

Power Grid Corporation of India

Capitalisation to remain healthy

Consolidated (₹ cr)	4QFY15	4QFY14	% chg (yoy)	3QFY15	% chg (qoq)
Net revenue	4,703	3,986	18.0	4,354	8.0
EBITDA	4,058	3,383	20.0	3,740	8.5
Margin (%)	86.3	84.9	140bp	85.9	40bp
Net Profit	1,412	1,176	20.1	1,229	14.9

Source: Company, Angel Research

Revenue and earnings growth in-line with estimate

Power Grid Corporation of India (PGCIL) reported a healthy 19.6% yoy increase in transmission revenues at ₹4,426cr, marginally below our estimate of ₹4,487cr. Consultancy revenues from services increased 6% yoy to ₹157cr, well ahead of our estimate of ₹133cr. Telecom revenues too were ~15% ahead of our estimate at ₹79cr. The increase in consultancy and telecom income more than offset the lower than expected transmission revenues, resulting in total operating income of ₹4,703cr, 0.3% higher than our estimate of ₹4,689cr. EBITDA margin increased 140bp yoy to 86.3% led by higher income from consultancy and telecom. Net profit increased ~20% yoy to ₹1,412cr vs our estimate of ₹1,378cr.

Capitalisation below expectations, capex guidance maintained

4QFY2015 capitalisation came in lower than expected at ₹4,986cr, vs our estimate of ₹6,383cr. This was largely on account of delay in the commissioning of certain projects, which would be capitalized in 1QFY2016. PGCIL incurred a capex of ~₹22,456cr in FY2015 in line with its target of ₹22,500cr. The company has guided for ~₹45,000cr capex (₹22,500cr in FY2016 and ₹22,550cr in FY2017) over the next two years. The current capital work in progress (CWIP) stands at ~₹56,576cr. With total outlay upwards of ₹1,00,000cr, capitalisation is expected to remain healthy, providing strong earnings visibility.

Outlook and valuation

Led by strong capex plans and a healthy capitalisation rate, we expect PGCIL to report a revenue and EBITDA CAGR of ~15%. At the current market price of ₹143, the stock trades at a P/B of 1.8x and 1.6x its FY2016E and FY2017E BV of ₹81.5 and ₹91.2, respectively. We remain positive on the stock with a target price of ₹170, based on ~1.85x FY2017E book value, implying an 18% upside from the current levels. Maintain Buy.

Key financials (Standalone)

Y/E March (₹ cr)	FY2014	FY2015E	FY2016E	FY2017E
Net sales	15,230	17,177	19,986	22,702
% chg	19.4	12.8	16.3	13.6
Net profit	4,497	4,979	5,814	6,650
% chg	7.3	11.1	15.7	14.4
EBITDA margin (%)	85.1	86.2	86.2	86.3
EPS (₹)	9.4	9.5	11.1	12.7
P/E (x)	15.2	15.0	12.8	11.2
P/BV (x)	2.2	2.0	1.8	1.6
RoE (%)	14.9	13.8	14.4	14.7
RoCE (%)	8.3	7.6	7.8	7.9
EV/Sales (x)	10.1	9.8	8.9	8.2
EV/EBITDA (x)	11.8	11.4	10.3	9.5

Source: Company, Angel Research: Note CMP as of June 3, 2015

BUY

CMP	₹143
Target Price	₹170

Investment Period	12 months
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Stock Info

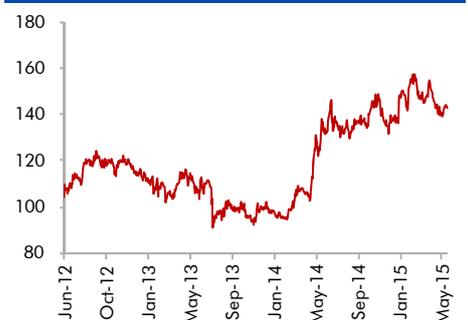
Sector	Power
Market Cap (₹ cr)	74,602
Net Debt (₹ cr)	90,576
Beta	0.7
52 Week High / Low	124/159
Avg. Daily Volume	28,28,641
Face Value (₹)	10
BSE Sensex	26,837
Nifty	8,135
Reuters Code	PGRD.BO
Bloomberg Code	PWGR IN

