

BUY**TP: Rs 250 | ▲ 19%****POWER GRID CORP**

| Power

| 09 November 2023

In-line quarter; FY24 capex ramped up

- Q2 revenue/PAT in line at Rs 104bn/Rs 38bn; ramp up of FY24 capex target to Rs 100bn from Rs 88bn a key positive
- Large Rs 1.9tn capex pipeline, RTM asset base and lower interest costs remain core strengths
- Exhibits lowest risk profile in the power sector; retain BUY with unchanged TP of Rs 250

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In-line quarter; FY24 capex ramped up: PWGR posted flat consolidated Q2FY24 revenue of Rs 104bn and 5% YoY growth in PAT to Rs 37.9bn. Capex for the quarter stood at Rs 27.4bn and capitalisation at Rs 23.8bn, taking the FY24 YTD totals to Rs 42.5bn and Rs 40bn respectively. Management also increased its FY24 capex target from Rs 88bn to Rs 100bn, split equally between projects awarded under the regulated tariff mechanism (RTM) route and those awarded under tariff-based competitive bidding (TBCB).

Capex to move up from FY25 onwards: Management has planned capex of Rs 125bn and capitalisation of Rs 170bn for FY25. Longer term, the company has a Rs 1.9tn capex plan for the next decade that includes Rs 1.7tn for transmission infrastructure, Rs 10bn for solar generation, Rs 150bn for smart metering infrastructure, and Rs 10bn for the data centre business. The Indian government has also approved the Rs 207bn green energy corridor project at Ladakh with a 40% grant, which should start around Q1FY26, taking the company's works in hand to a total of Rs 505bn.

RTM projects lend a cash flow cushion: PWGR has a monopoly in India's inter-state transmission system (ISTS) with a strong balance sheet to fall back on. The company has gross fixed assets of Rs 2.7tn, comprising mainly of regulated assets that generate consistent cash flows, allowing it to invest in various transmission projects. Regulated equity stood at Rs 820bn in H1FY24.

Competitive edge in TBCB: An AAA credit rating enables PWGR to enjoy low interest cost – a key lever in TBCB projects. The company typically averages a hefty 40% market share in TBCB awards that has swelled to 55% of projects awarded in the last 12 months. It has won five such projects in FY24 YTD, in addition to the 11 in hand.

Maintain BUY: We continue to value the stock at a P/B multiple of 2.1x on Sep'25E, ~30% premium to its 5Y mean, yielding an unchanged TP of Rs 250. We believe PWGR warrants this premium given its superior ROE of 15-19%, high 5.6% dividend yield in FY23 and lowest risk profile in the power sector – retain BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

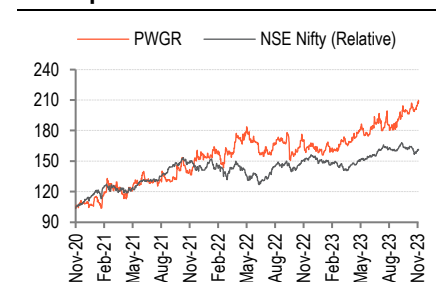
Ticker/Price	PWGR IN/Rs 210
Market cap	US\$ 23.7bn
Free float	49%
3M ADV	US\$ 31.2mn
52wk high/low	Rs 211/Rs 153
Promoter/FPI/DII	51%/33%/16%

Source: NSE | Price as of 9 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	4,33,431	4,73,050	5,16,573
EBITDA (Rs mn)	3,72,738	4,14,803	4,53,817
Adj. net profit (Rs mn)	1,53,330	1,46,278	1,81,403
Adj. EPS (Rs)	16.5	15.7	19.5
Consensus EPS (Rs)	16.5	15.6	16.8
Adj. ROAE (%)	19.3	16.8	18.8
Adj. P/E (x)	12.7	13.3	10.8
EV/EBITDA (x)	8.9	7.8	6.8
Adj. EPS growth (%)	(10.3)	(4.6)	24.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Fig 1 – Quarterly performance

