

BUY
 TP: Rs 320 | ▲ 17%

POWER GRID CORP

| Power

| 09 February 2024

In-line quarter, FY25 capex hiked; maintain BUY

- Q3 PAT met estimates at Rs 40bn; 20% bump-up in FY25 capex target to Rs 150bn a key positive
- FY24 capex and capitalisation targets maintained at Rs 100bn and Rs 85bn respectively
- Maintain BUY with revised TP of Rs 320 (vs. Rs 250) as we increase our target P/B to 2.7x (vs. 2.1x) on higher outlay

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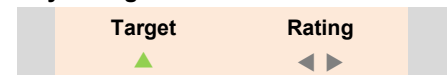
In-line quarter, FY24 capex on track: PWGR posted flat consolidated Q3FY24 revenue of Rs 107bn and 7% YoY growth in PAT to Rs 40bn. Capex for the quarter stood at Rs 34.4bn and capitalisation at Rs 17.8bn, taking the FY24 YTD totals to Rs 87bn and Rs 58bn respectively. Management maintained its FY24 targets for capex at Rs 100bn and capitalisation at Rs 85bn, split equally between projects awarded under the regulated tariff mechanism (RTM) route and those awarded under tariff-based competitive bidding (TBCB). Outlay to date stands at Rs 87bn.

Capex outlook for FY25 ramped up with strong FY26 guidance: Management has planned capex of Rs 150bn, vs. Rs 125bn guided earlier, and capitalisation of Rs 170bn for FY25. Works in hand total Rs 777bn, of which TBCB projects stand at Rs 414bn and the remainder are under RTM. For FY26, PWGR has guided for even stronger capex of Rs 200bn. Further, management indicated scope for further upward revision as further clarity on projects emerges over the next six months. Longer term, the company has a Rs 2.1tn capex pipeline for the next decade.

Discount to private peers to narrow as capex picks up: Power stocks have rallied in the past three months, with the BSE Power index up ~50% and both public and private sector utilities showing strong gains. However, the valuation gap between the two is still at 60%, with the TTM P/B of major private players averaging 3.2x vs. 2.1x for PSUs. Given PWGR’s buoyant capex pipeline and its execution track record, we believe the company should enjoy valuations closer to private sector peers.

TP raised to Rs 320, maintain BUY: We raise our target P/B multiple for PWGR to 2.7x on Dec’25E BV (from 2.1x on Sep’25E earlier) – still conservative compared to private sector peers – and maintain BUY for a higher TP of Rs 320 (vs. Rs 250). We believe PWGR warrants this multiple given its superior ROE of 15-19%, healthy dividend yield and low risk profile.

Key changes



Ticker/Price	PWGR IN/Rs 273
Market cap	US\$ 30.9bn
Free float	49%
3M ADV	US\$ 59.6mn
52wk high/low	Rs 289/Rs 159
Promoter/FPI/DII	51%/33%/16%

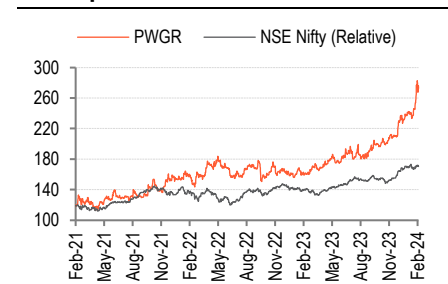
Source: NSE | Price as of 9 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	4,33,431	4,27,211	5,16,573
EBITDA (Rs mn)	3,72,738	3,76,286	4,56,738
Adj. net profit (Rs mn)	1,53,330	1,56,694	1,83,857
Adj. EPS (Rs)	16.5	16.8	19.8
Consensus EPS (Rs)	16.5	15.6	16.8
Adj. ROAE (%)	19.3	18.0	18.9
Adj. P/E (x)	16.6	16.2	13.8
EV/EBITDA (x)	10.4	10.1	8.0
Adj. EPS growth (%)	(10.3)	2.2	17.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY24	Q2FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	1,06,766	1,07,464	(0.6)	1,04,194	2.5	3,13,406	3,16,608	(0.0)
EBITDA	94,006	93,795	0.2	92,072	2.1	2,76,126	2,70,521	0.0
EBITDA Margin (%)	88.0	87.3	0bps	88.4	0bps	88.1	85.4	0bps
Depreciation	31,586	33,041		31,418		94,418	97,051	
Interest	25,156	30,367		23,891		70,261	72,148	
Other Income	7,910	7,261		7,864		22,210	18,325	
PBT	45,175	37,648	20.0	44,627	1.2	1,33,658	1,19,647	0.1
Tax	6,595	2,969		5,095		17,260	11,772	
Adjusted PAT	39,702	37,017	7.3	37,949	4.6	1,16,398	1,07,875	0.1
Exceptional item	-	-		0		(3,901)	2,798	
Reported PAT	39,702	37,017	7.3	37,949	4.6	1,12,497	1,10,673	0.0
Adj. PAT Margin (%)	37.2	34.4	270bps	36.4	80bps	37.1	34.1	310bps
EPS (Rs)	4.1	5.3	(21.8)	4.3	(2.4)	13.9	15.9	(0.1)

