Power Grid | PWGR IN

Price: ₹96

BUY

Target: ₹120 (Dec'11)

JM FINANCIAL

Inimitable monopoly at inflection point

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- **PGCIL entering high capex/capitalisation mode:** Given c.₹800bn worth T&D projects are at various stages of construction/contracting (₹200bn spent, as reflected in CWIP) and further ₹540bn capex planned on High Capacity Power Transmission Corridor (HCTC) over next 5 years, PGCIL will witness capex boom till FY15E (Exhibit 2). It is planning to spend ₹1,100bn in 12th Plan (FY13-17) over and above the ₹550bn capex in 11th Plan (FY08-12).

- **Unusual inflection in capitalisation and capex:** FY11-13E provides a unique opportunity to play PGCIL when there will be inflection in T&D spending vs other Plan periods where capex is back-ended and slows down considerably at start of next 5-year Plan. PGCIL is likely to increase capex from ₹110bn in FY11 to ₹180bn by FY13 (Exhibit 2), and it will likely remain at this level till FY17. It will also see strong capitalisation rates of ₹85/113/161bn in FY11/12/13E respectively vs. ₹29bn in FY10.

- **Sales/earnings growth to trend 25-30%, RoE to improve 260bps:** We believe earnings growth will follow robust capitalisation CAGR of 77% over FY10-13E. Large capex will result in sales growth of 25-30% in FY12-14E from 20-25% in FY08-11E, thereby returning 23% earnings CAGR over FY10-13E. We forecast RoE improvement of 260bps to 14.4% by FY13E on increased proportion of productive GB vs non-productive CWIP (CWIP/GB at 36% in FY13E vs 47% in FY10).

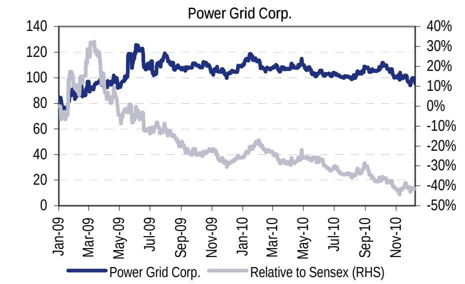
- **Initiate with BUY and Dec'11 TP of ₹120:** We initiate with BUY and Dec'11 TP of ₹120 on PGCIL based on 2.1x P/BV for operating core equity, 1.3x P/BV for CWIP, 6x EV/EBITDA for consultancy (Exhibit 15) and 1x BV for other assets/investments. We derive P/BV on standard NPV model with 17.5% LT RoE assuming 2 years capex span for CWIP and conservative 3.5% O&M/GB. On DCFE, we arrive at similar TP of ₹123, valuing PGCIL on 12% CoE (0.7 Beta) and 4% terminal growth due to perennial shortage of T&D spend in India. Powergrid is our preferred pick in the utility space on heightened fuel risk (thermal), higher execution risk (hydro), and assured return monopoly. BUY

- **Risks:** 10% capex variation affects TP by 3%. Equity dilution risk in FY14E to raise ₹80bn. Stranded assets due to generation project delays are generally compensated. Rise in interest rates could lead to asset price deflation.

Key Data

Market cap (bn)	₹ 442.6 / US$ 9.8
Shares in issue (mn)	4,629.7
Diluted share (mn)	4,629.7
3-mon avg daily val (mn)	₹ 1303.5/US$ 28.8
52-week range	₹ 121.5/91.8
Sensex/Nifty	19,242/5,767
₹/US$	45.3

Daily Performance



%	1M	3M	12M
Absolute	-7.9	-8.5	-8.1
Relative	0.2	-10.9	-20.4

** To the BSE Sensex*

Shareholding Pattern (%)

	2Q FY10	2Q FY09
Promoters	86.4	86.4
FII	1.7	2.3
DII	5.7	4.8
Public / others	6.3	6.5

Exhibit 1. Financial Summary (₹ mn)

Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E
Net sales	56,900	71,277	84,185	102,766	132,095
Sales growth (%)	25.0	25.3	18.1	22.1	28.5
EBITDA	45,865	58,696	68,892	82,584	105,231
EBITDA (%)	80.6	82.3	81.8	80.4	79.7
Adjusted net profit	16,906	20,409	26,003	32,185	38,374
EPS (₹)	4.0	4.8	5.6	7.0	8.3
EPS growth (%)	22.7	20.7	15.8	23.8	19.2
ROCE (%)	6.8	7.0	7.4	7.8	8.1
ROE (%)	9.9	11.5	12.4	13.0	14.3
PE (x)	23.8	19.7	17.0	13.8	11.5
Price/Book value (x)	2.4	2.2	1.9	1.7	1.6
EV/EBITDA (x)	14.1	11.9	11.3	10.5	9.4

Source: Company data, JM Financial. Note: Valuations as of 09 / 12 / 2010

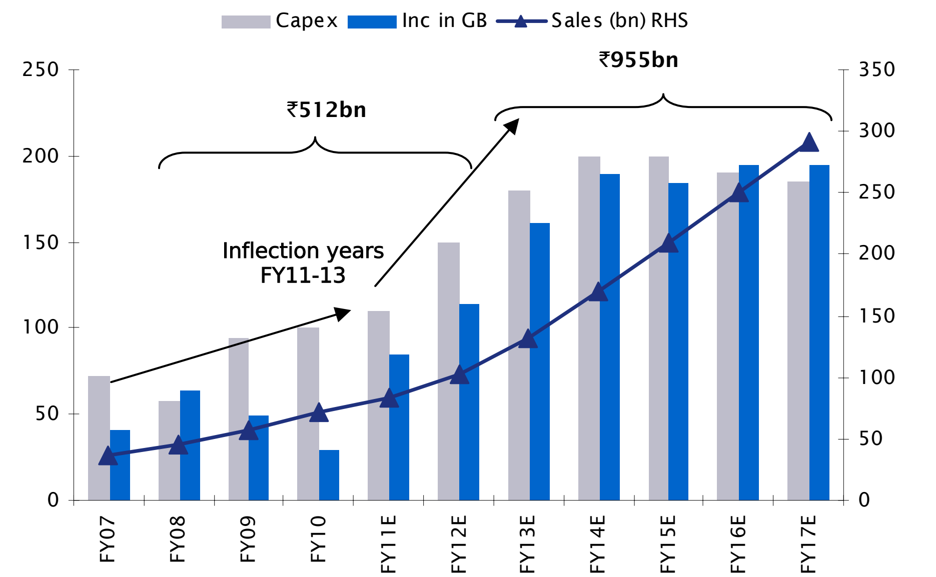
PGCIL – Inimitable monopoly at inflection point

Unparalleled ₹1,200bn capex over FY11-17 to drive growth

PGCIL is likely to witness significant growth on the back of ₹1,200bn capex plan involving 40,000ckm of transmission lines, 65 new substations and transformation capacity of 106,000 MVA under various stages of implementation (spent ₹208bn till 30 Sept'10). We expect PGCIL to spend 86% of its target outlay in the 11th Plan with operational gross block addition increasing from ₹28.8bn in FY10 to ₹114bn in FY12. Project execution is likely to pick-up in FY12-13 when capitalisation is seen at ₹160-180bn on the back of large IPP power generation capacity addition in central India. We estimate a capex of ₹955bn and capitalisation of ₹923bn in the 12th Plan. Given the magnitude of PGCIL's planned capex we expect sales to grow 26% during 2011-15.

Significant increase in capex to ensure 26% sales CAGR in FY11-15

Exhibit 2. Capex, gross block addition and sales growth



Source: Company, JM Financial

Capex assurance from project approvals and pipeline

PGCIL's under-construction and approved projects provide capex visibility of ₹1,284bn over FY11-17E (refer Exhibit 3).

As per reports submitted to CEA and MOP, unparalleled ₹798bn worth projects are under various stages of construction as of Sept'10

Exhibit 3. T&D projects under-construction and approved

Project	Value	Remarks
Projects under-construction	798	Includes Orissa HCTC, Sasan and Mundra UMPP
Capex incurred till Sept'10	208	CWIP
Balance for approved projects	590	To be incurred during FY11-15
Capex plan–HCTC	534	To be incurred during FY12-17; excluding Orissa HCTC of ₹46bn (Exhibit 5)
Capex estimates from TL linked to 4 additional UMPPs	160	To be incurred during FY12-17; already accorded to PGCIL by MoP
Total capex Plan	**1,284**	
JmFe capex assumption FY11-17	1,200	93% achievement
PGCIL's announced Plan	1,380	₹1,100bn for FY12-17, ₹280bn for FY11-12

Source: Company, JM Financial

Robust project pipeline

PGCIL's project pipeline comprises Regional system strengthening schemes (Exhibit 4), HCTC (Exhibit 6), and transmission line associated with UMPPs - Sasan, Mundra, Krishnapatnam, Tilaiya (Exhibit 5), which give further credence to PGCIL's planned capex.

Exhibit 4. System strengthening schemes FY11-14

Region	Cost (₹ bn)
Northern Region	105.1
Western Region	57.0
Southern Region	8.3
Eastern Region	24.8
North Eastern Region	0.6
Total	**195.8**

Source: Company, JM Financial

Exhibit 5. PGCIL's major generation based projects

Project	Cost (₹ bn)	Expected Commissioning
Barh Generation	37.8	Jun-10
Transmission System Associated with DVC & Maithon	94.4	Aug-12
North East / Northern Western Interconnection	111.3	Aug-13
Transmission System of Vindhyachal-IV and Rihand -III	46.7	Nov-12
Associated with Mundra UMPP	48.2	Oct-12
Associated with Sasan UMPP	70.3	Dec-12
Transmission System for Phase-I Generation Projects in ORISSA - Part - A.	20.7	Mar-13
Transmission System for Development of Pooling Station in Northern region Part of West Bengal and Transfer of Power from BHUTAN to NR/WR.	44.0	Jan-15
Transmission System associated with Pallatana gas Based Power Project and Bongaigaon Thermal Power Station (BTPS)	21.4	Dec-12
Others (including Orissa HCTC)	107.4	FY12-14
Total	**602.2**	

Source: Company, JM Financial

We believe **HCTC** will be a key growth driver for PGCIL that will be front-ended in the 12th Plan. HCTC has LTOA (long term open access) grant of c.42GW capacity and c.13,000ckm of TLs for the next 5-7 years with an investment of over ₹580bn.

