

October 4, 2012

**Power Grid Corporation of India Ltd.
(PGCIL)
Reiterating - BUY**

Destimoney Research

Destimoney

PGCIL – Re-iterating BUY with a target upside of 15%

BUY
TARGET : ₹136
CMP : ₹118

Key Data	
Bloomberg Code	PWGR IS
NSE Code	POWERGRID
BSE Code	532898
Sector	Power
Industry	Power Transmission
Face value (₹ per share)	10
Book value (₹ per share)	50.7
Dividend yield	1.77%
52 Wk.(H/L)(₹)	124 / 94
Market Cap. (₹ mn)	544,225

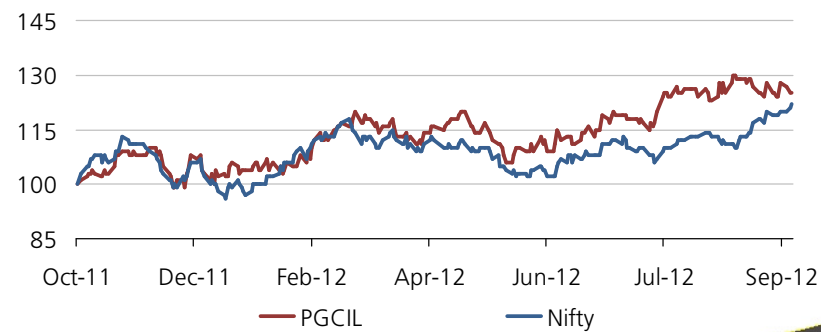
(YE Mar) (₹ Mn)	FY11	FY12	FY13E	FY14E
Net Revenue	83,887	100,353	127,517	161,836
EBITDA	70,532	83,824	108,262	137,722
EBITDA Margin	84.1%	83.5%	84.9%	85.1%
EPS (₹ per share)	5.8	7.0	8.8	11.3
EV/EBITDA	20	17	13	10
P/E (x)	20.3	16.8	13.3	10.5

Price Performance	CY09	CY10	CY11	YTD
Absolute	34.1%	-9.5%	3.7%	20.0%
Relative	-41.6%	-27.5%	28.3%	-5.1%

Shareholding pattern

	Jun-12	Mar-12	Dec-11	Sep-11
Promoters	69.4%	69.4%	69.4%	69.4%
MF/Fis	7.8%	8.0%	8.3%	8.3%
Flls	13.1%	12.9%	13.1%	13.2%
Individuals	4.6%	4.8%	5.0%	5.2%
Bodies Corporate	4.9%	4.5%	3.9%	3.6%
Others	0.2%	0.4%	0.3%	0.3%
Total	100%	100%	100%	100%

Relative stock performance (Oct'11=100)



Higher capitalization continues to drive growth

- ❑ We had initiated coverage on Power Grid Corporation of India Limited (PGCIL) on January 5, 2012 based on its good revenue visibility in India's interregional electric power transmission systems market.
- ❑ In Q1FY13, PGCIL reported 31.1% YoY rise in net sales to ₹28.9 billion led by transmission segment. EBITDA margin improved by 270 bps on a YoY basis to 85.3%.
- ❑ During the period, the company capitalized assets worth ₹41 billion, which was higher than the capex of around ₹30.1 billion incurred during the year. The company has earmarked ₹200 billion capex for FY13 of which ₹37.5 billion was incurred up to July end.
- ❑ The higher capitalization was due to commissioning of some major projects during the quarter. Additionally it has received approvals and contracts worth ₹51.2 billion and ₹60 billion, respectively, thereby increasing its revenue visibility.
- ❑ PGCIL has planned capex to the tune of ₹1000 billion in the ongoing XII Plan period. The company is targeting asset capitalization of about ₹175 billion in FY13, of which ₹41 billion has been already achieved in Q1FY13.
- ❑ To achieve the planned capex, significant debt would be required which the company plans to raise through domestic institutions and internal accruals. Management has guided to reduce equity component in capex and raise funds through debt and internal accruals. We remain watchful about management's guidance to lower the CWIP in FY13.
- ❑ We expect significant capitalization in the initial years of the XII plan than in the later years and have accordingly adjusted our model. We continue to remain positive about the rapid development of the regional grid network.
- ❑ We expect the company to deliver earnings CAGR of 27.5% over FY12-15E. We rate PGCIL as one of the safe plays in the power utilities sector with reasonable growth visibility, hence we reiterate our **BUY** rating with a revised target price of **₹136 per share**.

