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Industry : Power Transmission

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**IPO Price : Rs.44-52**
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Script Scan		Present issue (Mn)		Shareholding Pattern (%)	
Face Value (INR)	10.0	No of Shares to be issued (Mn)	573.93	(Pre Issue)	
Premium (INR)	34-42	Issue Opens on	Sept 10, 2007	Promoters	100.0
Equity Capital (Rs.mn) (pre issue)	38262	Issue Closes on	Sept 13, 2007	Public	0.0
Equity Capital (Rs.mn) (post issue)	42088	Minimum Bid (No. of Shares)	125	(Post Issue)	
Market Cap.(Rs.bn)	185-219	Listing	BSE	Promoters	86.36
			NSE	Public	13.64

### Investment Rationale:

- PGCIL is India's largest power transmission company and in charge of developing the crucial National Grid comprising of 37,150 MW transmission capacity by 2012 from the existing 14,100 MW.
- Leadership position in the Indian power transmission sector, transmitted around 45% of the total power generated in FY2007 with ownership of electrical transmission lines covering 61,875 circuit kilometers and 106 substations.
- The core transmission business has low levels of risks with stable returns of 14% on equity.
- The average operational availability has been more than 99% due to which PGCIL has been able to earn efficiency gains. The management has indicated that adjusted for cap WIP the overall RoE on its power business is around 15.0-15.5%.
- Diversification into areas like consultancy and telecommunication, which are also growing sector, will be another source of revenue.

### Key Concerns:

- Most of the revenues are derived from the transmission of power to the State Power Utilities (SPUs) and many of them have had weak histories in the past.
- The RoE has been reduced from 16% to 14% in 2004. Despite power deficit situations in India, GoI and CERC's objectives has been to minimize the cost of power at the consumer end. Hence, we believe any gains beyond a reasonable level would be capped / passed on.
- Transmission projects require substantial capital outlays before commencing operations. Further, return on equity is paid only after the project commences commercial operation. Consequently, any delay in execution of projects decreases the return on investment. Transmission projects linked to generation projects are more vulnerable to these delays compared to other projects. A case in point is the delay of Kundankulam Atomic Power Project and Neyveli Lignite Corporation Generation Project, which have been delayed by 19 and 14 months, respectively. Consequently, the transmission projects linked to these generation projects have also been delayed.

### Issue Proceeds

The net proceeds of the issue will be utilized for PGCIL's 15 identified transmission projects. These projects worth INR 127 bn are proposed to be funded with a debt-equity ratio of 70:30 in accordance with CERC norms. The equity component of the identified projects is to be funded by a combination of internal accruals of the company and the proceeds of the fresh issue. The identified projects include those for strengthening of existing transmission lines or grids, projects for establishing new transmission lines connecting new generating plants, and one project for the implementation of the National Load Dispatch Centre (NLDC).

**The following table represents an overview of the means of finance of the identified projects: Rs. in mn**

1)	Project costs of the Identified Projects as on July 31, 2007	127075
2)	Amount spent upto July 31, 2007	58628
3)	Remaining Cost	68447
4)	Amount to be funded from the net proceeds of the Fresh Issue	
	At Lower Band	25253
	At Higher Band	29845
5)	Undrawn foreign debt currency facilities as of July 31, 2007	23580

## Background

Power Grid Corporation of India Ltd (PGCIL) is India's principal electric power transmission company. The company commenced its operations in the year 1992 as part of an initiative of the GOI to consolidate all the interstate and inter-regional electric power transmission assets of the country in a single entity. Accordingly, the transmission assets of all central sector electricity generation utilities that operated on an interstate or inter-regional basis were transferred to PGCIL.

## Key Highlights

The company has been designated a Mini-Ratna Category-I public sector undertaking since October 1998, which provides a greater delegation of powers to undertake new projects without Government approval, subject to an investment ceiling set by the Government. PGCIL has since completed 101 transmission projects, valued in the aggregate at approximately Rs 251.81bn. As at June 30, 2007, the company had 45 transmission projects in various stages of implementation. Subject to government approvals, the company has plan to spend Rs 550bn towards investment in transmission projects during the GoI's Eleventh Five Year Plan, which began on April 1, 2007 and ends on March 31, 2012.

The goal in the Eleventh Five Year Plan is to achieve a national power grid with inter-regional power transfer capacity of more than 37,000 MW, which would include the transmission system and others. The tariffs for the transmission projects are determined by CERC, pursuant to Electricity Act and CERC regulations, and is presently based on a cost-plus tariff based system.

