



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 Mar 08, 2023 26.33

Medium Risk

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

Source: Morningstar

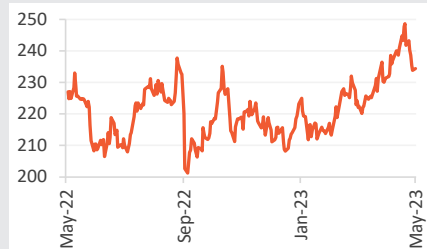
Company details

Market cap:	Rs. 1,63,470 cr
52-week high/low:	Rs. 249/186
NSE volume: (No of shares)	88.6 lakh
BSE code:	532898
NSE code:	POWERGRID
Free float: (No of shares)	339 cr

Shareholding (%)

Promoters	51.3
FII	32.3
DII	13.4
Others	3.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.3	9.9	8.9	4.4
Relative to Sensex	-2.6	5.9	8.2	-9.8

Sharekhan Research, Bloomberg

Power Grid Corporation of India Ltd

Healthy growth sustains in Q4; asset capitalization guidance weak

Power	Sharekhan code: POWERGRID		
Reco/View: Buy	↔	CMP: Rs. 234	Price Target: Rs. 265
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Q4FY23 standalone PAT grew by 13% y-o-y to Rs. 4,214 crore (3% above estimate) led by higher other income and lower tax rate, which offset muted asset capitalisation.
- Standalone/consolidated asset capitalisation was muted at Rs. 4499 crore/Rs. 7413 crore; down 70%/64% y-o-y in FY23 and also below the management's guidance of Rs. 10,000-12,000 crore. Overall, receivables declined sharply by 48% q-o-q to Rs. 4,821 crore as of March 2023
- Subdued FY24 capex/assets guidance of Rs. 8,800 crore/Rs. 10,000-11,000 crore and management expect 7-8% PAT growth in FY24. Renewable energy (RE) projects to result in substantial pick in power transmission investment over FY25-26. Transmission bid pipeline is healthy at Rs31,000 crore and power transmission investment are estimated at Rs4 lakh crore upto 2030.
- We maintain a Buy on Power Grid with an unchanged PT of Rs. 265 as valuation of 1.4x FY25E P/BV seems attractive given expectation of 10% PAT CAGR over FY23-25E, RoE of 19% and a dividend yield of ~6%.

Power Grid Corporation of India Limited's (Power Grid) standalone Q4FY23 PAT increased by 13% y-o-y to Rs. 4,214 crore (3% above our estimate of Rs. 4,079 crore) led by high other income (up 10% y-o-y) and a sharply lower tax rate of 18.4% (versus assumption of 25%) partially offset by one-time negative impact of Rs150 crore on earnings. However, operational performance was muted with asset capitalisation of Rs. 1,613 crore (versus Rs. 2,144 crore in Q4FY22) and lower surcharge income of Rs. 36 crore (versus Rs. 193 crore in Q4FY22) while incentive income rose to Rs. 136 crore (versus Rs. 55 crore in Q4FY22). Dividend/interest income from subsidiaries/JVs stood at Rs. 306 crore/Rs. 225 crore as compared to Rs. 233 crore/Rs. 256 crore in Q4FY22 while interest on differential tariffs at Rs. 795 crore versus Rs. 191 crore in Q4FY22.

Key positives

- Decent transmission bid pipeline at Rs. 31,000 crore.
- A sharp 48% q-o-q decline in total outstanding dues to Rs4,821 crore.
- Declared final dividend of Rs. 4.75/share and thus taking total DPS to Rs. 14.75/share (implies 6.3% dividend yield) for FY23.

Key negatives

- FY23 consolidated asset capitalisation was muted at Rs. 7,413 crore, down 64% y-o-y and significantly below guidance of Rs. 10,000-12,000 crore.

