

Power Grid Corporation of India

Price Band : Rs 44 – 52

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IPO fact sheet

Particulars	
Issue opens	10 Sep 2007
Issue closes	13 Sep 2007
Price band (Rs)	44 – 52
Number of shares (mn)	573.9
Issue size (Rs bn)	25.3 – 29.8
Pre-issue equity (Rs bn)	38.3
Post-issue equity (Rs bn)	42.1
Financial year ending	March

Issue details

Number of shares	(mn)
Net issue to public	559.9
Employee reservation	14.0
QIB portion	280.0
HNI portion	84.0
Retail portion	196.0

Financial snapshot

Particulars	FY05	FY06	FY07
Sales (Rs bn)	25.1	32.1	37.2
Growth (%)	3.2	27.8	15.9
EBITDA (Rs bn)	20.1	25.9	30.8
Growth (%)	1.6	28.7	18.9
Adj. net income (Rs bn)	7.9	10.1	12.3
FDEPS (Rs)	2.4	3.0	3.2
EV/EBITDA (x)	6.9	5.9	5.1
ROCE (%)	14.8	17.5	19.1

Shareholding pattern

(%)	Pre-issue	Post-issue
Promoters	100	86.4
Others	-	13.6

Company website www.powergridindia.com

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Ideal play on India's fast-growing power transmission sector

Investment rationale

- ❖ Monopoly player in India's transmission infrastructure sector, with ownership of electrical transmission lines covering 61,875 circuit kilometres and 106 substations.
- ❖ Investments of ~Rs 10.3tn planned in India's power sector to raise generation capacity by over 65% from 132,329MW to 219,992MW over the 11th plan period. PGCIL plans to concurrently raise transmission capacity 2.5 times from 14,100MW to 37,150MW by 2012.
- ❖ Impeccable implementation record – the company surpassed capacity addition targets during the eight, ninth and tenth plans to add 9,724 circuit km, 12,436 circuit km and 19,172 circuit km of lines respectively.
- ❖ Very strong operational efficiency with system availability of 98-99%.
- ❖ Assured 14% ROE towards its capacity investment as per the tariff structure fixed by Central Electricity Regulatory Commission (CERC).

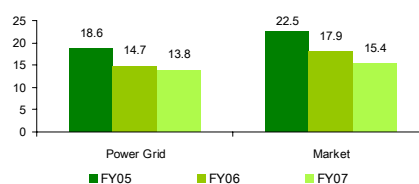
Key concerns

- ❖ Entry of private players would erode market share.
- ❖ The tariff set by CERC caps the company's return generating capacity. There is also the risk of a tariff reduction during the scheduled re-pricing in April 2009.

Valuation

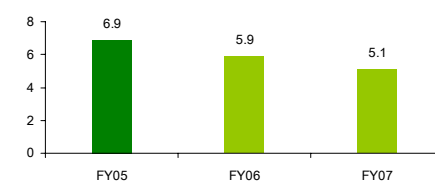
- ❖ At the lower band of Rs 44, PGCIL is available at a P/E of 17x on FY07 and 10x on FY08E (based on Q1FY08 annualised EPS) and at 20x and 12x at the upper band of Rs 52 (diluted basis). The current BV/share is Rs 30.5 adjusted for the dilution and Q1FY08 PAT; the Price/BV is thus 1.4x and 1.7x on Rs 44 and Rs 52 respectively. Subscribe.

P/E multiple (x)



Source: Religare Research

EV/EBITDA multiple (x)



Source: Religare Research

Company profile

India's chief power transmission company categorised as a Central Transmission Utility

Power Grid Corporation of India (PGCIL) was incorporated in 1989 as National Power Transmission Corporation with the aim of forming a national power grid in India. The company was rechristened PGCIL in 1992 and commenced its operations in the same year. As on June 30, 2007 PGCIL owns and operates 61,875 circuit kilometres of electrical transmission lines and 106 electrical substations, making it India's principal electric power transmission company. The company has been designated a Mini Ratna Category-I public sector undertaking.