Shareholding Pattern (%)

Promoters	57.9
MF / Banks / Indian Fls	7.9
FII / NRIs / OCBs	27.6
Indian Public / Others	6.6

Abs. (%)	3m	1yr	3yr
Sensex	(7.7)	10.1	70.3
Coal India	(8.7)	13.9	37.1

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2015 performance (Standalone)

Y/E March (₹ Cr)	4QFY15	4QFY14	% chg (yoy)	3QFY15	% chg (qoq)	FY2015	FY2014	yoy %
- Transmission Income	4,426	3,700	19.6	4,182	5.9	16,451	14,046	17.1
- Consultancy Income (Services)	157	147	6.4	102	53.9	381	332	14.5
- Consultancy Income (Products)	-	22		-		-	-	
- Telecom Income	79	65	21.7	69	14.7	275	276	(0.5)
- Other Operating Income	41	52	(21.4)	1	3,377.1	71	78	(8.6)
Total Operating Income	4,703	3,986	18.0	4,354	8.0	17,177	14,733	16.6
- Transmission and Admin exp.	388	332	16.8	330	17.5	553	456	21.3
(% of Operating Income)	8.2	8.3		7.6		3.2	3.1	
- Staff Costs	282	234	20.2	254	10.9	1,024	942	8.7
(% of Net Sales)	6.0	5.9		5.8		6.0	6.4	
Total Expenditure	645	603	6.9	614	5.1	2,379	2,269	4.8
EBITDA	4,058	3,383	20.0	3,740	8.5	14,798	12,463	18.7
EBITDA (%)	86.3	84.9	140bp	85.9	40bp	86.2	84.6	155bp
Interest	1,038	819	26.7	1,025	1.3	3,979	3,168	25.6
Depreciation	1,418	1,075	31.9	1,301	9.0	5,085	3,996	27.3
Other Income	206	197	4.6	132	55.7	603	491	22.7
Exceptional Items	-	-		40		-	-	
Profit before Tax	1,809	1,687	7.3	1,809	-	6,289	6,264	0.4
(% of Net Sales)	38.5	42.3		41.6		36.6	42.5	
Tax	397	511	(22.3)	318	24.6	1,310	1,766	(25.8)
(% of PBT)	21.9	30.3		17.6		20.8	28.2	
Net income	1,412	1,176	20.1	1,491	(5.3)	4,979	4,497	10.7
Adjusted net income	1,412	1,176	20.1	1,451	(2.6)	4,979	4,497	10.7

Source: Company, Angel Research

Exhibit 2: Standalone – 4QFY2015 Actual vs Angel estimates

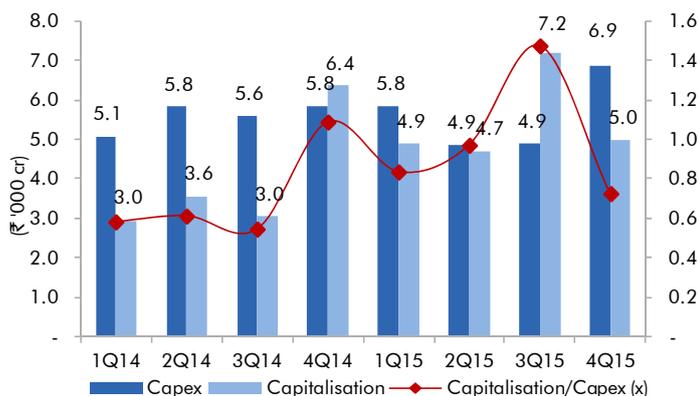
(₹ cr)	Actual	Estimates	Variation (%)
Net sales	4,703	4,689	0.3
EBITDA	4,058	4,025	0.8
EBITDA margin (%)	86.3	85.9	40bp

