



ENAM Securities
India Research

CMP: Rs 107
Target Price: Rs 134
Potential Upside: 25%
Absolute Rating: **BUY**

PGCIL

Relative to sector: **Outperformer**

Bhavin Vithani

Executive Director – Power & Cap Goods
Email: bhavin@enam.com
Tel: 9122 6754 7634

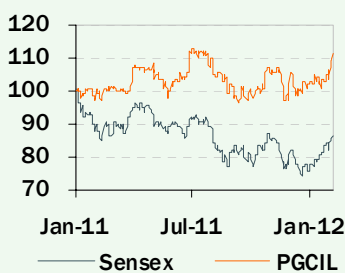
Abhinav Vohra

VP – Power
Email: abhinav.vohra@enam.com

Ajay Nandal

AVP – Power
Email: ajay.nandal@enam.com

Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 4,630 mn
Market cap : Rs 498 bn
52 week high/low : Rs 112/ Rs 94
Avg. daily vol. (6mth) : 3.5 mn shares
Bloomberg code : PWGR IB
Reuters code : PWGR.BO

Shareholding (%)	Dec-11	QoQ chg
Promoters	69.4	0.0
FIs	13.1	(0.1)
MFs / UTI	2.9	0.0
Banks / FIs	5.4	(0.0)
Others	9.2	0.1

Financial summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	P/BV (x)	RoE (%)	BV (Rs)	DPS (Rs)
2010	72,091	21,394	-	5.1	18	-	-	14.0	37.9	1.8
2011	82,462	25,076	-	5.4	7	-	-	13.4	46.2	2.0
2012E	100,280	31,221	6.3	6.7	25	15.9	2.1	14.0	50.5	2.4
2013E	123,944	38,977	7.3	8.4	25	12.7	1.9	15.8	55.9	3.0

Source: *Consensus broker estimates, Company, ENAM estimates

EXECUTION SURPRISES; LIKELY POLICY SHIFT TO MITIGATE DILUTION OVERHANG

Key takeaways from PGCIL's analyst meet were:

- Execution surprised with asset commissioning in 11MFY12 beating our FY12E of Rs 100 bn. We now factor in FY12E and FY13E asset commissioning at Rs 130 bn (Rs 110 bn earlier) and Rs 140 bn respectively.
- Significant decline in receivables to ~84 days in Feb'12 from ~140 days in Mar '11 and ~103 days in Dec '11. The management expects Mar '12 receivables at ~60 days. This should subside fears that SEB losses are stretching company's working capital.
- The management highlighted a possible shift in CERC tariff policy regime from current RoE-based to RoCE-based. This could enable PGCIL to expand RoE through higher leverage and avoid possible equity dilution to fund expansion. Currently, PGCIL uses D:E ratio of 70:30 as mandated. If the RoCE policy regime is allowed, then PGCIL could have higher D:E thus lowering its equity requirement for future expansion.

Maintain BUY with revised TP of Rs 134 (25% upside)

We maintain our FY12E EPS at Rs 6.7 and FY13E EPS at Rs 8.4. We upgrade our SOTP-based target price to Rs 134 (vs. Rs 120) to factor in execution surprise and firm visibility for FY13E. Our SOTP value assumes 1.9x FY13E core invested equity in transmission assets (17% core RoE and 5% LT growth). Our TP implies 25% upside from **CMP of Rs 107**. Maintain **BUY**.

Valuations

		(Rs bn)	(Rs/ shr)	Comment
Equity deployed in transmission biz		195	42.1	
- Non NER Equity		189	40.8	
- NER Equity		6	1.3	
Valuation of the transmission business	Rs bn	378	82	Valued at 1.9 BV (x)
Add:				
CWIP financed through the equity		107	23	
Valuation of CWIP	Rs bn	167	36	At 1.6x BV
Add: Cash & cash equivalents		56	12.1	At as on Mar-11
Valuation of core transmission business	Rs bn	600	130	
Consultancy business				
PAT from services		1.4	0.3	
Valuation of consultancy business	Rs bn	17	3.6	At 12x P/E
Equity Valuation of telecom business	Rs bn	4	0.8	Valued at book
Overall valuation	Rs bn	621	134	

Source: ENAM Research

Valuation

- **Lower Beta:** Business/ Earnings of PGCIL are less volatile as once the transmission line is commissioned, it is a 'take or pay' model vs. the other utilities, which despite having regulated returns face the risk of coal supply that could impact the core ROEs.
- **Higher Growth:** PGCIL's network is a critical national infra that one does not want to duplicate and hence, its LT growth equals the sector growth of 8-9%.
- **Low gestation:** of 24-30 months
- **Note:** We have assigned P/E of 10x to other businesses (Consultancy, Telecom and short-term access), and have assumed growth rate of 10% each for consultancy and telecom and 25% for ST access.

Key assumptions

Business RoE	17.4%
Cost of Equity	12%
BV (x) for core business	1.9
BV (x) for CWIP equity	1.6
P/E for the services (x)	12
Equity Capital (Rs bn)	4.6
Risk free rate of return (RFRR)	8%
Market rate of return (MRR)	13%
Beta (x)	0.7
Effective cost of equity	11.5%
Medium-term growth (FY11-15)	10%
Terminal growth	4%
Long-term growth	5.2%

Source: ENAM Research

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