

FIG
 Electric Utilities
 Equity – India

Overweight

Target price (INR)	130
Share price (INR)	101
Potential return (%)	30.4

Performance	1M	3M	12M
Absolute (%)	-0.8	2.0	-4.5
Relative ^A (%)	-1.7	2.6	-11.0

Index^A BOMBAY SE IDX

RIC PGRD.BO
 Bloomberg PWGR IN

Market cap (USDm) 9,485
 Market cap (INRm) 425,093

Enterprise value (INRm) 761571
 Free float (%) 31

Note: (V) = volatile (please see disclosure appendix)

6 June 2011

Arun Kumar Singh*

Senior Analyst, Indian Power Utilities
 HSBC Securities and Capital Markets
 (India) Private Limited
 +9122 22681778
 arun4kumar@hsbc.co.in

Murtuza Zakiuddin*

Associate
 Bangalore
 View HSBC Global Research at:
<http://www.research.hsbc.com>

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Issuer of report: HSBC Securities and
 Capital Markets
 (India) Private Limited

Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Power Grid Corp Of India

OW: Remain positive; downside risks limited

- ▶ **Post FY11 results we reiterate our positive view – growth in capex and capacity addition to remain strong in FY12-13**
- ▶ **We conservatively reduce our capex and capacity addition estimates for FY12 and 12th plan period to account for on ground constraints, hence EPS lower by 1-2% for FY12-13**
- ▶ **Target unchanged at INR130; reiterate Overweight rating**

Post the FY11 results we met with management to discuss the outlook. Based on this and other recent analyst updates, we see the following implications for the Twelfth Plan:

- 1. Capex:** We expect PGCIL to complete the 11th five-year plan ending FY12 with total capex of INR520bn (target was INR550bn), a c177% increase over the last plan period. Although the company has yet to finalise a detailed plan for the Twelfth Plan period (FY13-17), it has reiterate its earlier targets of INR1,100-1,200bn based on ground realities. We expect minimum capex of INR800-900bn for the period. We previously estimated minimum capex of INR1,000bn, based on projects under construction (worth INR498bn) and proposed high capacity transmission projects (worth INR580bn), however conservatively due to possible constraints on execution we reduce our capex estimate.
- 2. Execution ability of its contractors:** Management has said that due to the faster acceleration in planned capex, the trained workforce to support that growth has not been adequate despite an increase in the number of contractors. This has resulted in a longer project life cycle. There is a limited pool of skilled workforce available to be employed by its contractors. There are no constraints from the demand side, or supply of capital or equipment, but a shortage of skilled workforce is the biggest risk the company sees going forward.
- 3. Company is confident of** executing high capacity transmission projects in the 12th Plan despite concerns about a few of its generation power projects not coming up due to fuel shortages (60GW of projects spread over seven states to be linked to various demand centres across the country). They agree that some of the power projects enlisted may not come up but this will not stop the entire evacuation highway work as it can only mean that those radial line connecting the highway to the project will not come, which constitute a small part of capex.

Reduce our capex estimates for FY12 (by INR30bn) and 12th plan period (by 20% to INR800bn) to account for on ground constraints, hence EPS lower by 1-2% for FY12-13. A 10% reduction in capex impacts EPS by 0.5% (based on 30% of capex is regulated equity and 15.5% return on the same). **We maintain** our target of INR130 using DCF (assuming COE of 12% and terminal growth of 3%) and reiterate our OW rating. **Key downside risk include** longer than expected delays in project commissioning impacting earnings.

