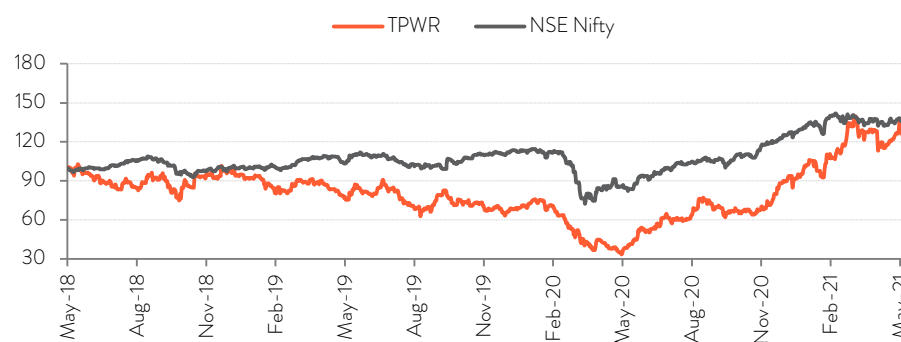


FIG 20 – SOTP VALUATION

Segment (Rs mn)	EV	Net Debt FY22E	Equity Value	% Share	Contribution to Group Equity Value	EBITDA FY22E	EV/EBITDA (x)
Standalone	1,06,625	1,78,995	(72,370)	100	(72,370)	22,111	4.8
Coastal Gujarat Power (CGPL)	78,154	56,404	21,749	100	21,749	(1,446)	(54.1)
Maithon Power (MPL)	46,062	13,243	32,819	74	24,286	9,108	5.1
Delhi Discom (TPDDL)	88,539	30,341	58,198	51	29,681	10,907	8.1
Power Trading (TPTCL)	5,300	0	5,300	100	5,300	530	7.0
Tata Power Solar	39,220	(1,321)	40,541	100	40,541	3,184	12.3
Tata Power Renewables	1,83,846	97,108	86,738	100	86,738	15,475	11.9
Walwhan Renewables Energy	83,611	42,481	41,130	100	41,130	11,441	7.3
TERPL (Shipping Company)	36,096	7,398	28,698	100	28,698	4,173	8.7
Odisha Distribution	91,954	32,855	59,099	51	30,141	330	278.4
Ajmer	3,058	615	2,443	100	2,443	457	6.7
Sub-Total (A)	7,62,465	4,58,119	3,04,346		2,38,337	76,270	10.0
Elimination (B)	0	(62,037)	62,037	100	62,037	0	10.0
Majority Owned (C = A+B)	7,62,465	3,96,082	3,66,382		3,00,374	76,270	10.0
Associates & JVz							
KPC			1,47,478	30	44,243		
PT Baramulti Suksessarana & PT Antang			29,496	26	7,669		
PT Nusa Tambang Pratama, Indonesia (Coal Infrastructure)			6,390	30	1,917		
Power Link (not consolidated)	4,659	(90)	4,749	51	2,422		
Industrial Energy (not consolidated)	9,718	6,293	3,425	74	2,535		
Tata Projects				48	17,458		
Adjaristsqali Georgia LLC				40	1,383		
Other associates					39,672		
Associates Valuation (D)					1,17,299		
Consolidated Total (E = C+D)					4,17,673		
Number of shares (F)					3,195		
Value per Share (G = F/E)					131		
Target Price (Rs) (H= G rounded to nearest 1)					131		

Source: BOBCAPS Research | *Repayment only in FY22E so not reflected in FY21E Net Debt

FIG 21 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Intense competition could lead to deterioration in the outlook for renewables and drive a sharp drop in tariffs. The possibility of discoms reneging on contracts and delaying payments can also impact generation returns.
- The distribution business could see fewer opportunities if power sector reforms are sluggish or new regulations make business unviable. In addition, a drop in regulatory returns due to lower interest rates would be a negative.
- A sharp rise in coal prices could fuel a steep increase in losses for CGPL, albeit partly compensated for by higher contribution from coal mining operations.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	2,98,811	2,91,364	3,24,681	4,49,889	5,05,017
EBITDA	68,484	77,541	75,387	76,270	93,558
Depreciation	(23,931)	(26,336)	(27,449)	(31,588)	(34,785)
EBIT	44,553	51,206	47,938	44,682	58,773
Net interest income/(expenses)	(40,937)	(43,557)	(38,390)	(36,891)	(37,624)
Other income/(expenses)	3,099	4,246	2,678	2,678	2,678
Exceptional items	16,200	(1,841)	(1,555)	0	0
EBT	36,932	19,579	19,405	23,099	36,480
Income taxes	(10,876)	(6,415)	(5,019)	(6,119)	(8,209)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	11,524	6,535	5,621	10,701	9,176
Reported net profit	23,562	10,174	11,274	15,051	24,794
Adjustments	(17,910)	131	(155)	(428)	0
Adjusted net profit	5,652	10,305	11,119	14,623	24,794

