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India | Equity Research | Q4FY24 results review

Power Grid Corporation of India

Power/Mining

Transmission pie is getting bigger

Transmission capital expenditure is set to double in next six years. We estimate interstate transmission assets at INR 3trn; India is likely to spend another INR 3trn by FY30E to evacuate the renewables. Power Grid is the natural beneficiary of this capex. 95% of the existing Power Grid assets are operating on a regulated basis. Incrementally, new assets are being built on bidding basis. Power Grid has been winning major share in new transmission assets. It has won INR 2770bn of new assets in FY24. As a result, its capital expenditure is likely to pick up to INR 250bn by FY26E. However, its stock price has run up sharply recently; we resume coverage on the stock with **ADD** rating and target price of INR 345 per share.

Power Grid is natural beneficiary

Transmission capital expenditure is set to double over the next two years. Power Grid is looking to increase its capital expenditure amidst surge in transmission capex. Incremental assets are being built largely on bidding basis.

Advantage Power Grid

Power Grid owns ~90% of interstate transmission assets. It has operating assets worth INR 2.8trn and has a leverage of 1.5x. The strong balance sheet, experience of execution and scale provide Power Grid with advantage over competitors.

Market share reflects dominance

Power Grid has been able to garner new projects worth INR 330bn and INR 270bn in the last two years. We estimate Power Grid's market share in new transmission assets around 60%. Further, we estimate a bidding pipeline of INR 1.4trn over the next 18-24 months.

Improvement in growth sentiment

We believe the earnings growth expectation for Power Grid has inched up from 4-5% in recent years to 10% growth in medium term.

Market has already started pricing in higher growth

We resume coverage on the stock with **ADD** rating and target price of INR 345/share, valuing the stock at 18x FY26E EPS of INR 19/share.

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Market Data

Market Cap (INR)	2,965bn
Market Cap (USD)	35,676mn
Bloomberg Code	PWGR IN
Reuters Code	PGRD.BO
52-week Range (INR)	328 /173
Free Float (%)	49.0
ADTV-3M (mn) (USD)	68.1

Price Performance (%)

	3m	6m	12m
Absolute	13.1	51.5	80.3
Relative to Sensex	10.0	37.2	58.2

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	455,813	458,431	504,467	537,867
EBITDA	394,781	399,029	438,878	465,543
EBITDA Margin (%)	86.6	87.0	87.0	86.6
Net Profit	133,329	163,711	164,378	176,388
EPS (INR)	19.1	17.6	17.7	19.0
EPS % Chg YoY	6.4	(20.1)	0.4	7.3
P/E (x)	14.5	18.1	18.0	16.8
EV/EBITDA (x)	8.8	10.2	9.1	8.3
RoCE (%)	10.8	11.1	12.8	14.1
RoE (%)	19.3	19.3	18.8	20.0

Outlook and valuation

India has set a target to achieve 400GW of incremental RE capacity by CY30. This incremental capacity has to be connected with the national grid and given that most RE projects are situated in remote regions, there is huge transmission opportunity in the next 7-8 years. Power Grid has given a project pipeline of INR 2trn over the next 7-8 years.

Power Grid has, over the years, maintained its market share in transmission projects despite the increasing competitive intensity due to its expertise in the field. For FY24, it maintained a dominant share of 58% of total project awards worth INR 277bn.

Thus, going forward too, Power Grid is likely to be the major beneficiary of the RE capacity addition. Also, it remains the preferred choice of the government for high value and strategically important transmission projects like Leh transmission project.

We expect commissioning to pick up in the next two years and capex to remain high in the medium term. Thus, we expect earnings CAGR of 9% to INR 178bn in FY26E.

We resume coverage on the stock with **ADD** rating and target price of INR 345/share, valuing the stock at 18x FY26E EPS of INR 19/share. Given the sharp improvement in project awards and the pipeline remains healthy we are assigning a higher multiple than historical average of 14x.

