



Power Grid Corporation of India Ltd

Steady Q2; pick-up in transmission capex to drive growth

Power	Sharekhan code: POWERGRID		
Reco/View: Buy	↔	CMP: Rs. 210	Price Target: Rs. 240
↑ Upgrade	↔ Maintain	↓ Downgrade	

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 Aug 08, 2023				
Medium Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

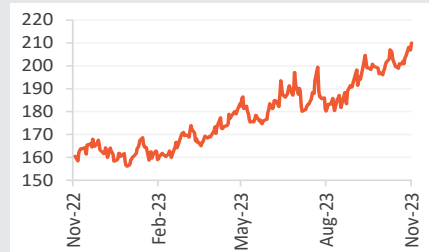
Company details

Market cap:	Rs. 1,95,313 cr
52-week high/low:	Rs. 211/153
NSE volume: (No of shares)	119.2 lakh
BSE code:	532898
NSE code:	POWERGRID
Free float: (No of shares)	453 cr

Shareholding (%)

Promoters	51.3
FII	32.0
DII	13.2
Others	3.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.1	15.7	13.0	30.4
Relative to Sensex	8.0	17.0	8.4	23.5

Sharekhan Research, Bloomberg

Summary

- Q2 standalone PAT rose 5% y-o-y to Rs. 3,795 crore (4% above estimate) on higher interest & dividend and incentive income.
- Consolidated asset capitalisation rose 28% y-o-y to Rs. 3997 crore in H1FY24. Receivables fell 7% q-o-q to Rs. 6,633 crore as of September 2023.
- Management guided for capex/asset capitalization of Rs. 10000 crore/Rs. 10000 crore for FY24 and Rs. 12,500 crore/Rs. 17,000 crore for FY25. Potential rebound in transmission capex from FY25-FY26 bodes well for earnings growth.
- We maintain a Buy with a revised PT of Rs. 240 as valuation of 1.7x FY2026E its P/BV seems attractive considering a decent growth outlook, healthy RoE of 18-19% and dividend yield of ~4-5%.

Standalone PAT grew by 5.4% y-o-y to Rs. 3,795 crore, which was 4% above our estimate of Rs. 3,658 crore. The y-o-y earnings growth was on the account of higher interest/dividend from subsidiaries & JVs at Rs. 351 crore/Rs. 190 crore as compared to Rs. 270 crore/Rs. 86 crore in Q2FY23. However, surcharge income was negative at Rs. 7 crore (versus Rs. 15 crore in Q2FY23) and incentive income was up 8% y-o-y to Rs. 139 crore. Standalone asset capitalisation/capex trend witnessed y-o-y improvement to Rs. 1073 crore/Rs. 1573 crore versus Rs. 365 crore/Rs. 1153 crore in Q2FY23.

Key positives

- Consolidated asset capitalisation rose by 28% y-o-y to Rs. 3,997 crore in H1FY24.
- Strong transmission bidding activity with projects worth Rs. 60,000 crore under bidding.
- Interim dividend of Rs. 4/share implies a yield of 2% on CMP.

Key negatives

- Negative surcharge income of Rs. 7 crore in Q2FY24.

Management Commentary

- Capex guidance of >Rs. 10,000 crore/Rs. 12,500 crore for FY24/FY25. Asset capitalisation guidance of Rs. 10,000 crore/Rs. 17,000 crore for FY24/FY25.
- Work in hand is worth at Rs. 50,500 crore (**Ongoing RTM projects** – Rs. 9,700 crore, **New RTM projects** – Rs. 24,300 crore, and **Other projects** – Rs. 16,500 crore). About 70% of this is towards RE evacuation.
- It won four ISTS TCBC projects in H1FY24 with annual tariff of Rs. 703 crore and NCT cost of Rs. 6,393 crore. Total 16 projects won since FY23 and that will tariff of Rs. 1800-1900 crore and capex of Rs. 19500-20000 crore.
- Regulated equity for RTM projects at Rs. 82000 crore; TBCB equity contribution of Rs. 4100 crore.
- Leh-Ladakh project – Estimated capex of Rs. 20,774 crore (Rs. 8,000 crore government grant); completion timeline by FY30. Evacuation capacity: 5GW through ± 350 kV VSC HVDC transmission system between Pang & Kaithal.
- It estimates Rs. 1.71 lakh crore of transmission capex up to 2032 and expects rebound in capex from FY25-26. Others capex – Solar/Smart metering/data centre at Rs. 1000 crore/Rs. 15000 crore/Rs. 1000 crore up to 2032.
- Other updates** – 1) TBCB revenue/PAT of Rs. 1300 crore/Rs. 413 crore in H1FY24, 2) Draft tariff regulations expected to be published in November/December 2023, 3) Smart meter supply for Gujarat discoms to start from December'23/January'24, 4) looking at securitisation mode for asset monetisation.

