

Power Grid Corporation

BSE SENSEX	S&P CNX	CMP: INR117											Buy
18,505	5,620		Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
Bloomberg	PWGR IN	End	(INR m)	(INR m)	(INR)	Gr (%)	(X)	(X)	(%)	(%)	Sales	EBITDA	
Equity Shares (m)	4,629.7	3/11A	83,887	25,411	5.5	0.3	-	-	13.6	9.3	-	-	
52-Week Range (INR)	124/95	3/12A	100,353	33,199	7.2	30.6	16.3	2.3	14.8	9.2	10.2	12.2	
1,6,12 Rel. Perf. (%)	-1/0/7	3/13E	135,019	40,915	8.8	23.2	13.1	2.0	16.5	10.1	8.4	9.8	
M.Cap. (INR b)	541.7	3/14E	158,752	49,181	10.6	20.2	10.9	1.8	17.7	9.7	7.9	9.2	
M.Cap. (USD b)	10.1												

- 2QFY13 operational results in line; reported PAT boosted by other income:** For 2QFY13, Power Grid Corp of India's (PGCIL) adjusted PAT stood at INR10.6b v/s our est of INR9.4b, partly led by a higher other income at INR1.6b v/s our est of INR650m. Higher other income could have been led by interest income on delayed tariff order and dividend income. Capitalization for the quarter stood at INR26.6b, lower than our estimate of INR35b, while capex stood at INR41b v/s our est of INR35b.
- Cumulative Investment approval at ~INR850b and order award at ~INR750b:** Investment approvals in 2QFY13 stood at INR34b v/s INR77b YoY and cumulative investment approvals for 12th plan stood at ~INR850b. Order awards picked up in 2QFY13 and stood at INR74b v/s INR36b YoY and cumulative order awards for 12th plan stood at ~INR750b. Company's outstanding debtors stood at INR27b v/s INR23b in FY12. Debtors outstanding for more than 60 days need to be noted (1QFY13 was INR2.4b, representing ~8 days over the billing cycle).
- FY13 capitalisation target of INR200b+, achieved 1/3rd by 1HFY13:** PGCIL has capitalisation target of INR200b+ in FY13 and has achieved 1/3rd of the target till 1HFY13 at INR68b. We assume capitalisation of INR170b and capex of INR190b for FY13. PGCIL plans to maintain CWIP in FY13 at FY12 levels (INR155b as in March 2012). Thus, ramp-up in capitalisation in 2H would hold the key. Noting 2HFY12's capitalisation (2HFY12 capitalisation was INR100b), we assume that our capitalisation target of INR170b for FY13 is possible.
- RAB over FY12/14E expected to clock CAGR of 26%:** We expect the company's regulatory asset base (RAB) to increase from ~INR178b as in March 2012 to INR282b by FY14E (up 1.6x), as projects of ~INR350b are commissioned and capitalized in this period. This would lead to corresponding increase in regulatory returns.
- Valuation and view:** We expect PGCIL to report a net profit of INR41b in FY13E (up 23% YoY) and INR49b in FY14E (up 20% YoY). The stock trades at 11x FY14E PER and 1.8x P/B. Maintain **Buy**.

