

23rd May, 2024

Analyst - Sushil Kr Jaiswal

Recommendation	CMP (₹)	Target (₹)	Upside Potential (%)	Time Horizon
Buy	310	370	19.35%	9 – 12 months

Power Grid Corporation of India Limited (POWERGRID)

is a 'Maharatna' Public Sector Enterprise of Government of India under the ownership of Ministry of Power. The company was incorporated on 23rd October, 1989 and 51.34% of the holding of the company is under Government of India and the balance is with Institutional investors and public. It is headquartered in Gurugram, Haryana. The company is mainly engaged in transmission of bulk power in all over India and they transmit more than 50% of the total power generated in India on their transmission network. It is the largest electric power transmission utility company that engages in planning, implementing, operation and Maintenance of Inter-State Transmission system (ISTS), consultancy and telecom services. The main segment of their business is transmission of power through its EHVAC/HVDC transmission network which is spread over a 1,77,790 kms with 278 sub-stations and 5,27,446 MVA transformation capacity. They have later diversified into telecom business and consultancy services.

Stock Details

Sector:	Power
FV (₹):	10
Total Market Cap (₹):	2,86,644 cr.
52-Week High/Low (₹):	317/172
Sensex/Nifty (₹):	73340/22378
BSE Code/NSE Symbol:	532898/POWERGRID

Shareholding Pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	51.34%	51.34%	51.34%	51.34%
FIIIs	33.14%	32.01%	30.51%	29.82%
DIIs	12.55%	13.21%	14.77%	15.26%
Public	2.95%	3.44%	3.37%	3.58%

