



Power Grid Corporation of India Ltd

Steady Q1; Higher capitalisation to drive growth

Power

Sharekhan code: POWERGRID

Result Update

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

Reco: Buy	↔
CMP: Rs. 176	
Price Target: Rs. 217	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

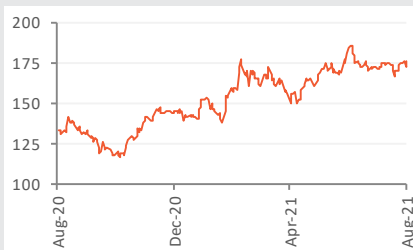
Company details

Market cap:	Rs. 1,22,838 cr
52-week high/low:	Rs. 189/116
NSE volume: (No of shares)	117.7 lakh
BSE code:	532898
NSE code:	POWERGRID
Free float: (No of shares)	339 cr

Shareholding (%)

Promoters	51.3
FII	28.3
DII	13.9
Others	6.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2	4	10	32
Relative to Sensex	-2	-8	5	-10

Sharekhan Research, Bloomberg

Summary

- Q1FY22 standalone adjusted PAT grew by 14.2% y-o-y to Rs. 3,273 crore (slightly below our estimates) led by higher asset capitalisation and partially offset by lower surcharge income. Reported PAT of Rs. 6,085 crore had an exceptional income of Rs. 3,170 crore related to profit on sale of assets to InvIT.
- The management has guided for asset capitalisation of Rs. 15,000 crore/Rs. 12,000-15,000 crore for FY22E/FY23E and has works in hand worth Rs. 35,100 crore. Thus, we expect PAT CAGR of 12% over FY21-23E with a RoE of 19.6%.
- Power Grid is eyeing investment opportunity in power distribution reforms and could provide investment support of ~Rs30,000-35,000 crore to discoms along with technical services; management guided for a 14% RoI threshold.
- We maintain a Buy on Power Grid with an unchanged PT of Rs. 217 (adjusted for bonus issue) as valuation remains attractive at 1.4x FY23E P/BV considering decent growth visibility and healthy dividend yield of 5%.

Power Grid Corporation of India Limited's (Power Grid) standalone Q1FY2022 adjusted PAT increased by 14.2% y-o-y to Rs. 3,273 crore (marginally lower than our Rs. 3,376 crore) led by strong standalone capitalisation of Rs. 4,439 crore partially offset by decline in surcharge income at Rs. 55 crore (versus Rs. 265 crore in Q1FY2021). The earnings were also boosted by Rs. 230 crore of additional income related to interest on tariff differential. Reported PAT stood at Rs. 6,085 crore, which includes an exceptional income of Rs. 3,170 crore related to profit on sale of investment in five subsidiaries to InvIT. Consolidated Q1FY2022 asset capitalisation was also strong at Rs. 5,642 crore versus Rs. 1,184 crore in Q1FY2021. In addition, one of the company's subsidiaries POWERGRID NM Transmission Limited witnessed a turnaround (PAT of Rs. 23 crore versus losses earlier) as the company implemented financial restructuring. The management guided for asset capitalisation of Rs. 15,000 crore/Rs. 12,000-15,000 crore for FY2022E/FY2023E and a majority of FY21's capitalisation of Rs. 21,467 crore (42% done in Q4FY2021) was also back-ended. This coupled with total work-in-hand worth Rs. 35,100 crore provides a strong earnings growth visibility, and we expect 12% PAT CAGR over FY2021-FY2023E along with RoE of 19.6%. Power Grid is eyeing investment opportunity in power distribution reforms (distribution infrastructure and smart metering) and could provide investment support of ~Rs30,000-35,000 crore (15% of overall opportunity size of Rs2 lakh crore) to discoms along with technical services. The management also guided for a 14% RoI threshold on these investments. The management indicated there is no plan for asset monetisation in FY2022E; however, it remains a focus area and asset monetization target is at Rs7,500 crore for FY2023 and Rs15,000 crore over FY2024E-FY2025E. Lower capex guidance of Rs. 7,500 crore each for FY2022E and FY2023E would provide room for higher dividend payout (management indicated that dividend payout is likely to increase in FY2022E). Decent earnings growth visibility led by regulated RoE model and healthy dividend yield, limited ESG concerns in the power transmission business and attractive valuation of 1.4x its FY2023E P/BV (19% discount to its historical average one-year forward P/BV of 1.7x) keeps us constructive on Power Grid. Hence, we maintain a Buy rating on Power Grid with an unchanged PT of Rs. 217 (adjusted for bonus issue in the ratio of 1:3).

