Power Grid Corporation

BSE Sensex	S&P CNX
27,362	8,261

CMP: INR134 **TP: INR172 (+28%)** **Buy**

Stock Info

Bloomberg	PWGR IN
Equity Shares (m)	5,231.6
52-Week Range (INR)	159 / 121
1, 6, 12 Rel. Per (%)	1/-7/-8
M.Cap. (INR b)	701.0
M.Cap. (USD b)	10.8
Avg Val (INRm)	382
Free float (%)	42.1

Financial Snapshot (INR Billion)

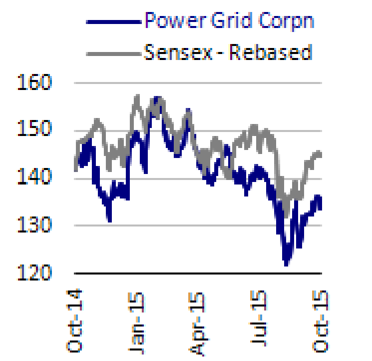
Y/E Mar	2015	2016E	2017E
Sales	176.6	215.2	257.1
EBITDA	151.3	186.0	224.6
NP	50.9	58.8	70.2
EPS (INR)	9.7	11.2	13.4
EPS Gr. (%)	10.9	15.7	19.2
BV/Sh. (INR)	73.5	82.6	93.8
RoE (%)	13.9	14.4	15.2
RoCE (%)	7.9	8.3	9.0
P/E (x)	13.8	11.9	10.0
P/BV (x)	1.8	1.6	1.4
EV/EBITDA (x)	10.8	9.4	8.3

Shareholding pattern (%)

	Jun-15	Mar-15	Jun-14
Promoter	57.9	57.9	57.9
DII	8.3	7.9	8.2
FII	26.5	27.6	26.9
Others	7.4	6.6	7.1

FII Includes depository receipts

Stock Performance (1-year)



One more aggressive bid for TBCB project

Earnings growth, RoE improvement still attractive; reiterate BUY

PWGR emerges L1 for Vemagiri II project: PWGR has emerged as the lowest bidder for Vemagiri II project, quoting a levelized tariff of INR3.6b. It has emerged the second lowest bidder (L2) for the second project – Bhutan Inter-Link, with levelized tariff of INR1.4b. It is pertinent to note that PWGR's bids were 24%/53% lower than Sterlite/Adani for the Bhutan project and 19%/63% lower for the Vemagiri II project. According to media reports, project cost is expected to be INR63b for Vemagiri-II and INR20b for Bhutan Inter-Link.

Benchmarking TBCB project v/s regulated project – bids appear aggressive: While the inter-se bidding intensity has been a key feature in recent projects, we note that revenue yield on estimated project cost is at significant discount to cost plus regulated business. To illustrate, the Vemagiri II project revenue yield is 6% v/s 14-16% for PWGR's standalone regulated business. The trend is also visible in past few projects, where other successful bids were also ranging from 7-10%. It's perplexing, given that this does not fully cover cost of capital.

TBCB project contribution limited but future bidding key monitorable: While TBCB projects bagged by PWGR may have muted returns, the overall contribution of TBCB projects to capital employed (CE) is minimal. Based on the current project portfolio, TBCB projects would account for just 7% of capital employed by FY20, including Vemagiri II project. This is unlikely to have a major bearing on the consolidated financials, in our view. PWGR has been executing more projects than it can support by internal generation of equity if it were to capitalize on 30% maximum permissible equity limit in the project cost. We see no compelling reason for PWGR to get into aggressive bidding in future. PWGR already has INR1.1t of projects under execution, which is good for five years.

Strong earnings growth visibility; reiterate BUY: PWGR has strong visibility of earnings growth and is the best among regulated businesses. While NTPC and NHPC have to maintain both PLF and PAF, PWGR has to maintain only PAF. It is thus, less dependent on external factors. A dominant market position gives it bargaining power over vendors and helps in working capital management. Huge opportunity and shorter execution cycle ensure better realized RoE. We value the stock at INR172/share based on DCFE. At INR172, the stock would trade at a P/B of 2.1x – an upside of 28%. This is consistent with superior business RoE of ~16% compared to cost of equity of ~10% and re-investment opportunity. We reiterate **Buy**.

