

Power Grid Corporation

Refer to important disclosures at the end of this report

Grid instability averted

- As reported in the media, the government has rejected, power financier, REC Limited's proposal of its takeover by Power Grid. Power Grid's stock has seen sharp correction in its share price in the past few days. We believe Power Grid should ideally trade at its earlier valuations with this clarification by the government.
- In the past five years (excluding the Covid period), the one-year forward P/B has been in the range of 1.55x (Avg.-SD) to 1.9x (Avg.+SD). At the CMP, the stock trades at ~1.6x/1.5x its FY24E/FY25E B/V, which is at Avg.-SD levels.
- We maintain Buy on the stock with June'23 TP of Rs250. We believe Power Grid offers a 6/7% dividend yield with 5/6% earnings CAGR, totaling to 12-14% return over the medium term. Further, we believe there will be higher spend on transmission assets, as more renewable energy (RE) additions take place in the sector.

- If this would have happened, it clearly would have led to a de-rating case:** We believe the initial negative reaction on the stock price of Power Grid was probably justified, given Power Grid is viewed as a pure-play quality utility and non-core diversification was unwarranted. In the past, NTPC had taken a stake in NEEPCO and THDC, but both these were power-generating companies; and hence, the take was on a neutral note.
- There has been an improvement in work-at-hand and TBCB opportunity in 1HFY22:** There has been lot of negativity around capex in the transmission sector, given the way Power Grid has seen a drop in capex. However, there has been a turnaround in new projects, leading to a significant increase in work-in-hand, which has been sliding for some time. In the past few quarters, the bid pipeline of TBCB projects has also increased. From Q1FY22 to Q4FY22, upcoming TBCB projects increased from ~Rs110bn to ~Rs320bn.
- Valuation is justified given its RoE profile:** Over the years, Power Grid has transformed from a high growth to moderate growth and decent growth dividend stock. Given there has been lot of investment in grid infrastructure in the country during the last decade, presently growth looks subdued. We believe requirement of transmission lines will remain with more and more RE investments in the sector (there are also talks of more thermal units being added). Power Grid's RoE stands at 16.5-17%, which is the best among all utilities in India. This along with the company's strong project-management abilities is the primary reason for the valuation commanded by the stock over the years. We maintain Buy on the stock with June'23 TP of Rs250. A large part of the regulated projects earns ~16.5% RoE, while data for TBCB projects transferred to the InviT clearly indicates that RoE is far higher in those projects. Based of CoE of ~11%, we have used ~1.6x B/V for the regulated projects and ~2x for TBCB projects for our SoTP valuation. Risks include delay in ordering in TBCB projects and any non-core investment.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Eng. & Cap. Goods, Infra, Power \(Page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	3,76,657	3,99,281	4,04,910	4,05,395	4,01,289
EBITDA	3,34,548	3,43,991	3,53,622	3,52,850	3,47,457
EBITDA Margin (%)	88.8	86.2	87.3	87.0	86.6
APAT	1,30,144	1,33,343	1,34,970	1,40,897	1,45,668
EPS (Rs)	24.9	19.1	19.3	20.2	20.9
EPS (% chg)	20.4	(23.2)	1.2	4.4	3.4
ROE (%)	19.4	18.3	17.1	16.7	16.2
P/E (x)	8.1	10.5	10.4	9.9	9.6
EV/EBITDA (x)	7.3	7.9	7.4	7.3	7.2
P/BV (x)	1.5	1.8	1.7	1.6	1.5

Source: Company, Emkay Research

CMP	Target Price
Rs 201 as of (September 27, 2022)	Rs 250 (■) 12 months
Rating	Upside
BUY (■)	24.5 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/-
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	19.3	20.2
Consensus	20.3	21.6
Mean Consensus TP (12M)	Rs 238	

Stock Details

Bloomberg Code	PWGR IN
Face Value (Rs)	10
Shares outstanding (mn)	6,975
52 Week H/L	248 / 173
M Cap (Rs bn/USD bn)	1,401 / 17.16
Daily Avg Volume (nos.)	1,19,33,080
Daily Avg Turnover (US\$ mn)	32.0

