

EARNINGS REVIEW

Power Grid (PGRD.BO)

Sell

Equity Research

In line results: Benefits of higher capitalization already in the price

What surprised us

Power Grid (PGRD) reported 3QFY12 adjusted PAT of Rs7.8bn vs. GSe and Bloomberg consensus of Rs7.5bn. Reported PAT of Rs8.1bn was adjusted with foreign exchange loss recoverable of Rs0.3bn. The capitalization in 3QFY12 was about Rs22bn, taking 9MFY12 run rate to Rs63bn vs. Rs69bn for 9MFY11. While revenue growth (10% YoY) from the telecom segment was in line with our estimate, consultancy revenue declined by 5% YoY.

PGRD confirmed these at the analyst meeting: **1)** capitalization achieved up until Feb 9 was about Rs82bn and it expects capitalization up until Feb end to be about Rs110bn vs. our estimate of Rs90bn for FY12E; **2)** mgmt is confident of meeting its capex guidance of about Rs180bn for FY12 vs. Rs100bn for 9MFY12; **3)** PGRD plans to incur about Rs1000bn capex for the 12th plan (already awarded contracts worth about Rs500bn) and Rs200bn over the next 2 years; **4)** Internal accruals should be sufficient to meet capex over the next two years. PGRD will wait for further visibility on FY14-19 regulations before deciding on the mode of equity funding from FY14E onwards. They plan to use higher debt, i.e. up to 80% vs. current 70%, in the event CERC allows returns on capital employed.

What to do with the stock

We keep our Sell on PGRD with 12-month DCF based TP of Rs92 (earlier 86), implying 16% downside. We raised our TP and FY12-14 EPS by 7%-8% as we have reflected higher quantum of capitalization of Rs11bn/10bn/10bn for FY12-14E vs our earlier estimate of Rs10bn. We, however, believe that benefits of higher capitalization are already in the price. The stock is trading at premium to its Neutral-rated regulated peers – NTPC.BO (Rs181.30)/NHPC.BO (Rs21.55) – on both P/B and P/E. Higher than expected growth in other businesses is key risk.

Power Grid 3QFY12 results summary

Particulars (Rs Mn)	3QFY12	3QFY11	YoY	2QFY12	QoQ
Revenue	24,666	20,521	20%	22,644	9%
EBITDA	21,027	17,274	22%	18,978	11%
Operating Profit	14,234	11,565	23%	13,012	9%
Reported PAT	8,092	5,912	37%	7,087	14%
	33%	29%		31%	

Source: Company data, Goldman Sachs Research estimates

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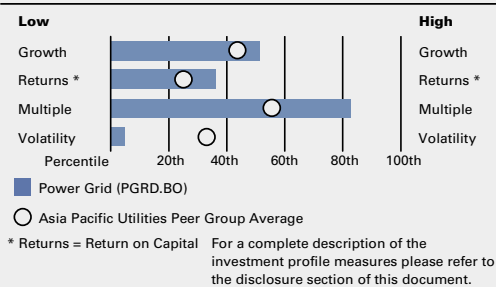
Asia Pacific Sell List

Coverage View: Cautious

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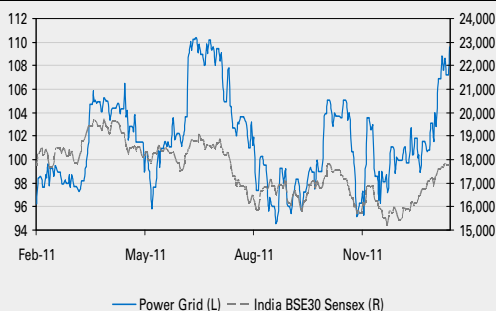


Key data

Key data	Current
Price (Rs)	109.60
12 month price target (Rs)	92.00
Market cap (Rs mn / US\$ mn)	507,417.8 / 10,270.6
Foreign ownership (%)	4.2

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	5.78	6.38	7.33	8.41
EPS revision (%)	0.0	6.6	8.0	8.3
EPS growth (%)	13.8	10.3	14.9	14.8
EPS (dil)(Rs) New	5.77	6.38	7.33	8.41
P/E (X)	19.0	17.2	14.9	13.0
P/B (X)	2.4	2.2	1.9	1.7
EV/EBITDA (X)	11.9	11.6	10.7	10.0
Dividend yield (%)	1.1	1.1	1.1	1.1
ROE (%)	14.3	13.2	13.7	14.0
CROCI (%)	4.6	13.4	11.6	8.5

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	4.3	5.7	13.9
Rel. to India BSE30 Sensex	0.9	0.2	13.6

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/13/2012 close.

