

Stable performance...

About the stock: Powergrid is India's largest power transmission utility with transmission lines of 174113 ckt km and 499360 MVA of transformation capacity.

- Powergrid transmits about 45% 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

Q4FY23 Results: Core transmission income above estimates.

- Revenue from operations for the quarter increased 12.5% YoY to ₹ 11494.9 crore, which was higher than our estimate of ₹ 10876.3 crore. From a segmental perspective, core transmission revenues surprised positively by growing 15% YoY at ₹ 11502.3 crore vs. our estimate of ₹ 10503.4 crore. Consultancy income was at ₹ 208.8 crore, higher than our estimates as well. On a consolidated basis, revenues grew 14.8% at ₹ 12263.7 crore
- Capitalisation of ₹ 7413 crore in FY23 with capex of ₹ 9212 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, the 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.

- We maintain **HOLD** rating on the stock

Target Price and Valuation: We value the stock at ₹ 236 at 1.8x FY25E book value.

Key triggers for future price performance:

- Pick-up in T&D capex and 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 ₹ 210/share, (1.3x FY25E book value)



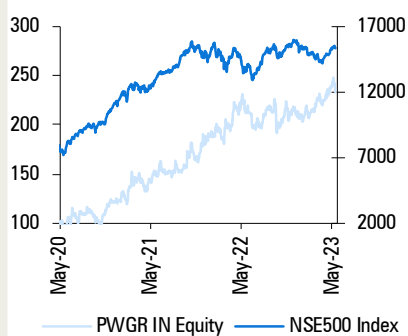
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	163913
Total Debt (FY23) (₹ Crore)	126000
Cash and Investments (FY22) (₹ Crore)	2488
EV (₹ Crore)	287424.5
52 week H/L (₹)	245 / 134
Equity capital (₹ Crore)	6975.5
Face value	₹ 10

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	51.3	51.3	51.3	51.3
FII	30.2	31.7	32.8	32.3
DII	15.2	13.8	12.7	13.4
Others	3.3	3.2	3.2	3.0

Price Chart



Recent event & key risks

- **Key Risk:** (i) Higher than expected IRRs in TBCB projects, (ii) Delay in tendering of projects

Research Analyst

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Key Financial Summary

₹ Crore	FY21	FY22E	FY23E	5 Year CAGR (FY18-23)	FY24E	FY25E	CAGR (FY23-25E)
Net Sales	34119.1	39928.1	43343.1	12.6%	47682.8	49551.6	6.9%
EBITDA	29282.1	35318.4	38336.7	13.8%	41613.5	43649.4	6.7%
Net Profit	9938.9	17093.8	15333.3	14.6%	18542.2	18925.9	11.1%
EPS (₹)	19.0	24.5	22.0		26.6	27.1	
P/E	11.9	9.3	10.3		8.5	8.4	
P/BV	2.3	2.2	2.0		1.9	1.8	
RoNW (%)	15.3	22.9	19.2		21.7	20.7	
RoCE (%)	5.3	6.3	7.0		7.9	8.4	

Key takeaways of recent quarter & conference call highlights

Analyst meet highlights

- The company capitalised assets to the tune of ₹ 7413 crore whereas the same in Q4FY23 was at ₹ 2223 crore. For FY24, the company has guided for capitalisation of ₹ 10000-11000 crore
- The capex target will be at ₹ 8800 crore for FY24 while the same for FY23 was at ₹ 9212 crore and for Q4FY3 was at ₹ 3783 crore
- Gross block as of FY23 was at ₹ 270108 crore while debt was at ₹ 125895 crore. CWIP as of FY23 was at ₹ 14752 crore
- The company has ₹ 50000 crore of work in hand, of which, ₹ 11500 crore is for ongoing projects, ₹ 25500 crore for new RTM projects and ₹ 13000 crore for TBCB projects
- As per management estimates, total estimated investment in transmission sector over FY23E-27E is ₹ 400000 crore, of which ₹ 190000 crore is for interstate and ₹ 196000 crore for Intra state transmission network. Some delay was witnessed in the intra state transmission ordering while interstate segment is witnessing traction
- Outstanding dues >45 days were at ₹ 2966 crore in Q4FY23 vs. ₹ 6043 crore in Q3FY23. Receivable days were at 24.5 days
- The management has hived off the consultancy and telecom business in two different subsidiaries. The company expects to see strong growth prospects in the telecom business and expects the turnover to cross ₹ 1000 crore in FY24E

ESG Disclosure Score			
Score	FY19	FY20	FY21
Environmental	33.8	40.6	40.6
Social	33.9	33.9	33.9
Governance	96.1	98.6	93.6
Overall ESG Score	54.7	57.8	56.1

Exhibit 1: Variance Analysis

	Q4FY23	Q1FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total sales	11,494.9	10,876.3	10,221.2	12.5	10,746.4	7.0	Revenues from transmission segment grew by 15% YoY and were higher than estimates
Other operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Total Income	11,494.9	10,876.3	10,221.2	12.5	10,746.4	7.0	
Personnel cost	674.2	619.9	567.5	18.8	611.8	10.2	
General & Admin exp	686.3	815.7	777.8	(11.8)	755.1	(9.1)	
Non-recurring exp							
Total expenses	1,360.4	1,435.7	1,345.3	1.1	1,366.9	(0.5)	
EBITDA	10,927.9	9,440.6	9,596.6	13.9	10,105.6	8.1	
EBITDA Margin (%)	95.1	86.8	93.9	117.8	94.0	103.0	
Depreciation	3,213.9	3,304.1	3,187.5	0.8	3,304.1	(2.7)	
Interest	2,520.0	2,750.0	2,102.7	19.8	3,036.7	(17.0)	
Other Income	793.4	534.7	720.7	10.1	726.1	9.3	
PBT	5,194.0	4,067.8	4,306.5	20.6	3,764.8	38.0	
Total Tax	956.2	382.7	-59.4	(1,709.7)	296.9	222.0	
Adjusted PAT	4,214.4	3,651.0	4,320.6	(2.5)	3,701.7	13.8	
Key Metrics							
Transmission	11,502.3	10,503.4	10,003.2	15.0	10,517.6	9.4	
Consultancy	-15.7	181.6	259.4	-106.0	171.7	(109.1)	
Telecom	208.8	191.3	173.9	20.0	209.6	(0.4)	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Revenue	45,423.9	47,682.8	5.0	-	49,551.6	
EBITDA	40,058.3	41,613.5	3.9	-	43,649.4	
EBITDA Margin (%)	87.9	87.3	(0.7)	-	88.1	
PAT	14,666.5	18,542.2	26.4	-	18,925.9	
EPS (₹)	21.0	26.6	26.7	-	27.1	

