

NTPC: Financials Snapshot (INR b)

Y/E MAR	2019E	2020E	2021E
Net Sales	920.4	997.1	1,091.4
EBITDA	265.5	306.8	354.5
PAT	108.2	129.5	148.2
EPS (INR)	10.9	13.1	15.0
Gr. (%)	22.9	19.7	14.5
BV/Sh (INR)	110.8	118.2	126.9
RoE (%)	10.1	11.4	12.2
RoCE (%)	6.5	7.2	7.9
P/E (x)	12.4	10.4	9.1
P/BV (x)	1.2	1.2	1.1

PWGR: Financials Snapshot (INR b)

Y/E MAR	2019E	2020E	2021E
Net Sales	335.2	380.0	409.4
EBITDA	299.4	341.1	367.9
PAT	95.5	108.7	118.4
EPS (INR)	18.3	20.8	22.6
Gr. (%)	10.4	13.9	8.8
BV/Sh (INR)	115.2	127.9	141.9
RoE (%)	16.7	17.1	16.8
RoCE (%)	8.1	8.4	8.6
P/E (x)	10.8	9.5	8.7
P/BV (x)	1.7	1.5	1.4

NHPC: Financials Snapshot (INR b)

Y/E MAR	2019E	2020E	2021E
Net Sales	88.8	99.0	100.6
EBITDA	47.4	56.8	57.0
PAT	22.8	24.4	24.5
EPS (INR)	2.3	2.4	2.4
Gr. (%)	-7.0	6.9	0.3
BV/Sh (INR)	29.9	30.7	31.4
RoE (%)	7.6	8.0	7.8
RoCE (%)	5.7	6.9	6.8
P/E (x)	10.5	9.9	9.8
P/BV (x)	0.8	0.8	0.8

Regulated entities constructive on regulations**Delhi Power Day takeaways; NTPC, PWGR – our top picks, Downgrading NHPC to Neutral**

We hosted a group of investors in Delhi, meeting senior management of NTPC (Commercial, Projects, Finance, Fuel), NHPC and Power Grid to get more clarity on the impact of the Tariff Regulation 2019-24, upcoming projects and other developments. We also met officials from CERC.

Regulations are constructive, address under-recoveries and maintain continuity

All the three companies (NTPC/NHPC/Power Grid) mentioned that the Tariff Regulations 2019-24 were constructive, having maintained the RoE and the tariff structure. The regulations have also addressed under-recoveries in cost, primarily on account of O&M, and for NTPC also for the loss in GCV of coal between as received and as fired point. The change in working capital norms may not necessarily impact earnings because now the payment term will be tighter and surcharge will be levied sooner in case of a delay. In our view, NTPC benefits the most out of the Tariff Regulations, followed by NHPC and PWGR.

NTPC: Some slippage in commercialization; PWGR: Positive on new ordering

NTPC maintained capacity addition/commercialization outlook of ~5GW (group) in FY20, despite the slipping of ~2.2GW capacity addition in FY19. PWGR expects a total pool of ~INR430b new projects in transmission space driven by growth in renewable space, which will be awarded either through RTM (Regulated tariff Mechanism) or under TBCB (Tariff based competitive bidding). PWGR has strong competitive position due to its strong balance sheet and track record of execution. Many of private competitors have moved out from the TBCB space. NHPC expects an increase in capex intensity as it is investing in new projects.

CERC: Aim to develop market operations

The ramp-rate and peak/non-peak availability provisions were introduced in the Tariff Regulations 2019-24 to handle the growing share of renewable energy (solar/wind) in the generation mix. The ramp-rate norms are based on the existing grid code, and thus, should not be difficult to achieve. The procedure to implement these provisions will be separately notified by the grid operator.

CERC believes there is a need to further develop trading of electricity/market-operations in India. It is looking at various regulations like National Merit Order Dispatch, Ancillary Market and Real-time market operations to develop the market.

NTPC, PWGR – our top picks; Downgrading NHPC to Neutral

NTPC: We cut our consol. PAT estimate by ~3-5% for FY20/21 as we re-calibrate our projects schedule. The strong capitalization pipeline will drive regulated equity CAGR of ~14% over FY19-21. The improvement in availability of fuel will lower fixed charge under-recoveries, while the new tariff regulations will reduce under-recoveries in certain cost items, supporting earnings growth. We expect consol. PAT

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CAGR of ~17% to INR148b by FY21. RoE will improve from ~10% in FY19 to ~12% by FY21 as capitalization outpaces capex and under-recoveries decline. The stock trades attractively at ~1.1x FY20E P/BV for strong double-digit earnings growth and improving RoE profile. DCF-based TP is INR158/share. Maintain **Buy**.

PWGR: PWGR owns more than 90% of India's inter-state transmission network. It has many competitive advantages v/s private players due to its balance sheet strength, negotiation with vendors, scale and reach. While new transmission projects have slowed down in recent years, we believe there is a huge scope for long-term growth, driven by demand, renewables, increased requirement of flexibility and efficiency in the market. PWGR is well positioned to benefit from future investment requirement. PWGR's RoEs are among the best among the regulated entities. At CMP, the stock is trading attractively at 1.5x FY20E P/BV. RoE is strong at ~16-17%, while cost of equity (CoE) is ~10-11%. At such valuations, the market is ignoring growth. PWGR has ~INR770b (incl. CWIP) of projects pending capitalization which provides visibility of EPS CAGR of 11% over FY19-21. If we were to assume no growth after FY20, which means PAT is available for dividend distribution, the stock is trading at an attractive dividend yield of ~11-12% for an assured return business model, while revenues are backed by state-guarantees (g-sec yield is ~7 to 8%). The DCF-based TP is INR232/sh. Maintain **Buy**.

NHPC: NHPC's regulated equity growth will be muted for the next few years with no new project commissioning. The two projects in the advanced stage of commissioning are (a) Parbati-II – it is delayed and likely to be commissioned by end-FY22 and (b) Lower Subhansiri – it is stuck due to environment reasons. Capex is expected to increase as it is investing/exploring new projects, which will reduce FCF for dividend payout. We cut our FY20/21 PAT estimate by 11%-24% to INR24.4b/24.5b to account for (a) the impact of DSM regulations, (b) the lower-than-expected benefit from the approval of capital cost of projects and (c) exclusion of the benefit of the resumption of work at Lower Subhansiri (earlier expected in FY21) from our estimates. We expect consol. PAT CAGR of just ~2% over FY19-21 and RoE to remain subdued at ~8%. We value the stock at INR25/share based on DCF. We downgrade the stock to Neutral. Repeated delay in project commissioning, certain under-recoveries in fixed cost that are not addressed in new regulations and the impact of DSM will lead to muted earnings growth and lower FCF.

