

# Powergrid InvIT

# SUBSCRIBE

## Stable distributable cash flow

### Summary

Powergrid Corporation (PWGR) is commencing its asset monetization drive by Invit mechanism from 29<sup>th</sup> April to 3<sup>rd</sup> May. Invit offer size of Rs77.3bn is priced at Rs99-100/unit. PWGR acting as a sponsor has transferred 11 operational power transmission line with an AUM of Rs72bn to Powergrid Invit (POVIT). The entire 11 asset has annuity like revenue with transmission line availability of 98%+. POVIT entails annual net distributable cash flow (NDCF) of Rs10-10.6bn to unit holders over FY22-24. This implies an attractive yield of 11-11.5% versus Indigrd (Sterlite Sponsor) trading at 9.5-10%. For growth in NDCF, POVIT aims to a) acquire remaining 26% stake of the SPV from PWGR, and b) acquire additional asset by raising debt. We recommend SUBSCRIBE to Powergrid Invit.

### Key Investment Rationale

- POVIT structure:** PWGR has transferred, 74% stake in 5 SPVs (with 11 operational power transmission lines) to the POVIT. All the 5 SPVs are housed in POVIT which has Powergrid Unchachar Transmission Limited as Investment Manager and IDBI Trusteeship Services Limited as Trustee. POVIT has issued units which in turn is offered for sale by PWGR. Post listing, PWGR will hold 15% in POVIT and remaining will be owned by the public. POVIT will utilize IPO money (fresh issue) to retire existing debt which was raised by PWGR to establish the transmission line.
- POVIT has operational asset:** POVIT assets has total transmission length of 3,699 ckm with transformation capacity of 6,630 MVA. All the 5 SPV, have long-term transmission service agreement (TSA) with 32 years of contractual life to supply power. Further the life of assets can be extended till 50 years with necessary modifications. POVIT is sponsored by a strong Maharatna company - "Powergrid Corporation of India", which has more than 3 decades of experience to operate power transmission lines. PWGR Operates ~90% of inter-state and inter-regional transmission network in India and operationally its system availability has been greater than 99%.
- Multiple Avenues of growth in POVIT:** The NDCF to the POVIT from SPV will be in 3 ways - a) interest on loan (50%), b) dividend (30%) and c) loan repayment (20%). Post IPO, POVIT will be debt free. And thus there is opportunity of growth by way of acquisition of transmission asset. Given AUM of assets at Rs72bn, POVIT can comfortably acquire assets (by raising debt) of Rs30-40bn. But key to watch is profitability and acquisition costs of acquired assets.

<b>Issuer</b>	POWERGRID Infrastructure Investment Trust.
<b>Transaction Type</b>	Fresh Issue of up-to Rs49.9bn and Offer for Sale of upto Rs27.4bn.
<b>Issue Open / Close</b>	Apr 29 <sup>th</sup> 2021 / May 3 <sup>rd</sup> 2021
<b>Type of Offering</b>	Fresh issue and offer for sale
<b>Total Offer Size</b>	Rs 77.3 bn
<b>Price Band</b>	Rs. 99-100/unit
<b>Bid lot</b>	1,100 Units and in multiples thereof
<b>Percentage of Offer Size (Allocation)</b>	<ul style="list-style-type: none"> <li>Institutional: 75% (Anchor 30%, Non Anchor 35%)</li> <li>Non Institutional: 25%</li> </ul>