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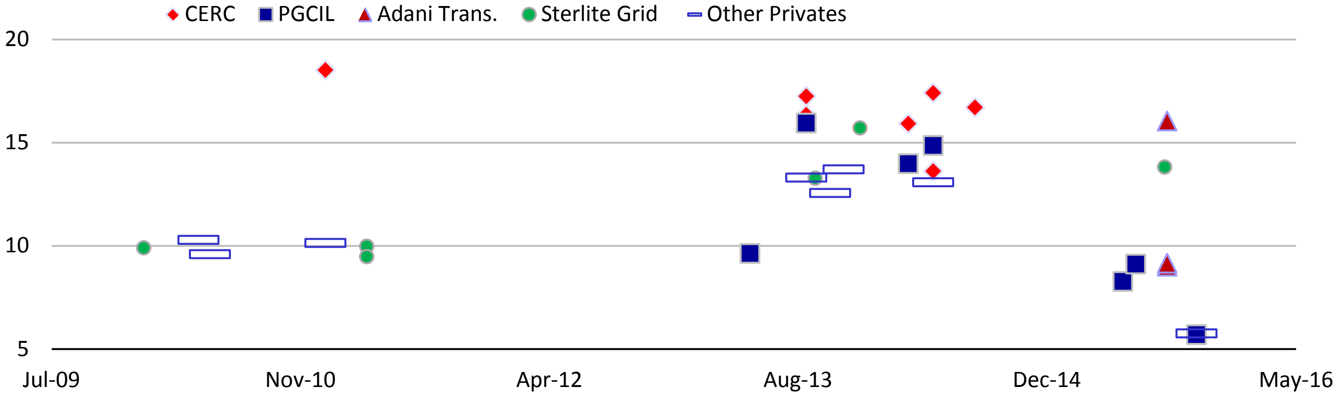
Exhibit 1: PWGR's bids in projects are aggressive vis-à-vis L2/L3 bidders

Levelized tariff (INR m/year)	Vizag	Unchahar	Gadarwara (A)	Gadarwara (B)	Kala Amb	V'chal-Jabalpur	Vemagiri II
PGWR	2,311	168	2,902	2,567	594	2,110	3,590
L2	2,590	296	3,294	3,087	598	2,182	4,290
L3	3,889		3,773	3,324	818	2,647	4,590
CERC	2,370	191	5,935	5,268	696	4,217	0
PWGR lower by							
L2	-10.8%	**-43.2%**	**-11.9%**	**-16.8%**	-0.7%	-3.3%	-16.3%
L3	**-40.6%**	-	**-23.1%**	**-22.8%**	**-27.4%**	**-20.3%**	**-21.8%**
CERC	-2.5%	-12.0%	**-51.1%**	**-51.3%**	**-14.7%**	**-50.0%**	

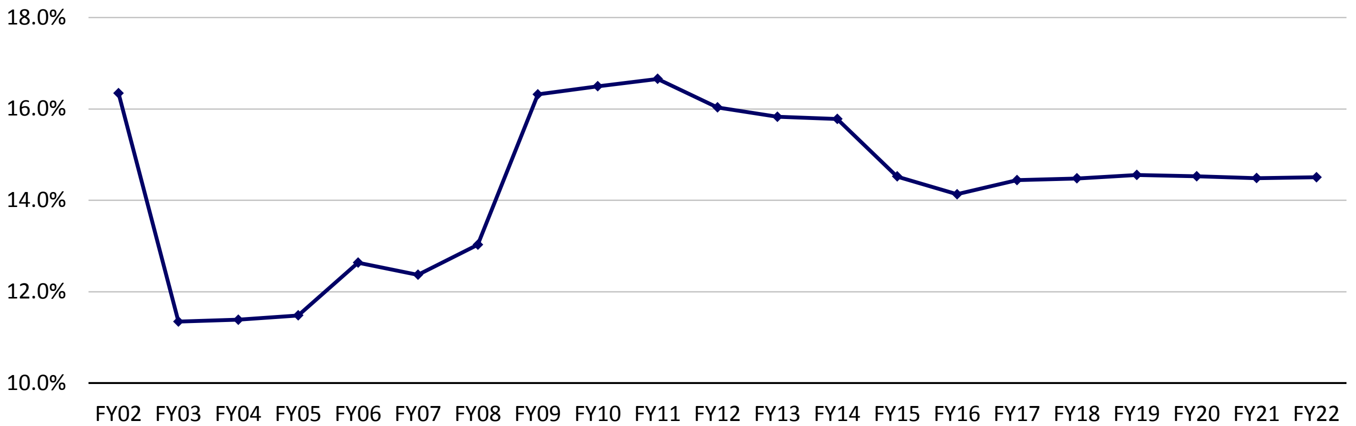
Source: MOSL, Company

Exhibit 2: Revenue yield (%) on project cost for TBCB projects appear muted compared with cost-plus mechanism