Operating parameters

Particulars	FY04	FY05	FY06	FY07	Q1FY08
Transmission network (circuit km)	47,757	50,745	55,120	59,461	61,875
Substations (nos)	82	85	93	104	106
Transformation capacity (mva)	46,461	49,442	54,377	59,417	61,307
System availability (%)	99.3	99.7	99.6	99.2	99.5

Source: RHP

Chief agency responsible for the country's transmission network

The company has been given the status of a Central Transmission Utility (CTU) by the government. Accordingly, it operates as one of the chief agencies responsible for the planning and development of the country's nationwide power transmission network, including interstate networks.

JVs with private players for enhancing capacity

PGCIL has formed three joint ventures with Tata Power, Torrent Power and Jaiprakash Hydro-Power for enhancement of public-private partnerships in the development of new transmission lines and systems.

Joint ventures

JVs with private partners for development of new transmission lines and systems

Power Grid		Joint Ventures		
		49 %share	26% share	21% share
		Powerlinks Transmission Limited	Torrent Powergrid Limited	Jaypee Powergrid Limited
		Partner: Tata Power FY07	Partner: Torrent Power FY07	Partner: Jaiprakash Hydro FY07
❖	Income (Rs mn)	1384.5	Nil	Nil
❖	PAT (Rs mn)	205.7	Nil	Nil
❖	EPS (Rs mn)	0.47	Nil	Nil

Source: RHP

Subsidiary companies

The company has two subsidiaries, Parbati Koldam Transmission Company (PKTCL) and Byrnihat Transmission Company (BTCL), incorporated in September 2002 and March 2006 respectively. None of its subsidiaries are undertaking any business activity as of FY07.

Objects of the issue

Object	Circuit km	MVA	Expected date of commissioning	Project cost on 31Jul07 (Rs mn)
Grid-strengthening				
1 Western region system strengthening scheme-I	296	315	Nov-07	2,065
2 Upgradation of Talcher-Kolar HVDC Bipole Link	-	500MW	Dec-07	1,183
3 System strengthening-VI in Southern region	148	315	Dec-07	1,137
4 Bina Nagda transmission line	662	-	Mar-08	3,878
5 Northern region system strengthening scheme-III	188	1,260	Mar-08	2,657
6 Transmission system for Sipat Stage-II supplementary	1,173	630	Jun-08	8,315
7 Northern region system strengthening scheme-V	1,332	-	Jun-09	7,213
Generation-linked transmission system associated with:				
8 Kaiga-3 & 4 (Nuclear)	826	1,575	Dec-07	5,883
9 Rajasthan Atomic Power Project-5 & 6 (Nuclear)	525	1575	Mar-08	5,098
10 Kudankulam Atomic Power Project (Nuclear)	2,096	1890	Nov-08	17,793
11 Sipat Stage-I (Thermal)	2,150	4,130	Dec-07*	23,311
12 Neyveli Lignite Corporation-II (Thermal)	998	2520	Dec-07	7,781
13 Barh Generation Project (Thermal)	2,388	2,500MW	Sep-09	37,795
14 Teesta-V HEP (Hydro)	240	315	Nov-07	2,516
Load dispatch				
15 National Load Dispatch Centre (NLDC)	-	-	May-07	450
Funds requirement for identified projects (Rs bn)				127.1
Amount spent up to July 31, 2007 (Rs bn)				58.6
Remaining cost (Rs bn)				68.4
Amount to be funded from net proceeds of the fresh issue (Rs bn)				25.3 – 29.8
Undrawn foreign debt currency facilities as of July 31, 2007 (Rs bn)				23.6

Source: RHP

*Part commissioned; balance from May 2007 to December 2007

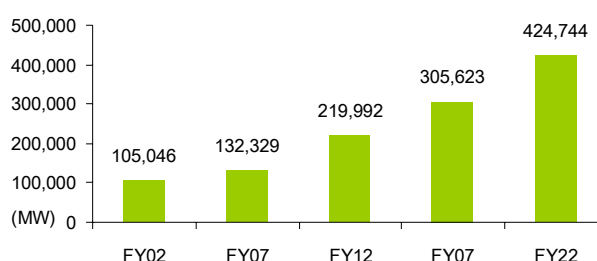
Investment rationale

In FY07, PGCIL transmitted
~45% of all the power
generated in India

India's principal power transmission company

PGCIL owns and operates 61,875 circuit km of electrical transmission lines and 106 substations (as on June 30, 2007). In FY07, the company transmitted ~298BU of electricity which represents ~45% of all the power generated in India. As per the government's mission of 'Power for All' by 2012, the power ministry has formulated plans for adding 87,663MW of generation capacity during the 11th five year plan (2007-12). This will require a concurrent ramp up in transmission capacity.