### Share holding pattern

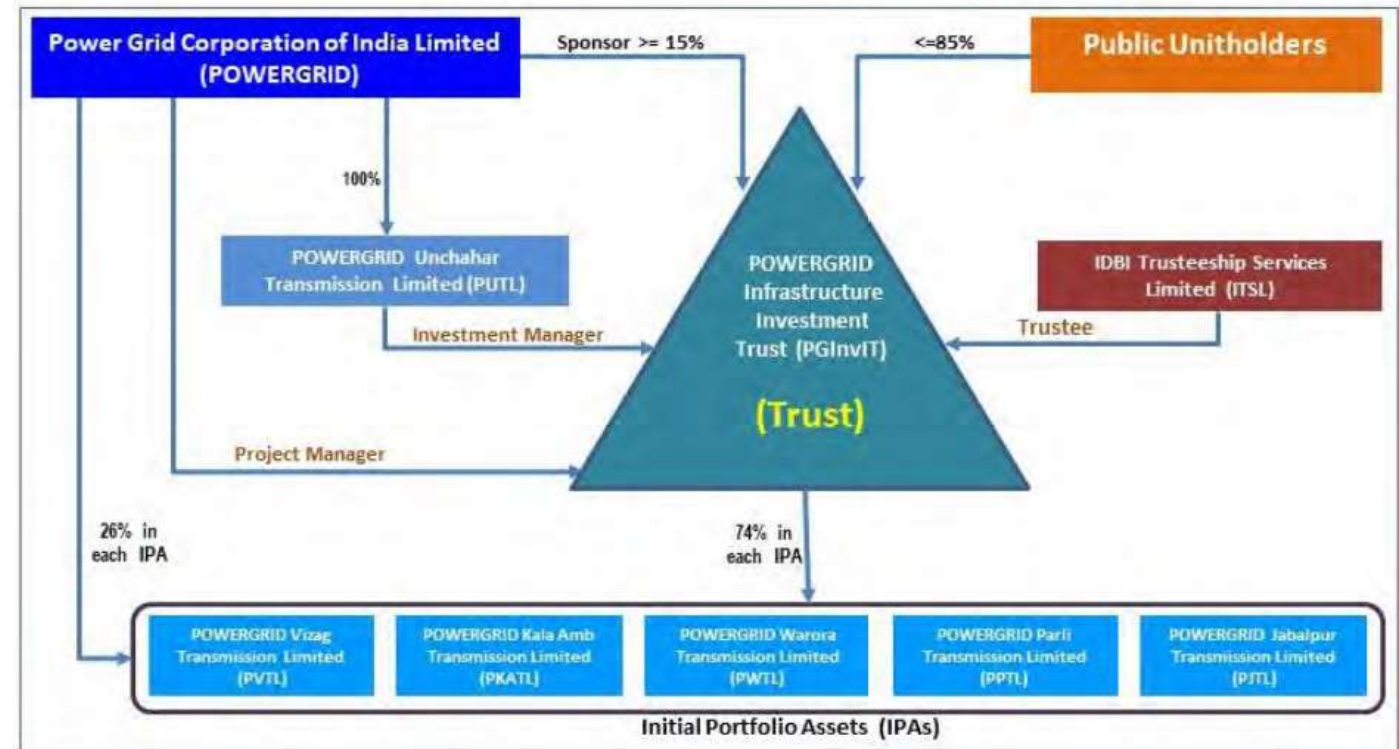
	Pre-Issue	Post-Issue
Promoter	100.0	15.0
Public	0.0	85.0
<b>Total</b>	<b>100%</b>	<b>100%</b>

### Financial Snapshot

(Rs mn)	FY18	FY19	FY20	9MFY21
Revenue	3,436	9,772	13,243	9,923
EBITDA	3,355	9,442	12,861	9,611
EBITDA Margin(%)	97.6	96.6	97.1	96.9
Adj.PAT	1,141	2,481	3,788	3,371
EPS (Rs)	2.6	2.5	3.2	2.8
Networth	5,135	12,183	15,337	14,881
Debt	52,367	53,369	44,293	47,507
Gross Block	63,270	67,125	64,374	63,133
CFO	3,732	3,425	10,521	9,005
RoE (%)	44.5	28.6	27.5	22.3
RoCE (%)	8.4	10.9	14.4	13.2

Source: RHP

Exhibit 1: Trust Structure



Source: RHP

**Sponsor and Project Manager:** Powergrid Corporation of India a ‘Maharatna’ company is the Sponsor and project manager of the Powergrid Invit. The Sponsor is the largest power transmission company in India in circuit kilometres.

**Investment Manager:** POWERGRID Unchahar Transmission Ltd., a wholly-owned subsidiary of the Sponsor, is responsible for managing Portfolio of the Assets as well as undertaking new investment decisions relating to the assets. The Investment Manager has been engaged in the power transmission business since Fiscal 2014.

