

Power Grid

BSE SENSEX	S&P CNX
34,951	10,524
Bloomberg	PWGR IN
Equity Shares (m)	5,232
M.Cap.(INRb)/(USDb)	972.3 / 13.3
52-Week Range (INR)	217 / 174
1, 6, 12 Rel. Per (%)	-2/-12/-16
12M Avg Val (INR M)	1492
Free float (%)	43.7

CMP: INR186 TP: INR249 (+34%)
Buy

Miss attributed to Consultancy and Telecom

Strong visibility of earnings growth, Valuation attractive; Maintain Buy

Power Grid's (PWGR) PAT increased ~8% YoY to INR23.1b (our estimate: INR23.9b) in 2QFY19, as growth in Transmission was partly offset by a decline in Consultancy and Telecom businesses. PAT adjusted for prior period and wage revision impact increased ~10% YoY.

- Capitalization stood at ~INR84b in 1HFY19, as against ~INR138b in 1HFY18. Capitalization also includes the foreign exchange rate variation (FERV) impact of ~INR25b in 1HFY19, which does not earn RoE. Execution was slow in 1H (excluding FERV), which increases the asking rate for 2HFY19. PWGR incurred capex of ~INR122b in 1HFY19.
- Telecom revenue and EBIT declined to INR1.6b (-7% YoY) and INR0.8b (-22% YoY), respectively, in 2QFY19.
- Consultancy revenue increased 20% YoY to INR1.4b, but EBIT declined 15% YoY to INR0.6b in the quarter.
- Transmission segment revenue and EBIT grew ~14% YoY, but derived PAT growth was lower at ~10% YoY (adjusted for prior period and wage impact, growth was at ~12% YoY) in 2QFY19.

Valuations attractive; Maintain Buy

PWGR has ~INR0.9t of orders pending execution, which provides strong visibility of EPS CAGR of ~11% over FY18-21. Our earnings estimate factors in a 150bp cut in regulated RoE (to 14%) in the next tariff regulations. At CMP, the stock trades attractively at 1.4x FY20E P/BV for a RoE of ~16% and CoE of ~10-11%, not appreciating any future growth potential. If we were to assume no growth after FY20 (which means PAT is available for dividend distribution), the stock trades at an attractive dividend yield of ~11-12% for an assured return model and revenues backed by state-guarantees (g-sec yield is ~7 to 8%). Maintain **Buy** with a DCF-based target price of INR249/share.

