

Power Grid Corp | BUY

1QFY25: The upturn begins

Power Grid Corp's (PGCIL) revenue for 1QFY25 stood at INR 110bn, 0%/-8%/-9%/-7 YoY/ QoQ/ JMFe/ cons. EBITDA came in at INR 96bn, -1%/-5%/-8%/-6% YoY/ QoQ/ JMFe/ cons with margin of 87.2% in 1QFY25 vs. 86.7%/87.6% in JMFe/1QFY25. Adj. PAT came in at INR 38bn, -4%/-13%/-15%/-3% YoY/ QoQ/ JMFe/ cons due to less dividend from subsidiaries. With upward revision in CapEx guidance to INR 180bn for FY25 and INR 700-800bn for FY26-27 vs. subdued INR 91bn/92bn/125bn in FY22/FY23/FY24, the long-awaited transmission CapEx is now showing a gradual upturn, underpinned by renewables and growing generation capacity including thermal. We maintain our BUY rating with a revised SOTP-based TP of INR 381, implying a 11.4% upside.

- Business Outlook:** The transmission opportunities of INR 2075bn including ISTS/ intra-state/ cross-border interconnection projects worth INR 1,360bn/ INR 370bn/ INR 100bn and international projects worth INR 75bn provide a healthy CapEx visibility for PGCIL up to 2032. PGCIL also estimates INR 170bn outlay in other businesses such as solar generation, smart metering and data center over the next 7-8 years.
- CapEx & capitalisation:** The company had a CapEx of INR 46bn and capitalisation of INR 23bn during 1QFY25. The Management during Investor/Analyst Meet has guided for CapEx of INR 180bn in FY25 (vs. INR 91bn/92bn/125bn in FY22/FY23/FY24) along with similar capitalisation (vs. INR 125bn in FY24). As of 26 Jul'24, it has INR 1,141bn of works in hand, including INR 473bn of RTM projects and INR 668bn other projects including TBCB. Excluding Ladakh-Kaithal HVDC and a few other HVDC projects with long gestation period, the remaining works INR 700-800bn are expected to be executed during 24-30 months post FY25, as per the guidance given by the Management.
- Project wins:** PGCIL emerged 3 ISTS TBCB projects in 1QFY25, commanding the market share of 65% in terms of NCT cost and 69% in terms of annual tariff.
- Project execution:** The company has added 1,315MVA of transformation capacity and 91ckm of transmission lines during 1QFY25.
- Receivables:** PGCIL saw recoveries of INR 18.5bn out of INR 24bn which were due under LPS rules till 1QFY25. Total receivables outstanding continue to decrease- INR 55.5bn/ INR 71.4bn in 1QFY25/ 1QFY24. The company has done billing of INR 93bn in 1QFY25 with realization of 91.8%. Major dues are from Tamil Nadu, J&K, Telangana & Uttar Pradesh.
- Miscellaneous**
 - PGCIL currently commands a market share of c. 70% vs. street expectations of 45-50% in past
 - Current subdued performance is due to lower CapEx in earlier years, INR 91bn/92bn in FY22/FY23
 - During recently held two investor/analyst meets (24 May'24 and 29 Jul'29), the Management appears confident of good momentum in CapEx and capitalisation going forward



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	381
Upside/(Downside)	11.4%
Previous Price Target	350
Change	8.8%

Key Data – PWGR IN

Current Market Price	INR342
Market cap (bn)	INR3,184.1/US\$38.0
Free Float	44%
Shares in issue (mn)	6,975.5
Diluted share (mn)	9,300.6
3-mon avg daily val (mn)	INR6,080.9/US\$72.6
52-week range	349/180
Sensex/Nifty	81,356/24,836
INR/US\$	83.7

Price Performance

%	1M	6M	12M
Absolute	3.4	34.8	76.8
Relative*	0.5	17.9	43.8

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	416,163	456,031	458,431	468,376	496,879
Sales Growth (%)	5.0	9.6	0.5	2.2	6.1
EBITDA	365,669	395,000	399,029	405,760	430,874
EBITDA Margin (%)	87.9	86.6	87.0	86.6	86.7
Adjusted Net Profit	140,335	151,712	161,446	165,385	175,063
Diluted EPS (INR)	15.1	16.3	17.4	17.8	18.8
Diluted EPS Growth (%)	10.0	8.1	6.4	2.4	5.9
ROIC (%)	10.6	12.4	12.4	12.6	12.3
ROE (%)	19.2	19.0	19.0	18.4	18.2
P/E (x)	22.7	21.0	19.7	19.2	18.2
P/B (x)	4.2	3.8	3.7	3.4	3.2
EV/EBITDA (x)	9.5	8.7	8.4	8.2	7.9
Dividend Yield (%)	3.4	2.7	3.5	3.4	3.6