Financials & valuation

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	71,275	84,143	99,497	117,374
EBITDA	57,731	69,466	81,755	96,342
Depreciation & amortisation	-19,797	-22,255	-26,396	-31,523
Operating profit/EBIT	37,934	47,211	55,360	64,819
Net interest	-15,432	-17,118	-18,916	-20,983
PBT	26,263	37,126	41,251	47,521
HSBC PBT	26,263	37,126	41,251	47,521
Taxation	-5,854	-10,886	-10,748	-12,449
Net profit	20,409	26,240	30,503	35,072
HSBC net profit	20,409	26,240	30,503	35,072

Cash flow summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Cash flow from operations	52,853	51,981	60,261	69,506
Capex	-100,527	-120,000	-135,000	-135,000
Cash flow from investment	-98,016	-118,250	-133,250	-133,250
Dividends	-5,909	-9,480	-10,834	-12,188
Change in net debt	51,026	37,869	83,823	75,932
FCF equity	-55,685	-75,052	-79,546	-69,178

Balance sheet summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	524,834	622,579	731,184	834,661
Current assets	96,273	124,517	113,752	106,046
Cash & others	32,776	56,487	40,256	26,336
Total assets	635,675	759,914	856,003	950,024
Operating liabilities	100,471	108,490	117,319	126,445
Gross debt	344,168	405,747	473,339	535,350
Net debt	311,392	349,260	433,083	509,014
Shareholders funds	159,419	214,059	233,728	256,612
Invested capital	487,861	582,119	687,361	787,926

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	25.3	18.1	18.2	18.0
EBITDA	27.8	20.3	17.7	17.8
Operating profit	10.9	24.5	17.3	17.1
PBT	17.8	41.4	11.1	15.2
HSBC EPS	20.6	22.4	11.0	15.0

Ratios (%)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Revenue/IC (x)	0.2	0.2	0.2	0.2
ROIC	6.5	6.2	6.4	6.5
ROE	13.4	14.1	13.6	14.3
ROA	5.5	5.5	5.5	5.6
EBITDA margin	81.0	82.6	82.2	82.1
Operating profit margin	53.2	56.1	55.6	55.2
EBITDA/net interest (x)	3.7	4.1	4.3	4.6
Net debt/equity	195.3	163.2	185.3	198.4
Net debt/EBITDA (x)	5.4	5.0	5.3	5.3
CF from operations/net debt	17.0	14.9	13.9	13.7

Per share data (INR)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EPS reported (fully diluted)	4.85	5.94	6.59	7.58
HSBC EPS (fully diluted)	4.85	5.94	6.59	7.58
DPS	1.50	1.75	2.00	2.25
Book value	37.88	46.24	50.48	55.43

Key forecast drivers

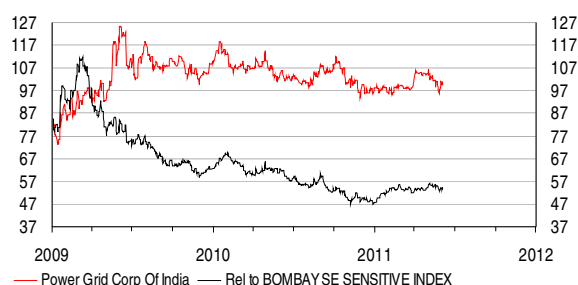
Year to	03/2010a	03/2011e	03/2012e	03/2013e
Capex (INRbn)	101	120	135	135
Capitalisation (INRbn)	29	75	100	117
Regulated Equity (INRbn)	106	129	158	193

Valuation data

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales	10.1	9.1	8.5	7.9
EV/EBITDA	12.5	11.0	10.4	9.6
EV/IC	1.5	1.3	1.2	1.2
PE*	20.8	17.0	15.3	13.3
P/Book value	2.7	2.2	2.0	1.8
FCF yield (%)	-13.6	-18.2	-19.2	-16.6
Dividend yield (%)	1.5	1.7	2.0	2.2