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	54,815	50,954	71,201	98,658	1,10,747
Other current liabilities	54,815	50,954	73,902	1,01,359	1,13,449
Provisions	3,336	4,074	8,396	8,396	8,396
Debt funds	4,50,146	4,80,997	4,20,185	4,18,577	4,37,539
Other liabilities	61,446	67,226	1,25,734	1,27,663	1,31,140
Equity capital	2,705	2,705	3,196	3,196	3,196
Reserves & surplus	1,80,350	1,92,955	2,20,027	2,14,697	2,33,471
Shareholders' fund	1,83,055	1,95,660	2,23,223	2,17,893	2,36,666
Total liabilities and equities	8,41,629	8,97,482	9,88,512	10,10,960	10,64,263
Cash and cash eq.	10,416	28,267	66,122	22,494	25,251
Accounts receivables	44,453	44,259	50,010	69,295	77,786
Inventories	17,064	17,524	18,848	26,116	29,317
Other current assets	30,019	30,165	28,731	28,731	28,731
Investments	15,176	13,025	23,059	23,059	23,059
Net fixed assets	4,11,015	4,46,626	4,87,489	5,31,307	5,81,985
CWIP	37,865	37,865	0	0	0
Intangible assets	32,034	30,038	31,404	31,404	31,404
Deferred tax assets, net	3,275	4,162	1,840	1,840	1,840
Other assets	2,40,313	2,45,551	2,81,009	2,76,713	2,64,889
Total assets	8,41,629	8,97,482	9,88,512	10,10,960	10,64,263

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	47,493	36,509	38,723	46,639	59,579
Interest expenses	39,761	40,025	37,314	36,943	37,681
Non-cash adjustments	(23,366)	(9,524)	(4,001)	(13,431)	(11,910)
Changes in working capital	63,888	67,011	72,036	70,151	85,349
Other operating cash flows	(82,038)	(60,268)	(59,493)	(69,247)	(84,951)
Cash flow from operations	45,738	73,753	84,580	71,054	85,747
Capital expenditures	(35,762)	(22,258)	(33,358)	(75,407)	(85,463)
Change in investments	0	0	12,652	0	0
Other investing cash flows	28,090	(3,766)	7,310	0	0
Cash flow from investing	(7,672)	(26,024)	(13,396)	(75,407)	(85,463)
Equities issued/Others	0	201	29,961	(15,000)	0
Debt raised/repaid	(6,177)	(1,070)	(63,252)	(1,609)	18,962
Interest expenses	(39,761)	(40,025)	(37,314)	(36,943)	(37,681)
Dividends paid	(4,927)	(5,992)	(5,263)	(4,953)	(6,020)
Other financing cash flows	49,887	42,677	77,420	58,505	24,739
Cash flow from financing	(979)	(4,209)	1,552	0	0
Changes in cash and cash eq.	(9,299)	17,228	15,227	(43,628)	2,756
Closing cash and cash eq.	10,416	28,267	66,122	22,494	25,251

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	8.7	3.8	3.5	4.7	7.8
Adjusted EPS	2.1	3.8	3.5	4.6	7.8
Dividend per share	1.3	1.6	1.6	1.9	3.1
Book value per share	67.6	72.3	69.9	68.2	74.1