Shareholding Pattern Jun '22

Promoters	51.3%
FIIs	30.3%
DIIIs	15.2%
Public and Others	3.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(13)	(4)	(4)	16
Rel. to Nifty	(10)	(11)	(3)	21

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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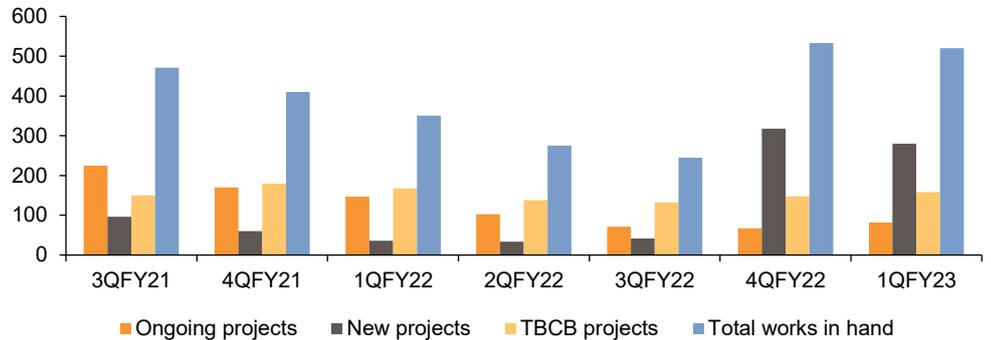
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There has been lot of negativity around capex in the transmission sector, given the way Power Grid has seen a drop in capex. However, there has been a turnaround in new projects, leading to a significant increase in work-in-hand, which has been sliding for some time.

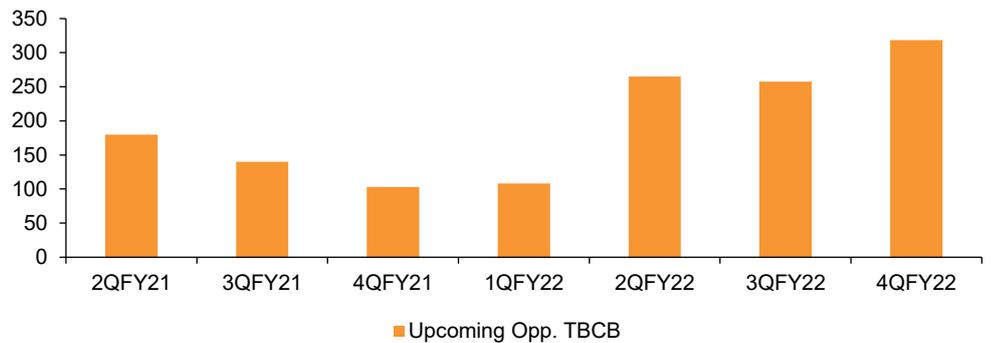
Exhibit 1: Work-in-hand saw a turnaround in Q4FY22, post the increase in new projects (Rs bn)



Source: Company, Emkay Research

In the past few quarters, the bid pipeline of TBCB projects has also increased. From Q1FY22 to Q4FY22, upcoming TBCB projects increased from ~Rs110bn to ~Rs320bn.

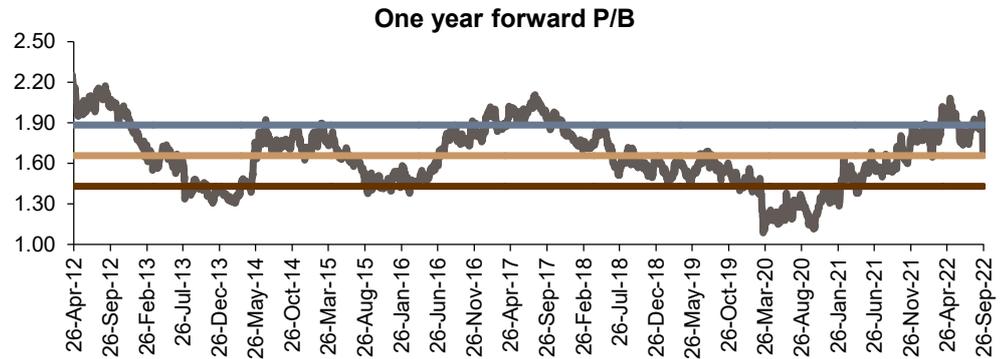
Exhibit 2: Upcoming TBCB projects (Rs bn)



