



**Background..**

The POWERGRID Infrastructure Investment Trust ("PGInvIT") was formed on September 14, 2020 by the sponsor, Power Grid Corporation of India Ltd. ("POWERGRID") as an irrevocable trust, pursuant to the Trust Deed, under the provisions of the Indian Trusts Act, 1882. The Investment objectives of the Trust is to carry on the activities of and to make investments as an infrastructure investment trust as permissible in terms of the InvIT Regulations and the Trust Deed. Of the sponsor tariff-based competitive bidding (TBCB) projects, PowerGrid InvIT proposed to acquire five projects initially with a total network of 11 power transmission lines of approximately 3,698.59 ckm and three substations having 6,630 MVA of aggregate transformation capacity, as of December 2020, across five states in India, which is an Initial Portfolio Assets of the InvIT. The Trust will own 74 percent of the shareholding in each of the 5 TBCB projects, and the remaining 26 percent stake will be acquired through debt (from Power Grid) after the lock in period that ends by 2024.

**Consistent and stable cash flows from assets with long term visibility and low counter party risks..**

PGInvIT derives its revenues for electricity transmission from contracted transmission charges. The transmission charges consist of fixed 'non-escalable' transmission charges and in case of PVTL, fixed 'non-escalable' transmission charges and 'variable escalable' transmission charges. Since transmission charges are fixed for a period of 35 years, there is minimal price risk arising from transmission charge resetting, which provides stability, consistent cash flows and long term visibility. Power transmission projects are characterized by low levels of operating risk. Once a transmission project has been commissioned, it requires low levels of expenditure for O&M. Further, inter-state power transmission projects receive transmission charges on the basis of availability, including in case of outage due to a force majeure event, subject to requisite approvals and irrespective of the quantum of power transmitted through the system.

**Strong financial position**

PGInvIT's financial position will help them finance their future expansion plans. Following utilization of the Offer Proceeds, PGInvIT consolidated borrowings and deferred payments net of cash and cash equivalents will be below 49% of the total value of their assets, as prescribed by the InvIT Regulations. The low debt position of their balance sheet (relative to their assets) will provide them with the ability to finance the growth of their business without substantial dilution to their Unitholders in the near future to ensure compliance with the InvIT Regulations.

**Distribution of cashflow to unitholders..**

PGInvIT to distribute at least 90% of the net cash available for distribution to their Unit-holders once at least every quarter in every financial year. However, the first declaration of distribution by the Trust shall be made within 6 months from the listing and trading of units pursuant to the Offer, subject to compliance with the InvIT Regulations. PGInvIT is well positioned to take advantage of the growth potential of India's power transmission industry given their financial position, support from their Sponsor and the robust regulatory framework for power transmission in India.

**Government support and an established regulatory framework**

The Govt has also been supportive in securing the settlement of outstanding dues by the designated inter-state transmission system customers. The current regulatory framework for the Indian power transmission segment provides significant risk mitigation provisions, such as, availability-based payment structure with no volume risk and the billing, collection and disbursement procedure for adequate payment with limited price risk. Such provisions help in ensuring long-term visibility on returns and predictable cash flows.

Issue date	April 29 - May 03, 2021
Listing date	May 17, 2021
Price Band	Rs. 99 - Rs.100 per unit
Bid lot	1,100 units and in multiples thereof
Issue size & type	Issue size: Rs. 7,735 crores Fresh issue: 4,993.48 crores Offer for sale: Rs. 2,741.51 crores
Issue structure	Institutional investors – 75 %, Non Institutional investors – 25%
No. of units	Upto 773,499,100 units
Credit rating	ICRA - Provisional AAA (Stable) CARE - AAA/Stable (Is) CRISIL - Stable and Provisional CCR AAA/Stable
BRLM	Axis Capital, ICICI Securities, Edelweiss Financial, HSBC Securities
Registrar to the issue	KFin Technologies Pvt. Ltd.