Source: Company data, JM Financial. Note: Valuations as of 29/Jul/2024

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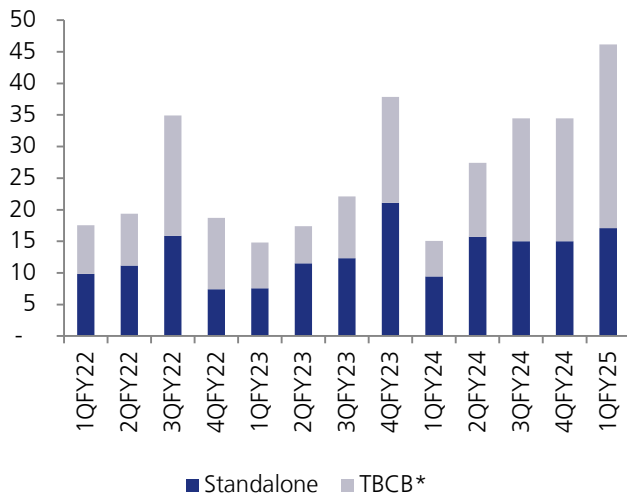
Exhibit 1. 1QFY25 results summary

INR mn	1QFY25	1QFY24	% YoY	4QFY24	% QoQ	JMFe	% Var
Operating income	110,062	110,481	0%	119,781	-8%	120,979	-9%
Operating expn.	20,211	19,661	3%	25,231	-20%	22,502	-10%
EBITDA	96,025	96,826	-1%	100,990	-5%	104,889	-8%
EBITDA Margin (%)	87.2%	87.6%	-39bps	84.3%	293bps	86.7%	55bps
Depreciation	32,004	32,658		32,590	-2%	32,738	
EBIT	64,021	64,169		68,400	-6%	72,151	
Other income	2,734	2,095		3,273		2,675	
Interest	20,390	20,572		19,281		21,932	
PBT	46,655	45,640	2%	53,009	-12%	52,794	-12%
Tax (inc. def. tax)	8,793	6,211		9,585		8,447	
Reg def a/c	(623)	(3,457)		(1,761)		-	
PAT (reported)	37,239	35,972	4%	41,663	-11%	44,347	-16%
Adj PAT	37,862	39,429	-4%	43,424	-13%	44,347	-15%
EPS	4.07	4.24	-4%	4.67	-13%	4.77	-15%

Source: Company, JM Financial

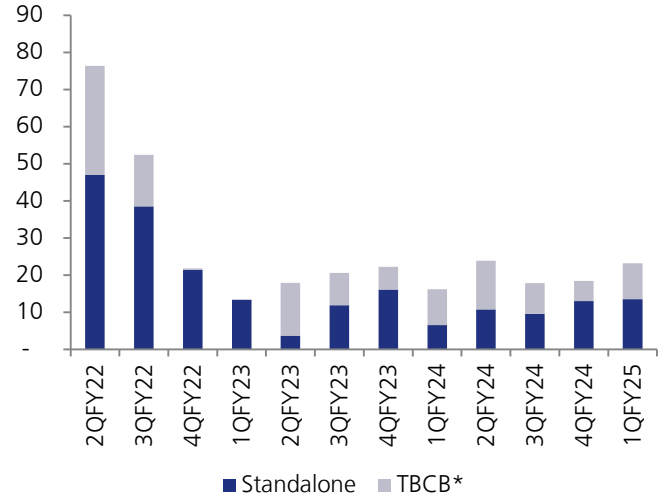
Key Charts

Exhibit 2. Quarterly CapEx trend (INR bn)



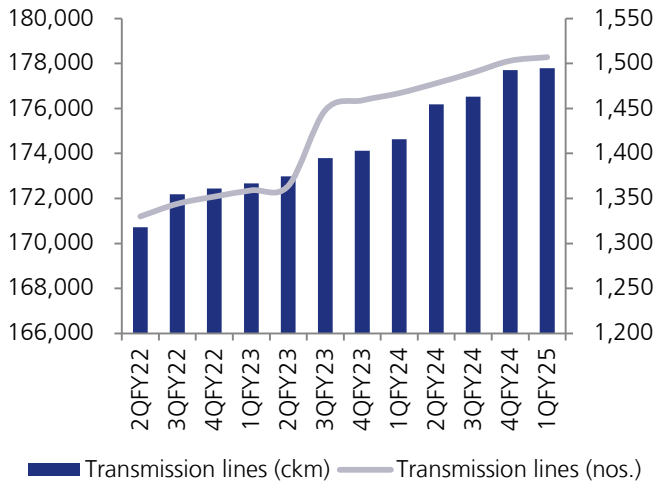
Source: Company, JM Financial

Exhibit 3. Quarterly capitalisation trend (INR bn)



