

Power
June 4, 2010

| | |
|--------------|---------|
| CMP | INR 106 |
| Target Price | INR 99 |
| Returns (%) | - 7.0 |
| Sensex | 17,022 |

Stock Statistics

| | |
|----------------|----------|
| Reuters code | PGRD. BO |
| Bloomberg code | PWGR IN |

| | |
|-------------------------------|----------|
| Equity Cap (INR mn) | 42,088.4 |
| Face Value (INR) | 10.0 |
| Free float (%) | 11.1 |
| INR / USD | 47.3 |
| Market cap (INR bn) | 426.6 |
| Market cap (USD bn) | 9.0 |
| 52 Wk High/Low (INR) | 128 / 95 |
| Avg traded vol ('000 shares)* | 2,246 |
| Avg trading value (INR mn)* | 222 |

* 6 month BS+ NSE average

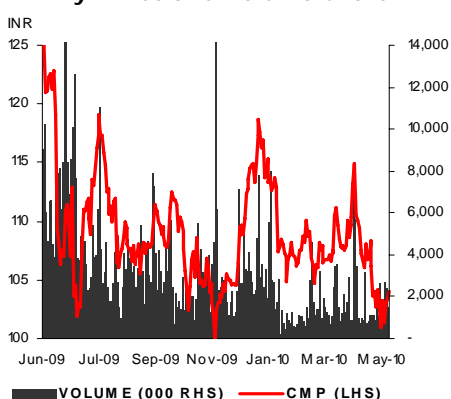
Stock Performance

| (%) | 3m | 6m | 1yr |
|------------|--------|-------|-------|
| Absolute | (15.9) | 2.5 | (2.9) |
| Rel to BSE | (29.3) | (0.9) | (3.2) |

Shareholding Pattern (%) – Mar 10

| | |
|--------------------------------|------|
| Promoters | 86.4 |
| MF / UTI / Bank / Insurance | 5.6 |
| Public & Others | 4.7 |
| Bodies Corporate | 1.8 |
| Foreign Institutional Investor | 1.5 |

1 yr Price and Volume Chart



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Power Grid Corporation of India
Results Review Q4 & FY10

Sell on Rise
Target Price: INR 99

Lacklustre performance due to 28% lower than expected project commissioning

FY10

- Revenue for FY10 grew by a mere 8% YoY (up from INR 43.5bn in FY09 to INR 48.9bn in FY10) inspite of a 1.5% increase in RoEs as per the new tariff norms by the CERC. This was mainly due to a 4% decrease in project commissioning, down from INR 37.3bn in FY09 to INR 36bn in FY10 as against an expectation of INR 50bn.
- Reported PAT for FY10 grew by 20% YoY. Adjusting for prior period sales and forex variation, PAT growth was 25% YoY (up from INR 16.8bn in FY09 to INR 20.9bn in FY10). This growth was because of a 39% decline in interest costs.

Q4FY10

- Revenue and EBITDA for the quarter decreased by 3.7% and 5.4% respectively due to 71.3% lower than expected project commissioning. We had expected projects worth INR 20bn to get commissioned in Q4FY10; however, due to the slow progress only INR 5.7bn has been added. Although capacity addition in this sector is expected to be back-ended, Q4FY10 fared the lowest in terms of capacity addition in FY10 (INR 14bn in Q1FY10, INR 9.6bn in Q2FY10 and INR 6.66bn in Q3FY10 and INR 5.74bn in Q4FY10).
- Reported PAT for Q4FY10 decreased by 11% YoY. Adjusting for prior period sales and forex variation, PAT decreased by 18% YoY (down from INR 6.7bn in Q4FY09 to INR 5.5bn in Q4FY10). (Refer pg 2)

Outlook

Power Grid (PGCIL) has a capex target of INR 550bn in the 11th plan, out of which it plans to invest INR 129bn in FY11 and INR 167.5bn in FY12. The company has already commissioned projects worth INR 82.3bn till FY09 and worth INR 36bn in FY10 and we expect it to commission projects worth INR 70bn and INR 90bn in FY11 and FY12 respectively. **PGCIL is expected to issue 10% fresh equity shares to raise additional equity of ~INR 40bn by Sept 2010 to fund its capex (assuming the issue to be priced at INR 100).**

Valuation and recommendation: At the CMP of INR 106, the stock is trading at 22x FY11E EPS and 20.5x FY12E EPS (post dilution). The stock is trading at 2.3x FY11E BV and 2.1x FY12E BV. We value the company on FY12E P/BV target multiple of 1.94x arriving at a target price of INR 99 (20% discount to NTPC's target P/BV multiple of 2.43x FY12E). As per our previous report dated 20 January 2010, **we maintain a "Sell on Rise"**.