Exhibit 1: Utilities sector valuation

	Rating	CMP (INR)	MCAP (USD M)	EPS			P/E (x)		P/B(x)		RoE (%)	
				FY19E	FY20E	FY21E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Powergrid	Buy	197	14,720	18.3	20.8	22.6	10.8	9.5	1.7	1.5	16.7	17.1
NTPC	Buy	136	19,220	10.9	13.1	15.0	12.4	10.4	1.2	1.2	10.1	11.4
JSW Energy	Neutral	73	1,708	4.3	4.7	5.7	16.8	15.4	1.0	1.0	6.3	6.7
CESC	Ur	726	1,381	75.4	80.0	90.6	9.6	9.1	1.1	1.0	11.4	11.2
Tata Power	Neutral	73	2,818	2.1	6.6	6.7	33.9	11.0	1.2	1.1	3.6	10.2
NHPC	Buy	24	3,787	2.3	2.4	2.4	10.5	9.9	0.8	0.8	7.6	8.0
Torrent P	Buy	254	1,712	22.0	23.1	27.6	11.5	11.0	1.4	1.3	13.0	12.5
Coal India	Buy	240	21,634	27.4	29.0	29.9	8.7	8.3	7.2	6.6	84.1	83.7

Source: MOFSL, Company

BSE SENSEX
38,906S&P CNX
11,690**CMP: INR137****TP: INR158 (+16%)****Buy****Stock Info**

	NTPC IN
Bloomberg	NTPC IN
Equity Shares (m)	9,895
M.Cap.(INRb)/(USDb)	1352.6 / 19.5
52-Week Range (INR)	150 / 107
1, 6, 12 Rel. Per (%)	2/-11/-18
12M Avg Val (INR M)	1353
Free float (%)	43.8

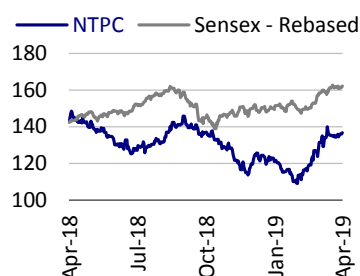
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P/BV (x)	1.2	1.2	1.1

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	58.9	61.8	62.3
DII	26.1	23.5	22.5
FII	11.7	11.6	11.8
Others	3.3	3.1	3.5

FII Includes depository receipts

Stock Performance (1-year)**Expect various under-recoveries to fall sharply****Capitalization picking up; Maintain Buy**

We had detailed discussions with various business heads of the company. Management is satisfied with the hike in the O&M allowance under regulations 2019-24 and is confident that under recoveries, which were ~INR12b in FY18 on an actual basis, will be neutralized in the base year FY20. Compensation of loss of GCV during storage of coal in plant at 85kcal/kg will result in savings of 2.4% of cost of coal consumed. This will be partly offset by returns on a reduction in regulated equity by INR27b due to capping of regulated equity at 30% for plants older than 25 years. Change in working capital norms may not necessary affect earnings because now payment terms will be tighter and surcharge will be levied sooner in case of a delay. Notwithstanding slippage of 2.3GW in commissioning/CoD in FY19, management expects commissioning and CoD of 5GW in FY20 but this is subjected to resolving small land acquisitions at Lara and Gadawara for last mile rail connectivity. NTPC is likely to deliver best earnings growth over next two years.

Coal availability no longer an issue, fixed charge u/recovery to be zero

- Against coal demand of ~190mt in FY20, it has ACQ of ~169mt, bridge linkage of ~12mt, captive coal of ~10-12mt and planned for import of ~10mt.
- For the plants that will CoD in FY20, the coal requirement is ~15mt. It has firm linkage for ~11mt and bridge linkage for ~4mt.
- Bridge linkages are on a best effort basis, but with pipeline of imports, any shortfall in bridge linkage would be adequately met.
- NTPC expects zero fixed charge under-recoveries in FY20 (v/s INR7-8b in FY19).

Capitalization to be strong, though there may be some slippage

- Group capitalization target was maintained at ~5GW for FY20, despite the spillover of ~2.3GW capacity from FY19. Gadawara U1 800MW is already capitalized, while Lara U1 800MW and Meja U1 660MW are expected to be capitalized in 1HFY20. Tanda-II U1 660MW, Khargone U1 660MW and Darlipalli U1 800MW are expected to be capitalized in 2HFY20.
- Commissioning target is also ~5GW for FY20. However, some of these projects are facing land acquisition issues which could lead to slippage.

Coal concerns receding, capitalization to pick-up pace; Maintain Buy

- We have cut our consol. PAT estimate by ~3-5% to INR129b/148b for FY20/21, as we re-calibrate our projects schedule. Now, we are expecting commercialization of 5GW against earlier estimate of 7GW at group level.
- The uncertainty of regulations is now behind, and the focus should now shift to core performance, where we believe things are turning around. The fixed charge under-recovery has started to decline as domestic coal availability has improved. Recognizing the tightness in domestic coal availability, NTPC has

planned for increasing coal imports, which will avoid coal availability shocks like FY17/18. Capitalization should also start picking up pace now, which was partly hampered due to coal availability issues. We expect regulated equity CAGR of ~14% over FY19-21. Consol. PAT is expected to increase at a CAGR ~17% to INR148b by FY21. RoE is expected to improve from ~10% in FY19 to ~12% by FY21 as capitalization outpaces capex and under-recoveries decline. The stock trades attractively at ~1.1x FY20E P/BV for strong double-digit earnings growth and an improving RoE profile. Our revised DCF-based TP is INR158/share. Re-iterate **Buy**.

Exhibit 1: NTPC's DCF valuation

	Case 1		Base		Case 2				
Rf. Nominal risk free rate	(%)	6.50	(%)	7.30	(%)	7.50			
B. Beta		0.79		0.79		0.79			
Km. Equity Risk premium	(%)	5.00	(%)	5.00	(%)	5.00			
Cost of equity (Rf+Km x B)	(%)	10.45	(%)	11.25	(%)	11.45			
DCF	INR m	INR/sh.	INR m	INR/sh.	INR m	INR/sh.			
A. FY19-22	123,802	13	122,427	12	122,087	12			
	RoE	Re-Invest	Growth						
	(%)	(%)	(%)						
B. FY25-32	14.00	50	7.0	652,401	66	616,508	62	607,938	61
C. Terminal Value	12.00	25	3.0	997,790	101	820,343	83	782,442	79
Target price (A+B+C)					179		158		153

Source: MOFSL, Company

Meeting highlights

Tariff regulation 2019-24

- Management is of the view that under-recoveries on account of O&M expenses are expected to be nil in base year i.e. FY20. According to the data submitted to CERC, we estimate NTPC had an O&M under-recovery of ~INR12b in FY18.
- Compensation of 85kcal/kg for loss in GCV of coal between as received and as fired point is a major relief. NTPC is likely to save ~2.4% (average GCV of coal was 3500kcal/kg as per the sustainability report) of cost of coal consumed during the year.
- On account of capping of regulated equity at 30%, the reduction in regulated equity is about INR27b for plants older than 25 years.
- Norms for peak and non-peak availability will be notified by grid operator POSOCO. This makes operating conditions stricter.
- The norms for ramp rates of plants are yet to be notified by POSOCO.
- FGD and coal mining capex will also earn regulated RoE.

