

Retail Equity Research

Power Grid Corporation of India Ltd.

Electric Utilities

BSE CODE: 532898

NSE CODE: POWERGRID

Bloomberg CODE: PWGR:IN

SENSEX: 38,310

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 179

TARGET Rs. 202

RETURN 13% ↑

(Closing: 13-08-20)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↑

Mixed results; Outlook positive

Power Grid Corporation of India Limited is engaged primarily in the power transmission business. The Company's segments include transmission, telecom and consultancy.

- Q1FY21 standalone revenue rose 2.1% YoY, mainly due to 4.6% growth in transmission business.
- EBITDA remained largely stable YoY, as higher sales was offset by lower margins (-210bps YoY). PAT fell 18.5% YoY primarily impacted by rebate of Rs. 1,075cr to electricity distribution companies and state electricity boards.
- The company raised debt of Rs. 3,300cr during the quarter with interest rate ranging from 6.3-6.9%.
- The new projects under renewable electricity movement of Govt of India will provide opportunities in medium to long-term. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 202 based on 1.4x FY22E BVPS.

Transmission business contributes to topline growth

Power Grid recorded standalone revenue of Rs. 8,989cr in Q1FY21 (+2.1% YoY) primarily aided by growth in transmission business. Transmission revenue rose 4.6% YoY to Rs. 9,045cr, which includes Rs. 227cr worth of final tariff orders issued by CERC and Rs. 8,417cr final tariff orders not yet received by CERC for transmission assets. However, Consultancy and telecom businesses registered weak revenue of Rs. 99cr (-22.0% YoY) and Rs. 188cr (-3.3% YoY), respectively.

Rebate impacted bottom-line

EBITDA remained largely stable YoY at Rs. 7,877cr, whereas EBITDA margin contracted 210bps YoY to 87.6% due to higher overhead costs and other operating cost. PAT fell 18.5% YoY to Rs. 1,979cr, primarily impacted by rebate of Rs. 1,075cr to electricity distribution companies and state electricity boards as part of the economic stimulus package announced by the government. This rebate was to help end consumer against the April and May billing during the lockdown. Excluding this one-off item, adjusted profit was up 25.8% YoY to Rs. 3,054cr.

Key concall highlights

- In Q1FY21, Company received 23 new orders in Telecom and 6 in Consultancy.
- It added 400kV D/C Hiriyur-Mysore line and ICTs at Meerut, Koteshwar, and Balipara substations of PowerGrid.
- The Company has Rs. 51,000cr worth of projects in hand for FY21, which includes TBCB projects of Rs. 12,000cr and new projects of Rs. 6,000cr. It also expects new projects worth of Rs. 23,400cr (Transmission works for RE: Rs. 16,000cr and Intra-state works in TBCB: Rs. 7,400cr)
- The company installed 5 electric vehicle fast charging stations, out of which 2 in Delhi and 1 each in Ahmedabad, Gurugram, and Hyderabad. Also, under FAME Phase-2 of Govt. of India, it installed 11 electric vehicle fast chargers in Shillong.

Valuation

The company has strong pipeline of projects for FY21 and expects these projects to pick up after the revival of economy. Also, under India 2020 energy policy review, the government has planned renewable electricity capacity of 175GW by 2022. This will open up new project opportunities for Power Grid. Hence, we are positive about the Company's outlook and reiterate our BUY rating on the stock with a revised target price of Rs. 202 based on 1.4x FY22E BVPS.

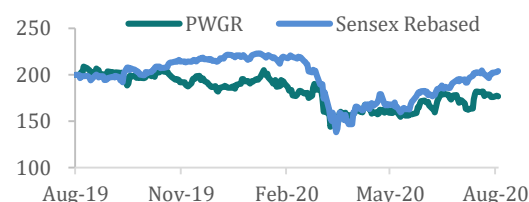
Company Data

Market Cap (cr)	Rs. 93,515
Enterprise Value (cr)	Rs. 227,550
Outstanding Shares (cr)	523.2
Free Float	43.0%
Dividend Yield	5.6%
52 week high	Rs. 213
52 week low	Rs. 130
6m average volume (lacs)	5.5
Beta	0.4
Face value	Rs. 10

