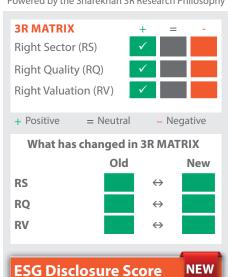
Powered by the Sharekhan 3R Research Philosophy



ESG RISK RATING 26.33 Updated Aug 08, 2023 **Medium Risk**

MFD

20-30

HIGH

SEVERE

10-20 Source: Morningstar

LOW

NEGL

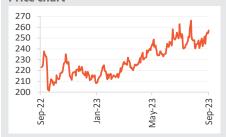
Company details

Market cap:	Rs. 1,79,234 cr
52-week high/low:	Rs. 267/186
NSE volume: (No of shares)	98.1 lakh
BSE code:	532898
NSE code:	POWERGRID
Free float: (No of shares)	339 cr

Shareholding (%)

Promoters	51.3
FII	33.1
DII	12.6
Others	3.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.4	6.4	12.7	14.6
Relative to Sensex	5.8	0.9	2.9	3.6
Sharekhan Research, Bloomberg				

Power Grid Corporation of India Ltd

Growth outlook bright; valuation and div. yield attractive

Power				Shar	ekha	n code: POWERGRID	
Reco/View: Buy ↔		CN	MP: Rs. 25	7	Price Target: Rs. 290	\leftrightarrow	
	\uparrow	Upgrade	\leftrightarrow	Maintain	\downarrow	Downgrade	

Summary

- India's aim to expand renewable energy (RE) capacity to ~500GW by 2032 would require significant investment in transmission infrastructure. Thus, Power Grid sees a large addressable market and estimates its transmission capex at Rs. 1.71 lakh crore up to 2032 and expects capex revival to Rs. 20,000-25,000 crore starting from FY25-26. This makes us optimistic of pick-up in Power Grid's capex/asset capitalization.
- Focus on new opportunities in power value chain like smart meters, smart grid, energy storage would diversify earnings stream and create value in the long term. Smart metering is gaining traction as Power Grid received an order to install 69 lakh smart meters for Gujarat discoms at an investment of Rs. 4067
- Robust work in hand (Rs. 48,700 crore), large transmission bid pipeline and a regulated RoE model provides healthy earnings growth visibility with likelihood of upside to our earnings estimates in case of a faster pick-up in transmission capex.
- We maintain a Buy rating on Power Grid with an unchanged PT of Rs. 290. A valuation of 1.7x FY2025E its P/BV seems attractive, considering a decent growth outlook, healthy RoE of 19%, and a dividend yield

Power Grid expects a sharp revival in its transmission capex to the range of Rs. 20,000-25,000 crore (versus low capex of Rs. 11,284 crore/Rs. 9,060 crore/Rs. 9,212 crore in FY21/FY22/FY23) starting from FY25-26. This optimism stems from a requirement of investment for transmission infrastructure for integration of 500 GW of RE projects. Power Grid has estimated capex of Rs. 1.71 lakh crore up to 2032. A large addressable power transmission market opportunity makes us optimistic of a pick-up in Power Grid's capex/asset capitalisation and earnings growth visibility in the medium term. Focus on non-transmission growth avenues like smart meter and BESS are also steps in right direction to diversify earnings stream which would create long term value for investors. Hence, we maintain Buy on Power Grid with an unchanged PT of Rs. 290.

