

RESULTS

REVIEW

Power Grid Corporation of India Ltd.

Largely on track; maintain estimates

ACCUMULATE

Analyst

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Nifty: 5,098; Sensex: 16,939

CMP	Rs101
Target Price	Rs111
Potential Upside/Downside	+10%

Key Stock Data

Sector	Power Generation
Bloomberg / Reuters	PWGR IN / PGRD.BO
Shares o/s (mn)	4,629.7
Market cap. (Rs mn)	467,602
Market cap. (US\$ mn)	9,376
3-m daily average vol.	372,960

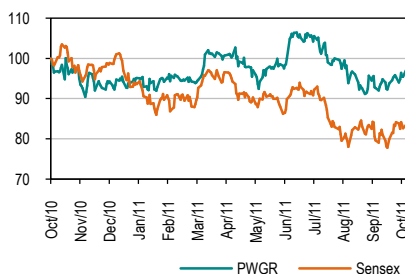
Price Performance

52-week high/low	Rs112/92
	-1m -3m -12m
Absolute (%)	5 (7) (3)
Rel to Sensex (%)	0 3 14

Shareholding Pattern (%)

Promoters	69.4
FII/IRIs/OCBs/GDR	13.3
MFs/Banks/FIs	8.3
Non Promoter Corporate	3.6
Public & Others	5.4

Relative to Sensex



Source: Capitaline

Summary

Power Grid Corporation of India (PWGR) reported Q2FY12 revenue 9% below our estimate at Rs22.6 bn (+6% YoY/+3% QoQ) on account of 10% lower than expected transmission income. Revenue from transmission and consultancy segment stood at Rs20.4 bn (IDBIest Rs22.5 bn) and Rs0.7 bn (IDBIest Rs1 bn) respectively. The company reported 6% YoY growth in operating profit at Rs19 bn (IDBIest Rs20 bn). However, EBITDA margin declined marginally (20bps YoY) at 83.8% (unchanged QoQ). Interest and finance charges increased 38% YoY, owing to forex loss of Rs0.7 bn during the quarter. PAT at Rs7.1 bn came bang in line with estimate. CAPEX and asset commissioning numbers stood at Rs27 bn/Rs33 bn respectively during Q2FY12.

PWGR reported pick up in CAPEX and asset commissioning numbers during Q2FY12. During H1FY12, CAPEX and asset commissioning stood at Rs46.1 bn/Rs40.6 bn; the same numbers stand at Rs49 bn/Rs51 bn till date. Moreover, PWGR's ordering has not slowed. The company has ordered for Rs78 bn till Oct '11. This significant ramp up in ordering and capitalization has enabled the company to achieve 90% and 93% of its CAPEX and asset commissioning target for FY12. Moreover, despite current woes faced by the power sector, 12th Five Year plan (FYP) would be no exception in company's historical CAPEX growth trend. The company has plans to achieve a CAPEX worth Rs1,000 bn during 12th FYP (nearly double the 11th FYP target CAPEX at Rs550 bn).

Our weighted average value for PWGR (equal weightage to DCF and book value multiple) remains unchanged at Rs111/share. At CMP, the stock is trading at 2.0x/1.8x FY12E/FY13E book value; 14.8x/12.5x FY12E/FY13E EPS. Maintain **ACCUMULATE**.

Result Highlights

■ Transmission growth moderate

STOA impressive The Company added 5,183 CKms till Oct '11, which led to 5% YoY growth in transmission income at Rs20.4 bn during Q2FY12. Short Term Open Access (STOA) has posted significant improvement of 61% YoY in revenue at Rs1 bn, followed by 10% YoY growth in revenue from telecom business at Rs0.5 bn.

However, consultancy business reported decline of 12% YoY at Rs0.7 bn due to high base.

■ CAPEX and Asset commissioning picks up

PWGR's CAPEX and Asset commissioning during the Q2/H1FY12 stood at Rs27 bn/Rs46 bn and Rs33 bn/Rs41 bn. During the quarter, the company commissioned transmission line for power evacuation from 1st unit of 800MW at Mundra UMPP, capitalizing ~Rs7 bn. Moreover, the company is expected to further accelerate its CAPEX as well as asset commissioning during H2FY12 to attain its full year target of Rs170 bn (IDBIest Rs155 bn) and Rs100 bn (IDBIest Rs93 bn). PWGR plans to spend more than Rs1,000 bn during 12th plan period.