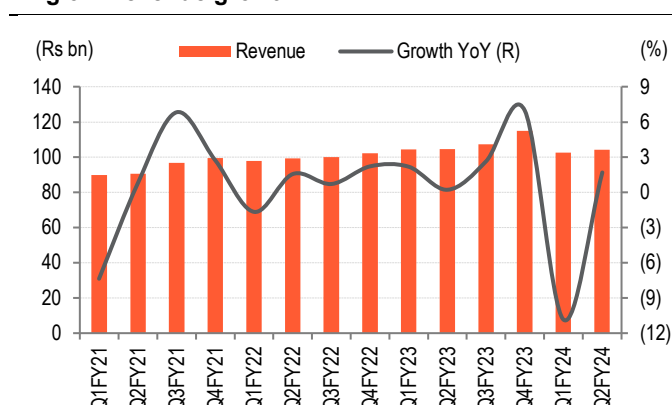
Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	1,04,194	1,04,683	(0.5)	1,02,446	1.7	2,06,640.3	2,09,144.1	(0.0)
EBITDA	92,072	88,709	3.8	90,048	2.2	1,82,120.2	1,76,726.1	0.0
EBITDA Margin (%)	88.4	84.7	0bps	87.9	0bps	88.1	84.5	0bps
Depreciation	31,418	31,984		31,414		62,832.0	64,009.7	
Interest	23,891	21,964		21,214		45,105.4	41,781.1	
Other Income	7,864	5,356		6,436		14,300.1	11,063.8	
PBT	44,627	40,118	11.2	43,856	1.8	88,482.9	81,999.1	0.1
Tax	5,095	3,780		5,570		10,664.2	8,802.8	
Adjusted PAT	37,949	35,997	5.4	34,846	8.9	77,818.7	73,196.3	0.1
Exceptional item	-	-		0		(5,023.9)	459.4	
Reported PAT	37,949	35,997	5.4	34,846	8.9	72,794.8	73,655.7	(0.0)
Adj. PAT Margin (%)	36.4	34.4	200bps	34.0	240bps	37.7	35.0	270bps
EPS (Rs)	5.7	5.2	9.8	5.5	3.3	11.2	10.6	0.1

Source: Company, BOBCAPS Research

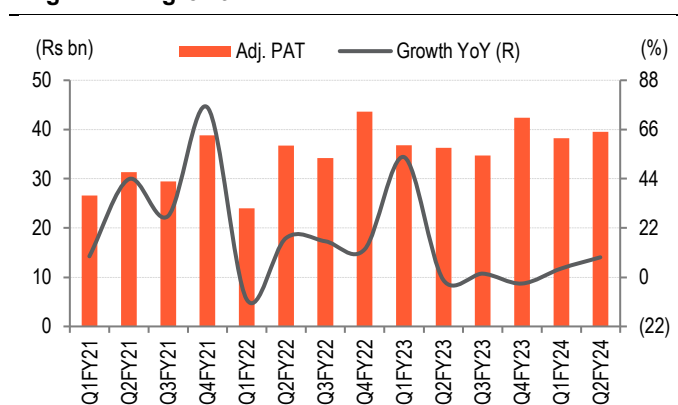
Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Segment revenue													
Transmission	90,344	95,521	97,870	96,862	96,976	98,006	1,00,032	1,02,155	1,04,118	1,05,176	1,15,023	1,02,000	1,03,586
Growth YoY (%)	6.3	8.4	1.9	7.1	7.3	2.6	2.2	5.5	7.4	7.3	15.0	(0.2)	(0.5)
Consultancy	1,084	1,227	1,766	1,524	1,880	1,714	2,594	2,335	1,392	1,717	(157)	1,239	1,568
Growth YoY (%)	(37.6)	(14.8)	1.4	54.7	73.4	39.7	46.9	53.2	(25.9)	0.1	(106.0)	(46.9)	12.6
EBIT													
Transmission	52,207	59,831	53,123	62,448	51,872	54,544	49,109	56,769	56,753	63,285	71,402	55,068	59,280
EBIT margin (%)	57.8	62.6	54.3	64.5	53.5	55.7	49.1	55.6	54.5	60.2	62.1	54.0	57.2
Consultancy	208	372	771	657	944	572	1,302	1,184	387	784	(1,415)	190	416
EBIT margin (%)	19.2	30.3	43.7	43.1	50.2	33.4	50.2	50.7	27.8	45.7	904.2	15.3	26.5

