



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
Updated Dec 08, 2022 **26.33**

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 1,55,169 cr
52-week high/low:	Rs. 248/186
NSE volume: (No of shares)	103.0 lakh
BSE code:	532898
NSE code:	POWERGRID
Free float: (No of shares)	339 cr

Shareholding (%) 31-12-2022

Promoters	51.3
FII	32.8
DII	12.7
Others	3.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.6	4.0	4.9	2.8
Relative to Sensex	4.1	8.8	3.9	4.0

Sharekhan Research, Bloomberg

Power Grid Corporation of India Ltd

Pick-up in transmission bids offers optimism

Power	Sharekhan code: POWERGRID		
Reco/View: Buy	↔	CMP: Rs. 222	Price Target: Rs. 265
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Power Grid has won eight TBCB project wins in Q4FY23, thus taking total bid wins to 12 TBCB projects in FY23YTD. Investment approval is also up by 124% y-o-y to Rs. 10,393 crore in FY23YTD.
- Large addressable power transmission market opportunity of Rs. 2.44 lakh crore by FY30E from renewable energy (RE) projects would drive a pick-up in Power Grid's capex/asset capitalization and could drive re-rating.
- Robust projects pipeline of Rs. 25,600 crore (excluding Leh-Kaithal project worth Rs. 22,000 crore), recent new TBCB project wins, and regulated RoE model provides earnings visibility (expect a 10% PAT CAGR over FY22-25E) and keeps us constructive on the stock.
- Earnings growth visibility, RoE of 18% and healthy dividend yield ~5-6% makes valuation attractive at 1.7x/1.5x FY24E/FY25E P/BV. Hence, we maintain our Buy rating on Power with an unchanged PT of Rs. 265.

The recent pick-up in the transmission bidding activity with Power Grid winning eight new TBCB bids in Q4FY23 and large addressable power transmission market opportunity of Rs. 2.44 lakh crore by FY30 for integration of 500 GW of RE projects makes us optimistic of pick-up in Power Grid's capex/asset capitalization in the coming years. Robust projects pipeline of Rs. 25,600 crore (excluding Leh-Kaithal project worth Rs. 22,000 crore), recent new TBCB project wins, and regulated RoE model provides earnings visibility (expect 10% PAT CAGR over FY22-25E) along with RoE of ~18%. An attractive valuation of 1.5x FY25E P/BV and healthy dividend yield of 5-6% provides comfort. We maintain Buy on Power Grid with an unchanged PT of Rs. 265.

- Strong TBCB bids wins by power Grid in Q4FY23; Power transmission has large addressable market of Rs. 2.44 lakh crore by FY30:** Power Grid has seen significant wins in TBCB bidding with 12 project wins (out of 16 TBCB projects) in FY23YTD and robust traction was seen in Q4FY23 as eight TBCB projects bid were won by Power Grid during the quarter. We believe power transmission bidding activity to pick-up further given an estimated ISTS investment of Rs. 2.44 lakh crore for integration of 500 GW RE projects by FY30. Power Grid, in its latest earnings conference call had indicated a strong transmission bid pipeline of Rs. 40,000-50,000 crore over the next 12 months. The large addressable market and Power Grid's focus to gain market share would drive sustainable growth in capex/asset capitalization.
- Sharp rise in investment approval by Power Grid:** New project wins has led to a sharp 2.2x y-o-y rise in the investment approval by Power Grid to ~Rs. 10,393 crore in FY23YTD. This coupled with our expectation of further pick-up in transmission bidding activity and the company's focus on market share gains would drive up the transmission capex of Power Grid.
- Strong project pipeline, project wins, and regulated RoE model provides earnings visibility:** The government of India's aim to expand its renewable power capacity to ~500GW by 2030 would require significant investments in power transmission infrastructure. We thus remain optimistic of a pick-up in Power Grid's capex/asset capitalisation and expect upside to management FY24 asset capitalisation/capex guidance of Rs. 10,000 crore/Rs. 8,800 crore. The company has work-in-hand worth Rs. 47,600 crore (**Regulated return projects** - Rs. 34,600 crore, and **TBCB projects** - Rs. 13,000 crore), recent new project wins along with regulated RoE provides earnings growth visibility and we expect a 10% PAT CAGR over FY22-25E.