Quarterly Performance										(INR Million)		
Y/E March	FY12				FY13				FY12	FY13E	FY13E	Vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2Q	2Q	(%)
Sales	22,025	22,644	24,666	31,019	28,883	30,858	33,632	41,646	100,353	135,019	31,672	-3
Change (%)	10.2	6.5	20.2	40.3	31.1	36.3	36.4	34.3	19.6	34.5	39.9	
EBITDA	18,455	18,978	21,027	26,038	24,646	26,693	29,182	35,488	83,824	116,010	27,572	-3
Change (%)	9.8	6.3	21.7	40.2	33.6	40.6	38.8	36.3	18.9	38.4	45.3	
As of % Sales	83.8	83.8	85.2	83.9	85.3	86.5	86.8	85.2	83.5	85.9	87.1	
Depreciation	5,790	5,966	6,792	7,177	7,565	8,252	9,000	9,353	25,725	34,170	8,100	2
Interest	4,446	5,556	4,735	5,413	6,461	5,295	7,300	9,327	19,432	28,023	6,800	-22
Other Income	1,432	1,942	1,096	3,069	920	1,570	950	779	7,497	4,219	650	142
Extraordinary Inc / (Exp)	13	-21	31	164	0	-140	0	0	187	0	0	
PBT	9,638	9,419	10,565	16,354	11,540	14,856	13,832	17,588	45,976	58,036	13,322	12
Tax	2,586	2,331	2,472	6,037	2,836	3,597	4,081	5,920	13,427	16,433	3,930	
Effective Tax Rate (%)	26.8	24.8	23.4	36.9	24.6	24.2	29.5	33.7	29.2	28.3	29.5	
Reported PAT	7,053	7,087	8,092	10,317	8,705	11,259	9,752	11,667	32,550	41,603	9,392	
Adjusted PAT (Pre Exceptional)	7,022	7,601	7,743	10,832	9,065	10,573	9,752	10,838	33,199	40,915	9,392	13
Change (%)	18.9	27.1	28.1	44.7	29.1	39.1	25.9	0.1	30.7	23.2	23.6	

E: MOSL Estimates

Nalin Bhatt (NalinBhatt@MotilalOswal.com) +91 22 3982 5429

Satyam Agarwal (AgarwalS@MotilalOswal.com) / Vishal Periwal (Vishal.Periwal@MotilalOswal.com)

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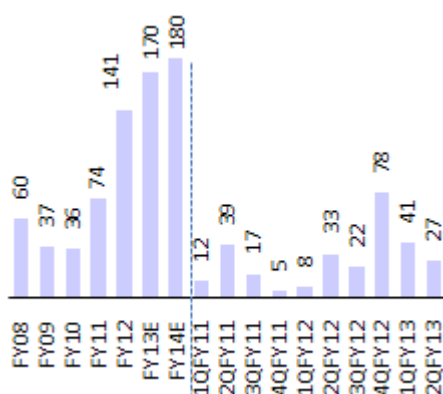
2QFY13 operational results in line, reported PAT boosted by other income

- For 2QFY13, PGCIL reported revenues of INR31b (up 36% YoY), EBIDTA of INR27b (up 41% YoY) and net profit of INR11.3b. PAT adjusted on account of FERV gain of INR1.05b and prior period adjustment of INR140m stood at INR10.6b v/s our est of INR9.4b. This is partly led by higher other income at INR1.6b, v/s our est of INR650m. Higher other income could have been led by interest income on delayed tariff order, dividend income etc. Short term open access income for 2QFY13 stood at INR1.1b, flat YoY.
- Capitalization for the quarter stood at INR26.6b, lower than of our estimate of INR35b. Capex for the quarter stood at INR41b v/s our est of INR35b. PGCIL plans to maintain CWIP in FY13 at FY12 levels (INR155b as in March 2012) and thus ramp-up in capitalisation in 2H would thus hold the key. We note that 2HFY12 capitalisation for PGCIL stood at INR100b and assume that our capitalisation target of INR170b is possible.
- Investment approvals in 2QFY13 stood at INR34b v/s INR77b YoY and YTD FY13 (till Oct) it stood at INR86b v/s INR107b YoY. Cumulative investment approvals stood at ~INR850b. Order awards picked up in 2QFY13 as stood at INR74b v/s INR36b YoY. For YTD FY13 (till Oct), order awards stood at INR100b v/s INR80b YoY; cumulative order awards stood at ~INR750b.
- Company's outstanding debtors as at 2QFY13 stood at INR27b v/s INR23b as at FY12. Debtors outstanding for more than 60 days need to be noted (1QFY13 was INR2.4b, representing ~8 days over the billing cycle).

