

# Power Grid Corporation of India Limited (PWGR)

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
182	235	29.0%	217 / 173	952673

## Key Highlights:

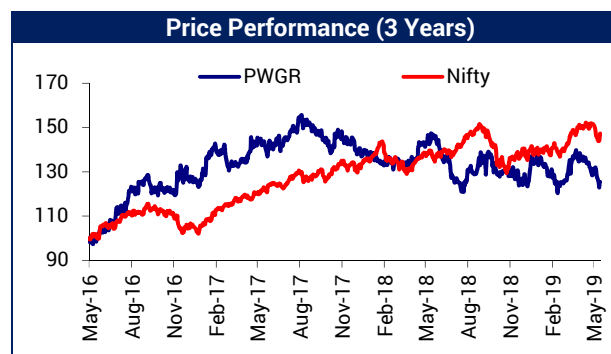
- PWGR has delivered 14% CAGR in earnings over the past five years—a feat that has not been replicated by peers.
- Asset capitalization for FY2018 stood at Rs273 bn (-6% yoy) and we currently factor asset capitalization of Rs242 bn for FY2019E.
- PWGR has an asset base of Rs1.8 tn, much larger than that of private sector players, incubated under the regulated regime over the past few decades. The size and stability of its portfolio enables PWGR to enjoy (1) lower cost of debt compared to peers, (2) favorable cost and payment terms from contractors, and (3) lower operating and maintenance cost.
- Recently, CERC has issued the final regulations for the control period 2019-24, wherein it withdrew the proposal for reduction in regulated equity for plants beyond their useful life.
- Outstanding approvals stand at Rs717 bn that lend visibility to asset capitalization for another three years. We note that of the outstanding investment approvals of Rs717 bn, ordering has been completed for Rs445 bn.
- With PWGR starting investment in interstate transmission infrastructure, we build a high growth earnings trajectory for the company up to FY2022E based on incremental project visibility.
- Concerns on growth beyond FY2021 and the regulatory review may be overplayed, and are already factored in trading multiples. Incremental stake sale by GOI poses a lower risk for PWGR compared to peers.
- Street concerns on PWGR's ability to compete profitably under TBCB may seem unfounded as (1) TBCB will still form a very small proportion of the overall asset base, (2) PWGR is able to fend off competition on the back of lower cost of capital as well as capex cost, and (3) early numbers show PWGR is doing well on the return profile even under TBCB projects.
- Existing projects under various stages of implementation, assure earnings growth of 14% CAGR up to FY22E. PWGR is attractively valued and will likely continue to deliver ahead of peer returns. Maintain BUY rating with unchanged fair value of Rs235/share.

Financials (Rs mn)*	FY18	FY19E	FY20E
Sales	301,140	348,082	385,182
Growth (%)	17.1	15.6	10.7
EBITDA	262,992	300,908	333,291
EBITDA margin (%)	87.3	86.4	86.5
PBT	104,906	121,945	139,094
Net profit	82,527	95,776	112,014
Adjusted EPS (Rs)	15.8	18.3	21.4
Growth (%)	10.0	15.8	16.9
P/E (x)	11.5	10.0	8.5
BV (Rs/share)	109.0	121.0	134.0
Net Debt / Equity (%)	220.0	205.0	191.0
ROE (%)	15.1	16.0	16.9
ROCE (%)	8.0	8.7	9.1
Gross debt	1,234,302	1,301,739	1,356,249

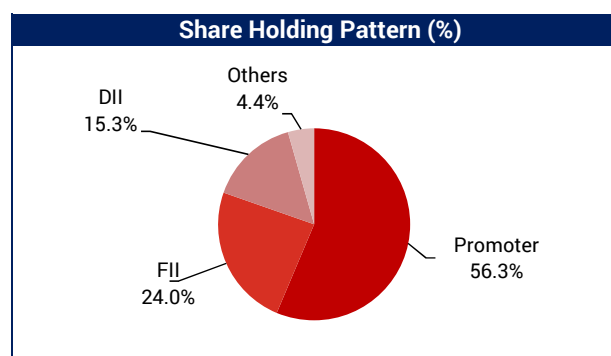
Source: Kotak Institutional Equities \*Consolidated

Financials (Rs mn)*	9M-FY18	9M-FY19	% Chg
Revenues	220,918	253,360	14.7
EBITDA	195,642	219,237	12.1
EBITDA Margin (%)	88.6%	86.5%	
PAT	63,362	68,812	8.6
PAT Margin (%)	28.7%	27.2%	
EPS (Rs)	12.1	13.2	9.1

Source: Kotak Institutional Equities \*Standalone



Source: Bloomberg



Source: Bloomberg

This one pager on the company is extracted from last KIE update dated February 1 & May 15, 2019 and it does not contain events beyond the last update. We take no obligation to update the KIE recommendations. While source of all other information is taken from Kotak Institutional Equities, the price performance and shareholding pattern chart is inputted by Kotak PCG research team (with source as Bloomberg). It is advisable to read the full KIE report before taking any investment decision on the above company recommendation.

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- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
- SELL** – We expect the stock to deliver < -5% returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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