Key positives

- Consolidated asset capitalisation was higher at Rs. 5,642 crore versus Rs. 1,184 crore in Q1FY2021.
- Turnaround of POWERGRID NM Transmission Limited led by financial restructuring.

Key negatives

- A sharp 98% q-o-q increase in overall outstanding receivables to Rs. 7,080 crore as collection got impacted due to COVID-19.
- Decline in surcharge income to Rs. 55 crore versus Rs. 265 crore in Q1FY2021 due to lower surcharge rate.

Our Call

Valuation – Maintain Buy on Power Grid with an unchanged PT of Rs. 217: We have maintained our FY2022-FY2023 earnings estimates and have introduced our FY2024 earnings estimate in this report. Power Grid has a robust project pipeline worth Rs. 35,100 crore, which provides earnings visibility for 2-3 years and thus we expect a 12% CAGR in PAT over FY2021-FY2023E along with RoE of 19.6%. Power Grid's valuation of 1.4x its FY2023E P/BV (19% discount to its average historical average one-year forward P/BV at 1.7x) is attractive, given a regulated RoE model and the stock offers a healthy dividend yield of 5%. Hence, we maintain our Buy rating on Power Grid with an unchanged PT of Rs. 217.

Key risk

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	Rs cr				
	FY20	FY21	FY22E	FY23E	FY24E
Revenue	37,744	39,640	43,604	47,746	52,043
OPM (%)	87.3	88.3	88.2	87.2	86.9
Adjusted PAT	11,059	13,115	15,052	16,409	18,285
y-o-y growth (%)	10.2	18.6	14.8	9.0	11.4
Ajusted EPS (Rs.)	15.9	18.8	21.6	23.5	26.2
P/E (x)	11.1	9.4	8.2	7.5	6.7
Price/ Book (x)	1.9	1.8	1.6	1.4	1.2
EV/EBITDA (x)	7.8	7.1	6.2	5.6	5.0
RoCE (%)	10.4	11.1	12.2	12.9	13.2
RoE (%)	17.9	19.5	20.3	19.6	19.3

Source: Company; Sharekhan estimates

Note: We have adjusted FY20-FY23E EPS for bonus issue of 1:3

PAT grew by 14.2% y-o-y (marginally below estimate) led by higher asset capitalization: Standalone Q1FY2022 adjusted PAT increased by 14.2% y-o-y to Rs. 3,273 crore (marginally lower than our Rs. 3,376 crore) led by strong standalone capitalisation of Rs. 4,439 crore partially offset by decline in surcharge income at Rs. 55 crore (versus Rs. 265 crore in Q1FY2021). The earnings were also boosted by Rs. 230 crore of additional income related to interest on tariff differential. Reported PAT stood at Rs. 6,085 crore, which includes an exceptional income of Rs. 3,170 crore related to profit on sale of investment in five subsidiaries. Consolidated Q1FY2022 asset capitalisation was also strong at Rs. 5,642 crore versus Rs. 1,184 crore in Q1FY2021. In addition, one of the company's subsidiaries POWERGRID NM Transmission Limited (PAT of Rs. 23 crore versus losses earlier) witnessed a turnaround as the company implemented financial restructuring.

