Earnings drivers & outlook

We estimate c.2% standalone regulated equity CAGR in FY23-26E, led by c.Rs150bn cumulative asset capitalisation and Rs320bn capitalisation from TBCB projects. We expect TBCB SPVs to contribute 4-6% of consolidated PAT b/w FY24E-26E. Beyond FY26E, we factor in cost plus and TBCB capex split of 30:70 (incremental project award towards TBCB but some projects of national importance need to be given on cost plus), with cost plus projects earning 15% normative RoE while TBCB projects making an equity RoE of c.14%.

Exhibit 21: Key Earning Drivers

Particulars	FY21	FY22	FY23	FY24E	FY25E	FY26E
Standalone cost plus business						
Gross asset base est. (Rs bn)	2,609	2,764	2,822	2,872	2,921	2,968
Closing regulated equity est. (Rs bn)	666	711	724	739	754	768
Normative RoE (%)	15.5	15.5	15.5	15.5	15.0	15.0
Competitive transmission business						
Gross asset base est. (Rs bn)	171	202	183	254	276	429
PAT est. (Rs bn)	6.5	8.0	6.5	7.5	7.9	10.8
Others						
Consultancy revenue (Rs bn)	4.3	6.7	9.9	8.8	9.7	10.7
Telecom revenue (Rs bn)	7.1	5.8	7.3	8.4	9.0	9.6
Other income (Rs bn)	11.6	10.6	9.8	11.1	10.8	10.3
Tax rate (%)	22.7	14.3	12.8	15.0	15.0	15.0

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 22: Income Statement
Consolidated financials

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total revenue	**347,737**	**375,702**	**391,015**	**409,875**	**445,340**	**449,949**	**453,522**	**478,494**
- employee cost	17,836	19,598	21,148	22,439	25,085	24,759	25,626	26,907
- other expense	30,550	28,436	25,319	28,056	35,946	32,352	34,531	37,546
EBITDA	**299,351**	**327,669**	**344,548**	**359,381**	**384,308**	**392,838**	**393,365**	**414,041**
EBITDA margin (%)	*86.1*	*87.2*	*88.1*	*87.7*	*86.3*	*87.3*	*86.7*	*86.5*
- depreciation	105,410	116,070	120,392	128,717	133,334	131,973	137,544	144,283
- finance cost	87,366	95,090	81,347	80,362	96,339	94,089	82,389	84,276
+ other income	5,439	8,517	11,621	10,602	9,810	11,095	10,784	10,322
+ regulatory deferral a/c movement	(25,269)	16,834	3,617	(5,297)	2,486	47	-	-
Core PBT	**86,747**	**141,860**	**158,047**	**155,607**	**166,931**	**177,918**	**184,215**	**195,804**
- Forex	-	-	-	-	-	-	-	-
- MTM	(583)	(758)	(216)	(214)	(433)	-	-	-
+ exceptional item	2,854	1,733	(5,403)	39,491	10,473	6,817	-	-
Reported PBT	**90,184**	**144,350**	**152,860**	**195,312**	**177,837**	**184,735**	**184,215**	**195,804**
- Tax	(8,864)	35,308	34,643	27,856	22,845	27,710	27,632	29,371
Tax rate (%)	*(9.8)*	*24.5*	*22.7*	*14.3*	*12.8*	*15.0*	*15.0*	*15.0*
Reported PAT	**99,047**	**109,043**	**118,218**	**167,456**	**154,992**	**157,025**	**156,583**	**166,433**
- Minority Interest	-	-	-	-	-	-	-	-
+ Share in JV PAT	1,288	1,551	2,147	785	(821)	(786)	(772)	(758)
Reported PAT post minority & JV PAT	**100,335**	**110,594**	**120,365**	**168,241**	**154,171**	**156,239**	**155,811**	**165,675**
+ Adjustments	(2,255)	(1,287)	3,208	(32,133)	(8,588)	(5,590)	-	-
Recurring PAT	**98,080**	**109,307**	**123,572**	**136,107**	**145,583**	**150,649**	**155,811**	**165,675**

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 23: GSe vs. Consensus - Power Grid consolidated financials