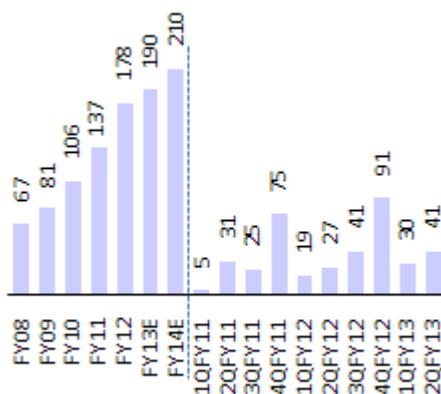
FY13 capitalisation target of INR200b+, achieved 1/3rd by 1HFY13

- PGCIL has a capitalisation target of INR200b+ in FY13E and has achieved 1/3rd of the target till 1HFY13 (INR68b). We assume capitalisation of INR170b and capex of INR190b for FY13E.
- We expect company's RAB to increase from ~INR178b as in March 2012 to INR282b by FY14E (up 1.6x), as projects of ~INR350b are commissioned and capitalized in this period. This would lead to corresponding increase in regulatory returns.

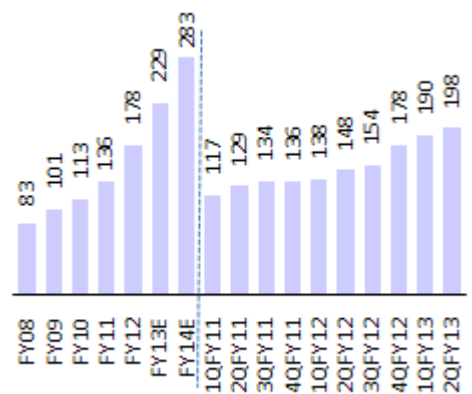
1HFY13 capitalization at INR68b (INR b)



1HFY13 capex at INR71b (INR b)



RAB would increase to INR282b (INR b)

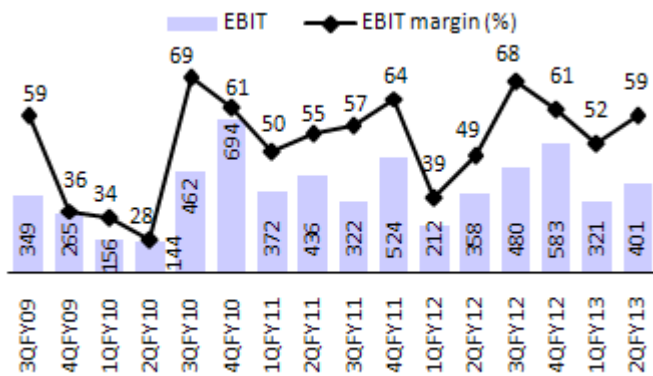


Source: Company, MOSL

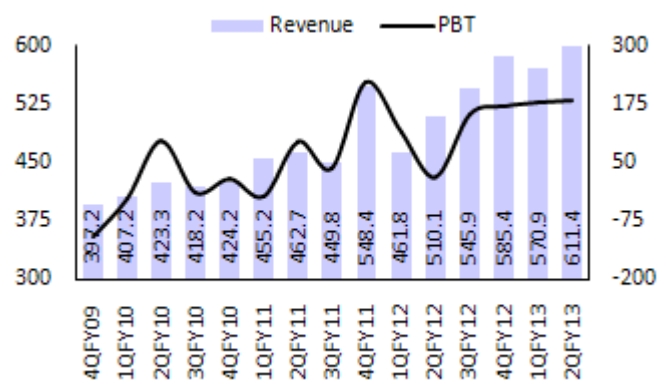
Segmental results: Consultancy division order book at 50x+

- Consultancy division reported revenues of INR678m (down 7% YoY), while Telecom business revenue stood at INR611m (up 20% YoY). As on 1QFY13 PGCIL has consultancy division order book of INR155b (INR128b of domestic orders and INR27b International orders) and thus bill to book order book stands high at 50x+.
- PBT for consultancy division stood at INR401m (up 22% YoY), and EBIT margins have increased to 59% (v/s 49% YoY). For Telecom division, PBT for the quarter stood at INR183m (up 9% YoY).