### Portfolio of transmission line

- The Sponsor (PWGR) presently holds 100% of the equity in the 5 SPVs (which further own 11 transmission line). Prior to the Allotment, the Trust (POVIT), acting through the Trustee, proposes to acquire from the Sponsor (PWGR) the assets, and the Sponsor proposes to transfer the asset to the Trust in exchange for Units.

#### Exhibit 2: Shareholding of 5 SPV, remaining 26% to be acquired from Feb 22

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

Source: RHP

#### Exhibit 3: Long term visibility of revenue, TSA expiring in FY52 and beyond

SPV	Date of Commercial Operations ("COD")	Sponsor Holding	Equity Stake proposed to be acquired by the Trust prior to Listing	Residual Equity Stake	Date of acquiring 100% Equity Stake in SPV	Tenor of Transmission Service Agreement ("TSA')
PVTL	01-Feb-17	100%	74.00%	26.00%	01-Feb-22	31-Jan-52
PKATL	12-Jul-17	100%	74.00%	26.00%	12-Jul-22	11-Jul-52
PPTL	04-Jun-18	100%	74.00%	26.00%	04-Jun-23	03-Jun-53
PWTL	10-Jul-18	100%	74.00%	26.00%	10-Jul-23	09-Jul-53
PJTL	01-Jan-19	100%	74.00%	26.00%	01-Jan-24	31-Dec-53

Source: RHP

**Exhibit 4: Past financials of 5 SPVs, incentive income at 3% of revenue (Rs mn)**

Initial Portfolio Assets	FY19			FY20			9MFY21		
	Transmission Charge	Incentive	Total	Transmission Charge	Incentive	Total	Transmission Charge	Incentive	Total
PVTL	2,854	101	2,954	3,023	106	3,129	2,209	80	2,289
PKATL	573	-	573	730	2	732	543	6	549
PPTL	2,739	91	2,830	3,162	111	3,273	2,385	89	2,474
PWTL	2,711	94	2,804	3,482	120	3,603	2,630	99	2,729
PJTL	599	12	611	2,428	78	2,506	1,830	53	1,882
<b>Total</b>	<b>9,474</b>	<b>298</b>	<b>9,772</b>	<b>12,825</b>	<b>418</b>	<b>13,243</b>	<b>9,597</b>	<b>326</b>	<b>9,923</b>

Source: RHP

**Exhibit 5: Stable expected distributable Cash Flow Rs mn**

Project SPVs	FY22		FY23		FY24	
	Revenue	CFO	Revenue	CFO	Revenue	CFO
POWERGRID Vizag Transmission Ltd ("PVTL")	2,957	2,607	2,426	2,260	2,202	2,011
POWERGRID Kala Amb Transmission Ltd ("PKATL")	731	651	711	615	692	566
POWERGRID Parli Transmission Ltd ("PPTL")	3,285	3,085	3,285	3,081	3,285	3,078
POWERGRID Warora Transmission Ltd ("PWTL")	3,644	3,435	3,644	3,432	3,644	3,429
POWERGRID Jabalpur Transmission Ltd ("PJTL")	2,522	2,424	2,522	2,421	2,522	2,421
<b>Total</b>	<b>13,138</b>	<b>12,086</b>	<b>12,588</b>	<b>11,685</b>	<b>12,344</b>	<b>11,374</b>

Source: RHP

### Timeline to distribute Cash Flow

- POVIT intend to distribute at least 90% of the net cash available for distribution to their Unit-holders once in a quarter. The first distribution by the Trust will be made in 6 months from listing

**Exhibit 6: Independent valuation has pegged EV at Rs104bn versus issue offered by PWGR at EV of Rs105bn (assuming Rs14bn for remaining 26% stake)**

Portfolio Assets	WACC	EV Rs bn	Equity Value Rs bn	No. of sh mn	Value / eq sh
PVTL	7.8%	23.1	15.3	209.7	73
PKATL	7.6%	4.5	2.7	61	44
PPTL	7.7%	26.0	13.1	322	41
PWTL	7.7%	29.1	13.7	393	35
PJTL	7.6%	21.2	9.6	226.9	42
<b>Total</b>		<b>103.8</b>	<b>54.4</b>		

