

India Grid Trust (IndiGrid)

IndiGrid was established on Oct, 2016 by Sterlite Power Grid Ventures Limited (Sponsor) and is registered with SEBI pursuant to the InvIT Regulations. Sponsor is one of the leading independent power transmission companies operating in the private sector. Sponsor owns 11 inter-state power transmission projects with a total network of 30 power transmission lines of ~7,733 ckms and 9 substations having 13,890 MVA of transformation capacity. Of the 11 inter-state power transmission projects owned by the Sponsor, IndiGrid will initially acquire 2 projects (Initial Portfolio Assets) with a total network of eight power transmission lines of ~1,936 ckms and two substations having 6,000 MVA of transformation capacity across 4 states.

Stable cash flows from assets with minimal counter party risks: Revenues are derived out of contracted tariffs under long term contracts (up to 35 years) from assets with low operating and maintenance costs. Payment securities in the form of a revolving letter of credit, a surcharge of 1.25% for late payments and lack of alternate power infrastructure deters beneficiaries from defaulting. This mechanism diversifies counter party risks, ensures a stable cash flow independent of asset utilization and provides payment security.

Strong financial position: IndiGrid has been given a Corporate Credit Rating AAA/Stable by CRISIL, 'IND AAA'/Stable by India Ratings and 'IraAAA' with stable outlook by ICRA. Following utilization of the Issue Proceeds, debt to equity will be below 49% (against industry standards 70%) as prescribed by the InvIT Regulations. IndiGrid expects that low indebtedness will provide the ability to finance the growth of business without substantial dilution to Unit holders in the near future and ensure stable distributions.

Rights to Sponsor's pipeline of power transmission projects: IndiGrid enjoys the benefit of ROFO Deed (Right of First Offer) with Sponsor's eight inter-state power transmission projects, with transmission network of 21 power transmission lines of ~4,831 ckms and five substations, and transformation capacity of 6,630 MVA. Under the ROFO Deed or otherwise, any potential acquisitions of power transmission projects will be assessed for their suitability with investment mandate and is subject to mutual agreement between the Sponsor and the Investment Manager on behalf of IndiGrid, as well as approval by Unit holders (2/3 majority).

Ownership and location of assets: Each of the Initial Portfolio Assets is located in strategically important areas for electricity transmission connectivity, delivering power from generating centers to load centers to meet inter-regional power deficits and developing alternate lines may be challenging due to the terrain, challenges in obtaining rights of way, limited corridors and high construction costs. This is advantageous for sponsor as it can capitalize the opportunities to increase capacity through upgrading existing corridor.

Outlook and Valuation: Considering the above positives coupled with attractive valuations, we recommend a **SUBSCRIBE** on the issue

SUBSCRIBE

Issue Open: May 17, 2017

Issue Close: May 19, 2017

Issue Details

Fresh issue: *22.96 - **22.5 cr units

Total Issue size (amount): *₹2205cr - **2250cr

Price Band: ₹98-100

Lot Size: 10,206 units and in multiples of 5,103 units thereof

*Calculated on lower price band

** Calculated on upper price band

Book Building

Institutional	75% of issue
Retail	25% of issue

Parties to the issue

Sponsor: Sterlite Power Grid Ventures Ltd.

Project Manager: Sterlite Power Grid Ventures Ltd.

Investment Manager: Sterlite Investment Managers Ltd.

Trustee: Axis Trustee Services Ltd.

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Company background

India Grid Trust (IndiGrid) is an infrastructure investment trust ("InvIT") established to own inter-state power transmission assets in India. IndiGrid was established on Oct, 2016 by the Sponsor, Sterlite Power Grid Ventures Limited, and is registered with SEBI pursuant to the InvIT Regulations. Sponsor is one of the leading independent power transmission companies operating in the private sector, with extensive experience in bidding, designing, financing, constructing and maintaining power transmission projects across India.