Consultancy div. EBIT and margins (INR m)



Telecom business revenue/profitability (INR m)



Source: Company, MOSL

Valuation and View

- We expect PGCIL to report a net profit of INR41b in FY13E (up 23% YoY) and INR49b in FY14E (up 20% YoY). The stock trades at 11x FY14E PER and 1.8x P/B. Maintain **Buy**.

Power Grid Corporation: an investment profile

Company description

PGCIL is a central transmission utility (CTU) with a mini-navratna status, which owns and operates most of India's inter-state and inter-regional power transmission system. It has been identified as a nodal agency by the government to set up inter-regional transmission capacity in India.

Key investment arguments

- CERC has approved setting up of nine high speed transmission corridors (HSTCs) at a cost of INR581b, thus significantly improving company's business visibility.
- PGCIL's RAB is set to increase from ~INR178b as in March 2012 to INR282b by FY14E (CAGR of 26%), as projects of ~INR350b are commissioned and capitalized in this period. This shall lead to corresponding increase in regulatory returns.
- Management has guided for capex worth INR1t in the 12th Five Year Plan, which would drive company's earnings.

Key investment risks

- Significant delay in project execution due to delay in obtaining right of way.
- Continued delays in generation projects may slow down PGCIL's growth momentum.

Recent developments

- 1HFY13 capitalization stood at INR68b (achieved 1/3rd of FY13 target).
- 1HFY13 capex stood at INR71b (FY13 target of INR200b)

Valuation and view

- We expect PGCIL to report a net profit of INR41b in FY13E (up 23% YoY) and INR49b in FY14E (up 20% YoY). The stock trades at 11x FY14E PER and 1.8x P/B. Maintain **Buy**.

Sector view

- Power sector has begun to witness several initiatives by authorities to address concerns on SEBs, fuel supply pacts and PPAs. However, it would take some time before clarity on several issues emerges. In this environment, we continue to prefer CPSUs which are relatively better-positioned on these fronts.

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
117	-	-	Buy

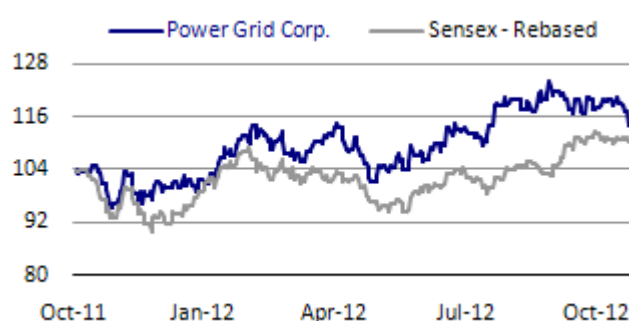
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	8.8	8.6	2.9
FY14	10.6	10.0	6.8

Shareholding pattern (%)

	Sep-12	Jun-12	Sep-11
Promoter	69.4	69.4	69.4
Domestic Inst	7.5	7.8	8.3
Foreign	13.9	13.1	13.3
Others	9.2	9.7	9.0