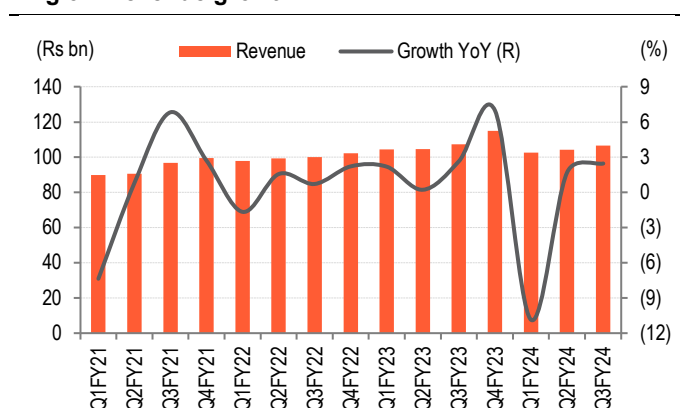
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Segment revenue											
Transmission	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	1,06,725
Growth YoY (%)	7.1	7.3	2.6	2.2	5.5	7.4	7.3	15.0	-0.2	-0.5	1.5
Consultancy	1,524	1,880	1,714	2,594	2,335	1,392	1,717	(157)	1,239	1,568	1,484
Growth YoY (%)	54.7	73.4	39.7	46.9	53.2	-25.9	0.1	-106.0	-46.9	12.6	-13.6
EBIT											
Transmission	62,448	51,872	54,544	49,109	56,769	56,753	63,285	71,402	55,068	59,280	65,169
EBIT margin (%)	64.5	53.5	55.7	49.1	55.6	54.5	60.2	62.1	54.0	57.2	61.1
Consultancy	657	944	572	1,302	1,184	387	784	(1,415)	190	416	55
EBIT margin (%)	43.1	50.2	33.4	50.2	50.7	27.8	45.7	904.2	15.3	26.5	3.7

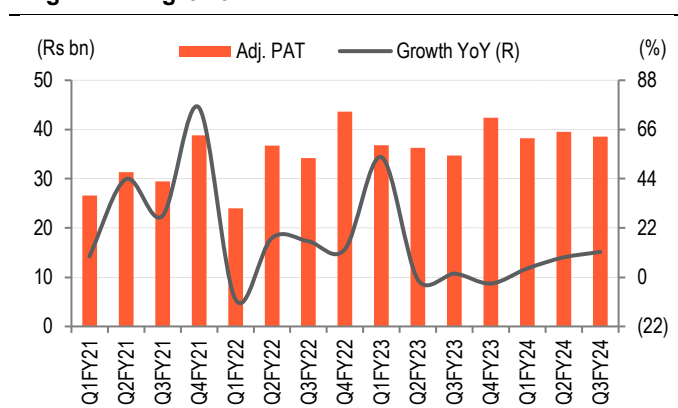
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