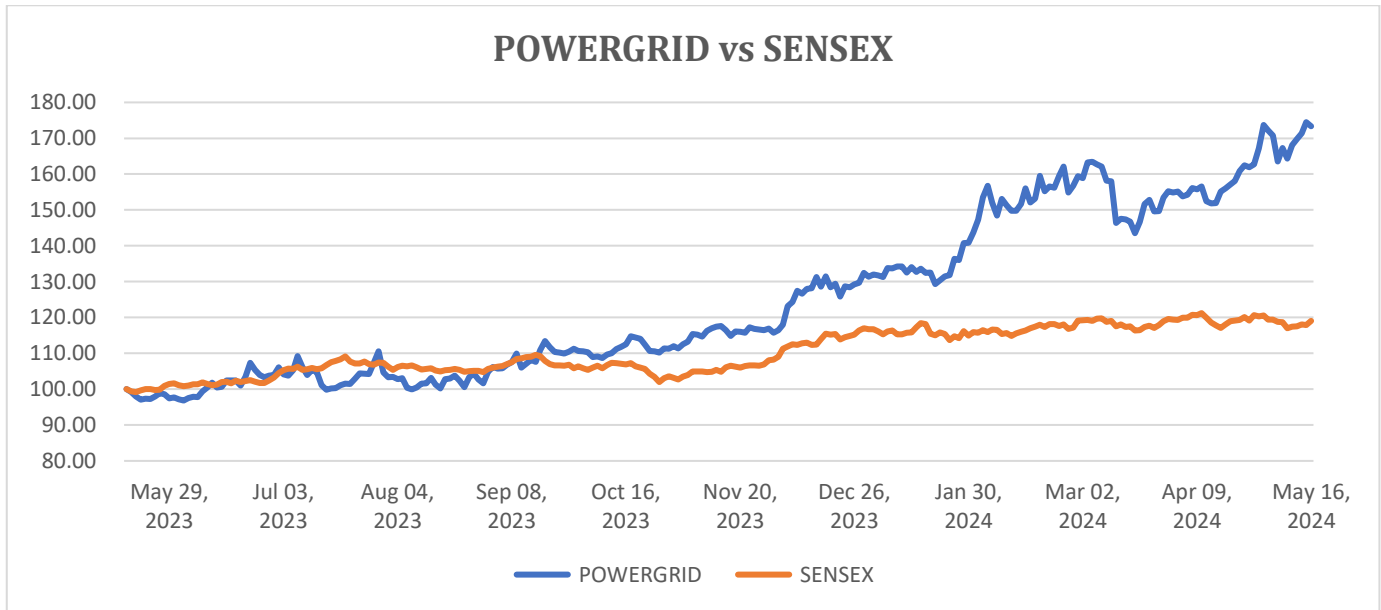
Price Performance

	1M	3M	6M	12M
POWERGRID	9.93%	13.73%	50.46%	72.73%
SENSEX	0.60%	1.32%	11.30%	18.59%

Key Financials (Cons)	FY20	FY21	FY22	FY23	3Y CAGR %	9M (Apr-Dec'22)	9M (Apr-Dec'23)
Net Sales	37744	39640	41622	45581	6.49%	33317	33865
EBITDA (Excl OI)	32939	34993	26571	39478	6.22%	28568	29804
EBITDA Margin (%)	87.27%	88.28%	63.84%	86.61%		85.75%	88.01%
Profit After Tax	11059	12036	16824	15417	11.71%	11096	11883
PAT Margin (%)	29.30%	30.36%	40.42%	33.82%		33.30%	35.09%
Earnings Per Share (Rs)	21.13	23	24.11	22.1		11.93	12.26
Book Value	123.66	133.68	109.3	119			
Div Per Share (Rs)	10	12	14.75	14.75			
Dividend Yield (%)	6.28	5.56	6.8	6.53			
ROE (%)	17.86	17.88	23.01	19.36	2.72%		
ROCE (%)	11.51	11.19	13.03	13	4.14%		

Valuation Ratio (Consolidated)	Latest (TTM)	10 Year Median
P/E	12.98	12.08
P/BV	1.7	1.89
EV/EBITDA	8.63	8.4
Market Cap/Sales	3.76	3.70

Price comparison between Power Grid Corporation of India Ltd. vs Sensex

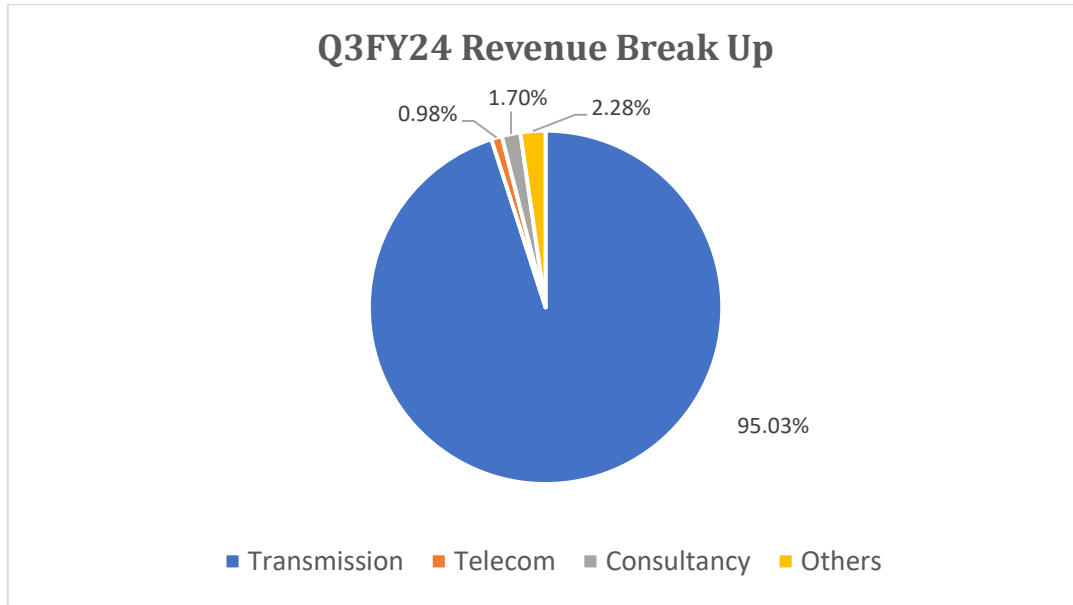


Business Model of PowerGrid:

The business model of Power Grid Corporation of India Limited is as follows:

- **Transmission:** POWERGRID has been a leader in Indian Power Transmission Sector in terms of adoption of latest State of the art for improved operational efficiency of transmission assets. Since, its inception, it has focused on integration of upgraded technologies in Power Transmission. Majority of the revenue of Power Grid comes from transmission only.
- **Telecom:** The telecom business is operated by Power Grid's subsidiary – POWERGRID Teleservices limited with the brand name PowerTel that provides telecom services in the country by having optic fiber network in pan India and offers transmission towers for mobile networks. They have more than 1,00,000 kms telecom network across the country.
- **Consultancy:** Consultancy services are provided by the company for the implementation of intra-state transmission network, smart grid projects and Energy efficiency. They also provide solutions in transmission, distribution and telecom sectors. By leveraging their expertise and capacity, they provide consultancy services globally.

