

April 28, 2021

PowerGrid Infrastructure InvIT has been set up to own, construct, operate, maintain and invest as an infrastructure investment trust as permissible in terms of the InvIT regulations, including in power transmission assets in India. The sponsor and project manager for the InvIT is Power Grid Corporation of India (PGCIL), which is the third largest CPSE in terms of gross block. The investment manager, PowerGrid Unchahar Transmission Ltd, is a wholly owned subsidiary of the sponsor and is responsible for managing the InvIT as well as the initial portfolio assets. The InvIT will acquire five projects initially with a total network of 11 power transmission lines of 3698.59 ckm and three substations having 6,630 MVA of aggregate transformation capacity, as of December 31, 2020, across five states in India.

Initial portfolio assets awarded under TBCB on BOOM basis

The initial portfolio assets were awarded to the InvIT sponsor (PGCIL) under the TBCB mechanism on build-own-operate-maintain (BOOM) basis. The assets earn revenues as per availability based transmission charges pursuant to the Transmission Service Agreements (TSAs). The transmission charges for power transmission projects acquired through the TBCB mechanism, including the initial portfolio assets, is contracted for the period of the relevant TSAs, which is 35 years from the scheduled CoD of the relevant power transmission project.

Total 90% of net cash to be distributed every quarter

The InvIT will be distributing 90% of the net cash available for distribution to the unitholders once at least every quarter in every financial year. The first declaration of distribution by the Trust shall be made within six months from the listing and trading of units.

Well positioned for growth potential of India's transmission industry

Strong financial position, government support and an established regulatory framework will enable the InvIT to finance future growth without substantial dilution to the unitholders. Furthermore, consistent and stable cash flows from assets provide long term sustenance and visibility.



Particulars

Issue Details	
Issue Opens	29th April 2021
Issue Closes	3rd May 2021
Issue Size (₹ crore)	₹ 7734.9 crore
Issue Type	Fresh Issue/OFS
Price Band	₹ 99-100
Market Lot	1100 units

Sponsor/Project Manager:
Power Grid Corporation of India Ltd

Investment Manager:
PowerGrid Unchahar Transmission Ltd

Objects of issue

Objects of the issue

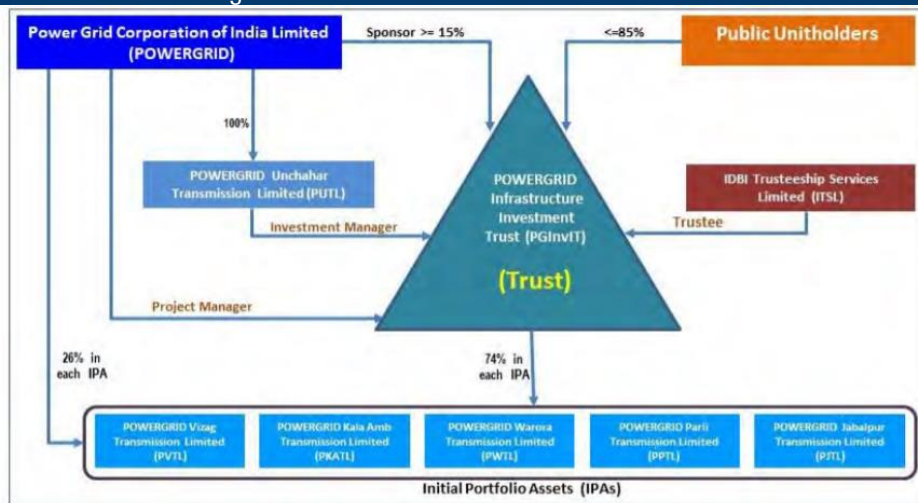
Providing loans to the Initial Portfolio Assets for repayment or pre-payment of debt, including any accrued interest, availed by the Initial Portfolio Assets

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Exhibit 1: Post Listing InvIT Structure



Source: Offer Document, ICICI Direct Research

Initial portfolio assets

The initial portfolio assets comprise five power transmission projects across five states of India. The projects comprise 11 transmission lines, including six 765 kV transmission lines and five 400 kV transmission lines, with a total circuit length of ~3,698.59 ckm, and three substations with 6,630 MVA of an aggregate transformation capacity and 1,955.66 km of optical ground wire. Each of the initial portfolio assets has in place a long-term TSA of 35 years from the scheduled CoD of the relevant initial portfolio asset. Upon expiry of the term of a TSA, the relevant initial portfolio asset can apply to CERC for renewal if it is not unilaterally extended by CERC.

