Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

| 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 | | ↔ | |

**ESG Disclosure Score** NEW

ESG RISK RATING 26.08

Updated Feb 08, 2022

High Risk

| NEGL | LOW | MED | HIGH | SEVERE |
|---|---|---|---|---|
| 0-10 | 10-20 | 20-30 | 30-40 | 40+ |

*Source: Morningstar*

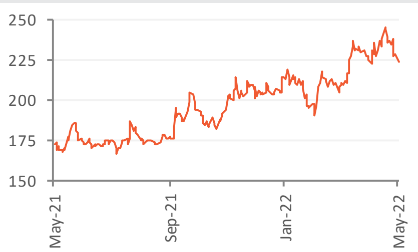
**Company details**

| | |
|---|---|
| Market cap: | Rs. 1,56,634 cr |
| 52-week high/low: | Rs. 248/167 |
| NSE volume: (No of shares) | 127.6 lakh |
| BSE code: | 532898 |
| NSE code: | POWERGRID |
| Free float: (No of shares) | 339 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 51.3 |
| FII | 29.4 |
| DII | 16.0 |
| Others | 3.3 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | (0.4) | 17.6 | 10.6 | 29.7 |
| Relative to Sensex | 4.7 | 18.1 | 17.5 | 22.5 |

*Sharekhan Research, Bloomberg*

# Power Grid Corporation of India Ltd

## Muted Q4; Play on dividend and decent growth outlook

| Power | Sharekhan code: POWERGRID |
|---|---|
| **Reco/View: Buy** ↔ | CMP: **Rs. 225** / Price Target: **Rs. 265** ↑ |

↑ Upgrade ↔ Maintain ↓ Downgrade


**Summary**

- Q4FY2022 standalone adjusted PAT of Rs. 3,731 crore was below street's estimate due to lower asset capitalisation, decline in incentive income, and higher CSR expenses.
- Standalone/consolidated asset capitalisation declined by 69%/76% y-o-y to Rs. 2,144 crore/Rs. 2,182 crore in Q4FY2022. Receivables declined to Rs. 4,312 crore versus Rs. 5,017 crore in Q3FY2022.
- Muted asset capitalisation guidance of Rs. 10,000 crore/Rs. 10,000 crore for FY2023E/FY2024E versus Rs. 20,695 crore in FY2022. Projects worth Rs. 53,300 crore and upcoming TBCB opportunities of Rs. 31,850 crore provide decent earnings growth visibility.
- We maintain Buy on Power Grid with a revised PT of Rs. 265, as valuation of 1.7x its FY2024E P/BV seems attractive, considering expectation of an 11% PAT CAGR over FY2022-FY2024E, RoE of 19%, and dividend yield of ~7%. Further, monetisation of assets could help improve dividend payout.


**Power Grid Corporation of India Limited's (Power Grid) standalone Q4FY2022 PAT increased by 6.1% y-o-y to Rs. 3,731 crore, above our estimate of Rs. 3,644 crore but lower than street's estimate of Rs. 3,972 crore. The miss versus street's estimates was primarily due to lower-than-expected asset capitalisation of Rs. 2,144 crore (versus Rs. 6,983 crore in Q4FY2021 and Rs. 3,854 crore in Q3FY2022), lower incentive income (Rs. 55 crore versus Rs. 119 crore in Q4FY2021), and higher CSR expenses (Rs. 185 crore versus Rs. 69 crore in Q4FY2021). We have adjusted reported PAT of Rs. 4,321 crore (up 22.9% y-o-y) by one-time exceptional income from transfer of balance of 26% stake in PVTL to InvIT in March 2022.**

**Key positives**

- Consolidated asset capitalisation of Rs. 20,695 crore in FY2022 versus Rs. 15,136 crore in FY2021.
- Declared final dividend of Rs. 2.25/share, thus taking FY2022 dividend to Rs. 14.75, which implies dividend yield of 6.6%.

**Key negatives**

- Muted capex/capitalisation guidance of Rs. 8,000 crore and Rs. 10,000 crore for FY2023 and FY2024, respectively.