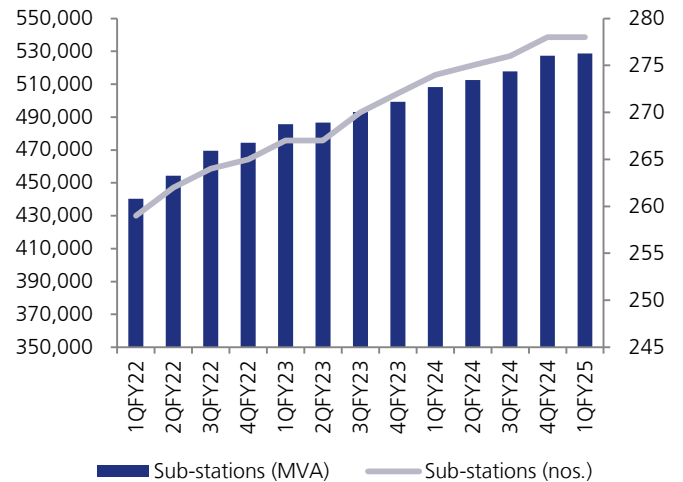
Source: Company, JM Financial

Exhibit 4. Growth in transmission lines



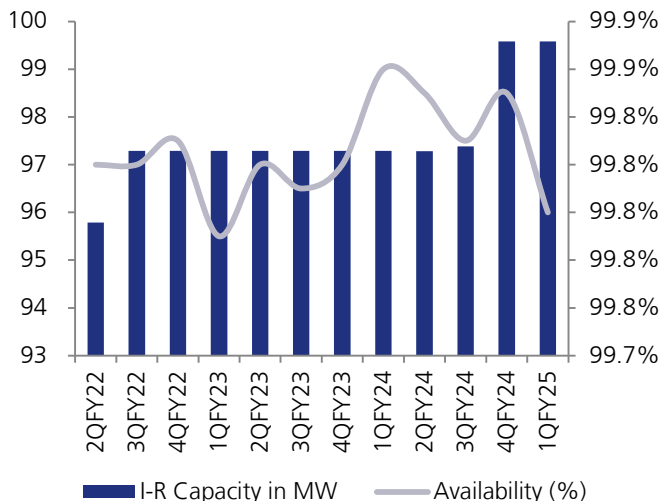
Source: Company, JM Financial

Exhibit 5. Addition in sub-stations



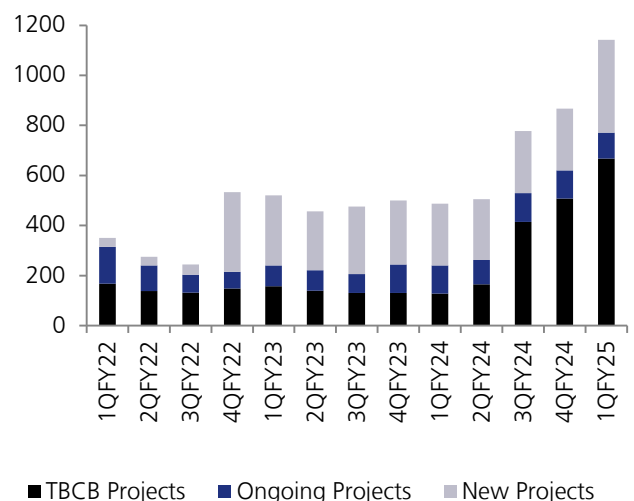
Source: Company, JM Financial

Exhibit 6. Inter-regional capacity (GW)



Source: Company, JM Financial

Exhibit 7. Work in hand (INR bn)



Source: Company, JM Financial

Exhibit 8. SOTP Valuation

SOTP Table	Comments	Equity Value	Value/Share
Transmission Business	DCF based valuation	3,504,039	374
Telecom Business	10x P/E on FY26E earnings	33,961	4
Consultancy Business	10x P/E on FY26E earnings	20,099	2
TBCB SPV stake retained (26%)		7,034	1
Invit Stake retained (15%)	20% Discount to CMP	10,483	1
Target Price			381
CMP			342
% Upside/ Downside			11.4%