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

Our Call

Valuation – Maintain Buy on Power Grid with a revised PT of Rs. 240: Power Grid has a robust project pipeline worth Rs. 50,500 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-FY2026E and see an upside risk in case of a pick-up in capex. Hence, we maintain our Buy rating with a revised PT of Rs. 240 (rollover of valuation to FY2026 earnings estimate). Valuation of 1.7x its FY2026E P/BV seems attractive, considering a decent growth outlook, healthy RoE of 18-19%, and a dividend yield of ~4-5%.

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	FY26E
Revenue	41,616	45,581	49,912	54,404	59,300
OPM (%)	87.9	86.6	86.2	86.2	86.2
Adjusted PAT	13,504	15,417	16,297	18,487	20,566
y-o-y growth (%)	3.0	14.2	5.7	13.4	11.2
Adjusted EPS (Rs.)	14.5	16.6	17.5	19.9	22.1
P/E (x)	14.5	12.7	12.0	10.6	9.5
Price/ Book (x)	2.6	2.4	2.1	1.9	1.7
EV/EBITDA (x)	8.9	8.0	7.4	6.8	6.3
RoCE (%)	11.2	12.0	13.0	13.3	13.4
RoE (%)	18.5	19.4	18.7	19.0	18.6

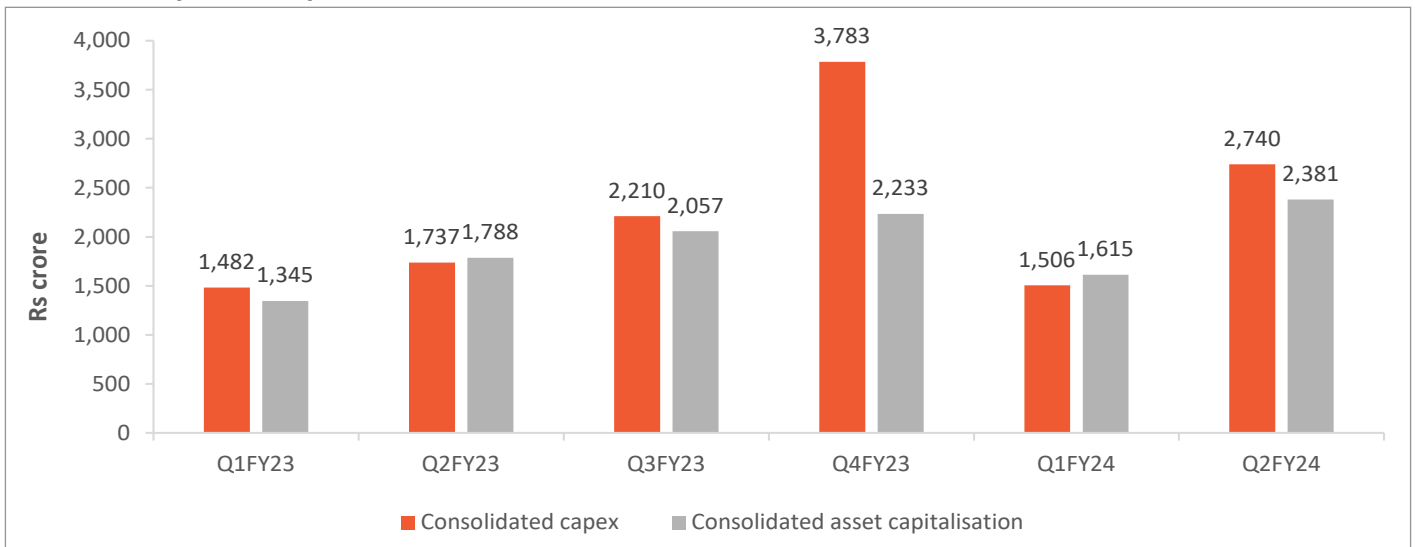