Source: Powergrid.in



Capital Expenditure planned till 2032 by POWERGRID:

The company planned to do capital expenditure of Rs.1.88 lakh crores by 2032. This estimated expenditure is likely to include the following projects:

- Inter-state transmission projects – Rs.1.16 lakh crore
- Intra-state transmission projects – Rs.37,000 crore
- Cross-border business – Rs.10,000 crore
- International Operations – Rs.7,500 crore
- Smart Metering Infrastructure – Rs.15,000 crore
- Solar Power Projects – Rs.1,000 crore

Actual Capital Expenditure done by POWERGRID from FY19-FY23

Amt in Cr.

Capital Expenditure	FY19	FY20	FY21	FY22	FY23
Estimated Budget	25000	15000	10500	7500	8000
Revised Estimate	25000	15000	10500	7500	8800
Actual CapEx	25807	15313	11150	9426	8850

Source: Powergrid.in

Industry Overview:

- India is the 3rd largest producer and consumer of electricity in the world and has an installed power capacity of 429.96 gigawatt as on January 31, 2024.
- India's power generation has witnessed highest growth rate in 30 years in FY23. The power generation has increased by 6.80% to 1,452.43 billion kilowatt-hours (kWh).
- Currently, according to Ministry of Power, India's total power consumption stands at 1,503.65 billion units and power demand in the country peaked in January 2024 at 243.27 gigawatt.
- As per National Electricity plan 2022-32, a total investment of Rs. 33 lakh crore (US\$ 400 billion) and 37.8 lakhs power professionals will be required in the power generation industry by 2032 to meet the rising energy demands.
- In the Union Budget 2023-24, 50% more funds have been allocated to power sector to meet the renewable energy target by 2030. A total of Rs. 75,021 crores have been allocated to install rooftop solar systems and give free electricity of 300 units per month to 1 crore households.
- Central Electricity Authority (CEA) has also estimated that India's power requirement will reach to 817 gigawatts by 2030 and the government is also planning to make renewable energy capacity of 500 gigawatt by 2030.

Source: IBEF

Investment Rational:

- The company will gain significantly from \$50,000 crores grid transmission market (TAM) between FY24-50E and they will capture a major share due to their strong financial position and technical capabilities.
- They have enough funds to fund approximately 30% of India's grid capex by FY32E.
- The cost of debt is significantly low than private companies that allows them to secure a dominant market share.
- The forecasted earnings are at a CAGR of 2% for FY23-26E and a regulated equity CAGR of 3%. They also have steady cashflows and the projects which they won from the auction are expected to deliver profit at a CAGR of 20%.
- Their expertise in executing large, multi-region and cross border projects positions them as a preferred partner for India's energy transition infrastructure.
- The company has planned a capex of Rs.15,000 crores and capitalization of Rs. 17,000 crores for FY25. They have guided that capex of Rs. 20,000 crores will be done in FY26.
- The YoY growth in PAT stood at Rs. 4,000 crores in Q3FY24. Also, the targeted capex of Rs. 1,000 crores were maintained by the management. The outlays stood at Rs.8,700 crores.

View:

Power Grid Corporation of India Limited (POWERGRID) is key player in the country's power transmission landscape. Their robust business model focusing on transmission, telecom and consultancy services positions it as a market leader in the industry. They have the technical capabilities and financial position to capture a significant market share in the nearby future. Also, the capital expenditure which is being planned by the company for FY25 and FY26 tells their commitment towards growth and expansion. There is also positive outlook for India's power sector with increasing investments and rising energy demands and a focus on renewable energy. All this makes POWERGRID a compelling choice for long-term growth opportunities and thus, we expect the stock to reach a target price of Rs.370 (upside potential of 19.35%) in a time span of 9-12 months.

Income Statement

(In Cr.)

