

## Stable performance...

**About the stock:** Powergrid is India's largest power transmission utility with transmission lines of 172662 ckt km and 485750 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

**Q2FY23 Results:** As expected, Powergrid reported muted Q2FY23 revenues. As per our expectations, growth rates in the transmission business have settled in the single digit domain given peak of transmission capex is behind us. Going ahead, we believe the roadmap in terms of getting new projects in the renewable segment and likely diversification in the distribution business will set the tone for growth trajectory.

- Reported revenues came in at ₹ 10655.7 crore vs. our estimate of ₹ 10580.3 crore, implying growth of 7% YoY. Transmission segment revenues came in at ₹ 10411.8 crore, up 7% YoY (vs. our estimate of ₹ 10182.4 crore)
- Capitalisation of ₹ 1788 crore in Q2FY23 with capex of ₹ 1737 crore

**What should investors do?** Powergrid has been a steady performer on account of strong asset addition in FY16-20. With relatively small sizes 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.

- We 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 price of ₹ 196/share, (1.4x FY24E book value)



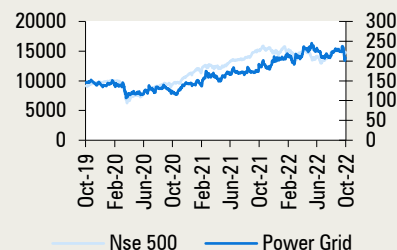
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	158333
Total Debt (FY22) (₹ Crore)	130975
Cash and Investments (FY22) (₹ Crore)	2488
EV (₹ Crore)	286819.5
52 week H/L (₹)	245 / 134
Equity capital (₹ Crore)	6975.5
Face value	₹ 10

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	51.3%	51.3%	51.3%	51.3%
FII	28.2%	29.4%	30.3%	31.7%
DII	8.4%	16.0%	15.2%	13.8%
Others	12.1%	3.3%	3.2%	3.2%

### Price Chart



### Recent event & key risks

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

### Research Analyst

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### Key Financial Summary

	FY20	FY21	FY22E	RR (FY16-21E)	FY23E	FY24E	CAGR (FY21-24E)
Net Sales	34119.1	37665.7	39928.1	12.6%	43404.3	45423.9	6.4%
EBITDA	29282.1	33055.9	34921.7	13.8%	38143.7	40058.3	6.6%
Net Profit	9938.9	11935.8	17093.8	14.6%	13802.0	14666.5	7.1%
EPS (₹)	19.0	17.1	24.5		19.8	21.0	
P/E	11.9	13.3	9.3		11.5	10.8	
P/BV	2.2	2.3	2.1		2.0	1.8	
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

### Q2FY23 Results: Stable performance...

- Reported revenues came in at ₹ 10655.7 crore vs. our estimate of ₹ 10580.3 crore, implying growth of 7% YoY. Transmission segment revenues came in at ₹ 10411.8 crore, up 7% YoY (vs. our estimate of ₹ 10182.4 crore). Revenues from telecom, consultancy segment came in at ₹ 205 crore, ₹ 139.2 crore, respectively. On the other hand, consolidated revenues for Q2FY23 were at ₹ 11150.6 crore vs. ₹ 10268.5 crore. We still await the operational details in terms of assets capitalised and capex incurred during Q2FY23
- Even though revenue was a tad above our estimates, higher-than-expected employee and other expenses led to shortfall in EBITDA expectations. EBITDA came in at ₹ 8958.2 crore vs. our estimate of ₹ 9342.4 crore. The interest cost came in at ₹ 2205.8 crore vs. expectations of ₹ 2000 crore
- However, PAT came in at ₹ 3651 crore vs. our estimate of ₹ 3811 crore as reported effective tax rate was quite lower than expectations