The company has planned Rs580 bn for 9 IPP High Capacity Power Transmission Corridors (HCPTC) associated with private sector; additional 2 HCPTCs (at CAPEX of Rs170 bn) are under process for CERC approval.

Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	Adj. PAT	EPS (Rs)	BV (Rs)	PE (x)	PBV (x)	RoE (%)	RoCE (%)
FY10	71,275	58,933	20,425	4.9	37.9	20.7	2.7	13.4	7.8
FY11	83,887	70,513	26,969	5.8	46.1	17.3	2.2	14.5	8.1
FY12E	107,142	88,699	31,465	6.8	51.0	14.8	2.0	14.0	8.6
FY13E	124,630	103,346	37,233	8.0	57.0	12.5	1.8	14.9	8.9

Source: Company; IDBI Capital Research

Outlook and Valuation

PWGR reported pick up in CAPEX and asset commissioning numbers during Q2FY12. During H1FY12, the CAPEX and asset commissioning stood at Rs46.1 bn/Rs40.6 bn; the same numbers stand at Rs49bn/Rs51 bn till date. Moreover, PWGR's ordering has not slowed. The company has ordered for Rs78 bn till Oct '11. This significant ramp up in ordering and capitalization has enabled the company to achieve 90% and 93% of its CAPEX and asset commissioning target for FY12. Moreover, despite current woes faced by the power sector, 12th Five Year plan (FYP) would be no exception in company's historical CAPEX growth trend. The company has plans to achieve a CAPEX worth Rs1,000 bn during 12th FYP (nearly double the 11th FYP target CAPEX at Rs550 bn).

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Table: Quarterly snapshot

(Rs mn)

Year-end: March	Q2FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Revenue from Operations					
1. Transmission income	19,384	20,441	20,416	5	(0.1)
2. Consultancy income	789	561	696	(12)	24
3. Telecom income	454	454	501	10	10
4. Short term open Access	639	569	1,031	61	81
Revenue from Operations	21,266	22,025	22,644	6	3
Expenditure					
Staff Cost	1,928	2,110	1,922	0	(9)
Other O&M Expenditure	1,481	1,461	1,743	18	19
Total	3,409	3,570	3,665	8	3
EBITDA	17,858	18,455	18,978	6	3
<i>EBITDA margins (%)</i>	<i>84.0</i>	<i>83.8</i>	<i>83.8</i>		
Depreciation	5,456	5,790	5,966	9	3
Total Expenditure	8,865	9,361	9,632	9	3
Profit from Operation Before OI & Interest charges	12,402	12,664	13,012	5	3
Other income	963	1,432	1,942	102	36
Profit Before Interest & Tax	13,365	14,097	14,954	12	6
Interest & Finance Charges	4,017	4,446	5,556	38	25
Profit Before Tax	9,313	9,638	9,419	1	(2)
Provision of Taxation	2,799	2,586	2,331	(17)	(10)
Profit After Tax	6,514	7,053	7,087	9	0
<i>Net margins (%)</i>	<i>30.6</i>	<i>32.0</i>	<i>31.3</i>		
Basic EPS (Rs)	1.4	1.5	1.5	9	0

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY10	FY11	FY12E	FY13E
Net sales	71,275	83,887	107,142	124,630
Growth (%)	8.3	17.7	27.7	16.3
Operating expenses	(12,341)	(13,374)	(18,321)	(21,312)
EBITDA	58,933	70,513	88,699	103,346
Growth (%)	6.7	19.6	25.8	16.5
Depreciation	(20,018)	(21,994)	(27,050)	(29,916)
EBIT	38,915	48,519	61,650	73,430
Interest paid	(15,432)	(17,339)	(24,615)	(28,610)
Other income	3,759	7,111	7,467	8,064
Pre-tax profit	27,242	38,291	44,501	52,884
Tax	(5,854)	(11,278)	(13,036)	(15,651)
Effective tax rate (%)	21.5	29.5	29.3	29.6
Net profit	21,388	27,013	31,465	37,233
Adjusted net profit	20,425	26,969	31,465	37,233
Growth (%)	20.8	32.0	16.7	18.3
Shares o/s (mn nos)	4,630	4,630	4,630	4,630