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Total operating Income	39,928	43,343	47,683	49,552
Growth (%)	17	9	10	4
Employee Expenses	2,111	2,235	2,505	2,687
Other expenses	2,499	2,772	3,564	3,216
Total Operating Expenditure	4,610	5,006	6,069	5,902
EBITDA	35,318	38,337	41,614	43,649
Growth (%)	21	9	9	5
Depreciation	12,551	12,940	13,710	14,502
Interest	8,211	9,744	8,619	8,951
Other Income	2,408	2,625	2,888	3,119
PBT	16,965	18,278	22,173	23,315
Others	2	3	4	5
Total Tax	2,711	2,138	3,798	4,154
PAT	17,094	15,333	18,542	18,926
Growth (%)	43	-10	21	2
EPS (₹)	24.5	22.0	26.6	27.1

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit Before Tax	19,805	17,471	22,340	23,080
Add: Depreciation	12,551	12,940	13,710	14,502
(Inc)/dec in Current Assets	-853	-513	-1,247	-2,100
Inc/(dec) in CL and Provisions	-2,657	-1,486	542	2,600
Others	6,313	8,248	5,961	6,042
CF from operating activities	35,158	36,659	41,305	44,124
(Inc)/dec in Fixed Assets	-20,140	-20,140	-20,140	-20,140
(Inc)/dec in Disposals	23	22	21	20
Others	0	1	2	3
CF from investing activities	(20116)	(20117)	(20117)	(20117)
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	3,017	6,035	2,012	1,000
Dividend paid & dividend tax	-10,040	-10,040	-12,979	-12,869
Inc/(dec) in Sec. premium	0	1	2	3
Others	-8,211	-9,744	-8,619	-8,951
CF from financing activities	(15233)	(13748)	(19584)	(20817)
Net Cash flow	3,293	-2,545	2,614	5,292
Opening Cash	4,498	4,498	9,790	9,213
Closing Cash	4498	9790	9213	10696

Source: Company, ICICI Direct

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	5,232	5,232	5,232	5,232
Reserve and Surplus	69,439	74,733	80,295	86,351
Total Shareholders funds	74,671	79,964	85,527	91,583
Total Debt	1,68,294	1,74,329	1,76,341	1,77,341
AAD	0	0	0	0
Minority Interest / Others	3,827	3,827	3,827	3,827
Total Liabilities	246792	258121	265695	272752
Assets				
Gross Block	2,92,833	3,11,973	3,31,113	3,50,254
Less: Acc Depreciation	96,416	1,09,356	1,23,066	1,37,568
Net Block	1,96,417	2,02,617	2,08,048	2,12,686
Capital WIP	57,810	58,810	59,810	60,810
Total Fixed Assets	2,54,227	2,61,427	2,67,858	2,73,496
Investments	1,356	1,334	1,313	1,293
Inventory	1,565	1,973	1,744	1,811
Debtors	4,192	4,551	5,007	5,203
Loans and Advances	10,811	11,736	12,911	13,417
Other Current Assets	4,791	5,201	5,722	5,946
Cash	4,498	9,790	9,213	10,696
Total Current Assets	25,858	33,251	34,597	37,072
Current liabilities	22,372	23,394	24,551	25,053
Other Liabilities	7,761	9,980	9,003	9,539
Total Current Liabilities	30,132	33,374	33,555	34,592
Net Current Assets	-8,791	-4,640	-3,475	-2,037
Others Assets				
Application of Funds	246792	258121	265695	272752

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	24.5	22.0	26.6	27.1
Cash EPS	42.5	40.5	46.2	47.9
BV	107.0	114.6	122.6	131.3
DPS	13.4	14.4	14.4	18.6
Cash Per Share	6.4	14.0	13.2	15.3
Operating Ratios (%)				
EBITDA Margin	88.5	88.4	87.3	88.1
PBT / Total Operating income	42.5	42.2	46.5	47.1
PAT Margin	42.8	35.4	38.9	38.2
Debtor days	38.3	38.3	38.3	38.3
Return Ratios (%)				
RoE	22.9	19.2	21.7	20.7
RoCE	6.3	7.0	7.9	8.4
RoIC	6.4	7.3	8.1	8.7
Valuation Ratios (x)				
P/E	9.6	10.7	8.8	8.7
EV / EBITDA	8.1	7.5	7.0	6.6
EV / Net Sales	7.2	6.6	6.1	5.8
Market Cap / Sales	3.1	2.8	2.6	2.5
Price to Book Value	2.2	2.0	1.9	1.8
Solvency Ratios				
Debt/EBITDA	4.8	4.5	4.2	4.1
Debt / Equity	2.3	2.2	2.1	1.9
Current Ratio	0.9	1.0	1.0	1.1
Quick Ratio	0.1	0.3	0.3	0.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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