

UBS Investment Research

Power Grid Corporation of India

Meeting with management—key takeaways

■ We met with Power Grid on Friday in Gurgaon

We met with the management of Power Grid Corporation of India (Power Grid) to get an update on the company. This was our first meeting with the company post FY11 results. We discussed the outlook for the power transmission equipment manufacturing sector. We remain positive on the company after our meeting.

■ The capex trend has been strong in the current Five Year Plan

Power Grid has set a target of Rs550bn capex in the Eleventh Five Year Plan (FY08-FY12). To achieve the target, the company will have to incur ~Rs177bn of capex in FY12. We believe that even in the worst-case scenario, ~90-95% of the target can be achieved. We think this is a strong positive as the company's business model is strongly linked to the capex incurred and the commissioning of its projects.

■ Competition to remain intense in transmission equipment sector

After our discussions with Power Grid, we believe that power transmission equipment manufacturing may continue to see strong competition. The reasons for this are continued high imports from China and the relatively small domestic manufacturers improving their technological capability.

■ Valuation: maintain Buy rating and price target of Rs135

We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume a WACC of 10.1%. We believe that Power Grid is a defensive stock in a natural monopoly sector and it will be a key beneficiary of growth in the transmission sector.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	57,103	71,275	90,202	103,075	118,734
EBIT (UBS)	35,128	38,897	54,960	63,535	74,077
Net Income (UBS)	17,243	21,372	25,707	29,378	34,257
EPS (UBS, Rs)	4.10	5.08	6.11	6.98	8.14
Net DPS (UBS, Rs)	1.20	1.30	1.40	1.50	1.60

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	60.0	54.6	60.9	61.6	62.4
ROIC (EBIT) %	9.1	9.2	11.3	11.2	11.2
EV/EBITDA (core) x	-	12.4	9.7	9.1	7.8
PE (UBS) x	-	21.3	16.5	14.5	12.4
Net dividend yield %	-	1.2	1.4	1.5	1.6

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs100.95 on 03 Jun 2011 23:38 SGT

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Global Equity Research

India

Industrial, Diversified

12-month rating **Buy**
Unchanged

12m price target **Rs135.00/US\$3.01**
Unchanged

Price **Rs100.95/US\$2.25**

RIC: PGRD.BO BBG: PWGR IB

6 June 2011

Trading data (local/US\$)

52-wk range	Rs111.80-93.80/US\$2.53-2.04
Market cap.	Rs425bn/US\$9.47bn
Shares o/s	4,209m (ORD)
Free float	14%
Avg. daily volume ('000)	3,181
Avg. daily value (m)	Rs321.4

Balance sheet data 03/11E

Shareholders' equity	Rs178bn
P/BV (UBS)	2.4x
Net Cash (debt)	(Rs357bn)

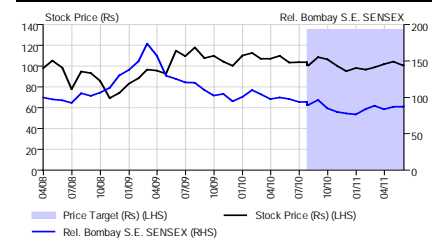
Forecast returns

Forecast price appreciation	+33.7%
Forecast dividend yield	1.5%
Forecast stock return	+35.2%
Market return assumption	13.1%
Forecast excess return	+22.1%

EPS (UBS, Rs)

	03/11E	03/10	Actual
	UBS	Cons.	
Q1E	1.34	-	1.30
Q2E	1.47	-	1.09
Q3E	1.59	1.59	1.16
Q4E	1.71	1.71	1.53
03/11E	6.11	6.11	
03/12E	6.98	6.98	

Performance (Rs)



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 ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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Meeting with Power Grid: key takeaways

We met with Power Grid's management on Friday to get an update on the company. This was our first meeting with the company post FY11 results.

The key takeaways from the meeting are as follows:

Capex

1. Power Grid has set a target of Rs550bn capex in the Eleventh Five Year Plan (FY08-FY12).
2. We believe the company can achieve ~90-95% of the target for the current plan period even in the worst-case scenario.
3. The company's business model is strongly linked to the capex incurred and the commissioning of its projects.

Transmission equipment sector

1. After our discussions with Power Grid, we believe the power transmission equipment space may continue to see strong competition.
2. The reasons for this are continued high imports from China and the relatively smaller domestic manufacturers improving their technological capability.

We remain positive on the stock. We maintain that Power Grid is a defensive stock in a natural monopoly sector and it will be a key beneficiary of growth in the transmission sector. It already has more than 50% market share and we expect this to increase. We believe Power Grid has significant advantages: 1) the low-risk nature of its business, with ROE of 15.5% plus incentives totalling 17-18%; and 2) as the central transmission utility, it has been assigned the role of coordinator in the sector.