The company has developed the 2,000 MW Tala Transmission Project through a joint venture company (Powerlinks Transmission Limited) with 49% shareholding by the company and 51% shareholding by The Tata Power Company Limited. The company has currently hold a 26% equity stake in Torrent Powergrid Limited and a 20.63% equity stake in Jaypee Powergrid Limited both of which are public-private joint ventures established for the development of dedicated private transmission lines. The respective partners in these ventures are Torrent Power Limited and Jaiprakash Hydro-Power Limited.

Leveraging on the strengths, the company has diversified into the consultancy business. Since Fiscal 1995, the consultancy division has provided transmission-related consultancy services to more than 90 clients in over 225 domestic and international projects. In consultancy business, the company has also facilitate the implementation of various GoI-funded projects for the distribution of electricity to end-users, such as the Accelerated Power Development and Reform Programme ('APDRP') in urban and semi-urban areas and the Rajiv Gandhi Grameen Vidhyutikaran Yojana (the 'RGGVY') in rural areas.

The company has also diversified into the telecommunications business, by creating a telecommunications network principally using the overhead transmission infrastructure. The company has own and operate a fibre-optic cable network that as at June 30, 2007 was over 19,000 kilometers long and connected over 60 Indian cities, including all major metropolitan areas. The company has been leasing bandwidth on this network to more than 60 customers, including major telecom operators such as Bharat Sanchar Nigam Limited, Videsh Sanchar Nigam Limited, Tata Teleservices Limited, Reliance Communications Ltd and Bharti Airtel Ltd.

The company owns and operates most of India's inter-state and inter-regional electric power transmission system (the 'ISTS'). In that capacity, as at June 30, 2007 the company has owned and operated 61,875 circuit kilometers of electrical transmission lines and 106 electrical substations. In Fiscal 2007, the company has transmitted approximately 298 billion units of electricity, representing approximately 45% of all the power generated in India (Source: CEA Website, March 2007).

## Valuations:

PGCIL has reported a CAGR revenue growth of 19.52% over FY05-07. During FY07 PGCIL reported a EBITDA and PAT margin of 82.13% and 30.30% respectively. At the price band of Rs 44-Rs 52, the issue is priced at 15.17x and 17.93x its FY 2007 EPS of Rs 2.9. Taking post issue diluted EPS of Rs 2.58, PE will be 17.05x and 20.15x respectively. At present there is no other player existing in the same business. However on the revenue model and return basis, one can compare the valuations with NTPC, which is trading at 17.95x of its trailing earnings.

**Income Statement (Consolidated)**
**Rs mn)**

Y/E	FY04	FY05	FY06	FY07
Revenues	22630.3	25130.7	31453.4	35898.5
EBIDTA	18110	20137	25245	29483
EBIDTA Margins (%)	80.0	80.1	80.3	82.1
Net Profit (Adjusted)	7902	7581	10817	12200
Net Profit (Reported)	10232	8298	9514	10876
EPS (Rs)	3.3	2.6	2.6	2.9
ROCE(%)	8.1	7.5	8.8	9
ROE(%)	12.3	9.5	9.9	10.2
PE at Higher Band	15.8	20.0	20.0	17.9
PE at Lower Band	13.3	16.9	16.9	15.2

**Balance Sheet**

Y/E March

**Rs mn)**

Sources of Funds	FY04	FY05	FY06	FY07
Equity Capital	30741	32041	36234	38262
Reserves & Surplus	50247	56441	62494	68763
Total Shareholders Funds	80988	88482	98728	107025
Secured Loans	104534	110018	129461	172477
Unsecured Loans	18130	23863	20800	20778
Total Debt	122664	133881	150261	193255
Deffered Liabilities	8881	9005	10952	14656
Total Liabilities	212533	231368	259941	314936
<b>Application of Funds</b>				
Gross Block	198743	218841	248883	290146
Less: Accumalated Depreciation	49895	56285	63720	71986
Net Block	148848	162556	185163	218160
Capital WIP	38901	50390	64156	94554
Investments	19979	20292	21394	19670
Current Assets, Loans and Advances				
Inventories	1969	1843	1802	1841
Sundry Debtors	4777	5713	4403	4904
Cash & Bank	7754	6040	5890	11968
Loans & Advances	13309	13255	15941	14913
Other Current Assets	3329	1785	1554	1470
Total Current Assets	31138	28636	29590	35096
Less: Current Liabilities & Provisions				
Current Liabilities & Provisions	24361	28081	37237	48355
Total Current Liabilities	24361	28081	37237	48355
Net Current Assets	6777	555	-7647	-13259
Misc Expenses not written off	1	1	0	3
Net Deferred Tax	-1974	-2427	-3125	-4193
Total Assets	212532	231367	259941	314935

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