Q1 FY13 PAT up 22.6% YoY led by higher capitalization

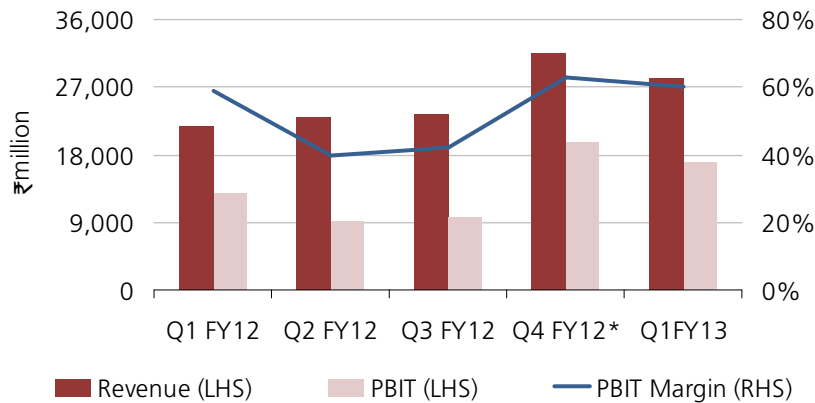
₹mn	Q1 FY13	Q1 FY12	YoY	Q4 FY12	QoQ
Sales Turnover	28,883	22,025	31.1%	31,019	-6.9%
Employment Benefit expenses	2,237	2,110	6.0%	2,401	-6.8%
Transmsn, Admin and Other Exp.	2,000	1,716	16.5%	2,580	-22.5%
Total Expenses	4,236	3,826	10.7%	4,980	-14.9%
EBITDA	24,646	18,199	35.4%	26,038	-5.3%
Depreciation & Amort exp.	7,565	5,790	30.7%	7,177	5.4%
EBIT	17,081	12,409	37.7%	18,862	-9.4%
Total Interest & other charges	6,461	4,148	55.8%	5,413	19.4%
Other Income	920	1,432	-35.8%	3,069	-70.0%
EBT & prior	11,540	9,693	19.1%	16,518	-30.1%
Prior period adjustments	4	13	-72.0%	164	-97.9%
EBT	11,537	9,681	19.2%	16,354	-29.5%
Tax Expense	2,836	2,586	9.7%	6,037	-53.0%
PAT	8,701	7,095	22.6%	10,317	-15.7%
Net Profit	8,701	7,053	23.4%	10,317	-15.7%