**Management Commentary**

- **Capitalisation and capex guidance:** Management has given an asset capitalisation guidance of Rs. 10,000 crore/Rs. 10,000 for FY23E/FY24E and capex guidance of Rs. 8,000 crore/Rs. 8,000 crore for FY23E/FY24E. Asset capitalisation guidance is lower than the previous guidance of Rs. 14,000 crore-15,000 crore and only half of FY2022 capitalisation of Rs. 20,695 crore.
- **Smart Meters:** Management is targeting Rs. 8,000 crore-9,000 crore capex in smart metering over the next few years and is eyeing opportunity from planned installation of four crore meters with CPSE under MoU. Power Grid has initiated procurement process for one crore smart meters to provide end-to-end solutions, including O&M, and is in discussions with states (depending up creditability, payment security, and guarantees by states).
- **Monetisation Target:** Asset monetisation target is set at Rs. 7,500 crore for FY2023, out of which Rs. 640 crore is already completed in March 2022. It is working on a model wherein ownership would be transferred for a limited period and would return back to Power Grid. The company awaits cabinet approval on the same.
- **Work in Hand and Business Outlook:** Work in Hand is worth Rs. 53,300 crore (ongoing projects – Rs. 6,700 crore, new projects – Rs. 31,800 crore, and TBCB projects – Rs. 14,800 crore). Leh-Kaithal transmission corridor project, including 1GW of storage comprising total of Rs. 26,000 crores, is included above and the same would see major capex from FY2024. Additionally, there are upcoming opportunities of Rs. 31850 crore under TBCB.
- **New project wins –** LoI issued to Power Grid for Intra State Transmission System of Uttar Pradesh for Construction of 400/220/132kV GIS Substation, Mohanlalganj (Lucknow).

**Revision in estimates –** We have increased our estimates for FY2023-FY2024 earnings estimates, as we expect assets capitalised in the past one year to aid earnings growth.

**Our Call**

**Valuation – Maintain Buy on Power Grid with a revised PT of Rs. 265:** Power Grid has a robust project pipeline worth Rs. 27,300 crore (excluding Leh-Kaithal project) and has capitalised ~Rs. 20,695 crore in FY2022, which provides earnings visibility for 2-3 years. Thus, we expect an 11% CAGR in PAT over FY2022-FY2024E along with RoE of ~19% in FY2024E. We maintain Buy on Power Grid with a revised price target (PT) of Rs. 265 (valued at 2x its FY2024E book value) as valuation of 1.7x its FY24E P/BV seems attractive, considering decent growth outlook, healthy RoE, and dividend yield of ~7%. Further, monetisation of transmission assets worth Rs6900 crore could help improve dividend payout, given low FY2023 capex of Rs. 8,000 crore.

**Key Risks**

1) Slower-than-expected capitalisation of projects and 2) Inability to win new projects under the tariff-based competitive bidding route.

**Valuation (Consolidated)** Rs cr

| Particulars | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|
| Revenue | 39,640 | 41,616 | 45,570 | 49,899 |
| OPM (%) | 88.3 | 87.9 | 87.0 | 87.0 |
| Adjusted PAT | 13,115 | 13,504 | 14,226 | 16,716 |
| y-o-y growth (%) | 18.6 | 3.0 | 5.4 | 17.5 |
| Adjusted EPS (Rs.) | 18.8 | 19.4 | 20.4 | 24.0 |
| P/E (x) | 11.9 | 11.6 | 11.0 | 9.4 |
| Price/ Book (x) | 2.2 | 2.1 | 1.9 | 1.7 |
| EV/EBITDA (x) | 8.1 | 7.8 | 6.6 | 5.9 |
| RoCE (%) | 11.1 | 11.2 | 11.5 | 12.2 |
| RoE (%) | 19.5 | 18.5 | 17.9 | 19.1 |

*Source: Company; Sharekhan estimates*

## Muted Q4 on lower asset capitalistion

Standalone Q4FY2022 PAT increased by 6.1% y-o-y to Rs. 3,731 crore, above our estimate of Rs. 3,644 crore but lower than street's estimate of Rs. 3,972 crore. The miss versus street's estimates was primarily due to lower-than-expected asset capitalisation of Rs. 2,144 crore (versus Rs. 6,983 crore in Q4FY2021 and Rs. 3,854 crore in Q3FY2022), lower incentive income (Rs. 55 crore in Q4FY2022 versus Rs. 119 crore in Q4FY2021), and higher CSR expenses (Rs. 185 crore in Q4FY2022 versus Rs. 69 crore in Q4FY2021). We have adjusted reported PAT of Rs. 4,321 crore (up 22.9% y-o-y) by one-time exceptional income from transfer of balance 26% stake in PVTL to InvIT in March 2022.