Source: Company, MOSL

Exhibit 3: Power Grids standalone business revenue yield on gross block at 14-16%



Source: MOSL, Company

Valuation and view

DCFE-based target price of INR172 – 28% upside; BUY

- On a consolidated basis, we expect EPS to grow at a CAGR of 14.1% and book value to grow at a CAGR of 11.2% over FY15-22, driven by high intensity of capex and capitalization. Pending execution of INR1.1t of approved projects received on nomination basis and INR1.5t of planned capitalization provides strong visibility of RAB and earnings growth.
- PWGR has strong visibility of earnings growth and is the best among regulated businesses. While NTPC and NHPC have to maintain both PLF and PAF, PWGR has to maintain only PAF. It is thus, less dependent on external factors.
- A dominant market position gives it bargaining power over vendors and helps in working capital management. Huge opportunity and shorter execution cycle ensure better realized RoE.
- We value the stock at INR172/share based on DCFE. At INR172, the stock would trade at a P/B of 2.1x – an upside of 28%. We reiterate Buy.

Exhibit 4: PWGR trading at 5-year average P/E

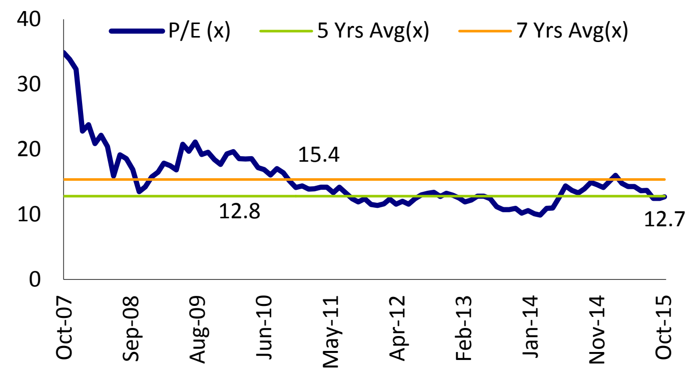
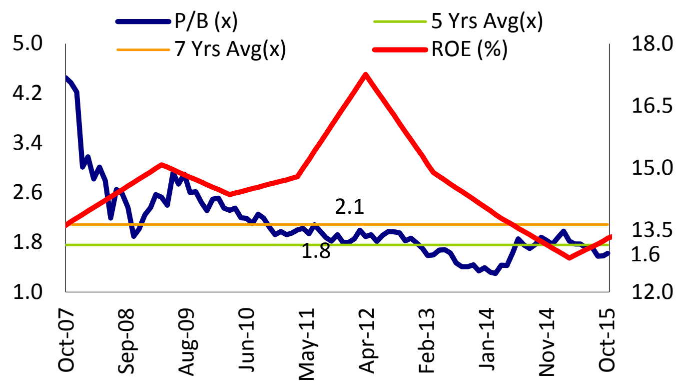


Exhibit 5: P/B too close to 5-year average



Source: MOSL

Story in charts

Exhibit 6: Capex momentum remains strong (INR b)

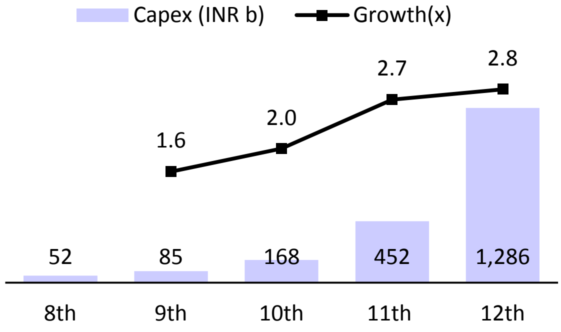


Exhibit 7: Regulated project awards strong as well (INR b)