Particulars (Rs. crores)	9MFY21	FY20	FY19	FY18
Topline	992.28	1,324.29	977.16	343.57
Profit before tax	548	487	348	129
Profit after tax	337	379	248	114
PAT margin (%)	33.98	28.61	25.39	33.22
Equity share cap.	1,213.04	1,200.68	998.68	442.28
Networth	1,488.13	1,533.70	1,218.29	513.49
Net Debt	4,945	5,137	5,574	5,330
Long term debt/Equity	3.36	3.38	4.58	10.41

Source: RHP, # denotes P/E and ROE on annualised H1FY21 numbers,

**Investment recommendation and rationale**

**At the upper end of the price band of Rs.100, the Company's IPO is valued at 3.5x of Book Value. The yield one can expect is around 9 percent post listing. PGInvIT's immediate peer Indigrd InvIT has rallied to Rs. 128 from its issue price of Rs.100. We recommend to "SUBSCRIBE the issue due to the following factors: a) strong lineage and support from the Sponsor and Project Manager, b) Sponsor was the largest power transmission company in India in terms of length of transmission lines measured in circuit kilometres with Sponsor's share in India's cumulative inter-regional power transfer capacity was more than 85%. b) good operating performance of Initial Power Assets (IPAs), c)consistent and stable cash flows from assets with long term visibility and low counter party risks, d) transmission charges are fixed for a period of 35 years which results in minimal price risk arising from transmission charge resetting, e) government backing for PowerGrid InvIT, e) good operating performance, f) credit rating of Provisional [ICRA] AAA (Stable), CARE AAA (Is); Stable and Provisional CCR AAA/Stable by CRISIL, g) annuity like income for unitholders, h) successfully raised Rs. 3,480.74 crore from marquee anchor investors which instills confidence in the issue.**

**Sponsor..**

POWERGRID was conferred with ‘Maharatna’ status also acting in the capacity of their Project Manager, is a CPSE under the Ministry of Power, Gol. As of March 31, 2019, POWERGRID was the 3<sup>rd</sup> largest CPSE in terms of gross block as per the Public Enterprises Survey 2018-19. As of November 1, 2020, POWERGRID was the largest power transmission company in India in terms of length of transmission lines measured in circuit kilometres. As of August 31, 2020, POWERGRID’s share in India’s cumulative inter-regional power transfer capacity was more than 85%. POWERGRID is carrying out O&M of the Initial Portfolio Assets (“IPA”) since their respective Commercial Operation Date (“COD”) and has entered into O&M agreements with the IPA POWERGRID, as Project Manager, has entered into Project Implementation and Management Agreement with PGINVIT. As of December 31, 2020, their Sponsor owned the Sponsor Tariff based competitive bidding (“TBCB”) Projects. As of December 31, 2020, 8 of these Inter-state transmission system (“ISTS”) SPVs had commenced commercial operations, comprising 39 transmission lines (6,398 Circuit kilometres (“ckm”)), with a total power transformation capacity of 9,630 Megavolt-Ampere (“MVA”). The remaining Sponsor TBCB Projects are at different stages of development.