Source: Company

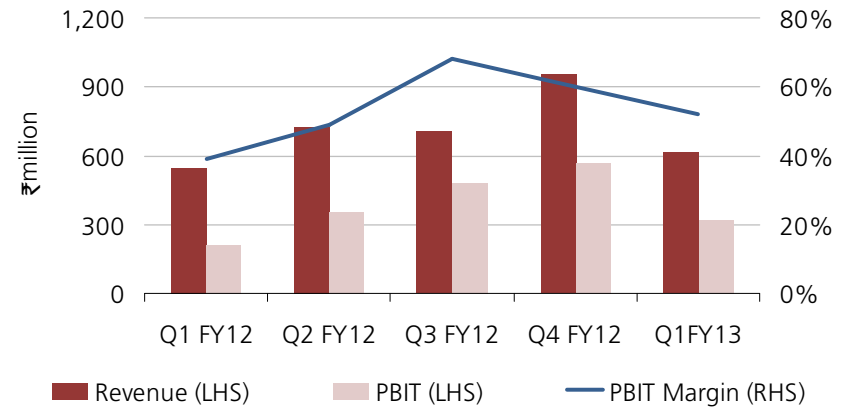
- ❑ PGCIL reported Q1FY13 PAT at ₹8.7 billion, up 22.6% YoY led by strong capitalization. Adjusted PAT stood at ₹9.1 billion.
- ❑ Sequentially, PAT for the period was down 15.7% as an increase in interest costs and higher foreign exchange loss weighed on the bottom-line.
- ❑ Transmission revenues were down 6.3% QoQ at ₹27.7 billion, as Q4 FY12 revenue was higher on account of deferred tax liability.
- ❑ EBITDA declined 5.3% QoQ to stand at ₹24.6 billion. However, EBITDA margin has improved 170 bps sequentially on account of lower operational costs.

Adjusted transmission revenues grew by 11.2% QoQ

Transmission Segment



Consultancy Segment



Source: Company

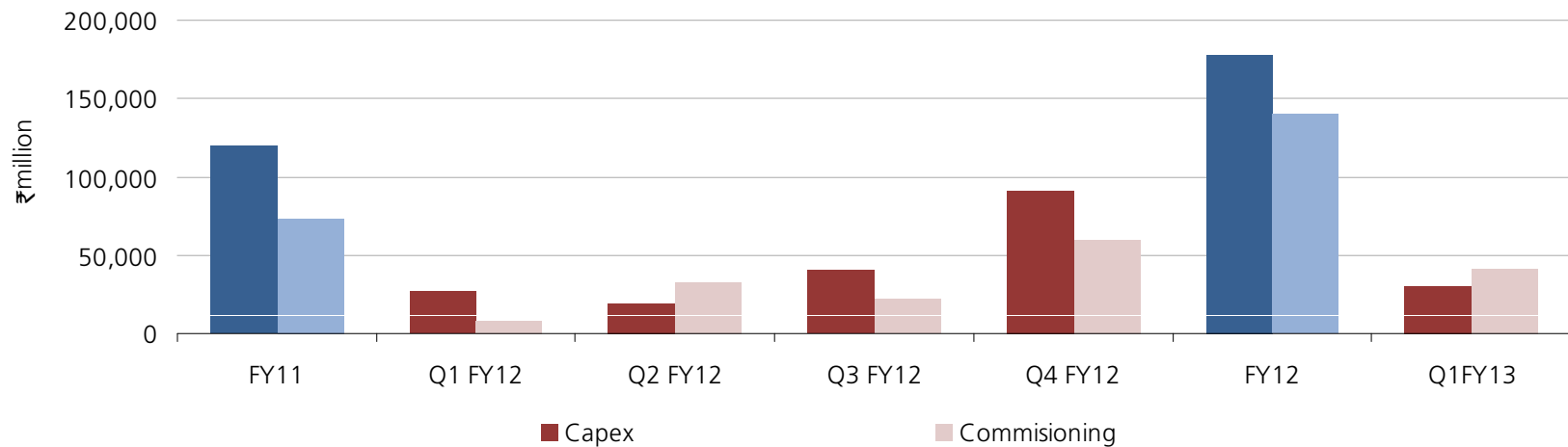
*Q4FY12 financials have onetime impact of income accrued due to prior period deferred tax liability

Segment revenue includes other income

- ❑ In the Q4FY12, PGCIL determined deferred tax liability of ₹4.6 billion materialized for the period upto 31 March 2009. This was recognized as sales, bloating Q4FY12 transmission revenues. Adjusting for this one time impact transmission revenue for Q1FY13 rose by 11.2% QoQ to ₹27.7 billion.
- ❑ Consultancy and Telecom revenues were up 7.7% YoY and 19.5% YoY, respectively. In terms of consultancy business, domestically the company has secured contracts (116 assignments) worth about ₹128.0 billion and internationally about ₹27.0 billion (17 assignments).

