



Power Grid Corporation of India Ltd

Weak Q1; positive commentary on pick-up in transmission capex

3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score **NEW**

ESG RISK RATING	26.33			
Updated Jun 08, 2023				
Medium Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

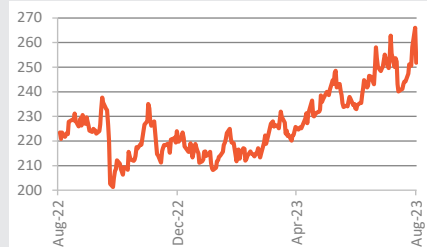
Company details

Market cap:	Rs. 1,75,607 cr
52-week high/low:	Rs. 264/186
NSE volume: (No of shares)	99.2 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	(1.3)	4.9	18.3	13.1
Relative to Sensex	(4.0)	(3.4)	7.4	(1.2)

Sharekhan Research, Bloomberg

Power

Sharekhan code: **POWERGRID**

Reco/View: **Buy**

CMP: **Rs. 252**

Price Target: **Rs. 290**

Upgrade ↔ Maintain ↓ Downgrade

Summary

- Q1FY2024 standalone PAT declined by 6% y-o-y to Rs. 3,543 crore (13% below estimate) due to lower transmission income for the previous period, steep fall in earnings from the consultancy business, and continued subdued trend of asset capitalisation.
- Standalone/consolidated asset capitalisation was muted at Rs. 652 crore/Rs. 1,615 crore, down 51%/26% y-o-y in Q1FY2024. Overall, receivables increased by 48% q-o-q to Rs. 7,140 crore as of June 2023.
- Management expects the transmission capex to pick-up and has estimated capex of Rs. 1.71 lakh crore over the next nine years. This would mean a rebound in capex in the range of Rs. 20,000-25,000 crore for a few years starting from FY2025-FY2026. The company has received smart metre order from Gujarat discoms which would require an investment of Rs. 4,067 crore; management has guided for mid-teen RoE on smart meter investment.
- We maintain our Buy rating on Power Grid with a revised PT of Rs. 290 (rollover of valuation to FY2025 earnings estimate). The valuation of 1.7x FY2025E its P/BV seems attractive, considering a decent growth outlook, healthy RoE of 19%, and a dividend yield of ~6%.

Power Grid Corporation of India Limited's (Power Grid) Q1FY2024 standalone PAT declined by 6% y-o-y to Rs. 3,543 crore, below our estimate of Rs. 4,050 crore. The y-o-y earnings decline was on account of lower income for previous periods at Rs. 214 crore (versus Rs. 351 crore in Q1FY2023), the decline in interest on differential tariff to Rs. 62 crore (versus Rs. 142 crore in Q1FY2023), and subdued asset capitalisation of Rs. 652 crore (down 51% y-o-y). Earnings were also impacted by a steep decline of 47%/83% in revenue/EBIT from consultancy services as a large government project in North East had ended.

Key positives

- Improvement in transmission bidding activity with TBCB projects worth Rs. 50,000 crore under bidding.
- Management sees an uptick in its power transmission capex from FY2025-FY2026.

Key negatives

- Muted consolidated asset capitalisation of Rs. 1,615 crore, down 26% y-o-y.

Management Commentary

- Management now expects FY2024 capex to be >Rs. 10,000 crore (versus earlier guidance of Rs. 8,800 crore).
- Power Grid expects pick-up in capex from FY2025-FY2026 as it estimates Rs. 1.71 lakh crore of capex up to 2032. This would mean a rebound in capex in the range of Rs. 20,000-25,000 crore for a few years, with the execution period of 2-4 years.
- Received order for installation of 69 lakh smart metres from Gujarat discoms. Investment of Rs. 4,067 crore; expects mid-teens RoE.
- Work in hand is worth Rs. 48,700 crore (Ongoing projects – Rs. 11,200 crore, New RTM projects – Rs. 27,700 crore, and TBCB projects – Rs. 12,800 crore).
- 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 1-1.5 years.

Revision in estimates: We maintain our FY2024-FY2025 earnings estimates.

Our Call

Valuation – Maintain Buy on Power Grid with a revised 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 our Buy rating on Power Grid with a revised PT of Rs. 290 (rollover of valuation to FY2025 earnings estimate). 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%.