Exhibit 1: Quarterly snapshot

| (INR mn) | Q4FY10 | Q4FY09 | YoY (%) | FY10 | FY09 | YoY (%) |
|-----------------------------|---------|--------|---------|--------|---------|---------|
| Net sales | 22,305 | 23,167 | -3.7 | 71,275 | 65,798 | 8.3 |
| Employee expenses | 2102 | 2,188 | -3.9 | 7267 | 6439 | 12.9 |
| Other expenses | 1998 | 1,726 | 15.8 | 5314 | 4116 | 29.1 |
| EBITDA | 18,205 | 19,254 | -5.4 | 58,694 | 55,243 | 6.2 |
| EBITDA margin (%) | 81.6 | 83.1 | | 82.3 | 84.0 | |
| Other income | (1,229) | 683 | -279.9 | 3,761 | 4,487 | -16.2 |
| Interest | 3,319 | 6,654 | -50.1 | 15,432 | 25,321 | -39.1 |
| Depreciation | 3,949 | 2,811 | 40.5 | 19,797 | 10,940 | 81.0 |
| Prior period items | (973) | (675) | | (963) | (1,184) | |
| PBT | 8,736 | 9,796 | -10.8 | 26,263 | 22,285 | 17.8 |
| Tax | 3,271 | 3,637 | -10.1 | 5,854 | 5,380 | 8.8 |
| Reported PAT | 5,465 | 6,160 | -11.3 | 20,409 | 16,906 | 20.7 |
| Adj for extraordinary items | 60 | 596 | | 576 | (120) | |
| Adj PAT | 5,525 | 6,756 | -18.2 | 20,985 | 16,785 | 25.0 |

Source: Tower Research, Company



Exhibit 2: Adjustments

| (INR mn) | Q4FY10 | Q4FY09 | YoY (%) |
|---------------------------|---------------|---------------|-------------|
| Reported sales | 22,305 | 23,167 | -3.7 |
| Less: Previous year sales | -371 | -548 | |
| Adjusted sales | 21,934 | 22,618 | -3.0 |
| PAT reported | 5,465 | 6,160 | -11% |
| Prev year sales | -371 | -548 | |
| Forex fluctuations | -74 | -75 | |
| Unbilled RoE | 275 | 0 | |
| Wage provision | 0 | 1,450 | |
| Prev year expenditure | 230 | -230 | |
| Adjusted PAT | 5,525 | 6,756 | -18% |

Source: Tower Research, Company

Exhibit 3: Segmental performance

| (INR mn) | Q4FY10 | Q4FY09 | YoY (%) | FY10 | FY09 | YoY (%) |
|----------------------------|---------------|---------------|-------------|----------------|----------------|-------------|
| Transmission | 17,758 | 13,954 | 27.3 | 67,058 | 54,531 | 23.0 |
| Consultancy | 1,133 | 590 | 92.1 | 2,771 | 2,175 | 27.4 |
| ULDC / RLDC | 1,832 | 665 | 175.7 | 3,619 | 3,180 | 13.8 |
| Telecom | 424 | 428 | -0.8 | 1,673 | 1,533 | 9.2 |
| Total | 21,147 | 15,636 | 35.2 | 75,120 | 61,419 | 22.3 |
| Less: Intersegment revenue | 59 | 9 | | 85 | 32 | |
| Total revenue | 21,087 | 15,627 | 34.9 | 75,036 | 61,387 | 22.2 |
| PBT | | | | | | |
| Transmission | 7,413 | 4,193 | 76.8 | 23,940 | 21,414 | 11.8 |
| Consultancy | 694 | 349 | 98.8 | 1,456 | 1,016 | 43.3 |
| ULDC / RLDC | 614 | -108 | -670.5 | 799 | 177 | 350.5 |
| Telecom | 15 | -61 | -124.7 | 69 | -321 | -121.5 |
| Total PBT | 8,736 | 4,373 | 99.8 | 26,263 | 22,286 | 17.8 |
| Capital employed | | | | | | |
| Transmission | | | | 487,313 | 409,734 | 18.9 |
| Consultancy | | | | -15,251 | -11,748 | 29.8 |
| ULDC / RLDC | | | | 12,625 | 11,665 | 8.2 |
| Telecom | | | | 7,302 | 7,509 | -2.8 |
| Total | | | | 491,989 | 417,160 | 17.9 |

Source: Tower Research, Company

Exhibit 4: Financial snapshot

| INR mn | FY08 | FY09 | FY10 | FY11E* | FY12E* |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Net Sales | 46,148 | 65,798 | 71,275 | 84,904 | 97,412 |
| EBITDA | 37,543 | 55,243 | 58,694 | 70,045 | 80,365 |
| EBIDTA Margin (%) | 81.4 | 84.0 | 82.3 | 82.5 | 82.5 |
| Net Profit | 14,485 | 16,906 | 20,409 | 22,287 | 23,900 |
| EPS (INR) | 3.44 | 4.02 | 4.85 | 4.81 | 5.16 |
| P/E (x) | 30.8 | 26.4 | 21.9 | 22.0 | 20.5 |
| ROE (%) | 12.0 | 12.0 | 13.4 | 11.8 | 10.6 |
| P/B (x) | 3.63 | 3.42 | 2.80 | 2.26 | 2.09 |

Source: Tower Research * On diluted equity



Tower Capital Research: Equity Rating Definitions

| Stock Rating | Definition |
|------------------|---------------------------|
| Buy | appreciate > (+) 20% |
| Buy on Decline * | between (+) 5% to (+) 20% |
| Neutral | between (+) 5% to (-) 5% |
| Sell on Rise ** | between (-) 5% to (-) 20% |
| Sell | depreciate > (-) 20% |

* Buy 1/3rd quantity at

** Sell 1/3rd quantity at CMP

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