### Q2FY23 Conference call highlights

- The company capitalised assets to the tune of ₹ 1788 crore whereas in H1FY23, the same was at ₹ 3133 crore. The capex target will be at ₹ 8000 crore for FY23 while the same for H1FY23 was at ₹ 3219 crore
- The capex incurred during FY22 was at ₹ 9060 crore on a consolidated basis. For FY23E and FY24E, the company expects to a capex of ₹ 8000-8500 crore
- Gross block as of H1FY23 was at ₹ 267256 crore while debt was at ₹ 128476 crore. CWIP as of Q2FY23 was at ₹ 13058 crore whereas consolidated debt at ₹ 128476 crore as on September 2022
- Average cost of borrowing was at 6.3% in H1FY23
- The company has ₹ 45700 crore of work in hand, of which, ₹ 8200 crore is for ongoing projects, ₹ 23500 crore for new projects and ₹ 14000 crore for TBCB projects
- As per the ISTS rolling plan of CTUIL, total estimated investment in transmission sector over FY23E-27E is ₹ 124000 crore, of which ₹ 46800 crore has been planned over FY23E-24E
- Outstanding dues were at ₹ 4868 crore in Q2FY23 vs. ₹ 4138 crore in Q1FY23. Receivables days were at 43.3 days
- For FY23, the company expects monetisation in the range of ₹ 7600 crore most of which will get executed in H2FY23
- Power Grid initiated procurement process for end-to-end smart metering solution for 1 crore smart meters. It signed an MoU with MGVCL & UGVCL, Gujarat state discoms to implement advanced metering infrastructure (AMI) System for 66 lakh meters. This will be based on the DBFOOT model where the company will invest and receive monthly rentals with WACC of 10% post tax. Remaining 34 lakh meters will also get consumed in Gujarat itself. Single phased per meter cost is at ₹ 7500
- Power Grid's first commercial solar PV Project of 85 MW at Nagda. Feasibility study completed. Bids to be opened shortly. Preliminary feasibility carried out for additional capacity at Aurangabad, Jabalpur, Khammam, Wardha

**Exhibit 1: Variance Analysis**

	Q2FY23	Q1FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total sales	10,655.7	10,580.3	9,929.2	7.3	10,446.1	2.0	Revenues from transmission segment grew 7% YoY and were higher than estimates
Other operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Total Income	10,655.7	10,580.3	9,929.2	7.3	10,446.1	2.0	
Personnel cost	658.5	581.9	537.9	22.4	560.5	17.5	
General & Admin exp	1,039.1	656.0	606.2	71.4	1,083.8	(4.1)	
<b>Non-recurring exp</b>							
Total expenses	1,697.6	1,237.9	1,144.1	48.4	1,644.3	3.2	
EBITDA	9,492.9	9,342.4	9,327.9	1.8	9,372.6	1.3	
EBITDA Margin (%)	89.1	88.3	93.9	(485.6)	89.7	(63.6)	
Depreciation	3,219.3	3,250.0	3,143.5	2.4	3,202.6	0.5	
Interest	2,205.8	2,000.0	1,959.0	12.6	1,981.8	11.3	
Other Income	534.7	570.8	542.8	(1.5)	570.8	(6.3)	
PBT	4,067.8	4,188.2	4,225.4	(3.7)	4,188.2	(2.9)	
Extraordinary Income	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Extraordinary expense</b>							
Total Tax	382.7	502.3	549.0	(30.3)	502.3	(23.8)	
Adjusted PAT	3,651.0	3,765.9	3,338.3	9.4	3,765.9	(3.1)	
<b>Key Metrics</b>							
Transmission	10,411.8	10,182.4	9,697.6	7.4	10,215.5	1.9	
Consultancy	139.2	197.3	188.0	-25.9	233.5	(40.4)	
Telecom	205.0	200.5	191.0	7.3	190.3	7.7	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Revenue	43,404.3	43,404.3	0.0	45,423.9	45,423.9	0.0
EBITDA	38,143.7	38,143.7	0.0	40,058.3	40,058.3	0.0
EBITDA Margin (%)	87.9	87.9	0.0	88.2	88.2	0.0
PAT	13,802.0	13,802.0	0.0	14,666.5	14,666.5	0.0
EPS (₹)	18.5	18.5	0.0	20.0	20.0	0.0

Source: ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	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 (%)	10	43	-19	6
EPS (₹)	17.1	24.5	19.8	21.0

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	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	FY22	FY23E	FY24E
<b>Liabilities</b>				
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
<b>Assets</b>				
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	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
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
<b>Operating Ratios (%)</b>				
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
<b>Return Ratios (%)</b>				
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
<b>Valuation Ratios (x)</b>				
P/E	13.3	9.3	11.5	10.8
EV / EBITDA	8.5	8.1	7.5	7.1
EV / Net Sales	7.5	7.1	6.6	6.3
Market Cap / Sales	3.2	3.0	2.7	2.6
Price to Book Value	2.3	2.1	2.0	1.8
<b>Solvency Ratios</b>				
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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Reduce: -15% to -5%;

Sell: <-15%



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