Power Grid Corporation of India

Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	31,454	35,899	46,149	57,103	71,275	90,202	26.6	103,075	14.3	118,734	15.2
Operating expenses (ex dephn)	(4,791)	(6,309)	(8,605)	(11,036)	(12,581)	(13,764)	9.4	(15,119)	9.8	(16,715)	10.6
EBITDA (UBS)	26,663	29,590	37,544	46,067	58,694	76,438	30.2	87,956	15.1	102,019	16.0
Depreciation	(7,443)	(8,276)	(9,597)	(10,940)	(19,797)	(21,478)	8.5	(24,421)	13.7	(27,942)	14.4
Operating income (EBIT, UBS)	19,220	21,314	27,948	35,128	38,897	54,960	41.3	63,535	15.6	74,077	16.6
Other income & associates	148	2,229	1,989	954	(519)	4,399	-	4,997	13.6	5,760	15.3
Net interest	(6,950)	(8,818)	(10,810)	(13,459)	(11,152)	(26,150)	134.5	(30,560)	16.9	(35,705)	16.8
Abnormal items (pre-tax)	(1,303)	(1,324)	(1,821)	(1,239)	(963)	0	-	0	-	0	-
Profit before tax	11,115	13,402	17,306	21,384	26,263	33,209	26.4	37,973	14.3	44,132	16.2
Tax	(1,601)	(2,525)	(2,821)	(5,380)	(5,854)	(7,502)	28.2	(8,595)	14.6	(9,875)	14.9
Profit after tax	9,514	10,877	14,486	16,004	20,409	25,707	26.0	29,378	14.3	34,257	16.6
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	9,514	10,877	14,486	16,004	20,409	25,707	26.0	29,378	14.3	34,257	16.6
Net Income (UBS)	10,817	12,201	16,306	17,243	21,372	25,707	20.3	29,378	14.3	34,257	16.6
Tax rate (%)	14	19	16	25	22	23	1.3	23	0.2	22	-1.1
Pre-abnormal tax rate (%)	13	17	15	24	22	23	5.1	23	0.2	22	-1.1
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	289.17	2.93	3.60	3.80	4.85	6.11	26.0	6.98	14.3	8.14	16.6
EPS (UBS)	328.77	3.29	4.05	4.10	5.08	6.11	20.3	6.98	14.3	8.14	16.6
Net DPS	-	-	1.10	1.20	1.30	1.40	7.7	1.50	7.1	1.60	6.7
Cash EPS	555.00	5.52	6.44	6.70	9.78	11.21	14.6	12.78	14.0	14.78	15.6
BVPS	23.46	25.43	32.08	34.73	37.87	42.38	11.9	47.65	12.4	53.96	13.3
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	249,318	312,713	361,133	444,144	524,834	600,861	14.5	688,647	14.6	794,152	15.3
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	(13,536)	(25,227)	(15,138)	(24,292)	(37,432)	(49,995)	33.6	(50,539)	1.1	(50,080)	-0.9
Other liabilities	(14,077)	(18,844)	(24,377)	(29,235)	(31,160)	(30,053)	-3.6	(29,001)	-3.5	(28,002)	-3.4
Operating invested capital	221,705	268,642	321,619	390,618	456,243	520,814	14.2	609,107	17.0	716,070	17.6
Investments	21,393	19,670	17,362	15,928	14,532	14,532	0.0	14,532	0.0	14,532	0.0
Total capital employed	243,098	288,312	338,981	406,546	470,775	535,346	13.7	623,639	16.5	730,602	17.2
Shareholders' equity	98,728	107,025	135,002	146,181	159,383	178,371	11.9	200,550	12.4	227,128	13.3
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	98,728	107,025	135,002	146,181	159,383	178,371	11.9	200,550	12.4	227,128	13.3
Net debt / (cash)	144,370	181,287	203,979	260,366	311,392	356,975	14.6	423,089	18.5	503,474	19.0
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	243,098	288,312	338,981	406,546	470,775	535,346	13.7	623,639	16.5	730,602	17.2
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	19,220	21,314	27,948	35,128	38,897	54,960	41.3	63,535	15.6	74,077	16.6
Depreciation	7,443	8,276	9,597	10,940	19,797	21,478	8.5	24,421	13.7	27,942	14.4
Net change in working capital	8,051	11,691	(10,089)	9,154	13,141	12,563	-4.4	544	-95.7	(459)	-
Other (operating)	(456)	1,946	916	163	4,448	0	-	0	-	0	-
Operating cash flow (pre tax/interest)	34,258	43,228	28,371	55,384	76,283	89,000	16.7	88,500	-0.6	101,560	14.8
Net interest received / (paid)	(6,950)	(8,794)	(10,810)	(13,459)	(15,432)	(26,150)	69.4	(30,560)	16.9	(35,705)	16.8
Dividends paid	(1,832)	(3,305)	(4,643)	(5,051)	(5,472)	(5,893)	7.7	(6,313)	7.1	(6,734)	6.7
Tax paid	(1,601)	(2,525)	(2,821)	(5,380)	(5,854)	(7,502)	28.2	(8,595)	14.6	(9,875)	14.9
Capital expenditure	(43,815)	(71,671)	(58,016)	(93,951)	(100,487)	(97,505)	-3.0	(112,206)	15.1	(133,447)	18.9
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	2,680	8,729	11,735	10,895	7,143	4,786	-33.0	5,262	10.0	5,735	9.0
Share issues	2,822	1,188	18,785	934	(968)	(6,719)	594.2	(7,199)	7.1	(7,679)	6.7
Cash flow (inc)/dec in net debt	(14,440)	(33,149)	(17,398)	(50,628)	(44,787)	(49,982)	11.6	(71,111)	42.3	(86,145)	21.1
FX / non cash items	(2,090)	(3,768)	(5,294)	(5,759)	(6,239)	4,399	-	4,997	13.6	5,760	15.3
Balance sheet (inc)/dec in net debt	(16,529)	(36,917)	(22,692)	(56,387)	(51,026)	(45,583)	-10.7	(66,114)	45.0	(80,385)	21.6
Core EBITDA	26,663	29,590	37,544	46,067	58,694	76,438	30.2	87,956	15.1	102,019	16.0
Maintenance capital expenditure	(7,443)	(8,276)	(9,597)	(10,940)	(19,797)	(21,478)	8.5	(24,421)	13.7	(27,942)	14.4
Maintenance net working capital	(8,051)	(11,691)	(10,089)	(9,154)	(13,141)	(12,563)	-4.4	(544)	-95.7	459	-
Operating free cash flow, pre-tax	11,170	9,623	38,037	25,974	25,756	42,397	64.6	62,991	48.6	74,536	18.3