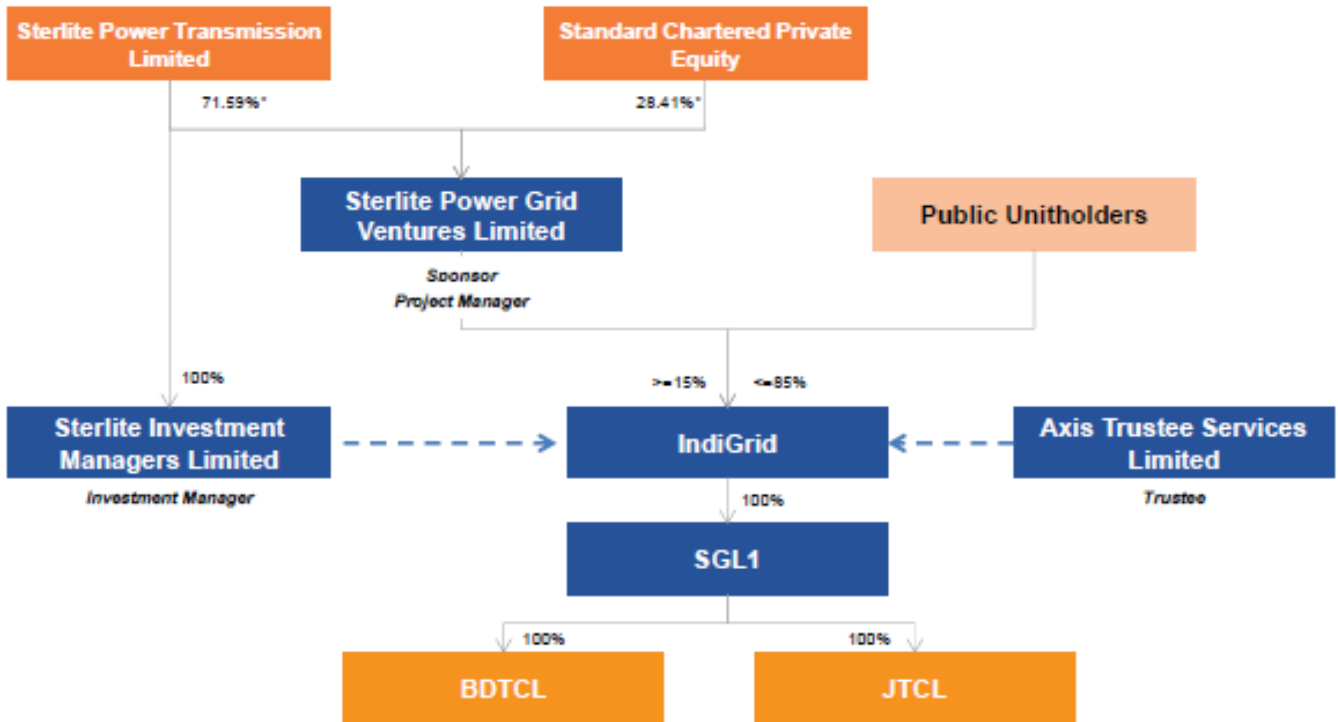
Sponsor is one of the leading independent power transmission companies operating in the private sector. Sponsor owns 11 inter-state power transmission projects with a total network of 30 power transmission lines of approximately 7,733 ckms and 9 substations having 13,890 MVA of transformation capacity. Some of these projects have been fully commissioned, while others are at different stages of development.

Sponsor generated consolidated total income of ₹506Cr in FY2016 and had total consolidated assets of ₹6627Cr as on March 31, 2016. Of the 11 inter-state power transmission projects owned by the Sponsor, IndiGrid will initially acquire two projects with a total network of eight power transmission lines of ~1,936 ckms and 2 substations having 6,000 MVA of transformation capacity across four states (the "Initial Portfolio Assets"). Each of the Initial Portfolio Assets have been completed and are revenue-generating for more than a year. Pursuant to the ROFO Deed, IndiGrid has a 'Right Of First Offer' to acquire eight of the nine remaining projects (the "ROFO Assets").

