid has capitalised its assets worth Rs. 681 crore in Q3FY2021 versus Rs. 10,709 crore in Q2FY2021 versus Rs. 1,184 crore in Q1FY2021. Capex stood at Rs. 2,936 crore as compared to Rs. 3,100 crore in Q2FY2021 and Rs. 1,906 crore in Q1FY2021. The company has work-in-hand worth Rs. 47,100 crore (ongoing projects at Rs. 22,500 crore, new projects at Rs. 9,600 crore, and Rs. 15,000 crore for TBCB). Management expects upcoming opportunities worth Rs. 14,000 crore (inter-state transmission works from RE at Rs. 12,000 crore and intra-state works in TBCB at Rs. 2,000 crore).
- ◆ **Capex and capitalisation guidance** – Management has maintained its capex guidance of Rs. 10,500 crore and targets asset capitalisation of Rs. 21,000 crore (earlier guidance of Rs. 20,000 crore-25,000 crore) for FY2021E. Capex/capitalisation stood at Rs. 7,942 crore/Rs. 12,574 crore in 9MFY2021.
- ◆ **Outstanding dues** – Total outstanding dues reduced to Rs. 6,003 crore as compared to Rs. 6,477 crore in Q2FY2021 and Rs. 8,243 crore at the end of Q1FY2021. Trade receivables (>45 days) also declined to Rs. 3,992 crore versus Rs. 4,502 crore in Q2FY2021 and Rs. 6,145 crore at the end of Q1FY2021. Major outstanding dues were from states of Uttar Pradesh, J&K, Tamil Nadu, and Telangana. Management targets to lower overall debtor days to 50 by March 2021 as compared to 63 days at the end of Q3FY2021.
- ◆ Consolidated debt stood at Rs. 141,821 crore as of December 2020 versus Rs. 1,43,750 core as of September 2020 and Rs. 144,027 crore as of December 2019. The company has raised total debt of Rs. 3,300 crore in 9MFY2021 and the average cost of debt was at 6.05% in 9MFY2021 versus 6.84% in 9MFY2020.
- ◆ Equity investment in operational TBCB projects stood at Rs. 2,415 crore versus Rs. 2,211 crore in Q2FY2021 and Rs. 2,138 crore in Q3FY2020.
- ◆ Surcharge income (consolidated) was at Rs. 598 crore in 9MFY2021 versus Rs. 211 crore in 9MFY2020. Incentive income (consolidated) stood at Rs. 362 crore in 9MFY2021 versus Rs. 295 crore in 9MFY2020.
- ◆ Dividend income from subsidiaries stood at Rs. 339 crore in 9MFY2021 as compared to Rs. 146 crore in 9MFY2020.

Results (Standalone)

Particulars	Rs cr				
	Q3FY21	Q3FY20	Y-o-Y %	Q2FY21	Q-o-Q %
Reported Net sales	9,677	8,992	7.6	9,058	6.8
Employee Expenses	483	479	0.8	489	(1.3)
Other Exp	733	637	15.1	597	22.7
Total Expenditure	1,216	1,116	9.0	1,087	11.9
Operating profit	8,461	7,876	7.4	7,971	6.1
Other income	635	505	25.7	832	(23.7)
PBDIT	9,095	8,381	8.5	8,803	3.3
Depreciation	2,993	2,802	6.8	2,897	3.3
Interest	2,151	2,474	(13.1)	2,095	2.7
Exceptional expense/(Income)	0	0		4	
Reported PBT	3,952	3,105	27.3	3,808	3.8
Adjusted PBT	3,952	3,105	27.3	3,812	3.7
Tax	1,007	793	27.0	682	47.6
Regulatory Deferral A/c	380	362	4.8	-8	(4,716.9)
Reported PAT	3,324	2,673	24.3	3,117	6.6
Adjusted PAT	3,324	2,673	24.3	2,875	15.6
Reported EPS (Rs.)	6.4	5.1	24.3	6.0	6.6
Adjusted EPS (Rs.)	6.4	5.1	24.3	5.5	15.6
Ratios (%)			BPS		BPS
EBITDA Margin	87.4	87.6	(15.9)	88.0	-57
PAT Margin	34.3	29.7	461.8	34.4	-7
Tax rate	25.5	25.6	(6.4)	17.9	757

Source: Company; Sharekhan Research

Segmental performance

Particulars	Rs cr				
	Q3FY21	Q3FY20	Y-o-Y %	Q2FY21	Q-o-Q %
Revenue					
Transmission	9,552	8,814	8.4	9,034	5.7
Consultancy	123	144	(14.8)	108	13.2
Telecom	207	198	4.5	190	8.8
Intersegment	-18	-21	(15.4)	-18	(1.1)
Net Revenue	9,864	9,135	8.0	9,315	5.9
EBIT					
Transmission	5,983	5,482	9.1	5,221	14.6
Consultancy	37	60	(38.2)	21	78.5
Telecom	95	113	(16.0)	80	18.3
Overall EBIT	6,115	5,656	8.1	5,322	14.9
EBIT Margin					
Transmission	62.6	62.2	43	57.8	485
Consultancy	30.3	41.8	-1,149	19.2	1,108
Telecom	45.9	57.1	-1,122	42.2	368
Overall EBIT margin	62.0	61.9	8	57.1	486

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Regulated tariff model provides earnings visibility; Reforms in the power sector to strengthen the balance sheet of power companies

India's power sector is regulated by the CERC with an availability-based earnings model (fixed RoE on power transmission assets) and, thus, the regulated tariff model provides strong earnings visibility for power transmission companies. Moreover, the government's power sector package of over Rs. 3 lakh crore announced in the budget would help power discoms clear dues of power generation and transmission companies. This would reduce receivables of the power sector and strengthen the balance sheet of companies.

