

POWER GRID CORPORATION

SELL
CMP Rs117
TP Rs97

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Power Grid reported a strong 39% growth in revenues and a 24% growth in bottomline during Q1FY10 (adjusted for foreign exchange rate variation and prior period revenues). The growth was primarily driven by the new CERC tariff norms which allow a higher RoE and accelerated depreciation rates. The transmission network has increased by 10% YoY (in ckms) and stood at 81,648 ckms at the end of the quarter.

Modest growth in transmission network

The growth in the transmission network continues to be modest at around 10%. The transmission network stood at around 81,648 ckms at the end of Q1FY10 as compared to 74,399 ckms at the end of Q1FY09. Power Grid added 1,405 ckms of transmission network during the current quarter.

CERC norms boosts growth

The new CERC tariff calculation norms allow a higher RoE of 15.5% as against 14% allowed previously. Besides, accelerated depreciation rates and increase in O&M norms have also led to the rise in bottomline.

Capex programme on track

Power Grid has planned a capex of Rs115bn during the current year, to add around 7,500 ckms of transmission lines and is on track to achieve the same. Power Grid is negotiating with the World Bank for a loan of USD1bn for funding these expansion plans.

VALUATIONS AND RECOMMENDATION

Power Grid's growth would continue to be strong given that a large part of its planned capex is expected to materialise in the XI plan. However, with limited upside to the RoE, its valuations remain extremely expensive at P/BV of 3x FY10 BV and 2.7x FY11 BV and completely captures this growth. We value the company on a DCF basis at Rs97 per share. We continue to maintain a 'SELL' on the stock.

KEY FINANCIALS (STANDALONE)

Rs mn

	FY08	FY09E	FY10E	FY11E	FY12E
Net Sales	46,446	66,759	70,985	86,872	108,239
YoY Gr. (%)	24.0	43.7	6.3	22.4	24.6
Op. Profits	36,426	55,723	58,457	71,980	90,263
OPM (%)	78.4	83.5	82.4	82.9	83.4
Adjusted Net Profit	14,485	17,604	20,436	24,861	31,557
YoY Gr. (%)	17.8	21.5	16.1	21.7	26.9

KEY RATIOS

Dil. EPS (Rs)	3.4	4.2	4.9	5.9	7.5
ROCE (%)	7.1	10.4	8.2	9.1	11.4
ROE (%)	10.5	11.8	12.5	13.6	15.2
PER (x)	34.1	28.1	24.2	19.9	15.7
Price/Book (x)	3.6	3.3	3.0	2.7	2.4
EV/EBIDTA (x)	19.7	12.9	12.3	10.0	7.9

QUARTERLY SNAPSHOT

(Rs mn)

	Quarter Ended		
	Dec-08	Mar-09	Jun-09
Net Sales	14,774	22,623	16,082
YoY Gr. (%)	6.9	53.1	(28.9)
Op. Profits	12,217	18,712	13,151
OPM (%)	82.7	82.7	81.8
Adj. Net Profit	3,724	6,161	5,466
YoY Gr. (%)	6.1	65.5	(11.3)

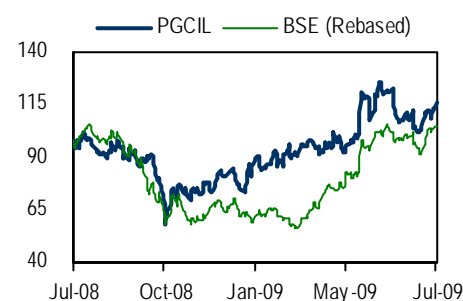
STOCK DATA

Market Cap	Rs495.4bn.
Book Value per share	Rs35.4
Eq Shares O/S (F.V. Rs10)	4.2bn.
Free Float	13.64%
Avg Traded Value (6 mnths)	Rs656mn
52 week High/Low	Rs128/52
Bloomberg Code	PWGR IN
Reuters Code	PGRD.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	4.8	26.2	18.5
Relative	0.9	(9.5)	10.9

RELATIVE PERFORMANCE



Adjusted Revenue and PAT growth

Rs mn	Q1FY10	Q1FY09	growth (%)
Reported Revenues	16,082	13,484	19
FERV adj. (pass through component)	1,110	1,882	
Prior period revenues	(1,031)	-	
Adjusted Revenue	16,161	11,602	39
Reported PAT	5,466	3,057	79
FERV adjustment	80	594	
Prior period revenue (adj. for tax)	(849)	-	
Adjusted PAT	4,537	3,651	24