Assets commissioned during Q1 FY13 surpassed capex

Capex vs Commissioning



Source: Company

- ❑ Capitalization for the quarter stood at ₹41 billion. Capex for the quarter stood at ₹30 billion and year-to-date (July FY12) stood at ₹37.5 billion.
- ❑ During 1QFY13, capital employed in transmission division increased by ₹55.6 billion to ₹544.2 billion.

Commissioned significant projects during the quarter

Major Projects Commissioned

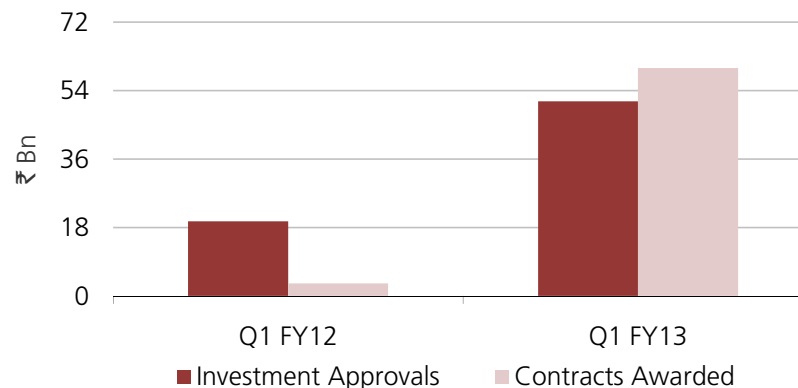
Balia-Bhiwadi HVDC (Pole-II)

System Strengthening for Sasan

Supplementary DVC

Other System Strengthening lines in various regions

Approvals and Contracts

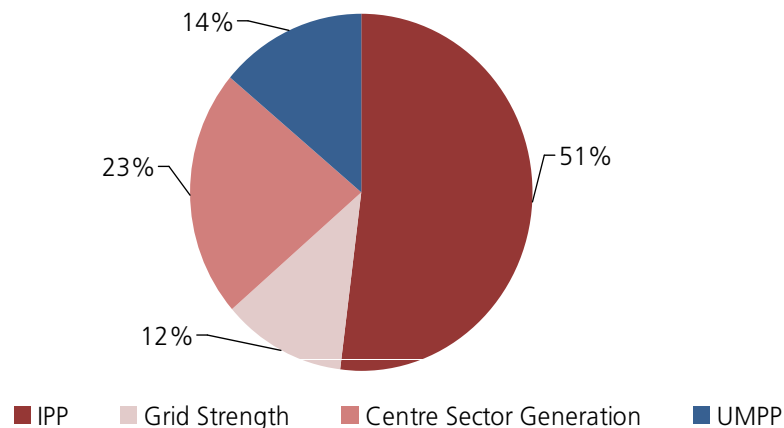


Source: Company

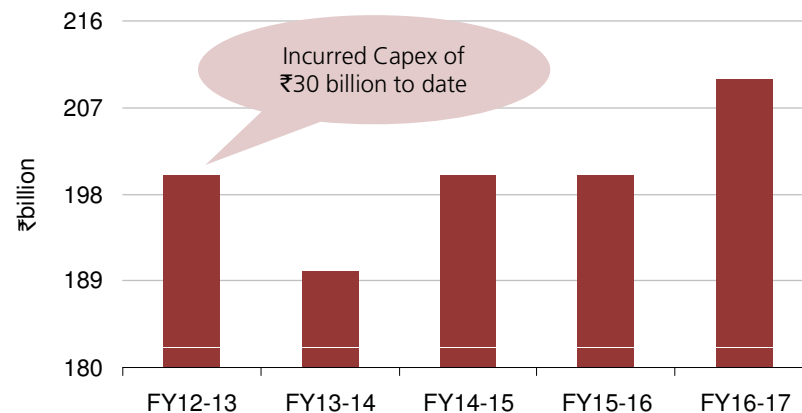
- ❑ Investment approval in 1QFY13 stood at ₹51.2 billion (₹19.6 billion in Q1FY12) and contracts awarded stood at ₹60.0 billion (₹3.3 billion in Q1FY12).
- ❑ During the quarter, the company added 2,028 circuit kilometers of transmission lines against 2,078 ckt kms in the corresponding quarter last year. Although in number terms the lines have decreased but more power has been transmitted with higher grid capacities.
- ❑ The company plans to add 11,000 circuit kilometer (ckm) network, 45,000 mva (mega volt ampere) and over 20 substations during the year for meeting evacuation requirements.