Management Commentary

- FY24 asset capitalisation/capex guidance of Rs. 10,000-11,000 crore/Rs. 8,800 crore (RTM/TBCB capex of Rs. 5,000 crore/Rs. 3800 crore). Management expects a 7-8% y-o-y PAT growth for FY24.
- It expects a substantial pick in power transmission investment over FY25-26 given focus on RE projects.
- Work in hand worth Rs. 50,000 crore (Ongoing projects – Rs. 11,500 crore, New RTM projects – Rs. 25,500 crore and TBCB projects – Rs. 13,000 crore).
- Healthy bid pipeline of Rs. 31,000 crore. Estimated transmission investment opportunity of >Rs4 lakh crore upto 2030. Inter-state/intra-state/cross-border transmission investment opportunity of Rs. 1.9 lakh crore/Rs. 1.96 lakh crore/0.2 lakh crore.
- Instead of asset monetisation, the company is now looking at securitisation of cashflows (raised Rs. 3400 crore in FY23) as it is more beneficial.
- Other updates** – 1) To hive off telecom business to a separate company by Q1FY24 and expected Rs1000 crore revenue from telecom segment in FY24, 2) Have appointed consultants for Leh-Ladakh project for system network and design studies, 3) Total outstanding dues plunged by 48% q-o-q to Rs4,821 crore as of March 2023, 4) 67 lakh meters to Gujarat discoms is under consideration.

Revision in estimates: We have fine-tuned our estimate FY24-25 earnings estimates to FY23 P&L and balance sheet numbers.

Our Call

Valuation – Maintain Buy on Power Grid with an unchanged PT of Rs. 265: Power Grid has a robust project pipeline worth Rs. 50,000 crore, which provides earnings visibility for 2-3 years. We thus expect a 10% CAGR in PAT over FY2023-FY2025E along with RoE of ~19% in FY25E. We maintain a Buy on Power Grid with an unchanged PT of Rs. 265, as valuation of 1.4x FY25E P/BV seems attractive considering a decent growth outlook, healthy RoE and a dividend yield of ~6%.

Key Risks

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

Valuation (Consolidated)

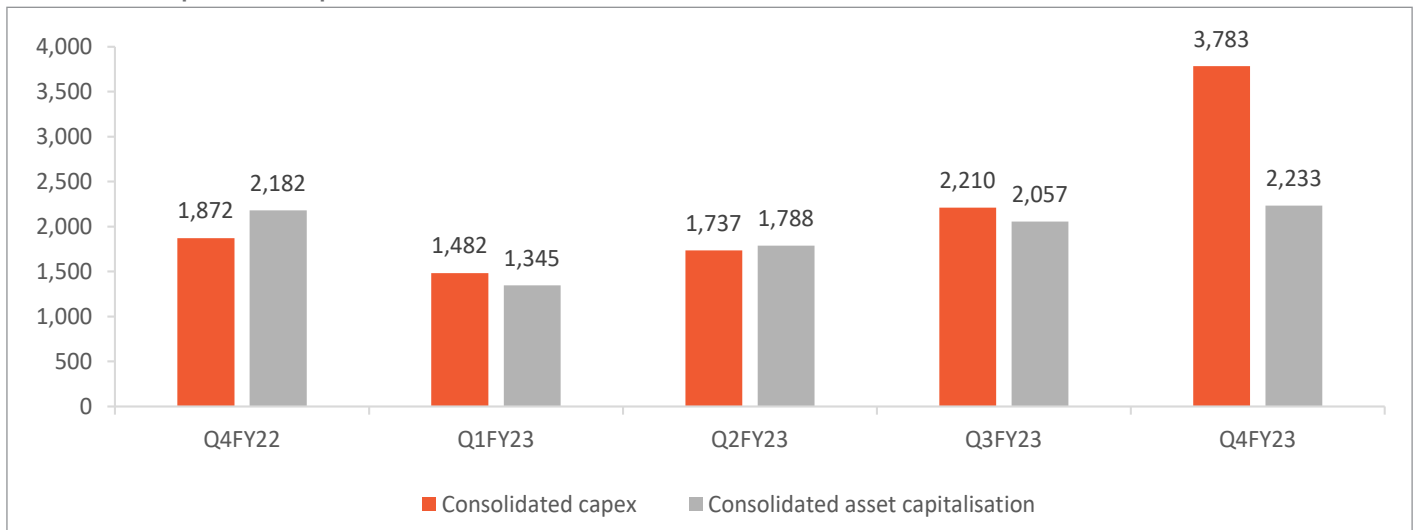
Particulars	FY22	FY23	FY24E	FY25E
Revenue	41,616	45,581	49,912	54,404
OPM (%)	87.9	86.6	86.2	86.2
Adjusted PAT	13,504	15,417	16,385	18,792
y-o-y growth (%)	3.0	14.2	6.3	14.7
Adjusted EPS (Rs.)	19.4	22.1	23.5	26.9
P/E (x)	11.0	9.6	9.1	7.9
Price/ Book (x)	1.9	1.8	1.6	1.4
EV/EBITDA (x)	7.6	6.8	6.3	5.8
RoCE (%)	11.2	12.0	13.0	13.4
RoE (%)	18.5	19.4	18.8	19.2