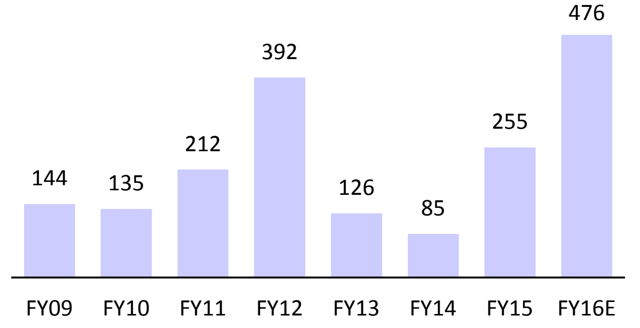


Exhibit 8: Strong pending capitalization (INR b) …

a. Projects under progress at FY15 year end	1,263	
b. of above, the spent amount	654	
c. Outstanding projects at FY15 end (a-b)		609
d. Chhattisgarh Pugalur		268
f. GEC	260	
g. included in (a)	52	
h. GEC's balance order (f-g)		208
j. Outstanding capex		**1,085**
k. CWIP at FY15 year end	399	
l. Pending for capitalization (j+k)		**1,484**

Exhibit 9: …will drive RAB & standalone PAT growth (INR b)

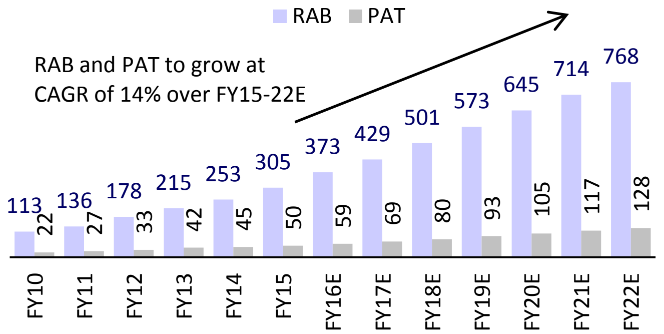


Exhibit 10: Regulated capex and capitalization (INR b)

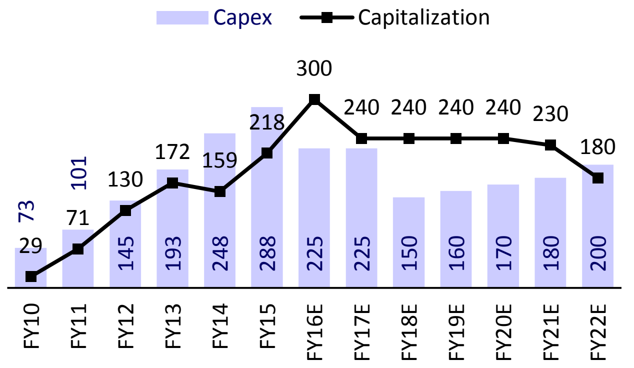


Exhibit 11: Contribution of TBCB projects to gross block marginal

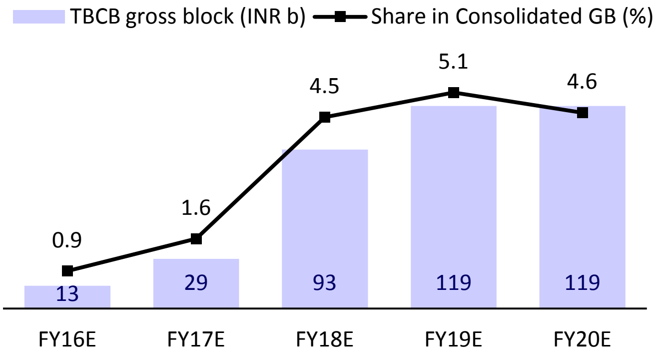
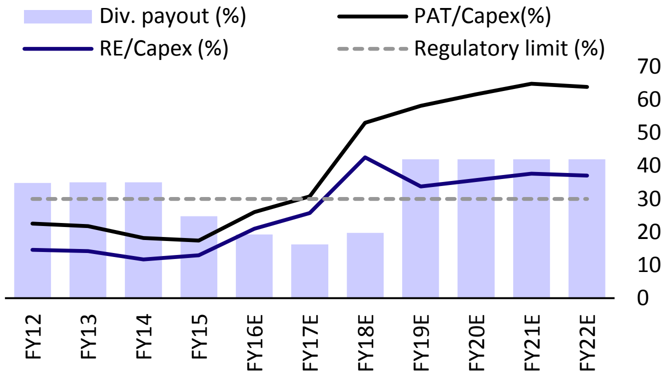
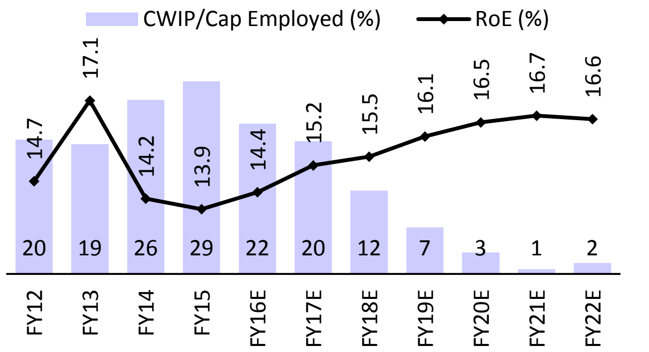


