



**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	■	↔	■

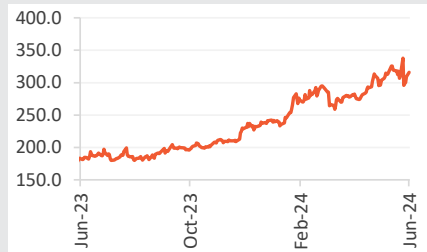
**Company details**

Market cap:	Rs. 2,93,713 cr
52-week high/low:	Rs. 347/178
NSE volume: (No of shares)	217.7 lakh
BSE code:	532898
NSE code:	POWERGRID
Free float: (No of shares)	453 cr

**Shareholding (%)**

Promoters	51.3
FII	33.1
DII	12.6
Others	3.0

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	4.0	10.6	38.1	72.0
Relative to Sensex	-0.1	6.8	28.1	49.9

Sharekhan Research, Bloomberg

**Power Grid Corporation of India**  
Inline Q4; well positioned play on power sector

Power	Sharekhan code: POWERGRID
Reco/View: Buy	CMP: Rs. 316 Price Target: Rs. 360
Upgrade	Maintain Downgrade

**Summary**

- Standalone PAT was down 1% y-o-y to Rs. 4,128 crore due to a one-time benefit in the prior period and high regulatory deferral expense in the current quarter.
- Consolidated asset capex/capitalization was Rs. 12,500/7,618 crore in FY24. Asset capitalization lagged the growth in the capex for the year.
- Management guided for capex and asset capitalization of Rs. 15,000 crore each in FY25. Also, company estimates Rs. 2,07,000 crore of capex till 2032 on the conservative side.
- The strong capex expectation provides good earnings visibility for the future with a chance of upside in the estimates. Hence, we maintain a Buy with a revised PT of Rs. 360. Also, the company has a healthy RoE of 19% and a dividend yield of 3%. At CMP, it trades at 2.9x its FY26 P/BV.

**Q4FY24 standalone PAT de-grew 1% y-o-y to Rs. 4,128 crore, which was inline with estimates. There was high regulatory deferral expense for the quarter. Also, there was a one-time order of Raigarh-Pugalur and Rs. 200 crore from a pending TCB project. Company reported a Revenue/operating profit of Rs. 11,051/9,142 crore which was de-growth of 2%/9% y-o-y. Standalone asset capitalization/capex stood at Rs. 1,296/1,503 crore and consolidated asset capitalization/capex was Rs. 1,838/3,444 crore for the quarter. Growth in asset capitalization was relatively soft which affected the growth in the year. Company had declared a dividend of Rs. 9.5 and also a bonus issue in the ratio 1:3 in FY24.**

**Key positives**

- Good consolidated capex of Rs. 12,500 crore in FY24.
- Strong capitalization guidance of Rs. 15,000 crore for FY25.

**Key negatives**

- Asset capitalization soft at Rs. 7,618 crore in FY24.

**Management Commentary**

- Capex guidance of Rs. 15,000 crore in FY25. Overall capex to be Rs. 2,07,000 crore by 2032 on the conservative side.
- Asset capitalisation guidance of Rs. 15,000 crore in FY25. Aim of doubling it over FY24.
- Work-in-hand increased to Rs. 86,700 crore. The split is as follows: Ongoing RTM projects – Rs. 11,200 crore, New RTM projects – Rs. 24,700 crore and Other projects – Rs. 50,800 crore.
- TCB projects worth Rs. 1,00,000 crore are already under bidding.

**Revision in estimates** – We have reduced our FY25-26 earnings estimates a little to account for the quarter's performance.

**Our Call**

**Valuation – Maintain Buy on Power Grid with a revised PT of Rs. 360:** Power Grid has a robust project pipeline worth Rs. 86,700 crore and management has guided for a strong capex of Rs. 2,07,000 crore till FY32, which provides a good earnings visibility. We expect a decent 9% CAGR in PAT over FY2024-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. 360. Also, the company has a healthy RoE of 19% and a dividend yield of ~3%. At CMP, it trades at 2.9x its FY26 P/BV.

