

Power Grid Corporation of India

Subscribe

Price Band: Rs 44-52

September 5, 2007

Placed in the right grid...

Power Grid Corporation (PGCIL), the largest power transmission company in the country is coming out with an IPO opening on the 10th of September. It plans to raise Rs 29.8bn at the upper band and Rs 25.2bn on the lower band.

PGCIL operates and owns 61,875 circuit kms of electrical transmission lines and 106 electrical substations. Since inception, the company has completed 101 transmission projects valued at approx. Rs 252bn. PGCIL plans to spend Rs 550bn during the XIth plan towards investment in transmission projects. The present capacity of the National Grid stands at 14100MW, which it plans to enhance to 37,150MW by FY12. As on 30th June 2007, PGCIL had 45 transmission projects at various stages of implementation involving 30,536 ckm of transmission lines and 34 substations with a total power transformation capacity of 29,420 MVA, totalling Rs 273bn.

For FY07, 90% of the revenues accrued from the transmission business followed by 6.3% from consultancy, while telecom contributed 2.1% of the total revenue. Going ahead, the company plans to increase the contribution of telecom to the total revenues to diversify its business model.

In the price band of Rs 44-52, the stock quotes at 16.9x and 20.0x FY07 diluted EPS of Rs 2.6. The company has low return ratios and minimal free cash flows, however we believe with huge power shortages and its monopoly in the power transmission space, PGCIL would continue to grow for the next few years. We recommend SUBSCRIBE.

Issue Details

(No. of shares)

Pre- Issue	3,826,219,300
Issue Size	573,932,895
Fresh Issue	382,621,930
Offer for Sale	191,310,965
Reserved for Employees	13,978,000
Net Issue	559,954,895
Of which:	
QIB's	279,977,448
Retail	195,984,213
Non-Institutional	83,993,234
Post-Issue	4,208,841,230

The issue would comprise 573.9m shares, with 191.3m as offer for sale by the government while the rest being new issue by the company. Out of this 13.9m shares are reserves for employees, so net offer to the public being 559.9m shares. Out of this 50% shares are reserved for QIB's and 35% reserved for the retail category while remaining for non-institutional category.



The proceeds of the issue would be used for 15 identified transmission projects costing Rs 127.1bn. It includes projects for strengthening of the existing transmission grid, projects for connecting new generating plants and one project for implementation of the National Load Despatch Centre. The transmission projects are expected to enhance the length of the transmission system by 13,022 ckm.

Identified Projects					(Rs m)
	Nature	Circuit kms	MVA	Expected date of commissioning	Project Cost
Bina-Nagda Transmission Line	Grid Strengthening	662	-	Mar-08	3,878
Western Region System strengthening scheme - I	Grid Strengthening	296	315	Nov-07	2,065
Trans system associated with Rajasthan Atomic power project	Generation linked (Nuclear)	525	1,575	Mar-08	5,098
Trans system associated with Sipat stage I	Generation linked (Thermal)	2,150	4,130	Dec-07	23,311
System strengthening - VI in Southern region	Grid Strengthening	148	315	Dec-07	1,137
Northern region system strengthening scheme - III	Grid Strengthening	188	1,260	Mar-08	2,657
Trans system associated with Kaiga - 3&4	Generation linked (Nuclear)	826	1,575	Dec-07	5,883
Trans system associated with Teesta-V HEP	Generation linked (Hydro)	240	315	Nov-07	2,516
Upgradation of Talcher-Kolar HVDC link	Grid Strengthening	-	500 MW	Dec-07	1,183
National Load Despatch Centre	Load Dispatch	-	-	May-08	450
Trans system associated with Sipat stage - II	Grid Strengthening	1,173	630	Jun-08	8,315
Trans system associated with Kudankulam atomic power project	Generation linked (Nuclear)	2,096	1,890	Nov-08	17,793
Trans system associated with Neyveli Lignite - II	Generation linked (Thermal)	998	2,520	Dec-07	7,781
Trans system associated with Barh generation project	Generation linked (Thermal)	2,388	2500MW	Sep-09	37,795
Northern region system strengthening scheme - V	Grid Strengthening	1,332	-	Jun-09	7,213
Funds requirement for identified projects					127,075

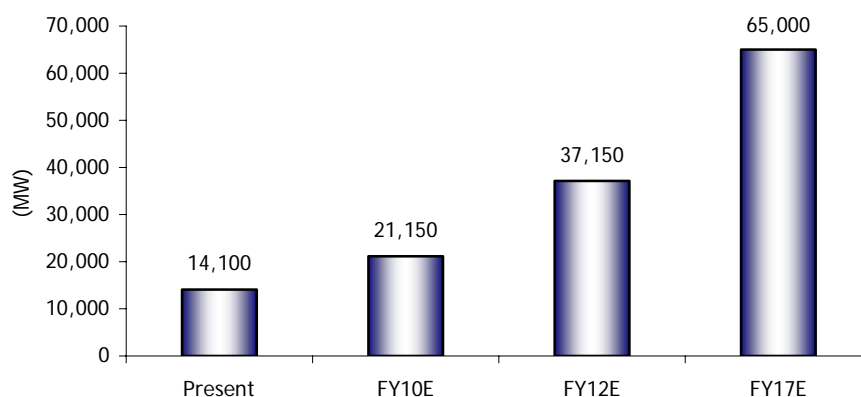
Company Overview

PGCIL was formed in 1992 to consolidate all inter state and inter-regional power transmission assets of the country. The transmission assets of all central and state utilities were gradually transferred to the company. The company is entrusted with the role of Central Transmission utility and operates as the chief agency for the planning and development of the nationwide power transmission network, including inter state networks.

