

Power Grid Corporation of India

Performance Highlights

Standalone (₹ cr)	3QFY16	3QFY15	yoy (%)	2QFY16	qoq%
Total Revenue	5,407	4,354	24.2	4,918	9.9
EBITDA	4,797	3,770	27.2	4,318	11.1
Margin (%)	88.7	86.6	213bp	87.8	92bp
Reported PAT	1,613	1,229	31.3	1,448	11.4

Source: Company, Angel Research

For 3QFY2016, Power Grid Corporation of India (PWGR) reported a strong 23% yoy increase in transmission revenues to ₹5,143cr (5.5% ahead of our estimate of ₹4,925cr), on account of higher than expected capitalisation. Capitalisation for the quarter stood at ₹17,207cr, led by the commissioning of the Biswanath Chariyali – Agra HVDC transmission line. Even on exclusion of this line, total capitalisation stood at ~₹9,000cr, well ahead of our expectation of ₹5,126cr. Capex incurred during the quarter, at ₹5,368cr, was also ahead of our estimate of ₹4,882cr. We raise our FY2016 capitalisation estimate to ~₹32,850cr, as against ~₹22,000cr earlier.

Increased operating efficiency and higher capitalisation helped the company in improving its EBITDA margin by 213bp yoy to 88.7%. The EBITDA for the quarter came in at ₹4,797cr as against our estimate of ₹4,482cr. The Management maintained its capex guidance of ₹22,500cr and ₹22,550cr for FY2016 and FY2017, respectively.

Outlook and valuation

We raise our estimates marginally to factor in the higher-than-expected capitalisation in 3QFY2016. We expect PWGR to report a revenue CAGR of ~17% (vs 16% earlier) and the EBITDA to grow at a CAGR of 19% (vs 16% earlier) over FY2015-17E. At the current market price of ₹148, the stock trades at a P/BV of 1.8x and 1.6x its FY2016E and FY2017E BV of ₹82 and ₹92, respectively. **We retain our target price of ₹165 on the stock, based on ~1.8x FY2017E P/BV, implying a 12% upside from the current levels and have an Accumulate rating on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net sales	12,758	15,230	17,177	20,669	23,666
% chg	25.5	19.4	12.8	20.3	14.5
Net profit	4,235	4,497	4,979	6,114	6,792
% chg	28.7	7.3	11.1	21.6	11.1
EBITDA margin (%)	85.8	85.1	86.2	88.1	88.1
EPS (₹)	9.1	9.4	9.5	11.7	13.0
P/E (x)	16.1	15.8	15.5	12.6	11.4
P/BV (x)	2.6	2.2	2.0	1.8	1.6
RoE (%)	17.0	14.9	13.8	15.1	15.0
RoCE (%)	8.7	8.3	7.6	8.2	8.2
EV/Sales (x)	10.6	10.2	9.9	8.7	7.9
EV/EBITDA (x)	12.3	12.0	11.5	9.8	9.0

Source: Company, Angel Research

ACCUMULATE

CMP	₹148
Target Price	₹165

Investment Period	12 months
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Stock Info

Sector	Power
Market Cap (₹ cr)	75,204
Net Debt (₹ cr)	95,520
Beta	0.6
52 Week High / Low	159 / 121
Avg. Daily Volume	32,51,235
Face Value (₹)	10
BSE Sensex	24,470
Nifty	7,425
Reuters Code	PGRD.BO
Bloomberg Code	PWGR IN

Shareholding Pattern (%)

Promoters	57.9
MF / Banks / Indian Fls	8.9
FII / NRIs / OCBs	25.9
Indian Public / Others	7.3

Abs. (%)	3m	1yr	3yr
Sensex	(9.5)	(17.2)	21.7
PWGR	10.0	(3.7)	28.5

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2016 performance (Standalone)