Our Call

Valuation – Maintain Buy on Power Grid with an unchanged PT of Rs. 265: Robust work-in-hand and recent project wins provide good earnings visibility (we expect 10% PAT CAGR over FY22-25E) along with RoE of 19%. Earnings growth visibility and dividend yield 5-6% makes valuation attractive at 1.7x/1.5x FY24E/FY25E P/BV. Hence, we maintain our Buy rating on Power Grid with an unchanged PT of Rs. 265.

Key Risks

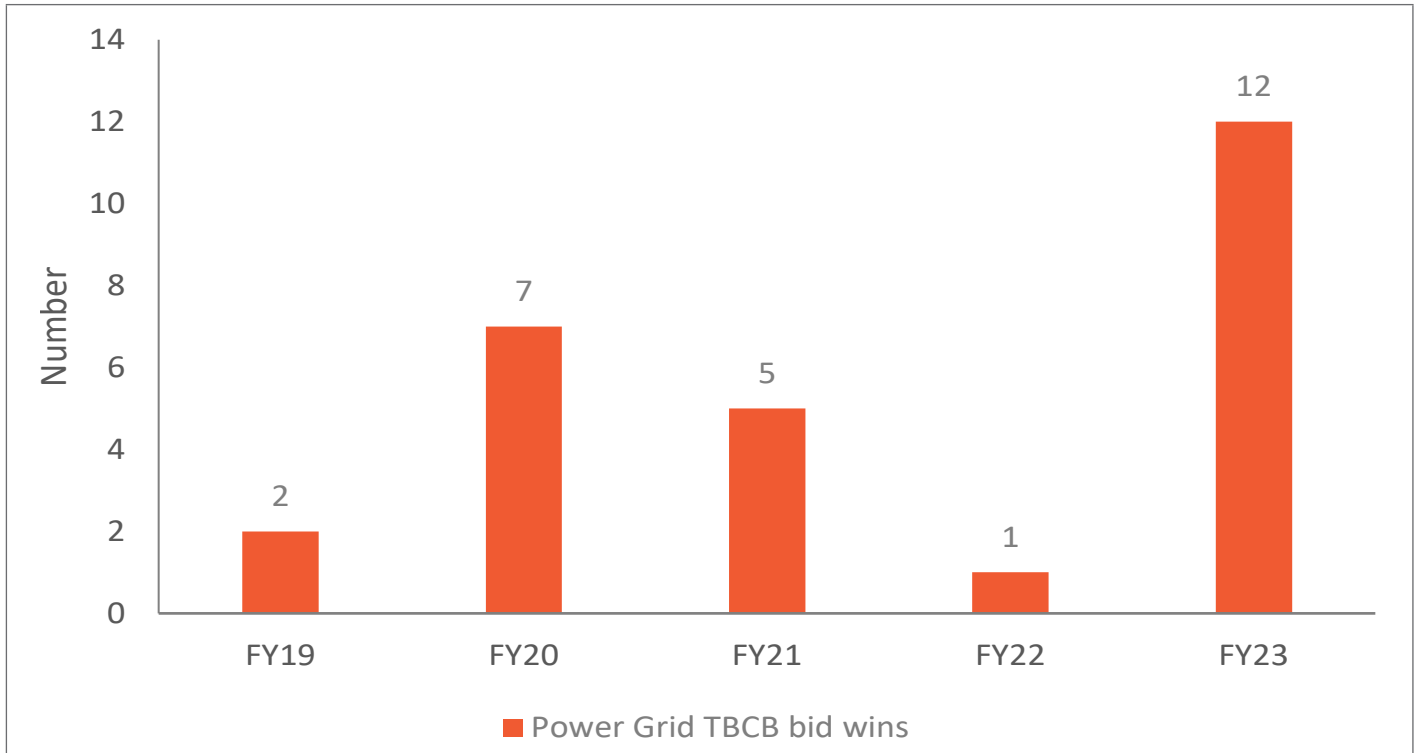
- 1) Slower-than-expected capitalisation of projects and 2) Inability to win new projects under tariff-based competitive bidding route.