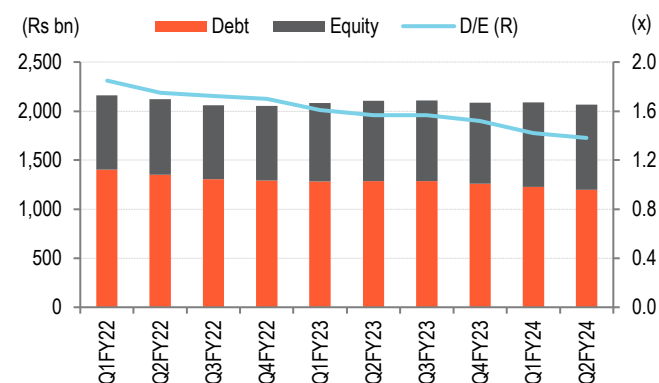
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth

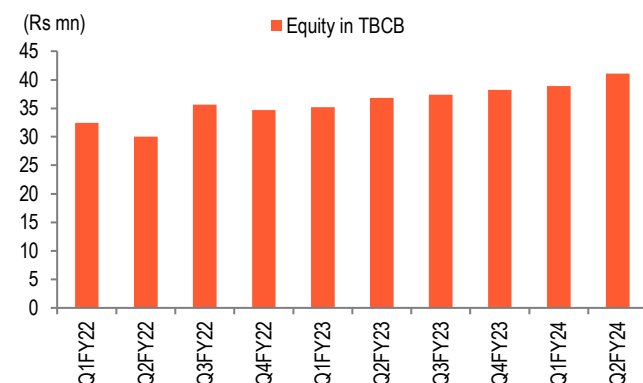
Source: Company, BOBCAPS Research

Fig 4 – PAT growth

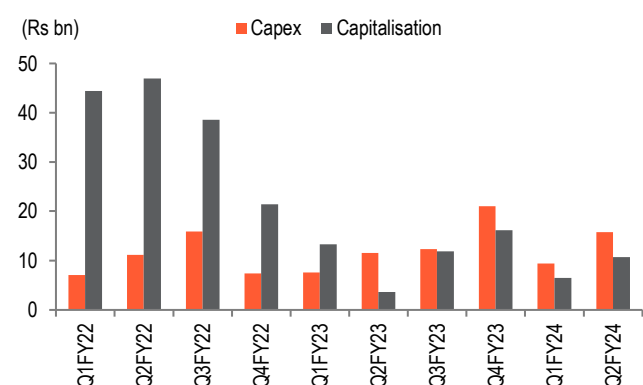
Source: Company, BOBCAPS Research

Fig 5 – Capital structure

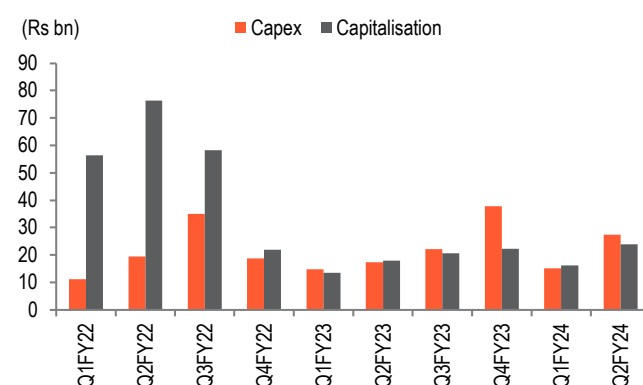
Source: Company, BOBCAPS Research

Fig 6 – Equity investment in TBCB

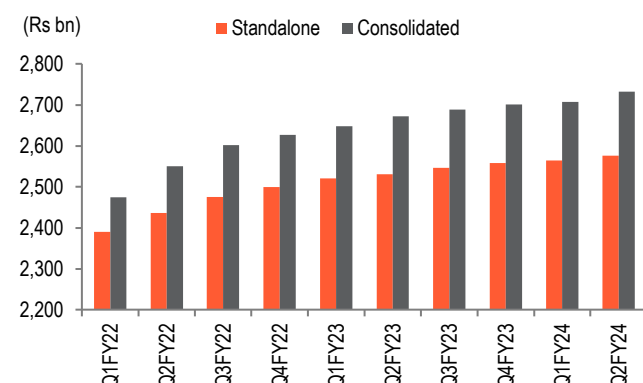
Source: Company, BOBCAPS Research

Fig 7 – Execution performance – Standalone

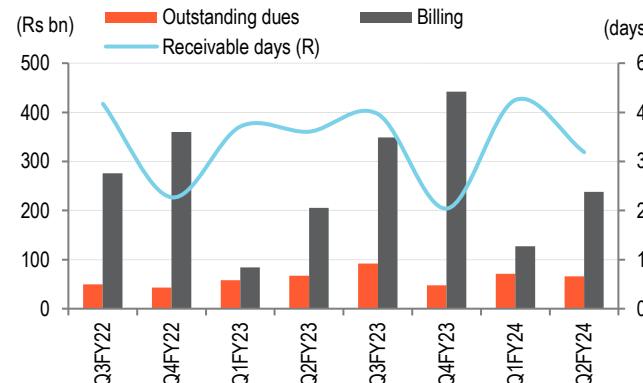
Source: Company, BOBCAPS Research

Fig 8 – Execution performance – Consolidated

Source: Company, BOBCAPS Research

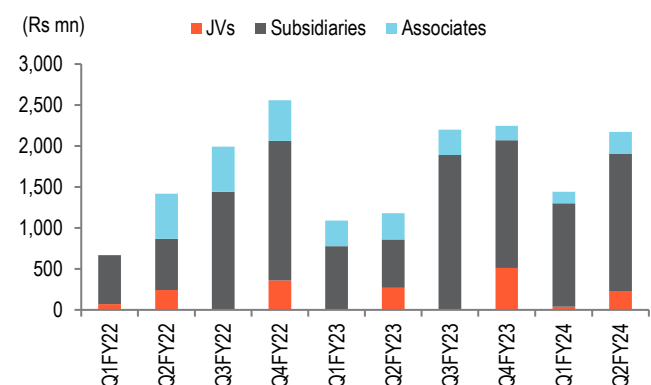
Fig 9 – Asset position

Source: Company, BOBCAPS Research

Fig 10 – Receivables position

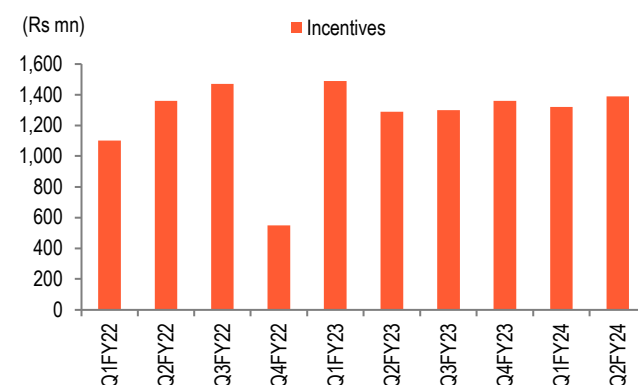
Source: Company, BOBCAPS Research

Fig 11 – Dividends received



Source: Company, BOBCAPS Research

Fig 12 – Incentives received



Source: Company, BOBCAPS Research

Earnings call highlights

- Capex:** PWGR has incurred capex of Rs 42.5bn in H1FY24 and expects to spend upwards of Rs 100bn in FY24 as opposed to the Rs 88bn previously indicated. Management now expects to capitalise Rs 100bn in FY24 with Rs 40bn having been capitalised in H1FY24. Of this, RTM and TBCB projects are guided to account for Rs 50bn each. Management further expects to capitalise assets worth Rs 170bn in FY25.
- Works in hand:** The company has works in hand totalling Rs 505bn, of which the Leh-Ladakh project amounts to Rs 207bn, Rs 132bn is attributed to TBCB projects, and Rs 28bn to an order for 6.5mn smart meters from the Gujarat state government. Works in hand do not include any intra-state projects currently.