**Results (Standalone)** Rs cr

| Particulars | Q4FY22 | Q4FY21 | YoY(%) | Q3FY22 | QoQ(%) |
|---|---|---|---|---|---|
| **Reported Net ales** | **10,221** | **9,942** | **2.8** | **10,001** | **2.2** |
| **Total Expenditure** | **1,345** | **1,195** | **12.5** | **1,313** | **2.5** |
| **Operating profit** | **8,876** | **8,747** | **1.5** | **8,688** | **2.2** |
| Other income | 721 | 763 | (5.5) | 636 | 13.4 |
| Depreciation | 3,187 | 3,025 | 5.4 | 3,193 | (0.2) |
| Interest | 2,103 | 1,976 | 6.4 | 1,852 | 13.6 |
| Exceptional expense/(Income) | -590 | 0 | NA | 0 | NA |
| **Reported PBT** | **4,896** | **4,509** | **8.6** | **4,279** | **14.4** |
| **Adjusted PBT** | **4,306** | **4,509** | **(4.5)** | **4,279** | **0.6** |
| Tax | -59 | 627 | (109.5) | 862 | (106.9) |
| Regulatory Deferral A/c | -635 | -367 | 73.3 | -67 | 842.7 |
| **Reported PAT** | **4,321** | **3,516** | **22.9** | **3,349** | **29.0** |
| **Adjusted PAT** | **3,731** | **3,516** | **6.1** | **3,349** | **11.4** |
| Reported EPS (Rs.) | 6.2 | 5.0 | 22.9 | 4.8 | 29.0 |
| Adjusted EPS (Rs.) | 5.3 | 5.0 | 6.1 | 4.8 | 11.4 |
| **Margin (%)** | | | **bps** | | **bps** |
| OPM | 86.8 | 88.0 | (114.0) | 86.9 | -4 |
| NPM | 36.5 | 35.4 | 114.0 | 33.5 | 301 |
| Tax rate | (1.2) | 13.9 | NA | 20.2 | NA |

*Source: Company, Sharekhan Research*

**Segmental performance (standalone)** Rs cr

| Particulars | Q4FY22 | Q4FY21 | YoY(%) | Q3FY22 | QoQ(%) |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Transmission | 10,003 | 9,787 | 2.2 | 9,801 | 2.1 |
| Consultancy | 259 | 177 | 46.9 | 171 | 51.3 |
| Telecom | 174 | 199 | (12.4) | 185 | (6.1) |
| Intersegment | -18 | -17 | 0.3 | -17 | 1.0 |
| **Net Revenue** | **10,419** | **10,145** | **2.7** | **10,140** | **2.8** |
| | | | | | |
| **EBIT** | | | | | |
| Transmission | 4,911 | 5,312 | (7.6) | 5,454 | (10.0) |
| Consultancy | 130 | 77 | 68.7 | 57 | 127.5 |
| Telecom | 47 | 91 | (47.7) | 69 | (31.6) |
| **Overall EBIT** | **5,088** | **5,480** | **(7.1)** | **5,581** | **(8.8)** |
| **EBIT margin (%)** | | | **bps** | | **bps** |
| Transmission | 49.1 | 54.3 | -519 | 55.7 | -656 |
| Consultancy | 50.2 | 43.7 | 649 | 33.4 | 1,681 |
| Telecom | 27.2 | 45.6 | -1,841 | 37.4 | -1,014 |
| **Overall EBIT margin** | **48.8** | **54.0** | **-518** | **55.0** | **-620** |

*Source: Company, Sharekhan Research*

## Outlook and Valuation

■ **Sector View – 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 companies' balance sheet.