Valuation (Consolidated)

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	41,616	45,570	49,899	54,390
OPM (%)	87.9	86.1	86.2	86.0
Adjusted PAT	13,504	14,776	15,563	18,153
y-o-y growth (%)	3.0	9.4	5.3	16.6
Ajusted EPS (Rs.)	19.4	21.2	22.3	26.0
P/E (x)	11.5	10.5	10.0	8.5
Price/ Book (x)	2.0	1.9	1.7	1.5
EV/EBITDA (x)	7.8	6.7	5.9	5.3
RoCE (%)	11.2	11.5	12.1	12.7
RoE (%)	18.5	18.6	17.8	18.5

Source: Company; Sharekhan estimates

Robust TBCB project wins in FY23YTD



Source: Company; Media articles; Sharekhan Research

Power Grid wins eight TBCB bids in Q4FY23

Date	Project	Scope of project	State
17-Feb-23	Transmission Network Expansion in Gujarat associated with integration of RE projects from Khavda potential RE zone	765kV D/C Transmission lines passing through the state of Gujarat	Gujarat
17-Feb-23	Inter-regional ER-WR Interconnection	400kV D/C Transmission lines traversing through the states of Orissa & Chhattisgarh and bays extension works	Orissa & Chhattisgarh
17-Feb-23	Establishment of Khavda Pooling Station-2 (KPS2) in Khavda RE Park	New 765/400kV GIS at Khavda in the State of Gujarat.	Gujarat
17-Feb-23	Transmission scheme for evacuation of 4.5GW RE injection at Khavda PS under Phase II- Part B	765kV D/C Transmission lines passing through the state of Gujarat and bays extension works	Gujarat
17-Feb-23	Transmission scheme for evacuation of 4.5GW RE injection at Khavda PS under Phase II- Part C	New 765/400kV substation at Ahmedabad and bays extension work at Navsari in Gujarat and 765kV D/C Transmission lines	Gujarat
28-Feb-23	Inter-State Transmission System for "Establishment of Khavda Pooling Station-3 (KPS3) in Khavda RE Park	New 765/400kV GIS Substation, 765kV D/C Transmission Line and associated works	Gujarat
03-Mar-23	Western Region Expansion Scheme- XXVIII (WRES-XXVIII) & XXIX (WRES-XXIX)	Bays extension works including creation of 220kV Voltage at 2 existing Sub-stations in the state of Chhattisgarh.	Chhattisgarh
03-Mar-23	Western Region Expansion Scheme- XXVII (WRES-XXVII)	400kV D/C Transmission Line passing through the state of Chhattisgarh and Bays extension works at 2 existing Sub-stations	Chhattisgarh
09-Mar-23	Evacuation of Power from Solar Energy Zones in Rajasthan (8.1 GW) under Phase-II Part-E	765kV D/c Transmission Line along with associated Line Bays	Rajasthan