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 03 Jun 2011

Projects under construction: Capex of INR498bn to be incurred

Major expansion projects

Project	Nature of the project	Target COD	Project cost (INRm) incurred as at Sep 2010	Total cost	% spent
Transmission System for development of pooling station in Northern Part of West Bengal and transfer of power from Bhutan to Northern Region / Western Region North East / Northern Western Interconnector – I Project	Generation-linked	January, 2015	44,046	0	0%
Northern Region System Strengthening – XXI	Grid-Strengthening	April, 2013	16,776	11	0%
Transmission System associated with Sasan UMPP	Generation-linked	December, 2012	58,850	13,283	23%
Transmission System associated with Pallatana and Bongaigaon power station	Generation-linked	December, 2012	21,440	853	4%
Transmission System associated with Vindhyachal – IV and Rihand – III Projects	Generation-linked	November, 2012	46,730	120	0%
Eastern Region Scheme – III Strengthening	Grid-strengthening	November, 2012	12,728	318	2%
Transmission System associated with Mundra UMPP	Generation-linked	October, 2012	46,820	9,208	20%
Common Scheme for 765 kV Pooling Station with DVC and Maithon RB Project	Generation-linked	August, 2012	70,753	25,018	35%
Supplementary Transmission System associated with DVC and Maithon Project	Generation-linked	August, 2012	23,610	12,991	55%
System Strengthening in Northern Region for Sasan and Mundra UMPPs	Grid strengthening	August, 2012	10,850	1,101	10%
765 kV System for Central Part of Northern Grid – PART – III	Grid-strengthening	May, 2012	10,751	1,142	11%
Transmission System associated with Kundankulam – Atomic Power Project	Generation-linked	March, 2012	21,591	16,140	75%
Transmission System associated with Kaiga 3 and 4	Generation-linked	March, 2012	10,072	7,603	75%
765 kV System for Central Part of Northern Grid – PART – I	Grid-strengthening	February, 2012	13,473	4,468	33%
765 kV System for Central Part of Northern Grid – PART – II	Grid-strengthening	January, 2012	17,364	1,509	9%
Western Region Strengthening Scheme – II	Grid-strengthening	March, 2011	35,690	26,465	74%
Strengthening of East-West Transmission corridor	Grid-strengthening	Dec, 2010	7,409	6,207	84%
Western Region Strengthening Scheme – IX	Grid-strengthening	March, 2011	1,410	522	37%
Southern Region Strengthening Scheme – X	Grid-strengthening	April, 2012	2,240	317	14%
Western Region Strengthening Scheme – X	Grid-strengthening	Feb, 2012	7,130	688	10%
Northern Region Strengthening Scheme – XIII	Grid-strengthening	Nov, 2011	3,240	173	5%
Transmission System associated with Korba III generation project	Generation-linked	March, 2011	2,763	1,581	57%
Transmission System associated for Parbati III Hydro project	Generation-linked	Jun, 2011	6,163	4,019	65%
Transmission System associated for Mouda generation project	Generation-linked	Oct, 2012	2,800	99	4%
Sub Total			605,999	148,190	24%
Others			211,513	87,825	42%
Total			817,512	236,015	29%
Add: Capex incurred in 2HFY11 (Oct 2010-March 2011)				83,175	
Grand Total			817,512	319,190	39%
Balance capex to be incurred			498,322		

Source: Company

Execution of INR580bn worth HCPTC projects in the 12th Plan

There has been a general concern that some of the enlisted projects under HCPTC may not come up or get delayed. The company agrees with that this is a possibility but has emphasised that a major part of the HCPTC projects will be commissioned. The projects are in nature of power evacuation highway linking various IPPs to the demand centers. If some of the IPPs do not come that would not mean that the entire highway will not get constructed, but only those radial line connecting the highway to the project will not come, and which constitute a small part of the capex. Also company expects that given a large number of players involved there may be delays, which we have already been factored in our estimate.

Separately on the risk of non-payment and guarantee for these high capacity transmission corridors, as per the company they are protected against risk of some generation projects not coming up by IPPs, by the regulator, through a) BGs (bank guarantees) and b) further being allowed by the regulator to load the entire project cost only on operational projects. IPPs which get operational are unlikely to oppose additional transmission charges, as it's a small proportion of their overall power supply cost and only alternate to them being in non-evacuation of their power.