(₹ cr)	3QFY16	3QFY15	yoy%	2QFY16	qoq%	9MFY16	9MFY15	yoy%
Transmission Revenue	5,143	4,182	23.0	4,708	9.2	14,391	12,024	19.7
Other Operating Income	264	172	53.5	210	25.8	651	450	44.8
Total Revenue	5,407	4,354	24.2	4,918	9.9	15,042	12,474	20.6
Transmission Expenses	365	330	10.6	361	1.1	1,076	967	11.3
% of net sales	6.8	7.6		7.3		7.2	7.8	
Employee Cost	245	254	(3.5)	239	2.5	714	742	(3.8)
% of net sales	4.5	5.8		4.9		4.7	5.9	
Total expenditure	610	584	4.5	600	1.7	1,790	1,709	4.7
% of net sales	11.3	13.4		12.2		11.9	13.7	
EBITDA	4,797	3,770	27.2	4,318	11.1	13,252	10,765	23.1
Margin (%)	88.7	86.6	213bp	87.8	92bp	88.1	86.3	242bp
Interest	1,288	1,025	25.7	1,149	12.1	3,546	2,942	20.5
Depreciation	1,580	1,301	21.5	1,448	9.1	4,398	3,667	19.9
Other income	98	132	(25.8)	109	(9.8)	278	396	(30.0)
Exceptional items	1	30		(1)		0	72	
Profit before tax	2,026	1,547	30.9	1,830	10.7	5,586	4,480	24.7
% of net sales	37.5	35.5		37.2		37.1	35.9	
Tax	413	318	29.7	382	7.9	1,158	914	26.7
% of PBT	20.4	20.6		20.9		20.7	20.4	
Net Profit	1,613	1,229	31.3	1,448	11.4	4,428	3,567	24.1

Source: Company, Angel Research

Exhibit 2: Standalone – 3QFY2016 Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Revenue	5,407	5,125	5.5
EBITDA	4,797	4,482	7.0
EBITDA margin (%)	88.7	87.5	126bp
Net Profit	1,613	1,500	7.6

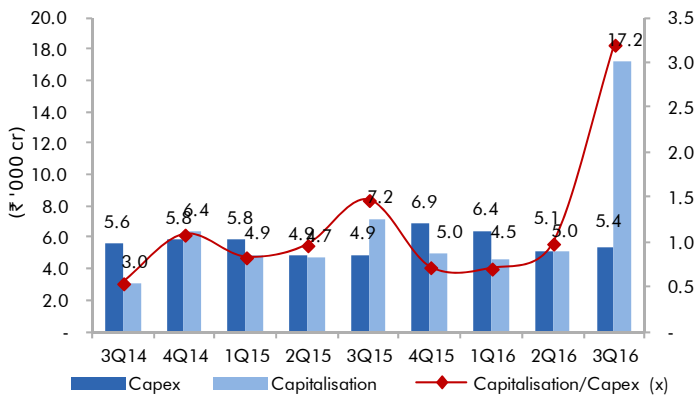
Source: Company, Angel Research

Result highlights

Revenue growth in line with expectation

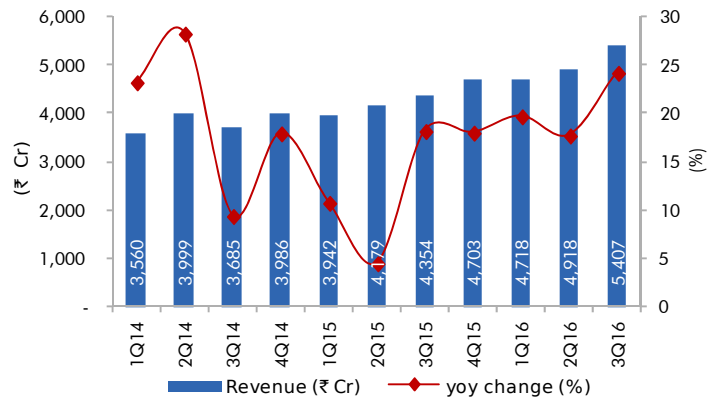
PWGR reported a strong 23% yoy increase in transmission revenues to ₹5,143cr (5.5% ahead of our estimate of ₹4,925cr), on account of higher than expected capitalisation. Capitalisation for the quarter stood at ₹17,207cr, led by the commissioning of the Biswanath Chariyali – Agra HVDC transmission line. Even on exclusion of this line, total capitalisation stood at ~₹9,000cr, well ahead of our expectation of ₹5,126cr. Capex incurred during the quarter, at ₹5,368cr, was also ahead of our estimate of ₹4,882cr. We raise our FY2016 capitalisation estimate to ~₹32,850cr, as against ~₹22,000cr earlier.