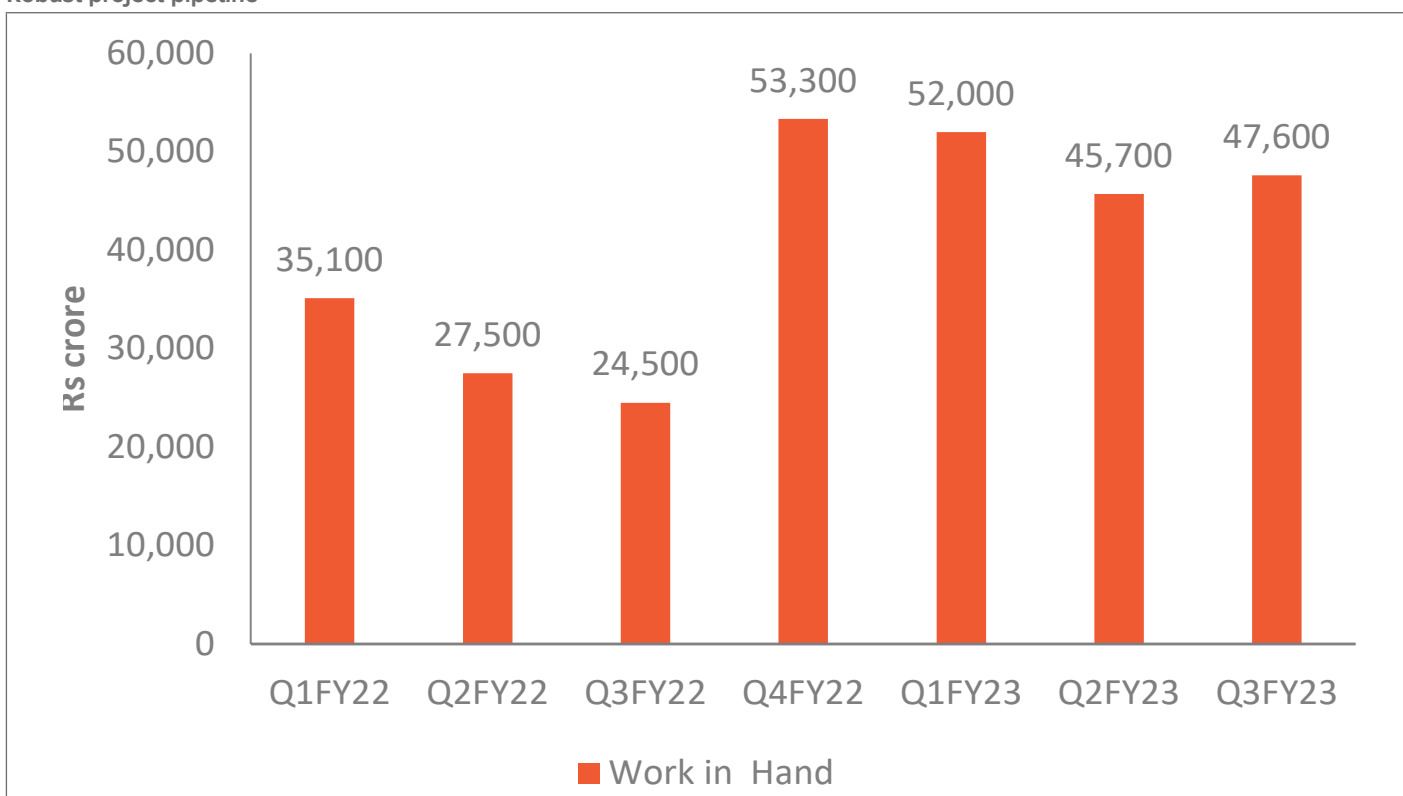
Source: Company; Sharekhan Research

New investment approval totaling Rs. 10,393 crore

Sr. No.	Date of announcement	Projects	Investment approval (Rs. crore)	Commissioning schedule
1	07-Mar-23	Eastern Region Expansion Scheme-XXIX (ERES-XXIX)	524	Nov-25
2	07-Mar-23	Transmission system for Kurnool Wind Energy Zone/Solar Energy Zone (AP) - Part-A & Part-B	3,547	Nov-24
3	24-Feb-23	High loading of WR-NR Inter Regional Corridor (400 kV Bhinmal-Zerda line)	201	May-24
4	24-Feb-23	Transmission system for Augmentation of ISTS for interconnection of HVPNL Transmission Schemes	108	February, 2024 to July, 2024
5	24-Feb-23	Western Region Expansion Scheme-XXV (WRES-XXV)	386	Nov-23
6	24-Feb-23	North Eastern Region Expansion Scheme-XX (NERES-XX)	109	Nov-24
7	14-Dec-23	Transmission System for evacuation of power from REZ in Rajasthan (20GW) under Phase-III Part-J	331	
8	27-Sep-23	Transmission Project-Jam Nagar Oil Refinery to connect with Jam khambhaliya ISTS PS	328	Sep-23
9	07-Jul-23	Transmission Network Expansion in Gujrat to increase ATC from ISTS: Part B	4,546	Jun-23
10	07-Jul-23	Transmission Network Expansion in Gujrat to increase ATC from ISTS: Part C	186	Mar-25
11	07-Jul-23	Western Region Expansion Scheme XXVI	128	Jun-24
Total investment approval in FY23YTD			10,393	

