

Retail Equity Research

Power Grid Corporation of India Limited

Electric Utilities

BSE CODE: 532898 NSE CODE: POWERGRID
 Bloomberg CODE: PWGR:IN SENSEX: 76,457

HOLD

12 Months Investment Period Rating as per Large Cap
 CMP Rs. 317 TARGET Rs. 343 RETURN 8% 
 (Closing: 11-06-24)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

Growing capex plans to drive growth

Power Grid Corporation of India Limited (PowerGrid) is primarily into power transmission. It operates via the transmission, telecom and consultancy segments.

- In Q4FY24, PowerGrid's consolidated revenue from operations decreased 2.5% YoY to Rs. 11,978cr (+ 3.7% QoQ), mainly due to subdued growth in its transmission business (-4.2% YoY).
- For FY24, the company's project execution remained strong with capex at Rs. 12,500cr (vs. Rs. 6,326cr in FY23) and asset capitalisation at Rs. 7,618cr (vs Rs. 3,978cr in FY23).
- Although PowerGrid's financial performance for the quarter was below expectations, the company continued to demonstrate strong project execution. We expect improved financial performance, due to growth visibility, supported by robust capital expenditure plans and efficient execution. Furthermore, the stock appears fairly valued at the current price levels. Hence, we reiterate HOLD rating on the stock, with a revised target price of Rs. 343, based on 3.4x FY26E BVPS.

Higher other income aids profitability

In Q4FY24, the company's consolidated revenue from operations declined 2.5% YoY to Rs. 11,978cr, due to weak performance in the transmission business (-4.2% YoY to Rs. 11,766cr). However, the consultancy business witnessed growth, with a revenue of Rs. 235cr, as against a loss in revenue of Rs. 14cr in Q4FY23. Revenue from the telecom business grew 19.6% YoY to Rs. 250cr. EBITDA for the quarter declined 7.6% YoY to Rs. 10,099cr and margin contracted 470bps YoY to 84.3%, due to a rise in operating expenses (+82.0% YoY to Rs. 1,235cr). As a result, profit after tax also fell 3.6% YoY to Rs. 4,166cr. However, the decline was partially offset by higher other income, which increased 20.4% YoY to Rs. 327cr, mainly due to interest earned on deposits and surcharge income.

Key concall highlights

- Management has approved the raising Rs. 5,000cr from a consortium of bankers.
- Currently, the total work-in-progress is worth Rs. 86,700cr, with over 80% allocated to renewable energy evacuation. This includes Rs. 11,200cr being used for ongoing regulated tariff mechanism (RTM) projects, Rs. 24,700cr for new RTM projects, and Rs. 50,800cr for other projects.

Capex plans remain strong

Management has planned a capital expenditure (capex) of Rs. 15,000cr for FY25. Out of this, Rs. 5,000cr is allocated for projects under RTM, and the rest is allocated for other projects, including those under tariff-based competitive bidding (TBCB). Additionally, management has indicated a capex of Rs. 20,000cr for FY26. In the long run, the company has a capex pipeline of over Rs. 2 lakh crore for the next decade.

Valuation

Power Grid has a strong pipeline of projects, and management has indicated an increase in capex in the future, providing earnings visibility for the next few years. Additionally, upcoming renewable energy projects, combined with a low-risk business model, are expected to enhance growth prospects. Therefore, considering its strong track record of execution, we anticipate an improvement in its financial performance. Hence, we reiterate HOLD rating on the stock, with a revised target price of Rs. 343, based on 3.4x FY26E BVPS.

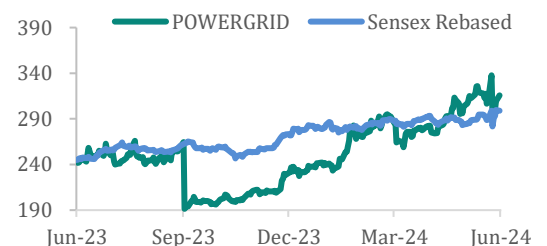
Company Data

Market Cap (cr)	Rs. 294,922
Enterprise Value (cr)	Rs. 413,890
Outstanding Shares (cr)	930.0
Free Float	49.0%
Dividend Yield	3.6%
52 week high	Rs. 347
52 week low	Rs. 178
6m average volume (lacs)	218
Beta	1.2
Face value	Rs. 10

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	51.3	51.3	51.3
FII's	33.1	32.0	29.8
MFs/Insti	8.2	13.2	15.3
Public	2.8	3.3	3.4
Others	0.1	0.2	0.1
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	7.9%	38.2%	29.0%
Absolute Sensex	3.2%	9.5%	22.1%
Relative Return*	4.7%	28.6%	6.9%