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	55.0	51.3	51.4
FII's	27.3	27.0	25.3
MFs/Insti	13.3	16.7	18.3
Public	2.6	2.6	2.6
Others	1.9	2.4	2.4
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	8.9%	-2.6%	-10.9%
Absolute Sensex	22.3%	-7.7%	2.1%
Relative Return*	-13.4%	5.1%	-13.0%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	36,186	39,623	42,991
Growth (%)	6.1	9.5	8.5
EBITDA	31,402	34,393	37,316
EBITDA Margin (%)	86.8	86.8	86.8
Adj. PAT	10,811	12,337	12,796
Growth (%)	8.8	14.1	3.7
Adj. EPS	20.7	23.6	24.5
Growth (%)	8.8	14.1	3.7
P/E	7.7	7.6	7.3
P/B	1.3	1.3	1.2
EV/EBITDA	7.0	6.6	6.0
ROE (%)	16.8	16.2	16.9
D/E	2.2	2.1	1.9

Quarterly Financials (Standalone)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	8,989	8,804	2.1	9,704	(7.4)
EBITDA	7,877	7,896	(0.2)	8,072	(2.4)
EBITDA margins	87.6	89.7	(210bps)	83.2	440bps
Depreciation	2,797	2,659	5.2	2,864	(2.3)
EBIT	5,080	5,237	(3.0)	5,209	(2.5)
Interest	2,279	2,359	(3.4)	2,604	(12.5)
Other Income	631	424	48.8	705	10.4
Exceptional Items	(1,075)	-	n.m.	-	n.m.
PBT	2,358	3,303	(28.6)	3,309	(28.7)
Tax	379	875	(56.7)	127	199.3
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	1,979	2,428	(18.5)	3,183	(37.8)
Adjustments	1,075	-	n.m.	-	n.m.
Adj. PAT	3,054	2,428	25.8	3,183	(4.0)
No. of shares	523.2	523.2	-	523.2	-
Adj. EPS (Rs.)	5.8	4.6	25.8	6.1	(4.1)

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	39,711	41,696	39,623	42,991	(0.2)	3.1
EBITDA	34,469	36,151	34,393	37,316	(0.2)	3.2
Margins (%)	86.8	86.7	86.8	86.8	0bps	10bps
Adj. PAT	11,790	12,739	12,337	12,796	4.6	0.4
Adj. EPS	22.5	24.4	23.6	24.5	4.6	0.2

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	29,752	34,119	36,186	39,623	42,991
% change	15.7	14.7	6.1	9.5	8.5
EBITDA	25,938	29,282	31,402	34,393	37,316
% change	14.8	12.9	7.2	9.5	8.5
Depreciation	9,091	10,201	11,073	11,514	12,147
EBIT	16,846	19,081	20,329	22,879	25,169
Interest	7,591	9,091	9,814	9,968	10,053
Other Income	1,014	1,499	2,132	1,079	2,175
PBT	10,270	11,489	12,647	13,991	17,292
% change	8.1	11.9	10.1	10.6	23.6
Tax	2,015	1,550	1,836	2,728	4,496
Tax Rate (%)	19.6	13.5	14.5	19.5	26.0
Reported PAT	8,239	9,939	10,811	11,262	12,796
Adj*	-	-	-	1,075	-
Adj PAT	8,239	9,939	10,811	12,337	12,796
% change	9.6	20.6	8.8	14.1	3.7
No. of shares (cr)	523.2	523.2	523.2	523.2	523.2
Adj EPS (Rs.)	15.7	19.0	20.7	23.6	24.5
% change	9.6	20.6	8.8	14.1	3.7
DPS (Rs.)	5.3	8.6	10.0	11.5	13.0
CEPS (Rs.)	33.1	38.5	41.8	45.6	47.7

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	2,170	4,332	5,395	9,702	10,569
Accounts Receivable	3,639	4,650	4,868	5,389	5,804
Inventories	1,038	1,226	1,401	1,444	1,410
Other Cur. Assets	5,452	7,664	6,746	8,908	9,593
Investments	1,608	2,757	3,764	4,140	4,347
Gross Fixed Assets	177,100	197,793	205,799	2,16,207	2,29,737
Net Fixed Assets	152,244	162,267	168,339	1,66,917	1,67,980
CWIP	30,261	33,364	30,180	30,482	30,787
Intangible Assets	1,412	1,807	1,717	1,732	1,747
Def. Tax (Net)	-	-	-	-	-
Other Assets	15,080	28,406	33,141	34,622	36,234
Total Assets	212,906	246,473	255,550	2,63,335	2,68,471
Current Liabilities	25,900	27,814	26,090	26,623	27,051
Provisions	717	368	425	403	383
Debt Funds	123,880	139,237	141,937	1,43,737	1,42,237
Other Liabilities	7,994	20,037	22,659	22,887	23,119
Equity Capital	5,232	5,232	5,232	5,232	5,232
Reserves & Surplus	49,183	53,786	59,208	64,454	70,449
Shareholder's Fund	54,415	59,017	64,440	69,686	75,681
Minority Interest	-	-	-	-	-
Total Liabilities	212,906	246,473	255,550	2,63,335	2,68,471
BVPS (Rs.)	104	113	123	133	145