(Rs mn)	GSe			Consensus			Divergence (%)		
Consolidated	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	449,949	453,522	478,494	464,838	496,489	518,540	(3.2)	(8.7)	(7.7)
EBITDA	392,838	393,365	414,041	408,901	427,096	441,020	(3.9)	(7.9)	(6.1)
PAT	150,649	155,811	165,675	159,129	166,874	177,182	(5.3)	(6.6)	(6.5)

*as on 11th Apr'24

Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 24: GSe vs Consensus - Power Grid standalone financials

(Rs mn)	GSe			Consensus			Divergence (%)		
Standalone	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	411,753	411,136	418,289	453,834	474,546	488,923	(9.3)	(13.4)	(14.4)
EBITDA	360,490	357,108	360,967	394,097	409,823	421,961	(8.5)	(12.9)	(14.5)
PAT	149,571	147,293	149,407	153,345	163,154	171,852	(2.5)	(9.7)	(13.1)

*as on 11th Apr'24

Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 25: Balance Sheet
Consolidated financials

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GFA	2,072,146	2,275,432	2,414,982	2,627,263	2,701,075	2,822,776	2,909,360	3,168,456
Accumulated depreciation	344,750	464,311	577,723	709,534	846,705	978,678	1,116,222	1,260,506
NFA	**1,727,396**	**1,811,121**	**1,837,259**	**1,917,728**	**1,854,370**	**1,844,098**	**1,793,138**	**1,907,950**
CWIP	388,267	359,334	252,160	132,985	147,521	200,755	316,685	467,155
Total Fixed Assets	**2,115,663**	**2,170,455**	**2,089,420**	**2,050,713**	**2,001,891**	**2,044,852**	**2,109,822**	**2,375,105**
Investment - LT	12,965	14,311	14,856	37,876	34,891	34,105	33,333	32,575
Investment - ST	-	-	-	-	-	-	-	-
Regulatory deferral balance	-	-	-	-	-	-	-	-
Other non-current assets	131,571	163,056	227,696	158,147	172,819	172,819	172,819	172,819
Inventory	12,473	14,335	13,669	13,572	13,400	13,538	13,646	14,397
Receivables	110,359	103,919	108,507	150,828	136,945	121,047	104,556	98,037
Cash & bank	43,367	54,390	53,587	50,482	73,846	84,950	97,290	74,972
Loans & advances	3,191	4,240	4,496	5,050	5,535	5,535	5,535	5,535
Other current assets	9,111	6,953	10,385	7,891	28,755	28,755	28,755	28,755
Total current assets	**178,500**	**183,835**	**190,645**	**227,823**	**258,480**	**253,825**	**249,780**	**221,696**
Payables	3,651	2,265	1,875	2,671	3,278	3,312	3,338	3,522
Provisions	10,693	11,668	13,071	16,843	15,941	15,941	15,941	15,941
Other current liabilities	104,919	113,087	107,861	96,131	99,803	99,803	99,803	99,803
Net current assets	**59,237**	**56,815**	**67,837**	**112,178**	**139,459**	**134,770**	**130,699**	**102,430**
Total Assets	**2,319,435**	**2,404,637**	**2,399,809**	**2,358,915**	**2,349,059**	**2,386,546**	**2,446,673**	**2,682,929**
Share capital	52,316	52,316	52,316	69,755	69,755	69,755	69,755	69,755
Reserves & surplus	538,568	594,638	647,045	692,717	760,391	823,295	892,697	971,964
Net worth	**590,884**	**646,954**	**699,361**	**762,471**	**830,145**	**893,049**	**962,452**	**1,041,718**
LT debt	1,480,862	1,502,254	1,458,053	1,331,944	1,300,742	1,275,449	1,266,155	1,422,962
ST debt	43,000	30,000	18,000	53,000	6,973	6,849	6,868	7,050
Total debt	**1,523,862**	**1,532,254**	**1,476,053**	**1,384,944**	**1,307,715**	**1,282,298**	**1,273,022**	**1,430,012**
Other non-current liabilities	104,504	113,142	106,029	97,929	104,411	104,411	104,411	104,411
Deferred tax liabilities	100,185	112,288	118,366	113,570	106,789	106,789	106,789	106,789
Total Liabilities	**2,319,435**	**2,404,637**	**2,399,809**	**2,358,915**	**2,349,059**	**2,386,546**	**2,446,673**	**2,682,929**

