



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

Updated Aug 08, 2023

26.33

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

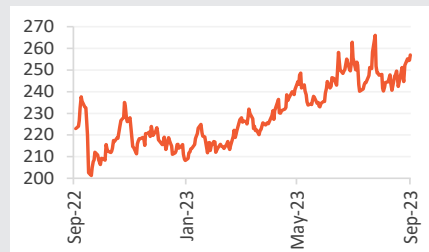
Company details

Market cap:	Rs. 1,79,234 cr
52-week high/low:	Rs. 267/186
NSE volume: (No of shares)	98.1 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	6.4	6.4	12.7	14.6
Relative to Sensex	5.8	0.9	2.9	3.6

Sharekhan Research, Bloomberg

Power Grid Corporation of India Ltd

Growth outlook bright; valuation and div. yield attractive

Power	Sharekhan code: POWERGRID
Reco/View: Buy	CMP: Rs. 257 Price Target: Rs. 290
Upgrade	Maintain Downgrade

Summary

- India's aim to expand renewable energy (RE) capacity to ~500GW by 2032 would require significant investment in transmission infrastructure. Thus, Power Grid sees a large addressable market and estimates its transmission capex at Rs. 1.71 lakh crore up to 2032 and expects capex revival to Rs. 20,000-25,000 crore starting from FY25-26. This makes us optimistic of pick-up in Power Grid's capex/asset capitalization.
- Focus on new opportunities in power value chain like smart meters, smart grid, energy storage would diversify earnings stream and create value in the long term. Smart metering is gaining traction as Power Grid received an order to install 69 lakh smart meters for Gujarat discoms at an investment of Rs. 4067 crore.
- Robust work in hand (Rs. 48,700 crore), large transmission bid pipeline and a regulated RoE model provides healthy earnings growth visibility with likelihood of upside to our earnings estimates in case of a faster pick-up in transmission capex.
- We maintain a Buy rating on Power Grid with an unchanged PT of Rs. 290. A 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 expects a sharp revival in its transmission capex to the range of Rs. 20,000-25,000 crore (versus low capex of Rs. 11,284 crore/Rs. 9,060 crore/Rs. 9,212 crore in FY21/FY22/FY23) starting from FY25-26. This optimism stems from a requirement of investment for transmission infrastructure for integration of 500 GW of RE projects. Power Grid has estimated capex of Rs. 1.71 lakh crore up to 2032. A large addressable power transmission market opportunity makes us optimistic of a pick-up in Power Grid's capex/asset capitalisation and earnings growth visibility in the medium term. Focus on non-transmission growth avenues like smart meter and BESS are also steps in right direction to diversify earnings stream which would create long term value for investors. Hence, we maintain Buy on Power Grid with an unchanged PT of Rs. 290.

- RE capacity expansion to revive transmission capex – Improves outlook for Power Grid's capex/asset capitalization:** India's aim to expand its renewable power capacity to ~500 GW by 2032 (versus 115 GW currently) would entail a significant capital expenditure to augment power transmission lines. Power Grid has estimated a transmission capex of Rs. 1.71 lakh crores (inter-state Rs. 116500 crore, intra-state Rs. 37000 crore, cross border Rs. 10,000 crore and international projects Rs. 7500 crore) up to 2032 and the same would revive capex in the range of Rs. 20,000-25,000 crore starting from FY25-26 as compared to Rs. 9,000-11,000 crore capex annually in last three years for Power Grid. The large addressable market and Power Grid's focus to sustain/improve market share would revive capex and drive sustainable growth in asset capitalisation.
- Diversification into power value chain (smart meter, BESS) – opens up new growth opportunities:** Apart from transmission capex, Power Grid is focused to diversify into other areas of power value chain especially energy management projects (i.e. smart metering and Battery Energy Storage Systems) and has set-up subsidiary namely PowerGrid Energy Services Limited to explore non-transmission business opportunities. Smart metering is gaining traction and Power Grid has capex plan of Rs. 10,000 crore for next five years (includes installation of 69 lakh smart meters in Gujarat discoms with an investment of Rs. 4067 crore and to have high-teens RoE) and cumulative capex target of Rs. 15000 crore up to 2032. Apart from smart metering, Power Grid has capex plan of Rs. 1,000 crore each for solar generation (investment of Rs. 555 crore for 85 MW solar power plant at Nagda, MP approved) and data center business. Emerging opportunities in the power sector value chain (like energy management) would diversify the earnings base and create long-term value for the investors.
- Regulated earnings model; healthy dividend yield:** Power Grid's regulated RoE model, strong project pipeline (work in hand is worth Rs. 48,700 crore) and large transmission bid pipeline (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 1.0-1.5 years) makes us optimistic of on healthy earnings growth visibility over medium term.

