

14 February 2013

BUY

TP: INR 135.00

▲ 22.8%

Power Grid Corporation

PWGR IN

Commissioning likely to improve; upgrade to BUY

PWGR's Q3 adj. PAT at Rs 11.1bn (+38% YoY) was slightly above expectations due to higher short-term open access (STOA) sales and other income. Capex remains robust with Rs 150bn spent in FY13 YTD, in line with PWGR's full-year target of Rs 200bn. We believe high capex would lead to strong commissioning and hence better PAT growth. We raise FY13-FY15 PAT estimates by 14-16% to reflect increased commissioning and STOA estimates. Rolling over to a revised Mar'14 TP of Rs 135 (from Rs 130), we upgrade the stock to BUY on valuations.

- ➔ **Capex in line:** PWGR incurred capex of Rs 55.4bn (+36% YoY) in Q3FY13, taking the total outlay to Rs 127bn for 9MFY13 (+46% YoY). According to the management, Rs 150bn of capex has been incurred YTD, and the company is well on track to achieving and even surpassing the target of Rs 200bn for FY13.
- ➔ **Commissioning below estimates:** Project commissioning totalled Rs 25.9bn (+16% YoY) during Q3 and Rs 93.5bn for 9MFY13 (+49% YoY). Commissioning was marginally below estimates during the quarter on account of rough weather in some key project locations. PWGR has commissioned some projects related to the Sasan and Mundra UMPPs during the quarter.
- ➔ **Other income aided by higher surcharge:** Other income increased 21% YoY to Rs 1.3bn aided by a higher surcharge of Rs 380mn, which was on account of Rs 5.5bn of debtors pending for more than 60 days. According to the management, Rs 3bn of debtors from the above are under dispute with respect to the Point-of-Connection charges tariff framework.
- ➔ **Upgrade to BUY:** We have raised our PAT estimates by 16%/15%/14% for FY13/FY14/FY15 on account of an increase in commissioning and STOA estimates. Our March'14 TP of Rs 135 implies an exit P/B multiple of ~2x on FY14E. BUY.

Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (INR mln)	83,887	100,353	129,564	154,903	175,233
EBITDA (INR mln)	70,513	83,824	112,249	135,372	153,793
Adjusted net profit (INR mln)	27,013	32,736	43,827	52,595	57,387
Adjusted EPS (INR)	5.8	7.1	9.5	11.4	12.4
Adjusted EPS growth (%)	14.9	21.2	33.9	20.0	9.1
DPS (INR)	1.8	2.0	2.6	3.2	3.5
ROIC (%)	6.2	6.0	7.3	7.5	7.4
Adjusted ROAE (%)	14.5	14.6	17.6	18.8	18.1
Adjusted P/E (x)	17.5	15.3	11.6	9.7	8.9
EV/EBITDA (x)	11.9	11.8	9.7	8.8	8.3
P/BV (x)	2.2	2.1	1.9	1.7	1.5

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (13 Feb 13)

INR 109.90

MARKET CAP

INR 508,807 mln

USD 9,454 mln

SHARES O/S

4,629.7 mln

FREE FLOAT

30.6%

3M AVG DAILY VOLUME./VALUE

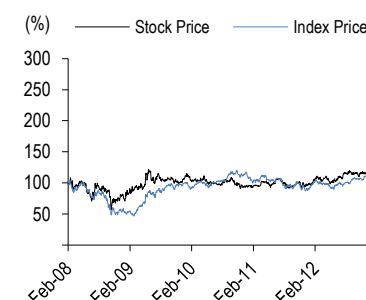
3.7 mln/ USD 7.9 mln

52 WK HIGH

INR 123.95

52 WK LOW

INR 101.25



BUY

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Results Review

INDIA
UTILITIES**Fig 1 - Results vs Estimates**

(Rs mn)	Actual	Estimated	% Variance
Net sales	33,617	32,200	4.4
EBITDA	29,231	27,774	5.2
Adj net income	11,072	10,306	7.4
FDEPS (Rs)	2.4	2.2	7.4

Source: RCML Research, Company

Fig 2 - Q3FY13 results

(Rs mn)	Q3FY13	Q3FY12	% Chg YoY	Q2FY13	% Chg QoQ
Revenue	33,617	24,666	36	30,858	9
Expenditure	4,386	3,640	21	4,165	5
EBITDA	29,231	21,027	39	26,693	10
Other income	1,286	1,065	21	1,570	(18)
Interest	6,848	4,735	45	5,296	29
Depreciation	8,654	6,792	27	8,252	5
PBT	15,014	10,565	42	14,715	2
Tax	3,717	2,472	50	3,597	3
PAT	11,297	8,092	40	11,119	2
Adj PAT	11,072	8,013	38	10,071	10
EBITDA margin (%)	87%	85%	171 bps	87%	45 bps
EPS (Rs)	2.4	1.7	39.6	2.4	1.6

Source: RCML Research, Company

Fig 3 - Change in Estimates

(Rs mn)	FY13			FY14			FY15		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue	123,741	129,564	5%	145,462	154,903	6%	165,257	175,233	6%
EBITDA	104,750	112,249	7%	124,123	135,372	9%	141,704	153,793	9%
PAT	37,894	43,827	16%	45,775	52,595	15%	50,407	57,387	14%

Source: RCML Research, Company



Per Share Data

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	5.8	7.0	9.5	11.4	12.4
Adjusted EPS	5.8	7.1	9.5	11.4	12.4
DPS	1.8	2.0	2.6	3.2	3.5
BVPS	46.2	50.7	56.9	64.3	72.3

