

Stable performance...

About the stock: Powergrid is India's largest power transmission utility with transmission lines of 173790 ckt km and 493000 MVA of transformation capacity.

- Powergrid transmits about 45% of the 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

Q3FY23 Results: Revenues for Powergrid have been growing in single digits for the past many quarters given lower capex and lower addition of large transmission projects. This quarter was no exception. PAT was a tad higher than estimates mainly on account of lower tax rate and higher other income.

- Revenue from operations for the quarter increased 7.5% YoY to ₹ 10746.4 crore; largely in line with our estimate of ₹ 10856 crore. From a segmental perspective, core transmission revenues grew 7% YoY
- Capitalisation of ₹ 2057 crore in Q3FY23 with capex of ₹ 2210 crore

What should investors do? Powergrid has been a steady performer on account of strong asset addition in FY16-20. With relatively small sizes of renewable projects, growth rate will taper down for the stock supported by decent dividend yield but the same 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 ₹ 230 at 1.9x FY24E book value.

Key triggers for future price performance:

- Diversification into smart metering and T&D infrastructure business

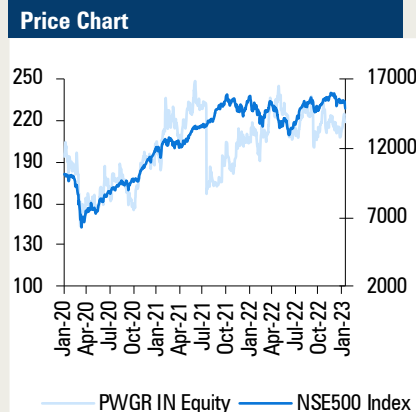
Alternate Stock Idea: In the power space, we are bullish on NTPC's prospects

- Strong focus on green energy portfolio, capacity addition in base business with growth in regulated RoE. BUY with a target of ₹ 207/share, (1.4x FY24E Book Value)



Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	148568
Total Debt (FY22) (₹ Crore)	130975
Cash and Investments (FY22) (₹ Crore)	2488
EV (₹ Crore)	277054.5
52 week H/L (₹)	245 / 134
Equity capital (₹ Crore)	6975.5
Face value	₹ 10

Shareholding pattern				
	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	51.3	51.3	51.3	51.3
FII	29.4	30.3	31.7	32.8
DII	16.0	15.2	13.8	12.7
Others	3.3	3.2	3.2	3.2



Recent event & key risks

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

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Key Financial Summary

₹ Crore	FY20	FY21	FY22E	5 Year CAGR (FY16-21E)	FY23E	FY24E	CAGR (FY21-24E)
Net Sales	34119.1	37665.7	39928.1	12.6%	43404.3	45423.9	6.4%
EBITDA	29282.1	33055.9	34921.7	13.8%	38143.7	40058.3	6.6%
Net Profit	9938.9	11935.8	17093.8	14.6%	13802.0	14666.5	7.1%
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

Conference call highlights

- The company capitalised assets to the tune of ₹ 5190 crore whereas in 9MFY23, the same was at ₹ 2886 crore YoY. The capex incurred during 9MFY23 was at ₹ 5429 crore on a consolidated basis. For FY23E and FY24E, the company expects to a capex of ₹ 8000-8800 crore
- Consolidated gross block as of 9MFY23 was at ₹ 268903 crore while debt was at ₹ 128476 crore. CWIP as of Q3FY23 was at ₹ 13427 crore vs. ₹ 13677 crore in Q3FY22. The company has invested ₹ 3297 and ₹ 441 crore equity in operational TBCB and Under construction TBCB projects, respectively
- As per the National Electricity Plan for transmission, total estimated investment in transmission sector over FY23-32 is ₹ 240000 crore for integration of >500 GW of renewable capacity
- The company expects transmission bidding to pick up in FY23-24. Already bids for projects worth ₹ 22000 crore have been submitted while another ₹ 33000 crore worth of projects has been approved and will be bid out shortly
- Powergrid has won two out of five TBCB projects awarded in FY23 till date. However, competition in case of upcoming bids is expected to be heavy, which will impact margins. Maintaining its market share, the company have to bid at lower margins, which will impact the IRRs
- Average cost of borrowing was at 7.08% in 9MFY23 vs. 6.3% in H1FY23
- The company has ₹ 47600 crore of work in hand, of which, ₹ 7600 crore is for ongoing projects, ₹ 27000 crore for new projects and ₹ 13000 crore for TBCB projects
- Outstanding dues were at ₹ 6043 crore in Q3FY23 vs. ₹4868 crore in Q2FY23. Receivables days were at 47.6 days
- Since interest rates have increased, yield expectations have gone up, resulting in a decline in the fair value of assets which PGCIL has identified for monetisation. PGCIL is contemplating securitisation of cash flow to raise funds instead of asset monetisation
- Power Grid initiated procurement process for end-to-end smart metering solution for 1 crore smart meters. 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 with WACC of 10% post tax. Remaining 34 lakh meters will also get consumed in Gujarat itself. Single phased per meter cost is at ₹ 7500
- Power Grid's first commercial Solar PV Project of 85 MW at Nagda. Feasibility study has been completed. Bids to be opened shortly

Exhibit 1: Variance Analysis

	Q2FY23	Q1FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total sales	10,655.7	10,580.3	9,929.2	7.3	10,446.1	2.0	Revenues from transmission segment revenue grew by 7% YoY and where higher than estimates
Other operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Total Income	10,655.7	10,580.3	9,929.2	7.3	10,446.1	2.0	
Personnel cost	658.5	581.9	537.9	22.4	560.5	17.5	
General & Admin exp	1,039.1	656.0	606.2	71.4	1,083.8	(4.1)	
Non-recurring exp							
Total expenses	1,697.6	1,237.9	1,144.1	48.4	1,644.3	3.2	
EBITDA	9,492.9	9,342.4	9,327.9	1.8	9,372.6	1.3	
EBITDA Margin (%)	89.1	88.3	93.9	(485.6)	89.7	(63.6)	
Depreciation	3,219.3	3,250.0	3,143.5	2.4	3,202.6	0.5	
Interest	2,205.8	2,000.0	1,959.0	12.6	1,981.8	11.3	
Other Income	534.7	570.8	542.8	(1.5)	570.8	(6.3)	
PBT	4,067.8	4,188.2	4,225.4	(3.7)	4,188.2	(2.9)	
Total Tax	382.7	502.3	549.0	(30.3)	502.3	(23.8)	
Adjusted PAT	3,651.0	3,765.9	3,338.3	9.4	3,765.9	(3.1)	
Key Metrics							
Transmission	10,411.8	10,182.4	9,697.6	7.4	10,215.5	1.9	
Consultancy	139.2	197.3	188.0	-25.9	233.5	(40.4)	
Telecom	205.0	200.5	191.0	7.3	190.3	7.7	

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	FY22	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 (%)	10	43	-19	6
EPS (₹)	17.1	24.5	19.8	21.0

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	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	FY22	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	FY22	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	12.4	8.7	10.8	10.1
EV / EBITDA	8.3	7.9	7.3	6.9
EV / Net Sales	7.3	6.9	6.4	6.1
Market Cap / Sales	3.0	2.8	2.6	2.5
Price to Book Value	2.2	2.0	1.9	1.7
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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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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