Exhibit 6. HCTC details

	Transmission System Associated with	Cost (₹ bn)	Ckm
HCTC – I	Phase-I Generation Projects in Orissa (excluding approved)	42	1,940
HCTC – II	IPP projects in Jharkhand	57	1,625
HCTC – III	IPP projects in Sikkim	13	443
HCTC – IV	IPP projects in Bilaspur complex, Chattisgarh & IPPs in Madhya Pradesh	12	360
HCTC – V	IPP projects in Chattisgarh	288	5,278
HCTC – VI	IPP projects in Krishnapatnam Area, Andhra Pradesh	21	410
HCTC – VII	IPP projects in Tuticorin Area, Tamil Nadu	24	790
HCTC – VIII	IPP projects in Srikakulam Area, Andhra Pradesh	30	645
HCTC – IX	IPP projects in Southern Region for transfer of power to other regions	48	1,395
Total		**535**	**12,886**

Source: Company, JM Financial

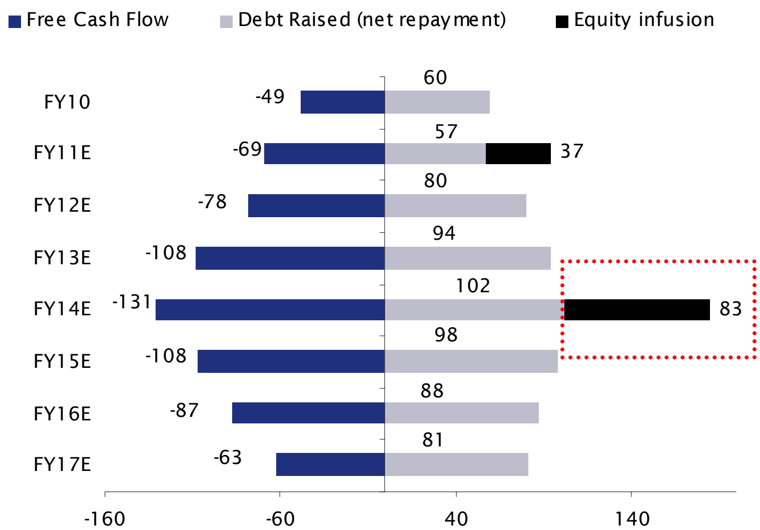
Funding the plan

Further dilution expected by FY14

We factor in an equity infusion of ₹83bn, with a dilution of 13% in FY14

In addition to the ₹37bn FPO in FY11, we expect PGCIL to raise capital by FY14, due to **1)** its unprecedented capex program of ₹955bn in 12th Plan, and **2)** decreasing liabilities for ARDRP and RGGVY schemes post FY13. We factor in an equity infusion of ₹83bn, with a dilution of 13% in FY14 (assuming P/B of 1.7x, in-line with FY11 FPO valuation) which will see GoI's share pruning down to c.61% (Exhibit 8). We do not expect PGCIL to turn FCF (operating cash flow less capex) positive before FY17. Given its credit profile (CRISIL rating of AAA for senior debt and P1+ for short-term debt) we do not foresee PGCIL to face major issues in financing its future capital requirements.

Exhibit 7. Cash flow requirement and funding estimates (₹ bn)



Source: Company, JM Financial

Vendor financing + RGGVY/APDRP advances + WC loan fund 80% equity in CWIP

PGCIL's strong positioning amongst vendors highlights its monopoly. It gives interest bearing advances, if any, on award of contract. Higher current liabilities are also attributed to APDRP/RGGVY work related advances (₹18.8bn) that is used partially to fund equity requirement. WC loan of ₹12.5bn is used under CWIP as PGCIL has -₹37bn WC (net of cash), in our view.

FPO in FY11 to reduce vendor financing, in-line with the trend witnessed post IPO in FY08

Exhibit 8. Equity financing – non-conventional (₹ mn)

	FY07	FY08	FY09	FY10	FY11E
WC loan	7,500	7,500	7,500	12,500	12,500
Advances from customers (RGGVY)	7,312	6,980	13,098	18,868	19,968
WC (excl cash and advances)	-17,945	-8,158	-11,193	-18,564	-13,623
Vendor financing	32,757	22,638	31,792	49,932	46,091
% of equity in CWIP	**87%**	**65%**	**60%**	**81%**	**67%**

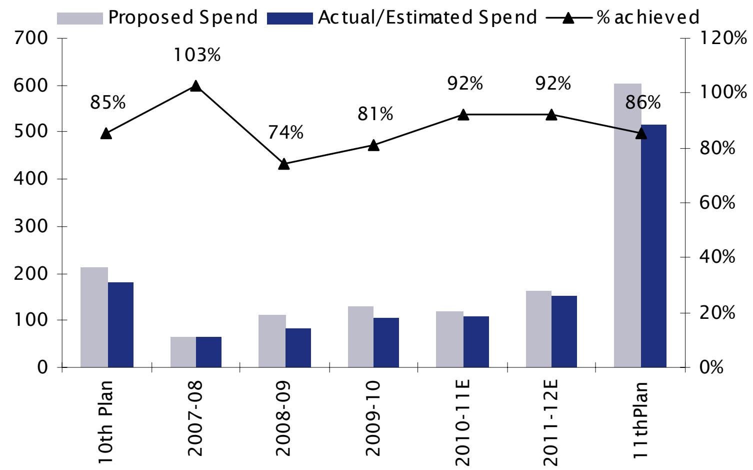
Source: Company, JM Financial

Above average execution despite bottlenecks

PGCIL, despite regulatory bottlenecks, has managed to execute more than 85% projects in 10th plan (vs generation company's 57%). Based on historical trends and bottoms-up analysis of under-construction projects, we believe it will implement 86% of planned projects by the end of 11th Plan (Exhibit 9) and 93% projects in 12th Plan. 11th Plan lumpiness will not recur in 12th Plan as PGCIL will likely start 12th Plan with ₹290bn CWIP and front-ended capex plans (till FY15) for IPP power generation projects.

We believe PGCIL will implement 86% of planned projects by the end of 11th Plan

Exhibit 9. Actual vs proposed spend (₹ bn)



Source: Company, JM Financial

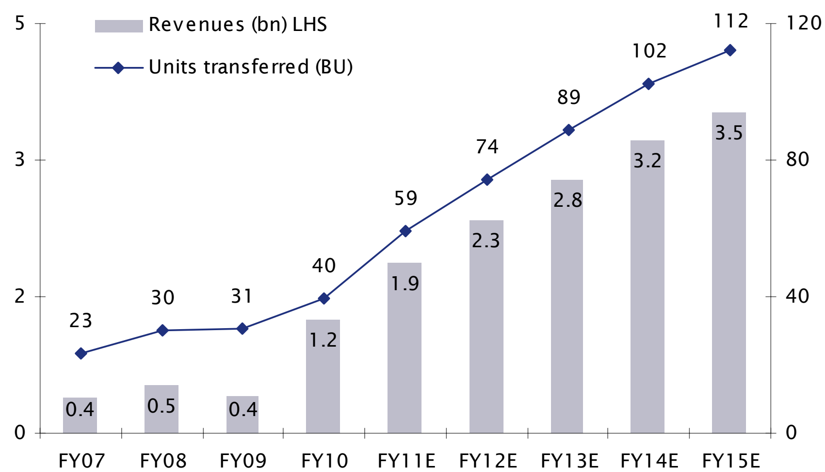
Upside potential from STOA, Consultancy and Telecom

STOA income to increase 3-fold

PGCIL charges for Short term Open Access (STOA) at rates notified by CERC under STOA regulations for bilateral, inter-regional and collective transactions. It retains 25% of the STOA charge and passes on 75% to long-term customers (state distribution companies). Based on STOA capacity projections (25GW by FY15), total volume of bilateral trades handled by PGCIL is likely to increase from 39.5BUs in FY10 to 112BUs in FY15E, with upside potential of 140BUs. We are factoring in a 3-fold increase in revenues from ₹1.2bn in FY10 to ₹3.5bn in FY15.

Total volume of bilateral trades handled by PGCIL is likely to increase from 39.5BUs in FY10 to 112BUs in FY15E, with upside potential of 140BUs.

Exhibit 10. Short Term Open Access outlook



Source: Company, JM Financial

Leveraging transmission network for Telecom

A telecommunication service at present primarily involves point-to-point leasing of bandwidth on the basis of service agreement signed between PGCIL and its customers (Bharti Airtel, BSNL, National Informatics Centre, Dishnet Wireless Limited, Tata Communications Ltd). The term of such agreements vary from a period of 3 months to 15 years and tariffs are determined as per TRAI notified rates. In addition, PGCIL is required to share a fee of ₹3,000/year/km of optical ground wire with its distcom beneficiaries.

We expect telecom division to witness steady CAGR of 7% during FY10-15E.

In addition to optical ground cable network, the firm is planning to lease c.10% of its transmission tower (primarily in Northern belt) to independent tower companies and telecom service providers.

Tower sharing – limited, but potential upside

PGCIL recently decided to use its exiting transmission towers by leasing space to telecom service providers. Recent tender has been issued for leasing towers in Punjab, Haryana, Himachal Pradesh and J&K. PGCIL has over 70% of its 150,000 towers in semi-urban and rural areas with possibility of multiple tenancy. 10-15% of its tower network is capable of being used for leasing space as per consultant’s report, and balance infrastructure capex will be incurred by final awardees.

Revenue opportunity from tower leasing would be ₹3.5-4bn over the next 4-5 years, as PGCIL will charge higher of fixed rental or 10% of actual gross revenue. We believe PGCIL will have to share 75% of earned revenue with the beneficiaries (State Distcoms).