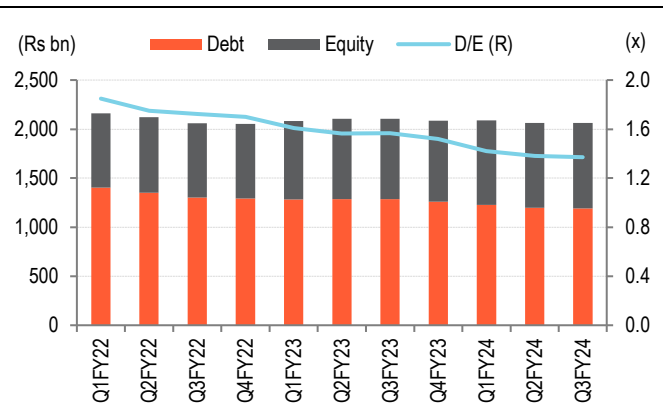
Source: Company, BOBCAPS Research

Fig 4 – PAT growth



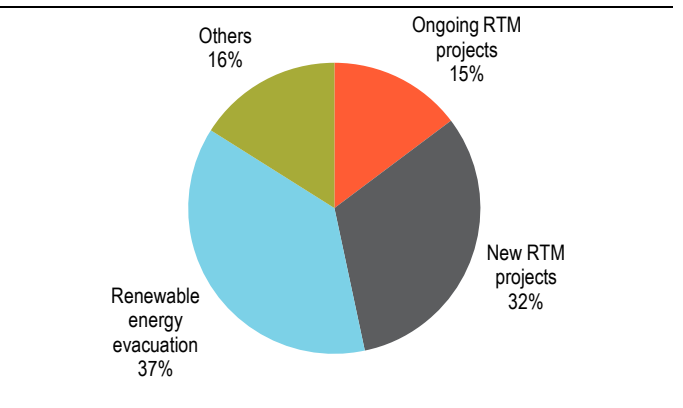
Source: Company, BOBCAPS Research

Fig 5 – Capital structure



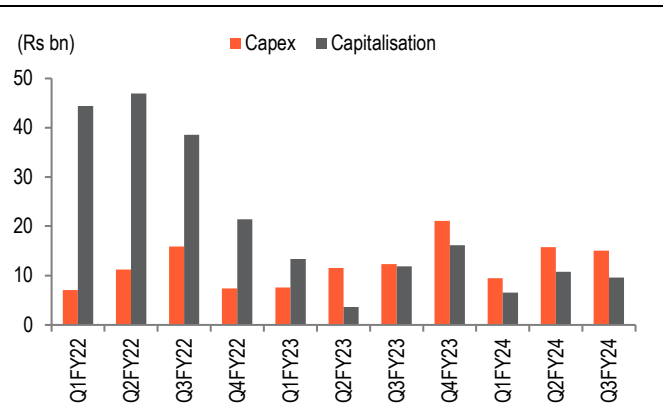
Source: Company, BOBCAPS Research

Fig 6 – Works in hand



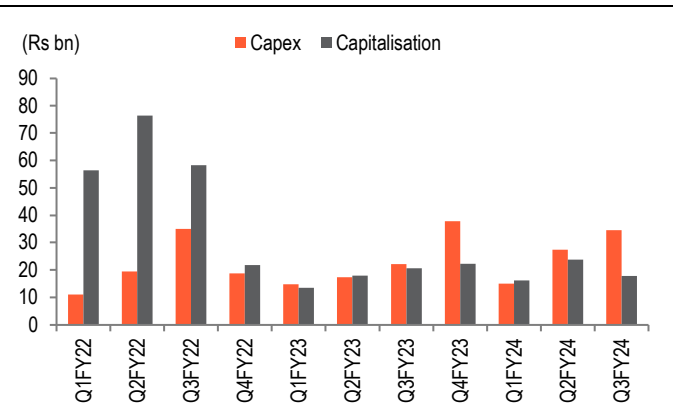
Source: Company, BOBCAPS Research

Fig 7 – Execution performance – Standalone



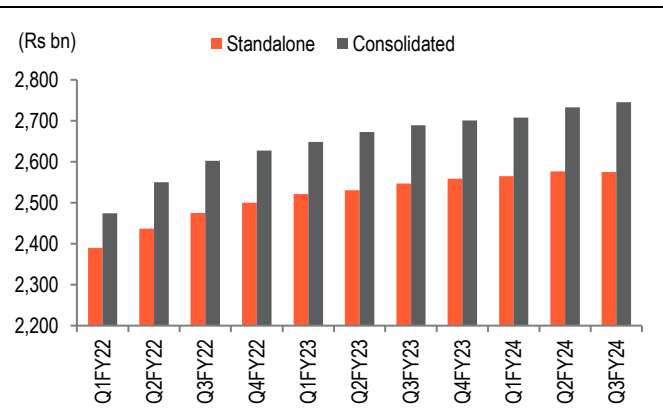
Source: Company, BOBCAPS Research

Fig 8 – Execution performance – Consolidated



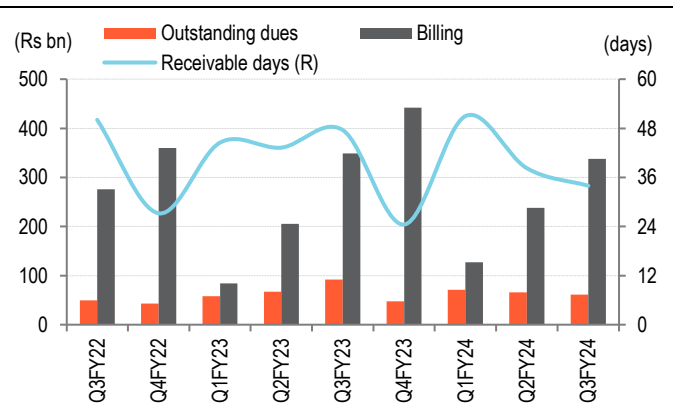
Source: Company, BOBCAPS Research

Fig 9 – Asset position



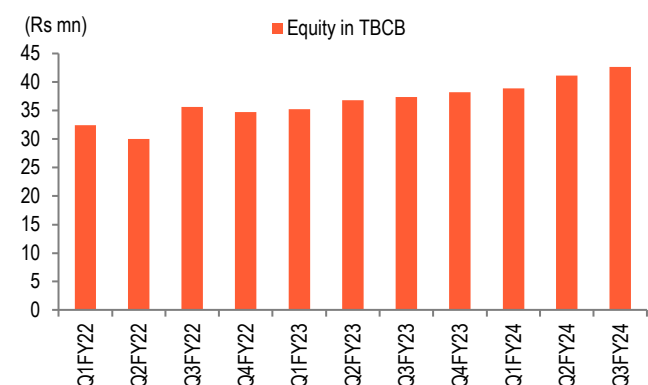
Source: Company, BOBCAPS Research

Fig 10 – Receivables position



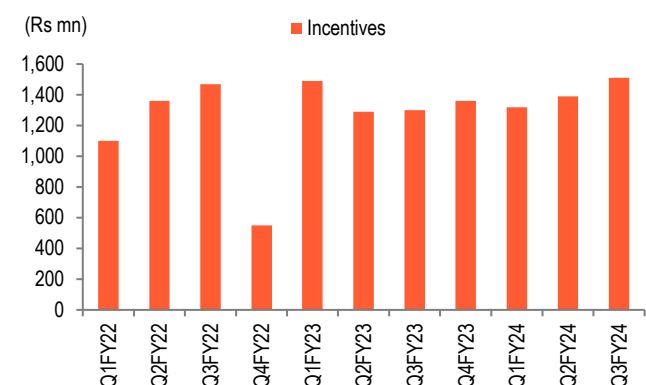
Source: Company, BOBCAPS Research

Fig 11 – Equity in TBCB projects



Source: Company, BOBCAPS Research

Fig 12 – Incentives received



Source: Company, BOBCAPS Research

Earnings call highlights

- Draft CERC regulations:** Per the draft regulations published by the Central Electricity Regulatory Commission (CERC) for multi-year tariffs over FY25-FY29, operations & maintenance (O&M) costs allowed in transmission have been lowered to 65% for substations and increased to 35% for transmission lines. Additionally, O&M costs have been allowed for reactors. Management indicated that these proposed changes would have no impact on the company's realisations on a net basis.

