

Stock Update

Power Grid Corporation of India Ltd

January 24, 2023





Power Grid Corporation of India Ltd

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Power	Rs 225.1	Buy in the band of Rs 223-227 and add more on dips to Rs 200-203 band	Rs 249	Rs 270	2 - 3 quarters

HDFC Scrip Code	POWGRIEQNR
BSE Code	532898
NSE Code	POWERGRID
Bloomberg	PWGR IN
CMP Jan 23, 2023	225.10
Equity Capital (Rs cr)	6975.5
Face Value (Rs)	10.0
Equity Share O/S (cr)	697.5
Market Cap (Rs cr)	157017
Book Value (Rs)	117.9
Avg. 52 Wk Volumes	12260904
52 Week High	248.35
52 Week Low	186.35

Shareholding Pattern % (Dec, 2022)	
Promoters	51.34
Institutions	45.51
Non Institutions	3.15
Total	100.00



**HDFCsec Retail research
stock rating meter**

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Nirmam Mehta

nirmam.mehta@hdfcsec.com

Our Take:

Power Grid Corporation of India Ltd (Powergrid) is India's largest electric power transmission utility. It is a "Maharatna" Central Public Sector Enterprise (51.34% stake held by the Government of India) that operates ~86% of India's inter-regional (IR) transmission network. Listed in 2007, the company has three business segments – Transmission, Telecom and Consultancy. Transmission segment is the main focus of the business, while the management is also identifying and evaluating opportunities in the non-transmission segment for growth.

As of December 31, 2022, the company owned and operated 1,73,790 circuit km (ckm) of electric transmission lines and 270 sub-stations with a total transformation capacity of 4,93,042 MVA. Powergrid has showcased excellent operating performance metrics in FY22 with 99.83% system availability. It also owns and operates ~76,712 km of telecom network, with point of presence in 458 locations and points of interconnections in 780 locations across 256 cities. The company also offers transmission related consultancy to 150+ domestic clients and 25+ global clients in 23 countries.

We had issued [initiating coverage](#) report on Powergrid dated Jan 10, 2022 and both targets were achieved within the given timeframe. Considering the need for increased transmission evacuation system due to the huge planned addition in generation capacity, its cost plus business model and favourable valuations, we continue to remain positive on the company.

Valuation & Recommendation:

Powergrid is well poised to gain from the transmission opportunity, apart from the new tendering opportunities, especially with robust capacity addition across the renewable space. The market is poised to witness a transmission opportunity for Rs. 1,40,000 Cr over the next five years, mainly through TBCB (Tariff based competitive bidding). Further, it has signed an MoU with Gujarat discom to implement 66 lakh AMI system meters and is in discussions with a few other states like MP and Karnataka. The growth in capitalisation will reduce for a few years as capex has reduced from FY20 (though likely to pick pace from FY25). Hence revenue (dependent on capitalisation), profit growth and book value addition could happen at a slower pace, but the space, the dividend yield and key valuation ratios remain attractive.

Powergrid is currently trading at a 5.5% dividend yield. It has a healthy order book and robust project pipeline. **We think the base case fair value of the stock is Rs 249 (11.5x Sep'24E EPS and 1.85x Sep'24E P/BV) and the bull case fair value is Rs 270 (12.5x Sep'24E EPS and 2x Sep'24E P/BV) over the next two – three quarters. Investors can buy the stock in the band of Rs 223-227 (10.4x Sep'24E EPS and 1.68x Sep'24E P/BV) and add more on dips to Rs 200-203 band (9.3x Sep'24E EPS and 1.5x Sep'24E P/BV).**



Financial Summary (Standalone)

Particulars (Rs cr)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenue	10656	9929	7.3	10446	2.0	37666	39928	42186	43248	44410
EBITDA	8958	8785	2.0	8802	1.8	33056	34922	36641	37405	38263
APAT	3651	3338	9.4	3766	-3.0	12335	15544	13997	14710	15446
Diluted EPS (Rs)	7.0	6.4	9.4	7.2	-3.0	23.6	22.3	20.1	21.1	22.1
RoE (%)						17.9	17.5	17.2	16.9	16.6
P/E (x)						9.5	10.1	11.2	10.7	10.2
P/B (x)						1.6	2.0	1.9	1.7	1.6

(Source: Company, HDFC sec)