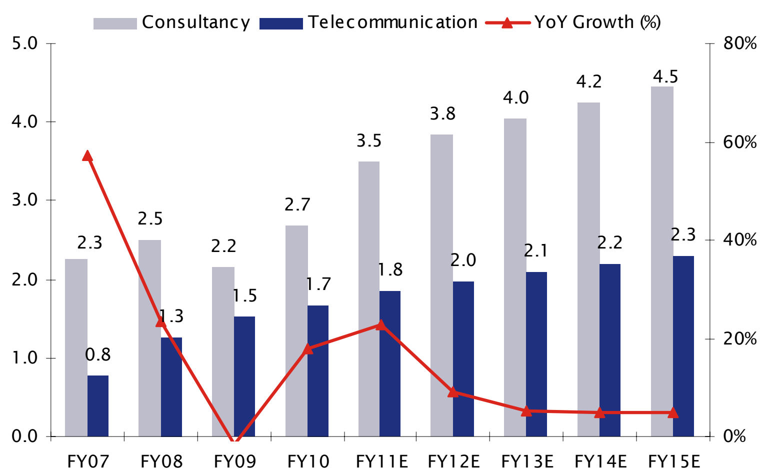
Exhibit 11. Telecom tower sharing potential

Tower-sharing	Tower standalone	Tower sharing		Remarks
Monthly rental (INR)	35,000	35,000		
AMC + Other operating expenses	7,000	7,000		
Staff expenses	4,500	4,500		
Landlease	11,000	0		₹11,000/tower elsewhere
EBITDA	12,500	23,500		
Depreciation & Interest	6,300	3,500		70% debt funding; lower capex costs for tower sharing
PBT	6,200	20,000		57% PBT margin; 18-20% for other tower companies
PBT Margin	18%	57%		
Sharing with PGCIL		13,800		Max possible sharing based on profit arbitrage
PGCIL	**Scenario 1**	**Scenario 2**	**Scenario 3**	
Towers	5,000	10,000	15,000	
Tenancy (x)	1x	1x	1x	Multiple tenancy can be achieved considering rural/semi-urban location advantage
Revenue/tower/month	13,800	13,800	13,800	Inline with leasing charges + profit sharing on lower capex
Revenue	828	1,656	2,484	
Sharing with beneficiaries	621	1,242	1,863	75% sharing inline STOA revenue sharing regulations
PGCIL's EBITDA	207	414	621	
% of FY13E EBITDA	0.2%	0.4%	0.6%	

Source: Company, JM Financial

We are not factoring in revenues from tower lease business as we have limited visibility around **a)** revenue generation, and **b)** revenue sharing with transmission line beneficiaries. We expect telecom division to witness steady CAGR of 7% during FY10-15E.

Exhibit 12. Revenue contribution from telecom and consultancy biz (₹ bn)



Source: Company, JM Financial

Consultancy Arm

Consultancy division is likely to add further value to the transmission business as the firm looks to leverage its dominant exposure/experience in the sector.

We have conservatively assumed 11% CAGR in consultancy business to ₹4.5bn in FY15 as RE projects may finish

PGCIL provides consultancy services in the transmission and distribution sector, including in grid management and capacity building. The consultancy projects are broadly related to Electricity distribution strengthening scheme and rural electrification (RE), execution of transmission and communication system-related projects and Engineering consulting assignments (Exhibit 12). We believe consultancy business will witness 11% CAGR from ₹2.7bn in FY10 to ₹4.5bn in FY15E as private sector consultancy demand will pick-up on IPTC awards, but RE demand may slow-down.

Exhibit 13. PGCIL's significant domestic and international consultancy projects portfolio

Ongoing Domestic	**Year Engaged**
Turnkey Execution of 400 kV D/C Transmission System from Pallatana (Tripura) to 400 kV Powergrid Station at Bongagoan	FY07
Turnkey execution of 400 kV D/C Transmission Line totaling 400 ckm and four 400/200 kV substations	FY10
Turnkey construction of six 132/33kV sub-stations, four 132 kV bays and the associated 132kV transmission lines	FY09
Turnkey execution of LILO of one circuit of 400 kV D/C Silchar – Bongaigaon line and 400/220 kV, 2 x 315 MVA substation at Byrnihat	FY09
Upgrade of load despatch system in Orissa	FY10
Strengthening of sub-transmission scheme in Bihar under Phase II	FY07
Ongoing International	
Turnkey execution of 220 kV D/C Kabul to Phul-e –Khumri transmission line and substation at Kabul	FY06
Consultancy services for 400kV gas insulated substation and associated transmission lines.	FY08
Consultancy services for the Bangladesh segment of the Indo-Bangladesh Interconnection	FY11
Consultancy for Design and Construction of Punatshangchhu-I 400kV D/C Transmission Lines	FY10
Providing operations and maintenance training to DA Afghanistan Breshna Sherket engineers and technicians	FY07

Source: Company, JM Financial

Low risk model - stable earnings

Under the current mechanism, pooled regional transmission charges are shared by regional beneficiaries (Distcoms) in proportion to the sum of their respective generation entitlements (in MW), and PGCIL is protected by state governments against default by LC.

Transmission charges for inter-regional links are shared in a ratio by the concerned regions as specified by CERC.

Transmission charges corresponding to any generation plant capacity for which a beneficiary has not been identified and contracted are paid by the concerned generating company, hence assuring AFC for PGCIL.

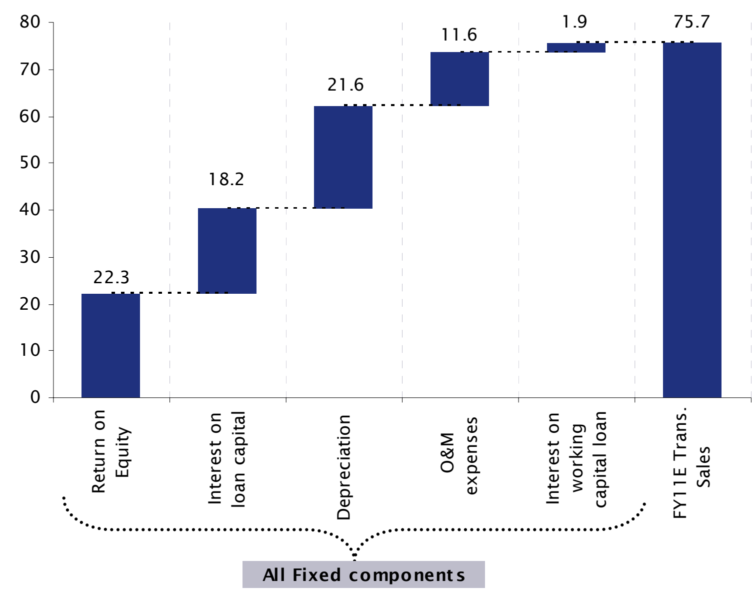
Annual fixed charges for PGCIL primarily comprise:

- RoE @ 15.5% + incentive for early commission and higher availability (28% of tariff)
- Depreciation at CERC directives (29%)
- Actual interest on loans (25%)
- Predetermined Operation and maintenance costs with fixed escalation of 5.72% (15%)
- Interest on working capital loan based on SBI PLR (3%)

With no variable component in tariff computation, sales volatility for PGCIL is significantly lower than that of a thermal generation firm

With no variable component in tariff computation, sales volatility for PGCIL is likely to be significantly lower than that of a thermal generation firm. Key risk for a generation company lies in the availability/pricing of fuel for generation.

Exhibit 14. FY11E sales breakup (₹ bn)



Source: Company, JM Financial

Valuations

Initiating coverage with a BUY; P/B SOP target price of ₹120

We reckon price to book is appropriate to value Powergrid as valuation will be primarily driven by proportion of operational assets that earn higher (RoE c.17%) and 'work in progress' assets that offer nil returns. We derive P/B target multiples by considering NPV for return profile over the life-time of 35 years (Exhibit 35) and 2-years average span of capex for CWIP (vs 2-3 years for entire project). We have a DCF based valuation of ₹123 on 12% CoE (due to its lower Beta - 0.7) and 4% terminal growth (higher capex required in T&D over generation), but the results are highly sensitive to debtor and liability assumptions.

Our SOP valuation target of ₹120 (see Exhibit 14) is based on transmission projects under operation (valued at 2.1x FY13E BVPS) and capital work in progress (valued at 1.3x BVPS13E), discounted back to Dec'11 (from Mar'12). We are valuing remaining assets (incl telecom) and cash at book value and consultancy and STOA business at 6.0x FY13E EBITDA. We initiate coverage on PGCIL with a SOP based target of ₹120 for Dec'11 and BUY rating.

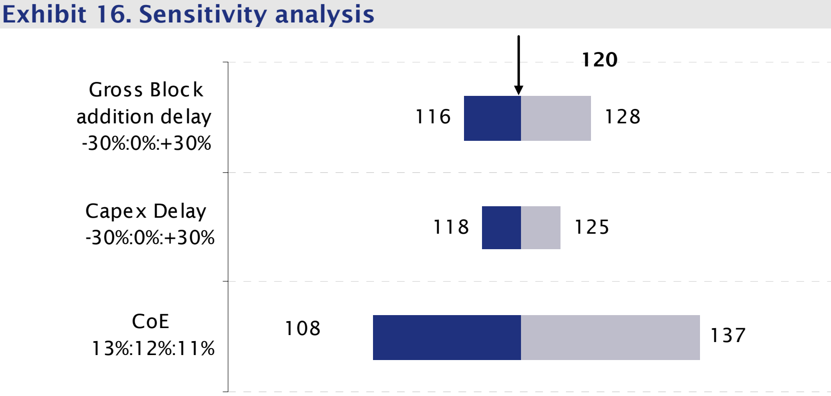
PGCIL trades at 1.6x FY13E BV and 11.5x FY13E EPS, and would trade at 2.0x FY13E BV on our TP. High growth (earnings CAGR of 18% FY11-15), low risk model, attractive valuations, upsides from other operations and execution track record drive our BUY rating.

Exhibit 15. SOP valuation (₹ bn)

	FY10 BV	FY11 BV	FY12 BV	FY13 BV	Multiple (x)	Value
Core equity	97	120	154	202	2.1	422
CWIP	40	38	37	86	1.3	114
Consultancy + STOA EBITDA	3	4	5	3	6.0	18
Business Value				-		**554**
Cash	33	55	45	21	1.0	21
Investments	19	17	16	17	1.0	17
Deferred tax liabilities	4	4	4	14	1.0	(14)
Equity Value						**578**
Number of Shares (mn)						4,630
Target Price Mar'12 (₹)						**125**
Target Price Dec'11 (₹) (round off)						**120**

Source: Company, JM Financial

Exhibit 16. Sensitivity analysis ₹/share



Source: JM Financial

Low sensitivity to capex delays but high sensitivity to coat of Equity

Risk free rate (R) rose to 9% in 2003-08 cycle, implying the worst case CoE of 13%

PGCIL is the safest business model in utilities space with **a)** low variability (lowest returns factored in by lowest core P/B), **b)** low execution risk (unlike hydro), hence better CWIP P/B multiple, and **c)** low operational risk (unlike thermal).