Balance Sheet

(Rs mn)

Year-end: March	FY10	FY11E	FY12E	FY13E
Net fixed assets	524,834	638,486	775,386	894,370
Investments	14,532	13,651	13,651	13,651
Current assets	96,273	105,171	107,975	116,220
Inventories	3,449	3,815	5,185	6,031
Sundry Debtors	22,149	31,621	33,295	38,729
Cash and Bank	32,776	36,801	34,915	35,150
Loans and advances	33,024	27,940	29,337	30,804
Total assets	635,640	757,308	897,012	1,024,240
Shareholders' funds	159,383	213,646	236,020	263,989
Share capital	42,088	46,297	46,297	46,297
Reserves & surplus	117,331	167,373	189,723	217,692
Total Debt	344,168	408,828	502,837	587,067
Secured loans	313,458	363,251	452,553	528,360
Unsecured loans	30,710	45,577	50,284	58,707
Other liabilities	375,328	443,769	537,503	621,458
Curr Liab & prov	125,512	128,647	153,681	170,495
Current liabilities	100,929	99,893	123,488	138,793
Provisions	24,583	28,755	30,192	31,702
Total liabilities	476,256	543,662	660,992	760,251
Total equity & liabilities	635,640	757,308	897,012	1,024,240
Book Value (Rs)	38	46	51	57

Source: Company; IDBI Capital Research

Cash Flow Statement

(Rs mn)

	FY10	FY11E	FY12E	FY13E
Pre-tax profit	27,242	38,291	44,501	52,884
Depreciation	19,501	19,350	27,050	29,916
Tax paid	(5,854)	(11,278)	(13,036)	(15,651)
Chg in working capital	4,167	(5,790)	19,155	7,557
Cash flow from operations (a)	45,056	40,572	77,670	74,828
Capital expenditure	(100,191)	(133,001)	(163,950)	(148,900)
Chg in investments	1,396	882	-	-
Other investing activities	9,674	33,344	(40,307)	(3,326)
Cash flow from investing (b)	(89,121)	(98,776)	(204,257)	(152,226)
Equity raised/(repaid)	-	4,209	37,289	-
Debt raised/(repaid)	59,514	64,660	94,009	84,230
Dividend (incl. tax)	(5,998)	(6,597)	(6,597)	(6,597)
Chg in minorities	(963)	(44)	-	-
Cash flow from financing (c)	52,553	62,228	124,701	77,633
Net chg in cash (a+b+c)	8,488	4,024	(1,886)	235

Financial Ratios

Year-end: March	FY10	FY11E	FY12E	FY13E
Adj EPS (Rs)	4.9	5.8	6.8	8.0
Adj EPS growth (%)	20.8	20.0	16.7	18.3
EBITDA margin (%)	82.7	84.1	82.8	82.9
Pre-tax margin (%)	38.2	45.6	41.5	42.4
ROE (%)	13.4	14.5	14.0	14.9
ROCE (%)	7.8	8.1	8.6	8.9
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.1	0.1	0.1	0.1
Leverage factor (x)	3.9	3.7	3.7	3.8
Net margin (%)	28.7	32.1	29.4	29.9
Net Debt/Equity (x)	2.0	1.7	2.0	2.1
Working Capital & Liquidity ratio				
Inventory days	18	17	18	18
Receivable days	113	138	113	113
Payable days	54	54	54	54

Valuation

Year-end: March	FY10	FY11E	FY12E	FY13E
PER (x)	20.7	17.3	14.8	12.5
Price/Book value (x)	2.7	2.2	2.0	1.8
PCE (x)	10.5	9.5	8.0	6.9
EV/Net sales (x)	10.9	10.0	8.7	8.2
EV/EBITDA (x)	13.2	11.9	10.5	9.8
Dividend Yield (%)	1.2	1.2	1.2	1.2



Notes

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Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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