Source: RHP

### Taxation

- DDT regime has shifted the incidence of taxation of dividend on the unitholders (provided the SPV distributing the dividends has not opted to pay corporate tax under the 22%). That is interest and dividend income distributed to unitholders is to be taxed at the tax rates applicable to each of the unitholders.
- For long term capital gains, Income arising on transfer of units of the Trust through, shall be chargeable to tax in the hands of the Unitholders at a rate of 10%. The period of holding for such units to qualify as long term is 36 months+.
- Short-term capital gains arising on transfer of the units will be chargeable to tax at the rate of 15%.

### Risks and Concerns

- Lower transmission line availability may affect cash flows and results of operations of POVIT
- Delay in payment from State Electricity Board could impact cash Flow
- Delay in future acquisition of assets and timely raising of cash for acquisition could impact growth.

**Exhibit 7: Directors and key personnel of the Investment Manager**

Name	Designation	Profile
Seema Gupta	Non-executive chairperson.	She is holding the post of Director (Operations) in Power Grid Corporation of India Limited (the Sponsor). Prior to taking up this assignment, she was an executive director (Northern Region-I) in Power Grid Corporation of India Limited. She holds a degree in engineering from Delhi College of Engineering and also holds a post graduate diploma in management from Institute of Management Technology, Ghaziabad. She has more than 36 years of experience in the power sector.
Sunil Kumar Sharma	Independent director	He has served as the chairman and managing director of Bharat Electronics Limited. He holds a bachelor's degree in engineering and a master of business administration degree from Bangalore University. During his professional tenure of about four decades.
M. N. Venkatesan	Independent director	He holds a bachelor of commerce degree and is a practicing chartered accountant specialising in management and financial consultancy. He has more than 36 years of experience as a chartered accountant, including as the statutory central auditor of large public sector.
Ashok Kumar Singhal	Independent director	He holds a bachelor's degree in commerce from Bangalore University. He is admitted as a fellow member of the ICAI. He has prior experience in the field of finance, strategy and consulting. He is the co-founder and a director on the board of Pierian Services Private Limited and Pierian Digital Private Limited. He has previously worked with Netkraft Private Limited and was founding partner at Chetan and Gurunath, Chartered Accountants
Purshottam Agarwal	CEO	He holds a bachelor of commerce degree from Ranchi University. He is a qualified chartered accountant and is a member of the Institute of Chartered Accountants of India. He has 27 years of experience in the fields of finance and accounts, including corporate accounts, budgeting, financial concurrence, fund raising from capital markets and enterprise resource planning systems.
Amit Garg	CFO	He holds a bachelor of commerce degree from Delhi University and a post graduate diploma in business management from the Institute of Integrate Learning in Management, New Delhi. He has 24 years of experience in the fields of corporate accounts, corporate banking, investment appraisals, financial concurrence, formulation of capital budgets, resource mobilization, tariff based bidding and enterprise resource planning.

Source: RHP

## Financial Summary

### Profit & Loss Account (Rsmn)

Year-end: March	FY18	FY19	FY20	9MFY21
<b>Net sales</b>	<b>3,436</b>	<b>9,772</b>	<b>13,243</b>	<b>9,923</b>
<i>Growth (%)</i>		184.4	35.5	(25.1)
Operating expenses	(81)	(330)	(382)	(312)
<b>EBITDA</b>	<b>3,355</b>	<b>9,442</b>	<b>12,861</b>	<b>9,611</b>
<i>Growth (%)</i>		181.4	36.2	-25.3
Depreciation	(932)	(2,750)	(3,794)	(1,392)
<b>EBIT</b>	<b>2,423</b>	<b>6,692</b>	<b>9,067</b>	<b>8,219</b>
Interest paid	(1,158)	(3,281)	(4,291)	(2,910)
Other income	20	70	98	168
<b>Pre-tax profit</b>	<b>1,285</b>	<b>3,480</b>	<b>4,874</b>	<b>5,477</b>
Tax	(144)	(1,000)	(1,086)	(2,105)
<i>Effective tax rate (%)</i>	11.2	28.7	22.3	38.4
<b>Net profit</b>	<b>1,141</b>	<b>2,481</b>	<b>3,788</b>	<b>3,371</b>
Exceptional items	-	-	-	-
<b>Reported net profit</b>	<b>1,141</b>	<b>2,481</b>	<b>3,788</b>	<b>3,371</b>
<i>Growth (%)</i>		117.3	52.7	(11.0)
<i>Shares o/s (mn nos)</i>	442	999	1,201	1,213

