Power Grid Corporation of India Ltd
Steady outlook ahead; New opportunities to aid growth

**Power**

Reco/View: **Buy**

*New* Price Target: **Rs. 240**

**Sharekhan code: POWERGRID**

**Summary**

- Core transmission business to witness steady growth as capitalisation trend (FY22 guidance of Rs17,000-20,000 crore) is likely to sustain, led by RE projects (RE transmission scheme of 66.5 Gigawatt and other projects of 30GW/25GW in Gujarat/Rajasthan).
- Revamped Distribution Sector Scheme with an estimated outlay of Rs. 3.5 lakh crore over FY22-FY26 provides new investment opportunity and Power Grid aims capex of Rs. 10,000 crore-12,000 crore each in smart metering and distribution infrastructure.
- The government’s transmission asset monetisation target of Rs. 45,200 crore over FY2022-FY2025E for Power Grid would help unlock value, provide capital for growth, and could result in higher dividend going forward.
- We maintain a Buy on Power Grid with a revised PT of Rs. 240 as valuation remains attractive at 1.4x FY24E P/BV considering steady growth in core business, emerging new growth opportunities, and healthy dividend yield of 6%.

Power Grid Corporation of India Limited’s (Power Grid) core transmission business is likely to witness steady growth as both interstate and intra-state power transmission lines would require investment given government’s focus to expand renewable energy (RE) capacity to 450 Gigawatt by 2030. Decent asset capitalisation, which earns regulated RoE, would mean sustained double-digit earnings growth (we expect a 12% PAT CAGR over FY2021-FY2024E). Additionally, Power Grid is targeting an investment of Rs. 10,000 crore-12,000 crore each in smart metering and distribution infrastructure over the next 3-4 years, which would further aid in growth prospects. Continued asset monetisation (government’s target of Rs. 45,200 crore over FY2022-FY2025E) would help unlock value, provide capital for growth, and could result in higher dividend going forward.

- Core transmission business – To witness steady growth as RE expansion to gain pace: India’s aim to expand its renewable power capacity to 450 Gigawatt by 2030 (versus only 103 Gigawatt currently) and national infrastructure pipeline (NIP) capex target for power transmission at Rs. 3.5 lakh crore (Power Grid’s share at Rs. 65,500 crore) over FY2020-FY2025E provide enormous growth opportunities to expand both interstate and intra-state power transmission lines. This would increase auction activity for transmission projects and drive sustained growth in asset capitalisation (guidance of Rs. 17,000 crore-20,000 crore for FY2022E and Rs. 12,000 crore-15,000 crore for FY2023E) for Power Grid. Steady growth in asset capitalisation provides earnings growth visibility for 2-3 years. Thus, we expect a 12% PAT CAGR over FY2021-FY2024E.

Our Call

Valuation – Maintain Buy on Power Grid with a revised PT of Rs. 240: Power Grid has a robust project pipeline worth Rs. 27,500 crore and has capitalised “Rs. 22,932 crore in the past four quarters, which provides earnings visibility for 2-3 years. Thus, we expect a 12% CAGR in PAT over FY2021-FY2024E along with RoE of 19.3% in FY2024E. Power Grid’s valuation of 1.4x its FY2024E P/BV (16% discount to its average historical average one-year forward P/BV at 1.7x) is attractive, considering decent growth, regulated RoE model, and healthy dividend yield of 6%. Hence, we maintain Buy on Power Grid with a revised PT of Rs. 240 (the increase reflects r slower of valuation multiple to FY2024E book value).**

**Key Risks**

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)**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>FY21</th>
<th>FY22E</th>
<th>FY23E</th>
<th>FY24E</th>
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<tr>
<td>Revenue</td>
<td>39,640</td>
<td>43,604</td>
<td>47,746</td>
<td>52,043</td>
</tr>
<tr>
<td>OPM (%)</td>
<td>88.3</td>
<td>88.2</td>
<td>87.2</td>
<td>86.9</td>
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<tr>
<td>Adjusted PAT</td>
<td>13,115</td>
<td>15,052</td>
<td>16,409</td>
<td>18,285</td>
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<tr>
<td>y-o-y growth (%)</td>
<td>18.6</td>
<td>14.8</td>
<td>9.0</td>
<td>11.4</td>
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<td>Adjusted EPS (Rs.)</td>
<td>18.8</td>
<td>21.6</td>
<td>23.5</td>
<td>26.2</td>
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<tr>
<td>P/E (x)</td>
<td>11.0</td>
<td>9.6</td>
<td>8.8</td>
<td>7.9</td>
</tr>
<tr>
<td>Price/ Book (x)</td>
<td>2.1</td>
<td>1.8</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>EV/EBITDA (x)</td>
<td>7.7</td>
<td>6.8</td>
<td>6.1</td>
<td>5.4</td>
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<td>RoCE (%)</td>
<td>11.1</td>
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<td>12.9</td>
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<tr>
<td>RoE (%)</td>
<td>19.5</td>
<td>20.3</td>
<td>19.6</td>
<td>19.3</td>
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</table>