Estimate change

TP change

Rating change


Quarterly Performance (standalone) – INR million

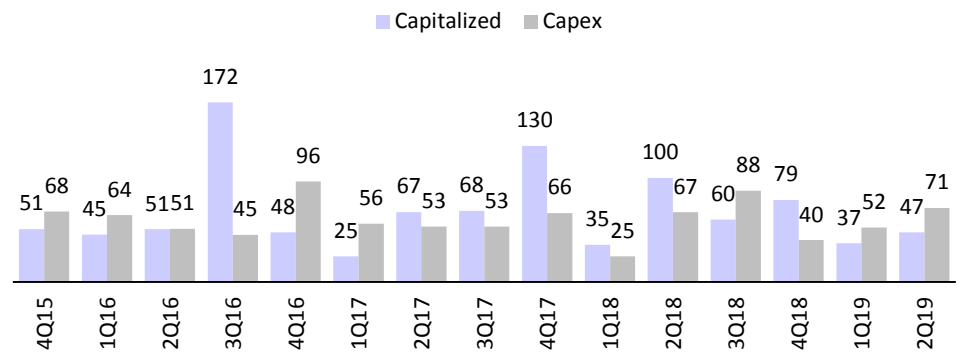
Y/E March	FY18				FY19				FY18	FY19E	FY19 Vs Est 2QE (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Sales	72,509	72,528	74,050	79,699	83,365	86,880	84,458	81,246	299,597	335,948	81,295	7
Change (%)	19.5	16.4	14.1	17.3	15.0	19.8	14.1	1.9	16.2	12.1	12.1	
EBITDA	62,699	65,560	66,364	66,826	71,365	73,774	77,299	77,829	261,449	300,267	74,790	-1
Change (%)	16.8	17.5	14.0	17.2	13.8	12.5	16.5	16.5	15.3	14.8	14.1	
As of % Sales	86.5	90.4	89.6	83.8	85.6	84.9	91.5	95.8	87.3	89.4	92.0	
Depreciation	21,311	22,350	23,186	24,065	24,506	25,483	26,349	26,976	90,913	103,313	25,399	0
Interest	17,624	18,673	19,555	20,055	21,406	23,095	22,150	19,330	75,907	85,981	21,151	9
Other Income	2,085	2,397	2,781	2,876	3,006	4,069	2,477	-655	10,139	8,897	2,135	91
PBT	25,848	26,934	26,405	25,582	28,458	29,265	31,277	30,869	104,769	119,869	30,375	-4
Tax	5,324	5,523	5,996	5,536	6,053	6,170	6,568	6,381	22,379	25,173	6,379	
Effective Tax Rate (%)	20.6	20.5	22.7	21.6	21.3	21.1	21.0	20.7	21.4	21.0	21.0	
Reported PAT	20,524	21,410	20,408	20,047	22,405	23,095	24,709	24,488	82,390	94,697	23,996	-4
Change (%)	14.0	14.1	5.7	4.6	9.2	7.9	21.1	22.2	9.6	14.9	12.1	
Adjusted PAT	20,831	21,266	22,517	21,800	22,505	23,455	24,709	24,488	86,414	95,156	23,996	-2
Change (%)	15.7	13.3	15.7	8.3	8.0	10.3	9.7	12.3	13.4	10.1	11.4	

Sanjay Jain – Research analyst (SanjayJain@MotilalOswal.com); +91 22 6129 1523

Dhruv Muchhal – Research analyst (Dhruv.Muchhal@MotilalOswal.com); +91 22 6129 1549

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Exhibit 1: Capitalization and capex – INR b

Source: MOSL, Company

Exhibit 2: Derived transmission segment PAT growth – INR m

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Trans. segment revenue	69,305	70,634	73,227	75,189	79,079	81,536
growth YoY - %	16.5	15.8	14.2	13.1	14.1	15.4
Standalone PBT	25,848	26,934	26,405	25,582	28,458	29,265
Less EBIT of:						
Telecom	730	991	790	633	1,063	775
Consultancy	1,564	703	796	1,255	826	596
Derived PBT of transmission	23,554	25,240	24,819	23,694	26,569	27,895
Less: Tax	4,852	5,176	5,301	5,127	5,651	5,881
Derived Trans. PAT	18,703	20,064	19,518	18,567	20,918	22,013
growth YoY - %	11.1	15.6	10.4	2.2	11.8	9.7
Trans. segment EBIT YoY - %	12.2	15.2	11.1	11.1	14.8	14.4

Source: MOSL, Company

Exhibit 3: DCF valuation

	Case 1		Base		Case 2				
Rf. Nominal risk free rate	(%)	6.50	(%)	7.00	(%)	7.50			
B. Beta		0.75		0.75		0.75			
Km. Equity Risk premium	(%)	5.00	(%)	5.00	(%)	5.00			
Cost of equity (Rf+Km x B)	(%)	10.25	(%)	10.75	(%)	11.25			
DCFE	INR m	INR/sh.	INR m	INR/sh.	INR m	INR/sh.			
A. FY19-22	108,423	21	107,656	21	106,899	20			
	RoE	Re-Invest	Growth						
	(%)	(%)	(%)						
B. FY23-32	14.00	45	6.3	545,873	104	527,011	101	508,989	97
C. Terminal Value	12.00	22	2.6	755,931	144	668,805	128	594,135	114
Target price (A+B+C)				270		249		231	
CMP				186		186		186	
Upside (%)				44.9		34.0		24.4	