Reiterated XII plan capex guidance at Rs 1000 billion

Projects/ Schemes



Capital Outlay



Source: Company

- ❑ PGCIL successfully met its capex target of ₹550 billion for the XI Plan. It has now planned capex to the tune of ₹1000 billion in the ongoing XII Plan period.
- ❑ The company has earmarked ₹200 billion capex for FY13 and is hopeful of timely execution of targeted projects. Out of this, capex of ₹37.5 billion was incurred up to July'12 end.
- ❑ PGCIL's CWIP for FY12 stood at ₹155 billion. The management mulls to bring down the CWIP in FY13E, which implies higher asset capitalization in current fiscal.

PGCIL mulls to reduce equity component in capex to avoid dilution

XIIth Plan Investment

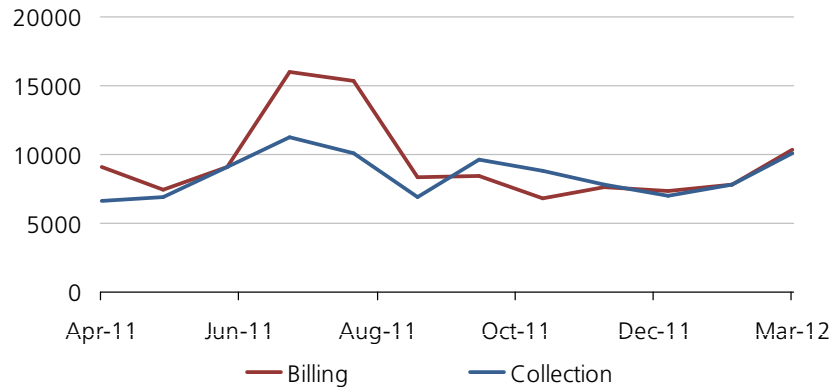
Investment (₹Billion)	FY13	FY14	FY15	FY16	FY17	Total
Capex	200	190	200	200	210	1,000
Debt Requirement	140	133	140	140	147	700
Already Tied Up	80	52	36	28	24	220
Domestic	50	10	10	10	-	80
Foreign	30	42	26	18	24	140
Balance to be tied up through Domestic/ ECB	60	81	104	112	123	480

Source: Company

- ❑ We had expected that PGCIL would have to dilute equity to achieve its target capex of ₹200 billion. However, management is confident of no equity dilution at least for the next couple of years and has guided to increase the debt component. The company has a debt of around ₹579 billion as on June 30, up 40%, YoY. Around 75% of the debt is currently raised through domestic institutions.
- ❑ The company expects to raise remaining funds through debt and internal accruals. The company is looking at various fund raising options such as external commercial bonds.