Secondly, permissible ROE for new transmission projects commissioned after 31 Mar 2024 will reduce from 15.5% earlier to 15% under the proposed scheme. Management is in talks with the government on this matter.

- TBCB win rate:** PWGR has won several projects in the last 12 months with a ~67% win rate in TBCB bids and 10 projects won in FY24. Profitability is slightly lower here given the competitive environment when compared to its RTM projects (~14% IRR), but PWGR continues to enjoy 11-12% IRR on these projects.
- Order pipeline:** The company has an existing order pipeline of Rs 777bn, up from Rs 505bn in Q2FY24. Management had earlier guided for Rs 1.9tn in opportunities over the next nine years, which has now risen to Rs 2.1tn. This includes the Rs 777bn current pipeline.
- Capex and capitalisation:** Capex for 9MFY24 stood at Rs 87bn and management expects to close FY24 at Rs 100bn. Going forward, it is targeting an outlay of Rs 150bn in FY25 and Rs 200bn in FY26, with total capex of ~Rs 500bn over the next 2-3 years. Management expects to capitalise Rs 85bn in FY24 and Rs 160bn-170bn in FY25. PWGR has comfortable cash flows and believes it can comfortably execute incremental projects worth Rs 250bn-300bn, given a 4x D/E ratio.
- Solar energy:** The company had guided for capex of Rs 10bn toward solar projects over the next nine years, of which it aims to invest Rs 7bn in 22MW of solar capacity staggered over two stages of 8MW and 14MW. Outlay earmarked for solar capacities may increase depending on the success rate.