Initial Portfolio Assets were awarded to subsidiaries of Sponsor under the 'tariff based competitive bidding' mechanism ("TBCB") on a 'build-own-operate-maintain' ("BOOM") basis. The power transmission projects earn revenue pursuant to long-term TSAs (Transmission Service Agreement) and tariff orders passed by CERC in accordance with the Electricity Act, 2003 ("Tariff Orders"). These projects receive availability-based tariffs under the TSAs irrespective of the quantum of power transmitted through the line. The tariff for inter-state power transmission projects in India, including the Initial Portfolio Assets, is contracted for the period of the TSA, which is up to 35 years from the scheduled commission date of the asset, which may be renewed in accordance with the TSA and the Electricity Act, 2003. With periodic maintenance, the assets will have a useful life of 50 years according to Lahmeyer.

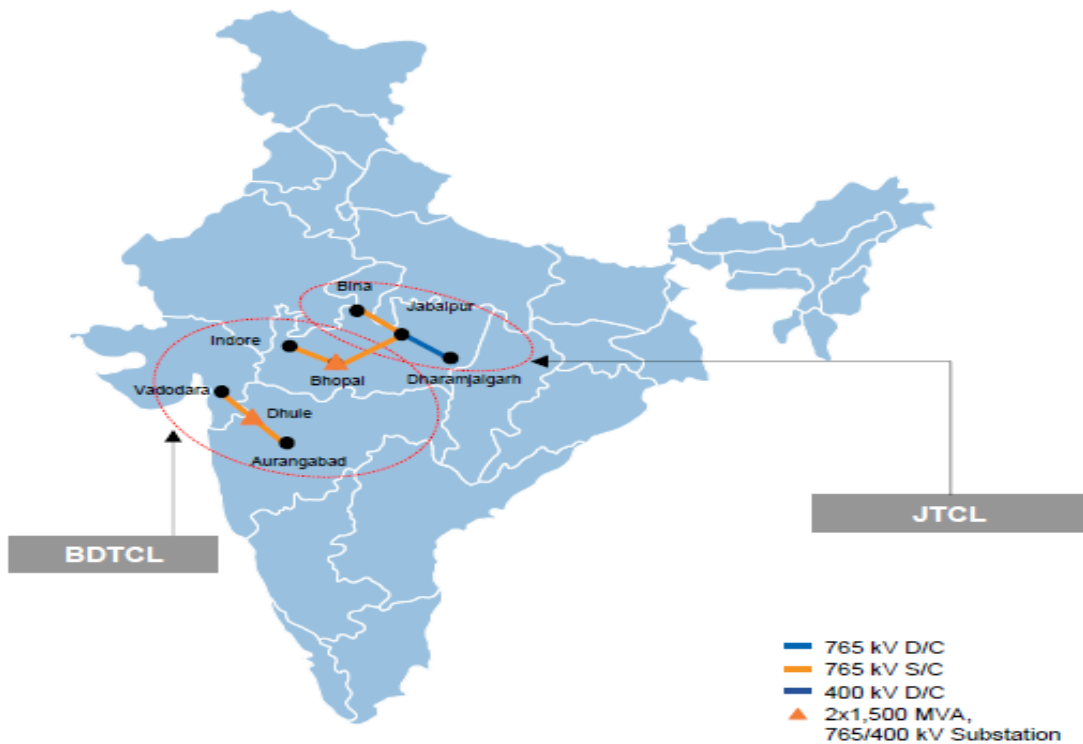
Tariffs under these TSAs are billed and collected pursuant to the 'point of connection' ("PoC") mechanism, a regulatory payment pooling system offered to Inter State Transmission Systems ("ISTS") such as the systems operated by the Initial Portfolio Assets. Under the PoC mechanism, payments are made to a central payment pool and the proceeds are distributed proportionately to all transmission services providers, such as the Initial Portfolio Assets. The availability-based tariffs and PoC payment mechanism enable a stable and certain cash flow stream