Since inception, the company has completed 101 transmission projects valued at approx. Rs 252bn. PGCIL plans to spend Rs 550bn during the XIth plan towards investment in transmission projects. The present capacity of the National Grid stands at 14100MW, which it plans to enhance to 37,150MW by FY12.



Grid Capacity



Source: Ministry of Power

PGCIL has developed some transmission lines with private parties, through public - private joint ventures. It has recently developed the 2000MW Tala transmission project through JV with Tata Power with 49% shareholding. PGCIL currently holds a 26% equity stake in Torrent Powergrid Ltd and 20.63% equity in Jaypee Powergrid Ltd, both of which are formed for the development of dedicated private transmission lines.

The company has also diversified into the consultancy business, wherein PGCIL provides transmission related consultancy services. It has provided consultancy to more than 90 clients in over 225 domestic and international markets. Apart from consultancy, the company has also diversified into the telecom business, by creating a telecommunication network of 19,000kms principally using the overhead transmission infrastructure.

Capacities Available

	FY04	FY05	FY06	FY07	Q1FY08
Transmission Networks (ckm)	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
<i>System Availability (%)</i>	<i>99.3</i>	<i>99.7</i>	<i>99.6</i>	<i>99.2</i>	<i>99.5</i>

Investment Positives

Largest Transmission utility

PGCIL is the largest power transmission company in the country. It owns and operates most of India's inter state and inter regional transmission system. As on 30th June 2007, it owned 61,875 circuit kms of electrical transmission lines and 106 electrical substations. In FY07, it transmitted 298bn units of electricity, representing 45% of overall power generated in the country.

Telecom can be a huge opportunity

The company has diversified into the telecom space by creating a telecommunications network using the overhead transmission infrastructure. PGCIL owns and operated 19,000 kms long and connected over 60 cities, including all major metro cities. The company has been leasing bandwidth on the network to major telecom operators such as BSNL, VSNL, Tata Teleservices, Reliance Communications and Bharti Airtel. We believe that with significant opportunities in the telecom business, this could become a significant contributor to PGCIL's revenues.



Investment Concerns

Change in Tariff norms

The amount chargeable by PGCIL for transmission of electricity is governed by tariff norms determined by CERC. These tariffs may change every five years and any negative regulation may affect the earning prospects.

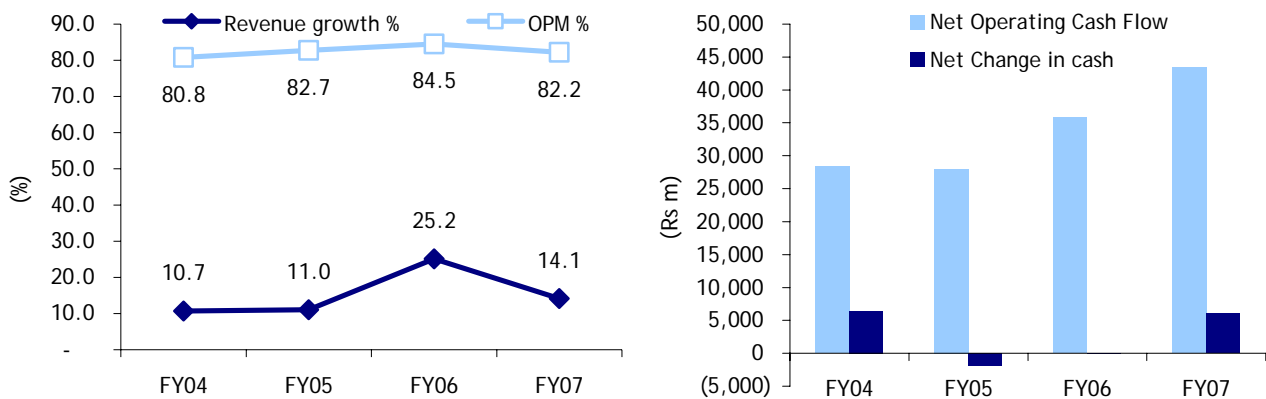
Escalation of projects costs

All transmission projects allotted by PGCIL contain a price variation clause. Any escalation in the contract cost due to price variation or due to change in design is borne by PGCIL.

Minimal Free Cash Flows

Though the company enjoys operating margins in excess of 80%, however due to the huge capex involved in the business, PGCIL is not able to generate free cash flows. The company is investing heavily in expanding the transmission infrastructure in the country and we believe that would continue to do so at least for the next 10 years, thereby not generating free cash flows.

