

Muted performance...

About the stock: Power Grid is India's largest power transmission utility with transmission lines of 172662 ckt km and 485750 MVA of transformation capacity.

- Power Grid transmits about 50% of total power generated in India on its transmission network
- It also undertakes transmission related consultancy to more than 150 domestic clients and owns & operates 71673 km of telecom network

Q1FY23 Results: Power Grid reported reasonable set of Q1FY23 revenues. As per our expectations, growth rates in the transmission business have settled in the single digit domain given peak of transmission capex is behind us. Going ahead, we believe the roadmap in terms of getting new projects in the renewable segment and likely diversification in the distribution business will set the tone for growth trajectory.

- Reported revenues came in at ₹ 10446.1 crore vs. our estimate of ₹ 10387.3 crore, implying growth of 6.8% YoY. However, transmission segment revenues were at ₹ 10215.5 crore, up 5% YoY (vs. our estimate of ₹ 10073.7 crore)
- Capitalisation of ₹ 1345 crore in Q1FY23 with capex of ₹ 1482 crore

What should investors do? Power Grid has been a steady performer on account of strong asset addition in FY16-20. With relatively small size of renewable projects, growth rate will taper down for the stock supported by decent dividend yield but it has been discounted while new business initiatives will take time to show results.

- Maintain **HOLD** rating on the stock

Target Price and Valuation: We value the stock at ₹ 233 at 1.9x FY24E book value.

Key triggers for future price performance:

- Diversification into smart metering and T&D infrastructure business

Alternate Stock Idea: In the power space, we are bullish on NTPC's prospects

- Strong focus on green energy portfolio, capacity addition in base business with growth in regulated ROE. BUY with a target price of ₹ 190/share, (1.4x FY24E book value)



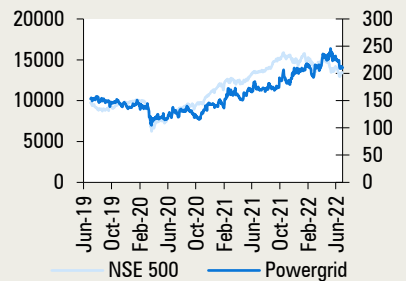
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	156938
Total Debt (FY22) (₹ Crore)	130975
Cash and Investments (FY21) (₹ Crore)	2488
EV (₹ Crore)	285424.5
52 week H/L (₹)	245 / 134
Equity capital (₹ Crore)	6975.5
Face value	₹ 10

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	51.3%	51.3%	51.3%	51.3%
FII	27.9%	28.2%	29.4%	30.3%
DII	8.4%	8.4%	16.0%	15.2%
Others	12.4%	12.1%	3.3%	3.2%

Price Chart



Recent event & key risks

- Key Risk:** (i) Higher than expected IRR's in TBCB projects and ii) Delay in tendering of projects

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Key Financial Summary

₹ Crore	FY20	FY21	FY22E	5 Year CAGR (FY16-21E)	FY23E	FY24E	CAGR (FY22-24E)
Net Sales	34119.1	37665.7	39928.1	12.6%	43404.3	45423.9	6.7%
EBITDA	29282.1	33055.9	34921.7	13.8%	38143.7	40058.3	7.1%
Net Profit	9938.9	11935.8	17093.8	14.6%	13802.0	14666.5	-7.4%
EPS (₹)	19.0	17.1	24.5		19.8	21.0	
P/E	11.9	13.3	9.3		11.5	10.8	
P/BV	2.2	2.3	2.1		2.0	1.8	
RoNW (%)	15.3	17.7	23.0		17.3	17.1	
RoCE (%)	5.3	6.5	7.4		8.1	8.6	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Muted Quarter

- Reported revenues came in at ₹ 10446.1 crore vs. our estimate of ₹ 10387.3 crore, implying growth of 6.8% YoY. However, transmission segment revenues came in at ₹ 10215.5 crore, up 5% YoY (vs. our estimate of ₹ 10073.7 crore). Revenues from telecom, consultancy segment came in at ₹ 190 crore, ₹ 233.5 crore, respectively. On the other hand, consolidated revenues for Q1FY23 came in at ₹ 10266 crore vs. ₹ 9529.7 crore
- The capitalisation of assets for Q1FY23 was at ₹ 1300 crore whereas the capital spend was at ₹1500 crore during the quarter
- EBITDA also came in below estimates at ₹ 8801.8 crore vs. our estimate of ₹ 9120 crore. The key surprise came in from higher-than-expected other expenses, which led to the miss. Interest cost, which was below our estimates as it came at ₹ 1981.8 crore vs. expectations of ₹ 2300 crore
- However, PAT came in at ₹ 3765.9 crore, above our estimate of ₹ 3307.8 crore as reported effective tax rate was quite lower than expectations