Exhibit 2: O&M under-recovery

		FY15A	FY16A	FY17A	FY18A
Norm. O&M allowance	INR m	66,532	72,460	78,435	86,768
Actual O&M (as per data filed with CERC)	INR m	79,913	89,832	94,574	104,235
Less: Water charges allowed on actuals (from P&L)	INR m	4,509	8,188	5,535	5,356
Adj. actual O&M for tariff period FY14-19	INR m	75,404	81,644	89,039	98,880
Over/(under) recovery	INR m	-8,872	-9,184	-10,604	-12,112

Source: MOFSL, CERC, Company

Fuel management

- FY20 coal demand of 190mt (incl. new plants). It will be met by
 - ACQ = 168.76mt (existing)
 - Bridge linkage (on best effort basis) = 12.5mt (coal supplied was 5-6mt last year).
 - Captive mines = 10-12mt
 - Import = 15mt (2.5mt order placed, 2.5mt already receiving)
- Incremental coal demand from new plants in FY20 = 15m. Met by,
 - Firm linkage = 11m
 - Bridge linkage = 4.52mt
- Bridge linkage is mainly for Barh and Kudgi. Last year materialization for Barh was 75% and Kudgi was 50%.
- Last year, the overall materialization was good (except for MCL, which was low at 78-80%). Although NTPC has flexibility in using coal at any plant, there are logistic bottlenecks at times in diverting coal to other plants.
- Kudgi power plant
 - There are still bottlenecks in last mile connectivity. The bridge over Bhima River has low carrying capacity. Strengthening work of bridge and doubling of 40km line from Hotgi to Kudgi is likely to get completed by December 2020 (ahead of earlier target of March 2021). Only 4-5 rakes are allowed to pass through from Kudgi to Hotgi in the meantime.

- NTPC has planned transport of coal by rail-sea-rail to overcome inland railways bottlenecks and use coal from Pakri captive coal mine. The cost will be higher, but will assure coal availability.
- Kudgi has bridge linkage from SCCL.
- Mouda
 - Railway is now offering 10rakes/day.
 - Coal handling infrastructure has now been de-bottlenecked.
 - The import of 2.5mt coal is planned for Mouda.
- Steps to improve coal supply
 - NTPC has petitioned ministry to increase ACQ quantity by 33.68mt.
 - Asking government to convert bridge linkages to firm supplies.
 - Kudgi recently got 68 rakes via e-auction.

Status of projects

- Expect capacity addition and commercialization of 5,000MW during FY20.
- Expect CoD of following units: Lara U1 800MW, Gadawara U1 800MW (already done), Khargone U1 660MW, Darlipali U1 800MW, Tanda U1 660MW, Meja (JV) 660MW, New Nabinagar (JV) 660MW
- Commissioning target at standalone: Lara U2 800MW, Gadawara U2 800MW, Khargone U1 660MW, Darlipali U1 800MW, Tanda U1 660MW
- Some of the projects expected to commission in FY20 are facing land acquisition issues, which could delay their commissioning.
- Lara
 - Land issue for 200m land patch for MGR. NTPC is in discussion with government for resolution.
 - It is a one month job post acquisition (land filing, sleeper work)
 - NTPC is currently testing U1 and has run 72hours test.
 - Lara U2: Targeting commissioning in 4QFY20. Railway siding work is pending.
- Gadawara
 - U2 commissioning expected in 4QFY20.
 - Land issues for railway siding for U2.

Receivables

- NTPC has done bill discounting worth of ~INR100b (previous year INR10b), at the cost of DISCOM, which has helped manage the receivables issue. Among the major accounts, Andhra Pradesh accounts for INR34b of bill discounting, Telangana for INR17b, J&K for INR10b, Rajasthan for INR4b and MP for INR4b.
- The benefit to the DISCOM is that the cost of discounting is ~8-9% (vs. DISCOMS borrowing cost of 12%). DISCOM saves on late payment surcharge and gets an extra credit period of 120-180 days.
- NTPC has never waived off late payment surcharge of a DISCOM

Others

- Expect ~INR200b (excluding FGD) capex in FY20.
- FGD will be required for 62GW of capacity. The estimated capex per MW is INR40-50m.

Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net Sales	789,506	806,220	727,055	817,171	877,622	920,444	997,099	1,091,429
Change (%)	20.1	2.1	-9.8	12.4	7.4	4.9	8.3	9.5
EBITDA	197,106	171,941	179,569	218,300	229,808	265,457	306,801	354,536
EBITDA Margin (%)	25.0	21.3	24.7	26.7	26.2	28.8	30.8	32.5
Depreciation	47,700	55,646	52,240	60,099	74,599	80,227	88,894	103,185
EBIT	149,406	116,295	127,329	158,201	155,209	185,229	217,907	251,351
Interest	32,031	35,704	33,137	36,511	44,346	55,323	61,948	74,291
Other Income	27,601	20,789	10,576	9,668	15,583	6,958	8,413	9,017
Extraordinary items	-119	3,182	0	0	0	0	0	0
PBT	144,858	104,562	104,768	131,358	126,446	136,864	164,372	186,077
Tax	30,824	4,638	-1,628	30,467	25,881	33,186	41,007	46,985
Tax Rate (%)	21.3	4.4	-1.6	23.2	20.5	24.2	24.9	25.3
Min. Int. & Assoc. Share	0	0	-204	-57	-425	-57	-57	-57
Reported PAT	114,034	99,924	108,012	107,196	105,440	108,574	129,476	148,221
Adjusted PAT	91,496	87,596	96,957	98,717	87,992	108,165	129,476	148,221
Change (%)	-16.6	-4.3	10.7	1.8	-10.9	22.9	19.7	14.5

Balance Sheet						(INR Million)		
Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	82,455	82,455	82,455	82,455	82,455	98,946	98,946	98,946
Reserves	790,843	738,485	809,511	895,926	953,180	997,769	1,070,253	1,156,732
Net Worth	873,297	820,940	891,965	978,380	1,035,635	1,096,715	1,169,198	1,255,677
Debt	814,549	1,022,520	1,120,194	1,137,551	1,300,143	1,391,775	1,457,081	1,450,301
Deferred Tax	12,393	12,656	14,094	14,849	24,081	24,081	24,081	24,081
Total Capital Employed	1,707,044	1,864,995	2,035,181	2,138,812	2,369,337	2,522,049	2,659,838	2,739,538
Gross Fixed Assets	1,313,937	1,443,608	1,632,140	1,170,879	1,501,531	1,661,011	1,974,280	2,386,223
Less: Acc Depreciation	471,858	525,077	587,180	125,562	206,147	286,374	375,268	478,453
Net Fixed Assets	842,080	918,530	1,044,959	1,045,317	1,295,385	1,374,637	1,599,012	1,907,770
Capital WIP	538,250	675,547	815,497	868,957	820,931	892,678	785,409	539,760
Investments	16,635	141	148	78,023	92,515	97,765	102,736	102,736
Current Assets	603,487	601,543	543,886	492,677	534,851	523,452	543,170	565,526
Inventory	59,885	79,725	79,592	65,861	61,403	68,381	73,476	80,101
Debtors	67,257	92,499	101,740	89,995	88,122	89,788	95,923	104,629
Cash & Bank	186,876	161,390	57,370	33,015	43,876	23,833	32,322	39,346
Loans & Adv, Others	289,470	267,929	305,185	303,806	341,450	341,450	341,450	341,450
Curr Liabs & Provns	293,408	330,766	369,310	346,162	374,344	366,483	370,489	376,254
Curr. Liabilities	293,408	330,766	369,310	346,162	374,344	366,483	370,489	376,254
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	310,080	270,777	174,577	146,515	160,507	156,969	172,681	189,272
Total Assets	1,707,044	1,864,995	2,035,181	2,138,812	2,369,337	2,522,049	2,659,838	2,739,538

