

Steady performance...

About the stock: Powergrid is India's largest power transmission utility with transmission lines of 169273 ckt km and 443815 MVA of transformation capacity.

- Powergrid transmits about 50% of the total power generated in India on its transmission network
- It also undertakes transmission related consultancy to more than 150 domestic clients and owns & operates 71673 km of telecom network

Q1FY22 Results: Powergrid reported a steady set of numbers wherein core transmission segment income grew marginally ahead of estimates.

- Reported revenues came in at ₹ 9776 crore vs. our estimate of ₹ 9886.9 crore. However, transmission segment revenues came in at ₹ 9686.2 crore, up 7% YoY (vs. our estimate of ₹ 9587.7 crore). Revenues from telecom, consultancy segment came in at ₹ 118.8 crore, ₹ 152.4 crore, respectively
- PAT of ₹ 6085.4 crore optically looks very high as there was an exceptional gain of ~₹ 3170 crore on account of gain on sale of stake in five transmission assets that were transferred to the InvIT

What should investors do? Within the power sector, Powergrid has been a steady performer on account of strong asset addition in FY16-20. Now with relatively small sizes of renewable projects growth rate will taper down for the stock, which will be cushioned by a decent dividend yield.

- Maintain Buy rating on the stock

Target Price and Valuation: We value the stock at ₹ 186 i.e. 1.8x FY23E Book Value.

Key triggers for future price performance:

- Higher than expected IRRs in the competitively bid tariff based competitive bids projects can re-rate the stock

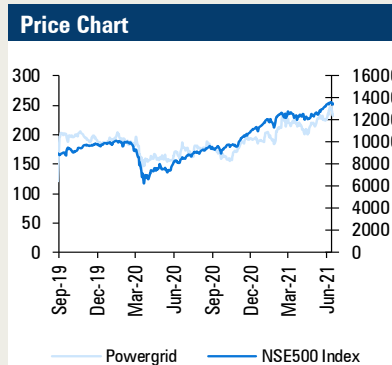
Alternate Stock Idea: In the power space, we are bullish on IEX' prospects

- Dominating market share, strong traction in new products and strong opportunity landscape
- BUY with a target price of ₹ 530 per share, valued at 50x FY23E EPS



Particulars	
Particulars	Amount
Market Capitalisation	₹ 122837 Crore
Debt (FY21)	₹ 130975 Crore
Cash (FY21)	₹ 5359 Crore
EV	₹ 248453 Crore
52 week H/L	₹ 189/116
Equity capital	₹ 6975.5 Crore
Face value	₹ 10

Shareholding pattern					
	Jun-20	Sep-20	Dec-20	Mar-20	Jun-21
Promoters	56.7	56.7	56.7	56.7	56.7
FII	1.7	1.9	0.1	2.1	1.6
DII	9.0	7.9	8.9	6.9	7.1
Others	32.7	33.6	34.3	34.3	34.6



Recent event & key risks

- Key Risk:** (i) High competitive intensity in the TBCB projects and ii) Delay in tendering of projects

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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	90,507.4	97,700.4	99,206.7	12.6%	1,08,758.8	1,21,809.8	5.8%
EBITDA	22,971.5	27,092.7	28,803.4	12.5%	30,549.3	35,197.1	5.7%
EBITDA Margins (%)	25.4	27.7	29.0		28.1	28.9	
Net Profit	11,949.9	10,112.8	13,769.5	16.6%	14,163.8	15,928.2	1.3%
EPS (₹)	12.1	10.2	13.9		14.3	16.1	
P/E	9.8	11.6	8.5		8.3	7.3	
RoNW (%)	11.2	8.9	11.5		11.2	11.8	
RoCE (%)	5.8	4.8	5.8		5.5	5.6	