Valuation Ratios

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
EV/Sales	10.0	9.8	8.4	7.7	7.3
EV/EBITDA	11.9	11.8	9.7	8.8	8.3
Adjusted P/E	17.5	15.3	11.6	9.7	8.9
P/BV	2.2	2.1	1.9	1.7	1.5

Financial Ratios

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Profitability & Return Ratios (%)					
EBITDA margin	84.1	83.5	86.6	87.4	87.8
EBIT margin	57.8	57.9	62.8	62.6	61.6
Adjusted profit margin	32.2	32.6	33.8	34.0	32.7
Adjusted ROAE	14.5	14.6	17.6	18.8	18.1
ROCE	6.0	5.9	7.3	7.6	7.5
YoY Growth (%)					
Revenue	17.7	19.6	29.1	19.6	13.1
EBITDA	20.1	18.9	33.9	20.6	13.6
Adjusted EPS	14.9	21.2	33.9	20.0	9.1
Invested capital	25.7	24.0	16.6	14.9	12.3
Working Capital & Liquidity Ratios					
Receivables (days)	117	144	132	117	115
Inventory (days)	224	185	192	160	141
Payables (days)	929	975	1,057	878	772
Current ratio (x)	0.9	0.7	0.6	0.6	0.6
Quick ratio (x)	0.9	0.6	0.6	0.6	0.6
Turnover & Leverage Ratios (x)					
Gross asset turnover	0.2	0.2	0.2	0.2	0.2
Total asset turnover	0.1	0.1	0.1	0.1	0.1
Net interest coverage ratio	2.8	3.0	3.0	3.3	3.2
Adjusted debt/equity	1.9	2.2	2.4	2.4	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Tax burden (Net income/PBT)	70.5	70.9	73.6	73.9	74.1
Interest burden (PBT/EBIT)	78.9	79.5	73.2	73.5	71.7
EBIT margin (EBIT/Revenue)	57.8	57.9	62.8	62.6	61.6
Asset turnover (Revenue/Avg TA)	12.0	12.0	13.2	13.9	14.1
Leverage (Avg TA/Avg equities)	373.4	373.3	394.4	396.7	393.1
Adjusted ROAE	14.5	14.6	17.6	18.8	18.1



Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Total revenue	83,887	100,353	129,564	154,903	175,233
EBITDA	70,513	83,824	112,249	135,372	153,793
EBIT	48,519	58,098	81,431	96,902	107,976
Net interest income/(expenses)	(17,339)	(19,433)	(27,101)	(29,780)	(33,601)
Other income/(expenses)	7,111	7,497	5,242	4,062	3,077
Exceptional items	0	0	0	0	0
EBT	38,291	46,163	59,573	71,184	77,452
Income taxes	(11,278)	(13,427)	(15,746)	(18,589)	(20,065)
Extraordinary items	(44)	(187)	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	26,969	32,550	43,827	52,595	57,387
Adjustments	44	187	0	0	0
Adjusted net profit	27,013	32,736	43,827	52,595	57,387

Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Accounts payables	35,660	52,605	47,654	46,307	44,400
Other current liabilities	29,382	34,039	34,103	35,570	37,344
Provisions	28,755	34,859	43,055	51,923	58,989
Debt funds	414,925	522,009	622,871	711,211	800,277
Other liabilities	34,941	38,840	36,728	34,827	33,117
Equity capital	46,297	46,297	46,297	46,297	46,297
Reserves & surplus	167,373	188,581	217,090	251,303	288,633
Shareholders' fund	213,670	234,878	263,387	297,600	334,930
Total liabilities and equities	757,332	917,229	1,047,797	1,177,439	1,309,056
Cash and cash eq.	36,801	23,369	24,803	13,221	12,812
Accounts receivables	31,513	47,491	46,146	53,049	57,611
Inventories	3,815	4,403	4,403	4,403	4,403
Other current assets	25,697	14,516	16,163	18,140	20,511
Investments	13,984	12,845	12,845	12,845	12,845
Net fixed assets	372,240	476,623	620,405	757,749	882,843
CWIP	165,790	211,883	196,932	191,932	191,932
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	107,493	126,100	126,100	126,100	126,100
Total assets	757,332	917,229	1,047,797	1,177,439	1,309,056

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Net income + Depreciation	46,752	58,606	74,605	90,251	102,293
Interest expenses	17,339	19,433	27,101	29,780	33,601
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(8,833)	16,218	(5,190)	(8,758)	(7,067)
Other operating cash flows	(11,821)	(37,685)	(21,069)	(18,115)	(24,257)
Cash flow from operations	43,438	56,571	75,446	93,157	104,570
Capital expenditures	(140,472)	(195,140)	(159,610)	(170,000)	(170,000)
Change in investments	7,660	8,636	5,242	4,062	3,077
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(132,812)	(186,505)	(154,367)	(165,938)	(166,923)
Equities issued	52,960	0	0	0	0
Debt raised/repaid	70,757	107,085	100,862	88,339	89,066
Interest expenses	(17,339)	(19,433)	(27,101)	(29,780)	(33,601)
Dividends paid	(9,426)	(11,441)	(15,317)	(18,382)	(20,057)
Other financing cash flows	5,279	24,074	27,101	29,780	33,601
Cash flow from financing	102,232	100,284	85,545	69,958	69,010
Changes in cash and cash eq	12,857	(29,649)	6,624	(2,823)	6,657
Closing cash and cash eq	45,634	7,151	29,992	21,979	19,879

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