Details of high-capacity transmission systems (HCPTC) to be built for various IPPs

S.No	Developer	Original COD target #	Capacity (MW)	Target Beneficiaries (MW)				LTOA Location (MW) - Total	Project Cost (INRmn)
				NR	WR	ER	SR		
Transmission system associated with Phase - I generation projects in Orissa									
1	Sterlite Energy Ltd	June, 2009	2,400	200	200			400 Orissa	87,520
2	GMR Kamalanga Energy Ltd	September, 2011	1,050	600			200	800 Orissa	
3	Navabharat Power Pvt. Ltd	March, 2012	1,050	465	255			720 Orissa	
4	Monet Power Company Ltd	June, 2012	1,050	300	375	225		900 Orissa	
5	Jindal India Thermal Power Ltd	March, 2011	1,200	834	210			1,044 Orissa	
6	Lanco Babandh Power Pvt Ltd	December, 2013	2,640	650	950			1,600 Orissa	
7	Ind Barath Energy(Utkal) Ltd	September, 2011	700	266	350			616 Orissa	
Total			10,090	3,315	2,340	225	200	6,080	
Transmission system associated with IPP projects in Jharkhand									
1	Adhunik Power & Natural Resources Ltd)	March, 2012	1,080	400	100	350		850 Jharkhand	57,090
2	Corporate Power Ltd	March, 2012	660	594				594 Jharkhand	
3	Essar Power (Jharkhand) Ltd.	December, 2011	1,200	400	400	300		1,100 Jharkhand	
4	CESC Ltd.(Dumka)	June, 2012	600	270	270	0		540 Jharkhand	
5	West Bengal State Electricity Distribution Co.	By 2014-15	1,000	600	400	0		1,000 Jharkhand	
Total			4,540	2,264	1,170	650	0	4,084	
Transmission system associated with IPP projects in Sikkim									
1	Teesta Urja Ltd. / PTC	Aug., 2011	1,200	PSEB,UPPCL, Rajasthan				1,200 Sikkim	13,040
2	Lanco Energy Pvt. Ltd.	Nov, 2012	500	Maharashtra				500 Sikkim	
3	DANS Energy Pvt. Ltd.	Dec., 2011	96	NR/WR				96 Sikkim	
4	JAL Power Corporation	June, 2013	120	NR/WR				120 Sikkim	
5	Shiga Energy Pvt. Ltd.	June, 2012	97	NR/WR				97 Sikkim	
6	TT Energy Pvt. Ltd.	March, 2012	99	NR/WR				99 Sikkim	
7	Madhya Bharat Power Corporation Ltd.	March, 2012	96	Chhattisgarh				96 Sikkim	
8	Gati Infrastructure Ltd	March, 2010	99	PSEB, DVB, HSEB, BSEB				99 Sikkim	
9	Gati Infrastructure Bhasmey Power Pvt. Ltd.	March, 2012	51	NR/WR				51 Sikkim	
Total			2,358	0	0	0	0	2,358	
Transmission system associated with IPP projects in Bilaspur complex, Chhattisgarh and IPPs in Madhya Pradesh									
1	Clean Coal	Jun'12	300	78	222			300 Chhattisgarh	12,430
2	PTC (Dheeru)	Sep'12 to Mar'13	600	300	300			600 Chhattisgarh	
3	Dheeru Power Gen	Sep'12 to Mar'13	450	83	368			450 Chhattisgarh	
4	Jaiprakash Power Ventures Ltd.(Nigri)	May'13, Nov'13	1,320	412	908			1,320 MP	
5	Aryan Coal Benefications	Mar'13 to Mar'15	1,200	300	900			1,200 MP	
6	Bina Power Supply Co. Ltd	Sep'11, Dec'11	500	145	145			290 MP	
Total			4,370	1,318	2,843	0	0	4,160	
Transmission system associated with IPP projects in Chhattisgarh									
1	RKM Powergen Ltd.(4x360)	Mar'11 to Dec'11	1,440	167	469		300	936 Chhattisgarh	288,240
2	Athena Chhattisgarh Power Ltd.(2x600)	Mar'12, Aug'12	1,200	245	535			780 Chhattisgarh	
3	Jindal Power Ltd.(4x600)	Mar'12 to Mar'13	2,400	513	1,047			1,560 Chhattisgarh	
4	Jindal Power Ltd.(2x250)	Existing	500		500			500 Chhattisgarh	
5	SKS Ispat & Power Ltd.(4x300)	Nov'11 to Mar'12	1,200	260	520			780 Chhattisgarh	
6	Korba West Power Co. Ltd.(1x600)	Jul'12	600		390			390 Chhattisgarh	
7	DB Power Ltd.(2x600)	Nov'11, Feb'12	1,200	248	532			780 Chhattisgarh	
Sub-total - Raigarh Complex			8,540	1,433	3,993	0	300	5,726	
1	Wardha Power Co. Ltd (6x600)	Feb'12 to Oct'13	3,600		2,340			2,340 Chhattisgarh	23,570
2	BALCO(4x300)	Jun'10 to Mar'11	1,200	292	293			585 Chhattisgarh	
3	Vandana Vidyut Ltd.(2x135+1x270)	Apr'11 to Mar'12	540	65	286			351 Chhattisgarh	
4	Lanco Amarkantak Power Pvt. Ltd.(2x660)	Mar'12, Jun'12	1,320	558	300			858 Chhattisgarh	
5	Chhattisgarh Steel & Power Ltd.(1x35+1x250)	Existing, Dec'11	285	55	130			185 Chhattisgarh	
Sub-total - JANJIGIR-CHAMPA COMPLEX			6,945	970	3,349	0	0	4,319	
1	Chhattisgarh State Power Tr. Co. Ltd		0	1,339	3,801	0	0	5,140 Chhattisgarh	
Total			15,485	3,742	11,143	0	300	15,185	
Transmission system associated with IPP projects in Krishnapatnam area, AP									
1	Simhapuri Energy Pvt Ltd	August, 2010	540	0	135		311	491 AP	20,650
2	Meenakshi Energy Pvt Ltd	September, 2010	600	183	177		186	546 AP	
3	Andhra Pradesh Power Development Co Ltd	June, 2012	1,600	175	0		0	175 AP	
4	Krishnapatnam Power Corporation Ltd	December, 2012	1,860	900	600		360	1,860 AP	
Total			4,600	1,258	912	0	857	3,072	
Transmission system associated with IPP projects in Tuticorin area, Tamil Nadu									
1	Coastal Energen Private Limited (CEPL)	December, 2011	1,200	0	280		820	1,100 Tamil Nadu	
2	Ind-Barath Power (Madras) Limited	December, 2011	1,400	425	236		284	945 Tamil Nadu	