Exhibit 2: Proposed transfer of following assets to SPV

Assets	Pre-offer Shareholding of the sponsor	Proposed post-Offer shareholding (%)	
		The Sponsor (jointly with nominees)	The Trust
POWERGRID Vizag Transmission Limited	100%	26%	74%
POWERGRID Kala Amb Transmission Limited	100%	26%	74%
POWERGRID Parli Transmission Limited	100%	26%	74%
POWERGRID Warora Transmission Limited	100%	26%	74%
POWERGRID Jabalpur Transmission Limited	100%	26%	74%

Source: Offer Document, ICICI Direct Research

Exhibit 2: Summary of portfolio of assets

Serial No	Project Name	Transmission Lines (Including any substations/stations)	Specifications	Line length (in ckm)	Transformation capacity (in MVA)	COD	Expiry term of TSA
1	POWERGRID Vizag Transmission Ltd	Khammam (Existing) - Nagarjuna Sagar	400 kV/DC	289	-	January 3, 2016	January 31, 2052
		Srikakulam PP-Vemagiri-II Pooling station	765 kV/DC	668	-	February 1, 2017	
2	POWERGRID Kala Amb Transmission Ltd	LILO of both circuits of Karcham Wangtoo-Abdullapur transmission line at Kala Amb substation	400 kV/DC	2	-	July 12, 2017	July 11, 2052
		400/220 Kv GIS Substation at Kala Amb	400 kV/220 kV GIS Substation	-	630	July 12, 2017	
		40% Series compensation on 400 Kv Karcham Wangtoo-Kala Amb (Quad) D/C line at Kala Amb ends	-	-	-	July 12, 2017	
3	POWERGRID Parli Transmission Ltd	Parli (New) - Solapur	765 kV/DC	236	-	April 27, 2018	June 3, 2053
		Parli (New) - Parli (PG)	400 kV/DC	37	-	April 27, 2018	
		2x1500 MVA Parli (New), S/S	765/400 kV/Substation	-	3,000	April 27, 2018	
		Warora (Pooling station) - Parli (New)	765 kV/DC	694	-	June 4, 2018	
4	POWERGRID Warora Transmission Ltd	Interim Arrangement*	765 kV/DC	31	-	Nov 30, 2016	July 9, 2053
		Gadarwara STPS-Jabalpur Pool	765 kV/DC	174	-	May 31, 2017	
		LILO of both circuits of Wardha-Parli (PG) 400 kV D/C line at Warora Pooling station (Quad)	400 kV/DC	196	-	May 16, 2018	
		Gadarwara STPS-New Pooling Station within the jurisdiction/ boundary of Warora	765 kV/DC	627	-	July 10, 2018	
		2x1500 MVA 765/400 k+AD69 kV (New pooling stations within jurisdiction/boundary of Warora)	765/400 kV/Substation	-	3,000	July 10, 2018	
5	POWERGRID JABALPUR Transmission Ltd	Vidhyanchal Pooling station- Jabalpur Pooling station	765 kV/DC	745	-	June 25, 2018	June 24, 2053

Source: Offer document, ICICI Direct Research

Exhibit 3: Revenue from operations of portfolio of assets

Initial	9 months ended Dec 2020			Fiscal 2020			Fiscal 2019			Fiscal 2018		
Portfolio	Transmission		Total	Transmissi		Total	Transmissi		Total	Transmissi		Total
Assets	Charges	Incentive	revenue	on Charges	Incentive	revenue	on Charges	Incentive	revenue	on Charges	Incentive	revenue
PVTL	221	8	229	302	11	313	285	10	295	234	8	242
PKATL	54	1	55	73	0	73	57	-	57	38	-	38
PPTL	238	9	247	316	11	327	274	9	283	-	-	-
PWTL	263	10	273	348	12	360	271	9	280	62	1	64
PJTL	183	5	188	243	8	251	60	1	61	-	-	-
Total	960	33	992	1,283	42	1,324	947	30	977	334	9	344