Exhibit 17. Comparable valuation for other regulated models (₹ bn)

	NTPC			NHPC			Powergrid		
	Multiple (x)	FY13 Book Value	Value/ share	Multiple (x)	FY13 Book Value	Value/ share	Multiple (x)	FY13 Book Value	Value/ share
Core equity	2.7	398	130	2.3	153	28	2.1	202	91
CWIP	1.8	218	48	1.1	30	3	1.3	86	25
Consultancy EBITDA	6.0	3	2	6.0	0.4	0	6.0	3	4
Business Value			**180**			**31**			120
Cash	1.0	163	20	1.0	103	8	1.0	21	4
Govt. Bonds	1.0	49	6	1.0	8	1	1.0	17	4
Other Assets/liabilities	-	-	-	1.0	16	1	1.0	14	-3
Equity Value (Mar'12)			**206**			**41**			**125**

Source: JM Financial

Exhibit 18. Ranking of regulated business models

	Generation – Thermal	Generation – Hydro	Transmission	Remarks
Clearances Risk	2	3	1	Right of way issues for transmission; land acquisition/ water for thermal
Execution Risk	2 (4-5 years)	3 (5-8 years)	1 (2-3.5 years)	Higher multiples for transmission for under-construction projects.
Operational Risk	3	2	1	Very minimal operational risk
Returns leverage (RoE)	3 (19-24%)	2 (16-19%)	1 (16-17.5%)	Lower multiples/ but most preferred for stability
Competitive Risk	3	2	1	Least competitive/ non re-placability
Conclusion	High risk-reward; operational levers; Competitive risks	Execution uncertainties; low operational risks;	Low risk-return; min competition	

Source: JM Financial; **Note: 3 represent higher scale**

Our estimates are 2-13% above consensus

Our estimates are 1-11% higher on sales and 2-13% higher on profits for PGCIL. Meanwhile we estimate ₹180bn capex in FY13E, 32% higher than street estimates. We believe street has been conservative in terms of capex and gross block addition post 2012. We take confidence in higher project pipeline visibility with significant proportion for HCTC and strengthening projects (₹40-50bn worth projects under ordering) expected to be delivered in FY13-15E.

Exhibit 19. JMFe vs consensus

	Consensus			JMFe			% Var		
	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Sales	87	104	119	84	103	132	-4	-1	11
EBITDA	73	87	100	69	83	105	-5	-5	5
Margins (%)	83.3	83.9	84.0	81.8	80.4	79.7			
PAT	26	30	34	26	32	38	2	7	13
Capex	129	149	137	110	150	180	-15	1	32
BVPS (₹)	46.5	50.9	55.9	50.8	55.2	60.5	9	8	8
RoE (%)	13.6	13.7	14.2	12.5	13.1	14.3			

Source: Bloomberg, Company, JM Financial

Consolidated cash flow valuation: Alternatively, we have also used consolidated company cash flow to equity shareholders (FCFE), discounted with a 12.0% cost of equity (due to lesser risks) and a terminal growth of 4% (T&D is likely to draw more capex growth than generation), to arrive at a Dec'11 target price of ₹123. TG is higher than peers as we consider cash flows till FY20 and believe that given high capex incurred during FY11-17, 15% RoE in FY20 and retention of >60%, 4% TG is achievable.

Exhibit 20. DCF valuation (consolidated) (₹ mn)

Valuation	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
PAT	26,003	32,185	38,374	48,374	58,450	66,350	74,948	84,197	92,424	99,134
Post tax other income	4,146	4,471	3,095	3,536	3,714	1,909	964	1,563	3,762	7,209
Operational PAT	21,857	27,714	35,279	44,838	54,736	64,441	73,985	82,634	88,662	91,925
Add: Depreciation	21,633	25,786	31,950	40,126	48,905	57,803	66,976	75,625	82,321	86,752
Less: Inc in WC	8,767	-12,012	1,148	22,898	18,702	25,825	24,495	39,382	31,649	14,946
Less: Capex	110,000	150,000	180,000	200,000	200,000	190,000	185,000	58,783	61,134	63,580
Add: Debt	74,624	102,624	123,931	139,420	139,420	132,569	129,137	41,002	42,794	44,506
Less: Repayment	17,448	22,379	30,096	37,156	41,504	45,015	47,901	50,940	51,485	50,847
FCFE	**-18,101**	**-4,243**	**-20,084**	**-35,669**	**-17,143**	**-6,026**	**12,702**	**50,156**	**69,508**	**93,810**
Present value of CF	**0**	**-4,243**	**-17,932**	**-28,435**	**-12,202**	**-3,830**	**7,208**	**25,411**	**31,442**	**37,888**
TG	4.0%									
PV of FCFE (till FY20)	34,321									
PV of TG	478,790									
PV	513,111									
Cash + Inv as of FY11	58,395									
Equity Value	571,506									
Nosh - FY11	4,630									
Target Price	**123**									

Source: Company, JM Financial

Underlying assumptions

Assumptions for PGCIL model are listed below.

Exhibit 21. DCF model assumptions

Parameter	Rate	Remarks
Cost of equity	12.0%	Risk –free rate (8%), Beta (0.7), Risk premium (6.0%)
Terminal Growth	3.5%	-
Cost of Debt	8.5%	-
Availability factor	99.5%	
O&M as a % of gross block	3.5%	Escalated at 5.72%

Source: JM Financial

Global and domestic comparison

PGCIL is one the biggest standalone transmission company in the world (3rd based on TL and DL lines). In terms of valuation, PGCIL trades at a 30% discount to its closest peer (Terna) on book value, with RoE in-line with Terna (c.15%). In terms of operational efficiencies PGCIL has one of the highest availability factor across its global peers.

Exhibit 22. Global peers

Company	Country	TL (ckm)	Substation	MVA	Employees	Availability	Operations*
PGCIL	India	79,556	132	89,170	9,162	99.8%	T
CEMIG	Brazil	24,465	540	NA	13,420	NA	G, T, D
Terna Spa	Italy	62,503	-	121,501	4,827	99.0%	T
Electrobas	Brazil	59,725	247	NA	27,000	NA	G, T, D
Red Eléctrica Corporación	Spain	34,754	NA	66,259	1,679	98.06%	T
National Grid PLC	UK	21,954	337	NA	NA	NA	G, T, D, Gas distribution

Source: Company, JM Financial *G: Generation; T: Transmission; D: Distribution

Exhibit 23. Global peer valuation

		PGCIL	Terna Spa	Cemig	Eletrobras	Red Electrica	National Grid
Y/E		**March**	**Dec**	**Dec**	**Dec**	**Dec**	**March**
Currency		**INR**	**EUR**	**BRL**	**BRL**	**EUR**	**GBP**
M Cap (US$ bn)		**9,787**	**8,251**	**10,344**	**15,809**	**6,384**	**30,108**
	FY11E	16.5x	14.5x	8.4x	8.5x	12.6x	11.4x
P/E (x)	FY12E	14.0x	15.0x	6.8x	7.0x	11.0x	10.9x
	FY13E	11.7x	16.1x	6.1x	6.2x	10.0x	10.4x
	FY11E	11.6x	9.6x	6.5x	6.3x	9.8x	8.4x
EV/EBITDA (x)	FY12E	10.7x	9.8x	5.4x	6.5x	8.6x	8.2x
	FY13E	9.6x	9.9x	4.8x	7.3x	8.1x	8.1x
	FY11E	1.9x	2.4x	1.3x	0.3x	3.0x	2.1x
P/BV (x)	**FY12E**	**1.8x**	**2.4x**	**1.2x**	**0.3x**	**2.7x**	**2.0x**
	FY13E	1.6x	2.4x	1.2x	0.3x	2.4x	1.9x
	FY11E	12.49	17.27	15.47	3.90	24.46	25.59
RoE (%)	FY12E	13.12	17.20	17.38	4.68	24.56	20.23
	FY13E	14.33	14.89	18.45	5.34	23.72	19.92

Source: Bloomberg, Company, JM Financial

PGCIL trades at 6% discount to local peers. Given PGCIL's low risk profile and high earnings growth, it currently trades at an attractive 1.7xBVPS13E. We believe it will trade in-line with NTPC despite higher RoE for the latter as regulation of compulsory competitive bidding based tariffs will, in our view, have a negative impact on generation firms, whereas, PGCIL with its robust pipeline will remain immune to the changing environment.

Exhibit 24. Domestic peer valuation

	Rating	CMP	TP	M Cap		EPS (adj) ₹			PE (X)			P/B(X)			RoE (%)		
				₹ bn	$ bn	FY11	FY12	FY13	FY11	FY12	FY13	FY11	FY12	FY13	FY11	FY12	FY13
Power Grid	**Buy**	95	120	442	9.8	5.9	7.0	8.3	16.2	13.7	11.5	1.9	**1.7**	1.6	12.5	13.1	14.3
Coal India	Buy	313	290	1,978	43.9	20.7	20.4	25.5	15.1	15.4	12.3	5.8	**4.7**	3.8	43.8	33.9	34.4
Tata Power	Hold	1,279	1,440	303	6.7	41.4	40.6	41.5	30.9	31.5	30.8	2.7	**2.5**	2.4	6.7	8.6	8.1
NTPC	Buy	187	210	1,543	34.2	11.2	12.8	14.9	16.7	14.6	12.6	2.2	**2.0**	1.9	14.7	14.2	14.9
NHPC	Buy	27	36	330	7.3	1.6	1.7	2.1	16.7	15.7	12.7	1.2	**1.1**	1.1	6.7	6.9	8.2
JSW Energy	Buy	96	128	158	3.5	6.4	11.5	9.2	15.0	8.4	10.5	2.8	**2.2**	1.9	18.7	26.3	18.0

Source: Company, JM Financial Estimates

Risks

Execution bottlenecks:

Although transmission projects face limited operational risks, execution risks remain investors' key concerns. Execution of transmission projects hinges on a transmission firm's ability to overcome challenges like regulatory approvals, land acquisition and unavailability of skilled work force.

Key execution concern is approvals from forest authorities. In addition to compliance with Forest Conservation Act the firms are required to comply with Forest Rights Act, 2006 (FRA), which makes written consent of concerned Gram Sabha compulsory for the entire proposal involving diversion of forest land under the Forest (Conservation) Act, 1980. This could be an additional roadblock for a project even when "in principle" approval has been granted. Time taken for forest clearance has varied from one month to over 2 years (Exhibit 25). PGCIL has taken up the matter of exemption of transmission projects from the purview of FRA, based on the fact that transmission lines have limited impact on forests (projects substantially high above the ground level resulting in minimal changes to the forest).

