

Muted performance...

About the stock: Powergrid is India's largest power transmission utility with transmission lines of 172190 ckt km and 46900 MVA of transformation capacity.

- Powergrid transmits about 50% of the total power generated in India on its transmission network
- It also undertakes transmission related consultancy to more than 150 domestic clients and owns & operates 71673 km of telecom network

Q4FY22 Results: As expected, Powergrid reported operationally muted Q4FY22 results. In terms of operational performance, transmission revenues grew at low single digit growth rate YoY. This was expected as the pace of capacity addition has slowed down given majority high value transmission projects are behind us.

- Reported revenues came in at ₹ 10221.2 crore vs. our estimate of ₹ 10676.2 crore. Transmission revenues (90% of revenues) grew 2% YoY to ₹ 10003.2 crore against our expectation of 5% YoY growth
- Capitalisation of ₹ 20695 crore in FY22 with capex of ₹ 9060 crore

What should investors do? Powergrid has been a steady performer due to strong asset addition in FY16-20. With relatively small size of renewable projects, growth rate will taper down for the stock supported by decent dividend yield but the same has been discounted while new business initiatives will take time to show results.

- Maintain **HOLD** rating on the stock

Target Price and Valuation: We value the stock at ₹ 235 at 1.9x FY24E Book Value.

Key triggers for future price performance:

- Diversification into smart metering and T&D infrastructure business

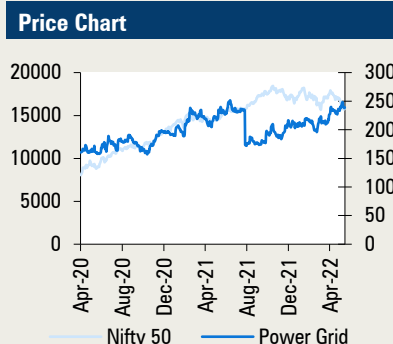
Alternate Stock Idea: In the power space, we are bullish on NTPC's prospects

- Strong focus on green energy portfolio, capacity addition in base business with growth in regulated RoE. BUY with a target of ₹ 190/share, (1.3x FY24E Book Value)



Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	156938
Total Debt (FY22) (₹ Crore)	130975
Cash and Investments (FY21) (₹ Crore)	2488
EV (₹ Crore)	285424.5
52 week H/L (₹)	245 / 134
Equity capital (₹ Crore)	6975.5
Face value	₹ 10

Shareholding pattern				
	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	51.3%	51.3%	51.3%	51.3%
FII	28.3%	27.9%	28.2%	29.4%
DII	13.9%	8.4%	8.4%	16.0%
Others	6.5%	12.4%	12.1%	3.3%



Recent event & key risks

- **Key Risk:** (i) Higher than expected IRRs in TBCB projects and ii) Delay in tendering of projects

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Key Financial Summary

	FY20	FY21	FY22E	5 Year CAGR (FY16-21E)	FY23E	FY24E	CAGR (FY22-24E)
Net Sales	34119.1	37665.7	39928.1	12.6%	43404.3	45423.9	6.7%
EBITDA	29282.1	33055.9	34921.7	13.8%	38143.7	40058.3	7.1%
Net Profit	9938.9	11935.8	17093.8	14.6%	13802.0	14666.5	-7.4%
EPS (₹)	19.0	17.1	24.5		19.8	21.0	
P/E	9.8	10.9	7.6		9.4	8.8	
EV / EBITDA	10.0	8.6	8.1		7.5	7.2	
P/BV	2.2	2.4	2.1		2.0	1.9	
RoNW (%)	15.3	17.7	23.0		17.3	17.1	
RoCE (%)	5.3	6.5	7.4		8.1	8.6	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Muted Quarter...

- Reported revenues came in at ₹ 10221.2 crore vs. our estimate of ₹ 10676.2 crore. Transmission revenues (90% of revenues) grew 2% YoY to ₹ 10003.2 crore against our expectation of 5% YoY growth. On the other hand, telecom and segment revenues came in at ₹ 173.9 crore and ₹ 259.4 crore, respectively. Consolidated revenues (which includes revenues from TBCB projects) came in at ₹ 10686 crore, flat YoY
- EBITDA came in at ₹ 8875.0 crore, above our estimate of ₹ 9395.1 crore. The miss mainly came from lower revenues income (3% miss on transmission revenues) and higher other expenses. Reported PAT came in at ₹ 4320.6 crore vs. our estimate of ₹ 3788.7 crore mainly on the bac of exceptional gain of ₹ 590 crore (profit on sale of projects to Invit)
- For FY22, the company has declared a higher dividend of ₹ 14.8 per share (including ₹ 2.25 per share declared in Q4FY22 as final dividend) culminating into a payout of 60%