Source: Company; Sharekhan estimates

Healthy Q4 earnings growth but asset capitalization remains muted

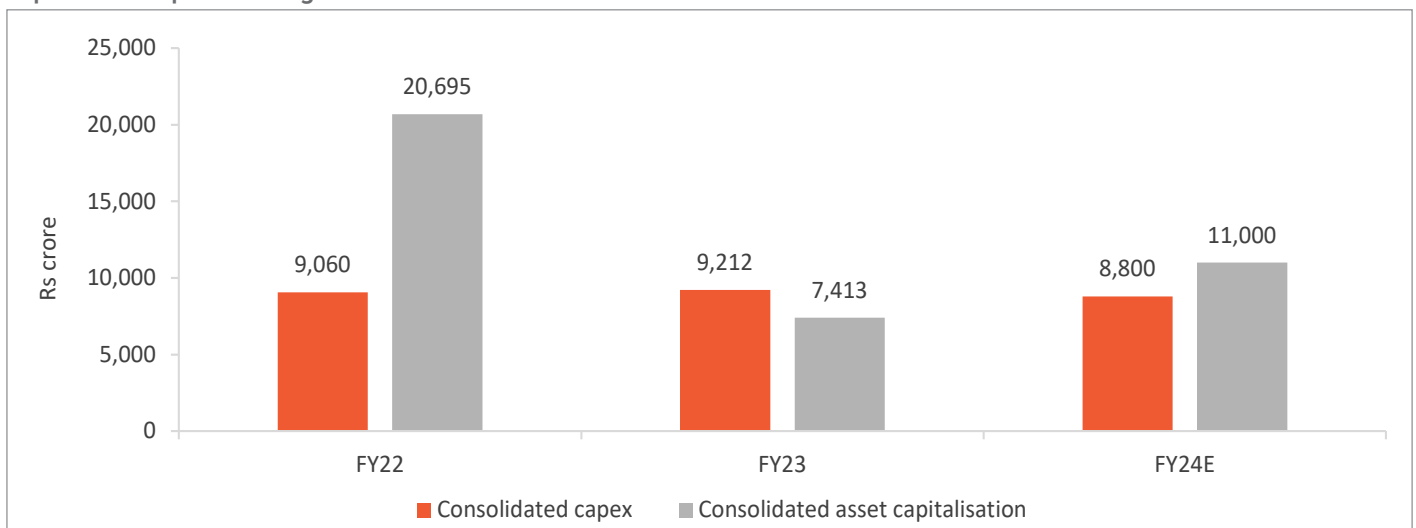
Standalone Q4FY23 PAT increased by 13% y-o-y to Rs. 4,214 crore (3% above our estimate of Rs. 4,079 crore) led by high other income (up 10% y-o-y) and a sharply lower tax rate of 18.4% (versus assumption of 25%) partially offset by one-time negative impact of Rs150 crore on earnings. However, operational performance was muted with asset capitalisation of Rs. 1,613 crore (versus Rs. 2,144 crore in Q4FY22) and lower surcharge income of Rs. 36 crore (versus Rs. 193 crore in Q4FY22) while incentive income rose to Rs. 136 crore (versus Rs. 55 crore in Q4FY22). Dividend/interest income from subsidiaries/JVs stood at Rs. 306 crore/Rs. 225 crore as compared to Rs. 233 crore/Rs. 256 crore in Q4FY22 while interest on differential tariffs at Rs. 795 crore versus Rs. 191 crore in Q4FY22.