Exhibit 25. PGCIL forest clearance approved in 2010

Project	Description	Received on	Approved on	Time taken for approval (months)
Patna	Diversion of 1.343 ha of forest land for construction of 400 kv dc	Jun-08	Jul-10	25
Silvassa	Laying 220kvd/c vapi -Khadoli, transmission line	Sep-09	Jul-10	10
Silvassa	Laying 400 kv transmission line	Nov-09	Aug-10	9
Gandhinagar	Laying 400 kv d/c transmission line	Oct-09	May-10	7
Valsad	Laying 400 kv Vapi-Nari-Mumbai-transmission line	Jan-10	Sep-10	8
Jhajjar	Laying of 400 kv d/c (tridle bundle) bahadurgarh-sonepat transmission line	Apr-10	May-10	2
Jhajjar	400 kv double circuit transmission line from Jharli to Mundka sub station	Apr-10	May-10	1
Sonipat	Laying of 400 kv d/c (tridle bundle) Bahadurgarh-Sonepat transmission line	Apr-10	Jun-10	2
Chandrapur	Laying 400 kv d/c. transmission line from Bhadravati to Parali	Nov-09	Jul-10	8
Minimum				**1**
Maximum				**25**
Average				**8**

Source: Company, JM Financial

Delays in associated generation projects

Mismatch between commissioning of generation plant and availability of transmission lines was a key concern as assets were stranded and no returns were available for PGCIL on its equity. CERC, on these lines, recently issued an order in favour of PGCIL to recover fixed charges and RoE as per ARR for 400KV Kudankulam-TIrunelveli D/C Lines (I & II) from the beneficiary. Although this order cannot be extrapolated for all future projects, we believe it will set precedence for future appeals by PGCIL. However, generation project delays will imply capex delays for PGCIL, impacting earnings.

Threat of competition on future projects:

With the grant of UMTP projects like Talcher II, North Karanpura and Scheme for enabling import of NER/ER surplus by NR to private transmission players (PTP), the sector has finally seen big ticket investment flowing from private sector. Powergrid may have to compete against the PTP for receiving expansion projects going forward, as the Jan'11 deadline for mandatory shift from 'cost+RoE' approach to competitive bidding sets-in.

Exhibit 26. Ultra mega transmission projects awarded to private players

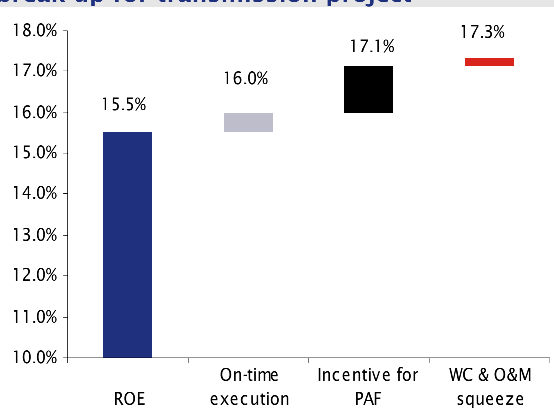
Project Name	Voltage	length (km)	Awarded to	AFC (levelised)
Evacuation system for north Karanpura(1,980 MW)	220kV,400kV, 765kV	1034	Reliance Power Transmission	2,580.01
Talcher augmentation system	400kV	671	Reliance Power Transmission	1,440.02
Scheme for enabling import of NER/ER surplus by NR	400kV	495	Sterlite Energy	1,187.95

Source: Company, JM Financial

...however interest remains low due to limited levers to improve RoE and lack of private sector experience

The annual fixed charge for transmission companies is regulated with fixed 15.5% return on equity (+0.5% incentive for on time execution) and at most 1.5% incentive for higher availability of the transmission systems (above 98% for ac systems). Even in competitive bidding, ability to leverage RoE is limited as it is a high capex, low opex business. Generation firms on the other hand benefit from the demand-supply deficit by realising a significantly higher merchant tariff from end users (we compare the profile of generation and transmission firms in Exhibit 41). We believe large scale private participation is unlikely in the transmission sector given limited upside potential and lack of private sector experience.

Exhibit 27. RoE break up for transmission project

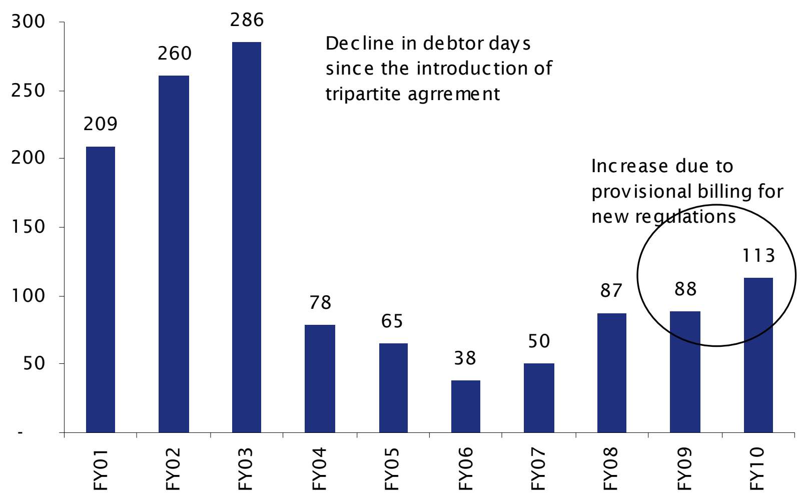


Source: JM Financial

SEBs Receivable risk:

Since buyers of power are state distcoms in most cases, receivables risk remains with PGCIL, especially when SEBs are bleeding due to large cash losses. Receivable risk for PGCIL is considerably low due to Tripartite agreements (with RBI and state governments). Each SEB is required to maintain a letter of credit (LC) in PGCIL's favour with a commercial bank covering 105% of the preceding 12 months' average monthly billing. If LC for the required amount is not in place, PGCIL has the right to regulate the power supply to the concerned SEB as per the provisions of Tripartite agreements and provisions set out by CERC.

Exhibit 28. Debtors' days reduced considerably after FY03



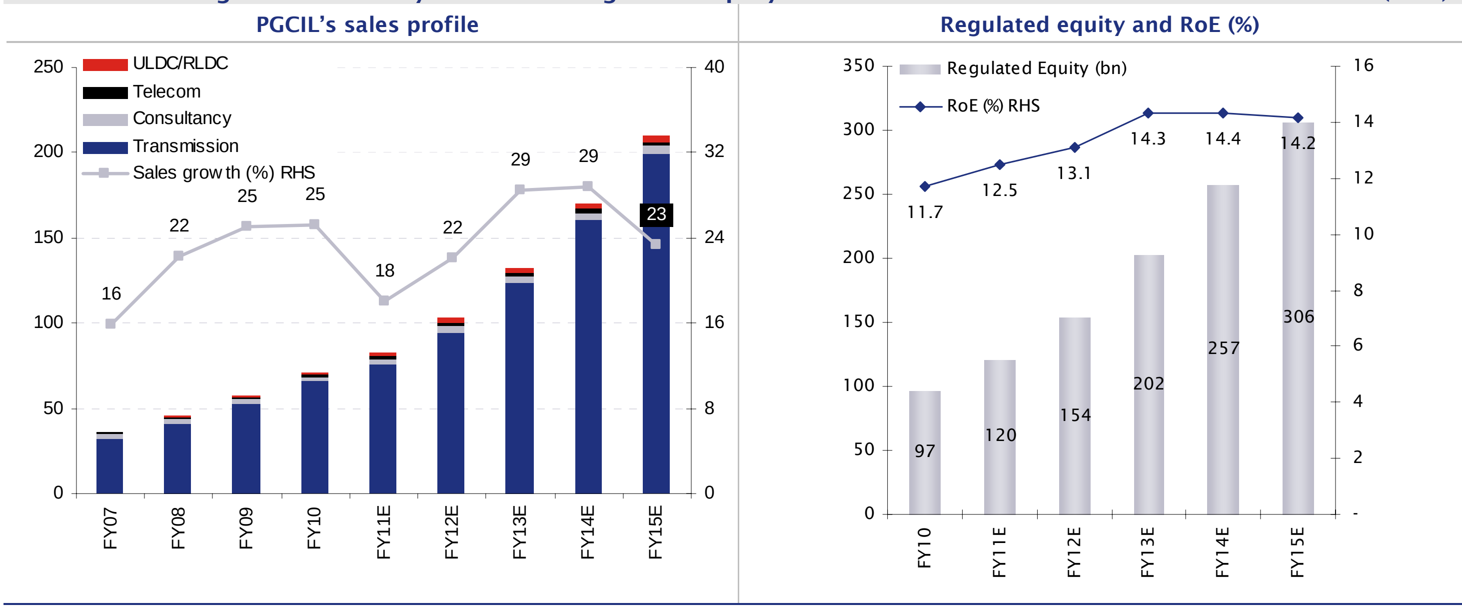
Source: Company, JM Financial

Financials

Expect sales CAGR of 24% during FY10-15E

We estimate sales to increase from ₹71bn in FY10 to ₹232bn in FY15E driven primarily by addition of regulated assets as core equity for PGCIL is likely to increase to ₹306bn at the end of FY15 vs ₹97bn in FY10 (Exhibit 29). We forecast RoE improvement of 260bps by FY13E to 14.2% on increasing proportion of productive GB vs non-productive CWIP (CWIP/GB at 36% in FY13E vs 47% in FY10)

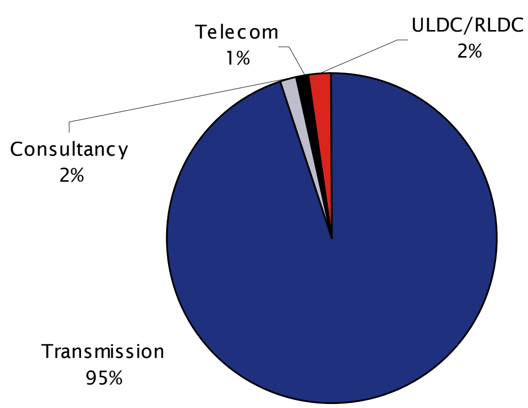
Exhibit 29. Sales growth driven by increase in regulated equity (₹ bn)



Source: Company, JM Financial

Transmission will remain the biggest division for PGCIL with rest of the divisions contributing <5% to FY15E sales (Exhibit 30).