Source: MOSL, Company

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	131,639	156,754	176,585	213,523	257,039	299,415	341,701	384,842
Change (%)	26.1	19.1	12.7	20.9	20.4	16.5	14.1	12.6
EBITDA	112,139	132,639	151,262	186,056	226,572	263,119	303,857	342,579
EBITDA Margin (%)	85.2	84.6	85.7	87.1	88.1	87.9	88.9	89.0
Depreciation	34,278	40,794	51,733	63,022	77,223	92,310	105,663	121,354
EBIT	77,861	91,845	99,529	123,034	149,350	170,809	198,194	221,225
Interest	25,994	32,537	40,812	50,860	62,036	73,241	80,416	90,787
Other Income	5,632	4,707	5,745	4,284	5,838	4,891	3,677	3,783
Extraordinary items	316	-425	-421	-9	0	0	0	0
PBT	57,814	63,590	64,041	76,450	93,153	102,459	121,455	134,221
Tax	14,688	18,114	13,579	16,304	20,063	21,955	25,578	27,984
Tax Rate (%)	25.4	28.5	21.2	21.3	21.5	21.4	21.1	20.8
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	43,126	45,476	50,463	60,146	74,507	81,983	97,326	107,700
Adjusted PAT	42,810	45,901	50,883	60,155	74,507	86,513	97,326	107,700
Change (%)	29.2	7.2	10.9	18.2	23.9	16.1	12.5	10.7

Balance Sheet							(INR Million)	
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	46,297	52,316	52,316	52,316	52,316	52,316	52,316	52,316
Reserves	217,734	294,664	332,071	387,383	446,339	508,877	582,994	664,349
Net Worth	264,031	346,979	384,387	439,699	498,655	561,193	635,310	716,665
Debt	692,334	842,196	962,434	1,085,449	1,189,879	1,274,824	1,355,323	1,418,272
Deferred Tax	57,415	70,195	73,030	82,169	74,184	74,373	74,373	74,373
Total Capital Employed	1,013,780	1,259,370	1,419,852	1,607,318	1,762,718	1,910,390	2,065,006	2,209,310
Gross Fixed Assets	823,160	982,247	1,204,801	1,214,908	1,519,616	1,798,471	2,133,320	2,442,838
Less: Acc Depreciation	197,475	239,730	292,891	63,965	142,837	235,147	340,810	462,164
Net Fixed Assets	625,685	742,517	911,911	1,150,942	1,376,779	1,563,324	1,792,511	1,980,674
Capital WIP	194,716	323,911	404,760	354,021	296,750	259,332	185,664	136,262
Investments	5,864	4,234	2,196	9,185	11,650	11,650	11,650	11,650
Current Assets	307,576	344,235	288,776	278,769	271,272	249,356	253,112	263,312
Inventory	163,467	183,914	139,241	109,163	94,963	91,444	96,280	101,037
Debtors	14,914	16,183	22,070	27,395	31,319	30,814	35,789	40,514
Cash & Bank	26,789	49,744	29,886	22,434	33,536	16,571	6,556	-567
Loans & Adv, Others	102,407	94,395	97,580	119,778	111,453	110,527	114,486	122,328
Curr Liabs & Provns	120,061	155,527	187,791	185,600	193,732	173,272	177,930	182,587
Curr. Liabilities	120,061	155,527	187,791	185,600	193,732	173,272	177,930	182,587
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	187,516	188,708	100,985	93,170	77,539	76,084	75,182	80,725
Total Assets	1,013,780	1,259,370	1,419,852	1,607,318	1,762,718	1,910,390	2,065,006	2,209,310