- RE capacity expansion to revive transmission capex Improves outlook for Power Grid's capex/ asset capitalization: India's aim to expand its renewable power capacity to ~500 GW by 2032 (versus 115 GW currently) would entail a significant capital expenditure to augment power transmission lines. Power Grid has estimated a transmission capex of Rs. 1.71 lakh crores (inter-state Rs. 116500 crore, intra-state Rs. 37000 crore, cross border Rs. 10,000 crore and international projects Rs. 7500 crore) up to 2032 and the same would revive capex in the range of Rs. 20,000-25,000 crore starting from FY25-26 as compared to Rs. 9,000-11,000 crore capex annually in last three years for Power Grid. The large addressable market and Power Grid's focus to sustain/improve market share would revive capex and drive sustainable growth in asset capitalisation
- Diversification into power value chain (smart meter, BESS) opens up new growth opportunities: Apart from transmission capex, Power Grid is focused to diversify into other areas of power value chain especially energy management projects (i.e. smart metering and Battery Energy Storage Systems) and has set-up subsidiary namely PowerGrid Energy Services Limited to explore non-transmission business opportunities. Smart metering is gaining traction and Power Grid has capex plan of Rs. 10,000 crore for next five years (includes installation of 69 lakh smart meters in Gujarat discsoms with an investment of Rs. 4067 crore and to have high-teens RoE) and cumulative capex target of Rs. 15000 crore up to 2032. Apart from smart metering, Power Grid has capex plan of Rs. 1,000 crore each for solar generation (investment of Rs. 555 crore for 85 MW solar power plant at Nagda, MP approved) and data center business. Emerging opportunities in the power sector value chain (like energy management) would diversify the earnings base and create long-term value for the investors.
- Regulated earnings model; healthy dividend yield: Power Grid's regulated RoE model, strong project pipeline (work in hand is worth Rs. 48,700 crore) and large transmission bid pipeline (TBCB project worth Rs. 50,000 crore under bidding and an additional Rs. 81,000 crore of projects are to be floated for bidding over the next 1.0-1.5 years) makes us optimistic of on healthy earnings growth visibility over medium term.

Valuation - Maintain Buy on Power Grid with an unchanged PT of Rs. 290: Power Grid has a robust project pipeline worth Rs. 48,700 crore and management has guided for a pick-up in transmission capex going forward, which provides earnings visibility for the next couple of years. Thus, we expect a 10% CAGR in PAT over FY2023-FY2025E and see an upside risk in case of pick-up in capex. Hence, we maintain a Buy rating on Power Grid with an unchanged PT of Rs. 290. Valuation of 1.7x its FY2025E P/BV seems attractive, considering a decent growth outlook, healthy RoE of 19%, and a dividend yield of ~6%.

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

Valuation (Consolidated)				Rs cr
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
Ajusted EPS (Rs.)	19.4	22.1	23.5	26.9
P/E (x)	13.3	11.6	10.9	9.5
Price/ Book (x)	2.4	2.2	2.0	1.7
EV/EBITDA (x)	8.4	7.6	7.0	6.4
RoCE (%)	11.2	12.0	13.0	13.4
RoE (%)	18.5	19.4	18.8	19.2

Source: Company; Sharekhan estimates

September 07, 2023



Power Grid sees transmission capex intensity to improve with an estimated capex of Rs. 1.7 lakh crore by 2032

Business segment	Subhead	Estimated Cape
Transmission Business	Inter State	₹1,16,500 crore
	Intra State	₹37,000 crore
	Cross Border	₹10,000 crore
	International projects	₹7,500 crore
	Subtotal Transmission	₹1,71,000 crore
Other Business	Solar generation	₹1,000 crore
	Smart Metering Infrastructure	₹15,000 crore
	Data Centre Business	₹1,000 crore
	Subtotal Other Businesses	₹17,000 crore
Estimated Outlay upto y	rear 2032	₹1,88,000 crore