Exhibit 12: Internal equity improving; yet near-term gaps



Source: MOSL, Company

Exhibit 13: Consolidated RoE to improve as CWIP/CE falls



CWIP excludes construction store

Source: MOSL, Company

Financials and Valuations

Income Statement (INR Million)

Y/E March	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net Sales	**104,405**	**131,639**	**156,754**	**176,585**	**215,242**	**257,086**	**299,965**	**339,358**	**373,864**	**406,134**	**432,549**
Change (%)	21.2	26.1	19.1	12.7	21.9	19.4	16.7	13.1	10.2	8.6	6.5
EBITDA	**86,926**	**112,139**	**132,639**	**151,262**	**185,978**	**224,558**	**263,967**	**299,547**	**330,565**	**359,533**	**383,116**
% of Net Sales	83.3	85.2	84.6	85.7	86.4	87.3	88.0	88.3	88.4	88.5	88.6
Depreciation	26,374	34,278	40,794	51,733	64,523	77,623	91,863	104,248	115,614	126,743	136,451
Interest	19,858	25,994	32,537	40,812	52,253	64,658	76,148	85,200	89,661	92,756	93,409
Other Income	6,331	5,632	4,707	5,745	4,755	5,815	5,637	7,621	7,480	7,920	8,782
PBT before EO	**47,026**	**57,498**	**64,015**	**64,462**	**73,957**	**88,092**	**101,594**	**117,720**	**132,769**	**147,953**	**162,039**
EO income (expense)	-104	316	-425	-421	0	0	0	0	0	0	0
PBT after EO	**46,922**	**57,814**	**63,590**	**64,041**	**73,957**	**88,092**	**101,594**	**117,720**	**132,769**	**147,953**	**162,039**
Tax	13,892	14,688	18,114	13,579	15,108	17,920	20,618	23,983	26,994	29,985	32,786
Rate (%)	29.6	25.4	28.5	21.2	20.4	20.3	20.3	20.4	20.3	20.3	20.2
Reported PAT	**33,030**	**43,126**	**45,476**	**50,463**	**58,849**	**70,172**	**80,976**	**93,737**	**105,775**	**117,968**	**129,252**
Adjusted PAT	**33,133**	**42,810**	**45,901**	**50,883**	**58,849**	**70,172**	**80,976**	**93,737**	**105,775**	**117,968**	**129,252**
Change (%)	24.0	29.2	7.2	10.9	15.7	19.2	15.4	15.8	12.8	11.5	9.6

Balance Sheet (INR Million)