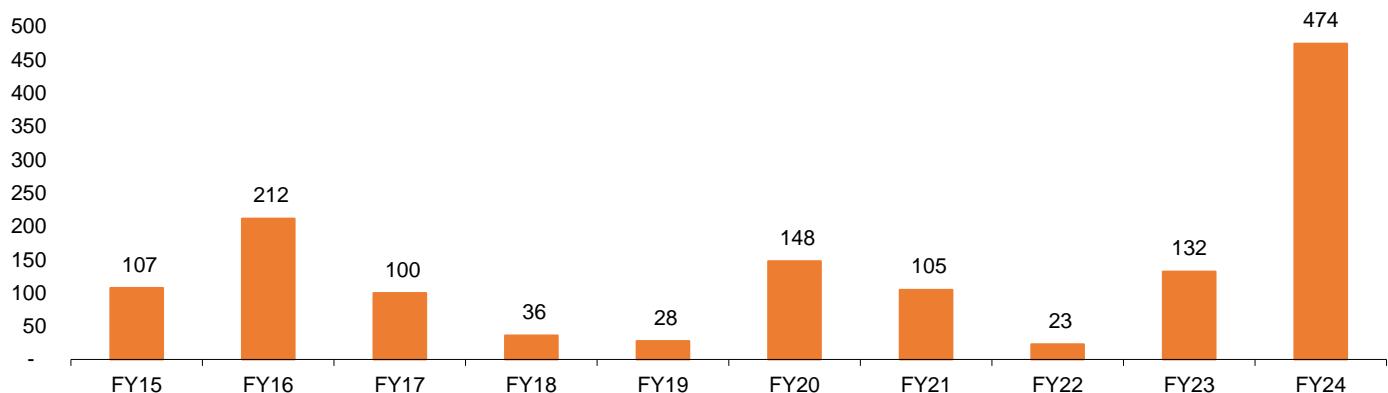
Exhibit 1: PE based target price of INR 345/share

Business	Methodology	Multiple (x)	PAT (INR mn)	Equity value (INR bn)	Equity value per share (INR)
Consolidated PAT	PE (x)	18	177,939.3	3,212	345

Source: I-Sec research

Key risks – Delay in project execution.

Exhibit 2: Transmission awarding activity trend (INR bn)



Source: I-Sec research

Analyst meeting highlights

Capex and commissioning highlights

- Capex for FY24 stood at INR 63.2bn for standalone and TBCB capex stood at INR 62bn.
- Commissioning for FY24 stood at INR 40bn for standalone and INR 36bn for TBCB projects.

Capex and commissioning targets for FY25E

- Consolidated capex of INR 150bn and even higher, of which standalone target is INR 50bn.
- Commissioning, too, is likely to spike to 2x to INR 150bn in FY25.

Opportunity pipeline

- Transmission ISTS at INR 1.36trn; intra state at INR 370bn, cross border at INR 100bn and international at INR 75bn.
- Solar generation of INR 10bn, smart metering at INR 150bn and data centre at INR 170bn.
- Total opportunity at INR 2.07trn by 2032.

JV with Rajasthan utilities

- It has formed a 74:26 JV with Rajasthan utility to develop projects worth INR 100bn.
- Of these projects, worth INR 20-30bn are likely to be awarded in next 3-6 months and the rest over next 2-3 years.
- Similar opportunities are coming up in Assam, UP, AP, Andhra, etc.

Other highlights

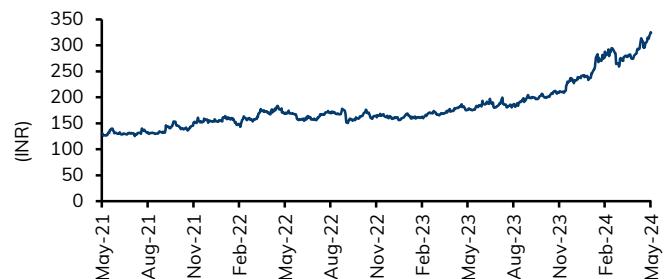
- Work in hand stands at INR 867bn, RTM at INR 112bn, new RTM at INR 247bn other at INR 508bn.
- Various drivers for power – GDP growth, green hydrogen, storage solutions, international interconnections (India to Singapore, Oman, UAE, etc). Middle East to Africa to Europe.
- Operational TBCB equity stands at INR 39bn and UC TBCB equity at INR 6bn.
- PAT from subsidiaries was lower in FY24 owing to one-off gain of INR 2bn in FY23.
- Gujarat smart meter project to install 6.9m meters has installed 30k meters till date and the project is progressing slower than estimate.