Exhibit 1: IndiGrid InvIT Structure



Source: Offer Document, Angel Research

Exhibit 2: Initial Portfolio



Source: Offer Document, Angel Research

Issue details

The units will consist of fresh issue, aggregating to ₹2,250Cr at upper band of ₹100 per unit. The Issue Proceeds from this Issue will be utilised towards providing loans to BDTCL and JTCL for repayment or pre-payment of debt (including any accrued interest and any applicable penalties) of banks, financial institutions, SGL1 and repayment of any other long term and short term liabilities and capital expenditure creditors.

Objects of the offer

- Providing loans to BDTCL and JTCL for repayment or pre-payment of debt (including any accrued interest and any applicable penalties) of banks, financial institutions, SGL1 and repayment of any other long term and short term liabilities and capital expenditure creditors.

Distribution policy

- The net distributable cash flows of IndiGrid (the “Distributable Income”) are based on the cash flows generated from the underlying operations undertaken by the InvIT Assets. Presently, cash flows receivables by IndiGrid may be in the form of dividend, interest income or principal repayment received from the InvIT Assets in relation to any debt sanctioned by IndiGrid, or a combination of both.
- In terms of the InvIT Regulations, not less than 90% of the net distributable cash flows of each of the Initial Portfolio Assets, namely BDTCL and JTCL shall be distributed to IndiGrid or SGL1, subject to applicable provisions in the Companies Act, 2013 and not less than 90% of the net distributable cash flows of IndiGrid shall be distributed to the Unit holders.
- Further, with respect to the cash flows received by SGL1 from BDTCL and JTCL, 100% of such cash flows shall be distributed to IndiGrid unless required for debt servicing in any other loans of Initial Portfolio Assets or repair work in BDTCL and JTCL.
- Further, with respect to cash flows generated by SGL1 on its own, not less than 90% of such net distributable cash flows shall be distributed by SGL1 to IndiGrid.
- IndiGrid shall declare and distribute at least 90% of the Distributable Income to the Unit holders, at least once in every six months in every Fiscal. However, if any infrastructure asset is sold by IndiGrid or SGL1 or any of the Initial Portfolio Assets, or if the equity shares or interest in the SGL1 or any of the Initial Portfolio Assets are sold by IndiGrid; if IndiGrid proposes to re-invest the sale proceeds into another infrastructure asset within one year, it shall not be required to distribute any sales proceeds to IndiGrid or to the Unit holders.
- Further, if IndiGrid proposes not to invest the sale proceeds into any other infrastructure asset within one year, it shall be required to distribute the same in the manner specified above.

- In accordance with the InvIT Regulations, distributions by IndiGrid shall be made no later than 15 days from the date of such declarations. The distribution, when made, shall be made in Indian Rupees.

