



**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**  
Updated July 08, 2022 **26.06**

**Medium Risk**

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

Source: Morningstar

**Company details**

Market cap:	Rs. 155,413 cr
52-week high/low:	Rs. 248/170
NSE volume: (No of shares)	114.3 lakh
BSE code:	532898
NSE code:	POWERGRID
Free float: (No of shares)	339.0 cr

**Shareholding (%)**

Promoters	51.3
FII	30.3
DII	15.2
Others	3.2

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	4.4	-5.5	7.2	19.1
Relative to Sensex	-5.7	-17.6	5.2	10.9

Sharekhan Research, Bloomberg

**Power Grid Corporation of India Ltd**  
**Steady Q1; decent growth outlook; healthy dividend yield**

<b>Power</b>	<b>Sharekhan code: POWERGRID</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 223</b>	<b>Price Target: Rs. 265</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- Q1FY23 saw steady 15% y-o-y growth in standalone PAT to Rs. 3,766 crore (11% above our estimate) led by lower interest cost and tax rate of just 12% (down 763 bps y-o-y). Surcharge/incentive income rose by 76%/35% y-o-y to Rs. 97 crore/Rs. 149 crore.
- Standalone/consolidated asset capitalisation was muted at Rs. 1,332 crore/Rs. 1,345 crore; down 70%/76% y-o-y. Receivables also rose by 36% q-o-q to Rs. 5,856 crore but management expects the same to normalise by March 2022.
- Company marginally raised asset capitalisation guidance to Rs. 11,000 crore (versus Rs. 10,000 crore earlier). Power Grid has projects worth Rs. 52,000 crore (including Rs. 26,000 crore for Leh-Kaithal transmission corridor) that provides decent earnings growth visibility.
- We maintain a Buy on Power Grid with an unchanged PT of Rs. 265 as valuation of 1.7x FY24E P/BV seems attractive given expectation of 11% PAT CAGR over FY22-24E, RoE of 19% and a dividend yield of ~7%.

Power Grid Corporation of India Limited's (Power Grid) standalone Q1FY2023 PAT increased by 15.1% y-o-y to Rs. 3,766 crore, 11% above our estimate of Rs. 3,395 crore led by lower-than-expected interest costs (down 13.7% y-o-y) and a tax rate of just 12% (versus assumption of 23.5%). Surcharge/incentive income increased by 76%/35% y-o-y to Rs. 97 crore/Rs. 149 crore, while dividend income from subsidiaries/JVs stood at Rs. 109 crore (versus Rs. 67 crore in Q1FY22). On the other hand, interest on differential tariffs declined to Rs. 142 crore versus Rs. 238 crore in Q1FY22. However, standalone asset capitalisation/capex stayed muted at Rs. 1332 crore/Rs. 758 crore as compared to Rs. 4,439 crore/Rs. 706 crore in Q1FY22. We have adjusted Q1FY22/Q4FY22 PAT for exceptional income of Rs. 3170 crore/Rs. 590 crore related to monetisation of TBCB assets.

**Key positives**

- Higher surcharge/incentive income of Rs. 97 crore/Rs. 149 crore, up 76%/35% y-o-y.

**Key negatives**

- Consolidated asset capitalisation was muted at Rs. 1,345 crore in Q1FY23 versus Rs. 5642 crore in Q1FY22.
- Outstanding receivables increased to Rs. 5,856 crore in Q1FY23 versus Rs. 4312 crore in Q4FY22.