Source: Company, Angel Research

Result highlights
Revenue growth in line with expectations

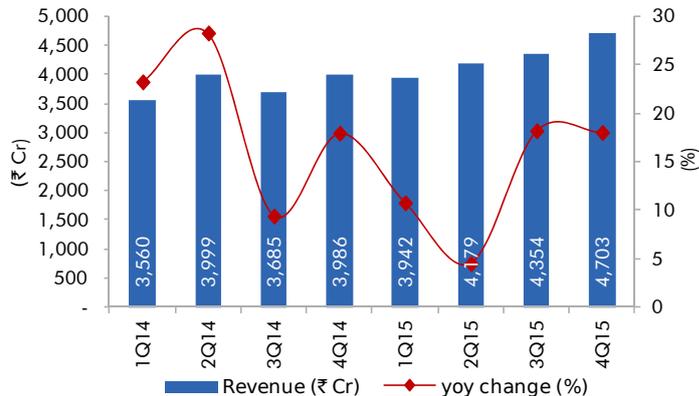
PGCIL reported a 19.6% yoy increase in transmission revenue at ₹4,426cr, marginally below our estimate of ₹4,487cr. Consultancy revenues from services increased 6% yoy to ₹157cr, well ahead of our estimate of ₹133cr. Telecom revenues too were ~15% ahead of our estimate at ₹79cr. The increase in consultancy and telecom income more than offset the lower than expected transmission revenues, resulting in total operating income of ₹4,703cr, 0.3% higher than our estimate of ₹4,689cr.

Exhibit 3: Capitalisation below estimate due to delays



Source: Company, Angel Research

Exhibit 4: Strong revenue growth of ~18% yoy



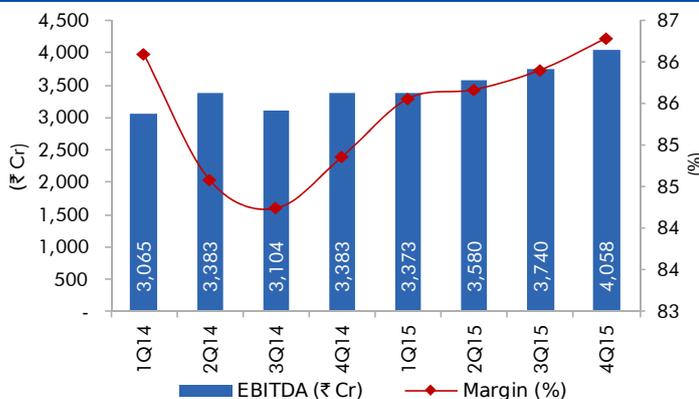
Source: Company, Angel Research

4QFY2015 capitalisation came in lower than expected at ₹4,986cr, vs our estimate of ₹6,383cr. This was largely on account of delay in the commissioning of certain projects, which would be capitalised in 1QFY2016. Capex however continues to remain robust and provides enough confidence that capitalisation would remain healthy in coming quarters. PGCIL incurred a capex of ~₹22,456cr in FY2015, in line with its target of ₹22,500cr. The company has guided for a capex of ₹22,500cr in FY2016 and ₹22,550cr in FY2017. Current CWIP stands at ~₹56,576cr. With total outlay upward of ₹1 lakh cr, capitalisation is expected to remain healthy, providing strong earnings visibility.