Source: Company, Emkay Research

In the past five years (excluding the Covid period), the one-year forward P/B has been in the range of 1.55x (Avg.-SD) to 1.9x (Avg.+SD). At the CMP, the stock trades at ~1.6x/1.5x its FY24E/FY25E B/V. At the CMP, the dividend yield stands at ~6%.

Exhibit 3: Average one-year forward PE (5-yr/10-yr) has been in the 1.66-1.71x P/B range.



Source: Bloomberg, Emkay Research

We believe the transmission capex cycle will continue as increasing number of RE assets are added. Globally as well, there has been a discussion of higher spending on the electricity network as more and more RE sources form part of the overall generating system.

We maintain Buy on the stock with June'23 TP of Rs250.

Exhibit 4: SOTP Valuation

SoTP – June'23	Value	Comments	Multiple	Comments	Value	Per share
Regulated equity	7,78,002	Regulated equity	1.6		12,05,902	173
CWIP equity	26,806	30% of CWIP	1.0	Equity value	26,806	4
Investments – TBCB	76,724	TBCB	2.0		1,53,447	22
Investments – Others	40,005	Others	1.6		62,008	9
Cash and Loans	1,72,408		1.0		1,72,408	25
Value of telecom business	1,848	FY24 earnings	8.0	8x P/E	14,787	2
Value of consultancy business	2,551	FY24 earnings	8.0	8x P/E	20,406	3
Dividend expected over 12 months						12
Total					16,55,764	250

Source: Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	3,76,657	3,99,281	4,04,910	4,05,395	4,01,289
Expenditure	42,109	55,290	51,289	52,545	53,832
EBITDA	3,34,548	3,43,991	3,53,622	3,52,850	3,47,457
Depreciation	1,17,117	1,25,506	1,32,180	1,34,486	1,34,486
EBIT	2,17,431	2,18,485	2,21,442	2,18,364	2,12,970
Other Income	28,615	24,078	23,971	29,538	36,323
Interest expenses	85,010	82,109	76,701	71,781	67,208
PBT	1,61,036	1,60,453	1,68,712	1,76,121	1,82,085
Tax	30,891	27,111	33,742	35,224	36,417
Extraordinary Items	(10,786)	37,595	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,19,358	1,70,938	1,34,970	1,40,897	1,45,668
Adjusted PAT	1,30,144	1,33,343	1,34,970	1,40,897	1,45,668

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	52,316	69,755	69,755	69,755	69,755
Reserves & surplus	6,43,473	6,91,761	7,45,749	8,02,108	8,60,375
Net worth	6,95,788	7,61,516	8,15,504	8,71,862	9,30,130
Minority Interest	0	0	0	0	0
Loan Funds	14,30,515	13,46,653	12,47,581	11,80,248	10,92,922
Net deferred tax liability	1,19,419	1,14,248	1,14,248	1,14,248	1,14,248
Total Liabilities	22,45,722	22,22,416	21,77,332	21,66,358	21,37,300
Net block	17,53,921	17,81,756	17,00,424	16,10,005	14,75,519
Investment	45,262	74,735	88,522	1,10,914	1,34,174
Current Assets	5,48,907	5,32,964	5,69,549	6,11,602	6,60,163
Cash & bank balance	52,735	29,710	19,670	11,243	8,636
Other Current Assets	2,50,979	1,66,539	1,69,804	1,73,135	1,76,532
Current liabilities & Provision	2,97,597	2,56,360	2,60,100	2,62,627	2,64,076
Net current assets	2,51,310	2,76,603	3,09,449	3,48,975	3,96,086
Misc. exp	0	0	0	0	0
Total Assets	22,45,722	22,22,416	21,77,332	21,66,358	21,37,300

Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	1,32,421	1,36,375	1,44,741	1,46,583	1,45,762
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(48,905)	(53,490)	(42,886)	(47,953)	(49,718)
Operating Cashflow	2,75,323	2,46,402	2,75,414	2,69,315	2,62,053
Capital expenditure	(64,813)	(97,819)	(90,463)	(1,11,595)	(85,056)
Free Cash Flow	2,10,511	1,48,583	1,84,951	1,57,720	1,76,997
Investments	(7,625)	(29,473)	(13,787)	(22,392)	(23,260)
Other Investing Cash Flow	(33,394)	1,25,100	50,000	50,000	50,000
Investing Cashflow	(77,217)	21,885	(30,279)	(54,448)	(21,993)
Equity Capital Raised	0	17,439	0	0	0
Loans Taken / (Repaid)	(49,282)	(83,862)	(99,072)	(67,333)	(87,326)
Dividend paid (incl tax)	(68,220)	(1,08,120)	(80,982)	(84,538)	(87,401)
Other Financing Cash Flow	3,196	(34,660)	1,579	358	(732)
Financing Cashflow	(1,99,316)	(2,91,312)	(2,55,175)	(2,23,294)	(2,42,667)
Net chg in cash	(1,210)	(23,025)	(10,040)	(8,427)	(2,607)
Opening cash position	53,945	52,735	29,710	19,670	11,243
Closing cash position	52,735	29,710	19,670	11,243	8,636

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	88.8	86.2	87.3	87.0	86.6
EBIT Margin	57.7	54.7	54.7	53.9	53.1
Effective Tax Rate	19.2	16.9	20.0	20.0	20.0
Net Margin	34.6	33.4	33.3	34.8	36.3
ROCE	11.0	10.9	11.2	11.4	11.6
ROE	19.4	18.3	17.1	16.7	16.2
RoIC	11.5	11.0	11.0	11.1	11.2

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	24.9	19.1	19.3	20.2	20.9
CEPS	47.3	37.1	38.3	39.5	40.2
BVPS	133.0	109.2	116.9	125.0	133.3
DPS	13.0	15.5	11.6	12.1	12.5

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	8.1	10.5	10.4	9.9	9.6
P/CEPS	4.5	5.7	5.5	5.3	5.2
P/BV	1.5	1.8	1.7	1.6	1.5
EV / Sales	6.4	6.8	6.5	6.3	6.2
EV / EBITDA	7.3	7.9	7.4	7.3	7.2
Dividend Yield (%)	6.5	7.7	5.8	6.0	6.2

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	2.0	1.7	1.5	1.3	1.2
Net Debt/EBIDTA	4.1	3.8	3.5	3.3	3.1
Working Cap Cycle (days)	192.4	225.7	261.2	304.1	352.4

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4.1	6.0	1.4	0.1	(1.0)
EBITDA	1.1	2.8	2.8	(0.2)	(1.5)
EBIT	(1.2)	0.5	1.4	(1.4)	(2.5)
PAT	10.4	43.2	(21.0)	4.4	3.4

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue	97,766	99,292	1,00,010	1,02,212	1,04,461
EBITDA	90,904	84,470	86,209	82,408	88,817
EBITDA Margin (%)	93.0	85.1	86.2	80.6	85.0
PAT	60,854	33,383	33,494	43,206	37,659
EPS (Rs)	8.7	4.8	4.8	6.2	5.4

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	51.3	51.3	51.3	51.3	51.3
FIs	28.3	27.9	28.2	29.4	30.3
DIs	13.8	8.4	8.4	16.0	15.2
Public and Others	6.5	12.4	12.1	3.3	3.2