Key Risks

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

Valuation (Consolidated)

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
Adjusted EPS (Rs.)	19.4	22.1	23.5	26.9
P/E (x)	13.0	11.4	10.7	9.3
Price/ Book (x)	2.3	2.1	1.9	1.7
EV/EBITDA (x)	8.3	7.5	7.0	6.3
RoCE (%)	11.2	12.0	13.0	13.4
RoE (%)	18.5	19.4	18.8	19.2

Source: Company; Sharekhan estimates

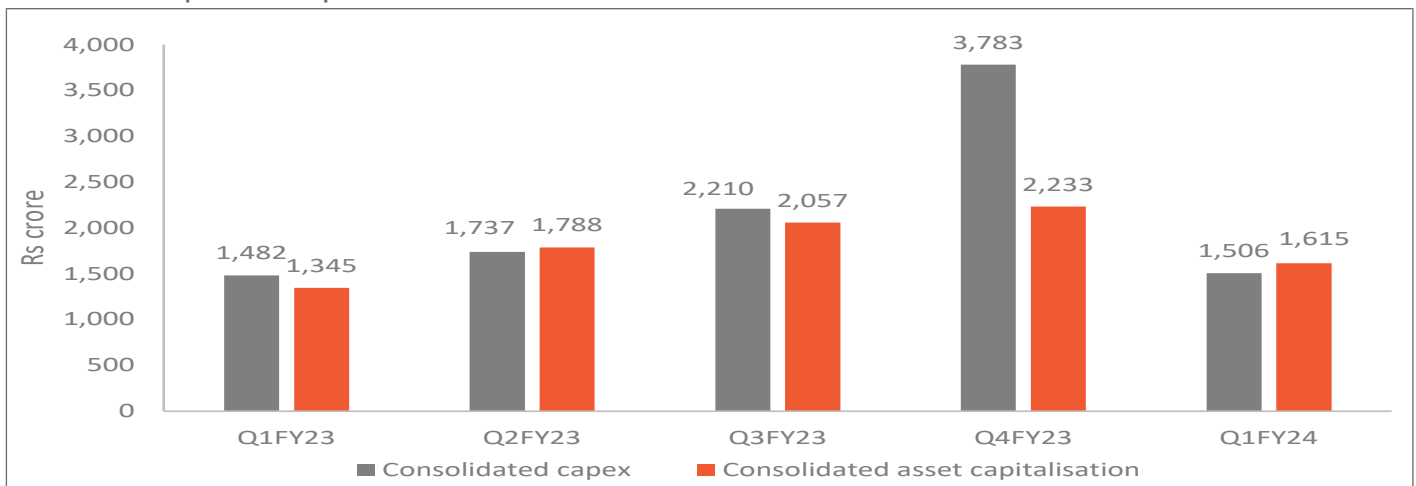
Weak Q1; asset capitalisation remains muted

Q1FY2024 standalone PAT declined by 6% y-o-y to Rs. 3,543 crore, which was below our estimate of Rs. 4,050 crore. The y-o-y earnings decline was on account of lower income for previous periods at Rs. 214 crore (versus Rs. 351 crore in Q1FY2023), a decline in interest on differential tariff to Rs. 62 crore (versus Rs. 142 crore in Q1FY2023), and subdued asset capitalisation of Rs. 652 crore (down 51% y-o-y). Earnings were also impacted by a steep decline of 47%/83% in revenue/EBIT from consultancy services as a large government project in North East had ended. Surcharge income declined to Rs. 51 crore (versus Rs. 97 crore in Q1FY2023), while incentive income stood at Rs. 132 crore (versus Rs. 149 crore in Q1FY2023). Dividend/interest income from subsidiaries/JVs stood at Rs. 130 crore/Rs. 337 crore as compared to Rs. 78 crore/Rs. 251 crore in Q1FY2023.