*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	45,843	50,061	53,114
Growth (%)	0.5	9.2	6.1
EBITDA	39,903	41,916	44,489
EBITDA Margin (%)	87.0	83.7	83.8
Adj. PAT	15,573	16,681	17,729
Growth (%)	1.0	7.1	6.3
Adj. EPS	16.7	17.9	19.1
Growth (%)	1.0	7.1	6.3
P/E	18.9	17.7	16.6
P/B	3.4	3.3	3.1
EV/EBITDA	10.4	9.9	9.3
ROE (%)	17.9	18.4	18.9
D/E	1.5	1.4	1.3

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. cr	Q4FY24	Q4FY23*	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23*	YoY Growth (%)
Revenue	11,978	12,286	(2.5)	11,550	3.7	45,843	45,603	0.5
EBITDA	10,099	10,931	(7.6)	10,213	(1.1)	39,903	39,500	1.0
EBITDA margins	84.3	89.0	(470bps)	88.4	(410bps)	87.0	86.6	40bps
Depreciation	3,259	3,314	(1.7)	3,293	(1.0)	13,095	13,333	(1.8)
EBIT	6,840	7,617	(10.2)	6,919	(1.1)	26,808	26,167	2.4
Interest	1,928	2,475	(22.1)	2,446	(21.2)	8,773	9,634	(8.9)
Other Income	389	219	78.0	232	67.7	1,050	920	14.1
Exceptional Items	-	-	-	-	-	-	-	-
Share of profit from Associate	-	-	-	-	-	-	-	-
PBT	5,301	5,361	(1.1)	4,705	12.7	19,085	17,453	9.4
Tax	958	1,012	(5.3)	788	21.7	2,941	2,282	28.8
Reported PAT	4,342	4,348	(0.1)	3,918	10.8	16,145	15,171	6.4
Minority Interest	-	-	-	-	-	-	-	-
PAT att. to shareholders	4,166	4,323	(3.6)	4,028	3.4	15,573	15,419	1.0
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	4,166	4,323	(3.6)	4,028	3.4	15,573	15,419	1.0
No. of shares	930	930#	0.0	930	(0.0)	930	930#	0.0
Adj. EPS (Rs.)	4.5	4.7	(3.7)	4.3	3.5	16.7	16.6	1.0

*restated, #back calculated

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	48,590	-	50,061	53,114	3	-
EBITDA	42,322	-	41,916	44,489	(1)	-
Margins (%)	87.1	-	83.7	83.8	(340bps)	-
Adj. PAT	15,664	-	16,681	17,729	6.5	-
Adj. EPS	22.5	-	17.9	19.1	(20.2)	-

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	41,622	45,603	45,843	50,061	53,114
% change	5.0	9.6	0.5	9.2	6.1
EBITDA	36,572	39,500	39,903	41,916	44,489
% change	4.5	8.0	1.0	5.0	6.1
Depreciation	12,872	13,333	13,095	13,129	14,455
EBIT	23,701	26,167	26,808	28,787	30,033
Interest	8,036	9,634	8,773	8,753	8,657
Other Income	4,475	920	1,050	1,017	966
PBT	20,139	17,453	19,085	21,050	22,342
% change	33.0	(13.3)	9.4	10.3	6.1
Tax	2,786	2,282	2,941	3,786	4,019
Tax Rate (%)	13.8	13.1	15.4	18.0	18.0
Reported PAT	16,824	15,419	15,573	16,681	17,729
PAT att. to common shareholders	16,824	15,419	15,573	16,681	17,729
Adj*	(3,320)	-	-	-	-
Adj PAT	13,504	15,419	15,573	16,681	17,729
% change	3.0	14.2	1.0	7.1	6.3
No. of shares (cr)	697.5	930.0	930.3	930.3	930.3
Adj EPS (Rs.)	19.4	16.6	16.7	17.9	19.1
% change	3.0	(14.4)	1.0	7.1	6.3
DPS (Rs.)	14.8	14.8	11.3	14.3	15.2