**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	FY24	FY25E	FY26E
Revenue	41,616	45,581	45,843	49,052	52,486
OPM (%)	87.9	86.6	87.0	87.1	87.0
Adjusted PAT	13,504	15,417	15,573	16,998	18,443
y-o-y growth (%)	3.0	14.2	1.0	9.2	8.5
Adjusted EPS (Rs.)	14.5	16.6	16.7	18.3	19.8
P/E (x)	21.9	19.2	19.0	17.4	16.0
Price/ Book (x)	3.9	3.6	3.4	3.2	2.9
EV/EBITDA (x)	11.6	10.5	10.3	9.9	9.2
RoCE (%)	11.2	12.0	12.4	13.1	13.4
RoE (%)	18.5	19.4	18.3	18.9	19.1

Source: Company; Sharekhan estimates

### Q4FY24 analyst meet key highlights

**Capex** – The management guided for a capital expenditure of Rs. 15,000 crore in FY25. It sees overall capex estimates of Rs. 207,000 crore till 2032 on the conservative side. Of that, transmission capex will be Rs. 1,90,500 crore and the rest would be from solar generation, smart metering, data centre, etc.

**Asset capitalisation** – The current financial year had a weak asset capitalization of Rs. 7,618 crore which affected the profit for the year. The company has guided for an asset capitalisation of Rs. 15,000 crore for FY25 which would be 2x that of FY24.

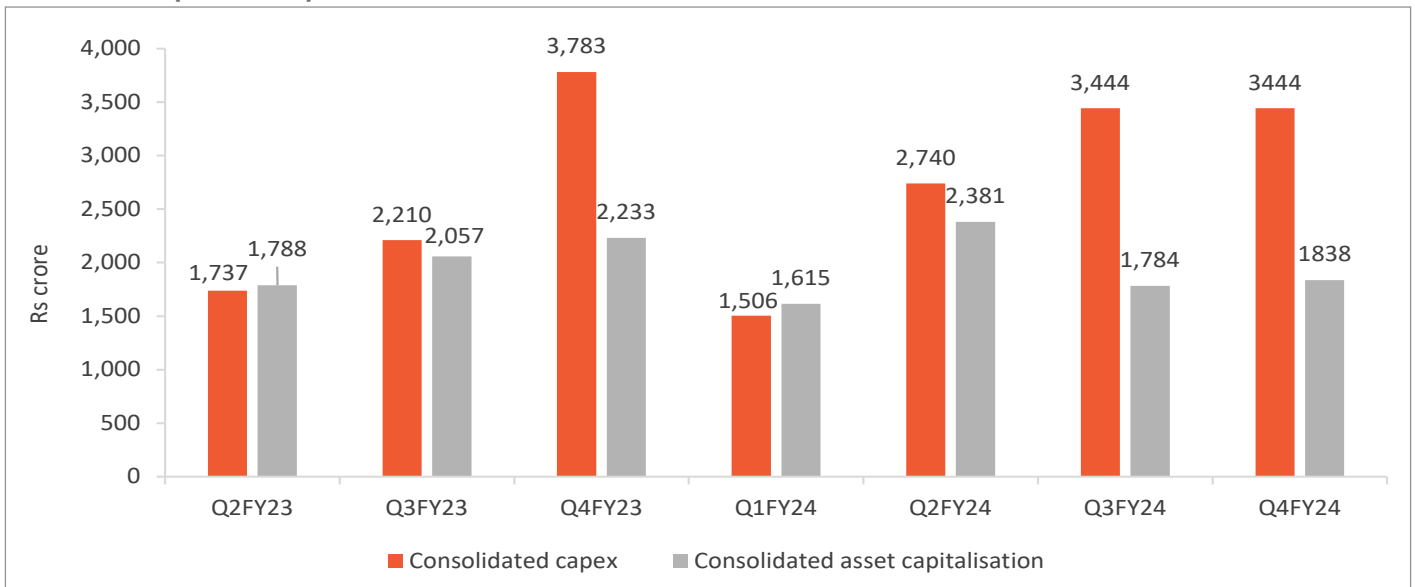
**Projects in Hand** – Work-in-hand increased to Rs. 86,700 crore. The split is as follows: Ongoing RTM projects – Rs. 11,200 crore, New RTM projects – Rs. 24,700 crore, and Other projects – Rs. 50,800 crore. More than 80% of the total projects are towards Renewable energy evacuation.