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Net Sales	83,887	100,353	135,019	158,752	
Change (%)	17.7	19.6	34.5	17.6	
Cost of Goods Sold	7,459	8,430	9,694	11,148	
Staff Cost	6,989	8,100	9,315	10,712	
EBITDA	69,439	83,824	116,010	136,891	
% of Net Sales	82.8	83.5	85.9	86.2	
Depreciation	21,994	25,725	34,170	42,482	
Interest	16,254	19,432	28,023	28,730	
Other Income	7,111	7,497	4,219	2,928	
PBT	38,258	45,976	58,036	68,608	
Tax	11,278	13,427	16,433	19,427	
Rate (%)	29.5	29.2	28.3	28.3	
Reported PAT	26,979	32,550	41,603	49,181	
Extra-ordinary items	-1,569	649	-688	0	
Adjusted PAT	25,411	33,199	40,915	49,181	
Change (%)	10.3	30.6	23.2	20.2	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Equity Share Capital	46,297	46,297	46,297	46,297	
Reserves	167,373	188,581	215,883	247,876	
Net Worth	213,670	234,878	262,181	294,173	
Loans	386,658	507,692	613,241	738,754	
Deferred tax liability	11,467	16,009	21,833	28,719	
Advance against dep	21,645	26,370	26,370	26,370	
Grant in Aid	1,713	1,393	1,393	1,393	
Capital Employed	635,154	786,341	925,018	1,089,408	
Gross Fixed Assets	504,508	634,363	804,363	984,363	
Less: Depreciation	131,278	157,003	191,173	233,655	
Net Fixed Assets	373,230	477,359	613,189	750,707	
Capital WIP	239,429	294,266	334,789	364,789	
Investments	13,984	12,845	9,258	7,464	
Curr. Assets	130,573	137,691	126,564	143,226	
Inventory	3,815	4,403	6,289	7,394	
Debtors	11,140	23,154	27,744	32,620	
Cash & Bank Balance	36,801	23,369	13,273	15,026	
Other Current Assets	22,292	6,281	7,223	8,307	
Loans & Advances	56,526	80,485	72,036	79,879	
Current Liab. & Prov.	122,062	135,820	158,783	176,779	
Net Current Assets	8,511	1,872	-32,219	-33,553	
Application of Funds	635,154	786,341	925,018	1,089,408	

E: MOSL Estimates

Ratios					
Y/E March	2011	2012	2013E	2014E	
Basic (INR)					
Consolidated EPS	5.5	7.2	8.8	10.6	
Growth (%)	0.3	30.6	23.2	20.2	
Cash EPS	10.2	12.7	16.2	19.8	
Book Value	46.2	50.7	56.6	63.5	
DPS	1.8	2.2	2.7	3.2	
Eq. Div.Payout (incl. Div	34.9	35.6	34.4	35.0	
Valuation					
P/E		16.3	13.1	10.9	
Cash P/E		9.2	7.2	5.9	
EV/EBITDA		12.2	9.8	9.2	
EV/Sales		10.2	8.4	7.9	
Price/Book Value		2.3	2.0	1.8	
Dividend Yield (%)		1.8	2.3	2.7	
Profitability Ratios (%)					
RoE	13.6	14.8	16.5	17.7	
RoCE	9.3	9.2	10.1	9.7	
Turnover Ratios					
Debtors (Days)	48	85	75	75	
Asset Turnover (x)	0.2	0.2	0.2	0.2	
Leverage Ratio					
Debt/Equity (x)	1.6	2.1	2.3	2.5	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
PBT before EO Items	38,302	46,163	58,036	68,608	
Add : Depreciation	21,994	25,725	34,170	42,482	
Interest	16,254	19,432	28,023	28,730	
Less : Direct Taxes Paid	11,278	13,427	16,433	19,427	
(Inc)/Dec in WC	-9,143	-6,792	23,994	3,087	
CF from Operations	56,129	71,102	127,790	123,480	
EO Income	-44	-187	0	0	
CF frm Oper. incl. EO Item	56,085	70,915	127,790	123,480	
(Inc)/Dec in FA	-109,818	-184,692	-210,523	-210,000	
(Pur)/Sale of Investmer	549	1,139	3,587	1,794	
CF from Investments	-109,270	-183,553	-206,937	-208,207	
(Inc)/Dec in Net Worth	36,733	261	0	0	
(Inc)/Dec in Debt	46,156	129,980	111,374	132,398	
Less : Interest Paid	16,254	19,432	28,023	28,730	
Dividend Paid	9,426	11,603	14,300	17,189	
CF from Fin. Activity	57,209	99,206	69,050	86,479	
Inc/Dec of Cash	4,024	-13,432	-10,096	1,753	
Add: Beginning Balance	32,776	36,801	23,369	13,273	
Closing Balance	36,801	23,369	13,273	15,026	

E: MOSL Estimates

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Power Grid Corporation

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| 2. Group/Directors ownership of the stock | No |
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Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motiloswal.com