EBITDA and net profit marginally ahead of estimate

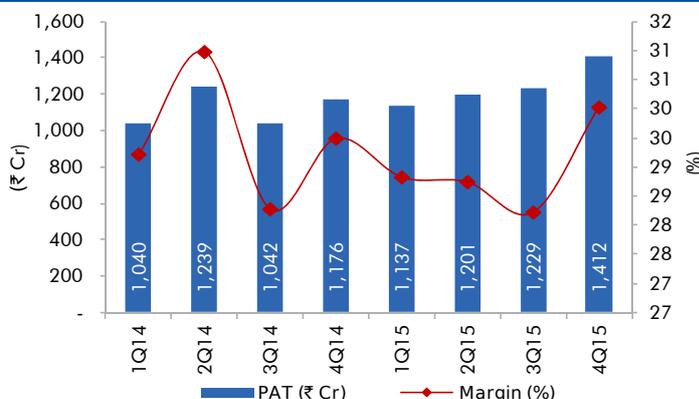
Lower transmission expenses as a percentage of transmission revenues and higher consultancy income helped improve EBITDA margins by 140bp yoy to 86.3%. Depreciation increased ~32% yoy led by higher capitalisation, ahead of our estimate of ~27%. Tax rate for the quarter too was higher at ~22% vs our estimate of ~20%. This was however offset by lower than expected interest expenses and higher other income. Net profit increased ~20% yoy to ₹1,412cr, led by higher EBITDA margin, ahead of our estimate of ₹1,378cr.

Exhibit 5: EBITDA margin increases ~140bp yoy



Source: Company, Angel Research

Exhibit 6: Net profit jumps ~20% yoy



Source: Company, Angel Research

Investment arguments

Huge investments lined up for augmenting power generation and transmission capacities

Power generation capacity in the country is expected to increase to ~318GW by the end of the XII plan and a further addition of ~110GW has been planned during the XIII plan. The transmission sector is also expected to see huge investments of ~₹1,80,000cr and ~₹2,00,000cr during the XII and XIII plan, respectively. A majority of these investments are expected to be towards inter-regional transmission. PGCIL has planned a capital outlay of ₹1,10,000cr during the XII plan. Further, we expect ~60-65% of XIII plan investments in the transmission sector toward inter-state transmissions, implying a capex outlay of ~₹1,20,000 - ₹1,30,000cr by PGCIL.

Regulated ROE model assures steady earnings growth

PGCIL receives a fixed return on equity (ROE) of 15.5%, with an additional 0.5% for timely completion of projects, as per norms laid out by the Central Electricity Regulatory Commission (CERC). The fixed ROE model implies that earnings growth is directly linked to the growth in assets capitalised. PGCIL's current outlay over the next two years (CWIP + capex) is upward of ₹1 lakh cr, providing strong earnings visibility.

Outlook and valuation

We like PGCIL for the high quality earnings and growth offered by the regulated equity model, huge investments that are required in the transmission sector and the execution track record of the company. We expect PGCIL to report a revenue and EBITDA CAGR of ~15% over FY2015-17E led by the strong capex plans and capitalisation rate. We expect the bottom-line to grow at a CAGR of 16% over the same period.

At the current market price of ₹143, the stock trades at a P/BV of 1.8x and 1.6x its FY2016E and FY2017E BV of ₹81.5 and ₹91.2, respectively. We remain positive on the stock with a target price of ₹170, based on ~1.85x FY2017E BV, implying an 18% upside from the current levels. Maintain Buy.

Exhibit 7: Valuation (FY2017E)

Price / BV	(₹ cr)
Equity	46,398
Multiple (x)	1.9
Equity Value	89,005
Target price (₹)	170

Source: Company, Angel Research

Company background

Power Grid Corporation of India Ltd is the Central Transmission Utility (CTU) of the country and a 'Navratna' company operating under the Ministry of Power. The company is engaged in the power transmission business with the responsibility for planning, implementation, operation and maintenance of inter-state transmission system and operation of National & Regional Power Grids. As of March 31, 2015, the company owns and operates a transmission network of about 1,16,625ckm of transmission lines and 195 EHVAC & HVDC substations with transformation capacity of about 2,34,709MVA. The company continues to wheel ~50% of total power generated in the country through its transmission network with a consistently high availability of over 99%.