India's projected installed capacity



Source: Ministry of Power report

Development of a National Grid will fuel growth

According to a CEA report, India's inter-regional transmission capacity currently stands at 16,450MW which is planned to be raised to 37,150MW by 2012. Growth in the transmission system is characterised by physical growth in transmission networks as well as the introduction of higher voltages and new technologies to transmit bulk power. Future plans for transmission technology involve the operation of a 765kV line in 2007 (with a Sipat transmission system) and a ± 600 kV, 4,000 MW HVDC bi-pole line in 2011 (with a Subansiri system). Out of the Rs 10.3tn investment planned in India's power sector over the 11th plan period, Rs 1.4tn will be towards raising transmission capacities.

Investment in transmission sector in the 11th five year plan

Segment	(Rs bn)
Inter-state	750
Intra-state	650
Total	1,400

Source: Ministry of Power

PGCIL plans to invest Rs 550bn on transmission infrastructure as part of the above 11th plan funding to build a national power grid with an inter-regional power transfer capacity of 37,150MW. A total of 45 projects are in the implementation stage for increasing the transmission lines by 30,536ckm and transformation capacity by 29,420mva.

Inter-regional transmission capacity

Year (MW)	2002	2005	2007	2010	2012
765kV	-	-	1,100	2,200	9,200
HVDC bi-pole	-	2,000	2,500	2,500	6,500
HVDC back-to-back	2,000	3,000	3,000	3,000	3,000
HVDC mono-pole	200	200	200	200	200
400kV	1,000	2,400	7,800	11,400	16,400
220kV	1,850	1,850	1,850	1,850	1,850
Total	5,050	9,450	16,450	21,150	37,150

Source: CEA report

Introduction of transmission technologies

Particulars	Date
600kV, 4,000MW HVDC bi-pole	2011
765kV (charged at 765kV)	2007
765kV (charged at 400kV)	2000
500kV, HVDC bi-pole	1990
HVDC back-to-back	1989
400kV	1977
220kV	1960

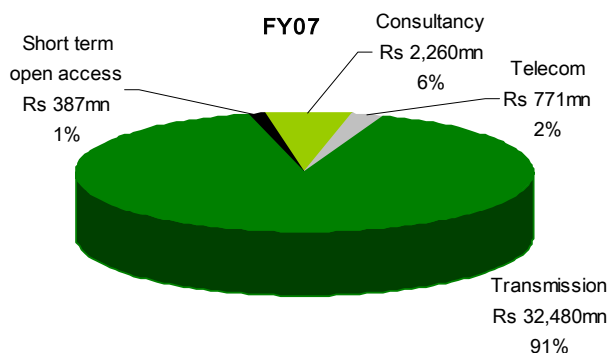
Source: CEA report

Transmission consultancy and telecom businesses are also performing well

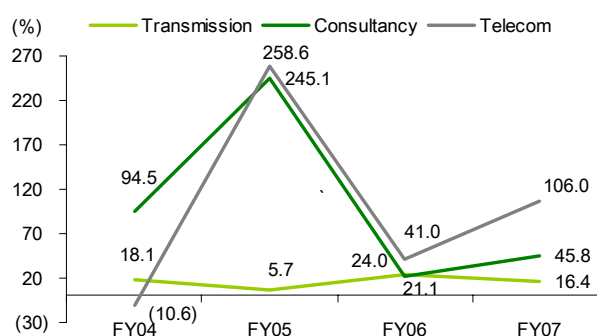
Strong performance in related business verticals

Although transmission contributes a majority of revenues, at 91%, PGCIL successfully operates consultancy and communications businesses as well. Revenues from these two segments together accounted for ~8% of the total income in FY07, growing at 46% and 106% YoY respectively. The company has been providing transmission-related consultancy services since FY95 and has catered to ~90 clients for 225 projects both in India and internationally. It also owns and operates a fibre optic cable network, which is over 19,000km long and connected to more than 60 Indian cities with 60 customers as on June 30, 2007. It has a ~Rs 2.5bn order book for its telecom business.