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	2.4	2.5	2.4	1.6	1.4
EV/EBITDA	10.5	9.6	10.2	9.5	7.5
Adjusted P/E	48.6	26.7	29.2	22.2	13.1
P/BV	1.5	1.4	1.5	1.5	1.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	27.3	48.1	53.0	63.3	68.0
Interest burden (PBT/EBIT)	46.5	41.8	43.7	51.7	62.1
EBIT margin (EBIT/Revenue)	14.9	17.6	14.8	9.9	11.6
Asset turnover (Revenue/Avg TA)	35.6	33.5	34.4	45.0	48.7
Leverage (Avg TA/Avg Equity)	4.8	4.6	4.5	4.5	4.6
Adjusted ROAE	3.2	5.4	5.3	6.6	10.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	1.9	(2.5)	11.4	38.6	12.3
EBITDA	15.2	13.2	(2.8)	1.2	22.7
Adjusted EPS	(57.6)	82.3	(8.6)	31.5	69.6
Profitability & Return ratios (%)					
EBITDA margin	22.9	26.6	23.2	17.0	18.5
EBIT margin	14.9	17.6	14.8	9.9	11.6
Adjusted profit margin	1.9	3.5	3.4	3.3	4.9
Adjusted ROAE	0.7	1.2	1.2	1.5	2.4
ROCE	8.7	8.7	7.4	6.6	8.5
Working capital days (days)					
Receivables	54	55	56	56	56
Inventory	21	22	21	21	21
Payables	67	64	80	80	80
Ratios (x)					
Gross asset turnover		0.5	0.5	0.6	0.6
Current ratio	0.4	0.4	0.5	0.4	0.5
Net interest coverage ratio	1.1	1.2	1.2	1.2	1.6
Adjusted debt/equity	2.5	2.5	1.9	1.9	1.8

Source: Company, BOBCAPS Research

ADD

TP: Rs 261 | ▲ 14%

POWER GRID CORP

Power

18 May 2021

Attractive business but lacks medium-term catalysts

Power Grid (PWGR) owns 40% of India's transmission assets – the lowest-risk segment in the power sector. Private sector participation in transmission may increase but inherent entry barriers are likely to keep competition in check. Further, a majority of the company's assets will remain under the protected cost-plus-regulated return model. Valuations are also attractive at 7.2x FY22E EV/EBITDA. On the flip side, the decline in order backlog and asset addition is unlikely to reverse in the medium term. Initiate with ADD, Mar'22 TP Rs 261.

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Growth at low risk: PWGR owns 40% of India's transmission lines.

Transmission is the least risky segment in the power sector due to a secure payment system and low scope for default given discoms' high dependence on the transmission grid. We expect a steady 6% CAGR in India's transmission network over FY22-FY25, in line with the growth in generation capacity.

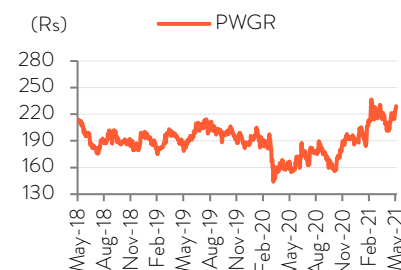
Ready for competition; regulated asset share to remain high: In our view, PWGR can maintain market share in the open market under tariff-based competitive bidding (TBCB), as inherent entry barriers such as scale, execution and balance sheet strength will curb competition. Over 90% of its business mix will remain dominated by projects under the regulatory tariff mechanism (RTM) where returns (currently at 15.5% till FY24) are higher than TBCB projects.

Valuations low but modest network scale-up a negative: Valuations are attractive at 7.2x FY22E EV/EBITDA and a special dividend from the company's InvIT listing is likely, but we believe asset addition is unlikely to rise sharply in the medium run as the order backlog is at its lowest in five years. We initiate on PWGR with ADD and an SOTP-based TP of Rs 261, which implies 7.6x FY22E EV/EBITDA. Key positive drivers are special dividends and order wins. A negative driver will be swift opening of the sector to private investment.

Ticker/Price	PWGR IN/Rs 229
Market cap	US\$ 16.3bn
Shares o/s	5,232mn
3M ADV	US\$ 40.2mn
52wk high/low	Rs 238/Rs 153
Promoter/FPI/DII	51%/28%/14%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	3,50,591	3,77,435	3,74,591	3,83,673	4,08,590
EBITDA (Rs mn)	2,76,937	3,46,236	3,41,797	3,48,602	3,69,133
Adj. net profit (Rs mn)	1,00,335	1,24,034	1,10,941	1,20,975	1,28,023
Adj. EPS (Rs)	19.2	23.7	21.2	23.1	24.5
Adj. EPS growth (%)	22.3	23.6	(10.6)	9.0	5.8
Adj. ROAE (%)	4.0	4.6	4.0	4.3	4.5
Adj. P/E (x)	11.9	9.7	10.8	9.9	9.4
EV/EBITDA (x)	8.4	7.0	7.3	7.2	6.8

Source: Company, BOBCAPS Research

Investment thesis

Largest transmission player in India

PWGR, 51% owned by the Indian government, operates the key interstate transmission (ISTS) and interregional transmission networks in the country. With a network of 163,282 circuit kilometres (ckm) as at end-FY20, the company owns 40% of India's transmission lines and has 85% share in ISTS and interregional markets.