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	29,696	28,753	28,668	29,810	32,184
Non-cash adj.	(3,019)	13,556	5,079	4,408	3,044
Changes in W.C	(553)	(2,106)	3,542	(1,197)	(965)
C.F. Operation	26,124	40,203	37,290	33,021	34,263
Capital exp.	(7,966)	(8,243)	(11,404)	(12,515)	(13,385)
Change in inv.	16	-	-	-	-
Other invest.CF	8,703	1,104	(1,711)	(30)	(31)
C.F - Investment	753	(7,138)	(13,114)	(12,545)	(13,416)
Issue of equity	-	-	-	-	-
Issue/repay debt	(5,434)	(6,409)	(5,397)	(2,542)	(329)
Dividends paid	(10,812)	(8,545)	(11,219)	(13,345)	(14,183)
Other finance.CF	(12,721)	(15,496)	(9,287)	(6,953)	(6,875)
C.F - Finance	(28,967)	(30,450)	(25,903)	(22,839)	(21,388)
Chg. in cash	(2,091)	2,615	(1,728)	(2,364)	(540)
Closing cash	5,048	7,385	7,495	5,132	4,592

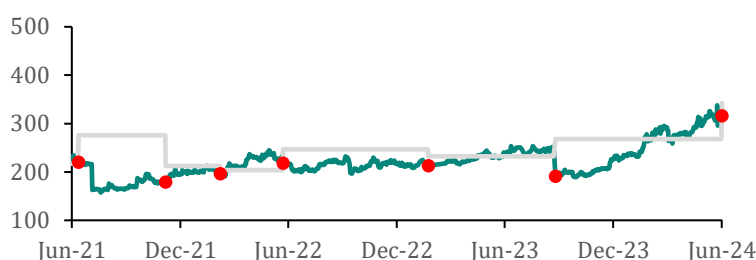
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	5,048	7,385	7,495	5,132	4,592
Accounts Receivable	13,370	14,884	11,540	12,015	12,854
Inventories	1,357	1,340	1,406	2,128	2,254
Other Cur. Assets	6,495	2,314	6,612	7,938	9,227
Investments	1,926	1,774	1,516	1,546	1,577
Gross Fixed Assets	260,259	267,573	278,977	291,492	304,877
Net Fixed Assets	190,048	183,777	176,223	173,785	170,710
CWIP	12,800	13,741	18,082	19,890	21,879
Intangible Assets	1,778	1,691	1,654	1,669	1,685
Def. Tax (Net)	-	-	-	-	-
Other Assets	22,375	25,367	26,364	27,531	29,813
Total Assets	255,198	252,273	250,891	251,634	254,590
Current Liabilities	14,849	15,439	16,039	16,904	17,449
Provisions	517	578	644	708	779
Debt Funds	142,396	132,144	127,078	124,536	124,207
Other Liabilities	21,180	21,086	19,985	19,005	18,128
Equity Capital	6,975	6,975	9,301	9,301	9,301
Reserves & Surplus	69,281	76,051	77,845	81,181	84,726
Shareholder's Fund	76,256	83,026	87,145	90,481	94,027
Minority Interest	-	-	-	-	-
Total Liabilities	255,198	252,273	250,891	251,634	254,590
BVPS (Rs.)	109	89	94	97	101

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	87.9	86.6	87.0	83.7	83.8
EBIT margin (%)	56.9	57.4	58.5	57.5	56.5
Net profit mgn.(%)	40.4	33.8	34.0	33.3	33.4
ROE (%)	22.1	18.6	17.9	18.4	18.9
ROCE (%)	10.8	12.2	12.5	13.4	13.8
W.C & Liquidity					
Receivables (days)	117.2	119.1	91.9	87.6	88.3
Inventory (days)	176.6	136.1	146.4	149.7	150.4
Payables (days)	34.7	33.3	38.7	38.9	39.2
Current ratio (x)	0.7	0.9	0.8	0.8	0.8
Quick ratio (x)	0.5	0.7	0.6	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)	0.2	0.2	0.2	0.2	0.2
Int. coverage ratio (x)	2.9	2.7	3.1	3.3	3.5
Adj. debt/equity (x)	1.9	1.6	1.5	1.4	1.3
Valuation					
EV/Sales (x)	6.9	7.3	9.0	8.3	7.8
EV/EBITDA (x)	7.9	8.4	10.4	9.9	9.3
P/E (x)	11.2	13.4	18.9	17.7	16.6
P/BV (x)	2.0	2.5	3.4	3.3	3.1

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
25-Nov-20	HOLD	217
22-Jun-21	BUY	276
16-Nov-21	BUY	212
16-Feb-22	HOLD	204
2-Jun-22	HOLD	247
2-Feb-23	HOLD	232
4-Sep-23	HOLD	268
11-Jun-24	HOLD	343

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/Neutral			

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/Neutral:** 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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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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