Source: Offer document, ICICI Direct Research

Exhibit 4: Debt position of portfolio of assets as on March 31, 2021 (₹ crore)

Sr. No	Initial Portfolio Asset	Principal Outstanding Amount as on 31st March 2021	Interest outstanding as on March 31, 2021
1	PVTL	784	Nil
2	PKATL	186	Nil
3	PPTL	1,301	Nil
4	PWTL	1,540	Nil
5	PJTL	1,183	Nil
	Total	4,993	NIL

Source: Offer document, ICICI Direct Research

Consistent, stable cash flows with long term visibility

The InvIT derives its revenues for electricity transmission from contracted transmission charges under TSAs, which characterises their power transmission business with low level of risk. The transmission charges for each initial portfolio asset are contracted for the period of the TSA, which is 35 years from its respective scheduled CoD. Since transmission charges are fixed for 35 years, there is minimal price risk arising from transmission charge resetting, which provides stability, consistent cash flows and long term visibility. The average remaining term of TSAs entered into by the initial portfolio assets is over 32 years, and with carrying out required renovation work, the useful life of our transmission assets can be extended up to 50 years. The long residual life of the initial portfolio assets provides long and stable visibility of cash flows. Since the initial portfolio assets are on a BOOM basis, the InvIT will be in possession of these assets perpetually, which further ensures stability of cash flows.

Strong financial position

Revenue from operations for 9MFY21, FY20, FY19 & FY18 was ₹ 992.2 crore, ₹ 1324.2 crore, ₹ 977.1 crore & 343.5 crore, respectively. Profit for the same period was at ₹ 337.1 crore, ₹ 378.8 crore, ₹ 248 crore & 114.1 crore respectively. Following utilisation of the offer proceeds, consolidated borrowings and deferred payments net of cash will be below 49% of total value of assets, thus improving overall financials. Furthermore, the InvIT has been given robust credit ratings from the various agencies viz. Provisional [ICRA] AAA (Stable), CARE AAA (Is); Stable and Provisional CCR AAA/Stable by ICRA Limited, CARE Ratings Limited and CRISIL Ratings Limited, respectively.

Strong lineage, support from sponsor and project manager

The experience and expertise of sponsor PGCIL will provide the InvIT with a significant competitive advantage within the Indian power transmission industry. As of December 2020, PGCIL's total transmission assets, including its wholly owned subsidiaries, consisted of 1,277 transmission lines aggregating to 168,140 ckm, 252 substations with an aggregate transformation capacity of 420,630 MVA. The sponsor has a strong balance sheet with equity investors, including foreign portfolio and institutional investors, mutual funds and insurance companies. Further, the sponsor by virtue of being a PSU, also benefits from the Government appointed board of directors.

Government support, established regulatory framework

The Govt has also been supportive in securing the settlement of outstanding dues by the designated inter-state transmission system customers and in addressing right of way issues, as well as expediting forest clearances that are required during implementation of projects. The transmission segment of the Indian power sector is a regulated sector with an established regulatory framework. Various regulatory and statutory bodies, such as the CEA, the Central Electricity Regulatory Commission (CERC) and various state electricity regulatory commissions (SERCs), provide institutional guidance in the formulation of policy framework for the participation and ongoing regulation of various stakeholders involved in the industry, including, transmission service providers.

Strategic, critical nature of power transmission infra with low risk of emergence of alternate transmission infrastructure

The power sector is strategic and critical as power supply system not only supports critical national infrastructure, national defence and vital emergency services but also supports the entire economy and day-to-day life of the citizens of India. The initial portfolio assets comprise grid strengthening links, generation linked assets, and assets linked with inter-regional power flow covering both demand and supply centric states of Himachal Pradesh, Maharashtra, Andhra Pradesh, Madhya Pradesh and Telangana, making them strategically and critically important for the transmission of power from one part of India to another. In general, power transmission projects are strategic and critical assets since they operate as vital links in the power supply value chain. Transmission projects, such as the initial portfolio assets, are capital intensive and complex to develop since these are linear in nature. The construction, development and implementation of a transmission project involves various challenges, such as, difficult terrains, obtaining approvals and right of way, land acquisition issues and construction costs. The projects may pass through various routes including rural, semi-urban and urban areas, rivers, deserts and forests which may require procurement of land for substations, where required. The transmission lines of the initial portfolio assets are predominantly located in areas where developing alternate lines may be difficult due to these challenges and hence gives the InvIT an advantageous position to capitalise on opportunities that may arise for increasing power transmission capacity by utilising existing right of way, since developing alternate new lines may be challenging for another entity.

