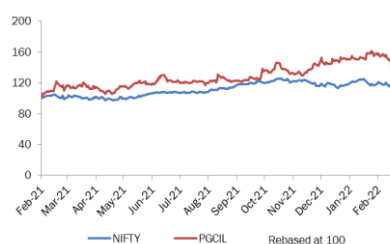


### Modest revenue growth, capex outlay on track

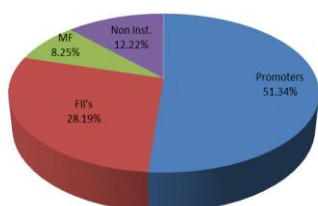
BUY

Sector	: Electric Utility
Target Price	: ₹ 244
Current Market Price	: ₹ 196
Market Cap	: ₹ 1,36,893 Crore
52-week High/Low	: ₹ 221/149
Daily Avg Vol (12M)	: 149,01,195
Face Value	: ₹ 10
Beta	: 0.69
Pledged Shares	: NIL
Year End	: March
BSE Scrip Code	: 532898
NSE Scrip Code	: POWERGRID
Bloomberg Code	: PWGR IN
Reuters Code	: PGRD.NS
Nifty	: 17,322
BSE Sensex	: 57,997
Analyst	: Research Team

#### Price Performance



#### Shareholding Pattern



### 3Q FY22 Update

#### Result Analysis

- Power Grid Corporation of India (PGCIL) reported modest results in 3Q FY22. Total income grew by 3% y-o-y to ₹ 10,447 crores. Transmission, Consultancy and Telecom income registered a growth of 3%, 40% and -13% y-o-y, respectively during the quarter.
- EBIT was flattish at ₹ 6,108 crores vs ₹ 6,058 crores reported in the same quarter last year.
- PAT registering a de-growth of 2.2% y-o-y and 2.5% q-o-q to ₹ 3,293 crores in 3Q FY22 as the company reported lower surcharge income, interest income from subsidiaries and JVs, and dividend from subsidiaries. 9M FY22 PAT (ex-exceptional items) grew by 49% y-o-y.

#### Outlook & Valuation

PGCIL maintained its track record of high operational efficiency as it clocked 99.82% in 9M FY22 with trippings per line dropping to 0.28. Projects executed in 3Q FY22 included 1,468 ckm of transmission lines, 2 sub stations with a capacity of 18,256 MVA and Inter-Regional (IR) capacity of 1,500 MW. PGCIL completed the Raigarh-Pugalur-Trichur HVDC scheme with power transfer capacity of 6,000 MW in the quarter. The recently won 5 GW Leh-Kaithal transmission project (₹ 29,000 crores) under RTM route and other upcoming opportunities worth ₹ 25,750 crores under TBCB provide revenue visibility. PGCIL also plans to tap opportunities in the Smart Metering space. Out of the annual capex target of ~ ₹ 7,500 crores, more than 95% (₹ 7,188 crores) has been expended during 9M FY22. Management plans capex of ₹ 7,500-8500 crores in FY23. PGCIL added 18 new customers last quarter in the Telecom business. The Consultancy business won 2 new International and 3 new Domestic assignments. The company has been consistently rewarding its shareholders by the way of dividend payouts as in 3QFY22, a second interim dividend of ₹ 5.5 per share was declared. We maintain a BUY on PGCIL at 10x FY24E EPS at ₹ 244 with a 24% upside from current levels.

#### Key Financial Metrics (Consolidated)

₹ Crores	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Total income	35,059	37,744	39,640	41,991	44,301	46,959
Growth		7.7%	5.0%	5.9%	5.5%	6.0%
EBIT	20,282	22,261	24,138	24,920	26,142	27,851
*Adjusted PAT	10,034	11,059	13,115	12,873	15,106	16,996
Adjusted PAT margin	28.6%	29.3%	33.1%	30.7%	34.1%	36.2%
**Diluted EPS (₹)	14.4	15.9	17.3	18.5	21.7	24.4

Source: Company data, Khambatta Research; \*Adjusted for exceptional items, \*\*Adjusted post Bonus issue

**Power Grid Corporation of India Ltd****17 February 2022****Financial Performance (Consolidated)**

₹ crores	3Q FY21	2Q FY22	3Q FY22	Y-o-Y	Q-o-Q	9M FY21	9M FY22	Y-o-Y
Total income	10,142	10,267	10,447	3.0%	1.8%	29,130	30,930	6.2%
EBIT	6,058	6,164	6,108	0.8%	-0.9%	17,648	18,333	3.9%
PAT	3,368	3,376	3,293	-2.2%	-2.5%	8,510	12,668	48.9%
*Adjusted PAT	3,368	3,376	3,293	-2.2%	-2.5%	9,589	9,654	0.7%
Adjusted PAT margin	33.2%	32.9%	31.5%	-168 bps	-136 bps	32.9%	31.2%	-171 bps
**Diluted EPS (₹)	4.8	4.8	4.7	-2.2%	-2.5%	13.7	18.2	32.1%

Source: Company data, Khambatta Research; \*Adjusted for exceptional items, \*\*Adjusted post Bonus issue

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## Power Grid Corporation of India Ltd

**17 February 2022**

### Guide to Khambatta's research approach

#### Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

**DCF:** The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

**ERE:** The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

**Relative valuation:** In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

*Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.*

#### Stock ratings

*Buy recommendations* are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

*Hold recommendations* are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

*Sell recommendations* are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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**Power Grid Corporation of India Ltd****17 February 2022**

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