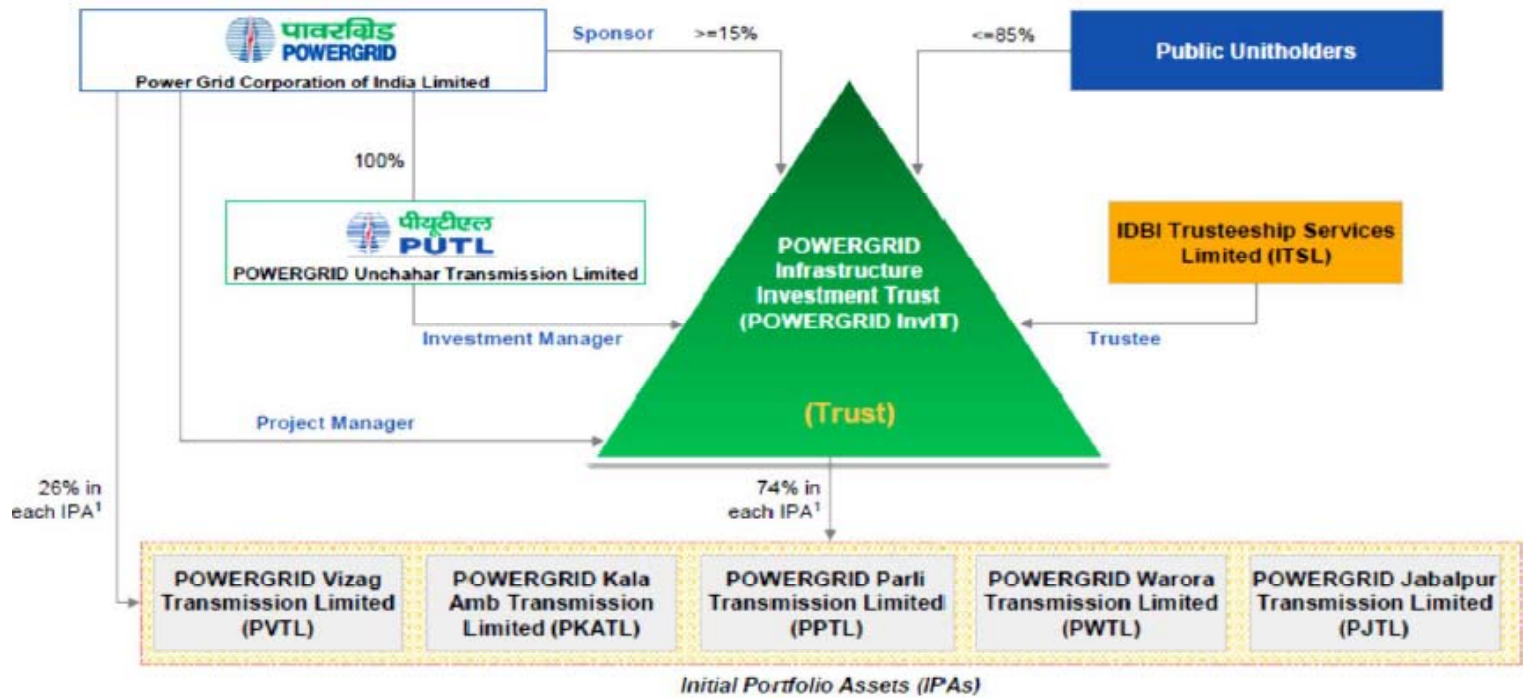
**Investment manager..**

POWERGRID Unchahar Transmission Ltd., a wholly-owned subsidiary of their Sponsor, is responsible for managing them and the Initial Portfolio Assets as well as undertaking investment decisions relating to their assets. The Investment Manager has been engaged in the power transmission business since Fiscal 2014 and has relevant infrastructure sub-sector experience owing to its involvement in the construction and operation of a transmission system. Their Investment Manager meets the prerequisite experience as required under the InvIT Regulations. The Investment Manager has overall responsibility for setting their strategic direction, including in relation to their future acquisitions, divestment, or enhancement of assets.

**Trustee..**

Their Trustee, IDBI Trusteeship Services Ltd., is a trusteeship company registered with SEBI as a debenture trustee under the SEBI (Debenture Trustees) Regulations, 1993, since February 14, 2017. On behalf of their Unit-holders, the Trustee is responsible for (a) ensuring that their business activities and investment policies comply with the provisions of the InvIT Regulations, and (b) monitoring the activities of their Investment Manager (in terms of the Investment Management Agreement) and their Project Manager (in terms of the Project Implementation and Management Agreement).

**Proposed listing structure**



Source: RHP

**Objects of the issue**

**Fresh Issue**

Particulars	Amount (Rs.)
Providing loans to the Initial Portfolio Assets for repayment or pre-payment of debt, including any accrued interest, availed by the Initial Portfolio Assets	4,993.48
General Corporate Purposes	

Offer for sale - Rs 2,741.50 crore by selling shareholders.

### Initial portfolio assets

- 1) The Assets were awarded under the Tariff Based Competitive Bidding (TBCB) mechanism on a build-own-operate-maintain (“BOOM”) basis with a long-term Transmission Service Agreement (TSA) of 35 years from the COD. The average remaining term of the TSAs is over 32 years.
- 2) By carrying out required renovation works, the useful life of transmission assets can be extended up to 50 years and upon expiry of the term of a TSA, PGIInvIT can apply to regulators for renewal if it is not unilaterally extended.
- 3) The transmission charges being contracted for 35 years result in minimal price risk arising from transmission charge resetting, which provides stability, consistent cash flows and long term visibility.
- 4) Inter-state power transmission projects receive transmission charges on the basis of availability, including outage due to a force majeure event, irrespective of the quantum of power transmitted through the system
- 5) Maintaining annual availability in excess of 98% gives the right to claim incentives under the terms of the respective TSAs and each of the IPAs has consistently achieved annual average availability of more than 98% and earned incentives.
- 6) Transmission charges under the TSAs are typically billed, collected, and disbursed by Central Transmission Utility (PGCIL is acting as CTU in India) and the proceeds are distributed proportionately to all entities whose transmission charges have been considered for the purpose of calculation. Any shortfall in collection is shared on a pro-rata basis ensuring limited counterparty risk.
- 7) A surcharge of 1.50% per month on the unpaid amount for late payments, regulation of power supply in the event of non-payment and lack of alternate power infrastructure deter transmission customers from defaulting on payments.

