

POWERGRID LTD

Analyst Recommendation: **BUY**

BSE Code: 532898

NSE: POWERGRID

Reuters Code: PGRD.NS

Bloomberg Code: PWGR:Natl

CMP: Rs 232
2 Year Target: Rs 270

Investor's Rationale

- **Investments in renewables and higher power demand to drive long-term growth for transmission works:**

From a longer term perspective, investment in renewable energy and growing power demand would continue to drive the need for transmission works. Projects worth INR480b were envisaged to be awarded for renewable integration and are currently being bid out. Moreover, recent project award wins (over 50% win rate) highlights PWGR's competitive positioning to win such projects as they arrive. As per PWGR, India's vision to reach 450GW of RE capacity by CY30 (from 175GW estimated in CY22) would necessitate incremental investments of INR2.8t within transmission. As per PWGR, the transmission sector is likely to grow at 8-9% over the next 10 years, providing the basis for long-term growth for the sector

- **Steady business model:**

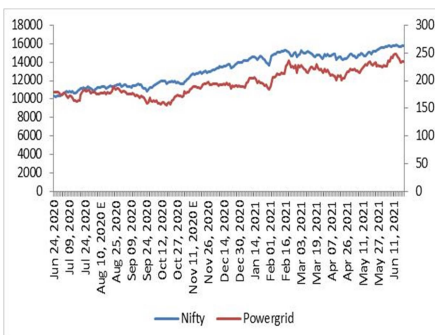
Continuation of the tariff structure and regulated RoE by CERC (power regulator) for FY20-24 lends visibility to PWGR's business model. With INR410b worth of works in hand, there is visibility of growth for the next 2-3 years, though the rate of annual capitalization may be lower than that seen in recent years. We expect continued capitalization to drive 5% earnings CAGR over FY21-23E. This, despite transmission assets of ~INR4b of PAT being transferred to the InvIT.

- **Valuation**

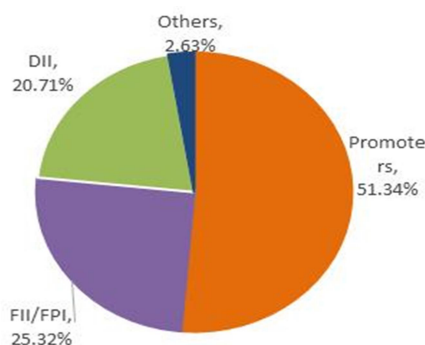
Given an under-penetrated market and strong competitive positioning, PWGR is well-positioned to capitalize on upcoming opportunities/awarding. Valuations at 1.6x FY22E P/BV and 7-8% dividend yield remains attractive for a company with steady RoEs of 17-18%. We maintain our Buy rating with a DCF based TP of INR270/share.

Face Value	10.0
Market Cap (Rs cr)	1,21,503
52 week high/low	251.5/154.6
Beta	0.8
Shares O/S (Cr)	450
Book Value per Share (Rs)	133.7
Sensex	52306
Nifty	15,687

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 31st Dec 2020.



	FY20	FY21	FY22E	FY23E
Revenue (Rs.Cr)	39,426.9	40,001.5	41,110.9	42,908.8
EBITDA (Rs. cr)	34,623.6	35,354.8	36,283.4	37,729.0
Adj. profit (Rs.Cr)	11,059.3	12,036.4	13,204.1	13,827.1
Adj. EPS (Rs.)	20.9	23.9	25.2	26.4
P/E (x)	11.2	9.8	9.2	8.8
EV/Net Sales	0.0	0.1	0.1	0.1
EV/EBITDA (x)	7.6	7.3	7.0	6.4
ROE (%)	17.6%	18.5%	18.3%	18.1%
ROIC (%)	7.9%	8.1%	8.2%	8.5%

Order book slowing down in the near term, but dividend to rise

- With a lack of large new orders flowing in, PWGR's order book has declined to INR410b at the end of FY21 from INR1,300b in FY17. A declining order book and capitalization schedule could result in a growth slowdown. However, lower capital expenditure, along with proceeds from InvIT, implies potential for higher dividends. We expect DPS to rise to INR17.5/INR18 per share in FY22E/FY23E from INR12 in FY21, implying a dividend yield of 7-8%.