Source: Company; Sharekhan estimates

Note: FY22-26E EPS adjusted for bonus issue in the ratio of 1:3

Q2 earnings above estimate; asset capitalisation also improves

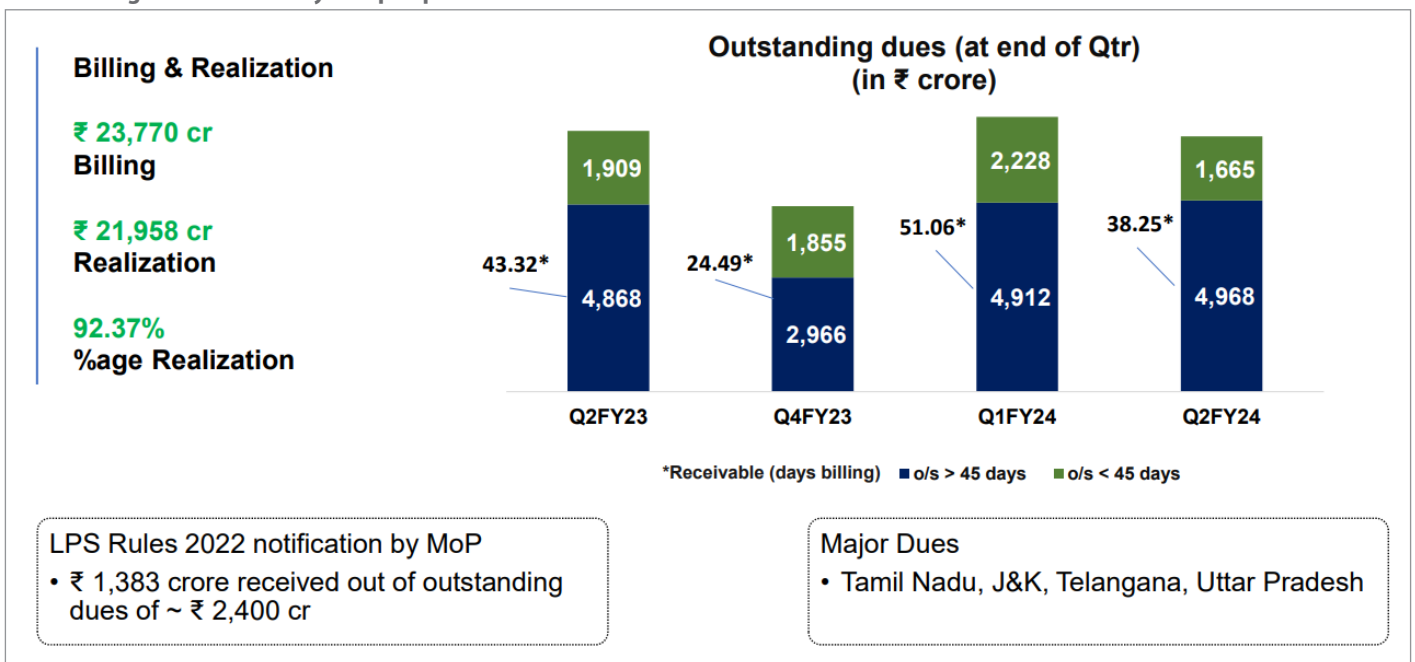
Standalone revenues remained largely flat y-o-y- at Rs. 10,419 crore, which was 7% below our estimate of Rs. 11,230 crores. The revenues from transmission business were flat y-o-y at Rs. 10,359 crore while that from consultancy segment increased by 12.6% y-o-y to Rs. 157 crore. Sandalone PAT grew by 5.4% y-o-y to Rs. 3795 crore, which was 4% above our estimate of Rs. 3,658 crore. Earnings grew y-o-y led by higher interest/dividend from subsidiaries & JVs at Rs. 351 crore/Rs. 190 crore as compared to Rs. 270 crore/Rs. 86 crore in Q2FY23. However, surcharge income was negative at Rs. 7 crore (versus Rs. 15 crore in Q2FY23) and incentive income was up 8% y-o-y to Rs. 139 crore. Standalone asset capitalization/capex trends improved y-o-y to Rs. 1073 crore/Rs. 1573 crore versus Rs. 365 crore/Rs. 1153 crore in Q2FY23.