**Management Commentary**

- FY23 asset capitalisation/capex guidance of Rs. 11,000 crore/Rs. 8,000 crore is lower versus Rs. 20,695 crore/Rs. 9,060 crore done in FY22.
- Company has initiated procurement process for 1 crore smart meters to provide end-to-end solutions and signed an MoU with MGVL & UGVCL, Gujarat state discoms to implement Advanced Metering Infrastructure (AMI) System for 66 lakh meters.
- Asset monetisation target set at Rs. 6,600 crore for FY23; traction expected over Q3/Q4FY23.
- Work in hand worth Rs. 52,000 crore (**Ongoing projects** – Rs. 8,200 crore, **New projects** – Rs. 28,000 crore and **TBCB projects** – Rs. 15,800 crore). Estimated ISTS investment of Rs. 1.25 lakh crore by FY27 provides growth opportunity.
- Outstanding receivables increased by 35% q-o-q to Rs. 5856 crore (O/S > 45 days at Rs. 4138 crore and O/S < 45 days at Rs. 1,718 crore). Outstanding dues of Rs. 2,000 crore with six discoms settled for payment through instalments and management expects outstanding dues to normalise by March 2022.
- Signed Transmission agreement (worth Rs. 250-260 crore) with Reliance Industries for implementation of a transmission line from ISTS Jam Khambaliya pooling station to RIL's Jamnagar facilities.

**Revision in estimates** – We maintain our FY23-24 earnings estimates.

**Our Call**

**Valuation – Maintain Buy on Power Grid with an unchanged PT of Rs. 265:** Power Grid has a robust project pipeline worth Rs. 26,000 crore (excluding the Leh-Kaithal project worth Rs. 26,000 crore) and has capitalised ~Rs. 20,695 crore in FY22, which provides earnings visibility for 2-3 years. We thus expect an 11% CAGR in PAT over FY2022-FY2024E along with RoE of ~19% in FY24E. We maintain a Buy on Power Grid with an unchanged PT of Rs. 265, as valuation of 1.7x 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 FY23 capex of Rs. 8000 crore.

**Key Risks**

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

**Valuation (Consolidated)**

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
Ajusted 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

## Q1 PAT beat estimate on lower interest rate and tax rate; asset capitalisation muted

Standalone Q1FY23 revenues grew by 6.8% y-o-y to Rs. 10,446 crore, which was 4.5% below our estimate of Rs. 10,937 crore. Revenue from the transmission business was up by 5.5% y-o-y to Rs. 10,216 crore. OPM, at 84.3%, (down 343 bps y-o-y) was 276 bps below our estimate of 87%. Consequently, operating profit at Rs. 8,802 crore (up 2.6% y-o-y) was 7.5% below our estimate of Rs. 9,517 crore. Standalone PAT increased by 15.1% y-o-y to Rs. 3,766 crore, which was 11% above our estimate of Rs. 3,395 crore led by lower-than-expected interest costs (down 13.7% y-o-y) and tax rate of 12% (versus assumption of 23.5%). Surcharge/incentive incomes increased by 76%/35% y-o-y to Rs. 97 crore/Rs. 149 crore and dividend income from subsidiaries/JVs stood at Rs. 109 crore (versus Rs. 67 crore in Q1FY22). On the other hand, interest on differential tariffs declined to Rs. 142 crore versus Rs. 238 crore in Q1FY22. However, standalone asset capitalization/capex remained muted at Rs. 1332 crore/Rs. 758 crore as compared to Rs. 4439 crore/Rs. 706 crore in Q1FY22. We have adjusted Q1FY22/Q4FY22 PAT for exceptional income of Rs. 3170 crore/Rs. 590 crore related to monetisation of TBCB assets.