Q1FY2024 earnings conference call highlights

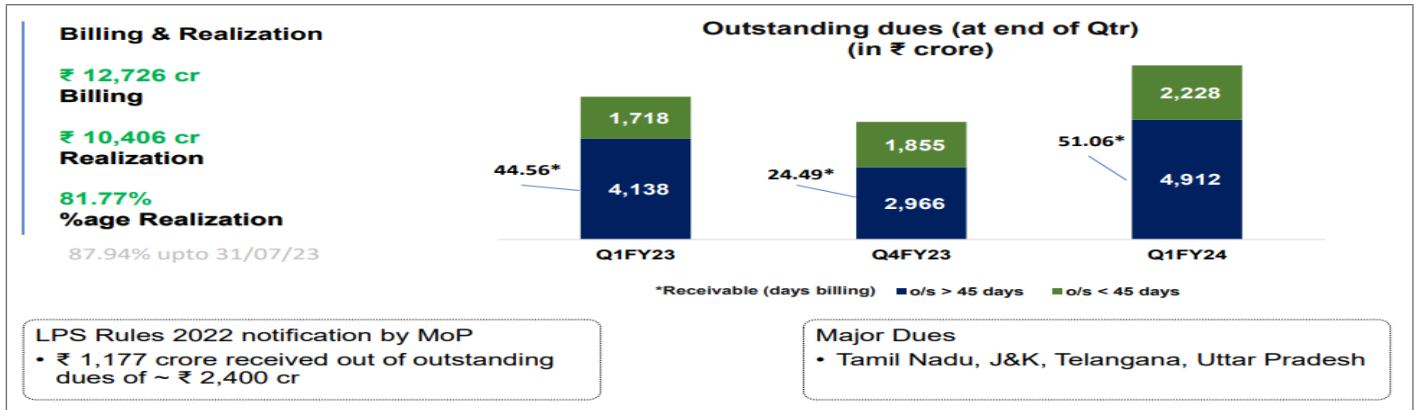
- Capex guidance:** Management now expects FY2024 capex to be >Rs. 10,000 crore (versus earlier guidance of Rs. 8,800 crore). Power Grid expects pick-up in capex from FY2025-FY2026, as it estimates Rs. 1.71 lakh crore of capex up to 2032. This would mean a rebound in capex in the range of Rs. 20,000-25,000 crore for a few years, with the execution period of 2-4 years.
- Smart metering order:** The company has received installation order of 69 lakh smart meters in Gujarat from MGVCL, Vadodara, and UGVCL, Ahmedabad. The duration of the project is 10 years, implementation period of 27 months, and O&M phase of 93 months. Overall, investment is worth Rs. 4,067 crore and management has guided for mid-teens RoE. The company has estimated capex of Rs. 10,000 crore for smart metering over the next five years.
- Strong bidding pipeline:** TBCB project worth Rs. 50,000 crore under bidding and another Rs. 81,000 crore of projects are to be floated for bidding over the next 1-1.5 years. This reflected improved transmission bidding activity. Although competitive intensity remains high, Power Grid is expected to sustain the high market share.
- Work in hand:** Power Grid has works worth Rs. 48,700 crore. Break - Ongoing projects – Rs. 11,200 crore, New RTM projects – Rs. 27,700 crore, and TBCB projects – Rs. 12,800 crore.
- New project wins:** Power Grid won two TCBC projects in Q1FY2024 – 1) Transmission Scheme for Solar Energy in Ananthapuram (2.5GW) and Kurnool (1GW) and 2) Transmission system for evacuation of power from REZ in Rajasthan (20GW) – Part B1). These projects have levelled tariff of Rs. 341 crore. Power Grid also submitted bids for three new projects.
- Other updates** – 1) Leh-Ladakh project is pending with the government for subsidy, 2) International projects (to submit final proposal in Kenya in August 2023, while Tanzania is in initial stake and is looking for opportunities in Nigeria), 3) Investment in 85 MW solar project at Nagda (MP) has been approved, 4) The average cost of borrowing is at 7.59% in Q1FY2024, and 5) Business transfer agreement executed to hive-off telecom business.