Key Risks

Newly settled trust, no established operating history

The Trust was set-up on September 14, 2020 and proposes to acquire a part of the shareholding of the sponsor in each of the initial portfolio assets immediately prior to the allotment. Accordingly, the Trust does not have any operating history or its own historical financial information by which its past performance may be assessed. This will make it difficult for investors to assess its future performance. Growth prospects as an infrastructure investment trust can be affected by a wide variety of factors, including, inability to raise funds required for operations, adverse developments in taxation regulations affecting Unitholders, operational performance, distribution, and acquiring new assets. An inability to meet these challenges could cause disruptions to operations and could be detrimental to the long-term business outlook.

Fixed transmission charges, no option to offset any increase in cost

The transmission charges under the TSAs are largely fixed for the specified term of the TSA, and are subject to the incentive payable, and in the case of PVTL, the escalable component payable. Operation and maintenance costs of the portfolio assets may increase due to factors beyond control. Given the fixed nature of transmission charges, the InvIT may not be able to offset increase in costs. This may adversely impact business, prospects, financial condition, results of operations and cash flows

Any changes to current tariff policies or regulation governing CTU or load dispatch centres by regulatory authorities

With respect to potential impacts on statutory payment pooling bodies, in accordance with the CERC Sharing Regulations, transmission licensees such as the initial portfolio assets are entitled to recover their approved transmission charges from ISTS charges collected by the CTU. The CTU collects transmission charges from DICs on a regular basis and pays such charges to transmission licensees. In the event of any change in the operating statutory parameters of the CTU, or a failure or delay on the part of the CTU to make the corresponding payments to the initial portfolio assets, counterparty risk may increase significantly and hence business, prospects, financial condition, results of operations and cash flows may be materially and adversely affected.

Financial summary

Exhibit 5: Profit and loss statement					₹ crore
₹ crore	FY18	FY19	FY20	9MFY21	
Revenue	343.6	977	1,324	992	
Other Income	2.0	7	10	17	
Total Income	345.6	984	1,334	1,009	
% Growth		185%	36%		
Finance cost	115.8	328	429	291	
Depreciation	93.2	275	379	139	
Other expenses	8.1	33	38	31	
EBIDTA	335	944	1,286	961	
EBIDTA %	98%	97%	97%	97%	
PBT	129	348	488	548	
Tax	14	100	109	211	
PAT	114	248	379	337	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					₹ crore
₹ crore	FY18	FY19	FY20	9MFY21	
Non Current Assets	6,387	6,718	6,442	6,375	
Fixed Assets	1,779	6,615	6,322	6,199	
CWIP	4,529	9	-	2	
Intangibles	19	88	116	112	
Other Non-current Assets	60	5	4	62	
Current Assets	117	282	380	443	
Inventory	10.9	21	31	31	
Trade Receivables	50.7	119	174	188	
Cash & Bank	17.0	3	40	54	
Other Current Assets	38.8	140	135	170	
Total Assets	6,505	7,000	6,821	6,818	
Equity	513.5	1,218	1,534	1,488	
Equity Share Capital	442.3	999	1,201	1,213	
Other Equity / Reserves	71.2	220	333	275	
Non-Current Liabilities	5,237	5,342	4,458	5,018	
Current Liabilities	755	440	829	312	
Trade Payables	0	0	1	9	
Financial Liabilities	739	431	827	300	
Other Current Liabilities	16	5	2	3	
Provisions	0	4	0	0	
Total Liabilities	6,505	7,000	6,821	6,818	

Source: Company, ICICI Direct Research

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