Financials and Valuations

Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)								
EPS	9.2	8.9	9.8	10.0	8.9	10.9	13.1	15.0
Cash EPS	16.3	15.7	16.2	16.9	18.2	19.1	22.1	25.4
Book Value	88.3	83.0	90.1	98.9	104.7	110.8	118.2	126.9
DPS	4.6	4.6	2.7	3.8	3.6	4.0	4.8	5.2
Payout (incl. Div. Tax.)	39.9	45.5	24.6	35.3	33.8	36.5	36.7	34.7
Valuation(x)								
P/E	11.8	13.5	12.5	12.6	12.8	12.4	10.4	9.1
Cash P/E	8.3	8.6	8.4	8.0	7.5	7.1	6.2	5.4
Price / Book Value	1.5	1.6	1.5	1.4	1.3	1.2	1.2	1.1
EV/Sales	2.5	2.7	3.3	3.0	3.0	2.9	2.8	2.5
EV/EBITDA	11.3	13.8	14.3	11.7	12.3	10.2	9.0	7.8
Dividend Yield (%)	3.4	3.4	2.0	2.8	2.6	2.9	3.5	3.8
Profitability Ratios (%)								
RoE	10.9	10.0	11.3	10.6	8.7	10.1	11.4	12.2
RoCE	8.5	7.3	7.2	6.0	5.8	5.9	6.6	7.2
RoIC	13.7	11.2	11.8	10.5	9.6	9.6	10.1	9.9
Turnover Ratios (%)								
Asset Turnover (x)	1.1	0.9	0.7	0.8	0.7	0.7	0.7	0.6
Debtors (No. of Days)	31	42	51	40	37	36	35	35
Inventory (No. of Days)	37	46	53	40	35	38	39	40
Leverage Ratios (%)								
Net Debt/Equity (x)	0.7	1.0	1.2	1.1	1.2	1.2	1.2	1.1

Cash Flow Statement

(INR Million)

Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Adjusted EBITDA	174,568	159,613	168,514	209,821	212,360	265,048	306,801	354,536
Non cash opr. exp (inc)	49,633	35,881	35,146	23,574	38,815	12,263	14,525	18,146
(Inc)/Dec in Wkg. Cap.	-13,109	-11,694	-36,422	-2,073	-58,298	-16,505	-7,223	-9,566
Tax Paid	-26,867	-20,100	-14,584	-26,263	19,257	-33,186	-41,007	-46,985
Other operating activities	-18,917	-16,242	1,452	-3,395	-15,508	-6,958	-8,413	-9,017
CF from Op. Activity	165,308	147,459	154,106	201,666	196,627	220,661	264,682	307,114
(Inc)/Dec in FA & CWIP	-189,485	-191,772	-232,470	-243,451	-187,559	-231,227	-206,000	-166,293
Free cash flows	-24,176	-44,314	-78,364	-41,785	9,068	-10,566	58,682	140,820
(Pur)/Sale of Invt	16,225	16,391	16,536	3,436	0	0	0	0
Others	37,017	17,182	-6,986	-17,558	-8,539	1,708	3,442	9,017
CF from Inv. Activity	-136,243	-158,200	-222,920	-257,573	-196,099	-229,519	-202,558	-157,276
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	93,854	205,811	80,528	150,466	145,059	91,632	65,306	-6,780
Interest Paid	-62,429	-72,371	-83,473	-75,645	-86,058	-55,323	-61,948	-74,291
Divd Paid (incl Tax) & Others	-58,516	-148,185	-32,261	-43,269	-48,669	-47,494	-56,993	-61,742
CF from Fin. Activity	-27,091	-14,745	-35,206	31,552	10,333	-11,185	-53,635	-142,813
Inc/(Dec) in Cash	1,975	-25,486	-104,021	-24,355	10,861	-20,043	8,489	7,025
Add: Opening Balance	184,902	186,876	161,390	57,369	33,015	43,876	23,833	32,322
Closing Balance	186,876	161,390	57,369	33,015	43,876	23,833	32,322	39,346

Power Grid

BSE SENSEX

38,906

S&P CNX

11,690



Power Grid Corporation of India

Stock Info

Bloomberg	PWGR IN
Equity Shares (m)	5,232
M.Cap.(INRb)/(USD\$b)	1036.4 / 14.9
52-Week Range (INR)	217 / 173
1, 6, 12 Rel. Per (%)	1/-5/-14
12M Avg Val (INR M)	1349
Free float (%)	44.6

Financials Snapshot (INR b)

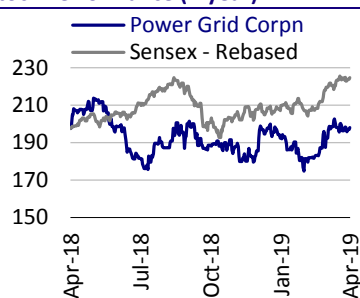
Y/E MAR	2019E	2020E	2021E
Net Sales	335.2	380.0	409.4
EBITDA	299.4	341.1	367.9
PAT	95.5	108.7	118.4
EPS (INR)	18.3	20.8	22.6
Gr. (%)	10.4	13.9	8.8
BV/Sh (INR)	115.2	127.9	141.9
RoE (%)	16.7	17.1	16.8
RoCE (%)	8.1	8.4	8.6
P/E (x)	10.8	9.5	8.7
P/BV (x)	1.7	1.5	1.4

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	56.3	56.3	56.9
DII	15.3	15.4	12.0
FII	24.0	23.6	24.4
Others	4.4	4.7	6.7

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR198

TP: INR232 (+17%)

Buy

RE driving demand for new transmission lines

Valuations attractive and not reflecting growth; Maintain Buy

Tariff regulation is neutral, addresses O&M under-recoveries for wage hike

- PWGR was facing under-recoveries in O&M expenses (estimated to the tune of ~INR2b) on account of the recent wage hike for public sector companies. The 2019-24 regulations adequately address these under-recoveries.
- Overall, the regulations are neutral for PWGR (except for the small boost due to the reduction in O&M under-recovery). The removal of additional RoE of 0.5% for early commissioning of projects is also marginally negative.

Renewable energy growth driving demand for new transmission lines

- The company reiterated its comments of the last earnings call that ~INR430b of new transmission project awarding is expected over the next few years to meet growth in renewable energy capacities in India.
- PWGR has already received ~INR25b worth of projects on a nomination (regulated RoE) basis. Another ~INR80b worth of projects will be awarded through competitive bidding; RfQs are already issued. RfQs for additional INR60b are expected soon.
- The remaining ~INR270b worth of projects must be commissioned by December 2020/21 to meet the government's renewable energy target of 175GW by 2022. Hence, these projects are also expected soon.
- While most of the projects could be on a competitive bidding basis, we believe that PWGR is well placed, backed by its strong execution skill, dominant market positioning, strong balance sheet (funding cost advantage) and limited competition in the market. Competitively bid projects have no regulatory risk.