Revenue mix



Revenue growth for different segments



Source: RHP

Regulated tariff norms with an assured ROE of 14%

The tariffs to be charged by PGCIL to customers are governed by the Central Electricity Regulatory Commission (CERC), and are subject to change every five years. Under current tariff regulations which are in effect till March 2009, PGCIL can charge fixed Annual Transmission Charges which include the following: a) 14% ROE, b) interest on outstanding debt, c) depreciation and advance against depreciation, d) operation and maintenance expenditure, e) interest on working capital, f) income tax with respect to the transmission business, and g) foreign exchange rate variation for foreign currency loans.

100% billings recovery through tripartite agreements

In FY03, the Indian government, on behalf of central sector power utilities (CSPU), executed tripartite agreements with the RBI and the respective state governments to effectuate a settlement of overdue payments owed to the CSPUs by the state electricity boards (SEB). Under these agreements, the amounts overdue as on September 30, 2001 were securitised through the issue of 8.5% tax-free bonds repayable in 20 equal six-monthly instalments from October 1, 2006 to April 1, 2016. The bonds are guaranteed in respect of payment of interest and principal by the government.

PGCIL has been able to recover close to 100% of its billings over FY05-FY07 and in Q1FY08

Under the tripartite agreements, each SEB is required to establish and maintain a letter of credit (LC) with a commercial bank. The LC must cover 105% of the preceding twelve months' average monthly billing and is updated twice every year. Consequently, the SEB is required to make regular payments to PGCIL either through the LC or otherwise within 60 days after it raises an invoice. This arrangement has enabled PGCIL to recover nearly 100% of its billings over FY05-FY07 and in Q1FY08.

Key concerns

Fixed tariff and constant ROE

As CERC determines the tariffs as per the national tariff policy, any changes in the tariff components such as a reduction in assured ROE can affect the company's revenues. The current tariff norms would remain in place until FY09.

Valuation

At the lower band of Rs 44, PGCIL is available at a P/E of 17x on FY07 and 10x on FY08E (based on Q1FY08 annualised EPS), and similarly at 20x and 12x at the upper band of Rs 52 (diluted basis). The current BV/share is Rs 30.5 adjusted for the dilution and Q1FY08 PAT; accordingly the Price/BV stands at 1.4x and 1.7x on Rs 44 and Rs 52 respectively.

Monopoly in transmission segment with high revenue visibility; **Subscribe**

There is no company that is strictly comparable to PGCIL in India, and hence we have undertaken a comparison with utilities like NTPC, Reliance Energy, Tata Power and CESC. As the table below shows, PGCIL is attractively priced vis-à-vis these companies, especially considering its monopoly in the transmission segment and the significant investments planned towards building power infrastructure in India.

With a planned 65% expansion in generation capacity to 219,992MW by 2012, transmission capacity must nearly triple to 37,150MW. This will power PGCIL's growth and enable it to increase shareholder value, especially considering the assured 14% ROE built into its pricing. We recommend that investors **Subscribe** to the issue.

Comparative valuation

Company	P/E (x)		P/BV (x)	
	FY07	FY08E	FY07	FY08E
NTPC	23.0	19.9	3.1	2.9
Reliance Energy	25.6	21.4	2.3	2.1
Tata Power Company	25.2	23.9	2.6	2.4
CESC	13.6	18.7	2.0	2.9
Average	21.9	21.0	2.5	2.6

Source: Bloomberg consensus estimates

Set to power ahead as India closes in on its goal of Power for all by 2012; **Subscribe**

Financials

Profit and Loss statement

(Rs bn)	FY04	FY05	FY06	FY07
Revenues	24.4	25.1	32.1	37.2
Growth (%)	21.0	3.2	27.8	15.9
EBITDA	19.8	20.1	25.9	30.8
Growth (%)	29.2	1.6	28.7	18.9
Depreciation	6.1	6.4	7.4	8.3
EBIT	13.8	13.7	18.5	22.5
Growth (%)	28.3	(0.3)	34.6	22.0
Interest	9.9	8.1	9.5	11.4
Other income	3.7	3.2	3.4	3.6
EBT	7.6	8.8	12.4	14.7
Growth (%)	(1.2)	16.5	41.0	18.6
Tax	(0.3)	1.2	1.6	2.5
Effective tax rate	(4.5)	13.9	12.9	17.2
Adj net income	7.5	7.9	10.1	12.3
Growth (%)	14.0	5.0	28.4	21.8
Shares outstanding (bn)	3.1	3.2	3.6	3.8
FDEPS (Rs)	2.6	2.4	3.0	3.2
DPS (Rs)	0.5	0.7	1.0	1.1
CEPS (Rs)	4.5	4.4	5.0	5.4