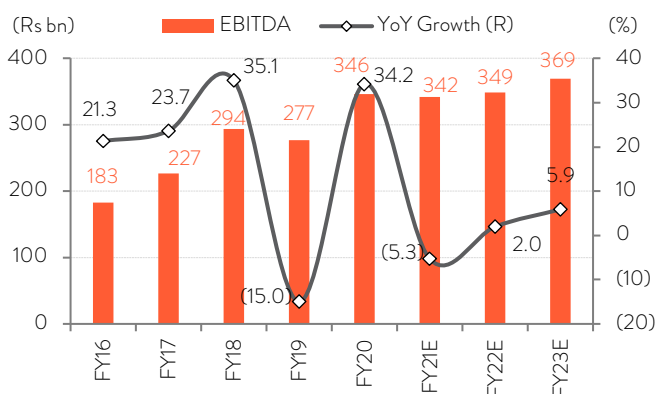
Most of PWGR's assets are under the RTM model which is based on cost-plus-return on regulated equity and currently earn an IRR of 15.5% based on CERC guidelines. These guidelines are reviewed every five years (next change will be effective in FY24). Increasingly, new projects both at the central and state level are being bid out under the TBCB model, wherein contracts are awarded based on bidding rounds that are also open to private companies.

Besides its core transmission business, PWGR leverages its large network to offer telecom services such as leasing of lines, internet and VPN (virtual private network) services. It also has a small transmission sector-related consulting business. Both these businesses together contribute less than 5% to group operating profit.

Good performance record

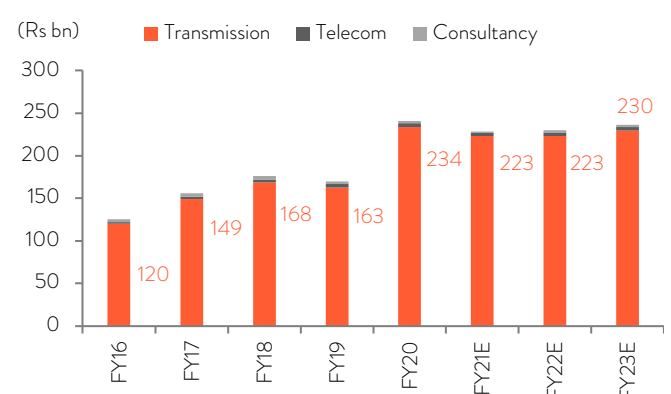
Driven by strong asset addition and a relatively safe business model, PWGR has posted reasonable earnings growth in the last five years and especially during FY16-FY18. Its ROE at 17.5% on average since FY16 is also among the highest in the sector. We expect a 7.3% EPSCAGR over FY21-FY23 driven by growing asset base.

FIG 1 – STRONG EBITDA GROWTH OVER FY16-FY18

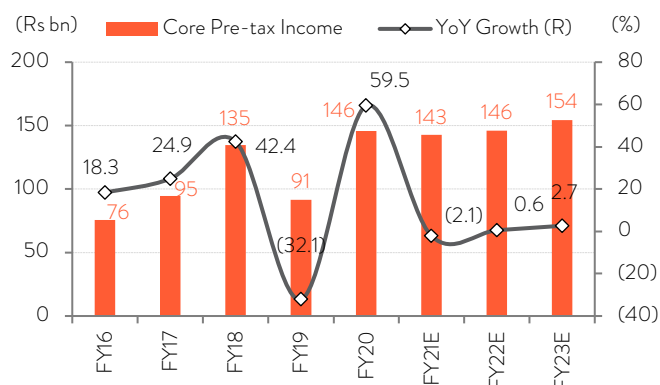


Source: Company, BOBCAPS Research

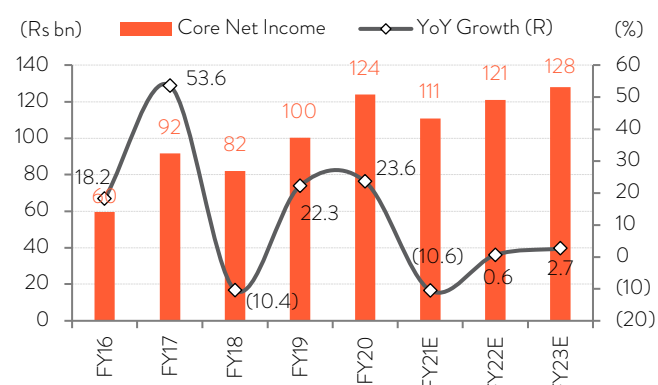
FIG 2 – TRANSMISSION BUSINESS EARNS HIGHEST EBIT