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 26: Cash Flow Statement

Consolidated financials

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Adjusted PAT	**98,080**	**109,307**	**123,572**	**136,107**	**145,583**	**150,649**	**155,811**	**165,675**
Add:								
Depreciation & Ammortisation	105,410	116,070	120,392	128,717	133,334	131,973	137,544	144,283
Minority interest & profit from associates	(1,288)	(1,551)	(2,147)	(785)	821	786	772	758
Finance cost	87,366	95,090	81,347	80,362	96,339	94,089	82,389	84,276
Deferred tax	(34,544)	12,103	9,557	(5,283)	(6,600)	-	-	-
Less:								
Other income	5,439	8,517	11,621	10,602	9,810	11,095	10,784	10,322
Regulatory income / (expense)	-	-	-	-	-	-	-	-
Net extra-ordinary income	2,854	1,733	(5,403)	39,491	10,473	6,817	-	-
Operating cash flow before WC change	**246,730**	**320,770**	**326,503**	**289,026**	**349,194**	**359,585**	**365,733**	**384,670**
Change in Inventories	(1,979)	(1,862)	665	98	172	(139)	(107)	(751)
Change in Receivables	(32,728)	6,440	(4,589)	(42,321)	13,883	15,898	16,492	6,519
Change in Other current assets	753	1,110	(3,689)	1,939	(21,348)	-	-	-
Change in Current Liab.	(165)	7,756	(4,213)	(7,163)	3,376	34	26	184
Working Capital Inflow / (Outflow)	**(34,119)**	**13,445**	**(11,825)**	**(47,446)**	**(3,917)**	**15,793**	**16,410**	**5,951**
Cash flow from Operating Activities	**212,611**	**334,214**	**314,679**	**241,580**	**345,278**	**375,378**	**382,143**	**390,622**
% of operating cash flow	*86.2*	*104.2*	*96.4*	*83.6*	*98.9*	*104.4*	*104.5*	*101.5*
Purchase of Fixed Assets	(257,199)	(174,353)	(32,377)	(93,105)	(88,348)	(174,935)	(202,514)	(409,566)
Purchase of Investments	(725)	(1,347)	(545)	(23,021)	2,164	(0)	0	(0)
Cash flow from capital commitments	**(257,923)**	**(175,699)**	**(32,921)**	**(116,126)**	**(86,184)**	**(174,935)**	**(202,514)**	**(409,566)**
FCF after Capital Commitments	**(45,312)**	**158,515**	**281,757**	**125,454**	**259,094**	**200,444**	**179,629**	**(18,944)**
(Purchase) / sale of ST Investments	-	-	-	-	-	-	-	-
Other Income	5,439	8,517	11,621	10,602	9,810	11,095	10,784	10,322
Cash flow from Investing Activities	**5,439**	**8,517**	**11,621**	**10,602**	**9,810**	**11,095**	**10,784**	**10,322**
Issue of share capital during the year	-	-	-	-	-	-	-	-
Net proceeds from fresh borrowings	148,172	17,925	(52,330)	(88,648)	(78,956)	(25,417)	(9,275)	156,989
Dividend paid including tax	(54,254)	(52,846)	(68,220)	(108,120)	(85,449)	(87,745)	(86,409)	(86,409)
Finance cost	(87,366)	(95,090)	(81,347)	(80,362)	(96,339)	(94,089)	(82,389)	(84,276)
Reserve adjustments	51,942	(27,730)	(86,881)	98,478	4,731	-	-	-
Cash flow from Financing Activities	**58,494**	**(157,741)**	**(288,777)**	**(178,652)**	**(256,013)**	**(207,251)**	**(178,073)**	**(13,695)**
Net extra-ordinary income	2,854	1,733	(5,403)	39,491	10,473	6,817	-	-
Total Increase / (Decrease) in Cash	**21,476**	**11,023**	**(803)**	**(3,105)**	**23,364**	**11,104**	**12,339**	**(22,318)**