Our Call

Valuation – Maintain Buy on Power Grid with an unchanged 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 a Buy rating on Power Grid with an unchanged PT of Rs. 290. 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
- 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
Ajusted EPS (Rs.)	19.4	22.1	23.5	26.9
P/E (x)	13.3	11.6	10.9	9.5
Price/ Book (x)	2.4	2.2	2.0	1.7
EV/EBITDA (x)	8.4	7.6	7.0	6.4
RoCE (%)	11.2	12.0	13.0	13.4
RoE (%)	18.5	19.4	18.8	19.2

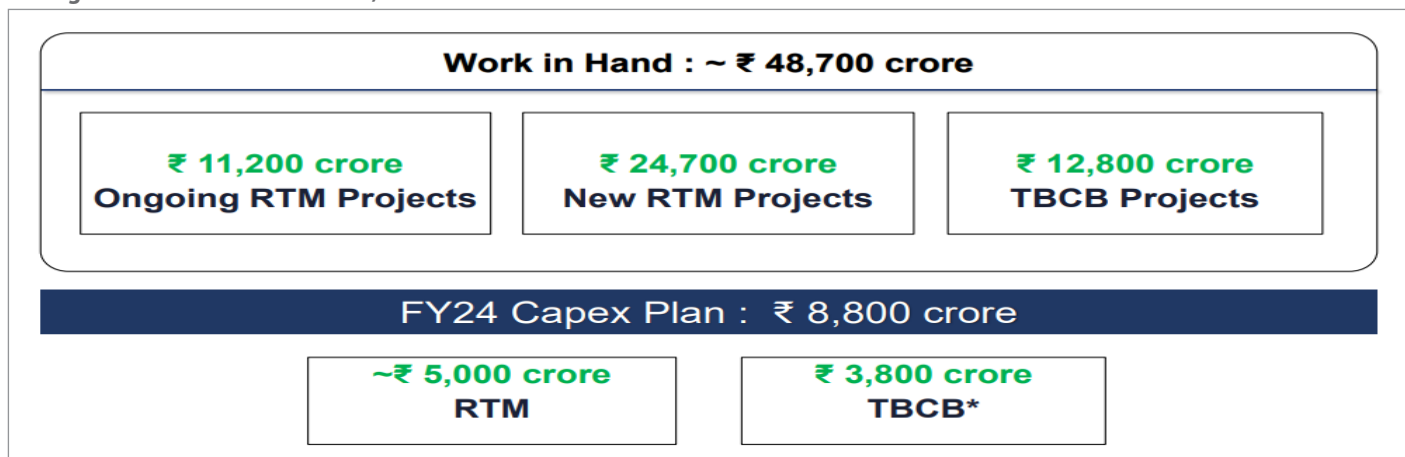
Source: Company; Sharekhan estimates

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

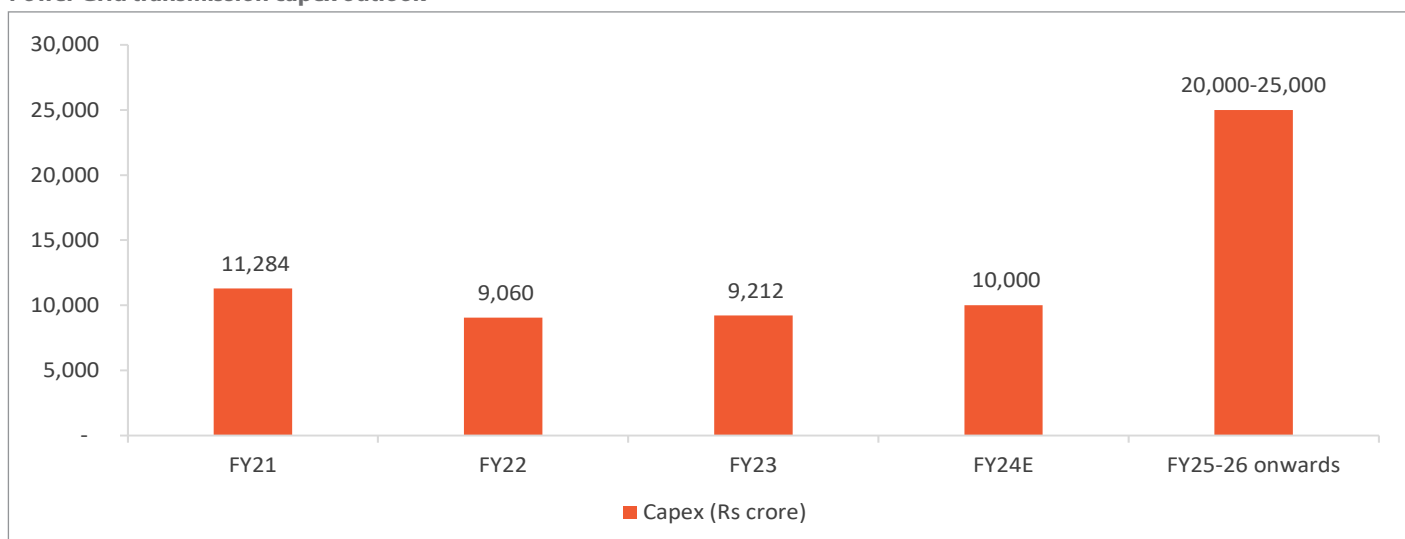
Source: Company

Strong works in hand worth Rs. 48,700 crore



Source: Company

Power Grid transmission capex outlook



Source: Company; Sharekhan Research

New investment approval totaling Rs. 6,131 crore announced so far in FY24

Sr No	Date of announcement	Projects	Investment approval (Rs crore)	Commissioning schedule
1	06-Apr-23	Transmission System for evacuation of power from Rajasthan REZ Ph-IV (Part-1) [Bikaner complex]-Part-E	147	May-24
2	19-May-23	Capital Expenditure for procurement of Customer Premises Equipment (CPE) for augmentation of Telecom Access network	259	24 Months from date of award
3	28-Jun-23	Establishment of dedicated telecom network for NTAMC	165	
4	28-Jun-23	Western Region expansion scheme – XXXIII (WRES-XXXIII) – Part A	115	Aug-24
5	28-Jun-23	ICT Augmentation at Navsari (New) associated with integration of additional 7 GW RE power from Khavda RE park under Phase-III	109	Oct-25
6	15-Jul-23	Implementation of Advanced Metering Infrastructure projects	4,067	