Highlights from the management commentary

- **Order pipeline :**

As per PWGR, INR103b of upcoming opportunity is present in interstate and intrastate works. In addition, transmission schemes are being planned in Gujarat and Rajasthan, with a total potential cost of INR270-300b. DPR for transmission works at Leh (10GW) has also been prepared. Over the next few years, PWGR expects to award interstate TBCB projects of INR150-200b p.a. In line with the government's vision under NIP, the management expects capex and capitalization to be at INR100b annually.

- **Capex and capitalization :**

PWGR expects capitalization in FY22 to be INR160-170b. Of this, INR90-100b would be for RTM projects, with INR60-70b for TBCB. In FY22, overall capex would be INR75b.

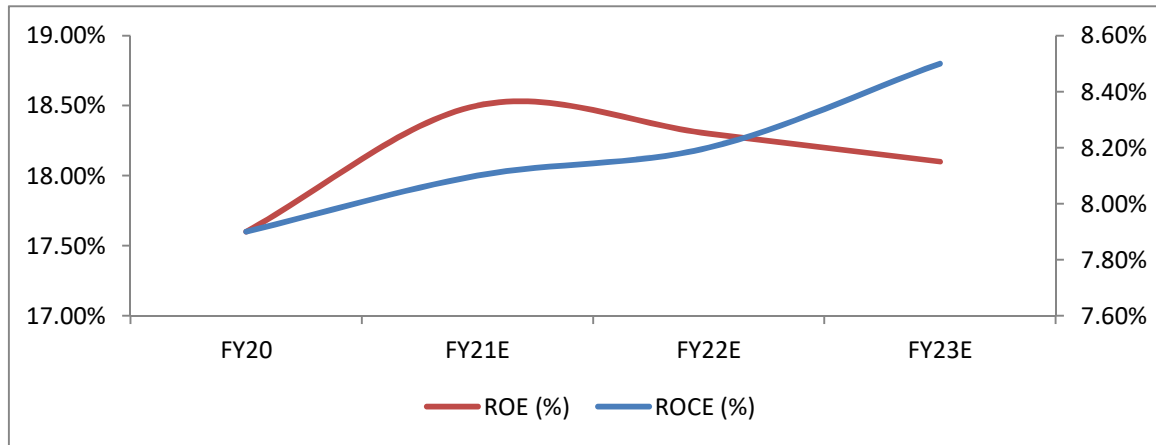
- **InvIT :**

PWGR expects another INR50b worth of assets to be monetized over the next 12-18 months. Profit of five assets transferred to the InvIT stands at INR3.7b in FY21.