Key takeaways of recent quarter & conference call highlights

Conference call highlights

- The company capitalised assets to the tune of ₹ 4439 crore and ₹ 5642 crore on a standalone and consolidated basis, respectively
- The capex incurred during Q1FY22 was at ₹ 706 crore on a standalone basis, For FY22, the company expects to a capex of ₹ 15000 crore
- Gross block as of Q1FY22 was at ₹ 247421 crore while debt was at ₹ 140000 crore
- Total business opportunity was at ₹ 39000 crore worth of projects, which will come up for bidding
- Overdues >45 days were at ₹ 3333 crore vs. ₹ 6145 crore in Q1YF21
- Standalone and consolidated CWIP were at ₹ 14803 crore and ₹ 21000 crore, respectively
- Equity invested in operational TBCB projects was at ₹ 2592 crore whereas the same for under construction projects was at ₹ 655 crore
- For FY23, the company expects ₹ 7000-7500 crore worth of TBCB projects to be transferred to the InVIT whereas the same will be ₹ 15000 crore by FY24-25 each
- The company plans to foray into the smart metering infra business where it will invest in the smart meter asset development business as floated by the respective state utility. The threshold RoE on such business will not be less than 14%

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY20E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total sales	9,776.6	9,886.9	8,988.7	8.8	9,942.5	(1.7)	Overall revenues were in line with estimates. Revenues from transmission segment revenue grew by 8% YoY
Other operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Total Income	9,776.6	9,886.9	8,988.7	8.8	9,942.5	(1.7)	
Personnel cost	518.3	406.3	486.1	6.6	652.1	(20.5)	
General & Admin exp	686.0	577.4	625.5	9.7	543.2	26.3	
Non-recurring exp							
Total expenses	1,204.3	983.7	1,111.6	8.3	1,195.3	0.7	
EBITDA	9,081.1	9,345.6	8,508.6	6.7	9,510.2	(4.5)	
EBITDA Margin (%)	92.9	94.5	94.7	(177.2)	95.7	(276.6)	
Depreciation	3,026.7	3,150.0	2,797.0	8.2	3,025.3	0.0	
Interest	2,297.6	2,250.0	2,278.6	0.8	1,976.3	16.3	
Other Income	508.8	694.6	631.4	(19.4)	763.0	(33.3)	
PBT	6,926.4	3,945.6	3,433.0	101.8	4,508.6	53.6	
Extraordinary Income	0.0	0.0	0.0	0.0	0.0	0.0	
Extraordinary expense							
Total Tax	1,359.0	907.5	773.1	75.8	626.5	116.9	
Adjusted PAT	6,085.4	3,038.1	1,978.9	207.5	3,515.6	73.1	PAT was above estimates and also included one off on sale of assets
Key Metrics							
Transmission	9,686.2	9,587.7	9,045.0	7.1	9,787.0	(1.0)	
Consultancy	152.4	171.2	98.5	54.7	198.6	(23.2)	
Telecom	118.8	128.1	187.6	-36.7	176.6	(32.7)	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Revenue	- 40,099.9	-	-	- 42,188.3	-	-
EBITDA	- 35,183.9	-	-	- 36,927.7	-	-
EBITDA Margin (%)	- 87.7	-	-	- 87.5	-	-
PAT	- 12,879.1	-	-	- 13,305.8	-	-
EPS (₹)	- 18.5	-	-	- 19.1	-	-

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	36,186	37,666	40,100	42,188
Growth (%)	6	4	6	5
Employee Expenses	1,959	2,111	2,126	2,282
Other expenses	2,824	2,499	2,790	2,978
Total Operating Expenditure	4,784	4,610	4,916	5,261
EBITDA	31,402	33,056	35,184	36,928
Growth (%)	7	5	6	5
Depreciation	11,073	11,712	12,125	12,917
Interest	9,814	8,501	8,892	9,425
Other Income	2,132	2,861	3,005	3,155
PBT	12,647	15,705	17,172	17,741
Others	2	3	4	5
Total Tax	3,520	3,089	4,293	4,435
PAT	10,811	13,015	12,879	13,306
Growth (%)	9	20	-1	3
EPS (₹)	15.5	18.7	18.5	19.1