Exhibit 3: Capitalisation well ahead of estimates



Source: Company, Angel Research

Exhibit 4: Strong revenue growth of ~24% yoy



Source: Company, Angel Research

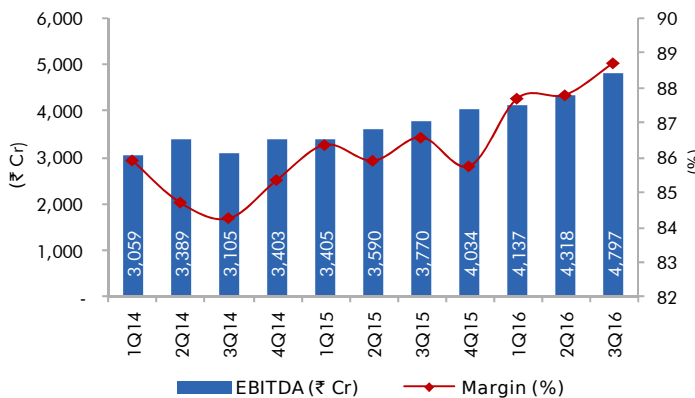
Consultancy revenues came in in-line with our estimate at ₹114cr, while telecom revenues surprised positively, increasing by 45% yoy to ₹103cr (as against our estimate of ₹86cr). Led by the positive surprise in transmission and telecom revenues, total revenue at ~₹5,407cr was 5.5% ahead of our estimate of ₹5,125cr.

Increased operating efficiency and higher capitalisation helped the company in improving its EBITDA margin by 213bp yoy to 88.7%. The EBITDA for the quarter came in at ₹4,797cr as against our estimate of ₹4,482cr.

Depreciation increased ~22% yoy to ₹1,580cr, and is 3.4% ahead of our estimate of ₹1,529cr, led by higher than expected capitalisation. Interest costs at ₹1,288cr (as against our expectation of ₹1,160cr) too came in higher by 26% yoy, led by increased capitalisation. Other income, at ₹113cr, was higher than our estimate of ₹102cr. Tax expenses at ₹413cr were 4.2% higher than our estimate. Net profit jumped 31% yoy to ₹1,613cr (7.6% higher than our estimate of ₹1,500cr).

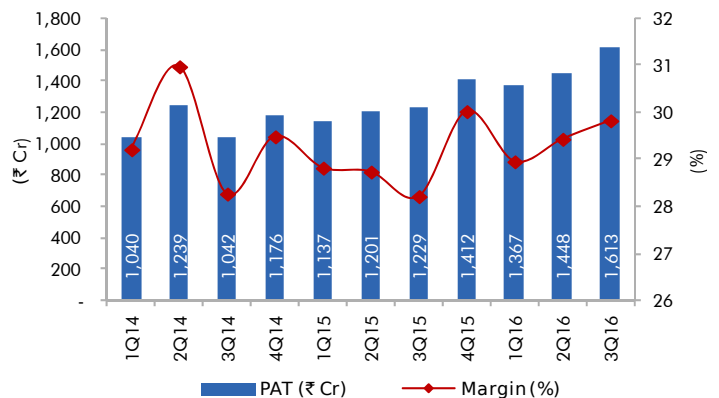
The Management has maintained its capex guidance of ₹22,500cr and ₹22,550cr for FY2016 and FY2017, respectively.

Exhibit 5: EBITDA margin increases ~213bp yoy



Source: Company, Angel Research

Exhibit 6: Net profit jumps ~31% yoy



Source: Company, Angel Research

Investment arguments

Huge investments lined up for augmenting power generation and transmission capacities

Power generation capacity in the country is expected to increase to ~318GW by the end of the XII plan and a further addition of ~110GW has been planned during the XIII plan. The transmission sector is also expected to see huge investments of ~₹1,80,000cr and ~₹2,00,000cr during the XII and XIII plans, respectively. A majority of these investments are expected to be towards inter-regional transmission. PWGR has planned a capital outlay of ₹1,10,000cr during the XII plan. Further, we expect ~60-65% of XIII plan investments in the transmission sector towards inter-state transmissions, implying a capex outlay of ~₹1,20,000cr - ₹1,30,000cr by PWGR.

Regulated ROE model assures steady earnings growth

PWGR receives a fixed return on equity (ROE) of 15.5%, with an additional 0.5% for timely completion of projects, as per norms laid out by the Central Electricity Regulatory Commission (CERC). The fixed ROE model implies that earnings growth is directly linked to the growth in assets capitalised. PWGR's current outlay over the next two years (CWIP + capex) is upward of ₹1 lakh cr, providing strong earnings visibility.