Exploring intra-state projects; DISCOM JV with NTPC in initial stage

- Intra-state transmission opportunities are also emerging. Jharkhand and MP have issued tenders for projects worth ~INR70b. Its JV with Bihar is operating well. The JV with UP is pending approval of the state government.
- The JV with NTPC to handle distribution franchisee operations for some of the loss-making DISCOM circles is in initial stages, finalizing the role and modalities. The idea is to showcase how it can be efficiently run, losses in distribution circles can be reduced significantly. Capital employed in the business will be low.

Valuations not appreciating future growth potential; Maintain Buy

- PWGR owns more than 90% of India's inter-state transmission network. It has many competitive advantages v/s private players due to its balance sheet strength, negotiation with vendors, scale and reach.
- While new transmission projects have slowed down in recent years, we believe there is a huge scope for long-term growth, driven by demand, renewables, increased requirement of flexibility and efficiency in the market. PWGR is well positioned to benefit from future investment requirement.

- PWGR's RoEs are among the best in the regulated entities. At CMP, the stock is trading attractively at 1.5x FY20E P/BV. RoE is strong at ~16-17%, while cost of equity (CoE) is ~10-11%. At such valuations, the market is ignoring growth, in view. PWGR has ~INR770b (incl. CWIP) of projects pending capitalization that provides visibility of EPS CAGR of 11% over FY19-21.
- If we were to assume no growth after FY20, which means PAT is available for dividend distribution, the stock is trading at an attractive dividend yield of ~11-12% for an assured return business model, while revenues are backed by state-guarantees (g-sec yield is ~7 to 8%). Our DCF-based TP is INR232/sh. Maintain **Buy**.

Exhibit 3: Power Grid's DCF valuation

	Case 1		Base		Case 2				
Rf. Nominal risk free rate	(%)	6.50	(%)	7.30	(%)	8.00			
B. Beta		0.75		0.75		0.75			
Km. Equity Risk premium	(%)	5.00	(%)	5.00	(%)	5.00			
Cost of equity (Rf+Km x B)	(%)	10.25	(%)	11.05	(%)	11.75			
DCF		INR m	INR/sh.	INR m	INR/sh.	INR m	INR/sh.		
A. FY19-22		90,838	17	89,858	17	89,016	17		
	RoE	Re-Invst	Growth						
	(%)	(%)	(%)						
B. FY25-32	14.00	35	4.9	605,287	116	573,110	110	546,772	105
C. Terminal Value	12.00	20	2.4	665,920	127	550,119	105	469,012	90
Target price (A+B+C)					260		232		211

Source: MOFSL, Company

Meeting takeaways

Tariff regulations

- The O&M allowance hike in the tariff regulations address the drag in O&M expenses due to the recent wage hike.
- Removal of the provision for additional RoE of 0.5% for early commissioning of projects is marginally negative.
- Overall, the regulations are neutral for PWGR. The regulations have maintained the RoE and not tinkered with the tariff structure, as was feared, which is a positive.

New inter-state transmission projects – Visibility of INR430b

- INR430b worth of project awarding is expected under the Green Energy Corridor Phase-II program to meet the government's renewable energy targets.
- INR25b worth of projects were already awarded to PWGR on a nomination basis in FY19. Another ~INR80b are under competitive bidding stage; RFQ has been issued. ~INR60b worth of projects will be soon brought under bidding.
- The remaining ~INR270b worth of projects must be commissioned by December 2020/21 to meet the government's renewable energy target of 175GW by 2022. Hence, the tendering of these transmission projects is expected soon. The work on these projects will align with the tendering of new RE capacities by SECI.
- The competitive landscape in the tariff-based bidding framework is very favorable, as there are only a few players that are not active.

Intra-state transmission opportunity

- INR70b worth of projects are being awarded by Jharkhand and MP under the competitive bidding route.
- It is in discussion with Assam for a JV in transmission.
- The JV with Bihar is operating well. Orders under Phase-I of INR16b are already complete. Phase-II of INR16b has now started.
- The JV with UP is pending approval of the state government.

JV with NTPC to handle distribution franchisee

- The objective is to takeover high loss-making circles and demonstrate turnaround.
- The JV is in very initial stages; finalizing the role and modalities.
- The capital investment will be very low.

Others

- Capex guidance is ~INR180b each for FY20/21.
- Capitalization guidance (group) is ~INR200b-250b for FY20/21. The capitalization could be back-ended.
- Right of way costs have increased significantly over the years – from INR0.3m per km five-years ago to INR0.5m three years ago to INR1m now.

Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net Sales	156,754	176,585	213,523	257,039	299,415	335,191	380,045	409,398
Change (%)	19.1	12.7	20.9	20.4	16.5	11.9	13.4	7.7
EBITDA	132,639	151,262	186,056	226,572	263,119	299,420	341,079	367,857
EBITDA Margin (%)	84.6	85.7	87.1	88.1	87.9	89.3	89.7	89.9
Depreciation	40,794	51,733	63,022	77,223	92,310	103,437	115,976	126,265
EBIT	91,845	99,529	123,034	149,350	170,809	195,983	225,103	241,592
Interest	32,537	40,812	50,860	62,036	73,241	86,599	93,518	98,192
Other Income	4,707	5,745	4,284	5,838	4,891	10,082	4,321	4,700
Extraordinary items	-425	-421	-9	0	0	0	0	0
PBT	63,590	64,041	76,450	93,153	102,459	119,466	135,905	148,100
Tax	18,114	13,579	16,304	20,063	21,955	25,421	28,635	31,206
Tax Rate (%)	28.5	21.2	21.3	21.5	21.4	21.3	21.1	21.1
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	45,476	50,463	60,146	74,507	81,983	95,493	108,734	118,351
Adjusted PAT	45,901	50,883	60,155	74,507	86,513	95,493	108,734	118,351
Change (%)	7.2	10.9	18.2	23.9	16.1	10.4	13.9	8.8

Balance Sheet						(INR Million)		
Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	52,316	52,316	52,316	52,316	52,316	52,316	52,316	52,316
Reserves	294,664	332,071	387,383	446,339	491,944	550,141	617,056	689,925
Net Worth	346,979	384,387	439,699	498,655	544,260	602,457	669,372	742,240
Debt	842,196	962,434	1,085,449	1,189,879	1,315,030	1,415,907	1,453,135	1,483,302
Deferred Tax	70,195	73,030	82,169	74,184	74,509	74,509	74,509	74,509
Total Capital Employed	1,259,370	1,419,852	1,607,318	1,762,718	1,933,798	2,092,873	2,197,015	2,300,051
Gross Fixed Assets	982,247	1,204,801	1,214,908	1,519,616	1,798,900	2,056,304	2,303,619	2,536,261
Less: Acc Depreciation	239,730	292,891	63,965	142,837	236,914	340,351	456,327	582,592
Net Fixed Assets	742,517	911,911	1,150,942	1,376,779	1,561,986	1,715,952	1,847,292	1,953,669
Capital WIP	323,911	404,760	354,021	296,750	289,496	277,589	226,682	196,939
Investments	4,234	2,196	9,185	11,650	12,240	12,240	12,240	12,240
Current Assets	344,235	288,776	278,769	271,272	279,548	295,300	297,832	323,860
Inventory	183,914	139,241	109,163	94,963	97,683	94,174	82,046	83,271
Debtors	16,183	22,070	27,395	31,319	36,400	48,919	46,958	55,715
Cash & Bank	49,744	29,886	22,434	33,536	21,890	18,516	24,598	32,440
Loans & Adv, Others	94,395	97,580	119,778	111,453	123,575	133,690	144,230	152,435
Curr Liabs & Provns	155,527	187,791	185,600	193,732	209,468	208,205	187,027	186,654
Curr. Liabilities	155,527	187,791	185,600	193,732	209,468	208,205	187,027	186,654
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	188,708	100,985	93,170	77,539	70,080	87,094	110,805	137,206
Total Assets	1,259,370	1,419,852	1,607,318	1,762,718	1,933,801	2,092,876	2,197,018	2,300,054