7	15-Jul-23	Establishment of Pilot Data Centre at POWERGRID Manesar Substation	714	
8	01-Aug-23	Implementation of 85 MW Solar PV Power Project at Nagda (M.P.)	555	10 months from date of award
Total investment approval by Power Grid in FY24 sofar			6,131	

Source: Company; Sharekhan Research

TBCB wins by Power Grid in FY24 so far

Sr No	Date	Project	State
1	05-Sep-23	Transmission system for evacuation of power from REZ in Rajasthan (20 GW)	Rajasthan
2	28-Jul-23	Transmission system for evacuation of power from REZ in Rajasthan (20 GW) under Phase-III Part B1	Rajasthan
3	28-Jul-23	Transmission system for solar energy zone in Ananthpuram (2500 MW), Andhra Pradesh	Andhra Pradesh
4	28-Jul-23	Transmission system for solar energy zone in Kurnool (1000 MW), Andhra Pradesh	Andhra Pradesh

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.

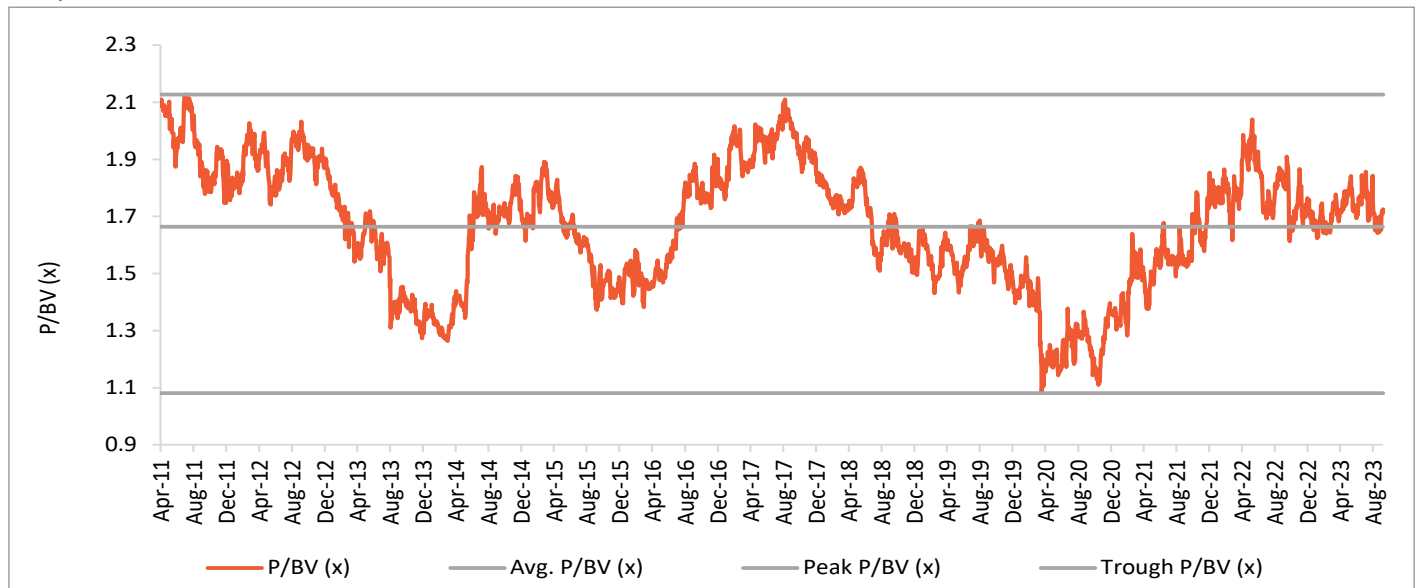
■ Company outlook - Decent earnings growth outlook

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 an unchanged 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 a Buy rating on Power Grid with an unchanged PT of Rs. 290. 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 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Cos Inc/The	6.73
2	Nippon Life India Asset Management	2.54
3	Republic of Singapore	2.41
4	SBI Funds Management Ltd	2.39
5	Vanguard Group Inc/The	2.33
6	BlackRock Inc	1.77
7	FMR LLC	1.64
8	Life Insurance Corp of India	1.64
9	abrdn plc	1.18
10	PPFAS Asset Management	1.18

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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