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Power Grid: Summary Financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E	Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
Total revenue	86,117.6	101,186.7	118,385.0	133,973.8	Cash & equivalents	48,058.7	25,930.7	16,851.3	13,816.2
Cost of goods sold	(7,856.8)	(8,013.9)	(8,174.2)	(8,337.7)	Accounts receivable	32,701.3	38,423.5	44,954.1	50,873.6
SG&A	(6,071.4)	(6,375.0)	(6,693.7)	(7,028.4)	Inventory	3,823.5	4,492.5	5,256.1	5,948.2
R&D	--	--	--	--	Other current assets	5,148.3	5,148.3	5,148.3	5,148.3
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	116,927.2	108,216.3	111,449.7	117,033.7
EBITDA	70,680.9	86,797.8	103,517.0	118,607.7	Net PP&E	379,319.9	463,683.0	533,321.1	598,459.2
Depreciation & amortization	(22,729.2)	(25,636.9)	(30,361.9)	(34,861.9)	Net intangibles	24.1	24.1	24.1	24.1
EBIT	49,460.2	61,160.9	73,155.1	83,745.8	Total investments	9,516.6	7,516.6	5,516.6	3,516.6
Interest income	6,618.5	4,680.6	3,510.6	3,440.6	Other long-term assets	270,950.0	340,950.0	390,950.0	410,950.0
Interest expense	(17,742.1)	(28,920.4)	(34,236.0)	(38,488.5)	Total assets	776,737.8	920,390.1	1,041,261.5	1,129,983.6
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	81,327.5	95,558.4	97,302.7	73,410.3
Others	0.0	0.0	0.0	0.0	Short-term loans	0.0	0.0	0.0	0.0
Pretax profits	38,336.6	36,921.0	42,429.7	48,697.8	Other current liabilities	29,691.0	29,691.0	29,691.0	29,691.0
Income tax	(11,573.8)	(7,384.2)	(8,485.9)	(9,739.6)	Total current liabilities	111,018.5	125,249.4	126,993.7	103,101.3
Minorities	0.0	0.0	0.0	0.0	Long-term debt	416,124.5	526,487.6	616,762.6	696,262.6
Net income pre-preferred	26,762.8	29,536.8	33,943.7	38,958.2	Other long-term liabilities	35,419.2	35,419.0	35,419.0	35,419.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	451,543.7	561,906.6	652,181.6	731,681.6
Net income (pre-exceptionals)	26,762.8	29,536.8	33,943.7	38,958.2	Total liabilities	562,562.2	687,156.0	779,175.3	834,782.9
Post tax exceptionals	(43.7)	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	26,719.1	29,536.8	33,943.7	38,958.2	Total common equity	214,175.8	233,234.0	262,086.2	295,200.7
EPS (basic, pre-exception) (Rs)	5.78	6.38	7.33	8.41	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-exception) (Rs)	5.77	6.38	7.33	8.41	Total liabilities & equity	776,737.8	920,389.9	1,041,261.3	1,129,983.4
EPS (diluted, post-exception) (Rs)	5.77	6.38	7.33	8.41	BVPS (Rs)	46.27	50.38	56.61	63.76
DPS (Rs)	1.20	1.20	1.20	1.20	Ratios	3/11	3/12E	3/13E	3/14E
Dividend payout ratio (%)	20.8	18.8	16.4	14.3	CROCI (%)	4.6	13.4	11.6	8.5
Free cash flow yield (%)	(29.6)	(24.4)	(19.0)	(15.5)	ROE (%)	14.3	13.2	13.7	14.0
