

Institutional Equity Research

Power Grid

Power | India

1QFY18 Result Update | August 03, 2017

CMP* (Rs)	221
Upside/ (Downside) (%)	11
Bloomberg Ticker	PWGR IN
Market Cap. (Rs bn)	1,158
Free Float (%)	42.1
Shares O/S (mn)	5,231



Target Price: Rs244

Higher Capitalisation Continues to Drive Growth

Power Grid Corporation of India (PGCIL) continued to deliver a strong performance in 1QFY18, with its reported net profit growing by 13.6% YoY to Rs21.5bn in line with our estimate of Rs21.8bn. Its revenue rose by 17.3% YoY to Rs71.8bn in 1QFY18 in line with our estimates. Net profit growth was lower than revenue growth on account of Rs0.86bn provisioning towards employee cost, which is a pass through. Looking ahead, we believe that PGCIL's fundamentals would continue to remain strong on the back of huge capex pipeline and least exposure to operational risks i.e. fuel and SEBs' weak financials. **Continuing to remain positive, we reiterate our BUY recommendation on the stock with a Target Price of Rs244.**

Key Highlights

- Strong Capitalisation Aided Revenue Growth:** Revenue rose by 17.3% YoY to Rs71.8bn in 1QFY18 in line with our estimates, while capitalisation stood at Rs35bn vs. Rs25bn in 1QFY17 led by commissioning of several large lines including Phase-I of Champa-Kurukshetra (energized in 4QFY17), Wardha-Nizamabad and Srikakulam-Angul. Transmission business grew by 16.0% YoY to Rs68.3bn, while Consultancy and Telecom business zoomed by 75% YoY, 27% YoY, to Rs1.4bn and Rs1.4bn, respectively owing to strong order book.
- PAT Surges Despite Decline in EBITDA Margins:** EBITDA margin contracted by 222bps YoY owing to rise in employee expenses to Rs4.0bn in 1QFY18 from Rs2.7bn in 1QFY17. However, the wage hike provisioning of Rs0.86bn can be recovered on approval by the regulator. Notably, its reported net profit grew by 13.6% YoY to Rs21.5bn in line with our estimate of Rs21.8bn.
- Capitalisation:** Capex stood at Rs63.3bn in 1QFY18, while Rs810bn is earmarked as capex for next 3-4 years on ongoing projects. Total work in hand is pegged at Rs1.24trln, which includes ongoing projects (Rs1.02trln), new projects (Rs40bn) and TBCB projects (Rs180bn). Notably, out of ongoing projects worth Rs1.24trln, Rs430bn has already been spent till now.

Outlook & Valuation

Looking ahead, we expect PGCIL's earnings momentum to continue as it intends to commission assets worth Rs300-350bn in FY18 including TBCB projects of Rs40bn. We believe that the capitalisation is set to pick-up pace in coming quarters with some larger projects getting operational. At CMP, the stock trades at 2.0x FY17E & 1.8x FY18E P/BV, respectively and 12.5x P/E of FY18E & 10.0x P/E of FY19E. Given higher capitalisation in coming years owing to huge capex, steady regulated RoE, we believe that PGCIL's fundamentals would continue to remain strong aided by least exposure to operational risks. **Thus, continuing to remain positive on PGCIL, we reiterate our BUY recommendation on the stock with a Target Price of Rs244.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Net Sales	208,022	257,166	307,824	373,357
Op. Profits	183,412	226,015	270,245	327,861
OPM (%)	88.2	87.9	87.8	87.8
Net Profit	60,224	74,502	92,568	115,753
YoY Gr. (%)	21.0	23.7	24.2	25.0
EPS (Rs)	11.5	14.4	17.7	22.1
RoE (%)	14.9	16.1	17.4	18.9
ROCE (%)	9.0	10.1	10.5	11.2
EV/EBIDTA (x)	11.8	9.9	9.1	7.8
PE (x)	19.2	15.4	12.5	10.0
P/B (x)	2.7	2.3	2.0	1.8

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	4.7	4.7	26.3
Relative to Nifty	(0.1)	(3.5)	8.2
Shareholding Pattern (%)	Mar'17	Jun'17	
Promoter	57.9	57.9	
Public	42.1	42.1	

1 Year Stock Price Performance



Note: * CMP as on August 02, 2017

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Risks to the View

- Delay in materialisation of some of generation projects.
- Delay in commissioning of key projects.
- Delay in obtaining environmental clearance for future projects.