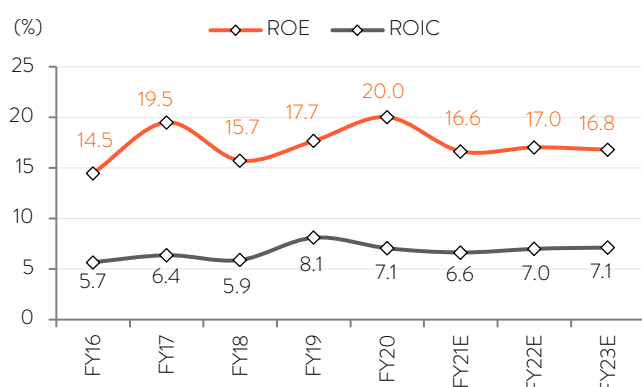
Source: Company, BOBCAPS Research

FIG 3 – ROBUST GROWTH IN PBT OVER FY16-FY18

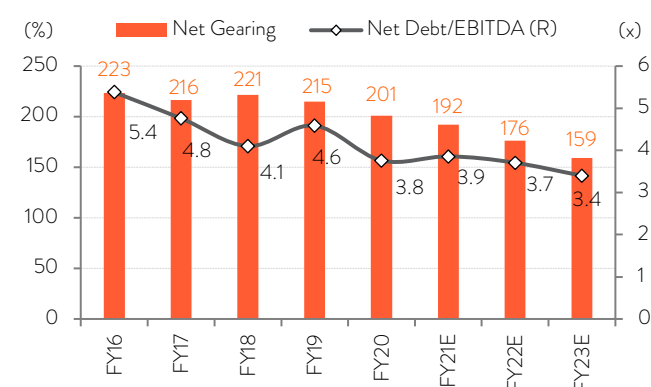
Source: Company, BOBCAPS Research

FIG 4 – CORE NET INCOME SET TO GROW STEADILY

Source: Company, BOBCAPS Research

FIG 5 – ROE TO REMAIN ROBUST

Source: Company, BOBCAPS Research

FIG 6 – BALANCE SHEET IN GOOD SHAPE

Source: Company, BOBCAPS Research

Leadership in low-risk transmission sector sustainable

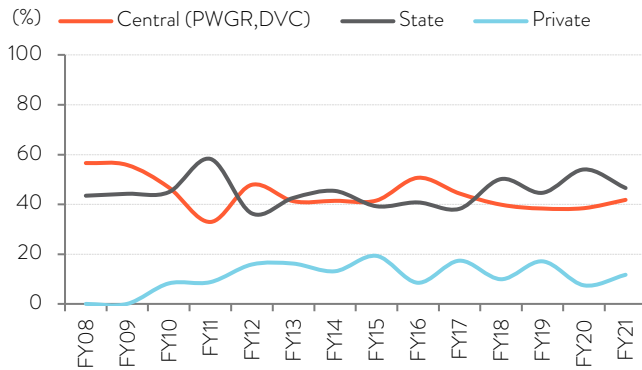
Among central government-owned entities, PWGR has maintained strong market share in annual transmission capacity addition (DVC or Damodar Valley Corp, the other central government owned entity in this space, has a very small share). The share of the private sector has remained volatile and below 20% in transmission lines and largely below 10% in substations.

This is because PWGR continues to be nominated by the National Committee on Transmission (NCT) for a majority of the ISTS projects in RTM mode. In addition, the company has won several TCB projects under competitive bidding by virtue of its expertise and dominance in the sector.

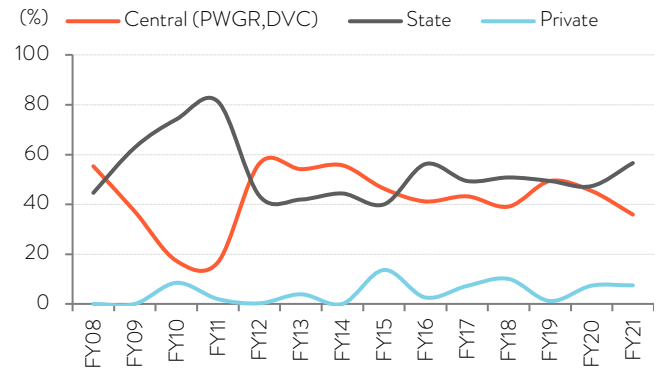
We expect PWGR to maintain its leadership in the sector over the medium term, with only a minimal decline in market share even if private sector participation rises, for the following reasons:

- For strategic projects which will be a backbone of the network, government authorities may continue to favour PWGR, implying sustained RTM project flow.