Tax Structure InvITs

- Interest received or receivables by IndiGrid from the Project SPVs should be exempted from tax, subject to satisfaction of conditions given in section 10(23FC) of the Act. Further, in view of the provisions of section 14A of the Act, any expenditure incurred in relation to earning the above exempt income shall not be tax deductible.
- Income arising for IndiGrid on transfer of equity shares or units of an equity oriented fund or units of a business trust, will be exempt under section 10(38) of the Act, if the said asset is a long-term capital asset and such transaction is subject to STT. These assets turn long term if they are held for more than 12 months for equity shares or units of an equity oriented fund and more than 36 months for units of business trust.
- Dividend received by IndiGrid referred to under section 115-O from domestic companies on investments is exempt from tax under section 10(34) of the Act.
- The provisions of section 115QA mandate domestic companies to pay an additional tax at the rate of 20% (plus applicable surcharge and cess) on buy-back of shares (not being shares listed on a recognized stock exchange). Further, income arising from buy-back of unlisted shares shall not be taxable as per section 10(34A) of the Act in the hands of IndiGrid.
- IndiGrid shall not be subject to levy of dividend distribution tax on the amount of income distributed to its unit holders.
- Income arising on transfer of units of IndiGrid, will be exempt under section 10(38) of the Act if such units are held as long-term capital assets and such transaction is chargeable to securities transaction tax ('STT'). The determinative period of holding for such units to qualify as long term capital asset is more than 36 months.
- In view of the provisions of section 14A of the Act, any expenditure incurred in relation to earning the above exempt income shall not be tax deductible.
- Short-term capital gains arising on transfer of the units of IndiGrid will be chargeable to tax at the rate of 15% (plus applicable surcharge and cess) as per the provisions of section 111A of the Act provided such transaction is subject to STT. In case of a Unit holder being an individual or HUF, where the total taxable income as reduced by short-term capital gains is below the basic exemption limit, the short-term capital gains will be reduced to the extent of the shortfall and only the balance short-term capital gains will be subjected to such tax in accordance with the provision to sub-section (1) of section 111A of the Act.

Investment Rationale

Stable cash flows from assets with minimal counter party risks: Revenues are derived out of contracted tariffs under long term contracts (up to 35 years) from assets with relatively low operating and maintenance costs. Inter-state power transmission projects receive tariffs on the basis of availability, irrespective of the quantum of power transmitted through the line. Power transmission projects are characterized by low levels of operating risk. The Initial Portfolio Assets are operational power transmission projects with an operating history of at least one year and no construction risks or major capital expenditure requirements. IndiGrid has maintained an annual availability for each of the Initial Portfolio Assets in excess of 98% since commissioning for which have earned maximum incentive revenues under the respective TSAs. Maintaining availability of the Initial Portfolio Assets in excess of 98%, gives IndiGrid the right to claim incentives under the TSA, ensuring an adequate upside to maximize availability. The amount of incentive revenue earned increases as availability levels increase, with a maximum incentive revenue earned for maintaining 98% availability. Tariffs under the TSAs are billed and collected pursuant to the PoC mechanism. Under the PoC mechanism, payments are made to a central payment pool and the proceeds are distributed proportionately to all transmission services providers, such as the Initial Portfolio Assets. Any shortfall in collection of transmission charges by the CTU is shared on a pro rata basis by all transmission service providers. Payment securities in the form of a revolving letter of credit, a surcharge of 1.25% for late payments and lack of alternate power infrastructure deters beneficiaries from defaulting. This mechanism diversifies counter party risk, ensures a stable cash flow independent of asset utilization and provides payment security.

Strong financial position: IndiGrid has been given a Corporate Credit Rating AAA/Stable by CRISIL, 'IND AAA'/Stable by India Ratings and "IraAA" with stable outlook by ICRA. Following utilization of the Issue Proceeds, aggregate consolidated borrowings and deferred payments net of cash and cash equivalents will be below 49% of the total value of IndiGrid's assets, as prescribed by the InvIT Regulations. The industry standard debt to equity ratio for inter-state power transmission projects is 70% debt, according to the CRISIL Report. IndiGrid expects that low indebtedness on balance sheet relative to our assets will provide with the ability to finance the growth of business without substantial dilution to Unitholders in the near future and ensure stable distributions.

Rights to our Sponsor's pipeline of power transmission projects: IndiGrid enjoys the ROFO Deed with Sponsor, IndiGrid has a 'right of first offer' in respect of eight inter-state power transmission projects, having a transmission network of 21 power transmission lines of approximately 4,831 ckms and five substations, with a transformation capacity of 6,630 MVA. Of the eight ROFO Assets three have been commissioned, one is partially operational and four remain under various stages of development. Under the ROFO Deed or otherwise, any potential acquisitions of power transmission projects will be assessed for their suitability with investment mandate and is subject to mutual agreement between the Sponsor and the Investment Manager on behalf of IndiGrid, as well as approval by Unit holders.