Details of high-capacity transmission systems (HCPTC) to be built for various IPPs

			Total	2,600	425	516	0	1,104	2,045	
Transmission system associated with IPP projects in Srikakulam area, AP										
										29,860
1	East Coast Energy Private Limited	March, 2012	2,640	0	500	1,940				2,440 AP
2	NCC Power Projects Limited (NCC)	December, 2011	1,320	320	500	500				1,320 AP
	Total		3,960	320	1,000	2,440	0			3,760
Transmission system associated with IPP projects in southern region for transfer of power to other regions										
										48,210
1	Lanco Kondapalli Power Private Ltd.	June, 2009	366	150	200		0			350 AP
2	Simhapuri Energy Private Limited	August, 2010	540	0	135		311			446 AP
3	Meenakshi Energy Private Limited	September, 2010	600	183	177		186			546 AP
4	Andhra Pradesh Power Development Co Ltd	June, 2012	1,600	175	0		0			175 AP
5	Krishnapatnam Power Corporation Ltd	December, 2012	1,860	900	600		360			1,860 AP
6	Coastal Energen Private Limited	December, 2011	1,200	0	280		820			1,100 AP
7	Ind-Barath Power (Madras) Limited	December, 2011	1,400	425	236		284			945 AP
8	East Coast Energy Private Limited	March, 2012	2,640	0	500		1,940			2,440 AP
9	NCC Power Projects Limited	December, 2011	1,320	320	500		500			1,320 AP
	Total		11,526	2,153	2,628	0	4,401			9,182
	Grand Total		59,529	14,795	22,552	3,315	6,862			49,926
										580,610

