

November 12, 2019

## Q2FY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	224		224	
Sales (Rs. m)	353,952	389,186	353,952	389,061
% Chng.	-	-	-	-
EBITDA (Rs. m)	308,646	339,370	308,646	339,262
% Chng.	-	11.7	-	-
EPS (Rs.)	19.4	21.8	19.4	21.7
% Chng.	-	0.2	-	-

### Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	341	354	389	435
EBITDA (Rs. bn)	293	309	339	379
Margin (%)	85.8	87.2	87.2	87.2
PAT (Rs. bn)	99	102	114	135
EPS (Rs.)	19.0	19.4	21.8	25.8
Gr. (%)	20.6	2.1	12.1	18.6
DPS (Rs.)	8.6	8.9	10.0	11.9
Yield (%)	4.5	4.7	5.2	6.2
RoE (%)	17.5	16.6	17.2	18.7
RoCE (%)	10.3	9.6	10.0	10.9
EV/Sales (x)	6.8	6.6	6.0	5.3
EV/EBITDA (x)	7.9	7.6	6.8	6.1
PE (x)	10.1	9.9	8.8	7.4
P/BV (x)	1.7	1.6	1.5	1.3

### Key Data

### PGRD.BO | PWGR IN

52-W High / Low	Rs.216 / Rs.173
Sensex / Nifty	40,345 / 11,913
Market Cap	Rs.1,003bn/ \$ 14,035m
Shares Outstanding	5,232m
3M Avg. Daily Value	Rs.2551.23m

### Shareholding Pattern (%)

Promoter's	55.37
Foreign	27.76
Domestic Institution	12.50
Public & Others	4.37
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(4.6)	3.3	-
Relative	(9.8)	(4.0)	(12.8)

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## Steady quarter on capitalization pickup, defensive play on reasonable valuations

### Quick Pointers:

- Pickup in capitalisation led to steady earnings growth during the quarter
- Planning by Assets monetization through Invlt.

**Power Grid Corporation of India (PGCIL) reported steady set of 2QFY20 earnings which were broadly in-line with our estimates. PAT for the quarter came in at Rs25.3 bn against PLE of Rs25.5 bn. Capex/Capitalisation came in higher at Rs42/36bn during the quarter. Management has maintained its capitalisation guidance of Rs220–250bn, subject to commissioning the Raipur–Pugalur line (Rs9-9.5bn). On YTD basis, the company has won projects worth Rs100 bn (mainly TBCB) which augurs well for the future growth. The company has announced asset monetization plan through the Investment Trust (InvIT) platform which we believe is a key monitorable going ahead. The company has a strong visibility over next two-three years on the back of Rs660bn orders in hand and strong upcoming opportunity from Renewable (GEC). We expect PGCIL to deliver 13% earnings growth over FY19–21E. The stock is trading reasonable valuations of 1.6x/1.5x FY20/21E P/BV. The stock also offers 4% dividend yield. We maintain our Buy rating with TP of Rs224.**

**Pick up in capitalization leads to steady quarter:** Sales were up 5% YoY at Rs87 bn (PLE Rs88 bn) driven by growth in Transmission/Consultancy/Telecom segments by 4%/25%/23% YoY. EBITDA margin expanded by 550bps YoY at 89.4% in 2QFY20 compared to 84.2% in 2QFY19 due to lower other expenses. Absolute EBITDA was up 8.4% YoY at Rs74.6 bn. Depreciation increased by 7.8% at Rs27.5 bn. Other income increased by 22% YoY at Rs5 bn. During the quarter tax rate came at 23% (PLE 25%) compared to 21% in 2QFY19. PAT for the quarter was up by 9.4% at Rs25.3 bn (PLE Rs25.5 bn). For 1HFY20, overall capitalisation/capex rose to Rs57/65bn. Capitalisation/capex for TBCB projects were at Rs1.9 bn/13 bn.