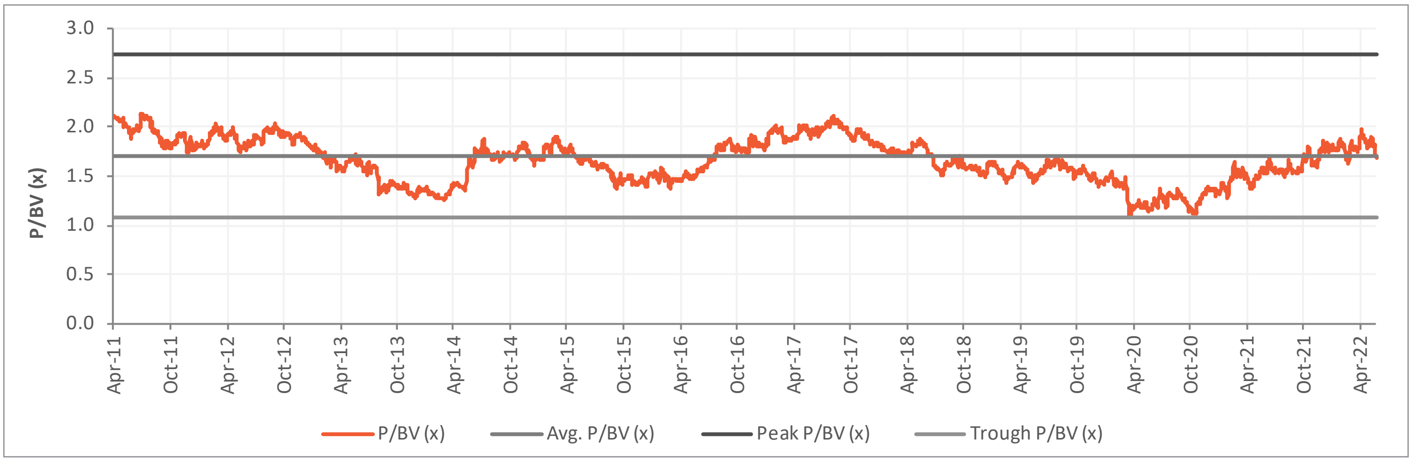
■ **Company Outlook – Earnings visibility led by robust capitalisation in the past one year**

Robust capitalisation in the past 12 months and work-in-hand pipeline of ~Rs. 53,300 provide healthy earnings growth visibility (we expect an 11% PAT CAGR over FY2021-FY2024E). Capex/capitalisation guidance of Rs. 8,000 crore and Rs. 10,000 crore for FY2023 and FY2024, respectively, is lower than FY2022 level but could pick up, given TBCB's opportunity of Rs. 31,800 crore.

■ **Valuation – Maintain Buy on Power Grid with a revised PT of Rs. 265**

Power Grid has a robust project pipeline worth Rs. 27,300 crore (excluding Leh-Kaithal project) and has capitalised ~Rs. 20,695 crore in FY2022, which provides earnings visibility for 2-3 years. Thus, we expect an 11% CAGR in PAT over FY2022-FY2024E along with RoE of ~19% in FY2024E. We maintain Buy on Power Grid with a revised PT of Rs. 265 (valued at 2x its FY2024E book value) as valuation of 1.7x its FY24E P/BV seems attractive, considering decent growth outlook, healthy RoE, and dividend yield of ~7%. Further, monetisation of transmission assets could help improve dividend payout, given low FY2023 capex of Rs. 8,000 crore.

**One-year forward P/E (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 1,70,724 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. 53,300 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 19% and is trading at an attractive valuation. Further, asset monetisation over FY2023E-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**

| | |
|---|---|
| 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 | Capital Group Cos Inc | 6.6 |
| 2 | Life Insurance Corp of India | 5.96 |
| 3 | Capital Income Builder | 2.60 |
| 4 | Nippon Life India Asset Management | 2.57 |
| 5 | Vanguard Group Inc | 2.43 |
| 6 | Republic of Singapore | 2.43 |
| 7 | SBI Funds Management | 2.21 |
| 8 | FMR LLC | 1.67 |
| 9 | Blackrock Inc | 1.48 |
| 10 | ABRDN PLC | 1.10 |

*Source: Bloomberg*

## 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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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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