Exhibit 1: Quarterly Performance

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Net Sales	71,814	61,199	17.3	67,120	7.0
Other op income	-	-	-	-	-
Operating Costs	9,810	7,002	40.1	10,935	(10.3)
EBIDTA	62,004	54,196	14.4	56,185	10.4
EBIDTA Margin (%)	86.3	88.6	-	83.7	
Other Income	2,085	1,394	49.5	3,424	(39.1)
Interest	17,624	15,178	16.1	15,558	13.3
Depreciation	21,311	17,573	21.3	20,633	3.3
Profit Before Tax	25,153	22,840	10.1	23,418	7.4
Tax	5,324	4,819	10.5	5,083	4.7
Tax Rate (%)	21.2	21.1		21.7	
Reported PAT	20,524	18,018	13.9	19,164	7.1

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Revenues	208,022	257,166	307,824	373,357
Growth (%)	21.1	23.6	19.7	21.3
Operating Profit	183,412	226,015	270,245	327,861
Other Income	4,790	8,649	8,909	9,176
EBITDA	188,202	234,665	279,154	337,037
Growth (%)	22.6	24.7	19.0	20.7
Depreciation & Amortization	61,828	76,628	90,506	108,647
EBIT	126,374	158,037	188,648	228,390
Interest Charges (Net)	50,230	63,038	68,984	74,862
PBT (Before E/o items)	76,144	94,998	119,664	153,527
Tax provision	15,920	20,496	27,097	37,774
Minority interest	0	0	0	0
Pre-exceptional PAT	60,224	74,502	92,568	115,753
Extra-ordinary items	0	699	0	0
Net Profit	60,224	75,201	92,568	115,753
Growth (%)	21.0	24.9	23.1	25.0
EPS (Rs)	11.5	14.4	17.7	22.1

Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Equity Share Capital	52,315	52,315	52,315	52,315
Reserves & Surplus	375,024	445,757	515,619	602,980
Shareholders' Funds	427,339	498,072	567,934	655,295
Minority Interest	0	0	0	0
Total Debt	1,035,777	1,124,632	1,345,104	1,441,886
Deferred Tax liability	24,894	25,505	25,505	25,505
Capital Employed	1,488,010	1,648,209	1,938,543	2,122,687
Fixed Assets	1,589,678	1,713,921	1,919,683	2,085,036
Cash & cash eq.	24,537	33,405	36,158	48,251
Net current assets	(134,275)	(112,698)	(30,878)	(24,181)
Investments	8,069	13,581	13,581	13,581
Total Assets	1,488,010	1,648,209	1,938,543	2,122,687

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Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Pre-tax profit	76,144	94,998	119,664	153,527
Depreciation	61,828	76,628	90,506	108,647
Total tax paid	(15,920)	(20,496)	(27,097)	(37,774)
Chg in working capital	1,402	(21,577)	(81,820)	(6,697)
Other items	0	699	0	0
Cash from oper. (a)	123,453	130,253	101,253	217,703
Capital expenditure	(225,402)	(200,871)	(296,267)	(274,000)
Chg in investments	1,195	(5,511)	0	0
Cash from inv. (b)	(224,207)	(206,382)	(296,267)	(274,000)
Free cash flow (a+b)	(100,754)	(76,129)	(195,014)	(56,297)
Cash from fin. (c)	104,662	84,998	197,767	68,390
Net chg in cash (a+b+c)	3,908	8,868	2,753	12,093
Opening cash balance	20,629	24,537	33,405	36,158
Closing cash balance	24,537	33,405	36,158	48,251

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPM (%)	88.2	87.9	87.8	87.8
Net Margin (%)	29.0	29.0	30.1	31.0
Net Debt/Equity (x)	2.4	2.2	2.3	2.1
ROACE (%)	9.0	10.1	10.5	11.2
ROANW (%)	14.9	16.1	17.4	18.9
EV/Sales (x)	10.4	8.7	8.0	6.8
EV/EBIDTA (x)	11.8	9.9	9.1	7.8
PE (x)	19.2	15.4	12.5	10.0
P/B (x)	2.7	2.3	2.0	1.8

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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