Source: Company; Sharekhan estimates
Core power transmission business to witness steady growth given government’s focus on RE expansion

India’s aim to expand its renewable power capacity to ~450 GW by 2030 (versus only 103 GW currently) and NIP capex target for power transmission at Rs. 3 lakh crore (Power Grid’s share at Rs. 65,500 crore) over FY20-25E provide enormous growth opportunities to expand both interstate and intra-state power transmission lines. This would increase auction activity for transmission projects and drive sustained growth in asset capitalisation (guidance of Rs. 17,000 crore-20,000 crore for FY2022 and Rs. 12,000 crore-15,000 crore for FY2023E) for Power Grid. Steady growth in asset capitalisation provides earnings growth visibility (we expect a 12% PAT CAGR over FY2021-FY2024E), given regulated RoE business model.

To achieve RE power capacity expansion target, a comprehensive transmission scheme for 66.5 GW with estimated cost of Rs. 36,000 crore has been evolved for integrating renewable energy zones in Tamil Nadu, Andhra Pradesh, Karnataka, Gujarat, Maharashtra, Rajasthan, and Madhya Pradesh. Transmission projects worth Rs. 20,200 crore have been awarded and “Rs. 9,300 crore have been bid out and the balance projects are under various stages of planning and discussion.

Power Grid has also submitted a detail project report to Ministry of Power Transmission System for evacuation of 10 GW Renewable Power Projects (5 GW each in Pang and Nyoma regions of Leh) through four of ±350 kV VSC HVDC terminals. The project is proposed to be implemented in two phases, starting with the first phase involving evacuation of 5 GW RE power through Pang – Kaithal HVDC link along with 12 GWh Battery Energy Storage System (BESS), and the second phase with 5 GW through Nyoma – Kashipur HVDC link.

Decent capitalisation guidance of Rs. 17,000 crore-20,000 crore /Rs. 12,000 crore-15,000 crore for FY2022E/FY2023E

Source: Company; Sharekhan Research
Focus to explore new growth opportunities - To aid in earnings growth prospects

**Smart metering and distribution infrastructure:** Power Grid is eyeing opportunities for investment of 8-10% of the total opportunity size of Rs. 3 lakh crore (Rs. 1.5 lakh crore each from smart metering and power distribution infrastructure) from the revamped distribution sector scheme. The company has guided to invest Rs. 10,000 crore-12,000 crore each in smart metering and power distribution infrastructure over the next 3-4 years with RoI threshold of 14% on its investments.

**EV charging infrastructure:** Power Grid has set up 16 EV charging stations in seven cities (Delhi, Gurugram, Hyderabad, Ahmedabad, Bengaluru, Kochi, and Kozhikode) and 55 EV Charging stations are under implementation through FAME India Scheme Phase II. Power Grid has signed an agreement for EV Charging Station development with HPCL, CESC Mysuru, and Meghalaya and is having discussion with various Municipal Corporations, DISCOMs, Metro Rail Authorities etc. for expanding Energy Vehicle Charging Station network.

**Battery energy storage:** We highlight here that the government has identified requirement of ~27GW/108 GWh energy storage system, including Battery Energy Storage System (BESS) by 2030 and Power Grid is looking for opportunities as a BESS Developer.

**Transmission asset monetisation to unlock real value and provide room for higher dividend payment**

The government has considered transmission assets of ~28,608 circuit (ckt) for monetisation over FY2022E-FY2025E and includes Power Grid’s transmission assets of 400 KV and above. Total assets for monetisation constitute around 17% of the total asset base of Power Grid. The total value of transmission assets considered for monetisation is estimated at Rs. 45,200 crore during FY2022E-FY2025E, of which Power Grid has already monetised 5 TBCB assets worth Rs. 7,239 crore through PGInvIT in Q1FY2022. Asset monetisation would help in unlocking value, providing capital for growth, and could result in higher dividend going forward.