Q2FY23 result update

Powergrid's revenue grew 7.3% YoY to Rs. 10,655.70 Cr, led by 7.4%/7.3% YoY growth in transmission/telecom segments, partially offset by a 25.9% decline in sales from consulting segment. EBITDA grew 2.0% YoY to Rs. 8,958.15 Cr, while the margin declined 441 bps YoY to 84.1%. Surcharge income and incentive income declined to Rs. 15 Cr/ Rs. 129 Cr in Q2FY23 vs Rs. 89 Cr/ Rs. 136 Cr YoY. Interest expenses increased 12.6% YoY to Rs. 2,205.81 Cr and depreciation rose 2.4% YoY to Rs. 3,219.27 Cr. PAT increased 9.4% YoY to Rs. 3,651.04 Cr, led by the reversal of deferred taxes. Powergrid's consolidated capitalisation/Capex stood at Rs 1,788 Cr/Rs 1,737 Cr. Transmission system availability was 99.82% and the tripping per line reduced to 0.20 in H1FY23.

Income from telecom business was Rs. 187 Cr. Network availability was 100% and 41 new customers were added in Q2FY23. Orders worth Rs 265 Cr were received from Global OTTs, Government departments, Public and Private Entities and ISPs, etc. Income from consultancy business was Rs. 133 Cr. 64 assignments were ongoing and 10 new orders were obtained in the domestic market, and 15 assignments were ongoing and 1 new assignment was won in the International market in Q2FY23.

Recent Developments

Monetization of transmission assets

The company monetized assets, mainly High Voltage transmission lines and substations through Infrastructure Investment Trust (InvIT) model. It is the first PSU in the country to undertake this model and used the proceeds to fund new and under construction projects. Total amount raised through asset monetization during FY22 was Rs. 8,370 cr. For FY23, the asset monetization target is Rs. 7,500 cr out of which company plans to raise Rs. 6,600 cr under National Monetisation Plan in H2FY23. Monetization targets for FY24 and FY25 are pegged at Rs 15,000 Cr.



Rejection of proposed REC takeover

There were reports indicating that Powergrid was to purchase PFC's 52.63% stake in REC. This would enable PFC to finance power projects through the stake sale proceeds. However, Power Ministry has rejected the proposal. The move was an unrelated diversification and would have led to a de-rating for Powergrid. Rejection of the move removes an overhang, while the cash can instead be utilised in a better manner.

Separation of telecom business into subsidiary

Powergrid has incorporated a wholly owned subsidiary company – POWERGRID TELESERVICES LTD during FY22 to harness emerging opportunities and provide greater focus to the telecom segment. The telecom business is expected to be hived off into this company in FY23E subject to necessary approvals. The subsidiary has also received the Unified license for National Long Distance (NLD), International Long Distance (ILD) and Internet Service Category-A (ISP-A) Service from Department of Telecom.

The Company is exploring new business opportunities within the telecom segment viz. setting up of Data Center, International Long Distance (ILD) Bandwidth Business to directly serve neighbouring countries with reliable connectivity. It is also establishing pilot Data Centre at Manesar, Gurugram at an estimated cost of Rs. 322 cr. The Company has been continuously augmenting its all-India telecom network by enhancing new bandwidth capacity in existing routes, adding new routes and new locations to tap the opportunities.

The management targets to increase the telecom income to ~Rs. 200 cr per quarter in FY23.

Foray into new ventures

Power Grid is exploring opportunities for installation of smart meters for state utilities under DBFOOT model where it will be receiving monthly rentals. MOU has been signed with Gujarat discom for installation of 66 lakh smart meters and it is in discussions with a few other states as well like MP and Karnataka. The implementation period for smart meters is 2.5 years and 7.5 years will be the O&M period. Pricing will be decided after receiving the bids from meter manufacturers, but it will be on a cost plus basis. The process for procurement of 1 Cr smart meters has also been initiated. This project will be implemented through nomination route by PGCIL (through its subsidiary) itself and it expects a WACC return of 10%. Project execution is expected to start Q1FY24 onwards. Payment will be received through fixed monthly rentals on per meter basis for 90 months. Since the capex will be through a subsidiary and not on standalone balance sheet, the recourse through tripartite agreement (as is the case for transmission overdue of states) will not be available. The total potential for smart meters is 25 cr meters (Rs.1.5 lakh cr).

The company also envisages Battery Energy Storage System (BESS) to be a significant element of future grid. Accordingly, it has appointed a consultant to study the business scope for it in the BESS segment and is looking to setup BESS system. Power Grid has setup a wholly owned subsidiary – 'POWERGRID Energy Services Limited' to invest in and act as project management consultant in new and emerging business areas of Energy Management, Smart Meters, Smart Grid, Energy Storage, etc.