Revenue collection efficiency remains a key parameter to judge the performance of PGCIL

Monthly - Billing vs Collection (₹million)



Source: Company

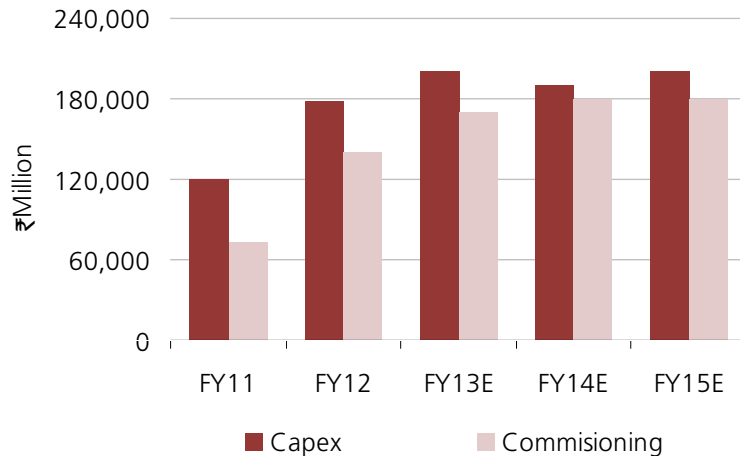
Outstanding as on date

	Mar 31 2012	Jun 30 2012
Monthly Billing (₹ million)	9000	9500
Outstanding > 60 Days	4150	5290
Being paid in installments	2500	2850
Balance Outstanding > 60 days	1650	2440
Equivalent to billing days	< 6 days	< 8 days

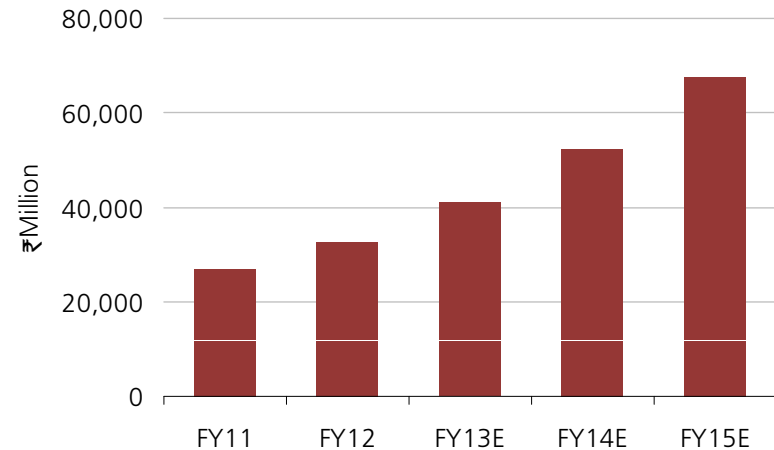
- During the quarter, bills outstanding greater than 60 days stood at ₹5.3 billion of on an average monthly billing of ₹9.5 billion.

Continued growth in asset capitalization should drive earnings; We expect CAGR of 27.5% over FY12-15E

Capex vs Commissioning



FY12-15 CAGR 27.5%



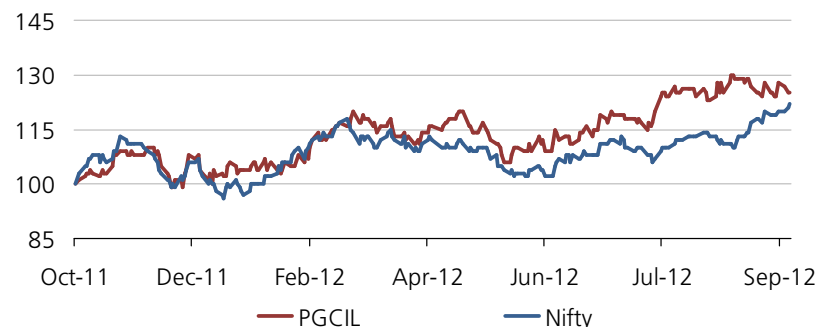
Source: Company, Destimoney Research

- ❑ The company has planned for asset capitalization to the tune of ₹175 billion, of which ₹40.7 billion has been already achieved in Q1FY13. We therefore expect major chunk of assets to be commissioned in the initial years of the XII plan than later.
- ❑ Going forward we expect, average addition to the gross block of ₹170 billion each year. Higher capitalization would drive earnings which are expected to grow at a CAGR of 27.5% between FY12-FY15E.