**Government’s transmission asset monetisation plan**

Source: NITI Aayog NMP presentation; Sharekhan Research
Asset Monetisation done for 5 TBCB assets in Q1FY2022

![Diagram showing 74% equity shareholding in 5 TBCB SPVs transferred to PGIvIT.](image)

- Valuation of Trust at IPO: ₹ 9,100 crore
- Fresh Issue by Trust: ₹ 4,993 crore
- Proceeds received by Sponsor (Cash + Units): ₹ 4,107 crore
- Investment in SPVs (for 74% stake): ₹ 898 crore
- Issue related Expenses: ₹ 39 crore
- Profit recognised in Q1FY22: ₹ 3,170 crore

Source: Company

Improving dividend payout ratio

![Graph showing improving dividend payout ratio from FY17 to FY21.](image)

- FY17: 2,747 crore, 36% payout
- FY18: 3,299 crore, 40% payout
- FY19: 5,228 crore, 53% payout
- FY20: 5,834 crore, 54% payout
- FY21: 6,801 crore, 57% payout

Source: Company; Sharekhan Research
Financials in charts

Capex to remain range bound

Decent capitalisation outlook led RE projects

Decent revenue growth

EBITDA/PAT CAGR of 9%/12% over FY21-FY24E

Largely stable RoE

Improving RoCE trend

Source: Company, Sharekhan Research
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Source: Company, Sharekhan Research
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Source: Company, Sharekhan Research
Outlook and Valuation

- **Sector outlook – Regulated tariff model provides earnings visibility; Power sector reforms to strengthen 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). 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 provide earnings visibility**

Capitalisation guidance of Rs. 17,000 crore-20,000 crore/Rs. 12,000 crore-15,000 crore for FY2022E/FY2023E and work-in-hand pipeline of ~Rs. 27,500 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-FY2024E). Capex guidance has also been maintained at Rs. 7,500 crore for FY2022E and targets capex of Rs. 7,500 crore-10,000 crore for FY2023E.

- **Valuation – Maintain Buy on Power Grid with a revised PT of Rs. 240**

Power Grid has a robust project pipeline worth Rs. 27,500 crore and has capitalised ~Rs. 22,932 crore in the past four quarters, which provides earnings visibility for 2-3 years. Thus, we expect a 12% CAGR in PAT over FY2021-FY2024E along with RoE of 19.3% in FY2024E. Power Grid’s valuation of 1.4x its FY2024E P/BV (16% discount to its average historical average one-year forward P/BV at 1.7x) is attractive, considering decent growth, regulated RoE model, and healthy dividend yield of 6%. Hence, we maintain Buy on Power Grid with a revised PT of Rs. 240 (the increase reflects rollover of valuation multiple to FY2024E book value).
About company
Power Grid is into the power transmission business with the responsibility of 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 1,70,724 circuit kilometers of EHV transmission lines. Power Grid has approximately 262 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. 27,500 crore (including CWIP) worth of projects pending for capitalisation, which provide healthy earnings growth visibility over the next few years. Power Grid has a healthy RoE of 19-20% and is trading at an attractive valuation. Further, asset monetisation over FY2023-FY2025E and lower capex could result in higher dividend payout in the 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

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<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>K Sreekant</td>
<td>Chairman and Managing Director</td>
</tr>
<tr>
<td>M. Taj Mukarrum</td>
<td>Director – Finance</td>
</tr>
<tr>
<td>Abhay Choudhary</td>
<td>Director – Projects</td>
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Source: Company Website

Top 10 shareholders

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<tr>
<th>Sr. No.</th>
<th>Holder Name</th>
<th>Holding (%)</th>
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<tbody>
<tr>
<td>1</td>
<td>Capital Group Cos Inc./The</td>
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<tr>
<td>2</td>
<td>Capital Income Builder</td>
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<td>3</td>
<td>Nippon Life India Asset Management Ltd.</td>
<td>2.6</td>
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<tr>
<td>4</td>
<td>Vanguard Group Inc</td>
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<tr>
<td>5</td>
<td>SBI Funds Management Pvt. Ltd</td>
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<td>6</td>
<td>Republic of Singapore</td>
<td>2.0</td>
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<td>FMR LLC</td>
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<td>8</td>
<td>BlackRock Inc.</td>
<td>1.4</td>
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<td>9</td>
<td>FIL Ltd</td>
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<td>10</td>
<td>Norges Bank</td>
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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 detoriating 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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Automobiles
Alicon Castalloy Limited
Apollo Tyres
Ashok Leyland
Amara Raja Batteries Limited
Bajaj Auto
Balkrishna Industries
Bosch Limited
Exide Industries Limited
Gabriel India Limited
GNA Axles Limited
Greaves Cotton
Hero MotoCorp
Lumax Auto Technologies Limited
M&M
Maruti Suzuki
Mayur Uniquoters
Ramkrishna Forgings Limited
Schaeffler India Limited
Sundram Fasteners
Suprajit Engineering Limited
Tata Motors Limited
TVS Motor

Banks & Finance
AU Small Finance Bank
Axis Bank
Bajaj Finance
Bajaj Finserv
Bank of Baroda
Bank of India
Capital First
Cholamandalam Investment and Finance Company
City Union Bank
Federal Bank
Housing Development Finance Corporation
HDFC Bank
HDFC Life Insurance
ICICI Bank
ICICI Lombard General Insurance
ICICI Prudential Life Insurance Company Ltd
IndusInd Bank
Kotak Mahindra Bank
LIC Housing Finance
L&T Finance Holding
Max Financial Services
Mahindra & Mahindra Financial Services
Nippon Life India Asset Management Limited
Punjab National Bank
RBL Bank
Repco Home Finance Limited
SBI
Union Bank of India