The company is also evaluating setting up solar generation capacity on vacant land available with it and few locations with a total potential of 200 MWp have been identified. Of these, preparations are being made to build the Company’s first solar PV plant at Nagda, MP. The power generated would be either utilized for in-house requirements or sold through exchange/ PPAs.

Triggers

Increasing RE capacity to drive capex

As per the CTUIL Rolling Plan 2027-28 (Interim Report) - ISTS (Interstate transmission system) expansion plan, Investments up to Rs. 1.40 lakh crore are expected by FY2026-27 to add 33,019 ckm of transmission lines and 2,42,940 MVA of transformation capacity, providing good visibility for the medium term.

Year wise breakup of ISTS expansion plan:

Financial Year	Ckm addition	MVA addition	Estimated Cost (in cr)
2022-23	6,039	30,965	18,562
2023-24	6,209	42,320	18,740
2024-25	10,869	98,030	35,215
2025-26	7,094	64,050	38,228
2026-27	2,808	7,575	30,218
Total	33,019	2,42,940	1,40,963

(Source: Company, HDFC sec)

Powergrid’s Works in hand stood at Rs. 45,700 Cr - ongoing projects worth Rs. 8,200 Cr, new projects worth Rs. 23,500 Cr and TBCB projects worth Rs. 14,000 Cr. Capex target for FY23 is Rs. 8,800 Cr. Increasing investments to evacuate RE power would help the transmission segment to grow again.

The growth of renewable energy generation is going to propel the transmission investments. In order to meet the country’s commitment at the COP26 to achieve 500 GW of non-fossil generation capacity by 2030, significant investments will be required in building the related transmission evacuation system. Powergrid is striving to capitalize on the opportunities in the transmission sector arising therein.

Tariff regulations for 2019-24 with unchanged regulated RoE ensure stable cash flow

Regulated RoEs play an important role in profitability of transmission companies. Tariff is determined on a cost-plus basis which ensures recovery of depreciation, interest on long-term loan and working capital loan, operation and maintenance (O&M) expenses and a 15.5 pre-tax return on equity, to be grossed up by the normal tax rate. A significant portion of the transmission assets are commissioned under the cost-plus



tariff norms by CERC, which reduce the impact of increased participation of private players through competitive bidding. The company also earns additional incentives for timely commissioning of transmission projects and for maintaining high system availability pursuant to CERC norms for such projects.

Risks and Concerns

- **Overdue Receivables**

Major dues from J&K, Tamil Nadu, U.P. and Maharashtra still persist. Rs. 4,868 Cr were outstanding for more than 45 days as on September 30, 2022 compared to Rs. 2,705 Cr as September 30, 2021. Of these, Rs. 2,400 Cr are to be paid in instalments by 7 Discoms accordance with LPS Rules 2022 as notified by MoP in June 2022.

- **Execution risk**

Powergrid undertakes large capex for building transmission assets. Any delay/challenges will lead to time/cost overruns which may result in disallowance of capital costs under the regulated business model or adversely impact profitability under the TBCB route. Continued capitalisation of transmission assets is expected to boost the company's revenues and cash flows going forward; any delay in this could postpone revenues.

- **Competition from Private players**

Entry of private players and aggressive bidding may lead to lower profitability and inability to win projects

- **Operational Inefficiency**

Sustained fall in line availability below 98% would lead to under recovery of fixed costs and thus affect the cash flows.

- **Promoter Risk**

Government being the majority owner may direct the company to carry out unrelated diversifications, leading to a de-rating. Further, the cash flow generated from the company may be utilised in a sub-optimal manner.