Outlook and valuation

We like PWGR for its high quality earnings as well as for the growth offered by its regulated equity model. The company has had a good execution track record in the past and we expect the same to continue. Strong entry barriers for new entrants on account of huge investments that are required in the transmission sector, place the company in a strong position. We raise our estimates marginally to factor in the higher-than-expected capitalisation in 3QFY2016. We expect PWGR to report a revenue CAGR of ~17% (vs 16% earlier) and the EBITDA to grow at a CAGR of 19% (vs 16% earlier) over FY2015-17E.

At the current market price of ₹148, the stock trades at a P/BV of 1.8x and 1.6x its FY2016E and FY2017E BV of ₹82 and ₹92, respectively. **We retain our target price of ₹165 on the stock, based on ~1.8x FY2017E P/BV, implying a 12% upside from the current levels. We have an Accumulate rating on the stock.**

Exhibit 7: Valuation (FY2017E)

Price / BV	(₹ cr)
Equity	47,979
Multiple (x)	1.8
Equity Value	86,363
Target price (₹)	165

Source: Company, Angel Research

Company background

Power Grid Corporation of India Ltd is the Central Transmission Utility (CTU) of the country and a 'Navratna' company operating under the Ministry of Power. The company is engaged in the power transmission business with the responsibility for planning, implementation, operation and maintenance of inter-state transmission system and operation of National & Regional Power Grids. As of December 31st 2015, the company owned and operated a transmission network of about 1,26,965ckm of transmission lines and 205 EHVAC & HVDC substations with transformation capacity of about 2,46,004MVA. The company continues to wheel ~50% of total power generated in the country through its transmission network with a consistently high availability of over 99.9%.

Profit & Loss Statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Transmission Charges	11,754	14,046	16,451	19,749	22,648
Telecom+Consultancy Revenue	547	903	655	838	923
Net Sales	12,300	14,949	17,106	20,587	23,571
Other operating income	457	281	71	82	94
Total operating income	12,758	15,230	17,177	20,669	23,666
% chg	25.5	19.4	12.8	20.3	14.5
Transmission Expenses	368	456	605	609	698
Employee Expenses	886	942	1,024	982	1,136
Other Mfg costs	558	849	706	827	923
Provisions	3	22	44	42	48
EBITDA	10,943	12,961	14,799	18,210	20,861
% chg	28.6	18.4	14.2	23.1	14.6
(% of Net Sales)	85.8	85.1	86.2	88.1	88.1
Depreciation& Amortisation	3,352	3,996	5,085	6,101	7,279
EBIT	7,591	8,965	9,713	12,109	13,581
% chg	27.8	18.1	8.3	24.7	12.2
(% of Net Sales)	59.5	58.9	56.5	58.6	57.4
Interest & other Charges	2,535	3,168	3,979	4,796	5,497
Other Income	571	491	603	390	473
(% of PBT)	10.1	7.8	9.5	5.1	5.5
Share in profit of Associates	-	-	-	-	-
Recurring PBT	5,627	6,289	6,337	7,704	8,558
% chg	21.9	11.8	0.8	21.6	11.1
Extraordinary Inc/(Expense)	18	(25)	(47)	(0)	-
PBT (reported)	5,645	6,264	6,289	7,703	8,558
Tax	1,410	1,766	1,310	1,589	1,766
(% of PBT)	25.0	28.2	20.8	20.6	20.6
PAT (reported)	4,235	4,497	4,979	6,114	6,792
ADJ. PAT	4,216	4,523	5,027	6,114	6,792
% chg	28.7	7.3	11.1	21.6	11.1
(% of Net Sales)	33.0	29.7	29.3	29.6	28.7

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	4,630	5,232	5,232	5,232	5,232
Reserves & Surplus	21,610	29,228	32,935	37,584	42,748
Shareholders Funds	26,239	34,460	38,167	42,815	47,979
Share Warrants	-	-	-	-	-
Total Loans	68,188	83,170	95,045	1,13,464	1,20,455
Deferred Tax Liability	1,959	2,443	2,472	2,501	2,531
Other Long term liabilities	4,708	5,855	5,861	7,516	8,054
Long term provisions	443	524	580	698	799
Total Liabilities	1,01,537	1,26,452	1,42,124	1,66,994	1,79,818
APPLICATION OF FUNDS					
Gross Block	80,600	96,504	1,18,264	1,51,122	1,70,289
Less: Acc. Depreciation	19,199	23,350	28,578	34,679	41,958
Net Block	61,401	73,154	89,686	1,16,443	1,28,331
Capital Work-in-Progress	19,115	31,851	39,882	27,428	32,125
Construction Stores	21,038	21,479	16,409	18,951	17,637
Investments	964	814	741	741	741
Non-current Loans & Adv.	2,351	3,190	3,652	4,588	5,254
Current Assets	6,265	9,100	7,930	18,218	17,918
Cash	1,662	4,418	2,063	11,311	10,035
Loans & Advances	429	472	566	682	780
Other	4,175	4,211	5,301	6,226	7,103
Current liabilities	9,597	13,138	16,177	19,376	22,188
Net Current Assets	(3,331)	(4,037)	(8,246)	(1,158)	(4,270)
Mis. Exp. not written off	-	-	-	-	-
Total Assets	1,01,537	1,26,452	1,42,124	1,66,994	1,79,818