Consolidated capex/asset capitalization trend



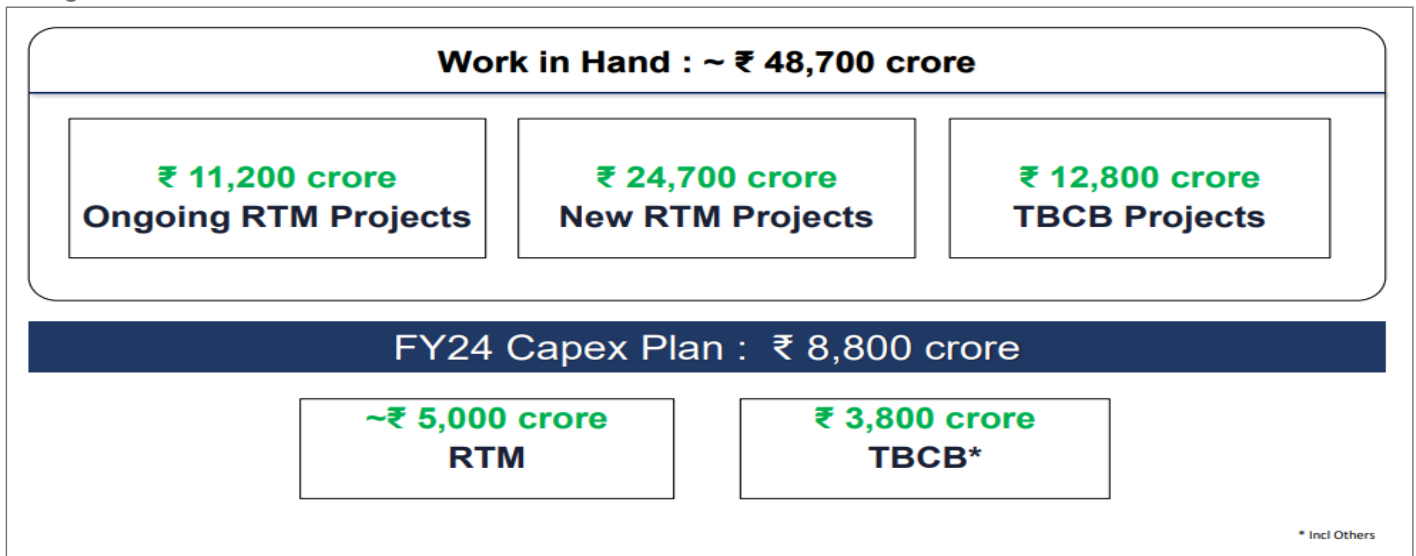
Source: Company; Sharekhan Research

Outstanding dues increased sharply by 48% q-o-q



Source: Company

Strong works in hand worth Rs. 48,700 crore



Source: Company

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

Business segment	Subhead	Estimated Capex
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 year 2032		₹1,88,000 crore

Source: Sharekhan Research

Results (Standalone)

Particulars	Rs cr				
	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ(%)
Revenue	10,436	10,446	(0.1)	11,495	(9.2)
Total Expenditure	1,337	1,644	(18.7)	1,360	(1.8)
Operating profit	9,100	8,802	3.4	10,134	(10.2)
Other income	646	571	13.2	793	(18.6)
Depreciation	3,161	3,203	(1.3)	3,214	(1.6)
Interest	2,129	1,982	7.4	2,520	(15.5)
PBT	4,455	4,188	6.4	5,194	(14.2)
Tax	568	502	13.2	956	(40.5)
Regulatory Deferral A/c	-344	80	(530.0)	-23	1,369.6
Reported PAT	3,543	3,766	(5.9)	4,214	(15.9)
Reported EPS (Rs.)	5.1	5.4	(5.9)	6.0	(15.9)
Margin (%)			bps		(bps)
OPM	87.2	84.3	293.5	88.2	-97
NPM	33.9	36.0	(210.4)	36.7	-272
Tax rate	12.8	12.0	76.6	18.4	-565

Source: Company, Sharekhan Research

Segmental performance (standalone)

Particulars	Rs cr				
	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue					
Transmission	10,200	10,216	(0.2)	11,502	(11.3)
Consultancy	124	233	(46.9)	-16	(891.6)
Telecom	212	190	11.5	209	1.6
Intersegment	-19	-19	NA	-18	NA
Net Revenue	10,518	10,620	(1.0)	11,677	(9.9)
EBIT					
Transmission	5,491	5,677	(3.3)	7,140	(23.1)
Consultancy	20	118	(83.0)	-142	NA
Telecom	91	75	22.1	76	20.4
Total EBIT	5,603	5,870	(4.6)	7,075	(20.8)
EBIT margin (%)			bps		bps
Transmission	53.8	55.6	-174	62.1	-824
Consultancy	16.2	50.7	-3,451	904.2	-88,800
Telecom	43.1	39.3	375	36.4	672
Overall EBIT margin	53.3	55.3	-200	60.6	-731

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.