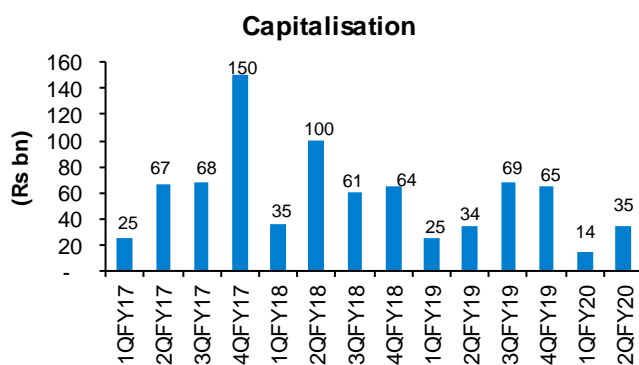
**Asset monetisation via Invlt next year:** PGCIL has planned for asset monetization by setting up an Infrastructure InvIT by FY20 end to unlock value in some of its transmission assets (both RTM and TBCB). The idea is to reduce market borrowing for funding new investment/projects. The company has targeted March 2020 to decide the valuations and quantum of assets to be transferred to Invlt.

**Outlook and valuation:** We believe Projects worth Rs660bn in hand imply good earnings visibility. We expect PGCIL to deliver 13% earnings growth over FY19–21E. The stock is trading reasonable valuations of 1.6x/1.5x FY20/21E P/BV. The stock also offers 4% dividend yield. We maintain our BUY rating with TP of Rs224.

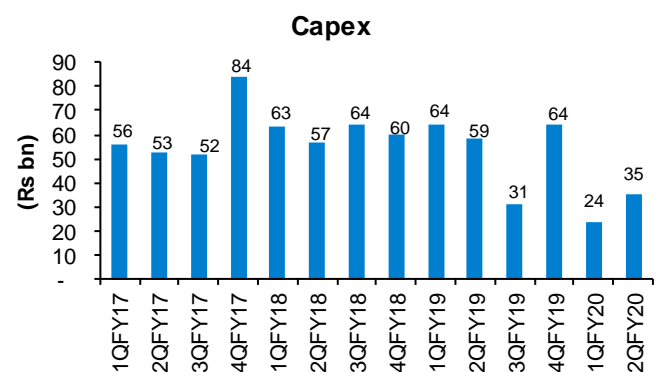
**Exhibit 1: Q2FY20 Result Overview (Rs mn)**

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	QoQ gr. (%)	H1FY20	H1FY20	YoY gr. (%)
<b>Net Revenue</b>	<b>86,850</b>	<b>82,830</b>	<b>4.9</b>	<b>88,041</b>	<b>(1.4)</b>	<b>174,891</b>	<b>164,138</b>	<b>6.6</b>
<b>EBITDA</b>	<b>75,569</b>	<b>69,725</b>	<b>8.4</b>	<b>78,964</b>	<b>(4.3)</b>	<b>154,533</b>	<b>139,032</b>	<b>11.1</b>
<i>EBITDA Margin (%)</i>	<i>89.7</i>	<i>84.2</i>		<i>89.7</i>		<i>88.4</i>	<i>84.7</i>	
Other Income	4,982	4,069	22.4	4,243	17.4	9,225	7,039	31.1
Depreciation	27,482	25,483	7.8	26,591	3.4	54,072	49,989	8.2
Interest	23,761	23,095		23,591		47,352	44,501	
Exceptional items	(3,519)	(4,049)		63		(3,456)	(14,526)	(76.2)
<b>Profit before Tax</b>	<b>32,827</b>	<b>29,265</b>	<b>12.2</b>	<b>32,962</b>	<b>(0.4)</b>	<b>65,789</b>	<b>66,106</b>	<b>(0.5)</b>
Tax	7,555	6,170	22.4	8,684	(13.0)	16,239	20,595	(21.1)
<b>Reported PAT</b>	<b>25,271</b>	<b>23,095</b>	<b>9.4</b>	<b>24,279</b>	<b>4.1</b>	<b>49,550</b>	<b>45,512</b>	<b>8.9</b>
<b>Adjusted PAT</b>	<b>25,271</b>	<b>23,095</b>	<b>9.4</b>	<b>24,279</b>	<b>4.1</b>	<b>49,550</b>	<b>45,512</b>	<b>8.9</b>
<i>Net Margin (%)</i>	<i>29.1</i>	<i>27.9</i>		<i>27.6</i>		<i>28.3</i>	<i>27.7</i>	
<b>Adjusted EPS</b>	<b>4.8</b>	<b>4.4</b>		<b>4.6</b>		<b>9.5</b>	<b>8.7</b>	