Valuation & Recommendation

- ❑ We expect significant capitalization in the initial years of the XII plan than in the later years and have accordingly adjusted our model. We continue to remain positive about the rapid development of the regional grid network.
- ❑ We expect the company to deliver earnings CAGR of 27.5% over FY12-15E. We rate PGCIL as one of the safe plays in the power utilities sector with reasonable growth visibility.
- ❑ At CMP, the stock is trading at 2.1x and 1.8x times FY13 and FY14 book value respectively.
- ❑ Therefore, we re-iterate our **BUY** rating on PGCIL with a target price of **₹136 per share**.

Relative stock performance (Oct'11=100)



Source: Bloomberg

Parameters	FY11	FY12	FY13E	FY14E
EPS (₹ per share)	5.8	7.0	8.8	11.3
P/E (x)	20.3	16.8	13.3	10.5
P/B	2.6	2.3	2.1	1.8
ROE	12.6%	13.9%	15.6%	17.5%
ROCE	9.1%	8.3%	9.6%	10.2%
EV/EBIDTA	20.0	16.8	13.0	10.2

Source: Company, Destimoney Research

Standalone Financials

Income Statement

₹ Mn	FY11	FY12	FY13E	FY14E
Total Income	83,887	100,353	127,517	161,836
Total Expenditure	13,355	16,530	19,255	24,114
EBIDTA	70,532	83,824	108,262	137,722
Depreciation	21,994	25,725	30,889	38,447
EBIT	48,519	58,098	77,373	99,275
Interest & Fin. Charges	17,339	19,433	26,544	30,744
Other Income	6,709	7,497	3,950	1,640
Provisions written back	402	0	0	0
PBT	38,291	46,163	54,779	70,171
Tax	6,846	8,885	10,189	13,052
PAT	26,969	32,550	40,934	52,264
EPS	5.8	7.0	8.8	11.3

Ratios	FY11	FY12	FY13E	FY14E
EBIDTA Margin (%)	84.1%	83.5%	84.9%	85.1%
Net Margin (%)	32.1%	32.4%	32.1%	32.3%
ROCE	9.1%	8.3%	9.6%	10.2%
RONW	12.6%	13.9%	15.6%	17.5%

Source: Company, Destimoney Research

Balance Sheet

₹ Mn	FY11	FY12	FY13E	FY14E
Sources of Funds				
Share Capital	46,297	46,297	46,297	46,297
Reserves & Surplus	167,373	188,581	216,290	252,782
Shareholders Equity	213,670	234,878	262,587	299,079
Loan Funds	408,828	522,009	632,009	732,009
Deferred Revenue	23,474	27,763	27,763	27,763
Deferred Tax liability(Net)	11,467	16,009	16,009	16,009
Total Liabilities	657,439	800,659	938,368	1,074,860
Application of Funds				
Gross Block	503,518	633,874	803,874	984,374
Depreciation	131,278	157,250	188,140	226,587
Net Block	372,240	476,623	615,734	757,787
Capital Work-in-Progress	129,637	155,735	175,735	180,485
Constr. Stores & Adv.	136,609	126,100	136,100	140,850
Investments	13,651	26,011	26,011	26,011
Current assets	105,171	137,691	135,013	162,599
Current Liabilities & Prov.	99,893	121,502	150,226	192,873
Total Assets	657,439	800,659	938,368	1,074,860

Key risks

- ❑ Slowdown in capex spend or delay in commissioning of power projects could impact our revenue growth estimates negatively.
- ❑ CERC regulations are applicable for the block period 2009-14. Any change in CERC regulations might affect the underlying return on investments of the projects.
- ❑ PGCIL's projects are subjected to delays due to environmental approvals /clearance for passage of transmission line through forest zone.

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