Consolidated capex/asset capitalization trend



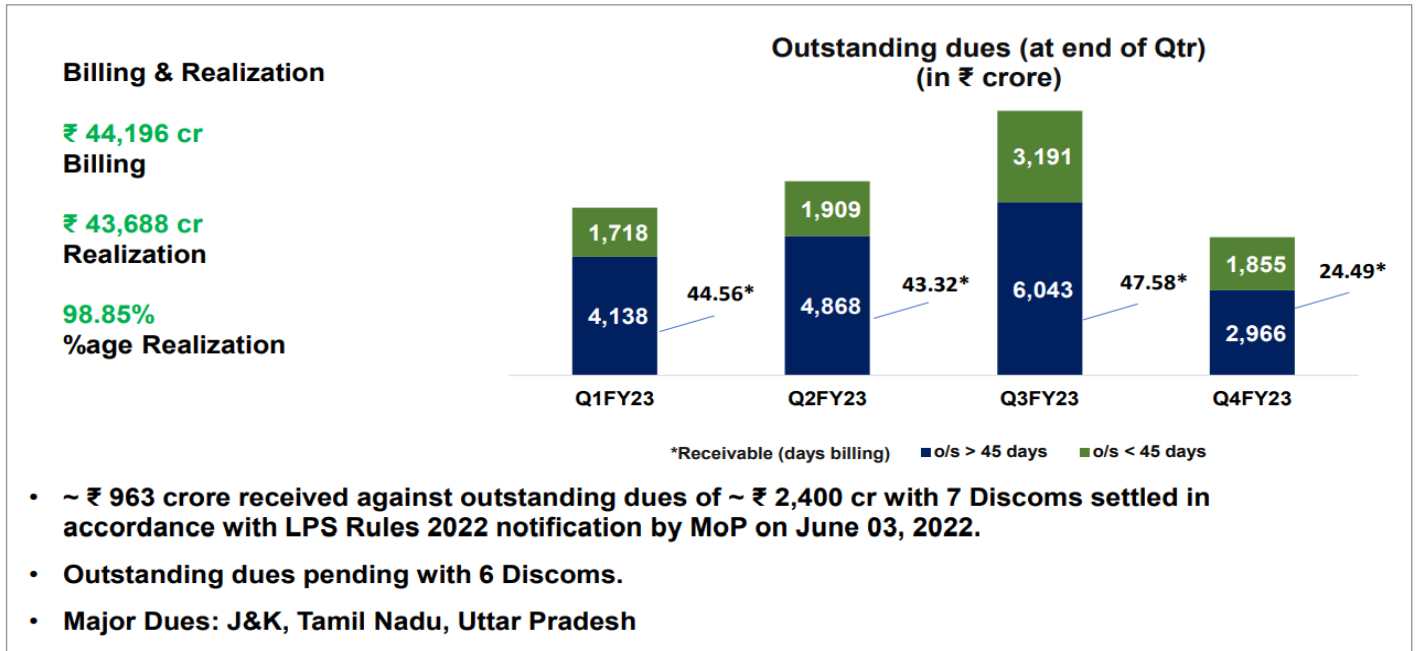
Source: Company; Sharekhan Research

Capex/asset capitalization guidance for FY24



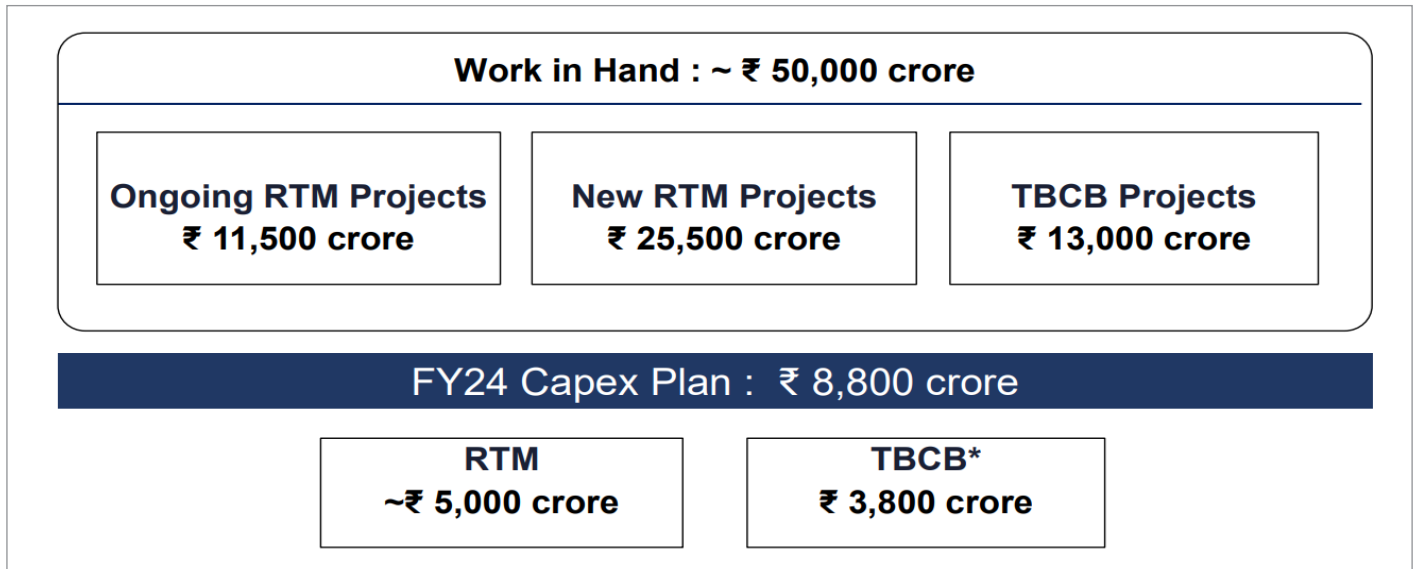
Source: Company; Sharekhan Research

Outstanding dues decline sharply by 48% q-o-q



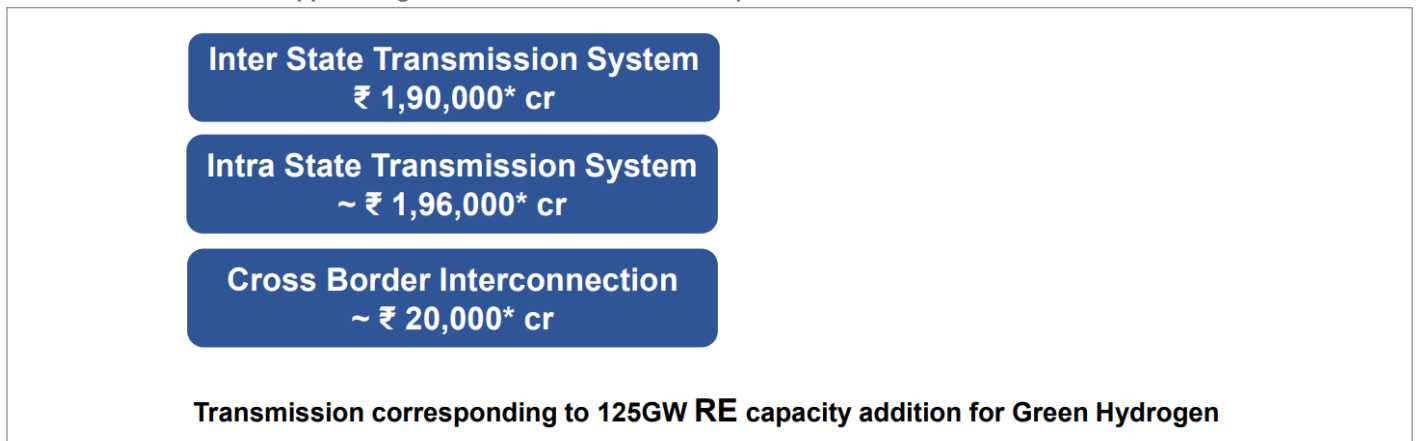
Source: Company

Strong works in hand worth Rs. 50,000 crore



Source: Company

Transmission investment opportunity estimates at Rs4 lakh crore upto 2030



Source: Company

Results (Standalone)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	11,495	10,222	12.5	10,746	7.0
Total Expenditure	1,360	1,345	1.1	1,367	(0.5)
