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Rating	<b>BUY</b>
Price	Rs120
Target Price	Rs133
Implied Upside	10.8%
Sensex	18,817
Nifty	5,724

(Prices as on November 06, 2012)

#### Trading data

Market Cap. (Rs bn)	608.3
Shares o/s (m)	5,084.1
3M Avg. Daily value (Rs m)	423.5

#### Major shareholders

Promoters	69.42%
Foreign	13.80%
Domestic Inst.	7.51%
Public & Other	9.27%

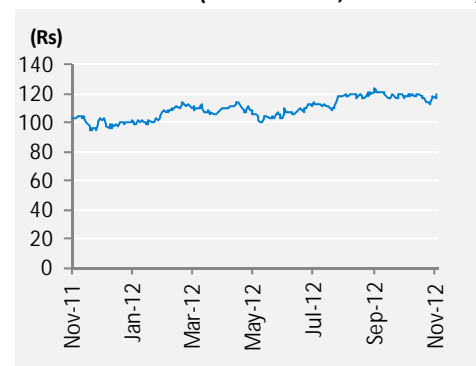
#### Stock Performance

(%)	1M	6M	12M
Absolute	1.2	12.1	15.2
Relative	1.9	0.3	8.1

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	8.5	8.2	3.0
2014	9.6	9.6	-0.6

#### Price Performance (RIC:PGRD.BO, BB:PWGR IN)



Source: Bloomberg

We attended the analyst meet of Power Grid. The management continued to remain confident about the company's healthy execution, high capitalization and highlighted that risk of equity dilution remains low. We maintain 'BUY' on the stock.

- Execution to remain strong:** Power Grid has capitalized assets worth Rs67.6bn in H1FY13 (v/s Rs40bn in H1FY12) and Rs71bn till date. The capitalization in Q2FY13 was slightly slower at Rs26.9bn on account of heavy rains impacting execution. The company has spend capex worth Rs71.7bn in H1FY13 (v/s Rs46.1bn in H1FY12) and Rs87.5bn till date against a target of Rs200bn for FY13 (42% of target spend). In H1FY13, Power Grid has added 26778MVA transformation capacity v/s 31475MVA in FY12. Mr. Nayak, CMD, reiterated that there would be no equity dilution for capex target in the 12<sup>th</sup> plan.
- New Initiatives: 1) JV with States - 12<sup>th</sup> plan** Intra-State Transmission capex is likely to be ~Rs550bn. PGCIL is looking at this as an additional avenue for growth. It has already signed agreements with Bihar & Odisha and discussions are underway with Jharkhand, UP, J&K, Haryana and Manipur 2) Backward Integration DPR for conductor/tower parts manufacturing is in the finalization stage and JV for manufacturing transformer and insulators are being pursued 3) Energy efficiency utilizing existing pool of qualified EA & 4) The company has applied for Wire Business license for identified Districts in Odisha.
- Major reasons for recent grid failure :** The recent grid disturbances was caused by combination of factors such as weak inter-regional corridors due to multiple outages, high loading of some links, overdraw by some of the NR utilities, inadequate response by SLDCs to the instructions of RLDCs to reduce overdraw etc. Major action taken after grid failure includes tightening of frequency from 49.5Hz to 50.2Hz to 49.7Hz to 50.2Hz. Independent Third Party Audit & Inspection of Protection Systems by RPCs. Restriction imposed on unscheduled drawl.

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Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	83,887	100,353	130,810	154,574
Growth (%)	17.7	19.6	30.3	18.2
EBITDA (Rs m)	70,572	83,824	114,393	136,844
PAT (Rs m)	27,009	32,549	39,262	48,680
EPS (Rs)	5.8	7.0	8.5	9.6
Growth (%)	19.0	20.5	20.6	12.9
Net DPS (Rs)	1.8	2.1	2.5	2.9

#### Profitability & Valuation

	2011	2012	2013E	2014E
EBITDA margin (%)	84.1	83.5	87.4	88.5
RoE (%)	12.8	13.0	14.3	14.9
RoCE (%)	6.6	6.4	6.9	7.0
EV / sales (x)	11.0	10.5	8.9	8.2
EV / EBITDA (x)	13.1	12.6	10.2	9.3
PE (x)	20.5	17.0	14.1	12.5
P / BV (x)	2.3	2.1	1.9	1.6
Net dividend yield (%)	1.5	1.8	2.1	2.4

Source: Company Data; PL Research



- **Outlook and Valuation:** The stock is trading at 1.6x P/B FY14E. We expect the stock to deliver earnings CAGR of 16.2% over FY12-17E, with core ROE of ~17.6% over the same period. We maintain '**BUY**' on the stock.