### Q1FY23 conference call highlights

- ◆ **Capitalisation & capex guidance:** The management gave an asset capitalization guidance of more than Rs. 11,000 crores and a capex guidance of more than Rs. 8,000 crore for FY23. In Q1FY23, on a standalone basis, the company completed capex of Rs. 758 crores and capitalised assets worth Rs. 1,332 crore.
- ◆ **Smart Meters:** Power Grid has initiated procurement process for 1 crore smart meters to provide end-to-end solutions including O&M and discussion with states for the MoU route is in process. Potential opportunity of 25 crore meters to generate revenue of Rs. 1.5 lakh crores (including GBS of Rs. 22,500 crore). Power Grid has signed MoUs with MGCVL, UGVCL and Gujarat state discoms to implement Advance Metering Infrastructure system for 66 lakh meters.
- ◆ **Solar power generation:** The company's first commercial Solar PV project of 85MW at Nagda will be tendered shortly and preliminary feasibility is being carried out for additional capacity at Aurangabad, Jabalpur, Khammam and Wardha.
- ◆ **Monetisation Target:** Asset monetisation target was set at Rs. 6,600 crores for FY23 and expect traction on the same over Q3FY23-Q4FY23.
- ◆ **Work in hand & business outlook:** Work in hand is worth Rs. 52,000 crore (Ongoing projects – Rs.8,200 crore, New projects – Rs.28,000 crore and TBCB projects – Rs. 15,800 crore).
- ◆ **Outstanding Dues:** Outstanding dues from debtors as on June 30, 2022 was at Rs. 5,856 crores and increased by 36% QoQ. Receivable days also increased to 63 days in Q1FY23 from 44 days in Q4FY22. Major dues are from J&K, Tamil Nadu, UP and Telangana. The company had a billing realisation rate of 82% for Q1FY23.
- ◆ **Acquisitions and strategic agreements:** During the quarter company acquired the Khetri Narela Transmission Ltd in Rajasthan, Mohanlalganj Transmission Ltd in UP and signed Transmission agreement with Reliance Industries Ltd.

Results (Standalone)

Particulars	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
<b>Revenue</b>	<b>10,446</b>	<b>9,779</b>	<b>6.8</b>	<b>10,221</b>	<b>2.2</b>
Total Expenditure	1,644	1,204	36.6	1,345	22.2
<b>Operating profit</b>	<b>8,802</b>	<b>8,574</b>	<b>2.6</b>	<b>8,876</b>	<b>(0.8)</b>
Other income	571	507	12.7	721	(20.8)
Depreciation	3,203	3,027	5.8	3,187	0.5
Interest	1,982	2,298	(13.7)	2,103	(5.8)
Exceptional expense/(Income)	0	-3,170		-590	
<b>Reported PBT</b>	<b>4,188</b>	<b>6,926</b>	<b>(39.5)</b>	<b>4,896</b>	<b>(14.5)</b>
<b>Adjusted PBT</b>	<b>4,188</b>	<b>3,757</b>	<b>11.5</b>	<b>4,306</b>	<b>(2.7)</b>
Tax	502	1,359	(63.0)	-59	NA
Regulatory Deferral A/c	80	518	(84.6)	-635	NA
<b>Reported PAT</b>	<b>3,766</b>	<b>6,085</b>	<b>(38.1)</b>	<b>4,321</b>	<b>(12.8)</b>
<b>Adjusted PAT</b>	<b>3,766</b>	<b>3,273</b>	<b>15.1</b>	<b>3,731</b>	<b>0.9</b>
Reported EPS	5.4	8.7	(38.1)	6.2	(12.8)
Adjusted EPS	5.4	4.7	15.1	5.3	0.9
<b>Margin (%)</b>			<b>BPS</b>		<b>BPS</b>
OPM	84.3	87.7	(342.7)	86.8	-258
Adjusted NPM	36.0	33.5	257.9	36.5	-45
Tax rate	12.0	19.6	(762.8)	(1.2)	NA

Source: Company, Sharekhan Research

Segmental performance (standalone)

Particulars	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
<b>Revenue</b>					
Transmission	10,216	9,686	5.5	10,003	2.1
Consultancy	233	152	53.2	259	(10.0)
Telecom	190	119	60.1	174	9.4
Intersegment	-19	-17	12.8	-18	8.9
<b>Net Revenue</b>	<b>10,620</b>	<b>9,941</b>	<b>6.8</b>	<b>10,419</b>	<b>1.9</b>
<b>EBIT</b>					
Transmission	5,677	6,245	(9.1)	4,911	15.6
Consultancy	118	66	80.3	130	(9.0)
Telecom	75	27	179.4	47	58.0
<b>Overall EBIT</b>	<b>5,870</b>	<b>6,337</b>	<b>(7.4)</b>	<b>5,088</b>	<b>15.4</b>
<b>EBIT margin (%)</b>			<b>BPS</b>		<b>BPS</b>
Transmission	55.6	64.5	-890	49.1	648
Consultancy	50.7	43.1	763	50.2	55
Telecom	39.3	22.5	1,678	27.2	1,210
<b>Overall EBIT margin</b>	<b>55.3</b>	<b>63.8</b>	<b>-848</b>	<b>48.8</b>	<b>644</b>

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 the power sector's receivables and strengthen companies' balance sheets.