Q1FY2022 conference call highlights

- ◆ **Capex and asset capitalisation guidance:** The management has guided for capex/capitalisation of Rs. 7,500/Rs. 15,000 crore plus for FY2022E and Rs. 7,500/Rs. 12,000-15000 crore for FY2023E.
- ◆ **Investment opportunity of Rs. 30,000-35,000 crore from power sector reforms –** Power Grid is eyeing opportunities for investment (Rs. 30,000-35,000 crore, which is 15% of the total opportunity size of Rs. 2 lakh crore) with discoms as recent power sector relief package (Rs. 3.13 lakh crore) provides scope for investment in power distribution infrastructure (Rs. 1.5 lakh crore) and smart metering (Rs. 1.5 lakh crore). The management has guided for 14% RoI threshold on these investments.
- ◆ **Asset capitalisation and capex for Q1FY2022:** Consolidated asset capitalisation for Q1FY22 stood at Rs. 5,642 crore (which includes standalone capex of Rs. 4,439 crore) versus the capitalisation of Rs. 1,184 crore in Q1FY2021. The company undertook a consolidated capex of Rs. 1,110 crore (standalone capex of Rs. 706 crore) in Q1FY2022 as compared to Rs. 1906 crore in Q1FY2021.
- ◆ **Key projects in the current fiscal –** With respect to HVDC Raigarh-Pugalur project, the work is pending on one pole and the AC line (1500 MW). The pole is almost ready and AC line is expected to get commissioned in Q2FY2022. A few transmission systems in Rajasthan, Badla-Fatehgarh, some lines in Gujarat and one substation at Mithilanchal remain to be completed. In Meerut, the Subhash Nagar line is yet to be completed. They have commissioned 1,716 ckm of transmission line in Q1 and one substation at Sitamarhi and added 9,400 MVA at Bhuj, Sitamarhi, Pugalur, Thrissur, Saharanpur & Fatehpur substations.
- ◆ **Capital work in progress -** The company has work-in-hand worth Rs. 35,100 crore (ongoing projects at Rs. 14,700 crore, new projects at Rs. 3,600 crore, and Rs. 16,800 crore for TBCB). There is close to Rs. 10,300 crore of immediate upcoming opportunities, which includes Rs. 9,300 crore of inter-state transmission works in RE and Rs. 1,500 crore of transmission work in TBCB.
- ◆ **Asset Monetisation in next two years:** Power Grid has indicated that there would be no asset monetisation in FY2022. However, management has given a guidance of Rs. 7,500 crore of asset monetisation in FY2023E and another Rs. 15,000 crore over FY2024E-FY2025E. The company is planning to transfer the remaining 26% stake in the InvIT in next two years starting from February 2022 to January 2024.
- ◆ **Outstanding dues -** Total outstanding dues stood at Rs. 7,080 crore in Q1FY2022 versus Rs. 3,583 crore at the end of Q4FY2021 and Rs. 8,243 crore in Q1FY2021. Trade receivables (>45 days) stood at Rs. 3,333 crore versus Rs. 1,836 crore in Q4FY2021 and Rs. 6,145 crore in Q1FY2021. Collection was impacted in Q1FY22 due to COVID-19 and led to higher receivables. However, in June, the collection rate improved to 90% and 130% in July.
- ◆ **Overseas opportunities –** The company is looking at a \$150-200 million investment in Kenya. Other cross-border projects include in Bangladesh with a total investment Rs. 3,500 crore and one in Nepal.

- ◆ **Dividend payout:** The management mentioned that dividend payout would rise in FY22 as compared to the last fiscal.
- ◆ Dividend income from subsidiaries and JVs stood at Rs. 67 crore in Q1FY2022 as compared to Rs. 21 crore in same quarter last year.
- ◆ Its subsidiary Power Grid NM transmission Ltd turned around and reported Rs. 23 crore of profit in Q1FY2022 as compared to a loss in the same quarter last year. Other subsidiaries that contributed to net profit include JP Power Grid, HP transmission, etc.
- ◆ Surcharge income declined to Rs. 55 crore in Q1FY2022 versus Rs. 265 crore in Q1FY2021.
- ◆ Consolidated debt stood at Rs.1,40,221 crore in Q1FY2022 versus Rs. 1,41,410 crore as of March 2021 and Rs. 1,45,998 crore as of June 2020.
- ◆ Equity investment in operational TBCB projects stood at Rs. 2,592 crore in Q1FY22 versus Rs. 2,205 crore in the same quarter last year.
- ◆ Pricing settlement with telecom customer impacted telecom revenues by Rs. 86 crore in Q1FY2022.