Source: Company, PL

**Exhibit 2: Capitalisation is low on sequential basis**


Source: Company, PL

**Exhibit 3: Capex trend**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>341,191</b>	<b>353,952</b>	<b>389,186</b>	<b>434,769</b>
YoY gr. (%)	14.7	3.7	10.0	11.7
Cost of Goods Sold	-	-	-	-
Gross Profit	341,191	353,952	389,186	434,769
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	17,836	19,809	22,001	24,435
Other Expenses	30,534	25,497	27,815	31,215
<b>EBITDA</b>	<b>292,821</b>	<b>308,646</b>	<b>339,370</b>	<b>379,119</b>
YoY gr. (%)	12.9	5.4	10.0	11.7
Margin (%)	85.8	87.2	87.2	87.2
Depreciation and Amortization	(102,007)	(118,143)	(132,357)	(145,419)
<b>EBIT</b>	<b>190,815</b>	<b>190,503</b>	<b>207,013</b>	<b>233,700</b>
Margin (%)	55.9	53.8	53.2	53.8
Net Interest	(90,914)	(77,145)	(78,923)	(79,632)
Other Income	14,990	15,575	16,200	16,762
<b>Profit Before Tax</b>	<b>114,890</b>	<b>128,932</b>	<b>144,290</b>	<b>170,830</b>
Margin (%)	33.7	36.4	37.1	39.3
Total Tax	(9,764)	25,915	29,002	34,337
Effective tax rate (%)	(8.5)	20.1	20.1	20.1
<b>Profit after tax</b>	<b>124,654</b>	<b>103,017</b>	<b>115,288</b>	<b>136,493</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>99,386</b>	<b>101,517</b>	<b>113,788</b>	<b>134,993</b>
YoY gr. (%)	20.6	2.1	12.1	18.6
Margin (%)	29.1	28.7	29.2	31.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>99,386</b>	<b>101,517</b>	<b>113,788</b>	<b>134,993</b>
YoY gr. (%)	20.6	2.1	12.1	18.6
Margin (%)	29.1	28.7	29.2	31.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	99,386	101,517	113,788	134,993
<b>Equity Shares O/s (m)</b>	<b>5,232</b>	<b>5,232</b>	<b>5,232</b>	<b>5,232</b>
<b>EPS (Rs)</b>	<b>19.0</b>	<b>19.4</b>	<b>21.8</b>	<b>25.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,958,336</b>	<b>2,208,059</b>	<b>2,459,600</b>	<b>2,668,682</b>
Tangibles	1,958,336	2,208,059	2,459,600	2,668,682
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>335,667</b>	<b>453,811</b>	<b>586,168</b>	<b>731,587</b>
Tangibles	335,667	453,811	586,168	731,587
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>1,622,669</b>	<b>1,754,249</b>	<b>1,873,432</b>	<b>1,937,095</b>
Tangibles	1,622,669	1,754,249	1,873,432	1,937,095
Intangibles	-	-	-	-
Capital Work In Progress	554,940	457,347	380,149	347,844
Goodwill	-	-	-	-
Non-Current Investments	27,565	30,322	34,870	40,101
Net Deferred tax assets	(100,930)	(90,837)	(90,837)	(90,837)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	12,263	13,673	13,988	15,626
Trade receivables	46,287	48,487	58,378	69,563
Cash & Bank Balance	35,168	66,791	98,103	136,526
Other Current Assets	37,531	35,395	38,919	43,477
<b>Total Assets</b>	<b>2,421,425</b>	<b>2,495,737</b>	<b>2,596,259</b>	<b>2,698,506</b>
<b>Equity</b>				
Equity Share Capital	52,316	52,316	52,316	52,316
Other Equity	536,965	584,426	636,779	698,761
<b>Total Network</b>	<b>589,281</b>	<b>636,742</b>	<b>689,095</b>	<b>751,077</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	1,310,395	1,365,241	1,380,322	1,390,570
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	43,000	36,550	36,550	36,550
Trade payables	-	-	-	-
Other current liabilities	377,819	366,367	399,455	429,472
<b>Total Equity &amp; Liabilities</b>	<b>2,421,425</b>	<b>2,495,737</b>	<b>2,596,259</b>	<b>2,698,506</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	114,890	128,932	144,290	170,830
Add. Depreciation	102,007	118,143	132,357	145,419
Add. Interest	90,914	77,145	78,923	79,632
Less Financial Other Income	14,990	15,575	16,200	16,762
Add. Other	(81,858)	(17,584)	(7,308)	(6,982)
Op. profit before WC changes	225,953	306,636	348,262	388,899
Net Changes-WC	4,288	(1,474)	(13,729)	(17,382)
Direct tax	(24,894)	(25,915)	(29,002)	(34,337)
<b>Net cash from Op. activities</b>	<b>205,347</b>	<b>279,247</b>	<b>305,530</b>	<b>337,181</b>
Capital expenditures	(190,325)	(33,987)	(41,986)	(31,359)
Interest / Dividend Income	14,990	15,575	16,200	16,762
Others	7,783	854	(4,604)	(5,302)
<b>Net Cash from Invt. activities</b>	<b>(167,552)</b>	<b>(17,558)</b>	<b>(30,390)</b>	<b>(19,899)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	119,192	48,396	15,081	10,248
Dividend paid	(54,254)	(56,237)	(62,935)	(74,512)
Interest paid	(90,914)	(77,145)	(78,923)	(79,632)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(25,977)</b>	<b>(84,986)</b>	<b>(126,777)</b>	<b>(143,896)</b>
<b>Net change in cash</b>	<b>11,818</b>	<b>176,704</b>	<b>148,364</b>	<b>173,387</b>
Free Cash Flow	205,347	279,247	305,530	337,181