### Acquisition of the Initial Portfolio Assets by the Trust and acquisition of the Units by the Sponsor

The Sponsor (jointly with its nominees) presently holds 100% of the equity shareholding of each of the Initial Portfolio Assets. Prior to the Allotment, the Trust, acting through the Trustee, proposes to acquire from the Sponsor, and the Sponsor proposes to transfer to the Trust in exchange for Units, the equity shareholding of each of the Initial Portfolio Assets, pursuant to the Share Purchase Agreements, a portion of which shall be transferred to the Trust prior to Allotment (the “Proposed Transfer”).

The Proposed Transfer shall be as set out below:

Name of the initial Portfolio Asset	Pre-Offer shareholding of the Sponsor (jointly with its nominees)	Proposed post - Offer shareholding (%)	
		The Sponsor (jointly with its nominees)	The Trust
PVTL	100%	26%	74%
PKATL	100%	26%	74%
PPTL	100%	26%	74%
PWTL	100%	26%	74%
PJTL	100%	26%	74%

### Statement of projections of Revenue from operations and Cash flow from operating activities

Project SPVs	Year Ending					
	2022		2023		2024	
	Revenue from operations	Cashflow	Revenue from operations	Cashflow	Revenue from operations	Cashflow
<b>POWERGRID Infrastructure Investment Trust</b>	<b>1,313.79</b>	<b>1,208.58</b>	<b>1,258.77</b>	<b>1,168.49</b>	<b>1,234.42</b>	<b>1,137.39</b>
POWERGRID Vizag Transmission Ltd ("PVTL")	295.65	260.70	242.62	225.96	220.17	201.14
POWERGRID Kala Amb Transmission Ltd ("PKATL")	73.05	65.05	71.06	61.47	69.16	56.55
POWERGRID Parli Transmission Ltd ("PPTL")	328.49	308.50	328.49	308.11	328.49	307.79
POWERGRID Warora Transmission Ltd ("PWTL")	364.39	343.52	364.39	343.17	364.39	342.91
POWERGRID Jabalpur Transmission Ltd. ("PJTL")	252.21	242.44	252.21	242.13	252.21	242.13

**The Valuation Summary of the Specified SPVs as at 31st December 2020**

SPV	WACC	Enterprise Value (Rs. in crores)	Equity Value (Rs. in crores)
POWERGRID Vizag Transmission Ltd	7.80%	2,313.61	1,531.38
POWERGRID Kala Amb Transmission Ltd	7.60%	453.52	267.95
POWERGRID Parli Transmission Ltd	7.70%	2,597.64	1,313.86
POWERGRID Warora Transmission Ltd	7.70%	2,903.68	1,367.95
POWERGRID Jabalpur Transmission Ltd.	7.60%	2,116.30	958.21

**Distribution policy**

- 1) The net distributable cash flows of the Trust (the “**Distributable Income**”) shall be based on the cash flows generated by it and from the underlying operations undertaken by the InvIT Assets and any holding companies (such holding companies, together, the “**Holding Companies**”).
- 2) In terms of the InvIT Regulations, the InvIT Assets shall distribute not less than 90% of each of their net distributable cash flows to the Trust or a holding company, as applicable, in the proportion of its holding in the InvIT Asset, subject to the applicable provisions of the Companies Act, 2013 or Limited Liability Partnership Act, 2008, as amended.
- 3) Further, with regard to distribution of net distributable cash flows by the Holding Companies to the Trust, 100% of cash flows received by the Holding Companies from underlying SPVs shall be distributed to the Trust and with respect to the cash flows generated by a Holding Company on its own, not less than 90% of such net distributable cash flows shall be distributed by the Holding Company to the Trust.
- 4) In the event any infrastructure asset is sold by the Trust or any Portfolio Asset, or if the equity shares or interest in any Portfolio Asset is sold by the Trust, then in accordance with the InvIT Regulations:
  - a) if the Trust proposes to re-invest the sales proceeds into any other infrastructure asset, it shall not be required to distribute any sales proceeds to the Trust or the Unit-holders (as defined below); and
  - b) if the Trust proposes not to invest the sales proceeds into any other infrastructure asset within a period of one year, it shall be required to distribute the same in accordance with the InvIT Regulations.



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