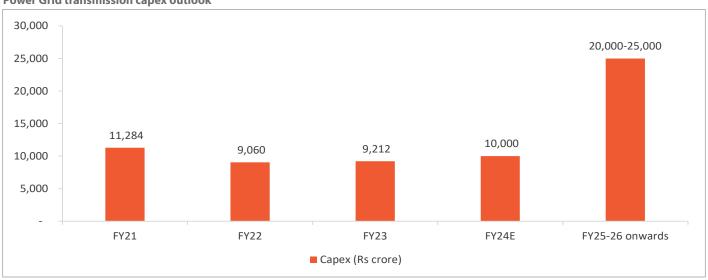
Source: Company

Strong works in hand worth Rs. 48,700 crore



Source: Company

Power Grid transmission capex outlook



Source: Company; Sharekhan Research



New investment approval totaling Rs. 6,131 crore announced so far in FY24

Sr No	Date of announcement	Projects	Investment approval (Rs crore)	Commissioning schedule
1	06-Apr-23	Transmission System for evacuation of power from	147	May-24
		Rajasthan REZ Ph-IV (Part-1) [Bikaner complex]-		
		Part-E		
2	19-May-23	Capital Expenditure for procurement of Customer	259	24 Months from date of award
		Premises Equipment (CPE) for augmentation of		
		Telecom Access network		
3	28-Jun-23	Establishment of decicated telecom network for	165	
		NTAMC		
4	28-Jun-23	Western Region expansion scheme – XXXIII (WRES-	115	Aug-24
		XXXIII) – Part A		
5	28-Jun-23	ICT Augmentation at Navsari (New) associated with	109	Oct-25
		integration of additional 7 GW RE power from		
		Khavda RE park under Phase-III		
6	15-Jul-23	Implementation of Advanced Metering	4,067	
		Infrastructure projects		
7	15-Jul-23	Establishment of Pilot Data Centre at POWERGRID	714	
		Manesar Substation		
8	01-Aug-23	Implementation of 85 MW Solar PV Power Project	555	10 months from date of award
		at Nagda (M.P.)		
Total in	vestment approval by Pow	er Grid in FY24 sofar	6,131	

Source: Company; Sharekhan Research

TBCB wins by Power Grid in FY24 so far

Sr No	Date	Project	State
1	05-Sep-23	Transmission system for evacuation of power from REZ in Rajasthan (20 GW)	Rajasthan
2	28-Jul-23	Transmission system for evacuation of power from REZ in Rajasthan (20 GW) under Phase-III Part B1	Rajasthan
3	28-Jul-23	Transmission system for solar energy zone in Ananthpuram (2500 MW), Andra Pradesh	Andhra Pradesh
4	28-Jul-23	Transmission system for solar energy zone in Kurnool (1000 MW), Andra Pradesh	Andhra Pradesh

Source: Company; Sharekhan Research



Outlook and Valuation

■ Sector view - Regulated tariff model provides earnings visibility; power sector reforms to strengthen the 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.

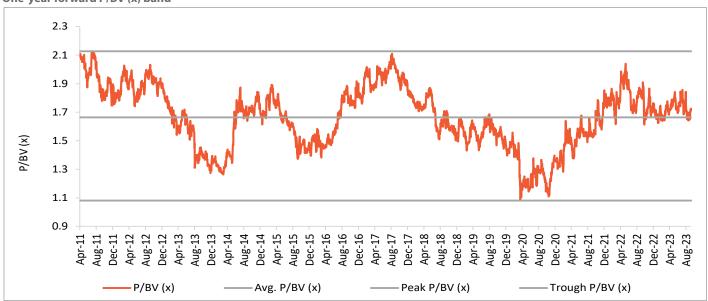
■ Company outlook - Decent earnings growth outlook

Capitalisation in the past 1-2 years and a robust work-in-hand pipeline of ~Rs. 48,700 crore provide healthy earnings growth visibility (we expect a 10% PAT CAGR over FY2023-FY2025E). Capex/capitalisation is expected to pick up over FY2025-FY2026, given strong upcoming investment opportunities in power transmission supported by RE projects.

■ Valuation - Maintain Buy on Power Grid with an unchanged PT of Rs. 290

Power Grid has a robust project pipeline worth Rs. 48,700 crore and management has guided for a pick-up in transmission capex going forward, which provides earnings visibility for the next couple of years. Thus, we expect a 10% CAGR in PAT over FY2023-FY2025E and see an upside risk in case of pick-up in capex. Hence, we maintain a Buy rating on Power Grid with an unchanged PT of Rs. 290. Valuation of 1.7x its FY2025E P/BV seems attractive, considering a decent growth outlook, healthy RoE of 19%, and a dividend yield of ~6%.





Source: Sharekhan Research



About company

Power Grid operates in the power transmission business with the responsibility for planning, implementation, operation, and maintenance of inter-state transmission systems and operation of 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 1,74,625 circuit kilometers of EHV transmission lines. Power Grid has approximately 274 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. 48,700 crore (including CWIP) worth of projects pending for capitalisation, which provides a healthy earnings growth visibility over the next few years. RE projects would result in a significant pick-up in the transmission projects going forward. Power Grid has a healthy RoE of 19% and is trading at an attractive valuation.

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	6.73
2	Nippon Life India Asset Management	2.54
3	Republic of Singapore	2.41
4	SBI Funds Management Ltd	2.39
5	Vanguard Group Inc/The	2.33
6	BlackRock Inc	1.77
7	FMR LLC	1.64
8	Life Insurance Corp of India	1.64
9	abrdn plc	1.18
10	PPFAS Asset Management	1.18

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Onderstanding the Sha	
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 detoriating 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 Source Sharekhan Percarch	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



by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200/022 - 33054600