Y/E March	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Share Capital	46,297	46,297	52,316	52,316	52,316	52,316	52,316	52,316	52,316	52,316	52,316
Reserves	189,535	217,734	294,664	332,071	379,630	438,511	503,805	558,512	620,347	689,363	765,024
Net Worth	**235,832**	**264,031**	**346,979**	**384,387**	**431,945**	**490,826**	**556,120**	**610,828**	**672,663**	**741,679**	**817,340**
Loans	543,554	692,334	842,196	962,434	1,106,576	1,220,017	1,263,934	1,277,664	1,281,929	1,282,065	1,286,493
Deferred Rev. & tax	44,205	57,415	70,195	73,030	73,030	73,030	73,030	73,030	73,030	73,030	73,030
Capital Employed	**823,591**	**1,013,780**	**1,259,370**	**1,419,852**	**1,611,552**	**1,783,874**	**1,893,084**	**1,961,523**	**2,027,623**	**2,096,775**	**2,176,864**
Gross Fixed Assets	645,297	823,160	982,247	1,204,801	1,518,455	1,774,484	2,078,813	2,344,642	2,584,971	2,815,300	2,995,629
Less: Depreciation	162,079	197,475	239,730	292,891	357,413	435,036	526,899	631,147	746,761	873,505	1,009,956
Net Fixed Assets	**483,218**	**625,685**	**742,517**	**911,911**	**1,161,042**	**1,339,448**	**1,551,914**	**1,713,495**	**1,838,210**	**1,941,796**	**1,985,673**
Capital WIP	163,418	194,716	323,911	404,760	358,198	350,073	233,448	134,323	64,323	14,323	34,323
Investments	7,737	5,864	4,234	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196
Other Assets	**266,949**	**307,576**	**344,235**	**288,776**	**269,181**	**271,222**	**249,660**	**260,300**	**276,343**	**296,567**	**322,093**
Inventory	130,780	163,467	183,914	139,241	104,392	102,893	61,388	66,161	70,974	75,696	83,629
Debtors	15,292	14,914	16,183	22,070	19,707	23,846	28,149	32,033	36,020	39,769	43,319
Cash & Bank Balance	31,113	26,789	49,744	29,886	53,326	51,928	75,478	75,540	80,512	89,727	99,753
Other Current Assets	28,066	36,060	42,775	51,864	51,974	52,774	54,110	54,798	55,837	57,142	58,692
Loans & Advances	61,698	66,347	51,620	45,717	39,782	39,782	30,535	31,768	33,001	34,234	36,700
Other Liabilities	**97,731**	**120,061**	**155,527**	**187,791**	**179,065**	**179,065**	**144,134**	**148,791**	**153,449**	**158,107**	**167,422**
Net Current Assets	**169,218**	**187,516**	**188,708**	**100,985**	**90,116**	**92,157**	**105,526**	**111,509**	**122,894**	**138,461**	**154,672**
Application of Funds	**823,591**	**1,013,780**	**1,259,370**	**1,419,852**	**1,611,552**	**1,783,874**	**1,893,084**	**1,961,523**	**2,027,623**	**2,096,775**	**2,176,864**

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Basic (INR)											
EPS	**7.2**	**9.2**	**8.8**	**9.7**	**11.2**	**13.4**	**15.5**	**17.9**	**20.2**	**22.5**	**24.7**
Growth (%)	24.2	29.2	-5.1	10.9	15.7	19.2	15.4	15.8	12.8	11.5	9.6
Cash EPS	12.9	16.7	16.6	19.6	23.6	28.3	33.0	37.8	42.3	46.8	50.8
Book Value	50.9	57.0	66.3	73.5	82.6	93.8	106.3	116.8	128.6	141.8	156.2
DPS	2.1	2.8	2.6	2.0	1.8	1.8	2.5	6.2	7.0	7.8	8.5
Div.Payout (incl. Tax.)	34.8	35.0	35.1	24.7	19.3	16.3	19.7	42.0	42.0	42.0	42.0
Valuation (x)											
P/E	18.7	14.5	15.3	13.8	11.9	10.0	8.7	7.5	6.6	5.9	5.4
Cash P/E	10.4	8.0	8.1	6.8	5.7	4.7	4.1	3.5	3.2	2.9	2.6
EV/EBITDA	13.0	11.4	11.2	10.8	9.4	8.3	7.2	6.3	5.7	5.3	4.9
Price/Book Value	2.6	2.3	2.0	1.8	1.6	1.4	1.3	1.1	1.0	0.9	0.9
Dividend Yield (%)	1.6	2.1	1.9	1.5	1.3	1.3	1.9	4.6	5.2	5.8	6.4
Profitability Ratios (%)											
RoE	14.7	17.1	14.2	13.9	14.4	15.2	15.5	16.1	16.5	16.7	16.6
RoCE	9.0	9.1	8.5	7.9	8.3	9.0	9.7	10.5	11.2	11.7	12.0
Turnover Ratios											
Debtors (Days)	53	41	38	46	33	34	34	34	35	36	37
Inventory (Days)	189	167	165	108	79	74	46	48	48	47	48
Current Liabilities (Days)	141	122	139	145	136	129	108	107	103	98	97
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Leverage Ratio											
Debt/Equity (x)	2.30	2.62	2.43	2.50	2.56	2.49	2.27	2.09	1.91	1.73	1.57

