



Power Grid Corporation of India

IPO Fact Sheet

Issue details

Issue opens	: September 10, 2007
Issue closes	: September 13, 2007
Issue size	: 57.39 crore-equity shares
Reservation for employees	: 1.39 crore shares
Fresh issue to public	: 55.99 crore shares
Face value	: Rs10 each
Break-up of fresh issue to public:	
- QIB's portion	: 27.99 crore shares
- Retail portion	: 19.59 crore shares
- Non-institutional portion	: 8.39 crore shares
Price band	: Rs44-52

Object of the issue

The issue of 57.39 crore equity shares (of which 38.26 crore is fresh issue and 19.13 crore is offer for sale by the Government of India) is aimed at raising Rs2,525.3 crore to Rs2,984.4 crore (depending on the price band of Rs44-52 per share).

The objectives of the issue are:

- ♦ To achieve the benefit of listing the equity shares on the stock exchanges
- ♦ To meet the capital requirement for certain identified transmission projects
- ♦ For general corporate purpose

* Please refer exhibit 1 for details

Shareholding pattern

After the issue, the total number of shares for the company will increase from 382.62 crore to 420.88 crore, bringing down the promoters' stake to 86.36% of the diluted equity.

	Pre-issue		Pre-Issue	
	Number of shares	% of holding	Number of Shares	% of holding
President of India (including nominees)	3826219300	100	3634908335	86.36
Public (including employees)	0	0	573932895	13.64
Total	3826219300	100	4208841230	100

Source: RHP

Company background

Power Grid Corporation of India Ltd (PGCIL) started operations in 1992 as a part of the Government of India's (GoI) initiative to consolidate all the interstate and inter-regional electric power transmission assets of the country in a single entity. As on June 30, 2007, PGCIL owns and operates 61,875 circuit kilometre of electric transmission lines and 106 electrical substations. This makes PGCIL India's principal electric power transmission company, which owns and operates most of India's interstate and inter-regional electric power transmission systems (ISTS). In FY2007 PGCIL transmitted approximately 298 billion units of electricity, representing approximately 45% of all the power generated in India. The GoI has entrusted PGCIL with the statutory role of Central Transmission Utility (CTU).

PGCIL has completed 101 transmission projects on its own aggregating to a value of Rs25,181 crore. As on June 30, 2007, the company has 45 transmission projects in various stages of implementation and plans to invest another Rs55,000 crore in transmission projects during the Eleventh Five Year Plan (2007-2012). It currently manages the national power grid with inter regional capacity of 14,100 mega watt (MW), which shall be enhanced to more than 37,000MW by 2012.

The tariffs for PGCIL's transmission projects are determined by the Central Electricity Regulatory Commission (CERC), pursuant to the electricity and CERC regulations. The transmission tariffs are presently determined on cost-plus tariff basis.

The company also holds stakes in public-private joint ventures established for the development of dedicated private transmission lines. It has a 26% stake in Torrent Power Grid and a 20.63% equity stake in Jaypee Power Grid. The partners in these ventures are Torrent Power and Jaiprakash Hydro-power respectively. The company has also developed a 2,000MW Tala transmission project through a joint venture in which PGCIL and Tata Power Company have a stake of 49% and 51% respectively.

Exhibit 1: Identified projects

(Rs in crore)

Object	Nature of the project	Expected date of commissioning	Project cost as on July 31, 2007
{A}			
1	Bina-Nagda transmission line	Mar-08	387.8
2	Western region system strengthening scheme	Nov-07	206.5
3	Transmission system associated with Rajasthan Atomic Power Project-5 & 6	Mar-08	509.8
4	Transmission system associated with Sipat stage-I	Part commissioned, balance from May 2007 to December 2007	2331.1
5	System strengthening-VI in Southern region	Dec-07	113.7
6	Northern region system strengthening scheme-III	Mar-07	265.7
7	Transmission system associated with Kaiga-3 & 4	Dec-07	588.3
8	Transmission system associated with Teesta-V HEP	Nov-07	251.6
9	Upgradation of Talcher-Kole HVDC bipole link	Dec-07	118.3
10	National load dispatch center (NLDC)	May-08	45
11	Transmission system associated with Sipat stage-II Supplementary	Jun-08	831.5
12	Transmission system associated with Kudankulam Nuclear Power Project	Nov-08	1779.3
13	Transmission system associated with Neyveli Lignite Corporation-I	Dec-07	778.1
14	Transmission system associated with Barh generation project	Sep-09	3779.5
15	Northern region system strengthening scheme-V	Jun-09	721.3
	Fund requirement for identified projects		12707.5
{B}	General corporate purpose		[-]
{C}	Issue expenses		[-]