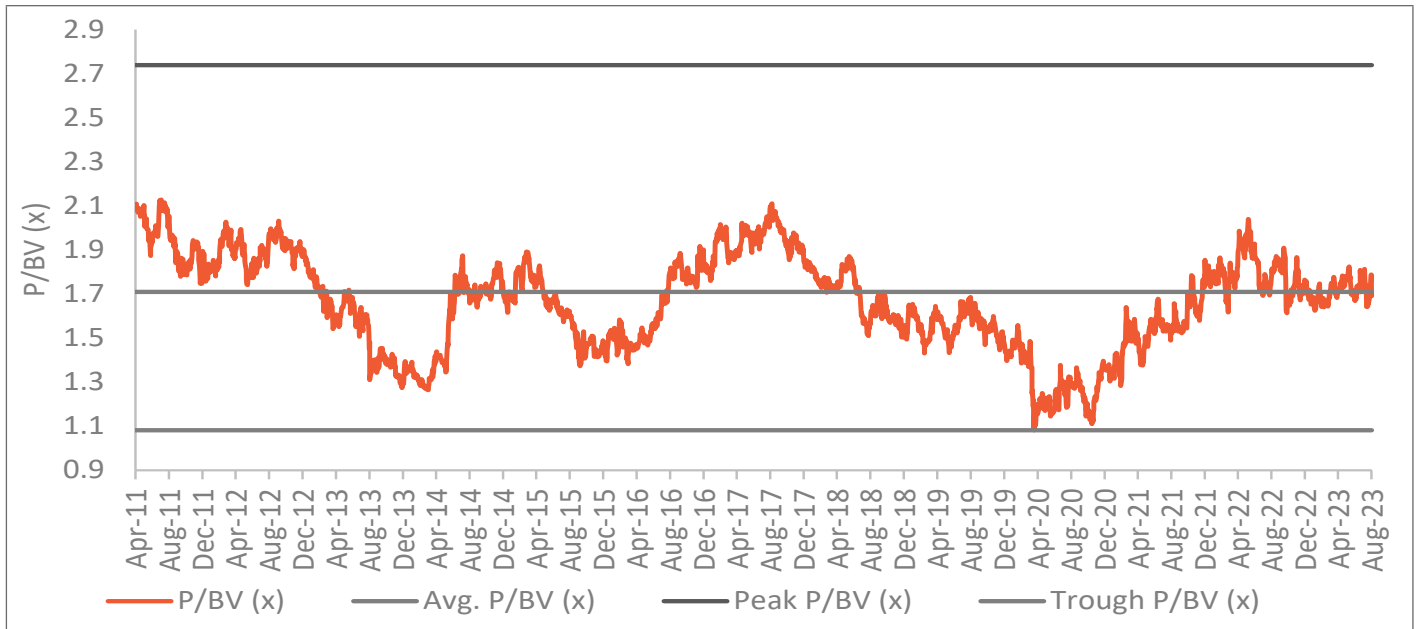
■ Company Outlook – Decent earnings growth outlook

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 a revised 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 our Buy rating on Power Grid with a revised PT of Rs. 290 (rollover of valuation to FY2025 earnings estimate). 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%.

One-year forward P/BV (x) band



Source: Sharekhan Research

About the 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Cos Inc/The	6.7
2	Nippon Life India Asset Management	2.6
3	Republic of Singapore	2.4
4	SBI Funds Management Ltd	2.3
5	Vanguard Group Inc/The	2.1
6	BlackRock Inc	1.7
7	FMR LLC	1.7
8	Life Insurance Corp of India	1.6
9	abrdn plc	1.3
10	STICHTING DEPOSITARY APG EMERGIN	1.1

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

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 deteriorating 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	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

Sharekhan

by BNP PARIBAS

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