Management guidance of Rs 1.9tn in opportunities over the next nine years includes the Rs 505bn of works in hand, ~Rs 150bn which are in the final stages, and Rs 600bn-670bn that is expected to come through the bidding of projects approved by the National Capital Territory of Delhi over the next 18-24 months, after which projects worth another ~Rs 450bn are expected to come under PWGR's purview.

- Leh-Ladakh project:** The company expects phase-1 of the Leh-Ladakh project feasibility study to conclude by the end of FY24, and phase-2 six months thereafter. PWGR expects to put out bidding tenders after the studies are completed, by Q4FY25 or Q1FY26. The Rs 207bn project will be financed by a government grant to the extent of 40% (~Rs 80bn) and the balance by PWGR with a five-year completion timeline.
- TBCB:** PWGR has won five TBCB projects in H1FY24 and submitted bids for two more as of date. The typical execution timeline for these orders is ~18 months, and the company has cost escalation clauses in the contracts.
- Data centres:** Management expects to incur capex of Rs 10bn towards data centres over the next nine years. It is setting up a pilot data centre in Manesar (Haryana) with two floors at a capex of Rs 7.1bn and, if successful, may expand it to six floors with a proportionate capex increase. The data centre is scheduled to be commissioned within 15 months and will be undertaken by the company's new telecom subsidiary Powergrid Teleservices.

- **Telecom:** PWGR is demerging its telecom business into a wholly owned subsidiary, Powergrid Teleservices, with effect from Q3FY24, with no impact on consolidated numbers. The company expects to achieve Rs 8bn in revenue for this segment in FY24, of which Rs 3.9bn was achieved in H1FY24.
- **Solar:** The company had guided for capex of Rs 10bn in solar projects over the next nine years, of which it aims to invest Rs 7bn in 22MW of solar capacity staggered into two stages of 8MW and 14MW. Capex earmarked for solar capacities may increase based upon the success rate.
- **International projects:** PWGR is in talks with Africa50 for transmission projects in Kenya and Tanzania with an expected capital structure of 60:40 debt:equity. The company is also in preliminary talks with Oman, Singapore, Maldives, and Sri Lanka for intercountry connectivity through undersea cables, and feasibility studies are under way. It has already received an order from Sri Lanka.

Valuation methodology

PWGR is India's largest power transmission company with a monopoly over the country's inter-state transmission system. The company incurred capex in the region of Rs 250bn annually pre-Covid (FY16-FY19), which dropped off to ~Rs 80bn thereafter, suppressing asset growth. Management's recent announcement of a mega Rs 1.9tn capex pipeline over FY24-FY32, including Rs 1.7tn for transmission infrastructure, is likely to invigorate the asset base and hence valuations. In our view, the long-term transmission capex target looks plausible given the government's renewable energy target of 500GW by 2030.

We maintain our BUY rating and continue to value the stock at a P/B multiple of 2.1x on Sep'25E, ~30% premium to its five-year mean, which yields an unchanged TP of Rs 250. Ex-Covid years, the stock's long-term trading mean stands higher at 1.8-2x, implying a narrower valuation premium of 5-10%. We believe PWGR warrants this premium given its superior ROE of 15-19%, dividend yield of 5.6% in FY23 and lowest risk profile in the power value chain.

Fig 13 – Key assumptions

Particulars (Rs mn)	FY24E	FY25E	FY26E
Sales	4,73,050	5,16,573	5,43,079
EBITDA	4,14,803	4,53,817	4,76,858
PAT	1,46,278	1,81,403	2,00,367
EPS (Rs)	15.7	19.5	21.5
EBITDA Margin (%)	87.7	87.9	87.8