- **Regulatory risks**

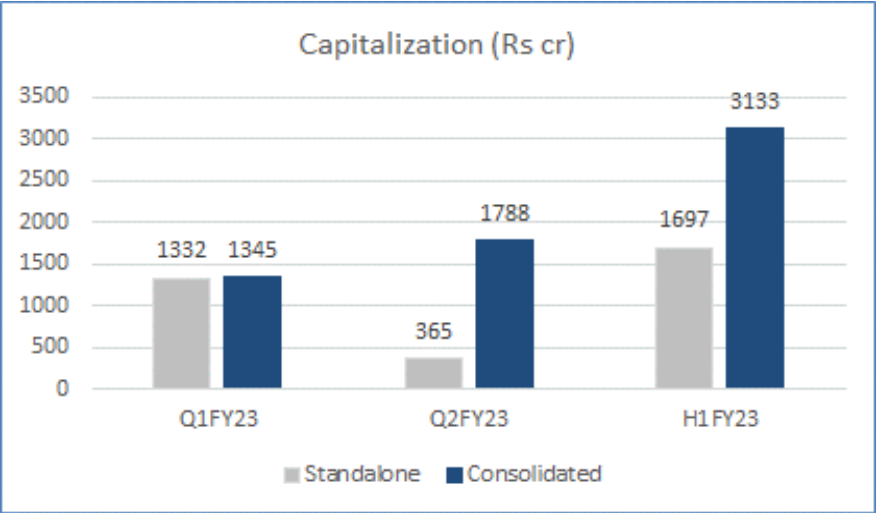
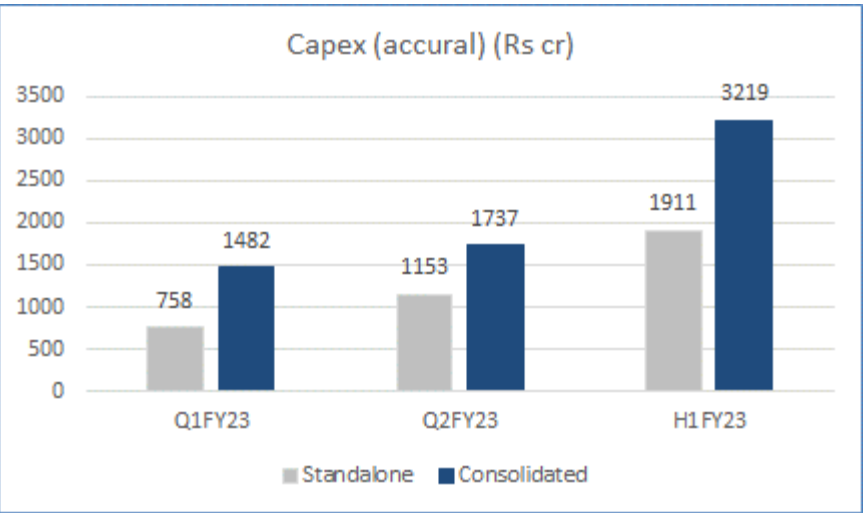
Powergrid faces risks arising out of regulatory changes from the Ministry of Power/CERC etc including changes in tariff regulations from 2025-2029, which may bring down the regulated RoE.



About the company

Power Grid Corporation of India Limited was incorporated in 1989 and is engaged in the power transmission business, with responsibility for planning, implementation, operation and maintenance of Inter-State Transmission System and operation of National and Regional Load Dispatch Centers. The company moves large blocks of power from the central generating agencies and areas that have surplus power to load centres within and across regions. It is under the administrative control of the Ministry of Power, GoI. The Company's segments include Transmission, Telecom and Consultancy. The transmission segment includes extra high voltage/high voltage (EHV/HV) networks and grid management. It also owns EHV alternating current (AC) and HV direct current (HVDC) sub-stations. The Consultancy segment includes planning, design, engineering, load dispatch, procurement management, operation and maintenance, financing and project management. The Telecom segment includes transmission infrastructure, enterprise services and topologies. Powergrid gets the support from the Government of India (GoI) (guarantees extended for some of PGCIL's borrowing programmes) which enables the company raise long-term funds at competitive rates.

Project Execution



(Source: Company, HDFC sec)



(Source: Company, HDFC sec)



Power Grid Corporation of India Ltd

Financials (Standalone)

Income Statement

(Rs Cr)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	37666	39928	42186	43248	44410
<i>Growth (%)</i>	<i>4.1</i>	<i>6.0</i>	<i>5.7</i>	<i>2.5</i>	<i>2.7</i>
Operating Expenses	4610	5006	5545	5844	6147
EBITDA	33056	34922	36641	37405	38263
<i>Growth (%)</i>	<i>5.3</i>	<i>5.6</i>	<i>4.9</i>	<i>2.1</i>	<i>2.3</i>
<i>EBITDA Margin (%)</i>	<i>87.8</i>	<i>87.5</i>	<i>86.9</i>	<i>86.5</i>	<i>86.2</i>
Depreciation	11712	12551	12869	13187	13485
EBIT	21344	22371	23773	24218	24778
Other Income	2861	2408	1612	1813	2062
Interest expenses	8501	8211	7833	7584	7470
EBT	15705	16568	17551	18446	19370
Tax and Exc. Items	3488	-526	3555	3736	3924
RPAT	11936	17094	13997	14710	15446
Rate Regulated Activities and Exc. Items	399	-1550	0	0	0
APAT	12335	15544	13997	14710	15446
<i>Growth (%)</i>	<i>14.1</i>	<i>26.0</i>	<i>-10.0</i>	<i>5.1</i>	<i>5.0</i>
EPS	23.6	22.3	20.1	21.1	22.1