Means of finance of the identifies projects

Rs (In crore)

Project cost of the identified projects as on July 31, 2007	12707.5
Amount spent up to July 31, 2007	5862.8
Remaining cost	6844.7
Amount to be funded from the net proceeds of the fresh issue	[-]
Undrawn foreign debt currency facilities as of July 31, 2007	2358

Source: RHP

PGCIL has also diversified into telecommunication business, and owns and operates a fibre-optic cable network of over 19,000 kilometre (as on June 30, 2007). The network connects over 60 cities in India and leases bandwidth to clients like Bharat Sanchar Nigam, Videsh Sanchar Nigam, Tata Teleservices, Reliance Communications and Bharti Airtel.

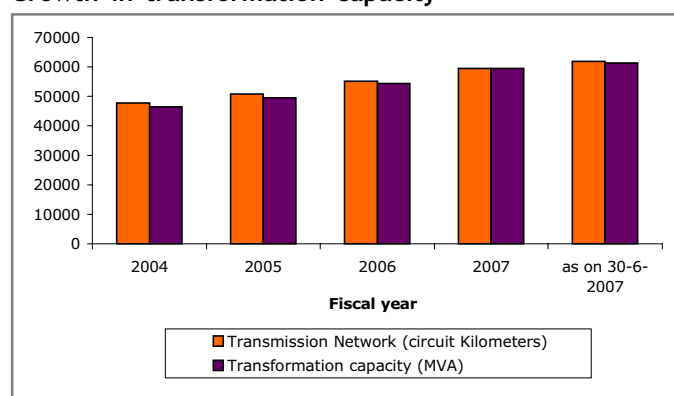
The company has been classified as Mini Ratna Category-I public sector undertaking by the Gol.

Investment positives

Leadership position in Indian power transmission sector

PGCIL is India's principal electric power transmission company, which owns and operates most of the ISTS. The company added 9,724 circuit kilometre, 12,436 circuit kilometre and 19,172 circuit kilometre of transmission lines during the Eighth, Ninth and Tenth Five-year Plans respectively. It also added 17, 14 and 36 sub-stations during the Eight, Ninth and Tenth Five-year Plans respectively. As on June 30, 2007 the company has transformation capacity of 61,307 megavolt ampere (MVA).

Growth in transformation capacity



Source: RHP

Low operational risks in the core business

The tariffs of the transmission projects of the company are determined by CERC. Presently the tariffs are determined on a cost-plus basis and are intended to provide a 14% (post-tax) return on equity. All the costs including taxes and fluctuations in the exchange rates and interest rates are a pass through in the tariff. Further, PGCIL has no direct competitor of significant size in the transmission business.

Diversified business portfolio

The company's revenues come not only from its transmission business, but also from the businesses of telecommunications and consulting. Both the businesses are performing satisfactorily and contributed 7.44%, 5.43% and 5.48% to the total income of the company in 2007, 2006 and 2005 respectively.

High operational efficiency

PGCIL is expected to maintain a system availability of 98% as laid down in the policy by CERC. Any higher availability of the system gets the company a proportionately higher return on equity and incentives. Since FY2002, the company has been maintaining an average system availability of over 99%.

Key concerns

Highly regulated environment

The power industry in India is regulated by the laws, rules and directives issued by the government and the regulatory authorities. CERC specifies the terms and conditions for the tariff structure and PGCIL is bound to follow it. The current tariff structure would remain same until FY2009. Any change in policy can adversely affect the business of the company.

SPUs the major contributors to the income

The state power utilities (SPUs) are the largest customers of PGCIL. They accounted for at least 79% of the income in the last three fiscal years (FY2005-07). The SPUs include certain state electricity boards (SEBs) and entities that have been created by the unbundling of the remaining SEBs. The SEBs have had weak credit histories. Although PGCIL currently collects nearly 100% of the receivables from SPUs, yet the risk of default still remains.