Financials and Valuations

Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)								
EPS	8.8	9.7	11.2	14.2	16.5	18.3	20.8	22.6
Cash EPS	16.6	19.6	23.0	29.0	34.2	38.0	43.0	46.8
Book Value	66.3	73.5	84.0	95.3	104.0	115.2	127.9	141.9
DPS	2.6	2.0	2.1	2.5	5.8	5.9	6.7	7.3
Payout (incl. Div. Tax.)	35.1	25.2	0.0	21.0	44.2	40.0	40.0	40.0
Valuation(x)								
P/E	12.2	14.9	17.6	13.8	11.9	10.8	9.5	8.7
Cash P/E	6.5	7.4	8.6	6.8	5.8	5.2	4.6	4.2
Price / Book Value	1.6	2.0	2.3	2.1	1.9	1.7	1.5	1.4
EV/EBITDA	10.2	11.2	11.5	9.7	8.8	8.1	7.2	6.7
Dividend Yield (%)	2.4	1.4	1.1	1.3	2.9	3.0	3.4	3.7
Profitability Ratios (%)								
RoE	14.2	13.9	14.2	15.9	16.6	16.7	17.1	16.8
RoCE	6.1	6.2	6.5	7.2	7.5	8.1	8.4	8.6
RoIC	7.9	8.4	8.6	8.9	8.9	9.1	9.6	9.6
Turnover Ratios (%)								
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Debtors (No. of Days)	38	46	48	44	44	53	45	50
Inventory (No. of Days)	165	108	94	70	64	59	52	50
Current Liabilities (Days)	139	145	160	142	136	131	118	111
Leverage Ratios (%)								
Net Debt/Equity (x)	2.3	2.4	2.4	2.3	2.4	2.3	2.1	2.0

Cash Flow Statement

(INR Million)

Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Adjusted EBITDA	132,639	151,262	186,056	226,572	263,119	299,420	341,079	367,857
Non cash opr. exp (inc)	4,430	5,325	2,221	7,055	6,370	10,082	4,321	4,700
(Inc)/Dec in Wkg. Cap.	10,137	61,903	-19,310	4,495	-16,181	-20,388	-17,628	-18,560
Tax Paid	-12,302	-11,519	-14,156	-18,714	-22,591	-25,421	-28,635	-31,206
Other operating activities	-2,921	-4,243	-4,730	-3,264	-3,616	-10,082	-4,321	-4,700
CF from Op. Activity	131,983	202,728	150,082	216,144	227,101	253,610	294,816	318,092
(Inc)/Dec in FA & CWIP	-250,288	-294,508	-216,795	-239,244	-261,799	-245,497	-196,408	-202,900
Free cash flows	-118,305	-91,780	-66,713	-23,100	-34,697	8,113	98,408	115,192
(Pur)/Sale of Invt	4,139	7,934	1,030	495	4,784	11,530	5,784	6,156
Others	0	0	0	0	0	0	0	0
CF from Inv. Activity	-246,149	-286,574	-215,765	-238,749	-257,015	-233,967	-190,623	-196,743
Inc/(Dec) in Net Worth	52,966	0	0	0	0	0	0	0
Inc / (Dec) in Debt	127,244	115,070	117,171	112,506	119,924	100,878	37,227	30,167
Interest Paid	-28,374	-37,816	-47,584	-57,000	-70,480	-86,599	-93,518	-98,192
Divd Paid (incl Tax) & Others	-14,715	-13,266	-13,379	-15,921	-36,598	-37,296	-41,819	-45,482
CF from Fin. Activity	137,121	63,988	56,208	39,586	12,847	-23,017	-98,110	-113,507
Inc/(Dec) in Cash	22,955	-19,858	-9,475	16,980	-17,067	-3,374	6,082	7,842
Add: Opening Balance	26,789	49,744	31,909	16,556	38,957	21,890	18,516	24,598
Closing Balance	49,744	29,886	22,434	33,536	21,890	18,516	24,598	32,440

BSE SENSEX

38,906

S&P CNX

11,690

**Stock Info**

	NHPC IN
Bloomberg	NHPC IN
Equity Shares (m)	10,045
M.Cap.(INRb)/(USDb)	243.1 / 3.5
52-Week Range (INR)	29 / 22
1, 6, 12 Rel. Per (%)	-6/-10/-26
12M Avg Val (INR M)	137
Free float (%)	26.7

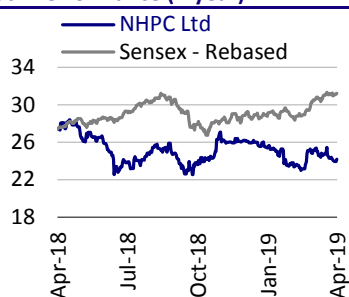
Financials Snapshot (INR b)

Y/E MAR	2019E	2020E	2021E
Net Sales	88.8	99.0	100.6
EBITDA	47.4	56.8	57.0
PAT	22.8	24.4	24.5
EPS (INR)	2.3	2.4	2.4
Gr. (%)	-7.0	6.9	0.3
BV/Sh (INR)	29.9	30.7	31.4
RoE (%)	7.6	8.0	7.8
RoCE (%)	5.7	6.9	6.8
P/E (x)	10.5	9.9	9.8
P/BV (x)	0.8	0.8	0.8

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	73.7	73.7	74.0
DII	11.3	11.2	10.7
FII	4.6	4.5	4.5
Others	10.5	10.6	10.8

FII Includes depository receipts

Stock Performance (1-year)**CMP: INR24 TP: INR25(+3%) Downgrade to Neutral****DSM regulations to impact incentive income****Earnings growth muted, capex rising; Downgrading to Neutral****Regulations address under-recovery of O&M expenses**

- The regulations have addressed the under-recovery of O&M expenses, except for INR1.7b on account of performance-based payments and INR0.6b for CSR expenses. Under-recoveries on account of O&M will reduce by ~INR1.6b in FY20.
- The increase in the secondary energy rate from INR0.9 to INR1.2/kWh will likely boost earnings by ~INR0.6b.
- However, the increase in NPAF for some plants is likely to impact earnings by ~INR0.8b.
- Including certain other smaller changes, the regulations will have a net positive impact of ~INR1b on earnings.