**Income Statement (Rs m)**

Y/e March	2011	2012	2013E	2014E
<b>Net Revenue</b>	<b>83,887</b>	<b>100,353</b>	<b>130,810</b>	<b>154,574</b>
Raw Material Expenses	5,857	8,100	6,831	7,378
Gross Profit	78,031	92,254	123,979	147,197
Employee Cost	7,459	8,430	9,586	10,353
Other Expenses	—	—	—	—
<b>EBITDA</b>	<b>70,572</b>	<b>83,824</b>	<b>114,393</b>	<b>136,844</b>
Depr. & Amortization	21,610	25,725	37,461	44,361
Net Interest	17,339	19,432	31,195	36,515
Other Income	6,705	7,309	6,612	8,939
<b>Profit before Tax</b>	<b>38,327</b>	<b>45,975</b>	<b>52,350</b>	<b>64,907</b>
Total Tax	11,278	13,426	13,087	16,227
<b>Profit after Tax</b>	<b>27,049</b>	<b>32,549</b>	<b>39,262</b>	<b>48,680</b>
Ex-Od items / Min. Int.	40	—	—	—
<b>Adj. PAT</b>	<b>27,009</b>	<b>32,549</b>	<b>39,262</b>	<b>48,680</b>
<b>Avg. Shares O/S (m)</b>	<b>4,629.7</b>	<b>4,629.7</b>	<b>4,629.7</b>	<b>5,084.1</b>
<b>EPS (Rs.)</b>	<b>5.8</b>	<b>7.0</b>	<b>8.5</b>	<b>9.6</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
C/F from Operations	56,879	58,873	116,577	155,496
C/F from Investing	(133,310)	(144,890)	(198,700)	(198,700)
C/F from Financing	80,455	84,026	96,563	108,580
Inc. / Dec. in Cash	4,024	(1,991)	14,439	65,375
Opening Cash	32,776	36,801	34,810	49,249
Closing Cash	36,801	34,810	49,249	114,624
FCFF	(28,787)	(96,912)	(94,535)	(33,743)
FCFE	35,873	16,269	45,465	76,257

**Key Financial Metrics**

Y/e March	2011	2012	2013E	2014E
<b>Growth</b>				
Revenue (%)	17.7	19.6	30.3	18.2
EBITDA (%)	19.7	18.8	36.5	19.6
PAT (%)	30.9	20.5	20.6	24.0
EPS (%)	19.0	20.5	20.6	12.9
<b>Profitability</b>				
EBITDA Margin (%)	84.1	83.5	87.4	88.5
PAT Margin (%)	32.2	32.4	30.0	31.5
RoCE (%)	6.6	6.4	6.9	7.0
RoE (%)	12.8	13.0	14.3	14.9
<b>Balance Sheet</b>				
Net Debt : Equity	1.6	1.9	2.2	1.8
Net Wrkng Cap. (days)	—	—	—	—
<b>Valuation</b>				
PER (x)	20.5	17.0	14.1	12.5
P / B (x)	2.3	2.1	1.9	1.6
EV / EBITDA (x)	13.1	12.6	10.2	9.3
EV / Sales (x)	11.0	10.5	8.9	8.2
<b>Earnings Quality</b>				
Eff. Tax Rate	29.5	29.2	25.0	25.0
Other Inc / PBT	17.5	16.2	12.6	13.8
Eff. Depr. Rate (%)	4.3	4.1	4.6	4.6
FCFE / PAT	132.8	50.0	115.8	156.6

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	237,144	262,592	285,617	369,672
Total Debt	408,828	522,009	662,009	772,009
Other Liabilities	11,467	16,009	16,009	16,009
<b>Total Liabilities</b>	<b>657,438</b>	<b>800,610</b>	<b>963,635</b>	<b>1,157,689</b>
Net Fixed Assets	638,486	758,458	920,997	1,076,637
Goodwill	—	—	—	—
Investments	13,652	12,845	11,545	10,245
Net Current Assets	5,279	16,189	31,117	70,832
<i>Cash &amp; Equivalents</i>	<i>36,801</i>	<i>23,369</i>	<i>47,039</i>	<i>109,970</i>
<i>Other Current Assets</i>	<i>68,371</i>	<i>114,322</i>	<i>115,914</i>	<i>105,083</i>
<i>Current Liabilities</i>	<i>99,893</i>	<i>121,502</i>	<i>131,836</i>	<i>144,220</i>
Other Assets	22	13,119	(24)	(24)
<b>Total Assets</b>	<b>657,438</b>	<b>800,610</b>	<b>963,635</b>	<b>1,157,689</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY12	Q4FY12	Q1FY13	Q2FY13
<b>Net Revenue</b>	<b>24,666</b>	<b>31,019</b>	<b>28,883</b>	<b>30,858</b>
<b>EBITDA</b>	<b>21,027</b>	<b>26,038</b>	<b>24,646</b>	<b>26,693</b>
<i>% of revenue</i>	<i>85.2</i>	<i>83.9</i>	<i>85.3</i>	<i>86.5</i>
Depr. & Amortization	6,792	7,177	7,565	8,252
Net Interest	3,670	2,508	5,545	3,586
Other Income	1,096	3,069	920	1,570
<b>Profit before Tax</b>	<b>10,564</b>	<b>16,354</b>	<b>11,537</b>	<b>14,855</b>
Total Tax	2,472	6,037	2,836	3,597
<b>Profit after Tax</b>	<b>8,092</b>	<b>10,317</b>	<b>8,701</b>	<b>11,259</b>
<b>Adj. PAT</b>	<b>8,092</b>	<b>10,317</b>	<b>8,701</b>	<b>11,259</b>

Source: Company Data, PL Research.

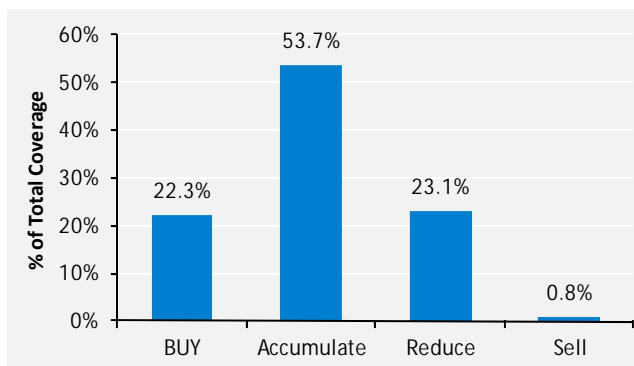


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#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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