Operating profit	10,134	8,877	14.2	9,379	8.0
Other income	793	720	10.2	726	9.3
Depreciation	3,214	3,187	0.8	3,304	(2.7)
Interest	2,520	2,103	19.8	3,037	(17.0)
Exceptional expense/(Income)	0	-590		0	
Reported PBT	5,194	4,896	6.1	3,765	38.0
Adjusted PBT	5,194	4,306	20.6	3,765	38.0
Tax	956	-59	NA	297	222.0
Regulatory Deferral A/c	-23	-635	NA	234	NA
Reported PAT	4,214	4,321	(2.5)	3,702	13.8
Adjusted PAT	4,214	3,731	13.0	3,702	13.8
Reported EPS	6.0	6.2	(2.5)	5.3	13.8
Adjusted EPS	6.0	5.3	13.0	5.3	13.8
Ratios (%)			bps		bps
OPM	88.2	86.8	132.6	87.3	88
NPM	36.7	36.5	16.6	34.4	222
Tax rate	18.4	(1.2)	NA	7.9	1,052

Source: Company, Sharekhan Research

Segmental performance (standalone)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue					
Transmission	11,502	10,003	15.0	10,518	9.4
Consultancy	-16	259	NA	172	NA
Telecom	209	174	20.0	210	(0.4)
Intersegment	-18	-18	3.7	-19	(1.8)
Net Revenue	11,677	10,419	12.1	10,880	7.3
EBIT					
Transmission	7,140	4,911	45.4	6,328	12.8
Consultancy	-142	130	NA	78	NA
Telecom	76	47	60.3	86	(11.6)
Overall EBIT	7,075	5,088	39.0	6,493	9.0
EBIT margin			BPS		BPS
Transmission	62.1	49.1	1,298	60.2	191
Consultancy	NA	NA	NA	NA	NA
Telecom	36.4	27.2	914	40.9	-459
Overall EBIT margin	60.6	48.8	1,175	59.7	91

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.