### Cash Flow Statement (Rsmn)

Year-end: March	FY18	FY19	FY20	9MFY21
Pre-tax profit	1,285	3,480	4,874	5,477
Depreciation	932	2,750	3,794	1,392
Tax paid	(266)	(738)	(869)	(236)
Chg in working capital	623	(5,348)	(1,569)	(538)
Other operating activities	1,158	3,281	4,291	2,910
<b>Cash flow from operations (a)</b>	<b>3,732</b>	<b>3,425</b>	<b>10,521</b>	<b>9,005</b>
Capital expenditure	(32,739)	(6,428)	(1,073)	(151)
Chg in investments	-	-	-	-
Other investing activities	-	-	1	6
<b>Cash flow from investing (b)</b>	<b>(32,739)</b>	<b>(6,428)</b>	<b>(1,072)</b>	<b>(145)</b>
Equity raised/(repaid)	2,062	5,564	2,020	124
Debt raised/(repaid)	28,069	2,301	(4,000)	(1,773)
Dividend (incl. tax)	(210)	(827)	(2,202)	(3,951)
Chg in minorities	(43)	(170)	(453)	(0)
Other financing activities	(737)	(4,008)	(4,442)	(3,119)
<b>Cash flow from financing (c)</b>	<b>29,141</b>	<b>2,860</b>	<b>(9,077)</b>	<b>(8,719)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,399</b>	<b>1,506</b>	<b>2,966</b>	<b>5,021</b>

<b>Balance Sheet</b>		<b>(Rsmn)</b>			
Year-end: March	FY18	FY19	FY20	9MFY21	
Net fixed assets	63,270	67,125	64,374	63,133	
Investments	-	-	-	-	
Other non-curr assets	604	55	41	620	
<b>Current assets</b>	<b>1,174</b>	<b>2,823</b>	<b>3,797</b>	<b>4,432</b>	
Inventories	109	210	310	310	
Sundry Debtors	507	1,189	1,737	1,881	
Cash and Bank	170	27	399	541	
Marketable Securi.	-	-	-	-	
Loans and advances	-	-	-	-	
<b>Total assets</b>	<b>65,049</b>	<b>70,003</b>	<b>68,212</b>	<b>68,185</b>	
<b>Shareholders' funds</b>	<b>5,135</b>	<b>12,183</b>	<b>15,337</b>	<b>14,881</b>	
Share capital	4,423	9,987	12,007	12,130	
Reserves & surplus	712	2,196	3,330	2,751	
<b>Total Debt</b>	<b>52,367</b>	<b>53,369</b>	<b>44,293</b>	<b>47,507</b>	
Secured loans	52,367	53,369	44,293	47,507	
Unsecured loans	-	-	-	-	
Other liabilities	-	53	287	2,677	
<b>Curr Liab &amp; prov</b>	<b>7,547</b>	<b>4,398</b>	<b>8,295</b>	<b>3,119</b>	
Current liabilities	7,546	4,393	8,294	3,119	
Provisions	0	6	1	0	
<b>Total liabilities</b>	<b>59,914</b>	<b>57,820</b>	<b>52,875</b>	<b>53,304</b>	
<b>Total equity &amp; liabilities</b>	<b>65,049</b>	<b>70,003</b>	<b>68,212</b>	<b>68,185</b>	
<b>Book Value (Rs)</b>	<b>12</b>	<b>12</b>	<b>13</b>	<b>12</b>	

Source: Company; IDBI Capital Research





# Notes

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**IDBI Capital Markets & Securities Ltd.**

**Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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**Compliance Officer:** Christina D’souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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