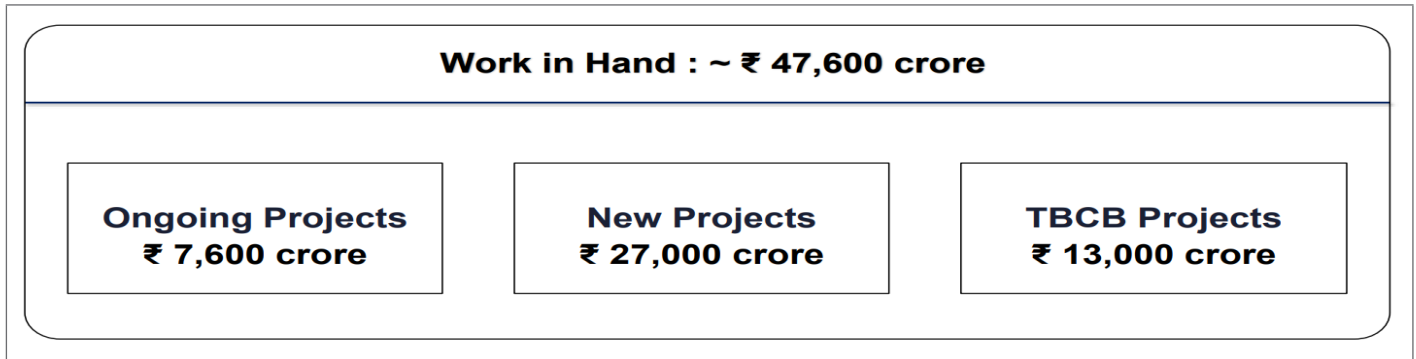
Source: Company; Sharekhan Research

Robust project pipeline



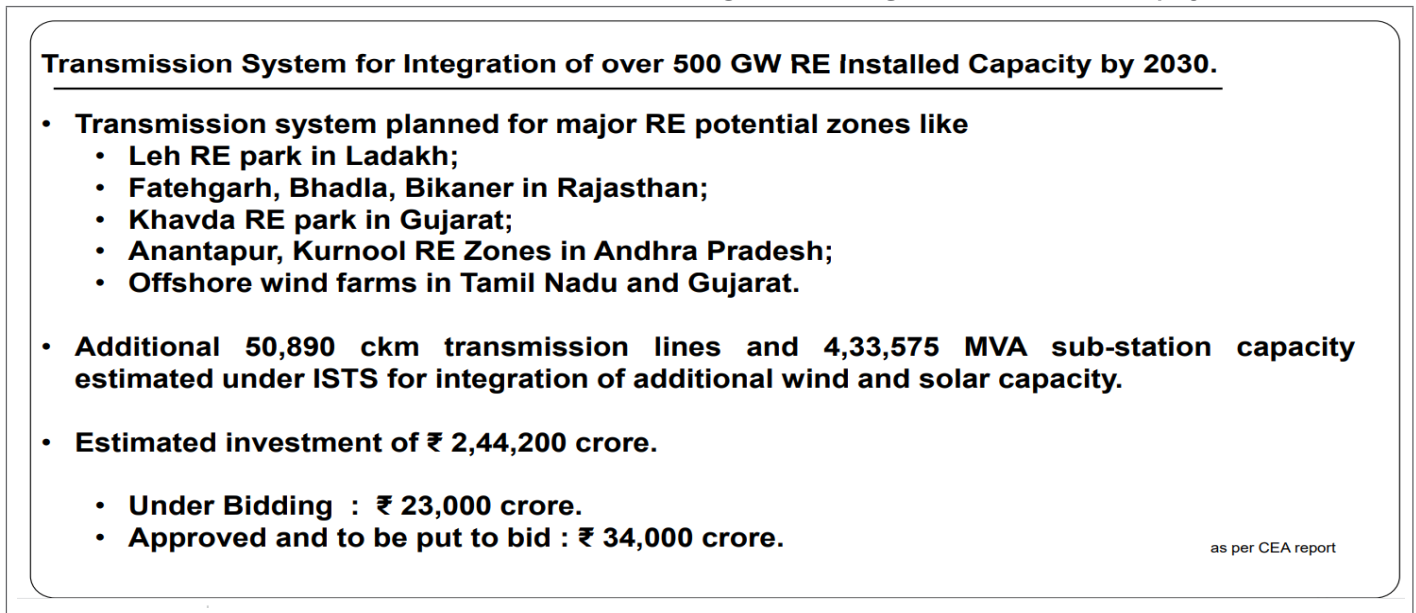
Source: Company; Sharekhan Research

Work in Hand break-up



Source: Power Grid

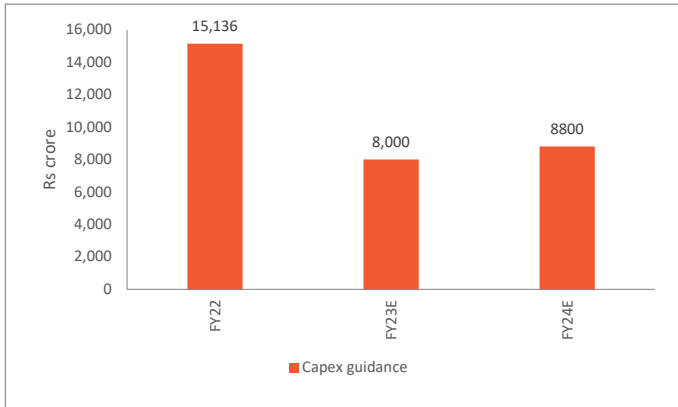
Power transmission investment estimated at Rs. 2.44 lakh crore by FY30 for integration of 500 GW of RE projects



