

### RESULTS REVIEW

#### Share Data

Market Cap	Rs. 389.53 bn
Price	Rs. 92.55
BSE Sensex	8,954.86
Reuters	PGRD.BO
Bloomberg	PWGR IN
Avg. Volume (52 Week)	1.42 mn
52-Week High/Low	Rs.113/51.75
Shares Outstanding	4208.84 mn

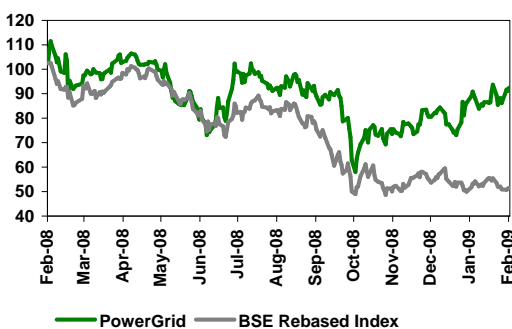
#### Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	3.8	5.5
+/- (%)	11.7%	44.1%
PER (x)	24.1x	16.7x
EV/Sales (x)	10.2x	8.8x
EV/EBITDA (x)	12.3x	10.6x

#### Shareholding Pattern (%)

Promoters	86
FII's	2
Institutions	3
Public & Others	8

#### Relative Performance



### Power Grid Corporation of India Ltd.

Buy

#### Unleashing its potential

Our enthusiasm in Power Grid Corporation of India Ltd. (PGCIL)'s stock has been lighted up by the encouraging tariff determination norms issued by the CERC for FY10–14. As a result, we have increased our target price for PGCIL's stock from Rs. 110 to Rs. 120 and maintain our Buy rating.

**Overall RoE to improve significantly in the next 4-5 years:** We see the Company's RoE improving from 11.7% in FY08 to 16-17% by FY13-14 due to the following reasons:

- CERC's increase in the cap on the RoE from 14% to 15.5% for tariff determination purposes implies higher guaranteed returns on the transmission projects for FY10-14.
- We expect the Company to continue generating incentive income, which would mean a higher effective RoE on the transmission projects.
- Equity deployed in the transmission assets would increase significantly in the next 2-3 years as the Company has huge CAPEX plans. We do not see any major delays in the commissioning of new transmission lines as the Company has a stable cash-generating business model and strong Gol support for funding its projects.
- The Rs. 14.4 bn worth of Gol bonds issued to PowerGrid would be completely redeemed by FY16 in equal half yearly instalments. As these funds would be invested in higher return-generating transmission assets, the Company's overall profitability should improve.

**Bright long-term prospects:** Most of the power projects being planned for the future by the Gol are pit-head and of sizable capacity. These would require building a strong transmission network for dispatching electricity to the various project beneficiaries. PowerGrid, the only transmission company in the country, is set to benefit significantly from this scenario.

#### Key Figures

Quarterly Data	Q3'08	Q2'09	Q3'09	YoY%	QoQ%
(Figures in Rs mn, except per share data)					
Net Sales	10,989	15,877	14,774	34.4%	(6.9%)
EBITDA	9,085	13,569	12,217	34.5%	(10.0%)
Adj. Net Profit	3,843	3,964	3,724	(3.1%)	(6.1%)
<b>Margins(%)</b>					
EBITDA	82.7%	85.5%	82.7%		
NPM	35.0%	25.0%	25.2%		
<b>Per Share Data (Rs.)</b>					
EPS	0.91	0.94	0.88	(3.1%)	(6.1%)

*Valuation suggests an upside potential*

### Valuation

At the current market price (CMP) of Rs. 92.55, PowerGrid's stock is trading at a P/B multiple of 2.53x for an estimated book value of Rs. 37 at the end of FY09. By comparing the expected returns of PowerGrid with the current yield of a 10-year AAA bond, i.e. 9.8%, we have arrived at a target P/B multiple of 3.33x for the Company's stock. We have assumed a regulated RoE cap of 14% from FY15 onwards. This gives a fair value of Rs. 120 for PGCIL's stock, indicating a 29% upside potential from the CMP. Thus, we reiterate our Buy rating.

### Sensitivity Analysis

		Terminal RoE				
		13.0%	13.5%	14.0%	14.5%	15.0%
AAA Bond Yield	9.3%	111	124	137	153	169
	9.6%	104	115	128	142	158
	9.8%	97	108	120	133	148
	10.1%	91	101	112	124	138
	10.3%	85	94	105	116	129

### Result Highlights & Outlook

#### *Sales up but on account of extraordinary items*

PowerGrid's net sales were up 34.4% yoy to Rs. 14.8 bn in Q3'09, mainly due to a higher transmission income. Transmission revenues increased on account of the commissioning of assets worth Rs. 87.5 bn since Q3'08 and the recognition of Rs. 1.9 bn of Foreign Exchange Rate Variation (FERV) loss as recoverable transmission income. We expect a significant addition to the Company's transmission assets in the next 2-3 years on the back of its huge CAPEX plans. Accordingly, we have forecasted a net sales CAGR of 20-21% over FY08-12.

#### *Net profit falls on account of increased staff costs, O&M expenses*

PGCIL's net profit fell 3.1% yoy to Rs. 3.7 bn in Q3'09 on account of the 26% and 46% rise in staff costs and operational & maintenance expenses, respectively. Interest and finance charges also increased, from Rs. 2.8 bn in Q3'08 to Rs. 6 bn in Q3'09, on account of an FERV loss of Rs. 2 bn during the quarter, as against an FERV gain of Rs. 156.4 mn during the same period in the previous year. Net profit should increase in the coming

*An FERV loss of Rs. 1.9 bn was recognised as recoverable income in Q3'09*

*Bottom line to improve in the coming years*

years as the Company is expected to recover higher annual fixed costs from FY10 due to the increased cap on the RoE.

*Other revenue sources expected to grow steadily*

### *Other revenue sources post a stable performance*

Other revenue sources such as telecom, short-term open access, and consultancy contributed about 10% of the Company's total revenues. Consultancy income, a high-margin business, remained almost flat yoy at Rs. 582 mn in Q3'09. We expect revenues from these sources to grow steadily over the next few years on the back of government's thrust on rural electrification over which PowerGrid is entitled a commission.

#### Key Figures

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY08-10E)
Net Sales	31,453	35,899	46,148	57,933	67,552	21.0%
EBITDA	26,662	29,444	37,543	48,147	55,748	21.9%
Adj. Net Profit	10,089	12,294	14,485	16,178	23,316	26.9%
<b>Margins(%)</b>						
EBITDA	84.8%	82.0%	81.4%	83.1%	82.5%	
NPM	32.1%	34.2%	31.4%	27.9%	34.5%	
<b>Per Share Data (Rs.)</b>						
Normalised EPS	2.8	3.2	3.4	3.8	5.5	
PER (x)	32.9x	28.5x	26.9x	24.1x	16.7x	

#### Key Event

PGCIL's Board of Directors approved a Rs. 70.3 bn investment proposal for a transmission system associated with the Sasan Ultra Mega Power Project, with a commissioning schedule of 48 months from the date of investment approval.

#### Key Risk

Any major delays in the commissioning of the upcoming transmission projects would delay the returns on the capital deployed on such projects, thereby adversely affecting our rating of the Company's stock.

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