#Note: Many of the projects are now scheduled to be commissioned over next 3-4 years

Source: Company

Reduce our capex estimates, marginal impact on EPS

We reduce our capex estimates for FY12 (by INR30bn now to INR135bn) and for the 12th Five year plan period (by 20% to INR800bn from INR1000bn) to account for on ground constraints, hence EPS lower by 1-2% for FY12-13. Our EPS estimates for FY12-13 are largely intact as the company has CWIP of INR265bn which will support capacity addition over next 2-3 years.

Powergrid: Summary of changes to our estimates

INRmn	New			Old			% change		
	FY11e	FY12e	FY13e	FY11e	FY12e	FY13e	FY11e	FY12e	FY13e
Sales	84,143	99,497	119,656	84,685	100,058	121,766	-1%	-1%	-2%
EBITDA	69,466	81,755	98,084	68,640	81,036	98,314	1%	1%	0%
Net Profit	26,240	30,503	35,074	25,255	30,935	35,826	4%	-1%	-2%
EPS (INR)	5.9	6.6	7.6	5.7	6.7	7.7	4%	-1%	-2%

Source: HSBC estimates

To understand the EPS impact of lower than expected capex, any 10% decrease in capex will reduce regulated equity base by 3% on commissioning of project (as 30% of capex is equity) and consequently EPS by 0.5% (as company earns post tax 15.5% return on regulated equity base).

Investment thesis

1. Stable regulated model: Company operates on regulated model and its returns are fixed (15.5% post tax ROE) and hence largely unaffected in terms of any pricing risk. Also operationally it has limited risk compared to a power plant with major cost being employee and maintenance cost which are largely fixed in nature and not volatile (no fuel cost risk unlike power plants).

2. Strong earnings visibility: Its earning visibility is strong given that its capex is growing and we expect it to incur INR415bn over next three years which post commissioning translates into increased asset base. Regulated Equity base is expected to more than double from INR129bn in FY11 to INR273bn in FY15. It has cINR265bn of Capital Work in Progress (largely capex of FY10-FY11) to be translated in assets over next 2-3 years providing visibility for the increase in regulated equity base. Also company has progressed

on various projects in terms of approvals, ordering etc for the capex identified to be incurred. Hence there is low risk of projects not being commissioned.

3. Low funding and interest rate risk: In terms of financing, large portion of debt is funded through self raised bonds (c68%) and foreign debt (c25%) the cost of which is relatively lower and much more stable and long duration. Hence, PGCIL has lower exposure to any interest rate or funding risk.

4. Strong growth potential and undemanding valuations: We expect EPS to grow at 14% CAGR over FY12-13 on high base of FY11. In terms of valuation, it's not demanding and the company is trading at PE of 15.3x and PB of 2.0x well below its historical average PE of 19.3x and PB of 2.4x. At our TP of INR130, it implies PE of 17.2x and PB of 2.3x.

Valuation and risks

In our view, given the stable cash profile of the business, we prefer to use DCF to value PGCIL. We believe multiple based valuations will not be able to capture future growth potential of the company. We have made explicit forecasts until FY17 (end of Twelfth Plan), fading out until FY22 (end of Thirteenth Plan), and then assume a terminal growth rate of 3% thereafter. We then discount each cash flow assuming COE of 12% to arrive at a fair value of INR130 per share (remain unchanged).