Profit & Loss Statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Transmission Charges	11,754	14,046	16,451	19,211	21,878
Telecom+Consultancy Rev.	547	903	655	691	730
Net Sales	12,300	14,949	17,106	19,903	22,608
Other operating income	457	281	71	83	94
Total operating income	12,758	15,230	17,177	19,986	22,702
% chg	25.5	19.4	12.8	16.3	13.6
Transmission Expenses	368	456	553	646	736
Employee Expenses	886	942	1,024	1,191	1,353
Other Mfg costs	558	849	755	858	952
Provisions	3	22	47	55	62
EBITDA	10,943	12,961	14,798	17,235	19,599
% chg	28.6	18.4	14.2	16.5	13.7
(% of Net Sales)	85.8	85.1	86.2	86.2	86.3
Depreciation& Amortisation	3,352	3,996	5,085	6,071	6,994
EBIT	7,591	8,965	9,713	11,165	12,604
% chg	27.8	18.1	8.3	14.9	12.9
(% of Net Sales)	59.5	58.9	56.5	55.9	55.5
Interest & other Charges	2,535	3,168	3,979	4,484	4,935
Other Income	571	491	603	663	731
(% of PBT)	10.1	7.8	9.5	9.0	8.7
Recurring PBT	5,627	6,289	6,337	7,344	8,400
% chg	21.9	11.8	0.8	15.9	14.4
Extraordinary Inc/(Expense)	18	(25)	(47)	-	-
PBT (reported)	5,645	6,264	6,289	7,344	8,400
Tax	1,410	1,766	1,310	1,530	1,750
(% of PBT)	25.0	28.2	20.8	20.8	20.8
PAT (reported)	4,235	4,497	4,979	5,814	6,650
ADJ. PAT	4,216	4,523	5,026	5,814	6,650
% chg	28.7	7.3	11.1	15.7	14.4
(% of Net Sales)	33.0	29.7	29.3	29.1	29.3
Basic EPS (₹)	9.1	9.4	9.5	11.1	12.7
Diluted EPS (₹)	9.1	9.4	9.6	11.1	12.7
% chg	28.7	3.4	2.1	15.7	14.4

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015E	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	4,630	5,232	5,232	5,232	5,232
Reserves & Surplus	21,610	29,228	32,935	37,389	42,483
Shareholders Funds	26,239	34,460	38,167	42,620	47,714
Share Warrants	-	-	-	-	-
Total Loans	68,188	83,170	95,817	1,05,876	1,16,117
Deferred Tax Liability	1,959	2,443	2,472	2,501	2,531
Other Long term liabilities	4,708	5,855	6,610	7,540	8,050
Long term provisions	443	524	591	688	782
Total Liabilities	1,01,537	1,26,452	1,43,657	1,59,226	1,75,193
APPLICATION OF FUNDS					
Gross Block	80,600	96,504	1,18,264	1,38,109	1,57,276
Less: Acc. Depreciation	19,199	23,350	28,577	34,648	41,642
Net Block	61,401	73,154	89,686	1,03,461	1,15,634
Capital Work-in-Progress	19,115	31,851	39,882	41,627	44,241
Construction Stores	21,038	21,479	16,409	16,869	17,637
Investments	964	814	741	741	741
Non-current Loans & Advances	2,351	3,190	3,652	4,437	5,040
Current Assets	6,265	9,100	7,930	9,129	11,254
-Cash	1,662	4,418	2,063	2,439	3,676
-Loans & Advances	429	472	566	659	749
-Other	4,175	4,211	5,301	6,031	6,828
Current liabilities	9,597	13,138	14,644	17,038	19,355
Net Current Assets	(3,331)	(4,037)	(6,714)	(7,909)	(8,101)
Misc Exp. not written off	-	-	-	-	-
Total Assets	1,01,537	1,26,452	1,43,657	1,59,226	1,75,193