Ownership and location of assets: Each of the Initial Portfolio Assets is located in strategically important areas for electricity transmission connectivity, delivering power from generating centers to load centers to meet inter-regional power deficits. Once a transmission project has been commissioned, it requires relatively low levels of expenditure to operate and maintain, which means that the relevant Initial Portfolio Assets will have the benefit of owning a critical asset without

incurring significant operational costs. In particular, with periodic maintenance, transmission assets will have a useful life of 50 years, according to Lahmeyer. The transmission lines of the Initial Portfolio Assets are predominantly located in areas where developing alternate lines may be challenging due to the terrain, challenges in obtaining rights of way, limited corridors and high construction costs. This puts IndiGrid in an advantageous position to capitalize the opportunities to increase its power transmission capacity through the same corridor by upgrading existing systems.

Outlook and Valuation

Considering the above positives coupled with attractive valuations, we recommend a **SUBSCRIBE** on the issue

Key risks

- Any upward changes in the tariff structure or policies or modifications could bring a material negative effect in the business.
- The Sponsor's ability to complete the construction of the ROFO Assets on time is subject to its ability to award subcontracts to competent contractors in a timely manner and to ensure the timely execution of such contracts, while ensuring that the required quality is maintained by these contractors.
- It may lose tariff revenues and incur significant repair and replacement costs in the event their power transmission projects are rendered non operatable due to force majeure events.
- It may not be able to make distributions to unit holders as per estimations.

Income Statement

Particulars	FY15	FY16	FY17
Revenue from operations	59.9	354.2	466.7
% chg	-	491.7	31.8
Total Expenditure	15.3	41.0	44.9
Employee benefit expense	0.7	4.9	3.5
Other expenses	14.6	36.1	41.4
EBITDA	44.6	313.2	421.8
% chg	-	602.6	34.7
(% of Net Sales)	74.5	88.4	90.4
Depreciation	37.7	96.6	380.1
EBIT	6.9	216.6	41.7
% chg	-	3,054.1	-80.8
(% of Net Sales)	11.5	61.2	8.9
Finance cost	93.7	329.9	368.2
Finance income	(10.9)	(2.2)	(0.4)
Other income	9.2	2.1	6.3
(% of PBT)	(13.7)	(1.9)	(2.0)
Loss before tax	(66.8)	(109.0)	(319.8)
% chg	-	-	-
Total tax expense	(19.6)	(30.6)	(18.7)
Loss for the year	(47.2)	(78.4)	(301.1)