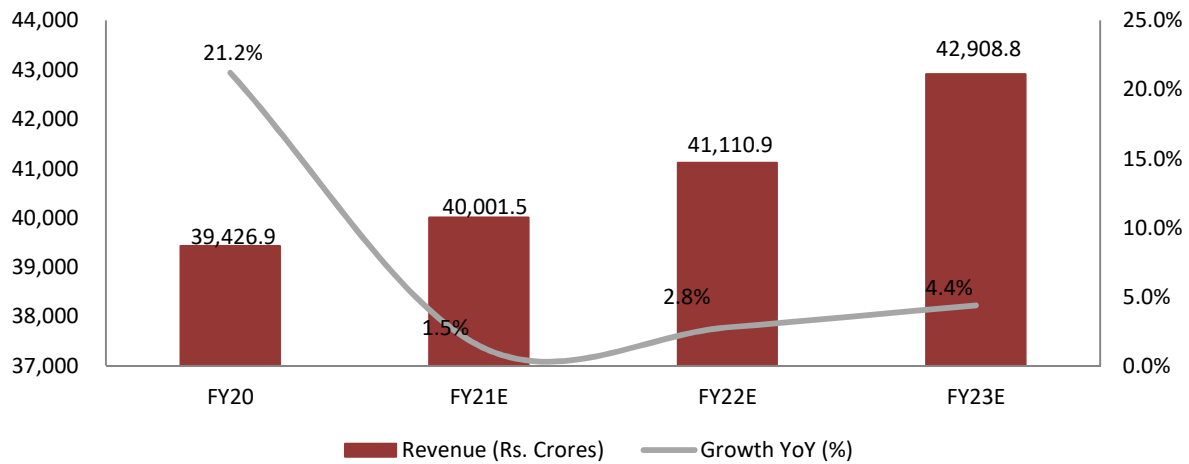
Semi-Conductor Shortage

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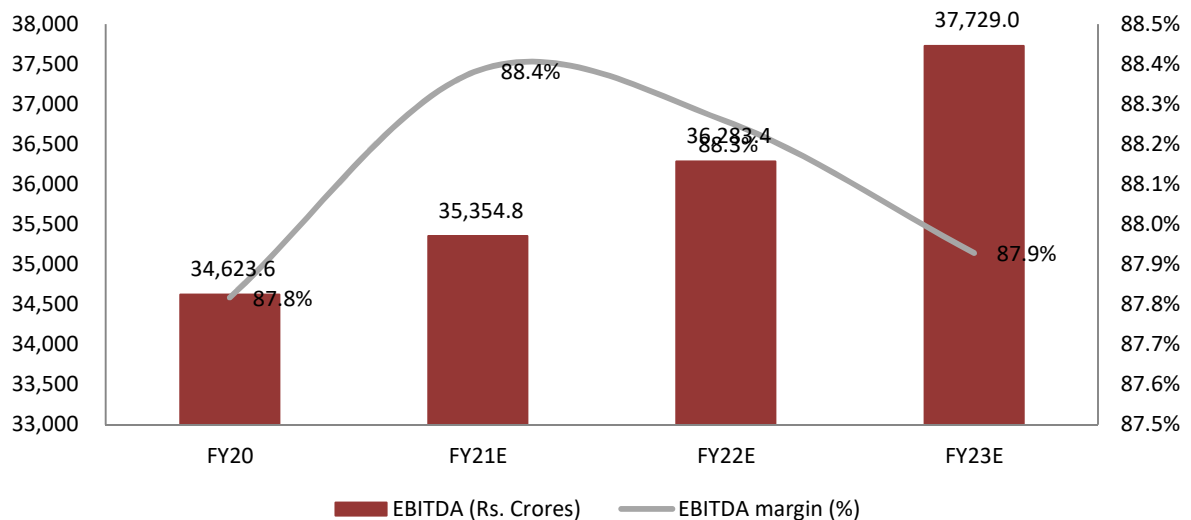
Return ratios to show growth in future



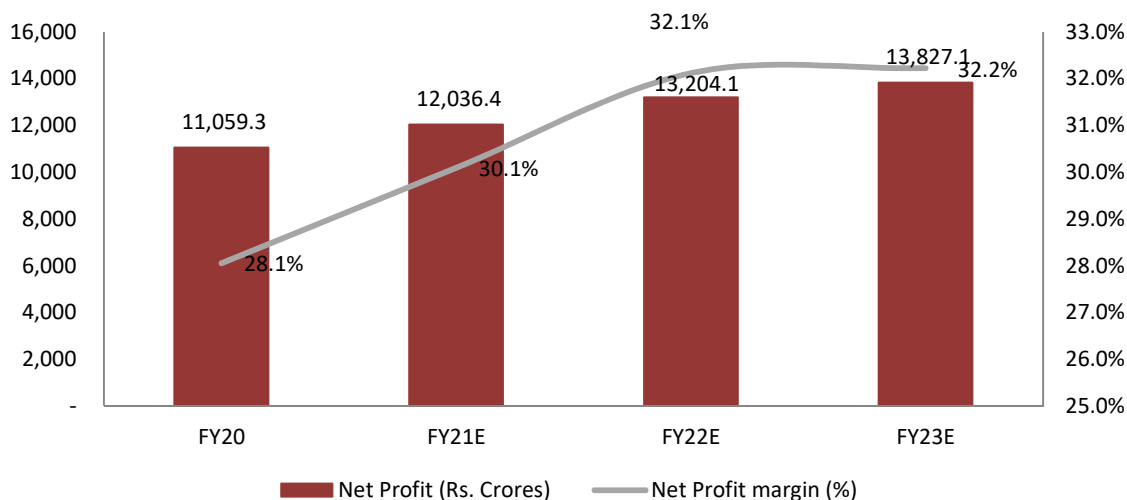
Revenue will experience Steady growth



EBITDA will experience strong growth



Net profit will experience a growth trajectory



Outlook and Valuation

Given an under-penetrated market and strong competitive positioning, PWGR is well-positioned to capitalize on upcoming opportunities/awarding. Valuations at 1.6x FY22E P/BV and 7-8% dividend yield remains attractive for a company with steady RoEs of 17-18%. We maintain our Buy rating with a DCF based TP of INR270/share.