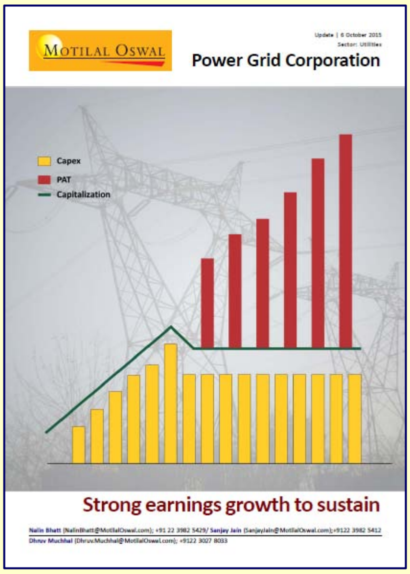
Cash Flow Statement (INR Million)

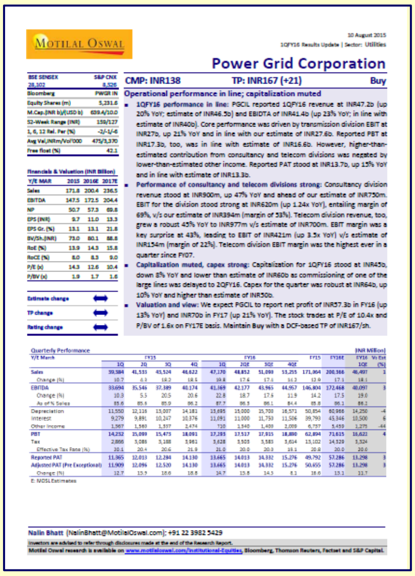
Y/E March	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
PBT before EO Items	**46,897**	**57,756**	**63,590**	**64,041**	**73,957**	**88,092**	**101,594**	**117,720**	**132,769**	**147,953**	**162,039**
Depreciation	26,720	34,574	40,942	51,733	64,523	77,623	91,863	104,248	115,614	126,743	136,451
Interest	19,013	25,994	32,537	40,812	52,253	64,658	76,148	85,200	89,661	92,756	93,409
Others	-998	-4,299	-2,921	-4,243	-4,755	-5,815	-5,637	-7,621	-7,480	-7,920	-8,782
(Inc)/Dec in WC	-37,040	14,227	10,137	61,903	34,309	-3,439	10,181	-5,921	-6,413	-6,352	-6,185
Direct Taxes Paid	-10,464	-11,356	-12,302	-11,519	-15,108	-17,920	-20,618	-23,983	-26,994	-29,985	-32,786
CF from Operations	**44,128**	**116,897**	**131,983**	**202,728**	**205,179**	**203,198**	**253,530**	**269,644**	**297,157**	**323,196**	**344,146**
(Inc)/Dec in FA	-148,384	-226,145	-250,288	-294,508	-267,092	-247,904	-187,704	-166,704	-170,329	-180,329	-200,329
(Pur)/Sale of Investments	5,127	5,305	4,139	7,934	4,755	5,815	5,637	7,621	7,480	7,920	8,782
CF from Investments	**-143,257**	**-220,840**	**-246,149**	**-286,574**	**-262,337**	**-242,089**	**-182,067**	**-159,083**	**-162,849**	**-172,409**	**-191,547**
Equity raised	0	0	52,966	0	0	0	0	0	0	0	0
Grants etc	0	0	0	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	109,200	138,868	127,244	115,070	144,142	113,441	43,916	13,731	4,265	136	4,428
Interest Paid	-15,438	-22,970	-28,374	-37,816	-52,253	-64,658	-76,148	-85,200	-89,661	-92,756	-93,409
Dividend Paid	-11,579	-16,279	-14,715	-13,266	-11,291	-11,291	-15,682	-39,029	-43,940	-48,952	-53,591
CF from Fin. Activity	**82,183**	**99,619**	**137,121**	**63,988**	**80,597**	**37,493**	**-47,913**	**-110,499**	**-129,337**	**-141,572**	**-142,572**
Inc/Dec of Cash	**-16,945**	**-4,325**	**22,955**	**-19,858**	**23,440**	**-1,398**	**23,550**	**62**	**4,972**	**9,215**	**10,027**
Add: Beginning Balance	0	31,113	26,789	49,744	29,886	53,326	51,928	75,478	75,540	80,512	89,727
Closing Balance	**31,113**	**26,789**	**49,744**	**29,886**	**53,326**	**51,928**	**75,478**	**75,540**	**80,512**	**89,727**	**99,753**