Exhibit 3: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	51.3	51.3	51.3
Institutional investors	45.3	45.3	45.1
MFs and others	9.5	10.5	10.9
FIIs/Banks	0.0	0.0	0.0
Insurance	3.0	3.5	3.6
FIIs	32.8	31.3	30.6
Others	3.4	3.4	3.6

Source: Bloomberg

Exhibit 4: Price chart



Source: Bloomberg

Financial Summary

Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	455,813	458,431	504,467	537,867
Operating Expenses	-	-	-	-
EBITDA	394,781	399,029	438,878	465,543
EBITDA Margin (%)	86.6	87.0	87.0	86.6
Depreciation & Amortization	133,334	130,953	146,126	153,766
EBIT	261,448	268,076	292,752	311,777
Interest expenditure	(96,339)	(87,728)	(115,903)	(123,938)
Other Non-operating Income	10,244	10,700	12,287	12,334
Recurring PBT	175,352	191,049	189,135	200,173
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	21,690	27,338	24,758	23,785
PAT	153,662	163,711	164,378	176,388
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(10,166)	-	-	-
Net Income (Reported)	143,496	163,711	164,378	176,388
Net Income (Adjusted)	153,662	163,711	164,378	176,388

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	589,019	643,153	708,926	810,943
of which cash & cash eqv.	47,344	50,267	71,368	150,025
Total Current Liabilities & Provisions	119,288	286,093	318,672	328,017
Net Current Assets	469,731	357,060	390,254	482,926
Investments	74,150	74,150	74,150	74,150
Net Fixed Assets	1,722,776	1,627,005	1,541,067	1,452,752
ROU Assets	-	-	-	-
Capital Work-in-Progress	76,992	96,740	135,356	135,356
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	-	-	-	-
Total Assets	2,343,648	2,154,954	2,140,826	2,145,183
Liabilities				
Borrowings	1,372,260	1,240,917	1,167,996	1,104,190
Deferred Tax Liability	41,423	35,905	35,905	35,905
provisions	-	-	-	-
other Liabilities	101,635	9,462	34,462	44,462
Equity Share Capital	69,755	93,006	93,006	93,006
Reserves & Surplus	758,575	775,665	785,868	796,323
Total Net Worth	828,330	868,671	878,874	889,329
Minority Interest	-	-	-	-
Total Liabilities	2,343,648	2,154,954	2,140,826	2,145,183

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	335,176	176,544	324,149	345,721
Working Capital Changes	37,505	(115,594)	12,094	14,015
Capital Commitments	(62,017)	(54,930)	(98,803)	(65,452)
Free Cashflow	397,193	231,474	422,953	411,172
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	(62,017)	(54,930)	(98,803)	(65,452)
Issue of Share Capital	-	23,252	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(88,640)	(131,343)	(72,921)	(63,806)
Dividend paid	(100,215)	(104,232)	(107,136)	(109,776)
Others	(66,670)	93,632	(24,188)	(28,030)
Cash flow from Financing Activities	(255,525)	(118,691)	(204,245)	(201,612)
Chg. in Cash & Bank balance	17,634	2,923	21,101	78,657
Closing cash & balance	47,344	50,267	71,368	150,025

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	22.0	17.6	17.7	19.0
Adjusted EPS (Diluted)	19.1	17.6	17.7	19.0
Cash EPS	38.2	31.7	33.4	35.5
Dividend per share (DPS)	14.4	11.2	11.5	11.8
Book Value per share (BV)	118.7	93.4	94.5	95.6
Dividend Payout (%)	65.2	63.7	65.2	62.2
Growth (%)				
Net Sales	8.4	0.6	10.0	6.6
EBITDA	6.7	1.1	10.0	6.1
EPS (INR)	6.4	(20.1)	0.4	7.3
Valuation Ratios (x)				
P/E	14.5	18.1	18.0	16.8
P/CEPS	8.3	10.1	9.5	9.0
P/BV	2.7	3.4	3.4	3.3
EV / EBITDA	8.8	10.2	9.1	8.3
P / Sales	4.9	6.5	5.9	5.5
Dividend Yield (%)	4.5	3.5	3.6	3.7
Operating Ratios				
Gross Profit Margins (%)	86.6	87.0	87.0	86.6
EBITDA Margins (%)	86.6	87.0	87.0	86.6
Effective Tax Rate (%)	12.4	14.3	13.1	11.9
Net Profit Margins (%)	33.7	35.7	32.6	32.8
NWC / Total Assets (%)	18.0	14.2	14.9	15.5
Net Debt / Equity (x)	1.5	1.3	1.2	1.0
Net Debt / EBITDA (x)	3.2	2.8	2.3	1.9
Profitability Ratios				
RoCE (%)	10.8	11.1	12.8	14.1
RoE (%)	19.3	19.3	18.8	20.0
RoIC (%)	10.8	11.1	12.8	14.1
Fixed Asset Turnover (x)	0.3	0.3	0.3	0.4
Inventory Turnover Days	11	10	14	16
Receivables Days	103	86	91	71
Payables Days	90	87	92	87

Source Company data, I-Sec research

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