Source: Offer Document, Angel Research

Balance Sheet

Particulars	FY15	FY16	FY17
ASSETS			
I. Non-current assets			
(a) Property, plant and equipment	1,699.1	3,967.2	3,577.3
(b) Capital work-in-progress	2,039.0	0.2	-
(c) Intangible Assets	0.3	0.2	-
(d) Financial assets	0.0	0.0	0.0
(i) Trade and other receivables	10.2	10.2	3.1
(ii) Loans	127.6	71.8	-
(iii) Other financial assets	27.3	27.0	0.3
(e) Deferred tax assets (net)	5.8	10.6	-
(f) Other assets	51.4	8.2	3.5
Total Non-Current Assets	3,960.7	4,095.4	3,584.2
II. Current assets			
(a) Financial assets			
(i) Investments	-	0.7	46.0
(ii) Trade and other receivables	17.7	63.9	47.8
(iii) Cash and cash equivalents	54.8	21.7	23.1
(iv) Others financial assets	17.4	45.5	53.0
(b) Other assets	3.3	15.1	19.5
Total Current Assets	93.2	146.9	189.5
Total assets	4,053.9	4,242.3	3,773.7
EQUITY AND LIABILITIES			
EQUITY			
(a) Equity Capital	17.7	17.7	17.7
(b) Other equity	295.3	216.9	-84.2
Total equity	312.9	234.6	-66.6
LIABILITIES			
I. Non-current liabilities			
(a) Financial liabilities			
(i) Borrowings	3,257.8	3,484.9	3,452.6
(ii) Other financial liabilities	0.8	0.8	0.8
(b) Provisions	0.8	-	-
(c) Deferred tax liabilities (net)	171.3	145.5	111.0
Total Non -Current Liabilities	3,430.7	3,631.2	3,564.4
II. Current liabilities			
(a) Financial liabilities			
(i) Borrowings	12.9	166.5	89.8
(ii) Trade and other payables	4.6	2.2	3.4
(iii) Other financial liabilities	290.8	207.3	181.9
(b) Liabilities for current tax (net)	-	-	0.4
(c) Other liabilities	1.2	0.6	0.4
(d) Provisions	0.8	-	-
Total Current Liabilities	310.3	376.6	275.9
Total liabilities	3,741.0	4,007.8	3,840.2
Total equity and liabilities	4,053.9	4,242.3	3,773.7

Source: Offer Document, Angel Research

Cash Flow Statement

Particulars	FY15	FY16	FY17
Cash flow from Operating Activities			
Loss before tax	(66.8)	(108.9)	(319.8)
Adjustments:			
Depreciation and amortisation expense	37.7	96.6	380.2
Loss on derivative instruments (net)	3.5	13.8	15.2
Loss on disposal of property plant and equipment	0.6	-	0.0
Interest income on bank deposit	-	(1.9)	0.00
Finance costs	93.7	329.9	368.2
Income from investment in mutual funds	-0.5	-2.1	-2.0
(Profit) on sale of Investment	-	-	(2.7)
Operating profit before WC changes	68.2	327.5	439.0
Changes in working capital	(45.5)	(71.6)	1.74
Cash generated from operations	22.7	255.9	440.8
Direct taxes (paid) /refund received (net)	(3.4)	4.7	(0.1)
Net cash flow from/(used in) operating activities (A)	19.3	260.6	440.6
Cash flow from Investing Activities			
Purchase of property, plant and equipment(incl. CWIP& adv.)	(759.7)	(369.7)	(33.2)
(Purchase)/Sale of mutual fund investments (net)	0.5	1.4	(43.3)
Sale of Investment in subsidiary	-	-	152.7
Loans to subsidiaries	(149.4)	(54.7)	-
Loans repaid/adjusted by subsidiaries	196.0	110.5	-
Interest income on bank deposits	-	1.9	0.0
Net cash flow from /(used in) investing activities (B)	(712.6)	(310.6)	76.2
Cash flow from Financing Activities			
Proceeds from issue of Non-convertible debentures	1288.2	-	-
Proceeds from issue of shares	17.5	-	-
Proceeds of loan from holding company (net)	390.6	483.1	38.0
Repayments of loan from holding company (net)	(689.6)	(408.1)	(160.0)
Refund of Share application money	(175.3)	-	-
Proceeds from long term loans	231.2	2131.8	-
Repayment of long term loans	-	(1905.8)	(115.4)
Proceeds from short term loans	5.1	-	-
Repayment of short term loans	(23.1)	(12.9)	-
Rollforward loss on forward contracts	-	-	(15.3)
Finance costs	(327.9)	(271.3)	(262.7)
Net cash flow from / (used in) financing activities (C)	716.7	16.9	(515.5)
Net inc/(dec) in cash and cash equivalents (A + B + C)	(23.4)	(33.1)	1.4
Cash and cash equivalents as at beginning of the year	31.5	54.8	21.7
Cash and cash equivalents as at the end of the year	54.8	21.7	23.1

Source: Offer Document, Angel Research

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