**TBCB projects** - The company won 13 ISTS TBCB projects in FY24. About Rs 1,00,000 crore of TBCB projects are already under bidding and Rs 30,000 crore worth of projects will shortly come up in the near future.

#### Others:

- 1) Dividend payout to be maintained at current level
- 2) Company has receivables outstanding of Rs. 4,795 crore with Rs 1,711 crore out of it outstanding for <45 days and the rest for >45 days.

#### Consolidated capex/asset capitalization trend



Source: Company; Sharekhan Research

Results (Standalone)					Rs cr	
Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	
<b>Revenues</b>	<b>11,051</b>	<b>11,328</b>	<b>(2.4)</b>	<b>10,677</b>	<b>3.5</b>	
Total Expenditure	1,908	1,253	52.3	1,276	49.6	
<b>Operating profit</b>	<b>9,142</b>	<b>10,075</b>	<b>(9.3)</b>	<b>9,401</b>	<b>(2.7)</b>	
Other income	1,203	770	56.3	791	52.1	
Depreciation	3,116	3,193	(2.4)	3,159	(1.3)	
Interest	2,021	2,511	(19.5)	2,516	(19.7)	
<b>PBT</b>	<b>5,208</b>	<b>5,140</b>	<b>1.3</b>	<b>4,517</b>	<b>15.3</b>	
Tax	906	950	(4.7)	660	37.4	
Regulatory Deferral A/c	-174	-23	645.0	112	(255.3)	
<b>Reported PAT</b>	<b>4,128</b>	<b>4,167</b>	<b>(0.9)</b>	<b>3,970</b>	<b>4.0</b>	
Reported EPS	4.4	4.5	(0.9)	4.3	4.0	
<b>Margin (%)</b>			<b>YoY (bps)</b>		<b>QoQ (bps)</b>	
OPM	82.7	88.9	(620.6)	88.0	-532	
NPM	37.4	36.8	57.0	37.2	17	
Tax rate	17.4	18.5	(108.9)	14.6	280	

Source: Company, Sharekhan Research

Segmental performance (Standalone)					Rs cr	
Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	
<b>Revenue</b>						
Transmission	11,082	11,502	(3.7)	10,673	3.8	
Consultancy	205	-16	(1,411.2)	148	38.3	
<b>Total Revenue</b>	<b>11,287</b>	<b>11,487</b>	<b>(1.7)</b>	<b>10,821</b>	<b>4.3</b>	
<b>EBIT</b>						
Transmission	6,006	7,155	(16.1)	6,517	(7.8)	
Consultancy	46	-143	(131.9)	5	733.7	
<b>Total EBIT</b>	<b>6,051</b>	<b>7,012</b>	<b>(13.7)</b>	<b>6,522</b>	<b>(7.2)</b>	
<b>EBIT Margin (%)</b>			<b>bps</b>		<b>bps</b>	
Transmission	54.2	62.2	-801	61.1	-687	
Consultancy	22.2	911.6	-88,938	3.7	1,850	
<b>Overall</b>	<b>53.6</b>	<b>61.0</b>	<b>-743</b>	<b>60.3</b>	<b>-666</b>	

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.