- **Government plans:** The National Electricity Policy (NEP) had earlier laid out a capital outlay of Rs 2.44tn for inter-state transmission projects (ISTS), which has now been increased to Rs 3.1tn. The increase in outlay is largely due to lower availability of battery-related storage systems on a large scale, which has accelerated and magnified the quantum of transmission outlay. If battery or other storage systems become viable, the need for transmission systems may reduce.
- **Fatehgarh-Bhadla project:** PWGR expects to award the Fatehgarh-Bhadla transmission project in Rajasthan by FY24, which will be followed by six months of engineering activities and other studies. Management expects to incur the capex on this project by FY25-end. Given the global supply chain issues in HVDC projects, management estimates that phases I and II will be commissioned in 48 and 54 months respectively post commencement.

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 2.1tn capex pipeline over FY24-FY32, including Rs 1.9tn 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 Indian government's renewable energy target of 500GW by 2030.

Power stocks have rallied in the past three months but the valuation gap between public and private sector utilities is still at 60%, with the TTM P/B of major private players averaging 3.2x vs. 2.1x for PSUs. Given PWGR's buoyant capex pipeline and execution record, we believe the company should enjoy valuations closer to private sector peers.

We raise our target P/B multiple for the stock to 2.7x on Dec'25E BV (from 2.1x on Sep'25E earlier) – still conservative compared to private sector peers – and maintain BUY for a higher TP of Rs 320 (vs. Rs 250). We believe PWGR warrants this multiple given its superior ROE of 15-19%, healthy dividend yield and low risk profile.

Fig 13 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	4,27,211	5,16,573	5,43,079	4,73,050	5,16,573	5,43,079	(9.7)	0.0	0.0
PAT	1,56,694	1,83,857	2,02,968	1,46,278	1,81,403	2,00,367	7.1	1.4	1.3
Book Value (Rs)	9,14,512	10,29,422	11,56,277	9,08,782	10,22,159	11,47,389	0.6	0.7	0.8
BVPS (Rs)	98.3	110.7	124.3	97.7	109.9	123.4	0.6	0.7	0.8

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- any delays in implementation of TBCB projects, and
- failure to win future TBCB projects.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	3,99,334	4,33,431	4,27,211	5,16,573	5,43,079
EBITDA	3,49,270	3,72,738	3,76,286	4,56,738	4,79,954
Depreciation	1,25,506	1,29,399	1,28,492	1,86,889	1,97,039
EBIT	2,23,764	2,43,339	2,47,793	2,69,849	2,82,915
Net interest inc./(exp.)	82,109	97,443	95,519	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	1,81,150	2,18,877	2,41,629
Income taxes	27,111	21,381	24,455	35,020	38,661
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	1,56,694	1,83,857	2,02,968
Adjustments	37,595	0	0	0	0
Adjusted net profit	1,33,343	1,53,330	1,56,694	1,83,857	2,02,968

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,661	3,250	3,160	3,821	4,017
Other current liabilities	1,15,446	1,13,409	1,23,505	1,49,340	1,57,003
Provisions	13,46,951	12,66,606	11,50,830	10,74,472	9,89,942
Debt funds	1,57,057	1,49,705	1,47,557	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	8,44,757	9,59,667	10,86,522
Reserves & surplus	7,61,516	8,28,330	9,14,512	10,29,422	11,56,277
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	24,41,198	25,37,112	25,96,451
Cash and cash eq.	29,710	47,344	1,03,662	1,31,024	1,95,386
Accounts receivables	88,368	1,30,771	1,17,044	1,48,691	1,52,555
Inventories	13,526	13,236	13,758	16,205	17,263
Other current assets	69,350	32,427	31,961	38,647	40,630
Investments	17,81,757	17,08,014	16,49,521	15,92,632	15,55,593
Net fixed assets	73,445	76,681	75,581	91,391	96,080
CWIP	15,877	15,073	15,073	15,073	15,073
Intangible assets	3,04,405	3,33,945	3,29,152	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	24,41,198	25,37,112	25,96,451