Source: Company, PINC Research

Growth in transmission network

Transmission Network (ckms)	Qtr ended Jun 08	Qtr ended Jun 09	growth (%)
765 kv lines	2,327	2,778	19.38
400 kv lines	57,624	63,003	9.33
220 kv lines	9,950	10,100	1.51
500 kv HVDC lines	4,498	5,767	28.21
Total	74,399	81,648	9.74

Source: Company, PINC Research

Quarterly result table

	Q1FY10	Q1FY09	YoY (%)	Q4FY09	QoQ (%)
Net sales from operations	16,082.0	13,484.1	19.3	22,623.1	(28.9)
Total Expenses	2,931.2	2,258.9	29.8	3,911.3	(25.1)
%of net sales	18.2	16.8		17.3	
Employee cost	1,959.9	1,515.9	29.3	2,187.6	(10.4)
%of net sales	12.2	11.2		9.7	
Other Expenses	971.3	743.0	30.7	1,723.7	(43.7)
%of net sales	6.0	5.5		7.6	
EBITDA	13,150.8	11,225.2	17.2	18,711.8	(29.7)
%of net sales	81.8	83.2		82.7	
Depreciation	4,670.1	2,637.9	77.0	2,811.2	66.1
EBIT	8,480.7	8,587.3	(1.2)	15,900.6	(46.7)
%of net sales	52.7	63.7		70.3	
Interest	3,833.8	5,639.9	(32.0)	6,654.4	(42.4)
Other Income	2,141.2	1,100.8	94.5	721.0	197.0
PBT	6,788.1	4,048.2	67.7	9,967.2	(31.9)
Prov. for tax (incl. deferred tax)	(1,336.2)	(479.6)		(3,636.7)	
Net Profit	5,451.9	3,568.6	52.8	6,330.5	(13.9)
NP margin %	33.9	26.5		28.0	
EPS	1.3	0.8	52.8	1.5	(13.9)

Source: Company, PINC Research

Year Ended March (Figures in Rs mn)

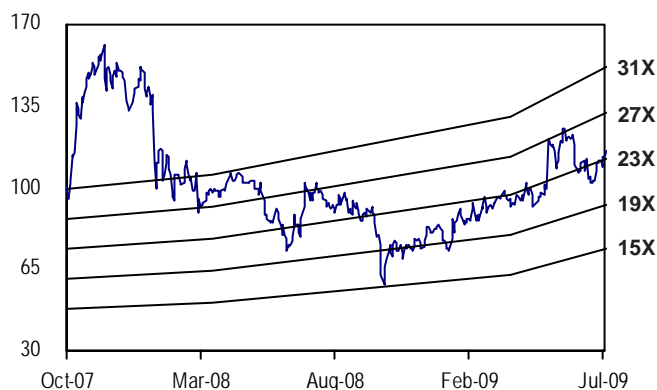
Income Statement	FY08	FY09	FY10E	FY11E	FY12E
Revenues	46,446	66,759	70,985	86,872	108,239
Growth (%)	24.0	43.7	6.3	22.4	24.6
Operating Profit	36,426	55,723	58,457	71,980	90,263
Other Income	4,295	3,521	2,583	2,246	1,822
EBIDTA	40,721	59,244	61,040	74,226	92,085
Growth (%)	44.6	45.5	3.0	21.6	24.1
Depreciation & Amortization	9,597	10,940	16,723	19,899	23,701
EBIT	31,125	48,304	44,318	54,327	68,384
Interest Charges (Net)	11,999	25,321	19,516	25,208	31,712
PBT (Before E/o items)	19,126	22,983	24,802	29,119	36,671
Tax provision	2,821	5,380	4,366	4,258	5,114
E/o Income / (Loss)	(1,821)	-	-	-	-
Net Profits	14,485	17,604	20,436	24,861	31,557
Adjusted Net Profits	14,485	17,604	20,436	24,861	31,557
Growth (%)	17.8	21.5	16.1	21.7	26.9
Basic EPS (Rs)	3.4	4.2	4.9	5.9	7.5
Diluted EPS (Rs)	3.4	4.2	4.9	5.9	7.5
Growth (%)	6.0	21.5	16.1	21.7	26.9