Q4FY22 Earnings Conference Call highlights

- The company capitalised assets to the tune of ₹ 2182 crore and ₹ 20695 crore as on Q4FY22 and FY22, respectively. The capitalisation target for FY23E and FY24E is expected between ₹ 14000 and ₹ 15000 crore for each year
- The capex incurred during FY22 was at ₹ 9060 crore on a consolidated basis. For FY23E and FY24E, the company expects a capex of ₹ 8000-8500 crore
- Gross block of FY22 was at ₹ 262726 crore while debt was at ₹ 129365 crore
- The company has ₹ 53,300 crore of work in hand, of which, ₹ 6700 crore is for ongoing projects, ₹ 31800 crore for new projects and ₹ 14800 crore for TBCB projects
- Upcoming opportunities are at ₹ 31850 crore with ₹ 21200 crore ISTS projects under bidding, ₹ 8600 crore ISTS projects bidding to be initiated and ₹ 2050 crore ISTS project under bidding
- Outstanding dues were at ₹ 4312 crore. Receivables days were at 43.69 days
- For FY23 and FY24 the company expects monetisation in range of ₹ 7500 crores and ₹ 15000 crores, respectively
- The company plans to foray into the smart metering infra business where it will invest in the smart meter asset development business as floated by the respective state utility. Powergrid aspires to be across the value chain wherein the company will set up the required infra and manage the O&M business as well. Powergrid plans to invest ₹ 10000-12000 crore over the next four years. On the other hand, it plans to foray into improving state T&D infra and plans to invest another ₹ 10000-12000 crore over the next four years

Exhibit 1: Variance Analysis

	Q4FY22	Q2FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Total sales	10,221.2	10,676.2	9,942.5	2.8	10,001.0	2.2	Overall revenues were in line with estimates. Revenues from transmission segment revenue grew by 2% YoY
Other operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Total Income	10,221.2	10,676.2	9,942.5	2.8	10,001.0	2.2	
Personnel cost	567.5	406.3	652.1	(13.0)	611.1	(7.1)	
General & Admin exp	777.8	577.4	543.2	43.2	701.6	10.8	
Non-recurring exp							
Total expenses	1,345.3	983.7	1,195.3	12.5	1,312.7	2.5	
EBITDA	9,596.6	10,185.1	9,510.2	0.9	9,323.9	2.9	
EBITDA Margin (%)	93.9	95.4	95.7	(176.3)	93.2	66.0	
Depreciation	3,187.5	3,250.0	3,025.3	5.4	3,193.0	(0.2)	
Interest	2,102.7	1,950.0	1,976.3	6.4	1,851.7	13.6	
Other Income	720.7	790.0	763.0	(5.5)	635.6	13.4	
PBT	4,306.5	4,985.1	4,508.6	(4.5)	4,279.2	0.6	
Total Tax	-59.4	1,196.4	626.5	(109.5)	862.4	(106.9)	
Adjusted PAT	4,320.6	3,788.7	3,515.6	22.9	3,349.4	29.0	PAT was higher on account of exceptional gain on Invits
Key Metrics							
Transmission	10,003.2	10,276.4	9,787.0	2.2	9,800.6	2.1	
Consultancy	259.4	185.4	198.6	30.6	171.4	51.3	
Telecom	173.9	214.4	176.6	-1.5	185.2	(6.1)	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Revenue	42,188.3	43,404.3	0.0	44,042.0	45,423.9	0.0
EBITDA	36,927.7	38,143.7	0.0	38,676.0	40,058.3	0.0
EBITDA Margin (%)	87.5	87.9	0.0	87.8	88.2	0.0
PAT	13,305.8	13,802.0	0.0	13,745.0	14,666.5	0.1
EPS (₹)	19.1	18.5	0.0	19.1	20.0	0.0