Financials and Valuations

Ratios

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)								
EPS	9.2	8.8	9.7	11.2	14.2	16.5	18.6	20.6
Cash EPS	16.7	16.6	19.6	23.0	29.0	34.2	38.8	43.8
Book Value	57.0	66.3	73.5	84.0	95.3	107.3	121.4	137.0
DPS	2.8	2.6	2.0	2.1	2.5	3.1	3.7	4.2
Payout (incl. Div. Tax.)	35.0	35.1	25.2	0.0	21.0	23.6	24.0	25.5
Valuation(x)								
P/E	11.4	12.2	14.9	16.3	12.8	11.0	9.8	8.8
Cash P/E	6.3	6.5	7.4	7.9	6.3	5.3	4.7	4.2
Price / Book Value	1.8	1.6	2.0	2.2	1.9	1.7	1.5	1.3
EV/EBITDA	10.3	10.2	11.2	11.0	9.3	8.4	7.6	6.9
Dividend Yield (%)	2.6	2.4	1.4	1.2	1.4	1.7	2.0	2.3
Profitability Ratios (%)								
RoE	17.1	14.2	13.9	14.2	15.9	16.3	16.3	15.9
RoCE	6.8	6.1	6.2	6.5	7.2	7.5	8.0	8.3
RoIC	8.3	7.9	8.4	8.6	8.9	8.8	9.0	8.9
Turnover Ratios (%)								
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Debtors (No. of Days)	41	38	46	48	44	38	38	38
Inventory (No. of Days)	167	165	108	94	70	62	58	57
Current Liabilities (Days)	122	139	145	160	142	117	108	103
Leverage Ratios (%)								
Net Debt/Equity (x)	2.5	2.3	2.4	2.4	2.3	2.2	2.1	2.0

Cash Flow Statement

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
(INR Million)								
Adjusted EBITDA	112,139	132,639	151,262	186,056	226,572	263,119	303,857	342,579
Non cash opr. exp (inc)	6,186	4,430	5,325	2,221	7,055	4,891	3,677	3,783
(Inc)/Dec in Wkg. Cap.	14,227	10,137	61,903	-19,310	4,495	-15,510	-9,113	-12,666
Tax Paid	-11,356	-12,302	-11,519	-14,156	-18,714	-21,955	-25,578	-27,984
Other operating activities	-4,299	-2,921	-4,243	-4,730	-3,264	-4,701	-3,677	-3,783
CF from Op. Activity	116,897	131,983	202,728	150,082	216,144	225,845	269,166	301,929
(Inc)/Dec in FA & CWIP	-226,145	-250,288	-294,508	-216,795	-239,244	-241,438	-261,181	-260,116
Free cash flows	-109,249	-118,305	-91,780	-66,713	-23,100	-15,593	7,985	41,813
(Pur)/Sale of Invt	5,305	4,139	7,934	1,030	495	6,370	5,126	5,247
Others	0	0	0	0	0	0	0	0
CF from Inv. Activity	-220,840	-246,149	-286,574	-215,765	-238,749	-235,068	-256,055	-254,869
Inc/(Dec) in Net Worth	0	52,966	0	0	0	0	0	0
Inc / (Dec) in Debt	138,868	127,244	115,070	117,171	112,506	84,945	80,499	62,949
Interest Paid	-22,970	-28,374	-37,816	-47,584	-57,000	-73,241	-80,416	-90,787
Divd Paid (incl Tax) & Others	-16,279	-14,715	-13,266	-13,379	-15,921	-19,445	-23,209	-26,345
CF from Fin. Activity	99,619	137,121	63,988	56,208	39,586	-7,742	-23,126	-54,183
Inc/(Dec) in Cash	-4,325	22,955	-19,858	-9,475	16,980	-16,965	-10,015	-7,123
Add: Opening Balance	31,113	26,789	49,744	31,909	16,556	33,536	16,571	6,556
Closing Balance	26,789	49,744	29,886	22,434	33,536	16,571	6,556	-567

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-3980 4263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 3080 1000. Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-38281085.

Registration details: MOSL: SEBI Registration: INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL: IN-DP-16-2015; NSDL: IN-DP-NSDL-152-2000; Research Analyst: INH000000412. AMFI: ARN 17397. Investment Adviser: INA000007100. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670) offers PMS and Mutual Funds products. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) offers wealth management solutions. *Motilal Oswal Securities Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance and IPO products. *Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. offers Real Estate products. * Motilal Oswal Private Equity Investment Advisors Pvt. Ltd. offers Private Equity products.

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