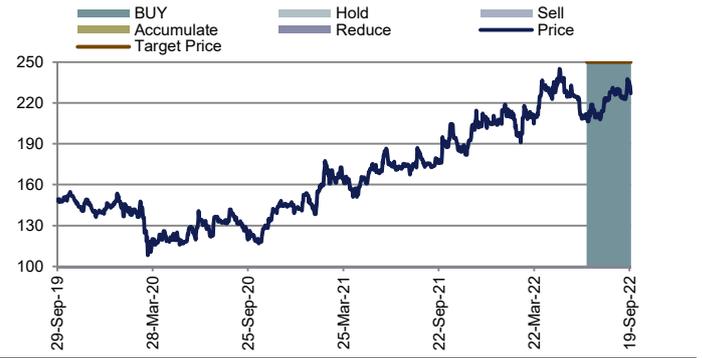
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Sep-22	223	250	12m	Buy	Abhineet Anand
30-Jun-22	212	250	12m	Buy	Abhineet Anand

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Eng. & Capital Goods, Infra, Power



Analyst: Abhineet Anand

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Sector

Engineering, Infra and Power

Analyst bio

Abhineet has experience of over 19 years in Engineering, Infrastructure and Power sectors as Analyst, Consultant and Engineer. Abhineet has completed his B.E. in Mechanical Engineering and PGDM in Finance from IIM Kozhikode.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Engineering & Capital Goods, Infra, Power	3.70	3.70	0%	0	100.00	
Action Construction Equipments	0.00	0.00	NA	0	0.00	0
HG Infra Engineering	0.00	0.00	NA	0	0.00	0
Kalpataru Power	0.00	0.21	NA	21	5.61	0
KEC International	0.00	0.21	NA	21	5.68	0
Larsen & Toubro	2.19	1.55	-29%	-65	41.76	0
CESC	0.00	0.36	NA	36	9.74	0
NHPC	0.10	0.00	-100%	-10	0.00	0
NTPC	0.74	0.74	0%	0	19.97	0
Power Grid Corporation	0.67	0.64	-5%	-4	17.25	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	27-Sep-21	28-Mar-22	27-Jun-22	26-Aug-22	26-Sep-22
EAP - Engineering & Capital Goods, Infra, Power	100.0	130.3	130.2	115.5	119.3	112.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	125.2	127.2	115.4	118.2	112.7

*Performance measurement base date 1st April 2019

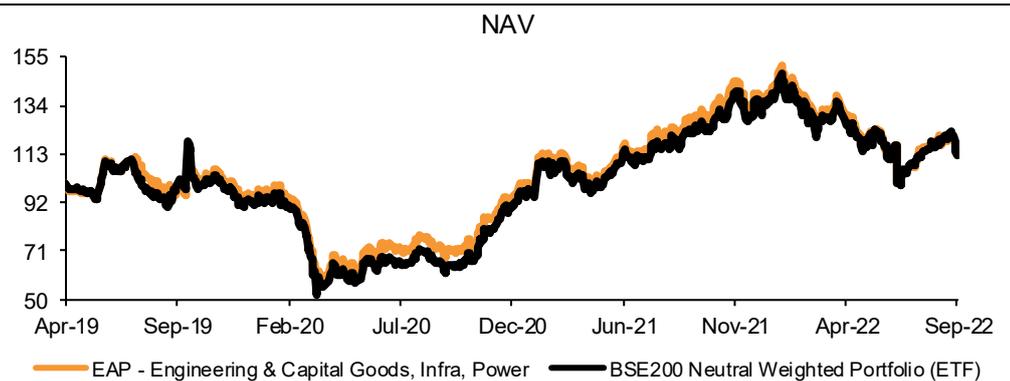
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Engineering & Capital Goods, Infra, Power	-5.9%	-2.8%	-13.8%	-13.8%
BSE200 Neutral Weighted Portfolio (ETF)	-4.7%	-2.4%	-11.4%	-10.0%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 27 Sep 2022 17:37:44 (SGT)

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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