Income Statement (In Cr)	FY 2020	FY 2021	FY 2022	FY 2023
Revenue	37743.54	39639.79	41621.64	45581.28
Total Revenue	37743.54	39639.79	41621.64	45581.28
Ops. and Maintenance	761.09	761.77	829.5	820.25
Selling General & Admin Exp.	163.85	148.48	172.49	194.56
Depreciation & Amort.	11607.04	12039.19	12871.66	13333.38
Other Operating Exp.	3181.53	2891.83	3623.87	4390.06
Total Operating Exp.	15713.51	15841.27	17497.52	18738.25
Operating Income	22030.03	23798.52	24124.12	26843.03
Interest Expense, Total	-9082.22	-7682.95	-7614.74	-9223.11
Interest and Invest. Income	316.84	278.38	540.86	541.49
Net Interest Exp.	-8765.38	-7404.57	-7073.88	-8681.62
Income/(Loss) from Affiliates	155.13	214.7	78.47	-82.12
Currency Exchange Gains (Loss)	-221.86	-60.61	-6.69	-293.14
Other Non-Operating Inc. (Exp.)	-273.97	-327.88	-290.51	-145.85
EBT Excl. Unusual Items	12923.95	16220.16	16831.51	17640.3
Gain (Loss) on Sale of Invest.	-	-	15.95	-165.16
Gain (Loss) On Sale Of Assets	-17.2	-2.49	-28.41	-22.09
Other Unusual Items	1683.4	-716.96	2790.59	248.57
EBT Incl. Unusual Items	14590.15	15500.71	19609.64	17701.62
Income Tax Expense	3530.75	3464.25	2785.57	2284.5
Earnings from Cont. Ops.	11059.4	12036.46	16824.07	15417.12
Net Income	<u>11,059.4</u>	<u>12,036.5</u>	<u>16,824.1</u>	<u>15,417.1</u>

Balance Sheet

(In Cr.)

Balance Sheet (In Cr)	FY 2020	FY 2021	FY 2022	FY 2023
ASSETS				
Cash And Equivalents	4,849.6	4,487.2	2,577.1	5,192.2
Short Term Investments	583.0	718.6	2,442.4	2,162.5
Accounts Receivable	10,421.2	10,846.7	14,859.8	14,010.1
Other Receivables	68.3	96.6	111.3	114.9
Accounts Receivable, Total	10,489.5	10,943.3	14,971.1	14,125.0
Inventory	1,433.5	1,366.9	1,357.2	1,340.0
Loans Receivable Current	156.4	127.1	98.6	107.0
Restricted Cash	21.4	152.9	28.6	29.9
Other Current Assets	578.6	7,590.1	1,145.8	1,711.8
Total Current Assets	18,111.9	25,386.1	22,620.8	24,668.4
Gross Property, Plant & Equipment	2,60,292.8	2,63,956.8	2,73,059.4	2,81,314.5
Accumulated Depreciation	(45,938.6)	(57,168.0)	(70,211.1)	(83,795.8)
Net Property, Plant & Equipment	2,14,354.2	2,06,788.8	2,02,848.3	1,97,518.6
Regulatory Assets	10,123.1	10,575.1	9,933.2	10,234.4
Other Intangibles	1,935.3	1,774.9	1,778.2	1,690.7
Long-term Investments	1,431.1	1,485.6	3,787.6	3,489.1
Accounts Receivable Long-Term	601.7	853.5	1,028.8	3,159.2
Loans Receivable Long-Term	271.6	322.6	406.5	446.4
Other Long-Term Assets	9,824.4	8,502.8	8,540.1	9,088.7
Total Assets	<u>2,56,653.2</u>	<u>2,55,689.5</u>	<u>2,50,943.4</u>	<u>2,50,295.6</u>
LIABILITIES	0	0	0	0
Accounts Payable	229.3	187.5	267.1	327.8
Accrued Exp.	4,137.5	4,062.1	3,686.6	3,991.9
Short-term Borrowings	3,000.0	1,800.0	5,300.0	700.0
Curr. Port. of LT Debt	9,848.5	12,235.5	15,165.9	12,003.6
Curr. Port. of Leases	3.7	4.0	2.8	4.1
Curr. Income Taxes Payable	22.9	425.5	9.5	52.8
Unearned Revenue, Current	4,008.9	3,531.2	3,022.1	2,894.6
Other Current Liabilities	8,830.7	8,307.9	7,860.9	8,167.5
Total Current Liabilities	30,081.6	30,553.6	35,314.8	28,142.3
Long-Term Debt	1,38,908.6	1,32,662.3	1,17,686.9	1,17,378.8
Long-Term Leases	13.3	18.2	27.6	62.2
Unearned Revenue, Non-Current	11,149.5	9,969.9	9,752.6	10,357.7
Pension & Other Post-Retire. Benefits	424.7	462.0	517.1	577.9
Def. Tax Liability, Non-Curr.	11,228.8	11,836.6	11,357.0	10,678.9
Other Non-Current Liab., Total	151.4	250.8	40.3	83.4
Total Liabilities	<u>1,91,957.9</u>	<u>1,85,753.4</u>	<u>1,74,696.3</u>	<u>1,67,281.0</u>
Common Stock	5,231.6	5,231.6	6,975.5	6,975.5
Additional Paid In Capital	9,578.3	9,578.3	7,834.4	7,834.4
Retained Earnings	41,161.2	47,670.3	55,402.5	63,655.0
Comprehensive Inc. and Other	8,724.3	7,455.9	6,034.8	4,549.7
Total Common Equity	64,695.4	69,936.1	76,247.1	83,014.5
Total Equity	<u>64,695.4</u>	<u>69,936.1</u>	<u>76,247.1</u>	<u>83,014.5</u>
Total Liabilities And Equity	<u>2,56,653.2</u>	<u>2,55,689.5</u>	<u>2,50,943.4</u>	<u>2,50,295.6</u>