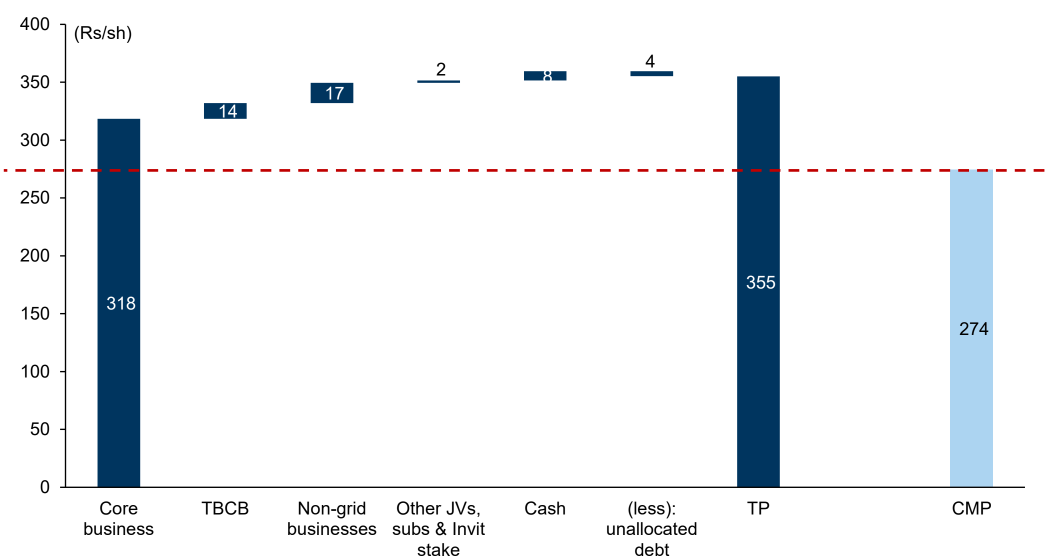
Source: Company data, Goldman Sachs Global Investment Research

Valuation & TP

We derive our 12-month forward target price of Rs355/sh using FY26E SoTP valuation methodology, where we value:

1. Regulated businesses using price / book multiple derived from core RoE applied to FY26E regulated equity estimate. We use price / book method to value this business as normative returns are largely fixed. Core RoE is calculated on regulated equity by factoring post tax incentives and savings along with the normative equity return. Our cost of equity of 10.8% is in line with our GS strategist's CoE estimate of 13.5%, adjusted for PGCIL's LT beta of 0.6x.
2. For the competitively won projects already transferred to PGCIL, we model 35 year NPVs based on levelised bid and estimated capital cost. We value the Consultancy & Telecom businesses at 12-15x FY26E P/E.
3. Our TP implies FY26E P/BV of 3.2x vs. PGCIL's LT avg. of 2x and upcycle average of 2.5x, as we believe that the company has a much larger and stable earnings base vs. that during the previous upcycle - which should help it undertake larger capex in the upcoming upcycle.
4. We assign an M&A rank of 3 to PGCIL (denoting low likelihood of M&A) given the government is the major shareholder of the company (51.3% as of Dec'23) and since it is the largest company in the power transmission segment.

Exhibit 27: SoTP Chart - what is the stock pricing



*CMP as on 16th Apr'24

Source: Datastream, Company data, Goldman Sachs Global Investment Research

Exhibit 28: Detailed SoTP

Business	Method	FY26 regulated equity (Rs mn)	Target multiple (x)	Equity value (Rs mn)	Value/sh (Rs)
Transmission RTM	DCF impled FY26E P/BV	774,730	3.8	2,961,470	318
TBCB	NPV + Invit transaction value			126,928	14
Telecom	FY26E PE		15	42,885	5
Consultancy	FY26E PE		12	55,546	6
Smart metering	Target FY26E P/BV multiple on discounted FY30E BV			63,704	7
JP PGCIL	Acquisition value			4,743	1
Powerlinks	FY26E P/BV - 49% stake	2,387	1.2	1,447	0
Torrent Power Grid	FY26E P/BV - 26% stake	900	1.3	304	0
NE Transmission Co.	FY26E P/BV - 26% stake	6,368	0.8	1,394	0
Invit stake	15% stake value @ 20% discount to mcap			10,707	1
Cash	FY26E			74,972	8
less: unallocated debt	FY26E			(39,318)	(4)
TP				**3,304,783**	**355**
Implied FY26E P/BV					3.2