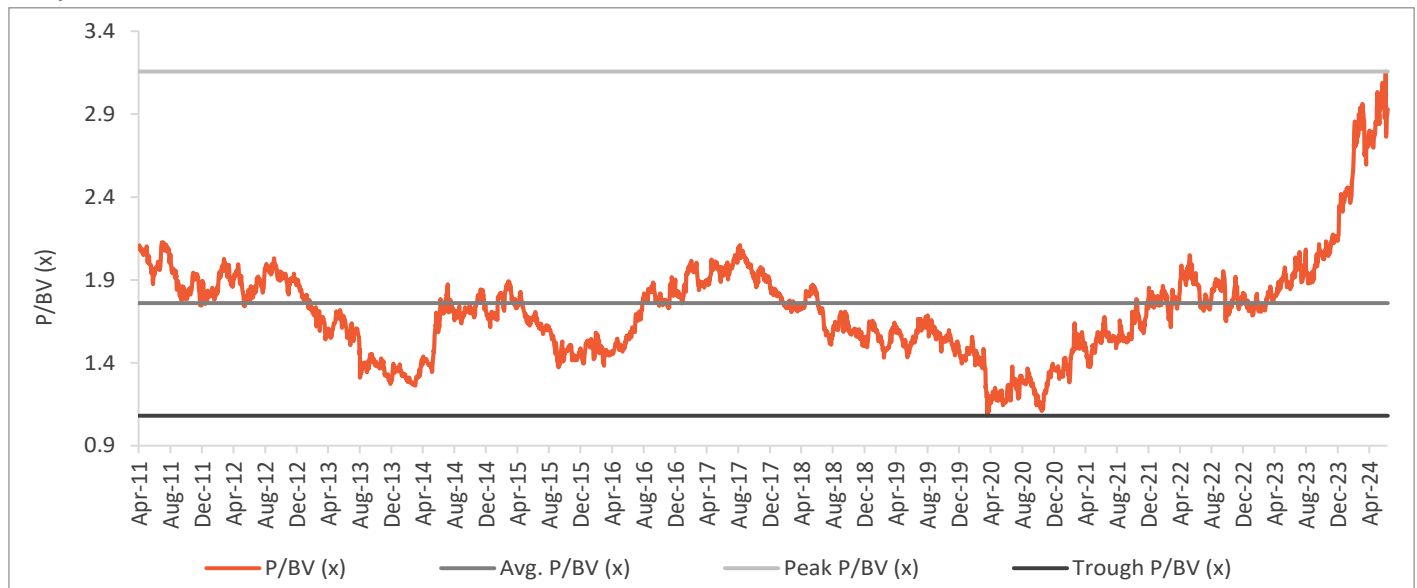
### ■ Company outlook - Decent earnings growth prospects

Capitalisation in the past 1-2 years and a robust work-in-hand pipeline of ~Rs. 86,700 crore provide healthy earnings growth visibility (we expect a 9% PAT CAGR over FY2024-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. 360

Power Grid has a robust project pipeline worth Rs. 86,700 crore and management has guided for a strong capex of Rs. 2,07,000 crore till FY32, which provides a good earnings visibility. We expect a decent 9% CAGR in PAT over FY2024-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. 360. Also, the company has a healthy RoE of 19% and a dividend yield of ~3%. At CMP, it trades at 2.9x its FY26 P/BV.

#### 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 1,77,699 circuit kilometers of EHV transmission lines. Power Grid has approximately 278 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. 86,700 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 has a dividend yield of 3%.

## 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

R.K. Tyagi	Chairman and Managing Director
G. Ravisankar	Director – Finance
Abhay Choudhary	Director – Projects

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India Asset Management	3
2	Vanguard Group Inc/The	2.19
3	SBI Funds Management Ltd	2.13
4	BlackRock Inc	2.07
5	PPFAS Asset Management	1.48
6	FMR LLC	1.35
7	ICICI Prudential Asset Management	1.22
8	abrdn plc	0.95
9	HDFC Asset Management Co Ltd	0.94
10	UTI Asset Management Co Ltd	0.7

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
<b>Positive</b>	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
<b>Neutral</b>	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
<b>Negative</b>	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	
<b>Positive</b>	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
<b>Neutral</b>	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
<b>Negative</b>	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	
<b>Positive</b>	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.
<b>Neutral</b>	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
<b>Negative</b>	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

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by BNP PARIBAS

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