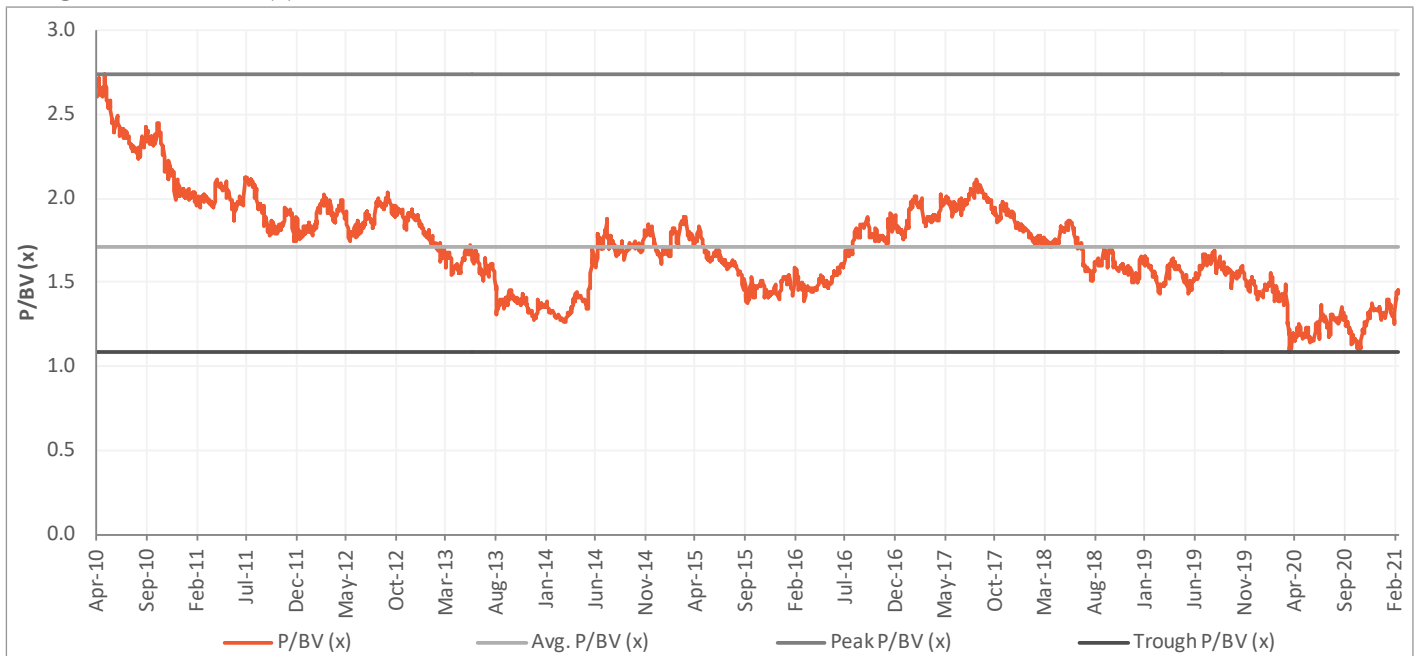
■ Company outlook – Order book worth ~Rs. 47,100 crore provides earnings visibility; FY2021E asset-capitalisation target of Rs. 21,000 crore

Capitalisation guidance of Rs. 21,000 crore/Rs. 10,000 crore for FY2021E/FY2022E and work-in-hand pipeline at ~Rs. 47,100 crore (which is likely to be completed over the next 3-4 years) provide healthy earnings growth visibility (we expect a 17% PAT CAGR over FY2021E-FY2022E). Capex guidance has also been maintained at Rs. 10,500 crore for FY2021E and targets capex of Rs. 7,500 crore for FY2022E.

■ Valuation – Maintain Buy on Power Grid with a revised PT of Rs. 245

We have increased our FY2021-FY2023 earnings estimates to factor better-than-expected performance in Q3FY2021 and lower interest cost. Power Grid has a robust Rs. 47,100 crore of project pipeline, which provides earnings visibility for the next 2-3 years. Thus, we expect a 17% PAT CAGR over FY2021E-FY2023E along with RoE of 18%-19%. Monetisation of five TBCB assets worth Rs. 7,200 crore and further reduction in outstanding dues from discoms are key near-term catalyst for Power Grid. Power Grid's valuation of 1.3x its FY2023E P/BV (25% discount to its average historical average one-year forward P/BV at 1.7x) is attractive, given regulated RoE model provides earnings visibility and the stock offers healthy dividend yield of 5%. 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 a revised PT of Rs. 245.

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. 47,100 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% and is trading at an attractive valuation. Potential monetization of TBCB assets and further reduction in receivables are key near term catalyst for Power Grid.

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	5.9
2	Nippon Life India Asset Management	2.6
3	HDFC Asset Management Co Ltd	2.5
4	Vanguard Group Inc/The	2.3
5	Comgest SA	2.2
6	GOVERNMENT OF SINGAPORE	2.0
7	FIL Ltd	1.9
8	Capital Group Cos Inc/The	1.9
9	FMR LLC	1.4
10	BlackRock Inc	1.3

Source: Bloomberg

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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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