Q1FY23 Earnings Conference call highlights

- The company capitalised assets to the tune of ₹ 1345 crore. The capitalisation target for FY23E at >₹ 11000 crore whereas capex will be at ₹ 8000 crore
- The capex incurred during FY22 was at ₹ 9060 crore on a consolidated basis. For FY23E and FY24E, the company expects a capex of ₹ 8000-8500 crore
- Gross block of FY22 was at ₹ 262726 crore while debt was at ₹ 129365 crore
- The company has ₹ 52000 crore of work in hand, of which, ₹ 8200 crore is for ongoing projects, ₹ 28000 crore for new projects and ₹ 15800 crore for TBCB projects
- Investments of up to ₹ 125000 crore are expected till FY27E
- CWIP as of Q1FY23 was at ₹ 13199 crore whereas debt was at ₹ 128369 crore
- Outstanding dues were at ₹ 5856 crore. Receivables days were at 63 days
- For FY23, the company expects monetisation in range of ₹ 7600 crore
- Signed MoU with MGVCL & UGVCL, Gujarat state discoms to implement advanced metering infrastructure (AMI) System for 66 lakh meters. This will be based on the DBFOOT model where the company will invest and receive monthly rentals

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total sales	10,446.1	10,387.3	9,776.6	6.8	10,221.2	2.2	Overall revenues were in line with estimates. Revenues from transmission segment revenue grew by 5% YoY
Other operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Total Income	10,446.1	10,387.3	9,776.6	6.8	10,221.2	2.2	
Personnel cost	560.5	540.1	518.3	8.2	567.5	(1.2)	
General & Admin exp	1,083.8	727.1	686.0	58.0	777.8	39.3	
Non-recurring exp							
Total expenses	1,644.3	1,267.2	1,204.3	36.5	1,345.3	22.2	
EBITDA	9,372.6	9,120.0	9,081.1	3.2	9,596.6	(2.3)	
EBITDA Margin (%)	89.7	87.8	92.9	(316.3)	93.9	(416.6)	
Depreciation	3,202.6	3,200.0	3,026.7	5.8	3,187.5	0.5	
Interest	1,981.8	2,300.0	2,297.6	(13.7)	2,102.7	(5.8)	
Other Income	570.8	570.8	508.8	12.2	720.7	(20.8)	
PBT	4,188.2	4,188.2	6,926.4	(39.5)	4,306.5	(2.7)	
Total Tax	502.3	502.3	1,359.0	(63.0)	-59.4	(945.6)	
Adjusted PAT	3,765.9	3,765.9	6,085.4	(38.1)	4,320.6	(12.8)	
Key Metrics							
Transmission	10,215.5	10,073.7	9,686.2	5.5	10,003.2	2.1	
Consultancy	233.5	182.9	152.4	53.2	259.4	(10.0)	
Telecom	190.3	130.7	118.8	60.1	173.9	9.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Revenue	43,404.3	43,404.3	0.0	45,423.9	45,423.9	0.0
EBITDA	38,143.7	38,143.7	0.0	40,058.3	40,058.3	0.0
EBITDA Margin (%)	87.9	87.9	0.0	88.2	88.2	0.0
PAT	13,802.0	13,802.0	0.0	14,666.5	14,666.5	0.0
EPS (₹)	18.5	18.5	0.0	20.0	20.0	0.0

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	37,666	39,928	43,404	45,424
Growth (%)	10	6	9	5
Employee Expenses	2,111	2,235	2,282	2,442
Other expenses	2,499	2,772	2,978	2,923
Total Operating Expenditure	4,610	5,006	5,261	5,366
EBITDA	33,056	34,922	38,144	40,058
Growth (%)	13	6	9	5
Depreciation	11,712	12,551	12,917	13,710
Interest	8,501	8,211	10,284	10,438
Other Income	2,861	2,408	2,528	2,655
PBT	15,705	16,568	17,471	18,565
Others	2	3	4	5
Total Tax	3,089	2,711	3,669	3,899
PAT	11,936	17,094	13,802	14,667
Growth (%)	9	10	43	-19
EPS (₹)	17.1	24.5	19.8	21.0