Consolidated capex/asset capitalization trend



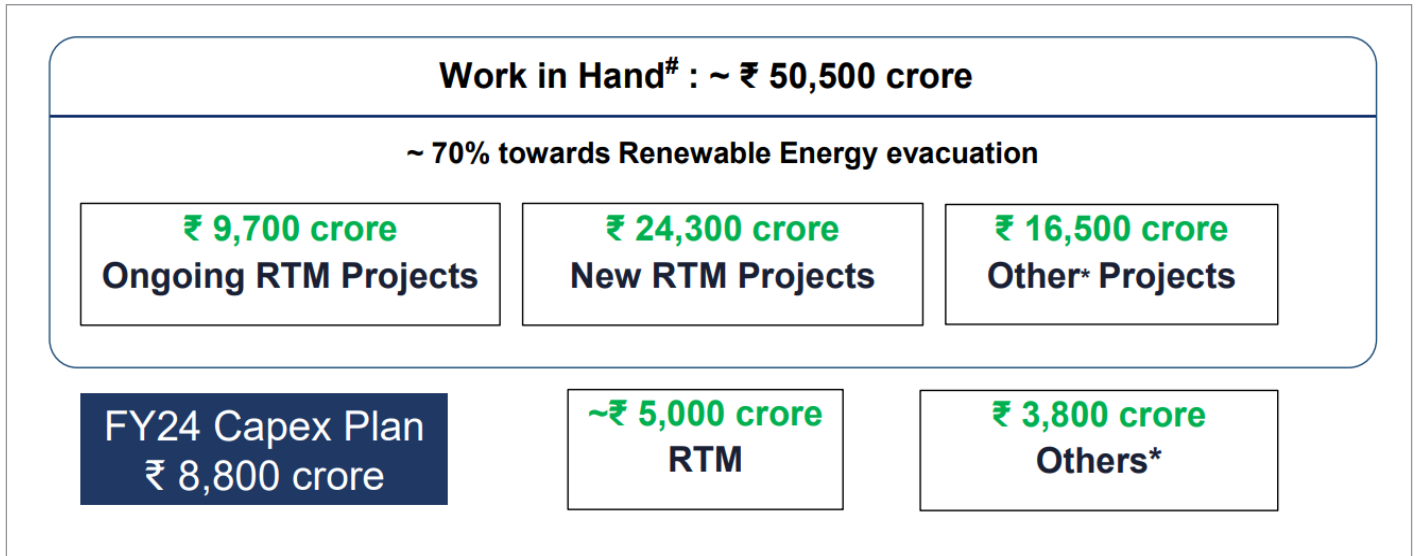
Source: Company, Sharekhan Research

Outstanding dues declined by 7% q-o-q



Source: Company

Strong works in hand worth Rs. 50,500 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: Company

Results (Standalone)

					Rs cr	
Particulars	Q2FY24	Q2FY23	YoY(%)	Q1FY24	QoQ(%)	
Revenues	10,419	10,468	(0.5)	10,245	1.7	
Total Expenditure	1,212	1,597	(24.1)	1,240	(2.2)	
Operating profit	9,207	8,871	3.8	9,005	2.2	
Other income	786	536	46.8	644	22.2	
Depreciation	3,142	3,198	(1.8)	3,141	0.0	
Interest	2,389	2,196	8.8	2,121	12.6	
PBT	4,463	4,012	11.2	4,386	1.8	
Tax	509	378	34.8	557	(8.5)	
Regulatory Deferral A/c	-158	-34	NA	-344	NA	
Reported PAT	3,795	3,600	5.4	3,485	8.9	
EPS	5.4	5.2	5.4	5.0	8.9	
Margin (%)			bps		bps	
OPM	88.4	84.7	362.6	87.9	47	
NPM	36.4	34.4	203.5	34.0	241	
Tax rate	11.4	9.4	199.4	12.7	-128	

Source: Company, Sharekhan Research

Segmental performance (Standalone)

					Rs cr	
Particulars	Q2FY24	Q2FY23	YoY(%)	Q1FY24	QoQ(%)	
Revenue						
Transmission	10,359	10,412	(0.5)	10,200	1.6	
Consultancy	157	139	12.6	124	26.6	
Total Revenue	10,515	10,551	(0.3)	10,324	1.9	
EBIT						
Transmission	5,928	5,675	4.5	5,507	7.6	
Consultancy	42	39	7.6	19	118.9	
Overall EBIT	5,970	5,714	4.5	5,526	8.0	
Margin (%)			bps		bps	
Transmission	57.2	54.5	272	54.0	324	
Consultancy	26.5	27.8	-124	15.3	1,119	
Overall EBIT margin	56.8	54.2	261	53.5	325	

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Regulated tariff model offers earnings visibility; reforms to strengthen balance sheets

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.