Balance Sheet

As at March	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	5232	6975	6975	6975	6975
Reserves	64347	69176	74774	80658	86837
Total Shareholder's Funds	69579	76151	81750	87634	93812
Long Term Debt	129080	114199	109603	107086	106353
Short Term Debt					
Total Debt	129080	114199	109603	107086	106353
Net Deferred Tax Liability	11942	11425	11462	11501	11542
Other Non-current Liabilities	14148	13823	13823	13823	13823
TOTAL SOURCES OF FUNDS	224749	215598	216637	220044	225529
APPLICATION OF FUNDS					
Net Block	176944	178191	177323	176136	173902
CWIP	17972	7344	4144	2144	2894
Investments	19058	17202	16204	15307	14499
LT Loans & Advances	10474	10775	10775	10775	10775
Total Non-Current Assets	224447	213512	208446	204362	202070
Inventories	1363	1353	1429	1465	1504
Debtors	3621	9107	6935	6517	6692
Cash and Cash Equivalents	5274	2971	7704	9912	15625
ST Loans & Advances	13369	14598	13869	13034	13384
Other Current Assets	6258	6337	7837	9337	10837
Total Current Assets	29884	34365	37774	40264	48043
Creditors	28322	31347	28598	23573	23546
Provisions	1261	932	985	1010	1037
Total Current Liabilities	29583	32279	29583	24583	24583
Net Current Assets	302	2086	8191	15681	23460
TOTAL APPLICATION OF FUNDS	224749	215598	216637	220044	225529

(Source: Company, HDFC sec)



Power Grid Corporation of India Ltd

Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23E	FY24E	FY25E
EBT	15705	16568	17551	18446	19370
Depreciation	11712	12551	12869	13187	13485
Int & Others	4570	5477	6221	5772	5408
Change in working capital	-4416	-4604	-1335	-5244	-2024
Tax expenses	-3089	-2711	-3555	-3736	-3924
CF from Operating activities (A)	24482	27281	31752	28425	32315
Net Capex	-6799	-3172	-8800	-10000	-12000
<i>Free Cash Flow (FCF)</i>	<i>17682</i>	<i>24110</i>	<i>22952</i>	<i>18425</i>	<i>20315</i>
(Purchase)/Sale of Inv & Others	958	1857	997	898	808
Div & int rec	2861	2408	1612	1813	2062
CF from Investing activities (B)	-2980	1093	-6191	-7290	-9130
Borrowings/(Repayments)	-6341	-14881	-4597	-2517	-734
Interest Expenses	-8501	-8211	-7833	-7584	-7470
Other Financing Activities	1749	0	0	0	0
Share Capital Issuance	0	1744	0	0	0
Dividends	-6290	-8611	-8398	-8826	-9268
CF from Financing activities (C)	-19383	-29958	-20828	-18927	-17472
Net Cash Flow (A+B+C)	2119	-1584	4733	2208	5714

One Year Price Chart



Key Ratios

Particulars	FY21	FY22	FY23E	FY24E	FY25E
PROFITABILITY RATIOS					
Gross Profit Margin (%)	94.4	94.4	95.0	94.9	94.7
EBITDA Margin (%)	87.8	87.5	86.9	86.5	86.2
EBIT Margin (%)	56.7	56.0	56.4	56.0	55.8
APAT Margin (%)	31.7	40.2	33.2	34.0	34.8
RoE (%)	17.9	17.5	17.2	16.9	16.6
RoCE (%)	11.3	11.9	12.4	12.6	12.7
SOLVENCY RATIOS					
Net Debt/EBITDA (x)	3.7	3.2	2.8	2.6	2.4
Net D/E (x)	1.7	1.4	1.2	1.1	0.9
PER SHARE DATA					
EPS	23.6	22.3	20.1	21.1	22.1
CEPS	46.0	40.3	38.5	40.0	41.5
DPS	12.0	12.3	12.0	12.7	13.3
BVPS	139.1	112.8	120.8	129.3	138.1
TURNOVER RATIOS					
Debtors (days)	35	83	60	55	55
Inventory (days)	13	12	12	12	12
Payables (days)	48	103	68	28	3
VALUATION					
P/E (x)	9.5	10.1	11.2	10.7	10.2
P/BV (x)	1.6	2.0	1.9	1.7	1.6
EV/EBITDA (x)	7.3	7.7	7.1	6.8	6.5
OCF/EV (%)	10.1	10.2	12.3	11.2	13.0
Dividend Yield (%)	5.3	5.5	5.3	5.6	5.9

(Source: Company, HDFC sec)



HDFC sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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