

27 May 2024

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.

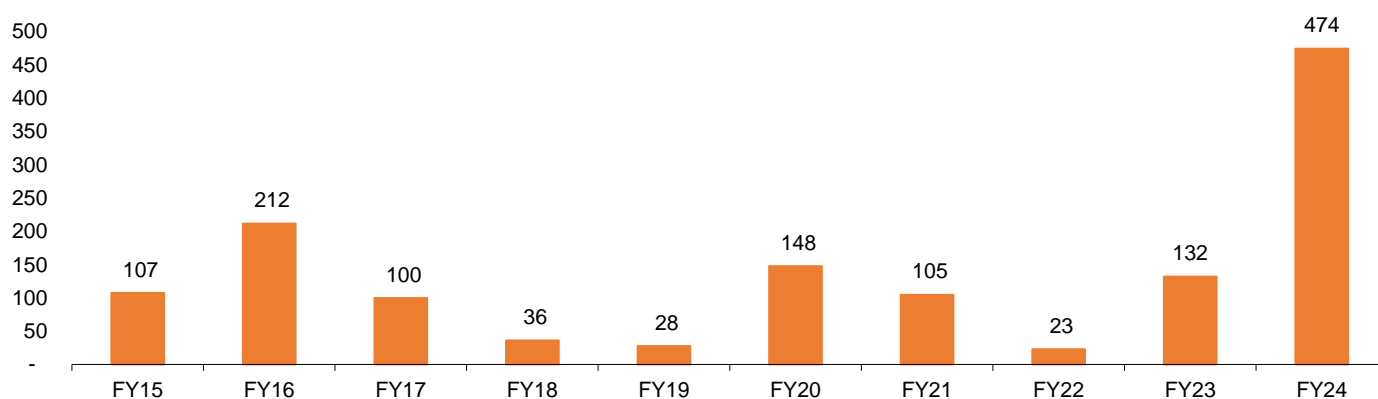
Exhibit 1: PE based target price of INR 345/share

| 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

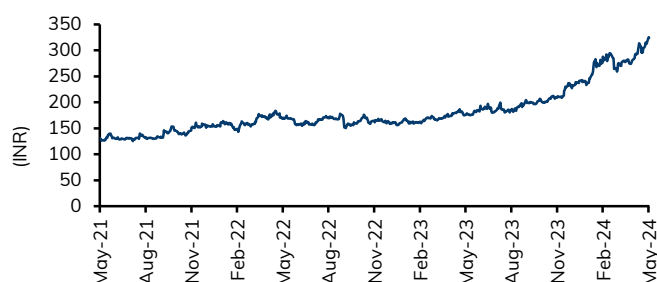
- Work in hand stands at INR 867bn, RTM at INR 112bn, new RTM at INR 247bn other at INR 508bn.
- Various drivers for power – GDP growth, green hydrogen, storage solutions, international interconnections (India to Singapore, Oman, UAE, etc). Middle East to Africa to Europe.
- Operational TBCB equity stands 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.
- Gujrat 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 |
| FIs/Banks | 0.0 | 0.0 | 0.0 |
| Insurance | 3.0 | 3.5 | 3.6 |
| FIIIs | 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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