Exhibit 30. FY15E sales breakup

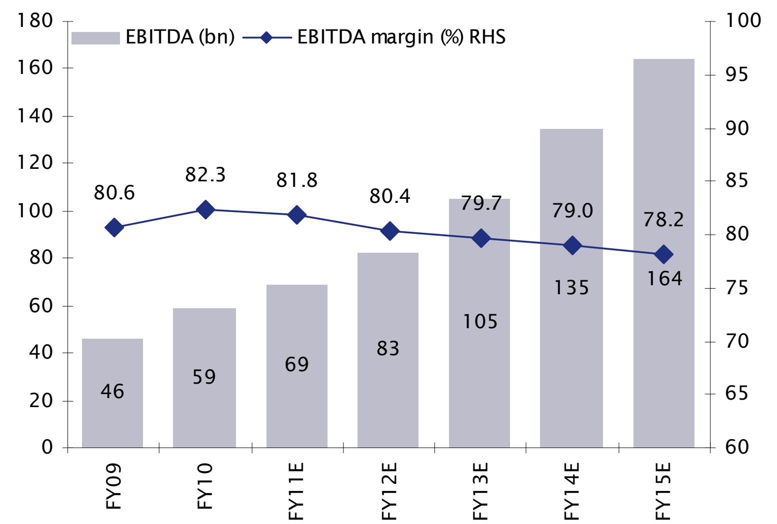


Source: Company, JM Financial

Stable margins with limited uncertainty…

We believe margins will remain stable as costs are mostly pass-on to end users. Margins are expected in the 79-83% range and EBITDA is estimated to witness 23% CAGR during FY11-15 (Exhibit 31).

Exhibit 31. EBITDA and EBITDA margins **(₹ bn)**

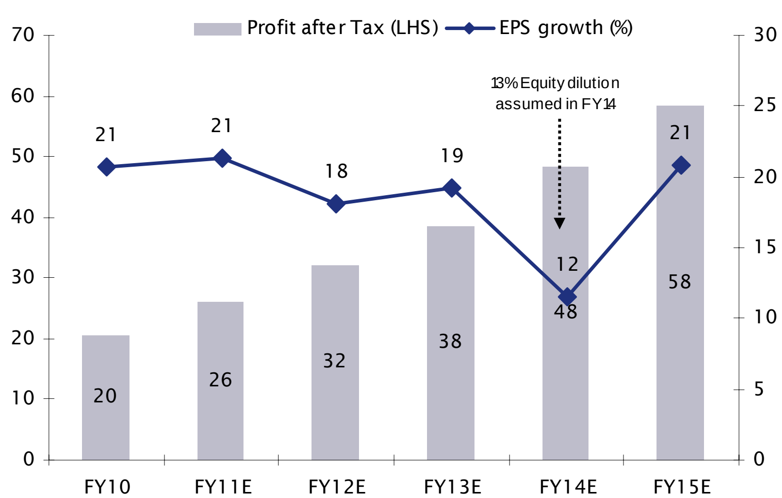


Source: Company, JM Financial

…resulting in 18% EPS CAGR for FY10-15E…

We expect PGCIL's net income at more than 3x from its current levels (FY10: ₹20bn) in FY15. EPS is likely to witness 18% CAGR during FY10-15E as we factor in 13% equity dilution in FY14. (Exhibit 32)

Exhibit 32. PAT and EPS growth

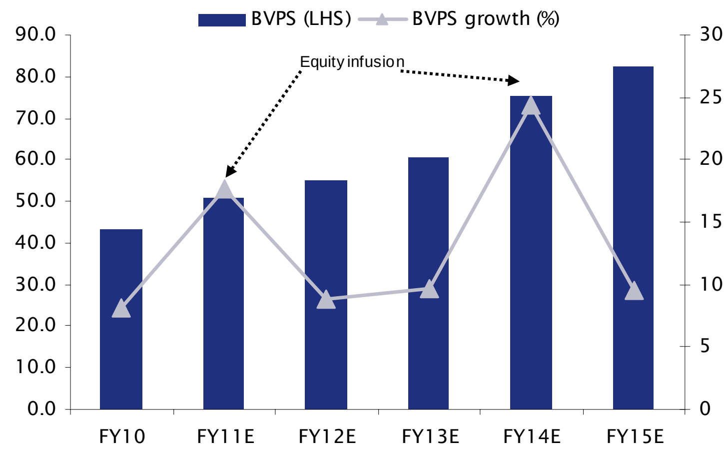


Source: Company, JM Financial

...and book value to witness steady growth

We expect book value to increase from ₹43.1/share in FY10 to ₹82.5/share in FY15E, a CAGR of 12%. PGCIL's book growth is attractive given the low risk profile and assured returns. (Exhibit 33)

Exhibit 33. Book value per share: Steady growth (₹)

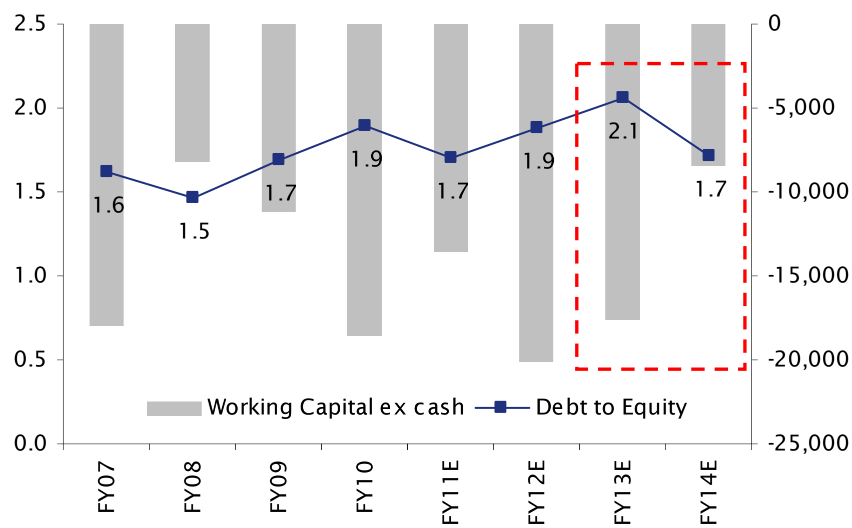


Source: Company, JM Financial

Working capital trend to continue till FY13

We believe the negative working capital trend will continue till FY13 and beyond, with advances from customers for certain schemes like RGGVY and APDRP to be deployed in operations (Exhibit 34). Debt to equity, in our view, will remain at optimum level for PGCIL post FY13 as a result of capital raise in FY14.

Exhibit 34. Working capital trend (ex-cash) (₹ mn)



Source: Company, JM Financial

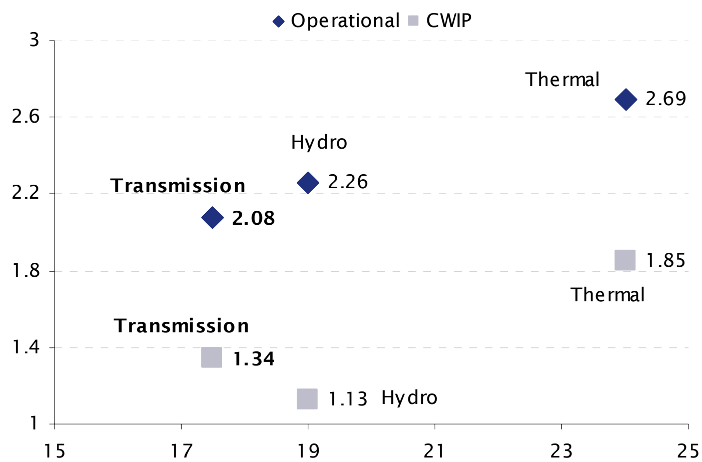
Annexure A

Comparing the regulated business models - Generation vs transmissions

Investors, in our view, will continue to favour thermal generation projects vis-à-vis transmission or hydro gencos given the attractive valuation commanded by thermal projects. In terms of risk reward our pecking order for investment is

1. **Thermal generation projects**: Implied P/B of 1.9-2.7x with equity IRR of 16% for an average return on equity of 21% (payback period 5-6 years, gestation period 4 years)
2. **Transmission projects:** Implied P/B of 1.3-2.1x with equity IRR of 15% for an average return on equity of 17.5% (payback period 6-7 years, gestation period 3 years)
3. **Hydro generation projects:** Implied P/B of 1.1-2.3x with equity IRR of 14% for an average return on equity of 19% (payback period 6-7 years, gestation period 8 years)

Exhibit 35. Implied P/B vs return on equity



Source: JM Financial

Exhibit 36. Gencos vs Transcos

	Generation firm	Transmission firm	Comment
RoE	NTPC: 20-25% IPP: 25-30%	PGCIL: 15-18%	Attractive returns from merchant sale for Gencos; however open to short term uncertainities
Fixed Component	Yes	Yes	Rewarded for better O&M performance Fixed charge for transmission independent of electricity transferred
Variable Component	Yes	No	Pass through component depending on the PPA; Fuel cost for generation
Upside Potential	Merchant Sale Availability incentives	Availability Incentives	Merchant sales tariff most attractive for IPPs (at ₹5/unit vs ₹2-3/unit on PPA) High Availability incentives for Generation (above 85%) and Transmission (above 98% for ac systems)
Regulatory Approvals	Tough	Tough	Transmission Lines: Forest Clearance required Generation: Forest as well as Environmental clearance required
Commissioning Time	40-50 months	24-36 months	Transmission lines have a shorter gestation cycle
Key Issues	FSA, PPA	Dependence on generation projects	Evacuation transmission projects depend on the completion of generation projects Transmission companies can claim ARR on line/substation completion

Source: Company, JM Financial

Annexure B

Company facts

Power Grid Corporation of India Limited (POWERGRID) was incorporated on October 23, 1989 as a public limited company, wholly owned by the Government of India. Power Grid started functioning on management basis with effect from August, 1991 and it took over transmission assets from NTPC, NHPC, NEEPCO and other Central/Joint Sector Organisations during 1992-93 in a phased manner. Additionally, it also took over the operation of existing Regional Load Despatch Centers from CEA, in a phased manner, which has been upgraded with State of-the-art Unified Load Despatch and Communication (ULDC) schemes. Power Grid also provides Open Access on its inter-State transmission system, Telecom services and Consultancy services.