Source: Power Grid

Financials in charts

Capex outlook



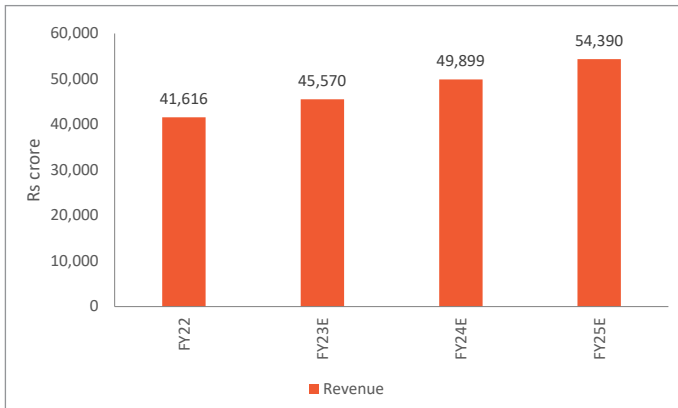
Source: Company, Sharekhan Research

Decent capitalisation outlook



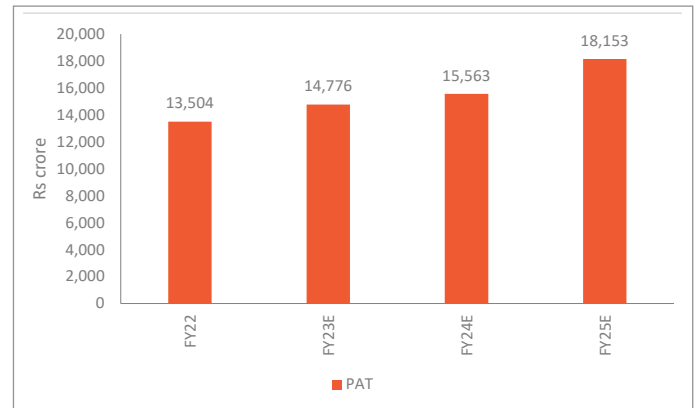
Source: Company, Sharekhan Research

Decent revenue growth



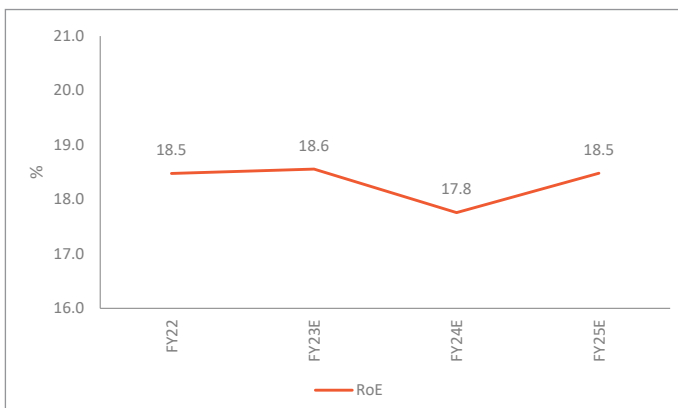
Source: Company, Sharekhan Research

PAT to clock CAGR of 10% over FY22-FY25E



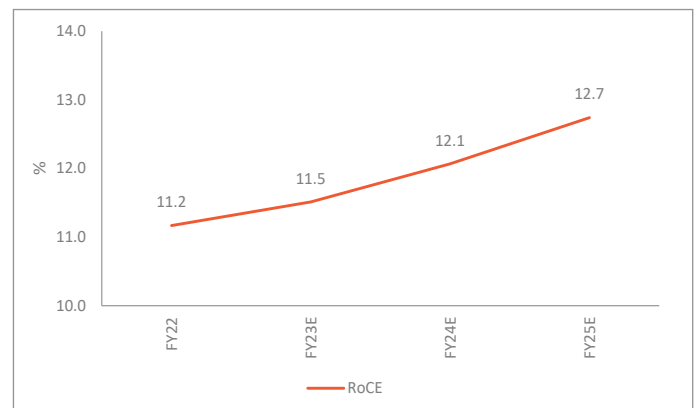
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



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.