- Even if private participation increases, competition may not intensify as the industry has considerable entry barriers – scale to manage operations and construct large projects, financial muscle, and ability to manage right-of-way.

FIG 7 – TRANSMISSION LINE ADDITION SHARE

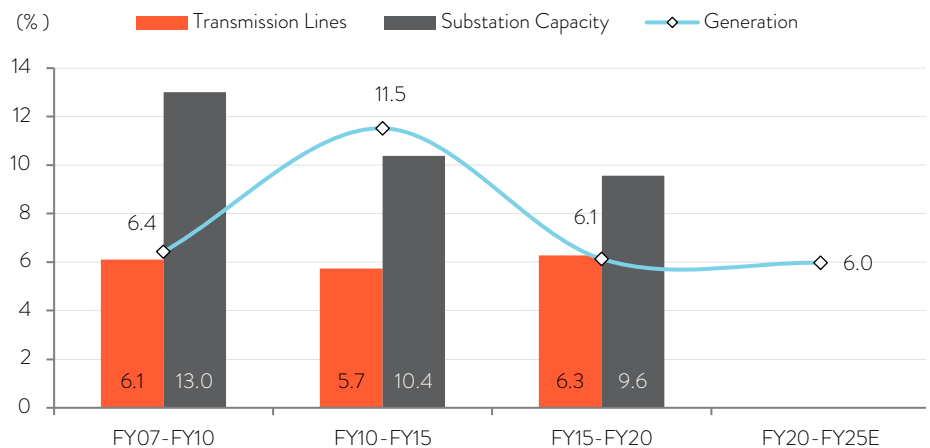
Source: CEA

FIG 8 – SUBSTATION ADDITION SHARE

Source: CEA

Growth in generation to fuel transmission sector

Transmission segment growth will continue to be powered by the generation sector as new plants have to be connected to the grid. In addition, higher power generation requires grid capacity to keep pace. We expect a steady 6% CAGR in India's transmission network over FY22-FY25, in line with the estimated increase in generation capacity.

FIG 9 – TRANSMISSION SECTOR GROWTH (CAGR)

Source: Central Electricity Authority, BOBCAPS Research

Safe payment over 35 years

Transmission projects are offered as a 35-year concession which is a longer duration than generation power purchase agreements (PPA) of 25 years. The transmission business is the safest haven in the power sector as payments are provided under the Point of Connection (PoC) method, where the monies from users including discoms, generation companies and traders are pooled by the Central Transmission Unit (CTU) as payment for the entire network. The CTU then disburses the transmission payments to various owners of the grid, based on their tariff agreement.

PWGR CTU separation would not impact TBCB business

So far, the CTU has been a 100% independent subsidiary of PWGR. However, in Mar'21, the Indian government announced that it would take ownership of the CTU, as required under the Electricity Act 2003, so that it can function as an independent body. There have been allegations of PWGR having an unfair advantage over peers due to its ownership of CTU.

In our view, the impact of this separation will be limited as PWGR already has vast expertise in the transmission business along with a deep understanding of competition and project requirements versus other parties. Overall, we believe the company will be able to maintain a decent share in the TBCB market due to its size, scale and knowledge of the sector.

InvIT listing offers higher dividend, asset monetisation option

PWGR's InvIT listing on 14 May 2021 will raise Rs 27.5bn, which if 50% paid would lead to Rs 2.6/sh in dividend or 1.2% of the current price. In future, this vehicle could be used to divest other TBCB assets, helping the company raise funds through asset monetisation.

New orders and backlog moderating

PWGR's transmission backlog peaked at Rs 1.4tn in FY16 and has been falling ever since, with a print one-third the size at Rs 471bn in 9MFY21. While the outlook for transmission remains strong, we expect a steady – but not sharp – rise in new orders. This stems from our belief that power generation growth would remain at ~6% vs. the double-digit run seen over FY10-FY15. We, therefore, do not expect the company's order backlog to touch the highs of FY16 any time soon.