PowergridLtd - Company Overview

Power Grid Corporation of India Limited, is an Indian government electricity board and a Maharatna Public Sector Undertaking owned by Ministry of Power, Government of India which is headquartered in Gurugram, India and engaged mainly in transmission of bulk power across different states of India. Power Grid transmits about 50% of the total power generated in India on its transmission network



Equity Research

Balance sheet (Consolidated)

(Rs crore)	FY20	FY21E	FY22E	FY23E
Liabilities				
Paid up capital	5232	5232	5232	5232
Reserves and Surplus	59464	64705	68985	73396
Net worth	64695	69936	74217	78627
Total Loans	1,48,270	1,43,210	1,37,976	1,31,657
Deferred Revenue & Tax	22,145	21,591	21,591	21,591
Total Liabilities	2,35,110	2,34,737	2,33,784	2,31,875
Assets				
Total fixed assets	1,81,112	1,83,726	1,88,355	1,85,828
Investments	1,431	1,486	1,486	1,486
CWIP	28,449	21,110	11,075	9,108
Other non- current assets				
Net Current Assets	24117	28416	32868	35453
Total Assets	235110	234737	233784	231875

Profit & Loss Account (Consolidated)

(Rs crore)	FY20	FY21	FY22E	FY23E
Total operating Income	39,427	40,002	41,111	42,909
Operating Expenses	4,803	4,647	4,828	5,180
EBITDA	34,624	35,355	36,283	37,729
Depreciation	11,607	12,039	12,583	13,257
EBIT	23,017	23,316	23,700	24,472
Interest cost	9,509	8,135	7,943	7,966
Other Income & Extraordinary Items	927	105	771	815
Profit before tax	14,435	15,286	16,528	17,321
Tax	3,531	3,464	3,604	3,774
Profit after tax	10,904	11,822	12,924	13,547
Minority Interests				
P/L from Associates	155	215	280	280
Other				
Adjusted PAT	11,059	12,036	13,204	13,827



Equity Research

Cash Flow (Consolidated)

Y.E March (Rs crore)	FY20	FY21	FY22E	FY23E
EBIT	14947	15575	16528	17321
Depreciation	11607	12039	12583	13257
Interest	9509	8135	7943	7966
Tax Paid	-2569	-2187	-3604	-3774
Other	2453	4251	6093	323
Cash flow from operating activities	31041	29312	27357	34447
Capex	-11367	-9364	-6927	-8753
Other Investment (Net of Exp)	325	391	3768	1084
Cash flow from investing activities	-11042	-8973	-3159	-7669
Change in Borrowing	-1732	-4584	-5234	-6319
Dividend	-5344	-6822	-9155	-9417
Interest	-11730	-9114	-7943	-7966
Cash flow from financing activities	-18806	-20520	-22332	-23702
Net chg in cash	1,193	-181	1,866	3,076
Opening Cash	4247	5541	5359	7225
Closing Cash	5439	5360	7225	10301

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY20	FY21	FY22E	FY23E
Per share data (Rs.)				
Book Value	123.70	133.70	141.90	150.30
DPS	10.00	12.00	17.50	18.00
Margin (%)				
EBITDA	87.8%	88.4%	88.3%	87.9%
NPM	28.1%	30.1%	32.1%	32.2%
Return Ratios (%)				
RoE	17.6%	18.5%	18.3%	18.1%
ROCE	7.9%	8.1%	8.2%	8.5%
Valuation(x)				
P/E	11.2	9.8	9.2	8.8
EV/EBITDA	7.6	7.3	7.0	6.4
Dividend Yield	4.30%	5.20%	7.50%	7.70%
Per share data (Rs.)				
EPS	20.9	23.9	25.2	26.4



Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



Member: BSE, NSE, MCX, MCX-SX, CDSL

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