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	37,666	39,928	43,404	45,424
Growth (%)	10	6	9	5
Employee Expenses	2,111	2,235	2,282	2,442
Other expenses	2,499	2,772	2,978	2,923
Total Operating Expenditure	4,610	5,006	5,261	5,366
EBITDA	33,056	34,922	38,144	40,058
Growth (%)	13	6	9	5
Depreciation	11,712	12,551	12,917	13,710
Interest	8,501	8,211	10,284	10,438
Other Income	2,861	2,408	2,528	2,655
PBT	15,705	16,568	17,471	18,565
Others	2	3	4	5
Total Tax	3,089	2,711	3,669	3,899
PAT	11,936	17,094	13,802	14,667
Growth (%)	9	10	43	-19
EPS (₹)	17.1	24.5	19.8	21.0

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit Before Tax	15,025	19,805	17,471	18,565
Add: Depreciation	11,712	12,551	12,917	13,710
(Inc)/dec in Current Assets	-2,534	-853	-513	-1,247
Inc/(dec) in CL and Provisions	4,297	-2,657	-1,486	542
Others	6,339	6,313	7,716	7,709
CF from operating activities	34,839	35,158	36,104	39,279
(Inc)/dec in Fixed Assets	-20,685	-20,140	-20,140	-20,140
(Inc)/dec in Disposals	-375	23	22	21
Others	0	0	1	2
CF from investing activities	(21060)	(20116)	(20117)	(20117)
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	4,212	3,017	6,035	2,012
Dividend paid & dividend tax	-8,272	-10,256	-8,281	-8,800
Inc/(dec) in Sec. premium	0	0	1	2
Others	-8,501	-8,211	-10,284	-10,438
CF from financing activities	(12561)	(15450)	(12529)	(17224)
Net Cash flow	408	3,293	-2,545	2,397
Opening Cash	1,137	1,884	4,282	8,447
Closing Cash	1884	4282	8447	9389

Source: Company, ICICI Direct

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	5,232	5,232	5,232	5,232
Reserve and Surplus	62,385	69,223	74,744	80,610
Total Shareholders funds	67,617	74,455	79,975	85,842
Total Debt	1,65,277	1,68,294	1,74,329	1,76,341
AAD	0	0	0	0
Minority Interest / Others	3,827	3,827	3,827	3,827
Total Liabilities	236721	246576	258132	266010
Assets				
Gross Block	2,73,693	2,92,833	3,11,973	3,31,113
Less: Acc Depreciation	83,866	96,416	1,09,333	1,23,043
Net Block	1,89,828	1,96,417	2,02,640	2,08,071
Capital WIP	56,810	57,810	58,810	59,810
Total Fixed Assets	2,46,638	2,54,227	2,61,450	2,67,881
Investments	1,380	1,356	1,334	1,313
Inventory	1,440	1,565	1,648	1,585
Debtors	3,955	4,192	4,557	4,770
Loans and Advances	10,199	10,811	11,752	12,299
Other Current Assets	4,520	4,791	5,209	5,451
Cash	1,884	4,282	8,447	9,389
Total Current Assets	21,998	25,642	31,614	33,494
Current liabilities	21,780	22,372	23,409	23,975
Other Liabilities	6,997	7,761	8,339	8,185
Total Current Liabilities	28,777	30,132	31,749	32,160
Net Current Assets	-11,297	-9,008	-4,652	-3,182
Others Assets				
Application of Funds	236721	246576	258132	266011

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	17.1	24.5	19.8	21.0
Cash EPS	33.9	42.5	38.3	40.7
BV	96.9	106.7	114.7	123.1
DPS	13.4	14.7	11.9	12.6
Cash Per Share	2.7	6.1	12.1	13.5
Operating Ratios (%)				
EBITDA Margin	87.8	87.5	87.9	88.2
PBT / Total Operating income	41.7	41.5	40.3	40.9
PAT Margin	31.7	42.8	31.8	32.3
Debtor days	38.3	38.3	38.3	38.3
Return Ratios (%)				
RoE	17.7	23.0	17.3	17.1
RoCE	6.5	7.4	8.1	8.6
RoIC	6.6	7.5	8.4	8.9
Valuation Ratios (x)				
P/E	13.4	9.3	11.6	10.9
EV / EBITDA	8.6	8.1	7.5	7.2
EV / Net Sales	7.5	7.1	6.6	6.3
Market Cap / Sales	3.2	3.0	2.8	2.6
Price to Book Value	2.4	2.1	2.0	1.9
Solvency Ratios				
Debt/EBITDA	5.0	4.8	4.6	4.4
Debt / Equity	2.4	2.3	2.2	2.1
Current Ratio	0.8	0.9	1.0	1.0
Quick Ratio	0.1	0.1	0.3	0.3

Source: Company, ICICI Direct Research

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