Source: Company Data, PL Research

**Key Financial Metrics**

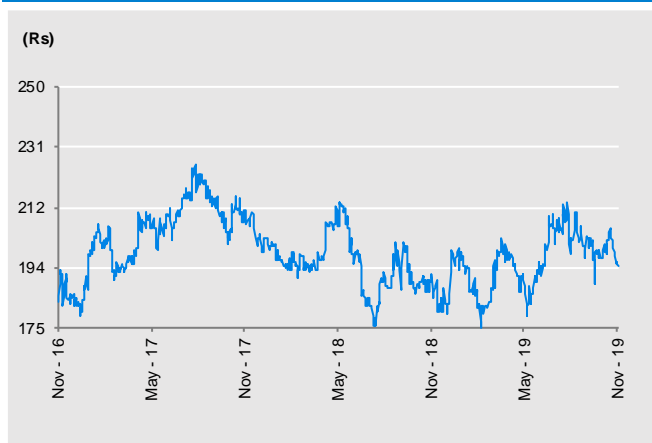
Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	19.0	19.4	21.8	25.8
CEPS	(0.5)	(3.2)	(3.5)	(2.0)
BVPS	112.6	121.7	131.7	143.6
FCF	39.3	53.4	58.4	64.5
DPS	8.6	8.9	10.0	11.9
<b>Return Ratio(%)</b>				
RoCE	10.3	9.6	10.0	10.9
ROIC	11.3	7.9	8.4	9.3
RoE	17.5	16.6	17.2	18.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	2.2	2.1	1.9	1.7
Net Working Capital (Days)	-	-	-	-
<b>Valuation(x)</b>				
PER	10.1	9.9	8.8	7.4
P/B	1.7	1.6	1.5	1.3
P/CEPS	(0.5)	(3.1)	(3.5)	(2.0)
EV/EBITDA	7.9	7.6	6.8	6.1
EV/Sales	6.8	6.6	6.0	5.3
Dividend Yield (%)	4.5	4.7	5.2	6.2