Results (Standalone)

Particulars	Rs cr				
	Q1FY22	Q1FY21	YoY(%)	Q4FY21	QoQ(%)
Revenue	9,777	8,989	8.8	9,942	(1.7)
Employee Expenses	518	486	6.6	652	(20.5)
Other Expenses	686	625	9.7	543	26.3
Total Expenditure	1,204	1,112	8.3	1,195	0.7
Operating profit	8,572	7,877	8.8	8,747	(2.0)
Other income	509	631	(19.4)	763	(33.3)
Depreciation	3,027	2,797	8.2	3,025	0.0
Interest	2,298	2,279	0.8	1,976	16.3
Exceptional expense/(Income)	-3,170	1,075	NA	0	NA
Reported PBT	6,926	2,358	193.8	4,509	53.6
Adjusted PBT	3,757	3,433	9.4	4,509	(16.7)
Tax	1,359	773	75.8	627	116.9
Regulatory Deferral A/c	518	394	31.5	-367	NA
Reported PAT	6,085	1,979	207.5	3,516	73.1
Adjusted PAT	3,273	2,866	14.2	3,516	(6.9)
Reported EPS	8.7	2.8	207.5	5.0	73.1
Adjusted EPS	4.7	4.1	14.2	5.0	(6.9)
Margin (%)	Q1FY22	Q1FY21	YoY (bps)	Q4FY21	QoQ (bps)
Operating profit margin (OPM)	87.7	87.6	4.8	88.0	-30
Net profit margin (NPM)	33.5	31.9	159.3	35.4	-188
Tax rate	19.6	32.8	(1,316.9)	13.9	573

Source: Company; Sharekhan Research

Segmental performance (Standalone)

Rs cr

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue					
Transmission	9,686	9,045	7.1	9,787	(1.0)
Consultancy	152	99	54.7	177	(13.7)
Telecom	119	188	(36.7)	199	(40.2)
Intersegment	-17	-17	NA	-17	NA
Net Revenue	9,941	9,314	6.7	10,145	(2.0)
EBIT					
Transmission	6,245	5,767	8.3	5,312	17.6
Consultancy	66	16	317.9	77	(14.8)
Telecom	27	100	(73.2)	91	(70.4)
Total EBIT	6,337	5,883	7.7	5,480	15.6
EBIT Margin (%)			BPS		BPS
Transmission	64.5	63.8	71	54.3	1,019
Consultancy	43.1	16.0	2,714	43.7	-59
Telecom	22.5	53.3	-3,073	45.6	-2,309
Overall EBIT	63.8	63.2	59	54.0	973

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 Union 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.