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	2,46,402	3,52,683	4,04,381	4,39,196	4,77,187
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)	3,744	(53,795)	(15,956)
Cash flow from investing	21,885	(43,158)	(66,256)	(1,83,795)	(1,75,956)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(97,784)	(1,09,745)	(1,15,777)	(76,357)	(84,531)
Interest expenses	(82,109)	(97,443)	(95,519)	(82,734)	(76,225)
Dividends paid	(1,08,120)	(85,449)	(70,512)	(68,946)	(76,113)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(2,88,013)	(2,92,637)	(2,81,808)	(2,28,038)	(2,36,869)
Chg in cash & cash eq.	(19,726)	16,888	56,318	27,362	64,362
Closing cash & cash eq.	29,710	47,344	1,03,662	1,31,024	1,95,386

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	18.4	16.5	16.8	19.8	21.8
Adjusted EPS	18.4	16.5	16.8	19.8	21.8
Dividend per share	11.6	11.1	7.6	7.4	8.2
Book value per share	81.9	89.1	98.3	110.7	124.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	9.7	9.0	8.9	7.1	6.5
EV/EBITDA	11.1	10.4	10.1	8.0	7.4
Adjusted P/E	14.9	16.6	16.2	13.8	12.5
P/BV	3.3	3.1	2.8	2.5	2.2

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	106.5	87.8	86.5	84.0
Interest burden (PBT/EBIT)	73.6	74.0	70.7	73.1	81.1
EBIT margin (EBIT/Revenue)	56.7	56.0	56.1	58.0	52.2
Asset turnover (Rev./Avg TA)	15.9	17.5	17.4	20.8	21.2
Leverage (Avg TA/Avg Equity)	3.7	3.3	3.0	2.7	2.5
Adjusted ROAE	18.3	19.3	18.0	18.9	18.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	6.0	8.5	(1.4)	20.9	5.1
EBITDA	5.7	6.7	1.0	21.4	5.1
Adjusted EPS	43.2	(10.3)	2.2	17.3	10.4
Profitability & Return ratios (%)					
EBITDA margin	87.5	86.0	88.1	88.4	88.4
EBIT margin	56.0	56.1	58.0	52.2	52.1
Adjusted profit margin	33.4	35.4	36.7	35.6	37.4
Adjusted ROAE	18.3	19.3	18.0	18.9	18.6
ROCE	10.4	12.0	12.4	13.4	14.3
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	1.1	1.3
Net interest coverage ratio	2.8	3.0	2.8	2.9	3.6
Adjusted debt/equity	1.8	1.5	1.3	1.0	0.9

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

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BUY – Expected return >+15%

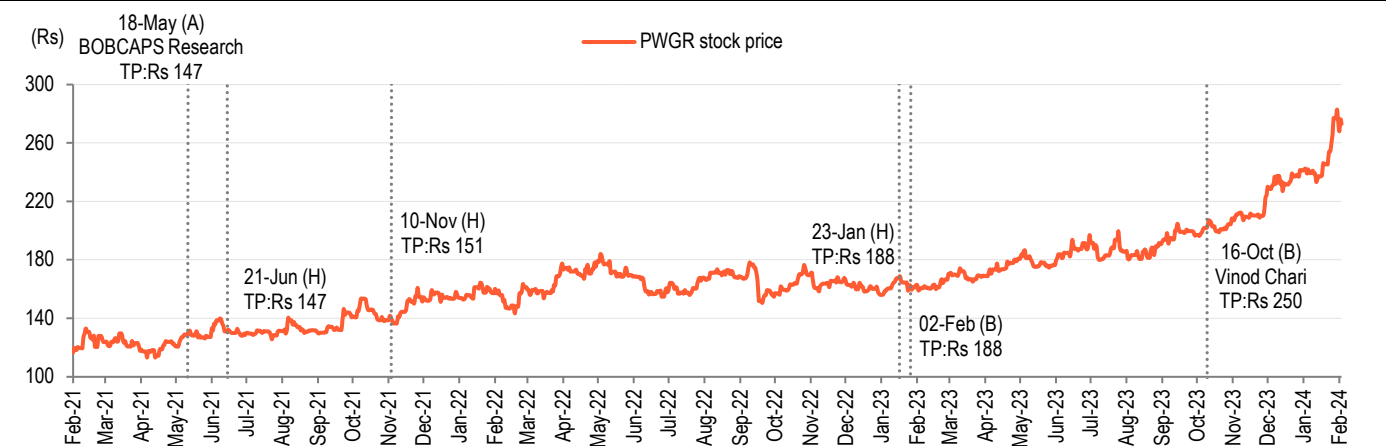
HOLD – Expected return from -6% to +15%

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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