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- any delays in implementation of TBCB projects, and
- regulatory risk of lower permissible ROE in future tariff orders.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
CESC	CESC IN	1.4	89	108	BUY
NTPC	NTPC IN	28.1	238	290	BUY
Power Grid Corp	PWGR IN	23.7	210	250	BUY
Tata Power	TPWR IN	9.6	248	271	BUY
Torrent Power	TPW IN	4.4	760	800	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 Nov 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	3,99,334	4,33,431	4,73,050	5,16,573	5,43,079
EBITDA	3,49,270	3,72,738	4,14,803	4,53,817	4,76,858
Depreciation	1,25,506	1,29,399	1,79,889	1,86,889	1,97,039
EBIT	2,23,764	2,43,339	2,34,913	2,66,928	2,79,819
Net interest inc./(exp.)	82,109	97,443	89,649	82,734	76,225
Other inc./(exp.)	24,025	26,250	28,875	31,763	34,939
Exceptional items	0	0	0	0	0
EBT	1,65,680	1,72,147	1,74,140	2,15,956	2,38,533
Income taxes	27,111	21,381	27,862	34,553	38,165
Extraordinary items	(37,595)	0	0	0	0
Min. int./Inc. from assoc.	(5,227)	2,564	0	0	0
Reported net profit	1,70,938	1,53,330	1,46,278	1,81,403	2,00,367
Adjustments	37,595	0	0	0	0
Adjusted net profit	1,33,343	1,53,330	1,46,278	1,81,403	2,00,367

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,661	3,250	3,499	3,821	4,017
Other current liabilities	1,15,446	1,13,409	1,36,757	1,49,340	1,57,003
Provisions	13,46,951	12,66,606	11,64,269	10,74,472	9,89,942
Debt funds	1,57,057	1,49,705	1,63,389	1,78,422	1,87,577
Other liabilities	69,755	69,755	69,755	69,755	69,755
Equity capital	6,91,761	7,58,575	8,39,028	9,52,405	10,77,634
Reserves & surplus	7,61,516	8,28,330	9,08,782	10,22,159	11,47,389
Shareholders' fund	95,145	1,01,635	1,01,635	1,01,635	1,01,635
Total liab. and equities	24,78,777	24,62,936	24,78,332	25,29,850	25,87,563
Cash and cash eq.	29,710	47,344	1,31,301	1,75,159	2,37,895
Accounts receivables	88,368	1,30,771	1,29,603	1,48,691	1,52,555
Inventories	13,526	13,236	15,234	16,205	17,263
Other current assets	69,350	32,427	35,391	38,647	40,630
Investments	17,81,757	17,08,014	15,98,124	15,41,235	15,04,196
Net fixed assets	73,445	76,681	83,691	91,391	96,080
CWIP	15,877	15,073	15,073	15,073	15,073
Intangible assets	3,04,405	3,33,945	3,64,470	3,98,003	4,18,425
Deferred tax assets, net	2,609	2,609	2,609	2,609	2,609
Other assets	99,730	1,02,838	1,02,838	1,02,838	1,02,838
Total assets	24,78,777	24,62,936	24,78,332	25,29,850	25,87,563

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	2,46,402	3,52,683	4,35,618	4,40,615	4,74,587
Capital expenditures	(36,453)	(30,645)	(70,000)	(1,30,000)	(1,60,000)
Change in investments	22,405	(3,588)	0	0	0
Other investing cash flows	35,934	(8,925)	(23,850)	(26,201)	(15,956)
Cash flow from investing	21,885	(43,158)	(93,850)	(1,56,201)	(1,75,956)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(97,784)	(1,09,745)	(1,02,337)	(89,797)	(84,531)
Interest expenses	(82,109)	(97,443)	(89,649)	(82,734)	(76,225)
Dividends paid	(1,08,120)	(85,449)	(65,825)	(68,026)	(75,138)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(2,88,013)	(2,92,637)	(2,57,811)	(2,40,558)	(2,35,894)
Chg in cash & cash eq.	(19,726)	16,888	83,957	43,857	62,737
Closing cash & cash eq.	29,710	47,344	1,31,301	1,75,159	2,37,895