Source: Goldman Sachs Global Investment Research

Exhibit 29: Transmission business DCF snapshot

(Rs mn)	Mar FY FY25E	Mar FY FY26E	Mar FY FY27E	Mar FY FY28E	Mar FY FY29E	Mar FY FY30E	Mar FY FY35E	Mar FY FY40E	Mar FY FY45E	Mar FY FY46E	Mar FY FY47E	Mar FY FY48E	Mar FY FY49E	Mar FY FY50E	Terminal Value
Net RoE	115,969	119,685	125,393	133,477	143,660	157,393	244,420	373,326	510,261	525,464	540,530	551,212	562,060	573,008	
+ Incentives - post tax	1,785	1,846	1,942	2,077	2,249	2,478	3,886	5,936	8,113	8,355	8,594	8,764	8,937	9,111	
+ O&M savings - post tax	668	1,044	738	796	863	962	1,154	1,154	1,154	1,154	1,154	1,154	1,154	1,154	
+ Normative WC interest savings - post tax	1,802	1,849	1,937	2,049	2,194	2,374	3,074	3,633	3,842	3,759	3,673	3,558	3,447	3,338	
- Security expense not passed through - post tax	(431)	(431)	(431)	(431)	(431)	(431)	-	-	-	-	-	-	-	-	
- Interest on non-core debt - post tax	(6,244)	(6,917)	(6,382)	(6,456)	(4,886)	(4,886)	(3,386)	(886)	-	-	-	-	-	-	
+ Other operating income - post tax	4,958	4,958	4,958	4,958	4,958	4,958	6,388	9,756	13,335	13,732	14,126	14,405	14,689	14,975	
PAT (ex-other income)	**118,508**	**122,036**	**128,155**	**136,470**	**148,607**	**162,848**	**255,536**	**392,919**	**536,705**	**552,464**	**568,078**	**579,094**	**590,286**	**601,586**	
+ Depreciation	130,888	133,235	137,264	143,324	152,142	165,126	249,240	370,122	536,961	570,135	598,839	626,984	644,899	662,654	
- Change in WC	(163)	(1,596)	(2,946)	(3,760)	(4,853)	(6,052)	(7,341)	(8,676)	(9,176)	(8,977)	(8,772)	(8,498)	(8,232)	(7,973)	
- Capex	(180,384)	(256,564)	(333,780)	(332,997)	(348,177)	(376,925)	(620,220)	(745,048)	(637,359)	(405,713)	(402,075)	(285,059)	(289,504)	(292,172)	
- Debt repayment	(36,551)	(3,074)	40,522	88,250	118,712	206,479	426,997	421,999	239,450	42,160	37,142	(58,328)	(51,855)	(47,129)	
FCFE	**32,298**	**(5,963)**	**(30,786)**	**31,287**	**66,430**	**151,476**	**304,212**	**431,315**	**666,581**	**750,069**	**793,211**	**854,192**	**885,594**	**916,967**	**14,250,535**
Year		-	1	2	3	4	9	14	19	20	21	22	23	24	
Discount factor		1.0	0.9	0.8	0.7	0.7	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
DCF		(5,963)	(27,812)	25,534	48,980	100,897	121,936	104,032	96,749	98,350	93,961	91,411	85,617	80,087	1,244,634
Core RoE (%)	*15.8*	*15.8*	*15.7*	*15.7*	*15.7*	*15.7*	*15.4*	*14.7*	*14.2*	*14.0*	*14.0*	*13.9*	*13.9*	*13.9*	
Fair value	**2,937,140**	**CoE (%)**			**10.7**										
Regulated equity - FY26E	768,365	**Terminal growth (%)**			**4.0**										
Implied P/BV	**3.8**														

Source: Company data, Goldman Sachs Global Investment Research

Scenario analysis: Our bull case estimates factor higher system level transmission capex, larger market share for PGCIL in both, inter and intra state segments along with lower bidding intensity resulting in better returns in competitively won projects. On the other hand, our bear case factors slower than expected ordering pace, which will translate to lower market share for PGCIL and higher competitive intensity in new project auctions, which will result in lower returns. We do not model any beta reduction led valuation benefit in any of our valuation scenarios. Our bull case fair value implies FY26E P/BV of 4.1x, which bear case implies 2.1x.