Financial Performance



Source: Company Data

Financial Overview & Valuation

During DY07, the total revenues for the company have increased by 14% yoy to Rs 35.9bn. 90.5% of the revenue accrues from transmission, followed by consulting business contributing 6.3% and telecom contributing 2.1% to the revenues. It operates at a high EBIDTA margin of 82.2%. The Adjusted PAT for the year grew by 14.3% to Rs 10.9bn. However, the return ratios for the company are abysmally low with RoE at 12.4% and RoCE at 8.2%.

In the price band of Rs 44-52, it quotes at 16.9x and 20.0x FY07 diluted EPS of Rs 2.6. We believe with huge power shortages and its monopoly in the power transmission space, PGCIL would continue to report decent growth. We recommend 'SUBSCRIBE'.



Income Statement

(Rs m)

Y/e March	FY04	FY05	FY06	FY07
Transmission Charges	21,906	22,968	29,053	32,480
<i>% of Total Sales</i>	<i>96.8</i>	<i>91.4</i>	<i>92.4</i>	<i>90.5</i>
Income from short term open access	-	338	391	387
<i>% of Total Sales</i>		<i>1.3</i>	<i>1.2</i>	<i>1.1</i>
Consultancy fees	371	1,280	1,550	2,260
<i>% of Total Sales</i>	<i>1.6</i>	<i>5.1</i>	<i>4.9</i>	<i>6.3</i>
Telecom Revenue	74	265	374	771
<i>% of Total Sales</i>	<i>0.3</i>	<i>1.1</i>	<i>1.2</i>	<i>2.1</i>
Reimbursement of RLDC Exp	279	279	86	-
<i>% of Total Sales</i>	<i>1.2</i>	<i>1.1</i>	<i>0.3</i>	
Total Income	22,630	25,131	31,453	35,899
Expenditure				
Employee Costs	2,353	2,272	2,568	3,389
<i>% of Total Sales</i>	<i>10.4</i>	<i>9.0</i>	<i>8.2</i>	<i>9.4</i>
Transmission, Admin & other exp.	1,988	2,066	2,312	3,000
<i>% of Total Sales</i>	<i>8.8</i>	<i>8.2</i>	<i>7.4</i>	<i>8.4</i>
Total Expenditure	4,341	4,338	4,880	6,388
EBIDTA	18,289	20,793	26,573	29,510
<i>% of Total Sales</i>	<i>80.8</i>	<i>82.7</i>	<i>84.5</i>	<i>82.2</i>
Other Income	3,698	3,170	3,410	3,590
Depreciation	6,064	6,423	7,443	8,276
Interest	9,910	8,087	9,475	11,404
Provisions	(1,549)	643	648	(1,307)
PBT	7,563	8,809	12,417	14,727
Total Tax	(339)	1,228	1,601	2,526
<i>Tax Rate (%)</i>	<i>-4.5</i>	<i>13.9</i>	<i>12.9</i>	<i>17.2</i>
PAT	7,902	7,581	10,817	12,201
Prior Period Items	(420)	274	(727)	93
Adjustments	2,750	443	(576)	(1,417)
Adjusted PAT	10,232	8,298	9,514	10,877



Balance Sheet

(Rs m)

Y/e March	FY04	FY05	FY06	FY07
Equity	30,741	32,041	36,234	38,262
Reserves	50,247	56,441	62,494	68,763
Shareholders Funds	80,987	88,481	98,729	107,026
Secured Loans	104,534	110,018	129,461	172,477
Unsecured Loans	18,130	23,863	20,800	20,778
Total Debt	122,664	133,880	150,261	193,255
Deferred Tax Liability	1,974	2,427	3,125	4,193
Advance against Dep & Grant in Aid	8,881	9,005	10,952	14,656
Total	214,506	233,794	263,067	319,130
Gross Block	198,743	218,841	248,883	290,146
Less Acc. Deprecation	49,895	56,285	63,720	71,986
Net Block	148,848	162,557	185,163	218,161
Capital work In progress	38,901	50,390	64,156	94,554
Total Fixed Assets	187,749	212,946	249,319	312,715
Investments	19,979	20,292	21,394	19,670
Current Assets	31,138	28,636	29,591	35,096
Inventory	1,969	1,843	1,802	1,841
Sundry Debtors	4,777	5,713	4,403	4,904
Cash	7,754	6,040	5,890	11,968
Loans & Advances	13,309	13,255	15,941	14,913
Other Current Assets	3,329	1,785	1,554	1,470
Current Liabilities & Provisions	24,361	28,081	37,237	48,355
Creditors	20,710	24,653	31,762	40,021
Provisions	3,651	3,428	5,475	8,334
Net current Assets	6,777	555	(7,645)	(13,258)
Misc Expenditure	1	1	-	3
Total	214,506	233,794	263,067	319,130

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security. The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein. Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor. Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication. We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.