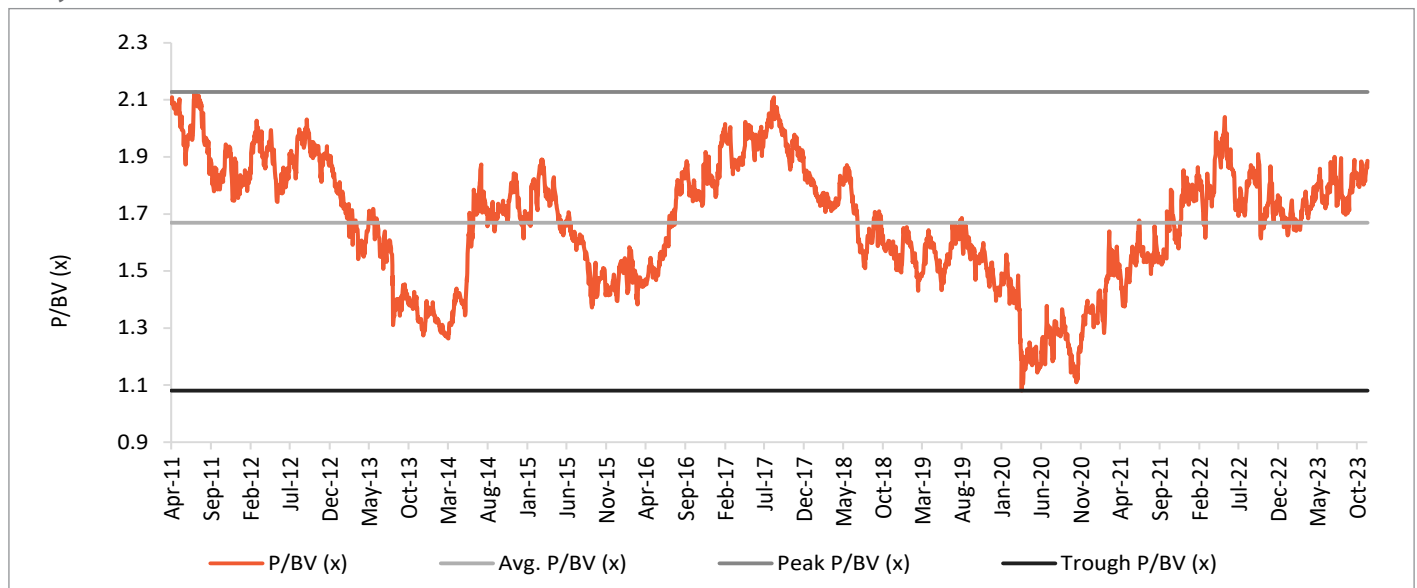
■ Company outlook - Decent earnings growth prospects

Capitalisation in the past 1-2 years and a robust work-in-hand pipeline of ~Rs. 50,500 crore provide healthy earnings growth visibility (we expect a 10% PAT CAGR over FY2023-FY2026E). 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. 240

Power Grid has a robust project pipeline worth Rs. 50,500 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-FY2026E and see an upside risk in case of a pick-up in capex. Hence, we maintain our Buy rating with a revised PT of Rs. 240 (rollover of valuation to FY2026 earnings estimate). Valuation of 1.7x its FY2026E P/BV seems attractive, considering a decent growth outlook, healthy RoE of 18-19%, and a dividend yield of ~4-5%.

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 1,74,180 circuit kilometers of EHV transmission lines. Power Grid has approximately 275 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. 50,500 crore (including CWIP) worth of projects pending for capitalization, 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 18-19% 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	6.1
2	Nippon Life India Asset Management	2.85
3	SBI Funds Management Ltd	2.52
4	Republic of Singapore	2.41
5	Vanguard Group Inc/The	2.37
6	BlackRock Inc	1.77
7	Life Insurance Corp of India	1.64
8	FMR LLC	1.62
9	abrdn plc	1.08
10	STICHTING DEPOSITARY APG EMERGIN	1.07

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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