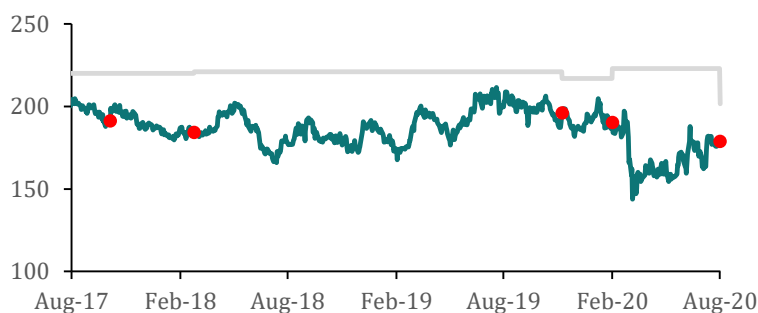
CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	17,330	20,139	21,884	22,776	24,943
Non-cash adj.	5,137	4,482	8,012	3,077	4,375
Changes in W.C	(586)	(1,472)	(366)	(565)	(381)
C.F. Operation	21,881	23,149	29,530	25,289	28,937
Capital exp.	(21,110)	(19,462)	(8,006)	(10,408)	(13,530)
Change in inv.	(319)	(1,166)	(1,056)	-	-
Other invest.CF	(3,198)	1,980	(603)	(376)	(207)
C.F - Investment	(24,627)	(18,648)	(9,666)	(10,784)	(13,737)
Issue of equity	-	-	-	-	-
Issue/repay debt	11,992	27,437	17,589	1,800	(1,500)
Dividends paid	(3,034)	(5,424)	(5,285)	(6,016)	(6,801)
Other finance.CF	(7,924)	(24,386)	(31,016)	(5,981)	(6,032)
C.F - Finance	1,034	(2,374)	(18,712)	(10,197)	(14,333)
Chg. in cash	(1,712)	2,127	1,153	4,307	867
Closing cash	2,170	4,332	5,395	9,702	10,569

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	87.2	85.8	86.8	86.8	86.8
EBIT margin (%)	56.6	55.9	56.2	57.7	58.5
Net profit mgn.(%)	27.7	29.1	29.9	28.4	29.8
ROE (%)	15.1	16.8	16.8	16.2	16.9
ROCE (%)	9.4	9.6	9.9	10.7	11.5
W.C & Liquidity					
Receivables (days)	44.6	49.7	49.1	49.6	49.3
Inventory (days)	171.6	146.6	181.0	164.3	146.0
Payables (days)	39.7	43.5	29.2	40.2	39.8
Current ratio (x)	0.5	0.6	0.6	0.9	0.9
Quick ratio (x)	0.2	0.3	0.4	0.5	0.5
Turnover & Leverage					
Gross asset T.O (x)	0.2	0.2	0.2	0.2	0.2
Total asset T.O (x)	0.1	0.1	0.1	0.2	0.2
Int. coverage ratio (x)	2.2	2.1	2.1	2.3	2.5
Adj. debt/equity (x)	2.3	2.4	2.2	2.1	1.9
Valuation					
EV/Sales (x)	7.3	7.0	6.1	5.7	5.2
EV/EBITDA (x)	8.4	8.1	7.0	6.6	6.0
P/E (x)	11.6	10.3	7.7	7.6	7.3
P/BV (x)	1.8	1.7	1.3	1.3	1.2

Recommendation Summary



Dates	Rating	Target
17-Oct-17	BUY	230
8-Mar-18	BUY	221
20-Nov-19	BUY	217
13-Feb-20	BUY	223
14-Aug-20	BUY	202

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

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

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