

Nov 16, 2018

Power Grid Corporation Ltd

Power Grid Corporation is utility transmission company, managed by the Government of India.

Being a transmission company, more than 90% of the profitability of PGCIL is being governed and driven by regulated RoE. Hence, the company is likely to benefit the most as transmission projects once commissioned have limited operation risk. However, this is not the case for generation companies as they have to face many challenges as earnings in these cases are also influenced by utilisation levels, operating efficiency and scope of cost recovery apart from regulated RoE. Moreover, the regulator (CERC) has proposed tighter norms for fixed cost recovery on parameters such as fuel inventories and working capital finance cost. However, it did propose relief on the loss of the calorific value of coal during storage. Though there is slightly a negative impact on transmission companies because of rationalisation of O&M norms and incentives on HVDC availability, the unchanged regulated RoE at 15.5% mitigates the impact. Most of the norm changes in draft tariff regulations 2019-2024 apply to generation companies, hence it is highly positive for transmission companies. We believe the company will be able to keep its growth momentum, as revenue, EBITDA and PAT are expected to report CAGR of 18.1%, 17.5% and 15.7%, respectively. Moreover, as the company's profitability is largely interlinked and dependent on regulated RoE and finance charge, any reduction in interest rate going forward will help the company in expanding its margin profile, as the regulated RoE has been set for the next five years (until 2024). **Hence Buy.**

BUY

CMP ₹188

Stock Info

Sector	Power Generation & Distribution
Market Cap (₹ cr)	98,328
52 Week High / Low	216/173
Avg. Daily Volume	2,08,261
Face Value (₹)	10
BSE Sensex	35,457
Nifty	10,682
Reuters Code	PGRD.BO
Bloomberg Code	PWGR IN

Shareholding Pattern (%)

Promoters	56.3
MF / Banks / Indian FIs	15.2
FII / NRIs / OCBs	24.1
Indian Public / Others	4.4

Abs. (%)	3m	1yr	3yr
Sensex	(5.9)	7.1	37.6
Torrent	0.3	(9.8)	45.9

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Disclosure of Interest Statement

Power Grid Corp Ltd

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)