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
<b>Net Revenue</b>	<b>84,712</b>	<b>92,181</b>	<b>88,041</b>	<b>86,850</b>
YoY gr. (%)	12.8	18.0	8.3	4.9
Raw Material Expenses	-	-	-	-
Gross Profit	84,712	92,181	88,041	86,850
Margin (%)	100.0	100.0	100.0	100.0
<b>EBITDA</b>	<b>75,694</b>	<b>77,934</b>	<b>78,964</b>	<b>75,569</b>
YoY gr. (%)	12.3	19.4	13.9	8.4
Margin (%)	89.4	84.5	89.7	87.0
Depreciation / Depletion	26,047	25,970	26,591	27,482
<b>EBIT</b>	<b>49,647</b>	<b>51,964</b>	<b>52,374</b>	<b>48,088</b>
Margin (%)	58.6	56.4	59.5	55.4
Net Interest	22,753	23,660	23,591	23,761
Other Income	4,190	3,922	4,243	4,982
<b>Profit before Tax</b>	<b>29,488</b>	<b>(22,028)</b>	<b>32,962</b>	<b>32,827</b>
Margin (%)	34.8	(23.9)	37.4	37.8
Total Tax	6,177	(52,568)	10,438	11,494
Effective tax rate (%)	20.9	238.6	31.7	35.0
<b>Profit after Tax</b>	<b>23,312</b>	<b>30,540</b>	<b>22,524</b>	<b>21,333</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>23,312</b>	<b>30,540</b>	<b>22,524</b>	<b>21,333</b>
YoY gr. (%)	14.2	51.9	0.5	(7.6)
Margin (%)	27.5	33.1	25.6	24.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>23,312</b>	<b>30,540</b>	<b>22,524</b>	<b>21,333</b>
YoY gr. (%)	14.2	51.9	0.5	(7.6)
Margin (%)	27.5	33.1	25.6	24.6
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>23,312</b>	<b>30,540</b>	<b>22,524</b>	<b>21,333</b>
Avg. Shares O/s (m)	5,232	5,232	5,232	5,232
<b>EPS (Rs)</b>	<b>4.5</b>	<b>5.8</b>	<b>4.3</b>	<b>4.1</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	BUY	224	199
2	2-Aug-19	BUY	224	211
3	4-Jul-19	BUY	234	210
4	30-May-19	BUY	224	190
5	5-Apr-19	BUY	247	196

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,442	1,461
2	Apar Industries	Accumulate	646	521
3	Bharat Electronics	Hold	118	113
4	BHEL	Hold	63	47
5	Cummins India	Hold	543	540
6	Engineers India	BUY	156	111
7	GE T&D India	Reduce	150	167
8	Kalpataru Power Transmission	BUY	662	437
9	KEC International	BUY	375	265
10	Larsen & Toubro	BUY	1,800	1,432
11	Power Grid Corporation of India	BUY	224	199
12	Siemens	BUY	1,722	1,526
13	Thermax	Accumulate	1,300	1,153
14	Triveni Turbine	Accumulate	142	104
15	Voltamp Transformers	BUY	1,601	1,128

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<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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