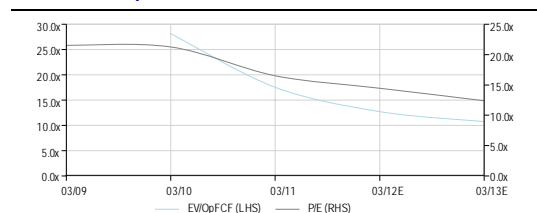
Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Power Grid Corporation of India

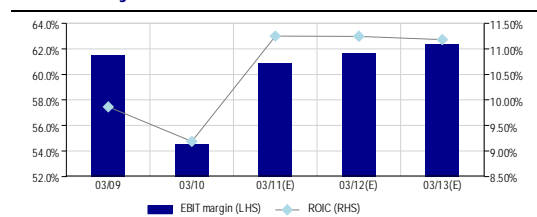
Company profile

Power Grid Corporation of India (Power Grid) is the government-appointed central power transmission utility of India. The company is one of the largest transmission utilities in the world with more than a 50% market share in India. Power Grid has diversified into telecom and established a telecom network of more than 21,000km across the country. It also has a robust consultancy business.

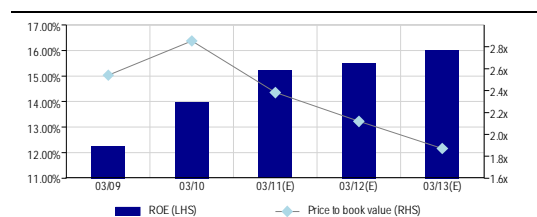
Value (EV/OpFCF & P/E)



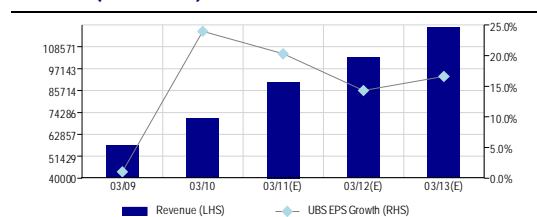
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	-	23.2	22.3	16.5	14.5	12.4
P/E (UBS)	-	21.5	21.3	16.5	14.5	12.4
P/CEPS	-	13.2	11.1	9.0	7.9	6.8
Net dividend yield (%)	-	1.4	1.2	1.4	1.5	1.6
P/BV	-	2.5	2.9	2.4	2.1	1.9
EV/revenue (core)	-	-	NM	8.3	7.8	6.7
EV/EBITDA (core)	-	-	12.4	9.7	9.1	7.8
EV/EBIT (core)	-	-	18.7	13.5	12.6	10.8
EV/OpFCF (core)	-	-	28.2	17.6	12.7	10.7
EV/op. invested capital	-	-	1.7	1.5	1.4	1.2

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	371,474	455,060	424,882	424,882	424,882
+ minority interests	0	0	0	0	0
+ average net debt (cash)	232,172	285,879	334,183	390,032	390,032
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(15,928)	(14,532)	(14,532)	(14,532)	(14,532)
Core enterprise value	-	726,406	744,533	800,382	800,382