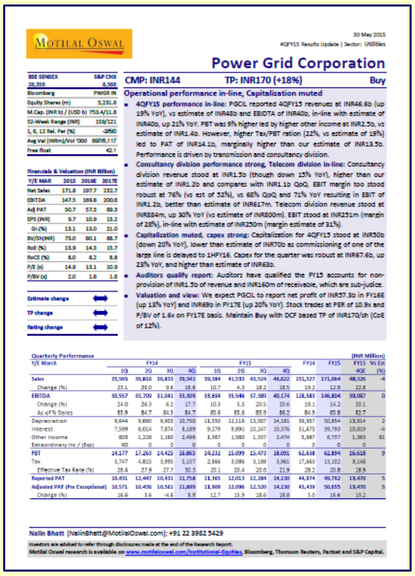
E: MOSL Estimates

REPORT GALLERY

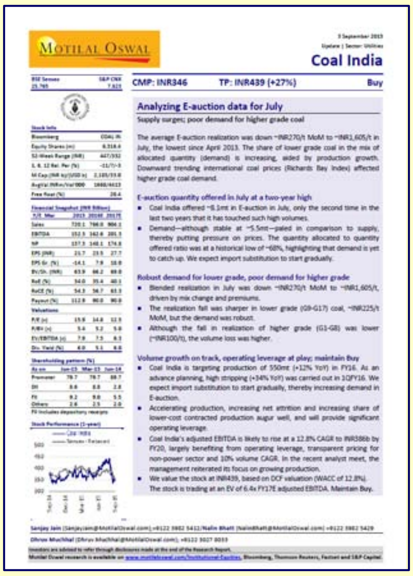
Power Grid Corporation

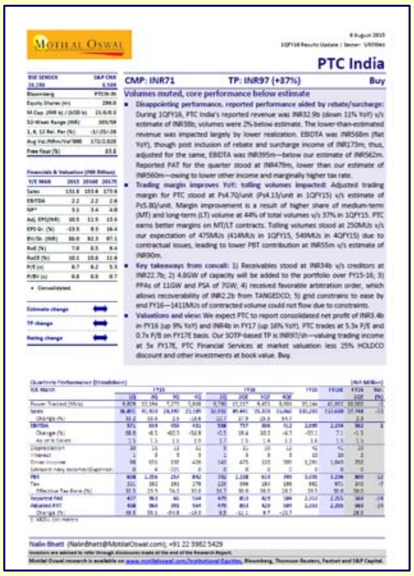




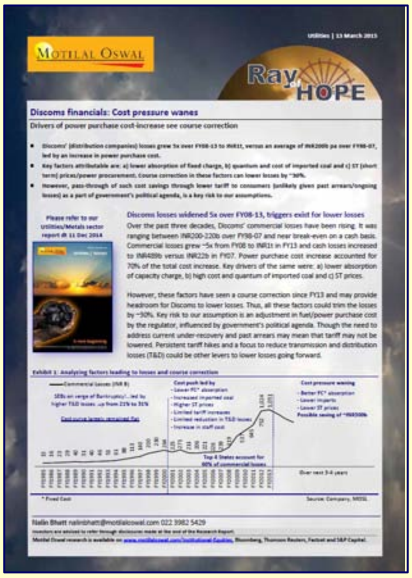


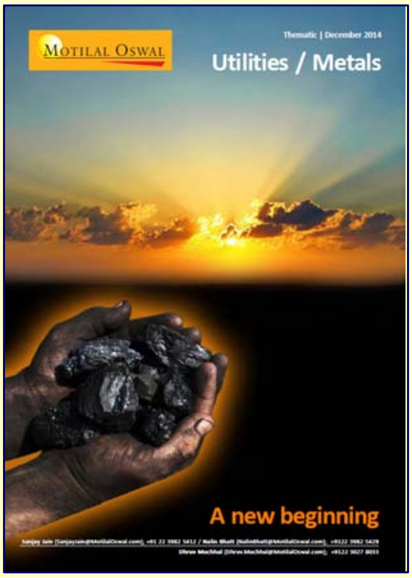
OTHER COMPANIES





SECTOR UPDATES





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