Source: Company, Religare Research

Cash flow statement

(Rs bn)	FY04	FY05	FY06	FY07
Net income	7.5	7.9	10.1	12.3
Depreciation	6.1	6.4	7.4	8.3
Other adjustments	22.0	8.2	8.5	40.0
Changes in WC	6.3	4.5	8.1	11.7
Operating cash flow	41.8	27.0	34.1	72.2
Capital expenditure	(15.5)	(33.4)	(30.8)	(65.6)
Investments	(1.1)	(0.3)	(1.1)	1.7
Other investing inc/(exp)	0.0	0.0	0.0	0.0
Investing cash flow	(16.7)	(33.7)	(31.9)	(63.9)
Free cash flow	25.1	(6.7)	2.2	8.4
Issue of equity	0.0	1.3	4.2	2.0
Issue/repay debt	(16.2)	5.7	(3.1)	(0.0)
Dividends paid	(1.4)	(2.1)	(3.5)	(4.3)
Others	0.0	0.0	0.0	0.0
Financing cash flow	(17.6)	4.9	(2.3)	(2.3)
Beg. cash & cash eq	0.2	7.8	6.0	5.9
Chg in cash & cash eq	7.6	(1.7)	(0.1)	6.1
Closing cash & cash eq	7.8	6.0	5.9	12.0

Source: Company, Religare Research

Recommendation history

Date	Event	Reco price	Tgt price	Reco
06-Sep-07	IPO Note	44-52	NA	Subscribe

Source: Religare Research

Balance sheet

(Rs bn)	FY04	FY05	FY06	FY07
Cash and cash eq	7.8	6.0	5.9	12.0
Accounts receivable	4.8	5.7	4.4	4.9
Inventories	2.0	1.8	1.8	1.8
Others current assets	16.6	15.0	17.5	16.4
Current assets	31.1	28.6	29.6	35.1
LT investments	20.0	20.3	21.4	19.7
Net fixed assets	165.2	177.2	212.8	251.9
CWIP	22.5	35.8	36.5	60.8
Total assets	238.9	261.9	300.3	367.5
Payables	20.7	24.7	31.8	40.0
Others	3.7	3.4	5.5	8.3
Current liabilities	24.4	28.1	37.2	48.4
LT debt	122.7	133.9	150.3	193.3
Other liabilities	10.9	11.4	14.1	18.8
Equity capital	30.7	32.0	36.2	38.3
Reserves	50.2	56.4	62.5	68.8
Net Worth	81.0	88.5	98.7	107.0
Total liabilities	238.9	261.9	300.3	367.5
BVPS (Rs)	5.3	5.5	5.4	5.6

Source: Company, Religare Research

Financial ratios

	FY04	FY05	FY06	FY07
EBITDA margin (%)	81.4	80.1	80.7	82.8
EBIT margin (%)	56.5	54.6	57.5	60.5
Net profit margin (%)	32.4	30.2	33.7	32.8
FDEPS growth (%)	0.0	-8.0	26.2	6.8
Receivables (days)	70.6	81.8	49.3	47.4
Inventory (days)	29.1	26.4	20.2	17.8
Payables (days)	306.1	353.0	355.8	387.0
Current ratio (x)	1.3	1.0	0.8	0.7
Interest coverage (x)	1.4	1.7	2.0	2.0
Debt/equity ratio (x)	0.2	0.3	0.2	0.2
ROE (%)	51.6	43.8	54.4	57.7
ROCE (%)	17.3	14.8	17.5	19.1
ROAE (%)	0.0	6.4	7.0	7.1
EV/Sales (x)	6.3	5.5	4.8	4.2
EV/EBITDA (x)	7.7	6.9	5.9	5.1
P/E (x)	17.1	18.6	14.7	13.8
P/BV (x)	8.4	8.0	8.1	7.9
P/CEPS (x)	9.7	10.1	8.7	8.2

Source: Company, Religare Research

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Recommendation parameters

			Returns	Absolute
Large-caps*	> 10%	< -5%		
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

*Market cap over US\$ 1bn **Market cap less than US\$ 1bn

Religare Securities

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