Under our research model, for stocks without a volatility indicator, the Neutral band is 5 percentage points above and below the hurdle rate for Indian stocks of 11%. For PGCIL, this translates into a Neutral band of 6-16% around the current share price. Our target price of INR130 implies 30.4% potential return, which is above the Neutral band. Thus, we maintain our Overweight rating on the stock.

PGCIL: Valuation summary

Particulars	INRm	INR/Share
Equity value - Core	550,937	119
Add: Cash & bank	40,256	9
Add: Investments	11,032	2
Equity value - Total	602,225	130

Source: HSBC estimates

Key downside risk include longer than expected delays in commissioning of projects. Also potential default by SEB and reduction in regulated return are other risks both of which looks highly improbable in the immediate future.

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Arun Singh

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However,

stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

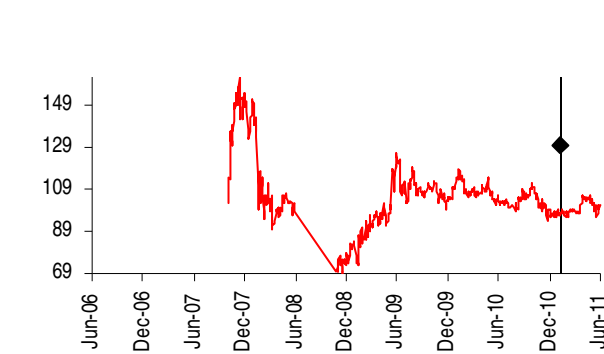
Rating distribution for long-term investment opportunities

As of 06 June 2011, the distribution of all ratings published is as follows:

Overweight (Buy)	50%	(23% of these provided with Investment Banking Services)
Neutral (Hold)	37%	(20% of these provided with Investment Banking Services)
Underweight (Sell)	13%	(16% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Power Grid Corp Of India (PGRD.BO) Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight	14 January 2011
Target Price	Value	Date
Price 1	130.00	14 January 2011

Source: HSBC

HSBC & Analyst disclosures

None of the below disclosures applies to any of the stocks featured in this report.

- 1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- 4 As of 30 April 2011 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- 5 As of 30 April 2011, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
- 6 As of 30 April 2011, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking-securities related services.
- 7 As of 30 April 2011, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- 11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

* *HSBC Legal Entities are listed in the Disclaimer below.*

Additional disclosures

- 1 This report is dated as at 06 June 2011.
- 2 All market data included in this report are dated as at close 03 June 2011, unless otherwise indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

Disclaimer

** Legal entities as at 04 March 2011*

'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc, Toronto; HSBC Bank, Paris Branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; 'GR' HSBC Securities SA, Athens; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Brasil SA – Banco Múltiplo; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch

Issuer of report

HSBC Securities and Capital Markets (India) Private Limited

Registered Office

52/60 Mahatma Gandhi Road

Fort, Mumbai 400 001, India

Telephone: +91 22 2267 4921

Fax: +91 22 2263 1983

Website: www.research.hsbc.com

This document has been issued by HSBC Securities and Capital Markets (India) Private Limited ("HSBC") for the information of its customers only. HSBC Securities and Capital Markets (India) Private Limited is regulated by the Securities and Exchange Board of India. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or any other committee of those companies. The information and opinions contained within the research reports are based upon publicly available information and rates of taxation applicable at the time of publication which are subject to change from time to time. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited. In Korea, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. HBAP SLS is regulated by the Financial Services Commission and the Financial Supervisory Service of Korea.

© Copyright. HSBC Securities and Capital Markets (India) Private Limited 2011, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Securities and Capital Markets (India) Private Limited. MICA (P) 208/04/2011 and MICA (P) 040/04/2011