

POWER GRID CORP. OF INDIA

BSE Code	: 532898
Time Duration	: 18 months
CMP	: ₹181.85 (as on 23 July 2020)
Target Price	: ₹213



Large Rhino pick for the month of July 2020 is Power Grid Corporation of India, a Maharatna company, which is into the power transmission business. The company carries out planning, implementation, operation, and maintenance of the inter-state transmission system as well as the operation of National and Regional Load Dispatch Centres. The company's segments include transmission, telecom, and consultancy. The transmission segment includes extra-high voltage/high voltage (EHV/HV) networks and grid management. As of FY20, the company owns and operates over 1,63,222 circuit kilometers of EHV transmission lines. Further, it has nearly 248 sub-stations. The company's smart grid enables real-time monitoring and control of power systems. The major revenue stream for the company is transmission business, which accounted for nearly 94 per cent of the consolidated total income of FY20 and the rest was from consultancy service and telecom business.

Strong order book gives healthy revenue visibility

As on FY20, the total works in hands for Power Grid is Rs 52,000 crore, of which, Rs 34,000 crore is for the ongoing projects, Rs 6,000 crore for the new projects and the rest is for tariff-based competitive bidding (TBCB) projects. This work is expected to get completed in the next three to four years, which provides decent revenue visibility for the company. The company expects immediate upcoming opportunities in transmission work for RE of Rs 23,000 crore-Rs 24,000 crore. Further, the company has given strong capitalisation guidance of Rs 20,000 crore-Rs 25,000 crore for FY21E. However, the management believes that due to the ongoing pandemic, the project execution is likely to get delayed, owing to migrant labourers' issue and closure of manufacturing units.

Favourable long-term perspective

Looking at the long-term perspective of the power sector, the focus on renewable energy is likely to drive investment. Also, the growing demand for power is expected to put the transmission segment in the bright spot in the coming years. The projects worth almost Rs 48,000 crore are expected to be awarded for renewable integration. Notably, Power Grid has positioned itself strongly in its area of work and 50 per cent win rates in the recent projects, thereby, affirming the company's strong competitive position. The government's Vision 2025 for the power sector involves Rs 3 lakh crore works in power transmission, including Rs 1.9 lakh crore for the states. Further, the overall transmission sector is expected to clock a growth of 8 to 9 per cent for the next 10 years, which would give a healthy long-term perspective for the company.

Relief from ADR dues

The company holds NLD and ISP licences and is regularly paying the applicable license fee to the Department of Telecommunications (DoT). During the year FY2018-19, the company received an additional demand of Rs 44,039.23 crore (including interest and penalty up to March 31, 2020) for previous periods in respect of the above licences by adding non-telecom revenue. Supreme Court has observed that the licences of PSUs are different and its judgment in the case between DoT and telecom service providers could not be made on the basis of raising demand against PSUs. The company's management believes that the ADR demand of Rs 44,039.23 crore is not payable by the company, which removes the overhang on the stock.

Capex guidance of Rs 10,500 crore for FY21E

The company has completed Bipole I worth Rs 10,000 crore and the associated AC lines are expected to be completed by July 2020. Bipole II is 70-75 per cent complete, while associated AC lines and 320Kv HVDC line, as well as VSC terminal, are expected to be completed by December 2020. The company incurred nearly Rs 15,200 crore on capital expenditure in FY20 but for a subsequent year, the company has lowered its capex guidance. However, despite challenging times, the company is expected to incur a capex of nearly

Continued On PG 2...

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DSJ Pvt. Ltd. : C - 105, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsj.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

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Rs 10,500 crore, which indicates the company's positive view on the business. Healthy cash flow and lower capex are expected to increase the dividend payout for the current fiscal year.

Financial performance

The company's consolidated net sales jumped nearly 83 per cent from the FY16-20 period. The consolidated sales for the fiscal year 2019-20 were at Rs 37,743.54 crore. In March 2020 ended quarter, the company's consolidated net sales grew 6.4 per cent YoY to Rs 10,148.3 crore. EBITDA during the quarter increased 5 per cent YoY to Rs 8,503.3 crore. However, EBITDA margin during the period contracted nearly 119 bps from the corresponding quarter of the previous year. Profit for the period grew 8.2 per cent YoY to Rs 3,313.5 crore.

Valuation and outlook

A strong order book gives healthy earning visibility in the coming quarters. Withdrawal of AGR demand by the government against PSUs removes the overhang on the company. Further, the government's decision to inject nearly Rs 90,000 crore into the power sector augurs well for the company. Healthy cash generation and lower capex are expected to boost the dividend payout in the on-going fiscal. Tariff structure and regulated ROE for FY20-24 gives further impetus to invest in the company. At the current price, the company offers an attractive dividend yield of nearly 5.5 per cent. In terms of valuation, the stock is available at an attractive P/E of 8.2x against a five-year median P/E of 15.2x. Considering all these factors, we recommend a BUY on the stock with a target of Rs 213.

Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Net Sales	37743.54	35059.12	29953.62	25697.44	20652.08
Total Income	38670.96	35773.32	30430.54	26432.37	21118.37
Total Expenditure	4803.30	4838.58	3836.79	3145.09	2394.02
PBIDT	33867.66	30934.74	26593.75	23287.28	18724.35
PAT	9220.87	9904.70	8056.06	7308.98	5843.37
Dividend %	0.00	83.30	52.50	43.50	23.10
Adj. EPS(Rs)	21.14	19.18	15.68	14.24	11.39

Quarter On Quarter (Consolidated)

Particulars	202003	201912	Q on Q Var %	201903	Y on Y Var %
Net Sales	10148.26	9364.36	8.37	9535.12	6.43
Total Expenditure	1645.01	1117.35	47.22	1432.23	14.86
PBIDT (Excl OI)	8503.25	8247.01	3.11	8102.89	4.94
PAT	3313.47	2672.00	24.00	3061.43	8.23
PBIDTM% (Excl OI)	83.79	88.07	-4.86	84.98	-1.40
PBIDTM%	87.33	89.96	-2.92	86.58	0.87
PATM%	22.56	24.34	-7.31	88.73	-74.57
Adj. EPS(Rs)	6.33	5.11	23.87	5.85	8.21

Stock vs. Index



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