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Profit before tax	5,645	6,264	6,289	7,344	8,400
Depreciation	3,380	4,011	5,228	6,071	6,994
Change in Working Capital	1,241	3,333	660	2,044	1,888
Others	2,091	2,809	4,494	5,068	5,109
Direct taxes paid	(1,072)	(1,157)	(1,310)	(1,530)	(1,750)
Cash Flow from Operations	11,284	15,259	15,361	18,996	20,641
(Inc.)/ Dec. in Fixed Assets	(22,389)	(26,735)	(24,721)	(22,050)	(22,550)
(Inc.)/ Dec. in Investments	137.0	148.8	72.3	-	-
Others	303	209	(462)	(785)	(603)
Cash Flow from Investing	(21,948)	(26,378)	(25,111)	(22,835)	(23,153)
Issue of Equity	0	5,297	0	0	0
Inc./(Dec.) in loans	13,795	12,720	12,599	10,059	10,241
Dividend Paid (Incl. Tax)	(1,569)	(1,391)	(1,224)	(1,361)	(1,556)
Others	(2,236)	(2,752)	(3,979)	(4,484)	(4,935)
Cash Flow from Financing	9,990	13,874	7,395	4,214	3,749
Inc./(Dec.) in Cash	(675)	2,756	(2,355)	376	1,238
Opening Cash balances	2,337	1,662	4,418	2,063	2,439
Closing Cash balances	1,662	4,418	2,063	2,439	3,676

Key ratios

Y/E March	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	15.6	15.2	15.0	12.8	11.2
P/CEPS	8.7	8.0	7.4	6.3	5.5
P/BV	2.5	2.2	2.0	1.8	1.6
Dividend yield (%)	1.9	1.8	1.4	1.6	1.8
EV/Sales	10.4	10.1	9.8	8.9	8.2
EV/EBITDA	12.1	11.8	11.4	10.3	9.5
EV/Total Assets	1.3	1.2	1.2	1.1	1.1
Per Share Data (₹)					
Adjusted EPS (Basic)	9.1	9.4	9.6	11.1	12.7
Adjusted EPS (fully diluted)	9.1	9.4	9.6	11.1	12.7
Cash EPS	16.3	17.7	19.3	22.7	26.1
DPS	2.8	2.6	2.0	2.2	2.5
Book Value	56.7	65.9	73.0	81.5	91.2
Dupont Analysis					
EBIT margin	59.5	58.9	56.5	55.9	55.5
Tax retention ratio (%)	75.0	71.8	79.2	79.2	79.2
Asset turnover (x)	0.1	0.1	0.1	0.1	0.1
ROIC (Post-tax)	6.7	6.1	6.2	6.3	6.4
Cost of Debt (Post Tax)	3.1	3.0	3.5	3.5	3.5
Leverage (x)	2.4	2.4	2.4	2.4	2.4
Operating RoE	15.1	13.6	12.4	12.9	13.3
Returns (%)					
RoCE (Pre-tax)	8.7	8.3	7.6	7.8	7.9
Angel RoIC (Pre-tax)	15.6	15.4	13.9	13.3	13.2
RoE	17.0	14.9	13.8	14.4	14.7
Turnover ratios (x)					
Asset Turnover (Gross Block)	0.2	0.2	0.2	0.2	0.2
Inventory (days)	14	15	15	15	15
Receivables (days)	42	36	39	40	39
Payables (days)	44	45	55	56	58
WC cycle (ex-cash) (days)	(116)	(161)	(183)	(175)	(178)
Solvency ratios (x)					
Net debt to equity	2.5	2.3	2.5	2.4	2.4
Net debt to EBITDA	6.1	6.1	6.3	6.0	5.7
Interest Coverage	3.0	2.8	2.4	2.5	2.6

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Disclosure of Interest Statement	Power Grid Corporation of India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	Yes
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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