Growth & margins (%)	3/11	3/12E	3/13E	3/14E	ROA (%)	3.8	3.5	3.5	3.6
Sales growth	20.8	17.5	17.0	13.2	Inventory days	168.9	189.4	217.7	245.2
EBITDA growth	20.4	22.8	19.3	14.6	Receivables days	116.2	128.3	128.5	130.5
EBIT growth	27.2	23.7	19.6	14.5	Payable days	3,662.5	4,028.2	4,305.9	3,736.7
Net income growth	30.9	10.5	14.9	14.8	Net debt/equity (%)	171.9	214.6	228.9	231.2
EPS growth	19.0	10.5	14.9	14.8	Interest cover - EBIT (X)	4.4	2.5	2.4	2.4
Gross margin	90.9	92.1	93.1	93.8	Valuation	3/11	3/12E	3/13E	3/14E
EBITDA margin	82.1	85.8	87.4	88.5	P/E basic (X)	19.0	17.2	14.9	13.0
EBIT margin	57.4	60.4	61.8	62.5	P/B (X)	2.4	2.2	1.9	1.7
Cash flow statement (Rs mn)	3/11	3/12E	3/13E	3/14E	EV/EBITDA (X)	11.9	11.6	10.7	10.0
Net income pre-preferred dividends	26,762.8	29,536.8	33,943.7	38,958.2	EV/GCI (X)	1.9	1.8	1.7	1.5
D&A add-back	21,220.7	25,636.9	30,361.9	34,861.9	Dividend yield (%)	1.1	1.1	1.1	1.1
Minorities interests add-back	0.0	0.0	0.0	0.0	Additional metrics	3/11	3/12E	3/13E	3/14E
Net (inc)/dec working capital	(5,945.7)	7,839.7	7,839.7	7,839.7	Unit coal costs (Rs/kWh)	--	--	--	--
Other operating cash flow	5,508.6	(7,025.9)	(5,018.5)	(2,007.4)	Wtd-avg tariffs-total (Rs/kWh)	--	--	--	--
Cash flow from operations	5,508.6	55,987.5	53,737.1	41,308.6	Wtd-avg tariffs -coal (Rs/kWh)	--	--	--	--
Capital expenditures	(145,232.4)	(180,000.0)	(150,000.0)	(120,000.0)	Wtd-avg tariffs-wind (Rs/kWh)	--	--	--	--
Acquisitions	0.0	0.0	0.0	0.0	Utilization rate-total (%)	--	--	--	--
Divestitures	0.0	0.0	0.0	0.0	Utilization rate-coal (%)	--	--	--	--
Others	5,015.6	2,000.0	2,000.0	2,000.0	Utilization rate-wind (%)	--	--	--	--
Cash flow from investments	(140,216.8)	(178,000.0)	(148,000.0)	(118,000.0)	Utilization rate-nuclear (%)	--	--	--	--
Dividends paid (common & pref)	(6,498.7)	(10,478.6)	(5,091.6)	(5,843.7)	Attributable capacity-total (MW)	--	--	--	--
Inc/(dec) in debt	77,086.2	110,363.1	90,275.0	79,500.0	Attributable capacity-coal (MW)	--	--	--	--
Common stock issuance (repurchase)	37,808.0	0.0	0.0	0.0	Attributable capacity-wind (MW)	--	--	--	--
Other financing cash flows	(399.0)	0.0	0.0	0.0	Attributable capacity-nuclear (MW)	--	--	--	--
Cash flow from financing	107,996.4	99,884.5	85,183.4	73,656.3	Generation-total (mn kWh)	--	--	--	--
Total cash flow	15,282.3	(22,128.0)	(9,079.4)	(3,035.1)	Generation-coal (mn kWh)	--	--	--	--
					Generation-wind (mn kWh)	--	--	--	--
					Generation-nuclear (mn kWh)	--	--	--	--

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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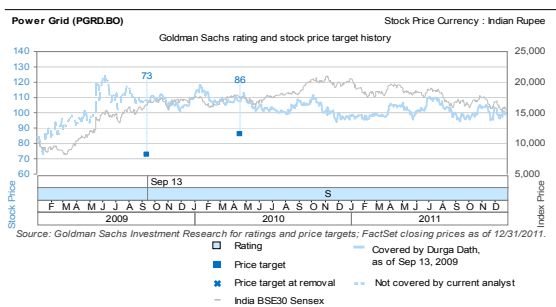
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