Source: Company, JM Financial

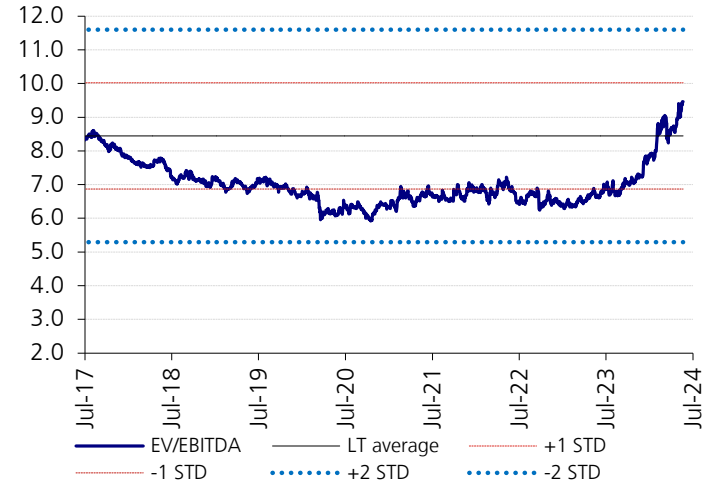
Valuation Bands

Exhibit 9. P/B



Source: Bloomberg, JM Financial

Exhibit 10. EV/EBITDA



Source: Bloomberg, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	416,163	456,031	458,431	468,376	496,879	
Sales Growth	5.0%	9.6%	0.5%	2.2%	6.1%	
Other Operating Income	0	0	0	0	0	
Total Revenue	416,163	456,031	458,431	468,376	496,879	
Cost of Goods Sold/Op. Exp	0	0	0	0	0	
Personnel Cost	22,439	25,085	24,344	25,805	27,353	
Other Expenses	28,056	35,946	35,058	36,811	38,651	
EBITDA	365,669	395,000	399,029	405,760	430,874	
EBITDA Margin	87.9%	86.6%	87.0%	86.6%	86.7%	
EBITDA Growth	4.5%	8.0%	1.0%	1.7%	6.2%	
Depn. & Amort.	128,717	133,334	130,953	135,232	155,627	
EBIT	236,952	261,666	268,076	270,529	275,248	
Other Income	10,816	10,025	10,700	11,770	12,947	
Finance Cost	80,362	96,339	87,728	86,825	81,282	
PBT before Excep. & Forex	167,406	175,352	191,049	195,474	206,913	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	167,406	175,352	191,049	195,474	206,913	
Taxes	27,856	22,819	29,408	30,089	31,850	
Extraordinary Inc./Loss(-)	27,906	2,486	-5,714	0	0	
Assoc. Profit/Min. Int.(-)	785	-821	-196	0	0	
Reported Net Profit	168,241	154,197	155,732	165,385	175,063	
Adjusted Net Profit	140,335	151,712	161,446	165,385	175,063	
Net Margin	33.7%	33.3%	35.2%	35.3%	35.2%	
Diluted Share Cap. (mn)	9,300.6	9,300.6	9,300.6	9,300.6	9,300.6	
Diluted EPS (INR)	15.1	16.3	17.4	17.8	18.8	
Diluted EPS Growth	10.0%	8.1%	6.4%	2.4%	5.9%	
Total Dividend + Tax	108,120	85,449	112,189	107,500	113,791	
Dividend Per Share (INR)	11.6	9.2	12.1	11.6	12.2	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	762,563	830,263	871,451	929,336	990,608	
Share Capital	69,755	69,755	93,006	93,006	93,006	
Reserves & Surplus	692,808	760,508	778,445	836,330	897,602	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	1,141,994	1,138,913	1,050,670	1,004,969	1,027,079	
Def. Tax Liab. / Assets (-)	0	0	0	0	0	
Total - Equity & Liab.	1,904,557	1,969,176	1,922,121	1,934,305	2,017,687	
Net Fixed Assets	2,046,264	1,992,093	1,959,580	2,008,967	2,135,988	
Gross Fixed Assets	2,619,840	2,689,815	2,744,003	2,867,377	3,038,763	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	702,111	835,445	966,398	1,101,629	1,257,256	
Capital WIP	128,536	137,723	181,975	243,219	354,481	
Investments	37,876	34,891	41,632	41,632	41,632	
Current Assets	467,843	495,746	507,693	497,203	481,738	
Inventories	13,572	13,400	14,063	14,368	15,242	
Sundry Debtors	133,696	156,171	118,341	120,908	128,266	
Cash & Bank Balances	50,482	73,846	74,951	57,296	21,296	
Loans & Advances	986	1,070	7,035	7,035	7,035	
Other Current Assets	269,108	251,259	293,303	297,596	309,899	
Current Liab. & Prov.	647,427	553,555	586,785	613,497	641,671	
Current Liabilities	630,585	537,614	572,082	597,911	625,150	
Provisions & Others	16,843	15,941	14,703	15,585	16,520	
Net Current Assets	-179,584	-57,808	-79,092	-116,293	-159,932	
Total - Assets	1,904,557	1,969,176	1,922,121	1,934,305	2,017,687	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	201,394	174,531	183,930	195,474	206,913	
Depn. & Amort.	128,717	133,334	130,953	135,232	155,627	
Net Interest Exp. / Inc. (-)	31,828	94,526	0	75,054	68,335	
Inc (-) / Dec in WCcap.	-63,509	6,187	10,532	19,547	7,639	
Others	0	0	81,288	0	0	
Taxes Paid	-37,194	-28,530	-33,807	-30,089	-31,850	
Operating Cash Flow	261,235	380,047	372,895	395,218	406,663	
Capex	-79,662	-69,026	-114,037	-184,618	-282,648	
Free Cash Flow	181,573	311,021	258,858	210,600	124,015	
Inc (-) / Dec in Investments	0	0	0	0	0	
Others	87,190	7,769	-17,107	0	0	
Investing Cash Flow	7,528	-61,257	-131,144	-184,618	-282,648	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-108,120	-85,449	-112,189	-107,500	-113,791	
Inc / Dec (-) in Loans	-93,261	-110,002	-53,264	-45,700	22,110	
Others	-70,488	-97,188	-93,580	-75,054	-68,335	
Financing Cash Flow	-271,869	-292,640	-259,033	-228,255	-160,015	
Inc / Dec (-) in Cash	-3,105	26,150	-17,282	-17,655	-36,000	
Opening Cash Balance	53,587	47,695	51,922	74,951	57,296	
Closing Cash Balance	50,482	73,845	74,951	57,296	21,296	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Margin	33.7%	33.3%	35.2%	35.3%	35.2%	
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2	
Leverage Factor (x)	3.5	3.2	3.0	2.8	2.7	
RoE	19.2%	19.0%	19.0%	18.4%	18.2%	