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	18.4	16.5	15.7	19.5	21.5
Adjusted EPS	18.4	16.5	15.7	19.5	21.5
Dividend per share	11.6	11.1	7.1	7.3	8.1
Book value per share	81.9	89.1	97.7	109.9	123.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	8.3	7.6	6.8	6.0	5.4
EV/EBITDA	9.5	8.9	7.8	6.8	6.1
Adjusted P/E	11.4	12.7	13.3	10.8	9.7
P/BV	2.6	2.4	2.1	1.9	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	106.5	87.8	84.0	84.0
Interest burden (PBT/EBIT)	73.6	74.0	70.7	74.1	80.9
EBIT margin (EBIT/Revenue)	56.7	56.0	56.1	49.7	51.7
Asset turnover (Rev./Avg TA)	15.9	17.5	19.1	20.6	21.2
Leverage (Avg TA/Avg Equity)	3.7	3.3	3.0	2.7	2.5
Adjusted ROAE	18.3	19.3	16.8	18.8	18.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	6.0	8.5	9.1	9.2	5.1
EBITDA	5.7	6.7	11.3	9.4	5.1
Adjusted EPS	43.2	(10.3)	(4.6)	24.0	10.5
Profitability & Return ratios (%)					
EBITDA margin	87.5	86.0	87.7	87.9	87.8
EBIT margin	56.0	56.1	49.7	51.7	51.5
Adjusted profit margin	33.4	35.4	30.9	35.1	36.9
Adjusted ROAE	18.3	19.3	16.8	18.8	18.5
ROCE	10.4	12.0	11.6	13.6	14.6
Working capital days (days)					
Receivables	81	110	100	105	103
Inventory	12	11	12	11	12
Payables	2	3	3	3	3
Ratios (x)					
Gross asset turnover	0.2	0.2	0.2	0.2	0.2
Current ratio	0.6	0.9	1.1	1.2	1.4
Net interest coverage ratio	2.8	3.0	2.8	2.9	3.6
Adjusted debt/equity	1.8	1.5	1.3	1.1	0.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

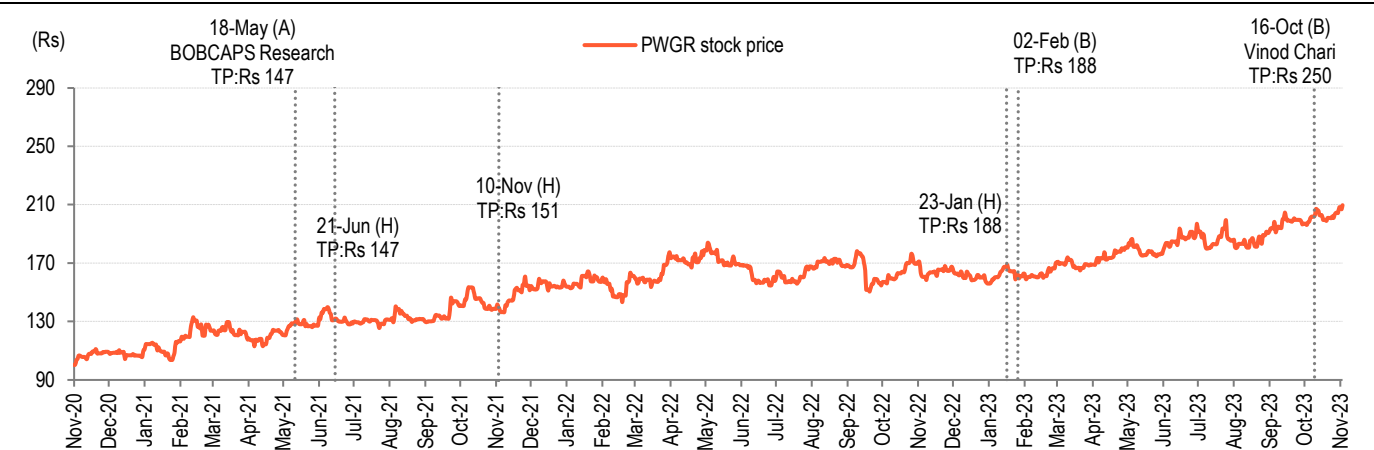
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): POWER GRID CORP (PWGR IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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