Business divisions

- **Transmission**: (79,556 ckt kms of TL; 132 EHV and HVDC S/S, 89,170 MVA transformation capacity, 92% of FY10 revenues)

Key features of transmission division:

Annual fixed charges (AFC) ensure 15.5% post tax return on equity (+0.5% post tax return on scheduled commissioning)

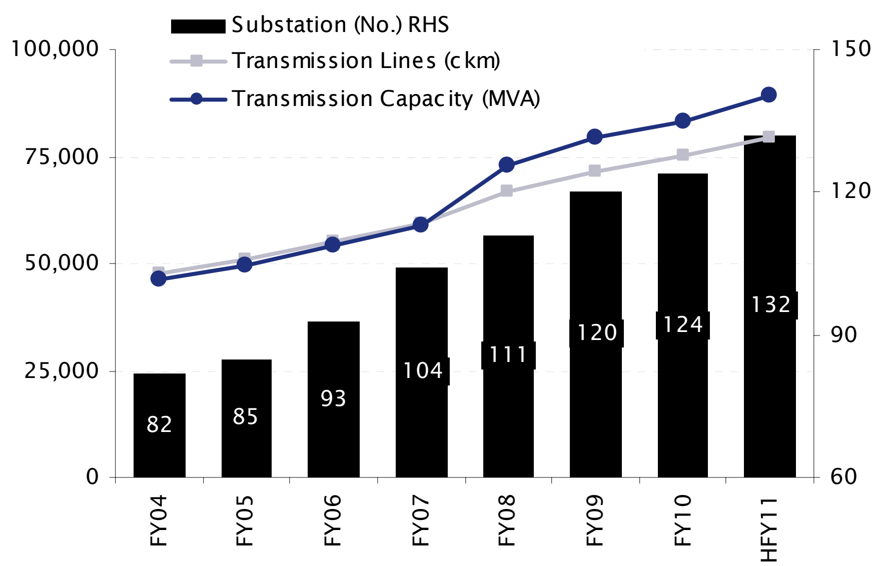
Interest on loans and working capital are the only variable components in tariff calculation

Securitisation of outstanding dues ensure low percentage of outstanding dues (for PowerGrid outstanding dues nil on 31 Mar'10)

70:30 Debt to Equity

Incentives linked to AFC if availability is greater than 98%, 95% and 92% for AC systems, HVDC back to back and HVDC bi pole links respectively.

Exhibit 37. PGCIL's capacity snapshot

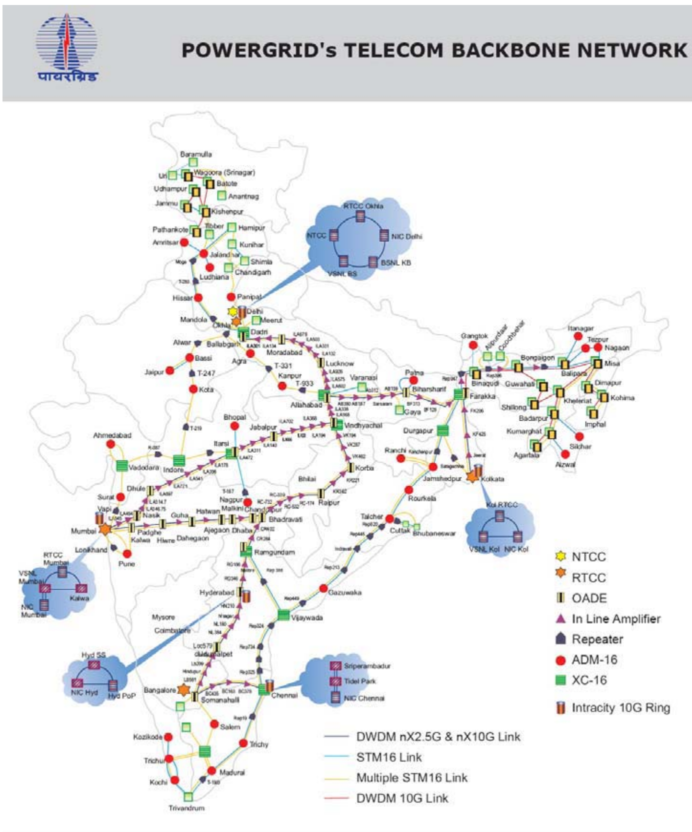


Source: Company, JM Financial

- **Telecom** (20,600 km network, 2% of FY10 revenues)

Powergrid acquired Infrastructure Provider Category-I (IP-I), Internet Service Provider (ISP) Category 'A' and National Long Distance (NLD) licenses to provide a variety of services. By the end of financial year, PGCIL had 20,600 km of telecom network in India with availability at 99.9% during 2009-10. PGCIL is part of a consortium implementing ₹6,000cr project, National Knowledge Network. The firm expects revenue of ₹9bn in 10 years from the project. Revenue from telecommunication division is mainly on the account of leasing bandwidth of fibre optic lines.

Exhibit 38. PGCIL's telecom network



Source: Company, JM Financial

- **Business development and consultancy** (4% of FY10 revenues)

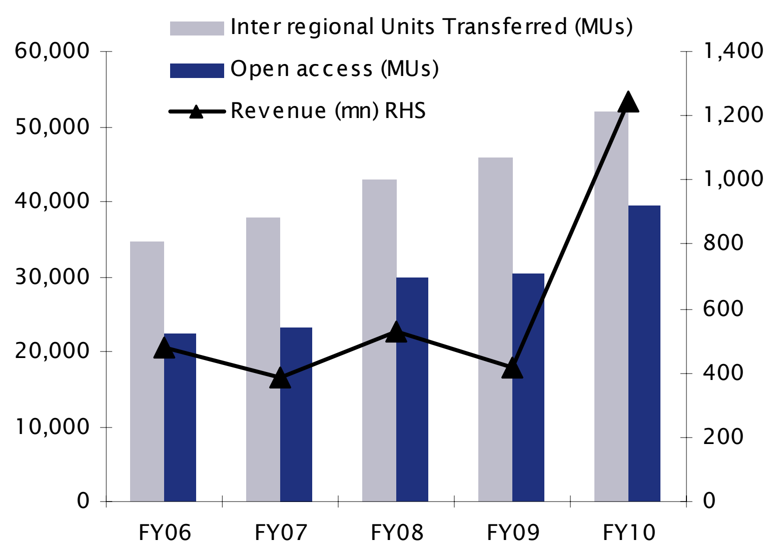
Business development and consultancy mainly consists of operations in Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), execution of transmission and communication system-related projects on a turnkey basis and technical consulting assignments for Indian state utilities and utilities in other countries. Powergrid provides consultancy services in United Arab Emirates (UAE), Nigeria and Bangladesh in the field of transmission, grid management and telecom.

- **Short term open access** (2% of FY10 revenues)

PGCIL, apart from providing transmission system for evacuation of central sector power, is also responsible for establishment and operation of regional and national power grids to facilitate transfer of power within and across the regions.

PGCIL has the operational responsibility of inter regional transmission links (5 RLDCs and NLDC). During FY10, PGCIL facilitated 52,000 MUs of inter regional energy transfer (46,000 MUs in FY09). Under inter state short term open access (STOA), more than 18,244 transactions were approved during FY10 involving about 39,500 MUs of energy. Revenues almost doubled in FY10 on the back of upward revision of transmission charges to 08 paise/16 paise/24 paise per unit for intra-region, adjacent regions, through one or more region transactions in STOA bilateral, respectively (from 03 paise/06 paise/09 paise per unit) and for collective transactions through power exchanges from 03 paise/unit to 10 paise/unit for each point of injection and each point of drawal. In addition, PGCIL introduced a separate fee for scheduling of the access capacity.

Exhibit 39. STOA- Units transferred and revenue



Source: Company, JM Financial

Development of National Grid: National Power Grid, with an inter-regional power transmission capacity of about 20,800 MW, includes one of the largest synchronous grid in the world with installed generation capacity of over 1,15,000 MW. Four major regional power system grids, namely Northern, Eastern, North-Eastern and Western, are presently operating at same frequency in a synchronous mode. Southern region is connected to this grid through various HVDC links. Capacity of national grid is expected to be ramped up to 32,000MW by the end of 11th Plan (based on the schedule of generation capacity addition).

Annexure C

Transmission sector

Demand for electricity in India will continue its upwards trend, in-line with the growth witnessed by the economy. Per capita consumption, based on power for all, is likely to increase from 732 units to 1000 units in next 2 years (implying a demand CAGR of 17%), still significantly below the world average of c.3,000 units.

Pace for supply on the other hand has lagged and as a result the sector has witnessed marked shortages in both energy (-10.6%) and peak supply (-12%).

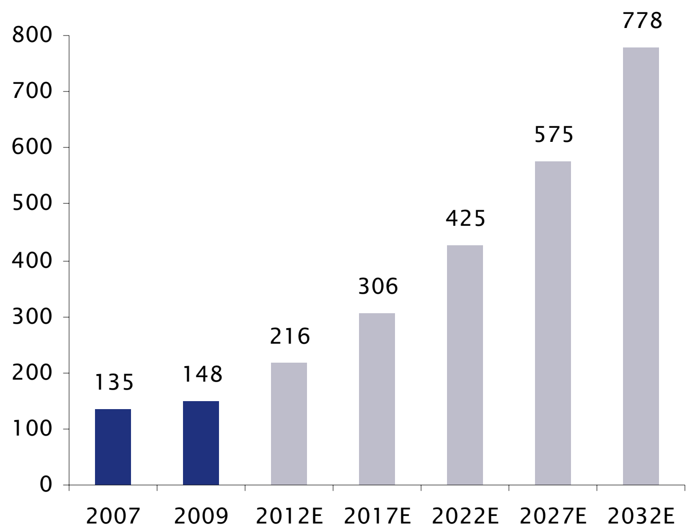
Exhibit 40. Demand-Supply gap to remain favourable

State / Region	Energy				Peak			
	Requirement (MU)	Availability (MU)	Surplus(+)/ Deficit (-) (MU)	(%)	Demand (MW)	Met (MW)	Surplus(+)/ Deficit (-) (MW)	(%)
Northern	271,068	237,575	(33,493)	-12.4	40,000	33,220	(6,780)	-17
Western	262,768	236,334	(26,434)	-10.1	40,210	34,732	(5,478)	-13.6
Southern	232,907	200,192	(32,715)	-14.1	34,224	28,450	(5,774)	-16.9
Eastern	98,451	101,707	3,256	3.3	16,202	16,568	366	2.3
North-Eastern	11,662	8,199	(3,463)	-29.7	1,957	1,679	(278)	-14.2
All India	**876,856**	**784,006**	**(92,849)**	**-10.6**	**126,951**	**111,533**	**(15,418)**	**-12.1**

Source: CEA, JM Financial

Given robust demand outlook and existing supply deficits, the industry witnessed significant capacity additions/announcements (67 GW capacity announced for commissioning in 12th plan). However, installed capacity is likely to be in relatively concentrated zones as the plant's location is dependant on generation type and fuel availability.