Cash Flow Statement

(In Cr.)

Cash Flow Statement (In Cr)	FY 2020	FY 2021	FY 2022	FY 2023
Net Income	11059.4	12036.46	16824.07	15417.12
Depreciation & Amort.	11607.04	12039.19	12871.66	13333.38
Depreciation & Amort., Total	11607.04	12039.19	12871.66	13333.38
(Gain) Loss On Sale of Assets	17.2	2.49	-3526.47	22.09
(Gain) Loss On Sale Of Invest.	-39.89	-7.68	-32.39	-27.9
(Income) Loss on Equity Invest.	-155.13	-214.7	-78.47	82.12
Change in Acc. Receiv.	-290.95	-3424.46	-566.79	-4377.79
Change In Inventories	-181.36	36.46	13.51	14.13
Change in Other Net Operating Assets	906.34	1058.27	-5797.64	4982.37
Other Operating Activities	7815.98	7876.65	6416.04	8559.22
Cash from Ops.	30738.63	29402.68	26123.52	38004.74
Capital Expenditures	-11367.12	-9616.55	-7966.22	-6902.57
Cash Acquisitions	-	-308.39	-	-
Divestitures	-	-	3130.64	-
Net Cash from Investments	-118.57	-33	-426.59	-1.66
Net (Increase)/Decrease in Loans Orig/Sold	-13.82	78.59	143.53	180.46
Total Other Investing Activities	766.02	815.87	5871.43	598.07
Cash from Investing	-10733.49	-9063.48	752.79	-6125.7
Short Term Debt Issued	18020	11750	7400	11845
Long-Term Debt Issued	10325.96	7840.37	2584.7	9140.44
Total Debt Issued	28345.96	19590.37	9984.7	20985.44
Short Term Debt Repaid	-19320	-12950	-3900	-16445
Long-Term Debt Repaid	-10770.46	-11225.72	-15419	-15549.51
Total Debt Repaid	-30090.46	-24175.72	-19319	-31994.51
Common Dividends Paid	-4425.92	-6821.99	-8719.32	-8544.93
Total Dividends Paid	-4425.92	-6821.99	-8719.32	-8544.93
Special Dividend Paid	-	-	-2092.64	-
Other Financing Activities	-12635.42	-9113.71	-8820.68	-9709.98
Cash from Financing	-18805.84	-20521.05	-28966.94	-29263.98
Misc. Cash Flow Adj.	-	-180.51	-	-
Net Change in Cash	<u>1,199.3</u>	<u>(362.4)</u>	<u>(2,090.6)</u>	<u>2,615.1</u>

Source: Ace Equity, JT research

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