Consumer goods
Asian Paints Limited
Britannia
Colgate Palmolive (India)
Dabur India Limited
Emami
GSK Consumers
Godrej Consumer Products
Hindustan Unilever Limited
Indigo Paints Ltd
ITC
Jyothy Laboratories Limited
Marico
Nestle India Limited
Redco Khaitan Ltd
Tata Consumer Products Ltd
Zydus Wellness

IT / IT services
Birlasoft Limited
HCL Technologies
 Infosys
Intelex Design Arena Limited
Larsen & Toubro Infotech
L&T Technology Services
Mastek Limited
Persistent Systems
Tata Consultancy Services
Tata Elxsi Limited
Tech Mahindra
Wipro

Capital goods / Power
Amber Enterprises Limited
Blue Star Limited
Carborundum Universal Limited
CESC
Cummins India
Dixon Technologies Limited
Finolex Cables
Honeywell Automation India Limited
Kalpapower Transmission
Polycab India Limited
Power Grid Corporation of India Limited
NTPC Limited
KEC International
KEI Industries
Tata Power Company Ltd
Thermax
Triveni Turbine
V-Guard Industries
Va Tech Wabag Ltd.

Infrastructure / Real estate
Ashoka Buildcon Limited
JMC Projects (India) Limited
Larsen & Toubro
Mahindra Lifespaces Developers Limited
KNR Constructions Limited
PNC Infratech Limited
Sadbhav Engineering

Oil & gas
Bharat Petroleum Corporation Limited
Castrol India Limited
GAIL (India) Limited
Gujarat Gas Ltd.
Gujarat State Petronet Limited
Hindustan Petroleum Corporation Limited
Indraprastha Gas Limited
Indian Oil Corporation Ltd
Mahanagar Gas
Oil India
Petronet LNG
Reliance Industries

Pharmaceuticals
Abbott India Limited
Aurobindo Pharma
Biocon
Cipla
Cadila Healthcare
Divi's Labs
Dr Reddy's Laboratories Limited
Gland Pharma Limited
Granules India Limited
Ipca Laboratories Limited
Laurus Labs Limited
Lupin
Sanofi India
Solaris Active Pharma Sciences
Strides Pharma Sciences
Sun Pharmaceutical Industries
Torrent Pharmaceuticals

Building materials
Astral Poly Technik Limited
APL Apollo Tubes Limited
Dalmia Bharat Limited
Grasim Industries
Greenlam Industries Limited
Greenpanel Industries Limited
Jayskri Ceramic Limited
Kajaria Ceramics Limited
Poli lite Industries Limited
The Ramco Cements
Shree Cement
UllofaTech Cement

Discretionary consumption
Aditya Birla Fashion and Retail Limited
Arvind Ltd.
Bata India Limited
Century Plyboards (India)
Inox Leisure
Indian Hotels Company Limited
Info Edge (India)
Jubilant FoodWorks Limited
PVR Ltd
Relaxo Footwear
Titan Company
Trent Limited
Welspun India Limited
Wonderla Holidays
Zee Entertainment Enterprises Limited

Diversified / Miscellaneous
Aarti Industries Limited
Affle (India) Limited
Atul Limited
Bajaj Holdings & Investment
Bharti Airtel
Bharat Electronics
Coromandel International Limited
Coal India Limited
Gateway Distirparks
Insecticides (India) Limited
JSW Steel Limited
Mahindra Logistics Limited
MOIL Limited
NMDC Limited
PI Industries
Polyplex Corporation Limited
Guess Corp Limited
Ratnamani Metals and Tubes
Steel Authority of India Ltd
SRF Limited
TCI Express Limited
Transport Corporation of India Limited
Triveni Engineering & Industries Limited
Sudarshan Chemical Industries
Sumitomo Chemical India Limited
Supreme Industries
UPL
Vinati Organics Limited
## Peer Comparison

<table>
<thead>
<tr>
<th>Particulars</th>
<th>CMP (Rs / Share)</th>
<th>O/S Shares (Cr)</th>
<th>MCAP (Rs Cr)</th>
<th>P/E (x)</th>
<th>EV/EBITDA (x)</th>
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Source: Company, Sharekhan research

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Source: Company, Sharekhan estimates

## Peer Comparison

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Source: Sharekhan Research

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Source: Sharekhan Research
Investor’s Eye
October XX, 2021

Index
Stock Update
xxxx
xxxx
Viewpoint
xxxx
xxxx
Sector Update
xxxx
xxxx