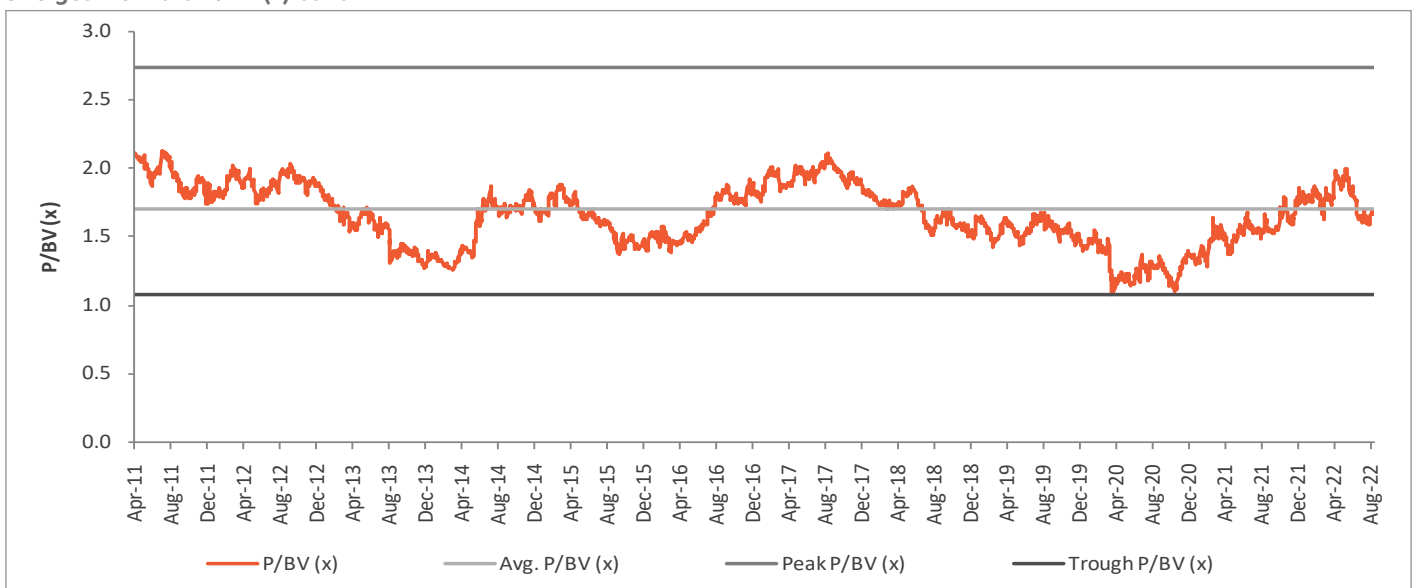
### ■ Company outlook - Earnings visibility led by robust capitalization in last one year

Robust capitalization in the past 12 months and work-in-hand pipeline of ~Rs. 52,000 crore provide healthy earnings growth visibility (we expect a 11% PAT CAGR over FY2021-FY2024E). Capex/capitalisation guidance of Rs. 8,000 crore/Rs. 11,000 crore each for FY2023 and FY2024 is lower than FY22 level but could pick up, given strong upcoming opportunities in the TBCB segment.

### ■ Valuation - Maintain Buy on Power Grid with an unchanged PT of Rs. 265

worth Rs. 26,000 crore (excluding the Leh-Kaithal project worth Rs. 26,000 crore) and has capitalised ~Rs. 20,695 crore in FY22, which provides earnings visibility for 2-3 years. We thus expect a an 11% CAGR in PAT over FY2022-FY2024E along with RoE of ~19% in FY24E. We maintain a Buy on Power Grid with an unchanged PT of Rs. 265, as valuation of 1.7x 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 FY23 capex of Rs. 8000 crore.

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 1,70,724 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 FY23E-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

### 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 (old data)

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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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