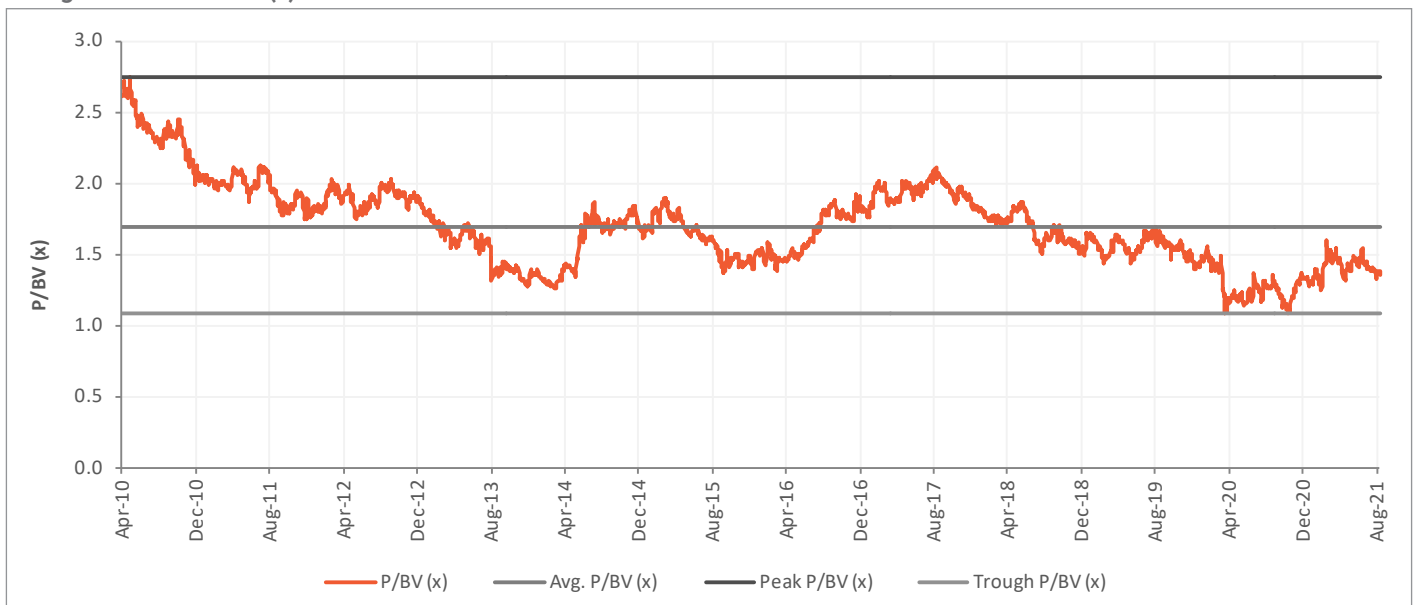
■ Company Outlook – Decent capitalisation target and robust order book provides earnings visibility

Capitalisation guidance of Rs. 15,000 crore/Rs. 12000-15000 crore for FY2022E/FY2023E and work-in-hand pipeline of ~Rs. 35,100 crore (which is likely to be completed over the next 3-4 years) provide healthy earnings growth visibility (we expect a 12% PAT CAGR over FY2021-FY2022E). Capex guidance has also been maintained at Rs. 7,500 crore for FY2022E.

■ Valuation – Maintain Buy on Power Grid with an unchanged PT of Rs. 217

We have maintained our FY2022-FY2023 earnings estimates and have introduced our FY2024 earnings estimate in this report. Power Grid has a robust project pipeline worth Rs. 35,100 crore, which provides earnings visibility for 2-3 years and thus we expect a 12% CAGR in PAT over FY2021-FY2023E along with RoE of 19.6%. Power Grid's valuation of 1.4x its FY2023E P/BV (19% discount to its average historical average one-year forward P/BV at 1.7x) is attractive, given a regulated RoE model and the stock offers a healthy dividend yield of 5%. Hence, we maintain our Buy rating on Power Grid with an unchanged PT of Rs. 217.

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 1,68,457 circuit kilometers of EHV transmission lines. Power Grid has approximately 259 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. 35,100 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 20% and is trading at an attractive valuation. Further asset monetisation over FY23-FY25E and lower capex could result in higher dividend payout in coming years.

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	Capital Group Cos Inc.	4.8
3	Capital Income Builder	3.4
4	SBI Funds Management Pvt. Ltd	2.6
5	Nippon Life India Asset Management Ltd.	2.5
6	Vanguard Group Inc	2.1
7	Republic of Singapore	1.5
8	FIL Limited	1.4
9	FMR LLC	1.1
10	BlackRock Inc.	1.0

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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