Revised DSM regulations to impact incentive income

- Incentive for grid support services, i.e. deviation settlement mechanism to maintain grid frequency, was earlier linked to a predefined rate set by the regulator which was as high as ~INR8/kWh.
- However, since the revised DSM regulation, applicable from 1st January 2019, the incentive is linked to the previous day's average day-ahead price on exchanges, which is currently lower. The impact on earnings is estimated at INR1.3b.

Approval of final capital cost of pending projects to support earnings

- The petition for approval of tariff based on the actual capital cost for seven projects is already heard by the regulator and a final order is expected soon. The final capital cost is INR187b, as against the currently admitted cost of INR146b.
- NHPC expects a revenue boost of ~INR2-3b on approval of the capital cost.

Earnings growth to be muted, capex rising; downgrading to Neutral

- NHPC's regulated equity growth – the key driver of earnings – will be muted for the next few years with no new project commissioning. The two projects in the advanced stage of commissioning are (a) Parbati-II – it is delayed and likely to be commissioned by end-FY22 and (b) Lower Subhansiri – it is stuck due to environment reasons.
- Capex is expected to increase from ~INR22b in FY19 to ~INR38b in FY20, with the run-rate expected to remain high as the company is investing/exploring new projects. Equity contribution in the initial years of the project will be higher than the normative 30%, which will reduce FCF for dividend payout.

- We cut our FY20/21 PAT estimate by 11%-24% to INR24.4b/24.5b to account for (a) the impact of DSM regulations, (b) the lower-than-expected benefit from the approval of capital cost of projects and (c) exclusion of the benefit of the resumption of work at Lower Subhansiri (earlier expected in FY21) from our estimates.
- We expect consol. PAT CAGR of just ~2% over FY19-21 and RoE to remain subdued at ~8%. We value the stock at INR25/share based on DCF (earlier INR31). At CMP, the stock trades at 0.8x FY20/21E P/BV. We downgrade the stock to Neutral. Repeated delay in project commissioning, certain under-recoveries in fixed cost that are not addressed in new regulations and the impact of DSM will lead to muted earnings growth and lower FCF.
- **Key risk:** Upside – Resumption of work at Lower Subhansiri, boosting PAT by ~INR4b and providing earnings growth visibility. Downside – Further delay at Parbati-II.

Exhibit 4: NHPC's DCF valuation

	Case 1		Base		Case 2		
Rf. Nominal risk free rate	(%)	6.50	(%)	7.30	(%)	7.50	
B. Beta		1.00		1.00		1.00	
Km. Equity Risk premium	(%)	5.00	(%)	5.00	(%)	5.00	
Cost of equity (Rf+Km x B)	(%)	11.50	(%)	12.30	(%)	12.50	
DCF	INR m	INR/sh.	INR m	INR/sh.	INR m	INR/sh.	
A. FY19-22	30,760	3	30,438	3	30,358	3	
	Reg. RoE (%)	Re-Invest (%)	Growth (%)				
B. FY24-30	15.50	30	4.7	110,674	11	105,122	10
C. Terminal Value	12.00	20	2.4	123,591	12	104,264	10
DCF value per share				28		25	25

Source: MOFSL, Company

Meeting takeaway

Tariff regulations

- Current under-recovery in O&M expenses is ~INR4b. The regulations have addressed these under-recoveries, except for ~INR1.7b related to performance pay and INR0.6b for CSR. Under-recoveries in O&M expenses will reduce by ~INR1.6b under the new regulations.
- Sharing of savings from refinancing of loans is reduced from two thirds to half. This will boost earnings by ~INR0.1b (reducing as the loan is repaid).
- Secondary energy incentive was increased from INR0.9 to INR1.2/kWh. This will boost earnings by ~INR0.6b.
- Cut in receivable days from 60 to 45 will impact earnings by ~INR50m.
- The increase in NPAF for five plants will impact earnings by ~INR0.85b.
- Overall, the regulations have a net positive impact of ~INR1b.

Revised DSM regulations to impact incentive income

- Incentive for grid support services – i.e. deviation settlement mechanism to maintain grid frequency – was earlier linked to a predefined rate set by the regulator which was as high as ~INR8/kWh.
- However, since the revised DSM regulation, applicable from 1st Jan'19, the incentive is linked to the previous day's average day-ahead price on exchanges, which is currently lower. The impact on earnings is estimated at INR1.3b.
- NHPC has petitioned the regulator for a review of these norms.

Status on Lower Subhansiri

- The committee appointed under the direction of NGT has submitted its report (sealed) to the MoEF. MoEF is likely to give its final decision in a couple of months.
- The committee report was delayed as there was litigation against the members appointed in the committee (conflict of interest). However, the Supreme Court ruled against it.
- There were two primary concerns with the project (a) Earthquake: which was addressed by lowering the dam height, as per the order of one of the earlier committees and (b) Fishing industry: which is addressed by NHPC stating that it will be releasing water separately for the fishing activities.
- The company has already spent INR107b (30% equity + additional equity contribution of ~INR45b + remaining debt) on the project. The final project cost is estimated at INR194b.
- It is spending ~INR2b annual for protection-related activities.
- It stopped recognizing regulatory deferral for the expenses in Lower Subhansiri, which has impacted annual PAT by ~INR4.4b. Once the project gets a go-ahead, earnings will see a boost by that amount.
- Once the go-ahead is received, it will take 4-5 years for the project to complete.

Approval of final capital cost for seven projects

- For seven projects (including recently commissioned Kishanganga), the capital cost approved for tariff calculation is lower than the actual cost of the projects, resulting in annual under-recoveries of INR6.24b.
- It has filed all the petitions with the CERC and all hearings are complete. Final tariff order is expected in a couple of months.
- The actual capital cost is INR187.4b, as against currently admitted cost of INR146.1b on the seven projects.
- The annual revenue on the revised cost is INR30.78b, as against INR24.53b on the current admitted cost.
- While annual revenue should increase by INR6.24b on approval of the costs, INR2b of this pertains to Parbati-II, where generation is low (linked to Parbati-III which will commission in FY22), and hence, is unlikely to be recovered. On the remaining ~INR4.24b, the company expects approval of INR2-3b accounting for certain disallowances by the regulator.
- INR8b will also be received for the past dues.

Status of some of under-construction/new projects

- Parbati-II is expected to be commissioned by Dec'21.
- For Teesta-VI, won under IBC, two NCLT hearings are pending. The project cost is estimated at INR57.4b.
- Teesta-IV, forest stage-II clearance is pending. Tenders are floated for execution of the project.
- For Debang, PIB approval is received. Cabinet Committee approval pending (delayed due to elections).

Others

- Capex will increase from INR22b in FY19 to INR38b in FY20 for new projects.
- Initially, equity contribution in projects will be higher than the normative 30%.
- It has filed petition with the regulator for the recovery of revenues for the shortfall in generation in respect to earlier years of ~INR2.6b. Order is expected in 4-5 months.

Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net Sales	74,159	82,441	83,540	86,231	77,512	88,808	98,977	100,562
Change (%)	15.8	11.2	1.3	3.2	-10.1	14.6	11.5	1.6
EBITDA	43,833	57,382	53,727	55,621	49,380	52,432	58,941	59,158
EBITDA Margin (%)	59.1	69.6	64.3	64.5	63.7	59.0	59.5	58.8
Depreciation	14,994	17,153	14,320	14,618	14,791	16,588	17,189	17,189
EBIT	28,839	40,230	39,407	41,004	34,589	35,845	41,751	41,969
Interest	11,802	12,728	11,182	10,734	9,226	9,109	11,282	11,260
Other Income	13,221	9,132	10,924	15,038	11,014	8,082	6,444	6,146
Extraordinary items	-4,972	550	0	0	0	0	0	0
PBT	25,286	37,184	39,149	45,307	36,376	34,818	36,913	36,854
Tax	8,954	9,203	10,003	10,531	8,629	8,527	9,107	9,081
Tax Rate (%)	35.4	24.8	25.5	23.2	23.7	24.5	24.7	24.6
Min. Int. & Assoc. Share	4,144	3,067	3,130	4,482	2,709	3,485	3,434	3,322
Reported PAT	12,188	24,914	26,017	30,294	25,039	22,806	24,372	24,451
Adjusted PAT	17,160	24,364	26,017	30,294	25,039	22,806	24,372	24,451
Change (%)	-27.7	42.0	6.8	16.4	-17.3	-8.9	6.9	0.3

Balance Sheet						(INR Million)		
Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	110,707	110,707	110,707	102,593	102,593	100,450	100,450	100,450
Reserves	171,753	196,868	205,720	187,555	197,586	200,261	207,758	215,334
Net Worth	282,460	307,575	316,427	290,148	300,179	300,712	308,208	315,784
Minority Interest	30,657	33,257	31,681	33,822	29,349	29,440	28,349	27,147
Advance Against Depreciation	0	0	0	0	0	0	0	0
Debt	193,090	187,245	199,382	192,267	186,021	186,973	186,623	189,072
Deferred Tax	9,344	9,886	15,136	16,653	17,109	17,109	17,109	17,109
Total Capital Employed	515,551	537,963	562,627	532,891	532,658	534,234	540,289	549,112
Gross Fixed Assets	404,868	405,761	342,331	353,055	255,977	315,448	315,448	315,448
Less: Acc Depreciation	108,975	126,600	116,191	130,784	44,204	60,792	77,981	95,171
Net Fixed Assets	295,892	279,161	226,140	222,271	211,772	254,656	237,467	220,277
Capital WIP	149,240	163,775	167,416	175,876	190,871	155,578	178,578	205,578
Investments	0	7,633	5,999	10,200	11,248	11,247	11,246	11,245
Current Assets	168,879	163,551	228,446	193,424	189,985	183,971	184,217	183,230
Inventory	798	906	928	1,008	1,047	1,047	1,047	1,047
Debtors	24,224	29,052	19,045	18,540	13,460	14,835	16,501	16,754
Cash & Bank	74,162	71,975	72,847	34,725	33,191	20,934	17,537	14,321
Loans & Adv, Others	69,695	61,618	135,626	139,152	142,287	147,156	149,132	151,108
Curr Liabs & Provns	98,461	76,158	65,375	68,881	71,219	71,219	71,219	71,219
Net Current Assets	70,419	87,393	163,071	124,544	118,767	112,753	112,999	112,012
Total Assets	515,551	537,963	562,627	532,891	532,658	534,234	540,289	549,112

Financials and Valuations

Ratios

Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)								
EPS	1.6	2.2	2.4	3.0	2.4	2.3	2.4	2.4
Cash EPS	2.9	3.8	3.6	4.4	3.9	3.9	4.1	4.1
Book Value	25.5	27.8	28.6	28.3	29.3	29.9	30.7	31.4
DPS	0.3	0.6	1.3	2.5	1.2	1.4	1.4	1.4
Payout (incl. Div. Tax.)	22.6	32.8	67.6	98.9	55.1	71.4	69.2	69.0
Valuation(x)								
P/E	14.9	11.0	10.7	9.9	9.8	10.5	9.9	9.8
Cash P/E	8.0	6.4	6.9	6.7	6.2	6.1	5.8	5.8
Price / Book Value	0.9	0.9	0.9	1.0	0.8	0.8	0.8	0.8
EV/Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	9.3	8.0	9.1	10.2	10.2	9.2	7.7	7.8
Dividend Yield (%)	1.3	2.5	5.2	8.4	5.1	5.6	5.8	5.8
Profitability Ratios (%)								
RoE	6.1	7.9	8.2	10.0	8.5	7.6	8.0	7.8
RoCE	6.4	6.5	6.2	7.0	5.6	5.7	6.9	6.8
Adjusted RoE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Turnover Ratios (%)								
Asset Turnover (x)	0.1	0.2	0.1	0.2	0.1	0.2	0.2	0.2
Debtors (No. of Days)	119	129	83	78	63	61	61	61
Inventory (No. of Days)	4	4	4	4	5	4	4	4
Leverage Ratios (%)								
Net Debt/Equity (x)	0.4	0.3	0.4	0.5	0.5	0.5	0.5	0.5

Cash Flow Statement

(INR Million)

Y/E Mar	2014	2015	2016	2017	2018	2019E	2020E	2021E
Adjusted EBITDA	43,833	57,382	53,727	55,621	49,380	52,432	58,941	59,158
Non cash opr. exp (inc)	-35,311	-26,357	-36,000	-19,022	3,490	0	0	0
(Inc)/Dec in Wkg. Cap.	1,909	-5,631	11,134	35,873	6,409	-1,375	-1,666	-253
Tax Paid	-7,942	-8,092	-8,718	-10,808	-8,301	-8,527	-9,107	-9,081
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	2,489	17,302	20,143	61,664	50,978	42,531	48,167	49,824
(Inc)/Dec in FA & CWIP	-22,499	-17,260	-21,470	-15,870	-15,673	-24,178	-23,000	-27,000
Free cash flows	-20,010	42	-1,326	45,794	35,306	18,353	25,167	22,824
(Pur)/Sale of Invt	0	0	0	0	0	0	0	0
Others	11,746	9,580	14,007	-2,775	1,790	3,214	4,468	4,170
CF from Inv. Activity	-10,754	-7,680	-7,462	-18,645	-13,883	-20,964	-18,532	-22,830
Inc/(Dec) in Net Worth	-23,679	0	0	-26,259	0	-6,000	0	0
Inc / (Dec) in Debt	4,494	-196	-6,184	-8,364	43,550	952	-350	2,450
Interest Paid	-16,195	-16,544	-15,020	-13,912	-11,440	-9,109	-11,282	-11,260
Divd Paid (incl Tax) & Others	23,571	4,931	9,395	-32,607	-70,739	-19,666	-21,399	-21,399
CF from Fin. Activity	-11,809	-11,809	-11,809	-81,141	-38,629	-33,823	-33,032	-30,210
Inc/(Dec) in Cash	-20,074	-2,187	872	-38,122	-1,534	-12,257	-3,397	-3,216
Add: Opening Balance	94,235	74,162	71,975	72,847	34,725	33,191	20,934	17,537
Closing Balance	74,162	71,975	72,847	34,725	33,191	20,934	17,537	14,321

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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