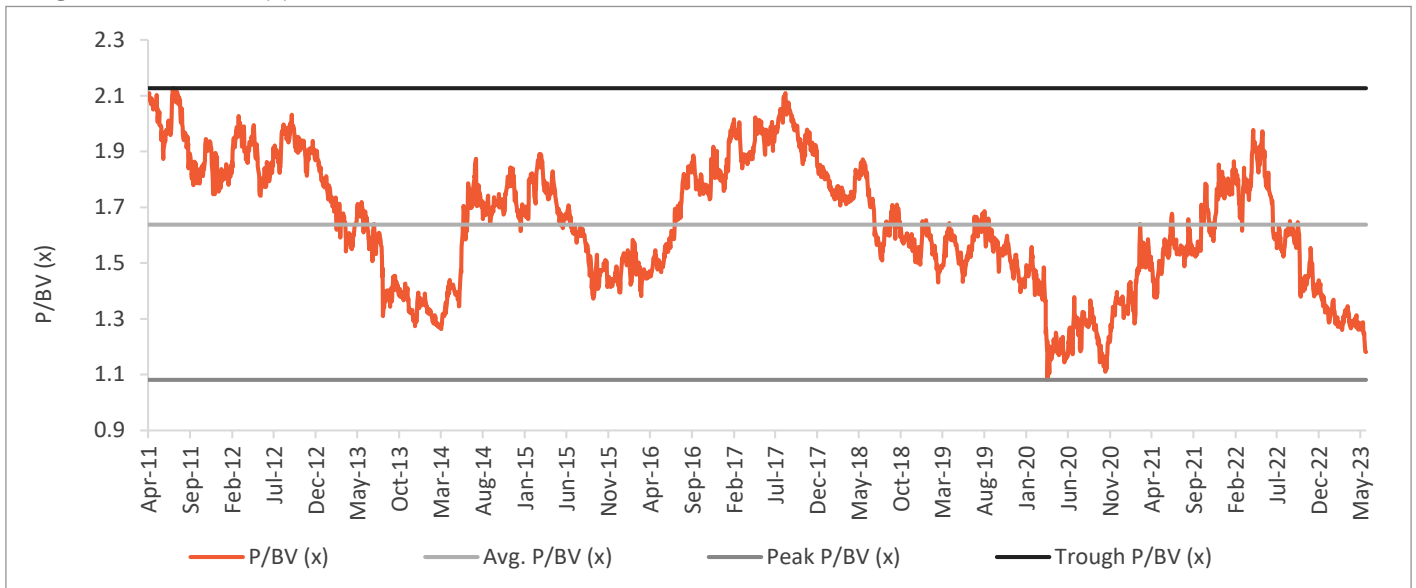
■ Company outlook - Decent earnings growth outlook

Capitalisation in the past 1-2 years and a robust work-in-hand pipeline of ~Rs. 50,000 crore provides healthy earnings growth visibility (we expect a 10% PAT CAGR over FY2023-FY2025E). Capex/capitalisation guidance of Rs. 8,800 crore/Rs. 10,000-11,000 crore each for FY2024 is seems lower but expected to pick-up over FY25-26 given strong upcoming investment opportunities in the power transmission supported by RE projects.

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

Power Grid has a robust project pipeline worth Rs. 50,000 crore, which provides earnings visibility for 2-3 years. We thus expect a 10% CAGR in PAT over FY2023-FY2025E along with RoE of ~19% in FY25E. We maintain a Buy on Power Grid with an unchanged PT of Rs. 265, as valuation of 1.4x FY25E P/BV seems attractive considering a decent growth outlook, healthy RoE and a dividend yield of ~6%.

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 1,74,113 circuit kilometers of EHV transmission lines. Power Grid has approximately 272 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. 50,000 crore (including CWIP) worth of projects pending for capitalisation, which provides healthy earnings growth visibility over the next few years. RE projects would result in significant pick-up in the transmission projects going forward. Power Grid has a healthy RoE of 19% and is trading at an attractive valuation. 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
G Ravisankar	Director – Finance
Abhay Choudhary	Director – Projects

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Cos Inc/The	7.46
2	Nippon Life India Asset Management	2.81
3	Republic of Singapore	2.46
4	Vanguard Group Inc/The	2.31
5	SBI Funds Management Ltd	2.26
6	Life Insurance Corp of India	2.07
7	FMR LLC	1.64
8	BlackRock Inc	1.6
9	abrdn plc	1.27
10	STICHTING DEPOSITARY APG EMERGIN	1.07

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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