Valuation

PGCIL is the largest player in power transmission sector

with a 45% market share. It also enjoys a natural monopoly, as there is no immediate competitor. In the last three years company's revenues and earnings have grown at a CAGR of 16.6% and 18.8% respectively. The company has a diversified business portfolio with presence in telecommunications and consultancy apart from its primary business of power transmission. In the Eleventh Five Year Plan (2007-2012) the company plans a capex of Rs55,000 crore for laying power transmission lines for which it has already identified 15 project lines at a total cost of Rs12,707 crore. As per the CERC rules, all projects have to be funded through a debt:equity ratio of 70:30 and PGCIL would have to make an equity investment of Rs16,500 crore to meet the norm.

The current tariff regulation provides for an assured return on equity (post-tax). All the risks in terms of exchange rate and interest rate fluctuation are pass through in the tariff. The only challenge for the company lies in the timely execution of the projects, as the faster commissioning of its projects would generate faster income for the company. With the GoI focus on power generation and power transmission in the Eleventh Five Year Plan (2007-2012), the primary transmission company PGCIL is all poised to benefit from it.

As PGCIL does not have any immediate competitor we have compared it with state and privately owned power utilities like NTPC, Reliance energy, Tata power and CSEC. PGCIL is clearly available at a discount to the industry peers and being the only significant player in this business, makes PGCIL an attractive investment.

The company is offering its shares in the price band of Rs44-52. The stock is available at 17.9x its FY2007 earnings and 1.9 price/book value at a higher band of Rs52 per share. On the lower end of the band it is available at 15.2x its FY2007 earnings and 1.6x price/book value.

Valuation table (FY 2007 actual figures)

Particulars	NTPC	Reliance Energy	Tata Power	CESC	Industry Average	PGCIL @ 44	PGCIL @ 52
CMP (Rs)	186.0	860.0	729.0	465.0		44.0	52.0
EPS (FY2007)	8.3	37.2	34.0	34.8		2.9	2.9
PER	22.3	23.1	21.4	13.4	20.1	15.2	17.9
Book value	59.1	406.7	273.4	236.0		28.0	28.0
Price/book value	3.1	2.1	2.7	2.0	2.5	1.6	1.9
RoE(%)	13.6	8.6	13.6	13.5		11.0	11.0

CMP as on 06-09-2007

Financials

Profit and loss account					Balance sheet				
(Rs cr)					Rs (cr)				
Particulars	FY2004	FY2005	FY2006	FY2007	Particulars	FY2004	FY2005	FY2006	FY2007
Revenue from operations	2263.0	2513.1	3145.3	3589.9	Equity capital	3074.1	3204.1	3623.4	3826.2
Other income	542.7	318.2	409.0	492.5	Reserves	5024.7	5644.1	6249.4	6876.3
Total	2805.7	2831.3	3554.3	4082.3	Misc expenses	0.1	0.1	0.0	0.3
Total expenditure	452.1	499.4	620.5	641.6	Net worth	8098.6	8848.0	9872.9	10702.2
PBIDT	2353.7	2331.9	2933.8	3440.7	Debt	12266.4	13388.0	15026.1	19325.5
Interest	991.0	808.7	947.7	1140.4	Other liabilities	1085.4	1143.2	1407.7	1884.9
Depreciation	606.4	642.3	744.3	827.6	Capital employed	21450.5	23379.3	26306.7	31912.7
PBT	756.3	881.0	1241.7	1472.7	Fixed assets	14884.8	16255.7	18516.3	21816.1
Tax	-33.9	122.8	160.1	252.6	CWIP	3890.1	5039.0	6415.6	9455.4
PAT (adjusted)	790.2	758.2	1081.6	1220.1	Investments	1997.9	2029.2	2139.4	1967.0
Extraordinary items	233.0	71.7	-130.3	-132.4	Net current assets	677.7	55.5	-764.5	-1325.8
PAT (reported)	1023.1	829.8	951.3	1087.7	Capital deployed	21450.5	23379.3	26306.7	31912.7

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