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit Before Tax	8,962	14,331	15,025	17,172
Add: Depreciation	10,201	11,073	11,712	12,125
(Inc)/dec in Current Assets	-2,534	-853	-513	-1,342
Inc/(dec) in CL and Provisions	4,297	-2,657	-1,328	338
Others	9,775	7,350	6,339	5,887
CF from operating activities	30,701	29,244	31,234	34,179
(Inc)/dec in Fixed Assets	-26,485	-21,856	-20,685	-20,140
(Inc)/dec in Disposals	27	26	-375	23
Others	0	0	1	2
CF from investing activities	(26458)	(21830)	(21059)	(20114)
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	10,583	10,915	10,530	10,058
Dividend paid & dividend tax	-5,328	-5,223	-8,272	-6,079
Inc/(dec) in Sec. premium	0	0	1	2
Others	-9,091	-9,814	-8,501	-8,892
CF from financing activities	(3836)	(4121)	(6242)	(4911)
Net Cash flow	408	3,293	3,931	9,150
Opening Cash	1,137	4,429	8,360	17,510
Closing Cash	4429	8360	17510	27598

Source: Company, ICICI Direct

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	5,232	5,232	5,232	5,232
Reserve and Surplus	58,722	62,385	69,185	76,211
Total Shareholders funds	63,953	67,617	74,417	81,442
Total Debt	1,61,065	1,71,595	1,81,653	1,91,712
AAD	0	0	0	0
Minority Interest / Others	3,827	3,827	3,827	3,827
Total Liabilities	228846	243039	259897	276981
Assets				
Gross Block	2,54,009	2,73,693	2,92,833	3,11,973
Less: Acc Depreciation	72,154	83,866	95,990	1,08,907
Net Block	1,81,855	1,89,828	1,96,843	2,03,066
Capital WIP	55,810	56,810	57,810	58,810
Total Fixed Assets	2,37,665	2,46,638	2,54,653	2,61,876
Investments	1,005	1,380	1,356	1,334
Inventory	1,661	1,440	1,575	1,648
Debtors	3,799	3,955	4,210	4,430
Loans and Advances	9,798	10,199	10,858	11,423
Other Current Assets	4,342	4,520	4,812	5,063
Cash	4,429	8,360	17,510	27,598
Total Current Assets	24,030	28,474	38,966	50,161
Current liabilities	21,428	21,938	22,750	23,534
Other Liabilities	7,908	6,997	7,811	8,339
Total Current Liabilities	29,337	28,935	30,561	31,873
Net Current Assets	-9,824	-4,979	3,887	13,771
Others Assets				
Application of Funds	228846	243039	259897	276981

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	15.5	18.7	18.5	19.1
Cash EPS	31.4	35.4	35.8	37.6
BV	91.7	96.9	106.7	116.8
DPS	2.3	5.8	6.5	6.3
Cash Per Share	6.3	12.0	25.1	39.6
Operating Ratios (%)				
EBITDA Margin	86.8	87.8	87.7	87.5
PBT / Total Operating income	35.0	41.7	42.8	42.1
PAT Margin	29.9	34.6	32.1	31.5
Debtor days	38.3	38.3	38.3	38.3
Return Ratios (%)				
RoE	16.9	19.2	17.3	16.3
RoCE	6.8	7.5	8.0	8.2
RoIC	6.9	7.7	8.6	9.1
Valuation Ratios (x)				
P/E	11.3	9.4	9.5	9.2
EV / EBITDA	7.9	7.7	7.3	6.9
EV / Net Sales	6.9	6.8	6.4	6.1
Market Cap / Sales	2.5	2.4	2.3	2.2
Price to Book Value	1.9	1.8	1.6	1.5
Solvency Ratios				
Debt/EBITDA	5.1	5.2	5.2	5.2
Debt / Equity	2.5	2.5	2.4	2.4
Current Ratio	0.8	1.0	1.3	1.6
Quick Ratio	0.2	0.3	0.6	0.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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