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	22.8	23.7	24.8	26.6	14.3	15.2
EBITDA (UBS)	21.9	22.7	27.4	30.2	15.1	16.0
EBIT (UBS)	24.8	25.7	10.7	41.3	15.6	16.6
EPS (UBS)	-64.1	1.0	23.9	20.3	14.3	16.6
Cash EPS	-65.2	4.0	46.1	14.6	14.0	15.6
Net DPS	-	8.8	8.3	7.7	7.1	6.7
BVPS	13.4	8.3	9.0	11.9	12.4	13.3

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	NM	NM	NM	NM	NM	NM
EBIT / revenue	60.0	61.5	54.6	60.9	61.6	62.4
Net profit (UBS) / revenue	32.8	30.2	30.0	28.5	28.5	28.9

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	9.1	9.9	9.2	11.3	11.2	11.2
ROIC post tax	-	7.5	7.2	8.7	8.7	8.7
Net ROE	11.6	12.3	14.0	15.2	15.5	16.0

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	2.6	2.6	3.5	2.1	2.1	2.1
Dividend cover (UBS EPS)	-	3.4	3.9	4.4	4.7	5.1
Div. payout ratio (% , UBS EPS)	-	29.3	25.6	22.9	21.5	19.7
Net debt / EBITDA	5.7	5.7	5.3	4.7	4.8	4.9

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	0.2	0.2	0.2	0.2	0.2	0.2
Revenue / fixed assets	0.1	0.1	0.1	0.2	0.2	0.2
Revenue / net working capital	NM	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	0.8	0.7	0.7	0.8	1.0	1.0
Capex / revenue (%)	NM	NM	NM	NM	NM	NM
Capex / depreciation	7.0	8.6	5.1	4.5	4.6	4.8

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	NM	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	61.5	64.0	66.1	66.7	67.8	68.9
Net debt (core) / EV	-	-	39.4	44.9	48.7	48.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs100.95 on 03 Jun 2011 23:38 SGT Market cap(E) may include forecast share issues/buybacks.

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■ Power Grid Corporation of India

Power Grid Corporation of India (Power Grid) is the government-appointed central power transmission utility of India. The company is one of the largest transmission utilities in the world with more than a 50% market share in India. Power Grid has diversified into telecom and established a telecom network of more than 21,000km across the country. It also has a robust consultancy business.

■ Statement of Risk

We think the key downside risks for the Power Grid are: 1) slower-than-expected execution of projects; 2) availability of contractors/equipment; 3) competition; 4) lower-than-expected capex; 5) delay in generation projects; and 6) majority government ownership and control.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	52%	41%
Neutral	Hold/Neutral	40%	37%
Sell	Sell	8%	20%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	30%
Sell	Sell	less than 1%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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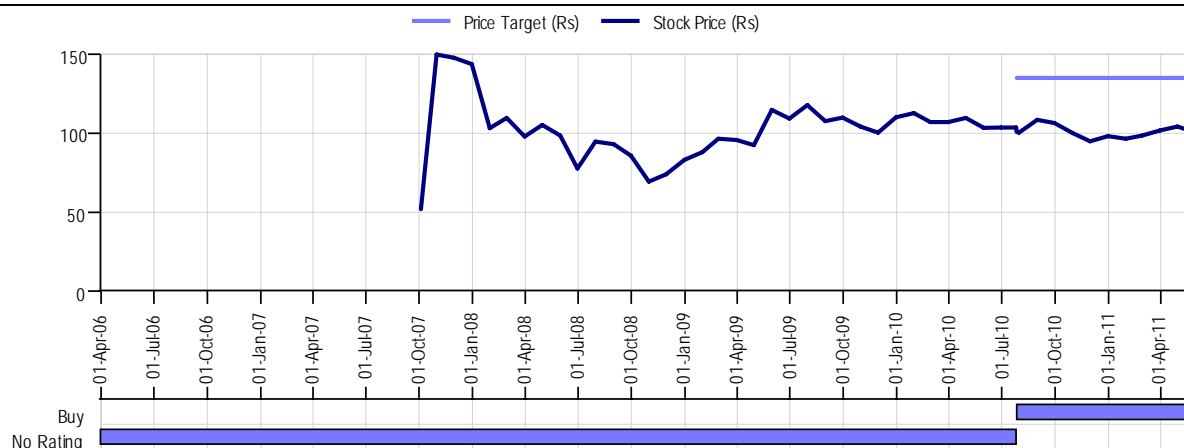
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Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Power Grid Corporation of India	PGRD.BO	Buy	N/A	Rs100.95	03 Jun 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Power Grid Corporation of India (Rs)

Source: UBS; as of 03 Jun 2011

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