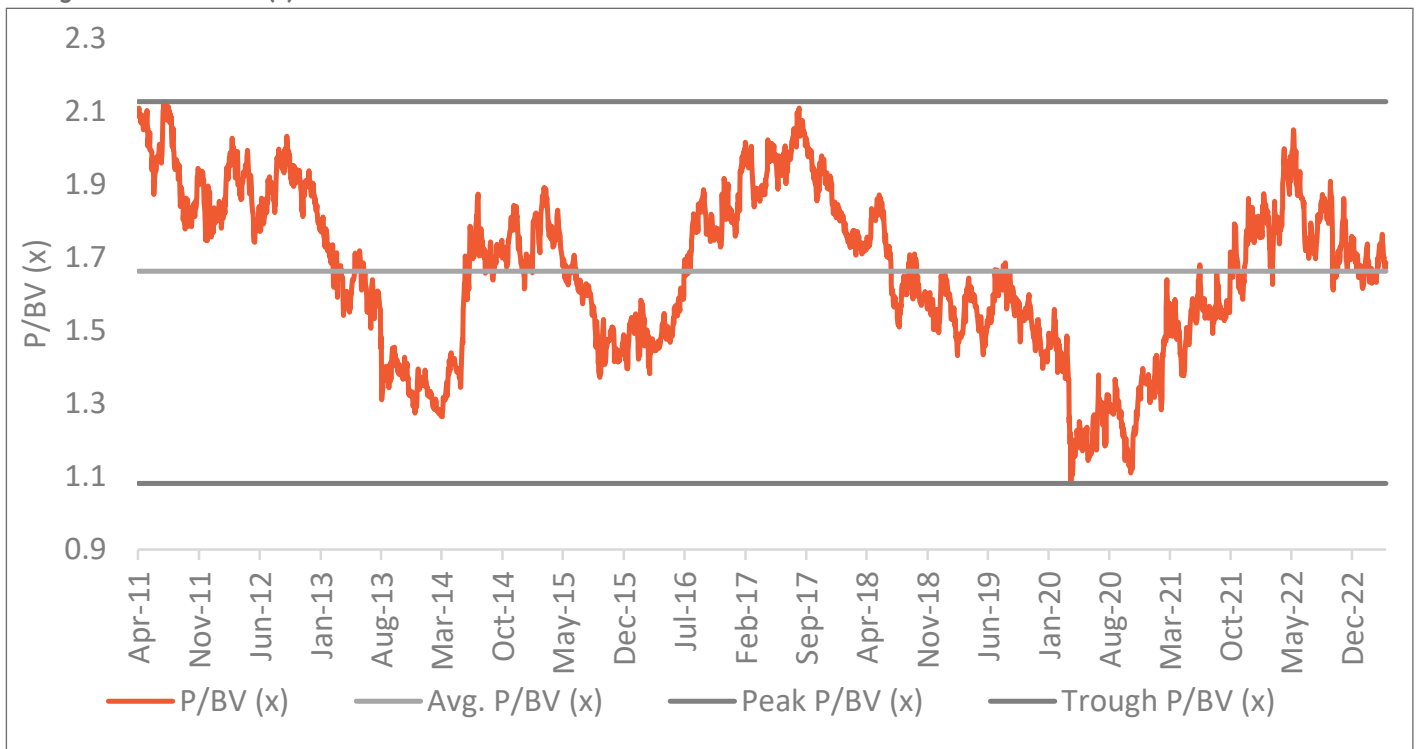
■ Company Outlook – Earnings visibility led by robust capitalization in last one year

Robust capitalisation in the past 12 months and a work-in-hand pipeline of ~Rs. 47,600 crore provides healthy earnings growth visibility (we expect a 10% PAT CAGR over FY2022-FY2025E). Capex/capitalisation guidance of Rs. 8,800 crore/Rs. 10,000-12,000 crore each for FY2023 is lower than FY22 levels 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

Power Grid has a robust project pipeline worth Rs. 25,600 crore (excluding Rs. 22,000 crore for Leh-Kaithal project) has capitalised ~Rs. 20,695 crore in FY22, which provides earnings visibility for 2-3 years. We thus expect a 10% CAGR in PAT over FY2022-FY2025E along with RoE of ~18-19% in FY24E. We maintain a Buy on Power Grid with an unchanged PT of Rs. 265, as valuation of 1.7x/1.5x FY24E/FY25E P/BV seems attractive considering decent growth outlook, healthy RoE and a dividend yield of ~6%.

One-year forward P/BV (x) band



Source: Sharekhan Research

About the 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 1,73,790 circuit kilometers of EHV transmission lines. Power Grid has approximately 270 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. 47,600 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 FY24E-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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Cos Inc/The	7.2
2	Nippon Life India Asset Management	2.9
3	Republic of Singapore	2.8
4	Life Insurance Corp of India	2.4
5	Vanguard Group Inc/The	2.3
6	SBI Funds Management Ltd	1.9
7	FMR LLC	1.7
8	BlackRock Inc	1.6
9	Abrdn PLC	1.3
10	Stichting Depositary Apg Emergin	1.1

Source: Bloomberg

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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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