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Profit before tax	5,645	6,264	6,289	7,703	8,558
Depreciation	3,380	4,011	5,085	6,101	7,279
Change in Working Capital	1,241	3,333	1,099	2,748	2,345
Others	2,091	2,809	3,536	6,009	5,656
Direct taxes paid	(1,072)	(1,157)	(1,126)	(1,589)	(1,766)
Cash Flow from Operations	11,284	15,259	14,884	20,972	22,073
(Inc.)/ Dec. in Fixed Assets	(22,389)	(26,735)	(24,085)	(22,945)	(22,550)
(Inc.)/ Dec. in Investments	137	149	72	-	-
Others	303	209	327	(936)	(665)
Cash Flow from Investing	(21,948)	(26,378)	(23,686)	(23,882)	(23,215)
Issue of Equity	-	5,297	-	-	-
Inc./(Dec.) in loans	13,795	12,720	11,358	18,419	6,991
Dividend Paid (Incl. Tax)	(1,569)	(1,391)	(1,232)	(1,465)	(1,628)
Others	(2,236)	(2,752)	(3,679)	(4,796)	(5,497)
Cash Flow from Financing	9,990	13,874	6,447	12,158	(134)
Inc./(Dec.) in Cash	(675)	2,756	(2,355)	9,248	(1,277)
Opening Cash balances	2,337	1,662	4,418	2,063	11,311
Closing Cash balances	1,662	4,418	2,063	11,311	10,035

Key ratios

Y/E March	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	16.1	15.8	15.5	12.6	11.4
P/CEPS	9.0	8.3	7.6	6.3	5.5
P/BV	2.6	2.2	2.0	1.8	1.6
Dividend yield (%)	1.9	1.7	1.4	1.6	1.8
EV/Sales	10.6	10.2	9.9	8.7	7.9
EV/EBITDA	12.3	12.0	11.5	9.8	9.0
EV/Total Assets	1.3	1.2	1.2	1.1	1.0
Per Share Data (₹)					
Adjusted EPS (Basic)	9.1	9.4	9.6	11.7	13.0
Adjusted EPS (fully diluted)	9.1	9.4	9.6	11.7	13.0
Cash EPS	16.3	17.7	19.3	23.3	26.9
DPS	2.8	2.6	2.0	2.3	2.6
Book Value	56.7	65.9	73.0	81.8	91.7
Dupont Analysis					
EBIT margin	59.5	58.9	56.5	58.6	57.4
Tax retention ratio (%)	75.0	71.8	79.2	79.4	79.4
Asset turnover (x)	0.1	0.1	0.1	0.1	0.2
ROIC (Post-tax)	6.7	6.1	6.2	6.8	7.0
Cost of Debt (Post Tax)	3.1	3.0	3.5	3.7	3.7
Leverage (x)	2.4	2.4	2.4	2.4	2.3
Operating RoE	15.1	13.6	12.4	14.5	14.6
Returns (%)					
RoCE (Pre-tax)	8.7	8.3	7.6	8.2	8.2
Angel RoIC (Pre-tax)	15.6	15.4	13.9	13.6	12.8
RoE	17.0	14.9	13.8	15.1	15.0
Turnover ratios (x)					
Asset Turnover (Gross Block)	0.2	0.2	0.2	0.2	0.1
Inventory (days)	14	15	15	14	15
Receivables (days)	42	36	39	40	39
Payables (days)	44	45	55	58	54
WC cycle (ex-cash) (days)	(116)	(161)	(199)	(201)	(206)
Solvency ratios (x)					
Net debt to equity	2.5	2.3	2.4	2.4	2.3
Net debt to EBITDA	6.1	6.1	6.3	5.6	5.3
Interest Coverage	3.0	2.8	2.4	2.5	2.5

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Disclosure of Interest Statement	Power Grid Corporation of India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	Yes
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)