Exhibit 41. Generation capacity requirement (MW)

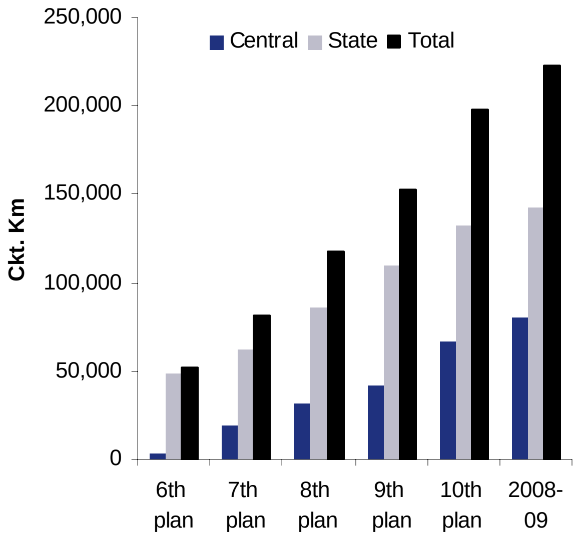


Source: Planning Commission, JM Financial

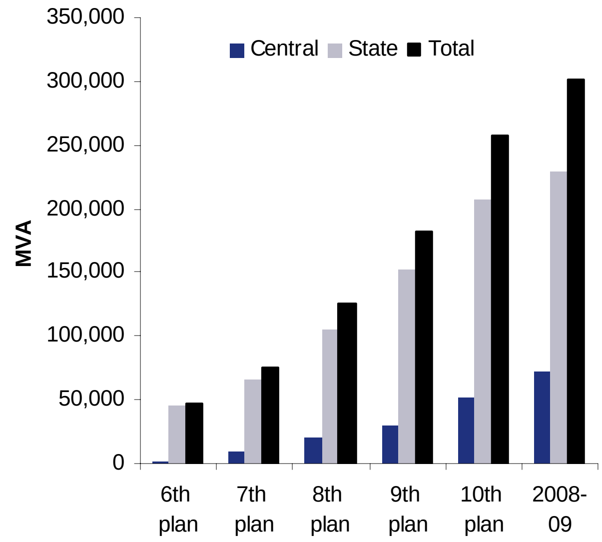
As a result of concentrated generation plants, **inter regional transmission networks** are essential for India's power network. Transmission sector has witnessed significant expansion in terms of coverage and capacity in the last decade. Transmission lines length has increase from 117,376 ckm in 1997 to 222,746 ckm in 2009 (89% increase) while sub station capacity has increased from 125k MVA in 1997 to 302k MVA (2.4x) in 2009.

Exhibit 42. Current transmission status in India

Transmission line (ckt. Km)



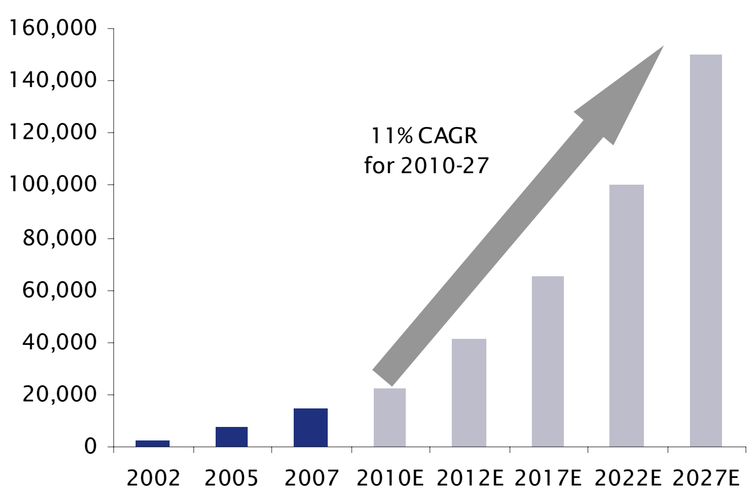
Transmission capacity (MVA)



Source: CEA, Planning Commission, JM Financial

We believe inter regional capacity is likely to increase significantly from current levels (19.8 GW) in order to bridge the demand-supply mismatch and cater to future demand. We expect capacity addition in tune of 130,000MW at a CAGR of 11% in the next 20 years (investment of c.₹1,600bn).

Exhibit 43. Significant ramp up expected in Inter regional transmission capacity



Source: CEA, Planning Commission, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement (₹ mn)

Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E
Net sales (Net of excise)	**56,900**	**71,277**	**84,185**	**102,766**	**132,095**
Growth (%)	25.0	25.3	18.1	22.1	28.5
Other operational income	0	0	0	0	0
Raw material (or COGS)	0	0	0	0	0
Personnel cost	6,439	7,267	8,084	8,992	10,003
Other expenses (or SG&A)	4,597	5,314	7,209	11,190	16,861
EBITDA	**45,865**	**58,696**	**68,892**	**82,584**	**105,231**
EBITDA (%)	80.6	82.3	81.8	80.4	79.7
Growth (%)	24.5	28.0	17.4	19.9	27.4
Other non-op. income	4,487	3,759	5,177	5,583	3,865
Depreciation and amort.	10,940	19,797	21,633	25,786	31,950
EBIT	39,412	42,658	52,436	62,381	77,146
Add: Net interest income	-16,423	-15,432	-18,164	-22,185	-29,178
Pre tax profit	22,989	27,226	34,272	40,196	47,967
Taxes	5,380	5,854	8,269	8,011	9,593
Add: Extraordinary items	-704	-963	0	0	0
Less: Minority interest	0	0	0	0	0
Reported net profit	16,906	20,409	26,003	32,185	38,374
Adjusted net profit	**16,906**	**20,409**	**26,003**	**32,185**	**38,374**
Margin (%)	29.7	28.6	30.9	31.3	29.1
Diluted share cap. (mn)	4,209	4,209	4,630	4,630	4,630
Diluted EPS (₹)	**4.0**	**4.8**	**5.6**	**7.0**	**8.3**
Growth (%)	22.7	20.7	15.8	23.8	19.2
Total Dividend + Tax	5,909	7,386	9,801	11,580	13,807

Source: Company, JM Financial

Balance Sheet (₹ mn)

Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E
Share capital	42,088	42,088	46,297	46,297	46,297
Other capital	23,849	24,125	23,859	23,594	23,329
Reserves and surplus	104,148	117,331	166,540	187,145	211,712
Networth	170,085	183,544	236,696	257,036	281,338
Total loans	284,654	344,168	401,344	481,589	575,423
Minority interest	0	0	0	0	0
Sources of funds	**454,740**	**527,712**	**638,040**	**738,625**	**856,761**
Intangible assets	0	0	0	0	0
Fixed assets	403,193	432,023	516,700	630,306	791,211
Less: Depn. and amort.	91,909	111,410	133,044	158,829	190,780
Net block	311,284	320,613	383,657	471,477	600,432
Capital WIP	132,860	204,222	229,544	265,939	285,033
Investments	15,928	14,532	12,703	10,874	9,044
Def tax assets/- liability	-5,385	-7,035	-9,351	-11,594	-14,280
Current assets	83,129	96,273	126,594	129,411	125,897
Inventories	2,976	3,449	3,716	4,527	5,815
Sundry debtors	13,736	22,149	25,371	28,155	34,381
Cash & bank balances	24,289	32,776	55,043	45,455	20,518
Other current assets	14,463	4,875	5,305	6,476	8,324
Loans & advances	27,666	33,024	37,160	44,798	56,860
Current liabilities & prov.	83,132	100,929	105,143	127,517	149,401
Current liabilities	61,234	76,346	75,634	100,051	120,326
Provisions and others	21,898	24,583	29,509	27,466	29,074
Net current assets	-3	-4,656	21,451	1,894	-23,504
Others (net)	55	36	36	36	36
Application of funds	**454,740**	**527,712**	**638,040**	**738,625**	**856,761**

Source: Company, JM Financial

Cash flow statement (₹ mn)

Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E
Reported net profit	16,906	20,409	26,003	32,185	38,374
Depreciation and amort.	11,290	19,501	21,633	25,786	31,950
-Inc/dec in working cap.	21,286	6,226	-4,202	20,822	12,762
Others	0	0	0	0	0
Cash from operations (a)	**49,482**	**46,137**	**43,434**	**78,792**	**83,086**
-Inc/dec in investments	1,434	1,396	1,829	1,829	1,829
Capex	-94,301	-100,191	-110,000	-150,000	-180,000
Others	-12,132	6,915	361	-10,852	-12,302
Cash flow from inv. (b)	**-104,999**	**-91,881**	**-107,810**	**-159,023**	**-190,473**
Inc/-dec in capital	4,576	435	36,951	-265	-265
Dividend+Tax thereon	-5,909	-7,386	-9,801	-11,580	-13,807
Inc/-dec in loans	62,020	59,514	57,176	80,245	93,835
Others	464	1,669	2,315	2,243	2,686
Financial cash flow (c)	**61,151**	**54,232**	**86,641**	**70,643**	**82,449**
Inc/-dec in cash (a+b+c)	5,633	8,488	22,266	-9,587	-24,938
Opening cash balance	18,656	24,289	32,776	55,043	45,455
Closing cash balance	24,289	32,776	55,043	45,455	20,518

Source: Company, JM Financial

Key Ratios

Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E
BV/Share (₹)	40.4	43.6	51.1	55.5	60.8
ROCE (%)	6.8	7.0	7.4	7.8	8.1
ROE (%)	9.9	11.5	12.4	13.0	14.3
Net Debt/equity ratio (x)	1.4	1.6	1.4	1.7	1.9
Valuation ratios (x)					
PER	23.8	19.7	17.0	13.8	11.5
PBV	2.4	2.2	1.9	1.7	1.6
EV/EBITDA	14.1	11.9	11.3	10.5	9.4
EV/Sales	11.4	9.8	9.2	8.4	7.5
Turnover ratios (no.)					
Debtor days	88	113	110	100	95
Inventory days	19	18	16	16	16
Creditor days	NA	NA	NA	NA	NA

Source: Company, JM Financial

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