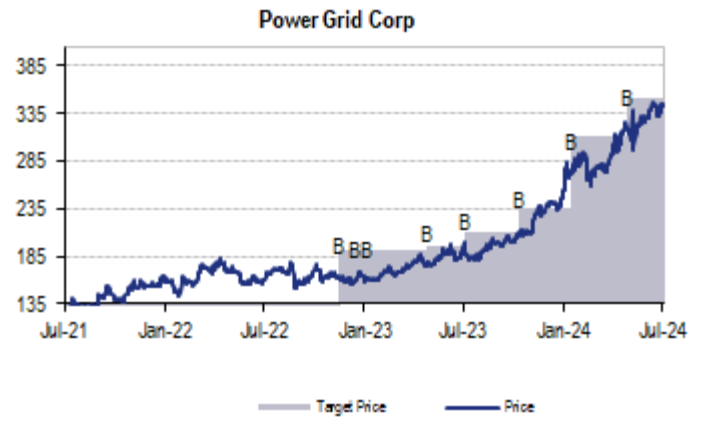
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (INR)	82.0	89.3	93.7	99.9	106.5	
ROIC	10.6%	12.4%	12.4%	12.6%	12.3%	
ROE	19.2%	19.0%	19.0%	18.4%	18.2%	
Net Debt/Equity (x)	1.4	1.3	1.1	1.0	1.0	
P/E (x)	22.7	21.0	19.7	19.2	18.2	
P/B (x)	4.2	3.8	3.7	3.4	3.2	
EV/EBITDA (x)	9.5	8.7	8.4	8.2	7.9	
EV/Sales (x)	8.4	7.6	7.3	7.1	6.8	
Debtor days	117	125	94	94	94	
Inventory days	12	11	11	11	11	
Creditor days	3,870	2,378	2,934	2,934	2,934	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
14-Dec-22	Buy	191	
11-Jan-23	Buy	191	-0.1
2-Feb-23	Buy	192	0.2
22-May-23	Buy	195	1.8
1-Aug-23	Buy	210	7.8
10-Nov-23	Buy	235	11.7
11-Feb-24	Buy	312	32.9
26-May-24	Buy	350	12.3

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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