Cash Flow Statement	FY08	FY09E	FY10E	FY11E	FY12E
Net Profits	14,485	17,604	20,436	24,861	31,557
Depreciation	9,651	10,940	16,723	19,899	23,701
Inc. from inv & int. (profit)	(2,475)	(3,521)	(2,583)	(2,246)	(1,822)
Interest paid	-	-	-	-	-
Taxes	-	-	-	-	-
(Inc)/Dec in working cap.	(15,256)	(2,308)	(888)	(2,587)	(3,479)
Other operating activities	745	448	483	567	714
Cash from operations	7,150	23,162	34,171	40,495	50,671
Net capital expenditure	(57,202)	(81,419)	(99,688)	(84,563)	(30,250)
Net Investments	2,308	991	3,831	2,411	2,411
Interest & dividend recd	2,475	3,521	2,583	2,246	1,822
Cash from inv. activities	(52,420)	(76,907)	(93,273)	(79,905)	(26,017)
Equity raised/(repaid)	19,374	-	-	-	-
Debt raised/(repaid)	34,339	41,999	65,011	45,320	(18,745)
Dividend (incl. tax)	(5,909)	(5,909)	(5,909)	(5,909)	(5,909)
Other financing activities	(43)	-	-	-	-
Cash from fin. activities	47,847	36,090	59,102	39,410	(24,654)
Inc/(Dec.) in cash	2,577	(17,656)	-	-	-

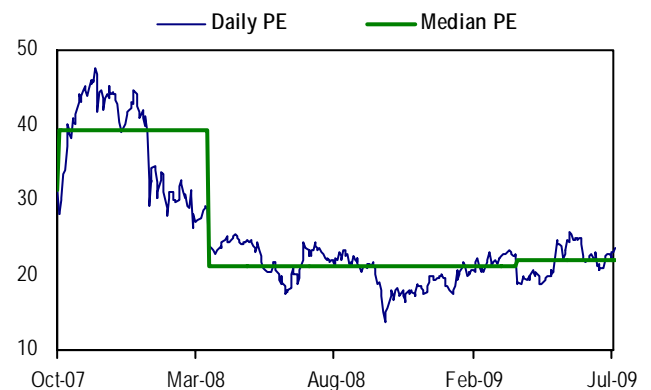
Balance Sheet	FY08	FY09E	FY10E	FY11E	FY12E
Equity Share Capital	42,088	42,088	42,088	42,088	42,088
Reserves & Surplus	95,381	107,076	121,602	140,554	166,202
Shareholders' Funds	137,470	149,164	163,691	182,642	208,291
Minorities Interest	-	-	-	-	-
Total Debt	239,606	281,604	346,616	391,935	373,190
Deferred Tax liability	4,938	5,385	5,868	6,436	7,150
Capital Employed	382,013	436,154	516,175	581,013	588,630
Fixed Assets	361,133	431,612	514,577	579,240	585,789
Cash & cash eq.	18,656	2,420	1,000	1,000	1,000
Net current assets	3,518	(10,409)	(10,942)	(8,355)	(4,876)
Investments	17,362	14,951	12,540	10,128	7,717
Total Assets	382,013	436,154	516,175	581,013	588,630

Key Ratios	FY08	FY09E	FY10E	FY11E	FY12E
OPM (%)	78.4	83.5	82.4	82.9	83.4
Net Margin (%)	31.2	26.4	28.8	28.6	29.2
Dividend Yield (%)	1.2	1.2	1.2	1.2	1.2
Net Debt/Equity (x)	1.6	1.9	2.1	2.1	1.8
Net working capital (days)	(117.3)	(69.2)	(60.6)	(38.8)	(19.5)
ROACE (%)	7.1	10.4	8.2	9.1	11.4
ROANW (%)	10.5	11.8	12.5	13.6	15.2
EV/Sales (x)	15.5	10.7	10.1	8.3	6.6
EV/EBIDTA (x)	19.7	12.9	12.3	10.0	7.9
PER (x)	34.1	28.1	24.2	19.9	15.7
PCE (x)	20.5	17.3	13.3	11.0	8.9
Price/Book (x)	3.6	3.3	3.0	2.7	2.4

P/E Band



Median PE v/s Daily PE



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