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit Before Tax	15,025	19,805	17,471	18,565
Add: Depreciation	11,712	12,551	12,917	13,710
(Inc)/dec in Current Assets	-2,534	-853	-513	-1,247
Inc/(dec) in CL and Provisions	4,297	-2,657	-1,486	542
Others	6,339	6,313	7,716	7,709
CF from operating activities	34,839	35,158	36,104	39,279
(Inc)/dec in Fixed Assets	-20,685	-20,140	-20,140	-20,140
(Inc)/dec in Disposals	-375	23	22	21
Others	0	0	1	2
CF from investing activities	(21060)	(20116)	(20117)	(20117)
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	4,212	3,017	6,035	2,012
Dividend paid & dividend tax	-8,272	-10,256	-8,281	-8,800
Inc/(dec) in Sec. premium	0	0	1	2
Others	-8,501	-8,211	-10,284	-10,438
CF from financing activities	(12561)	(15450)	(12529)	(17224)
Net Cash flow	408	3,293	-2,545	2,397
Opening Cash	1,137	1,884	4,282	8,447
Closing Cash	1884	4282	8447	9389

Source: Company, ICICI Direct

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	5,232	5,232	5,232	5,232
Reserve and Surplus	62,385	69,223	74,744	80,610
Total Shareholders funds	67,617	74,455	79,975	85,842
Total Debt	1,65,277	1,68,294	1,74,329	1,76,341
AAD	0	0	0	0
Minority Interest / Others	3,827	3,827	3,827	3,827
Total Liabilities	236721	246576	258132	266010
Assets				
Gross Block	2,73,693	2,92,833	3,11,973	3,31,113
Less: Acc Depreciation	83,866	96,416	1,09,333	1,23,043
Net Block	1,89,828	1,96,417	2,02,640	2,08,071
Capital WIP	56,810	57,810	58,810	59,810
Total Fixed Assets	2,46,638	2,54,227	2,61,450	2,67,881
Investments	1,380	1,356	1,334	1,313
Inventory	1,440	1,565	1,648	1,585
Debtors	3,955	4,192	4,557	4,770
Loans and Advances	10,199	10,811	11,752	12,299
Other Current Assets	4,520	4,791	5,209	5,451
Cash	1,884	4,282	8,447	9,389
Total Current Assets	21,998	25,642	31,614	33,494
Current liabilities	21,780	22,372	23,409	23,975
Other Liabilities	6,997	7,761	8,339	8,185
Total Current Liabilities	28,777	30,132	31,749	32,160
Net Current Assets	-11,297	-9,008	-4,652	-3,182
Others Assets				
Application of Funds	236721	246576	258132	266011

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	17.1	24.5	19.8	21.0
Cash EPS	33.9	42.5	38.3	40.7
BV	96.9	106.7	114.7	123.1
DPS	13.4	14.7	11.9	12.6
Cash Per Share	2.7	6.1	12.1	13.5
Operating Ratios (%)				
EBITDA Margin	87.8	87.5	87.9	88.2
PBT / Total Operating income	41.7	41.5	40.3	40.9
PAT Margin	31.7	42.8	31.8	32.3
Debtor days	38.3	38.3	38.3	38.3
Return Ratios (%)				
RoE	17.7	23.0	17.3	17.1
RoCE	6.5	7.4	8.1	8.6
RoIC	6.6	7.5	8.4	8.9
Valuation Ratios (x)				
P/E	13.3	9.3	11.5	10.8
EV / EBITDA	8.5	8.1	7.5	7.1
EV / Net Sales	7.5	7.1	6.6	6.3
Market Cap / Sales	3.2	3.0	2.7	2.6
Price to Book Value	2.3	2.1	2.0	1.8
Solvency Ratios				
Debt/EBITDA	5.0	4.8	4.6	4.4
Debt / Equity	2.4	2.3	2.2	2.1
Current Ratio	0.8	0.9	1.0	1.0
Quick Ratio	0.1	0.1	0.3	0.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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