

Company Overview

POWERGRID Infrastructure Investment Trust (“PGInvIT”) is an InvIT 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. They were registered with SEBI as an InvIT on January 7, 2021. Their Sponsor, Power Grid Corporation of India Ltd., also acting in the capacity of their Project Manager, is a CPSE under the Ministry of Power, GoI and is listed on BSE and NSE. Their Sponsor was conferred with ‘Maharatna’ status on October 23, 2019 by the GoI. As of March 31, 2019, their Sponsor was the 3rd largest CPSE in terms of gross block as per the Public Enterprises Survey 2018-19 issued by the GoI, Ministry of Heavy Industries and Public Enterprises, Department of Public Enterprises in February 2020 (“Public Enterprises Survey”). As of November 1, 2020, their Sponsor was the largest power transmission company in India in terms of length of transmission lines measured in circuit kilometres.

Objects of the issue

The issue consist of Fresh issue (INR 49.9 bn) and Offer for sale (INR 27.4 bn). Company proposes to utilize the net proceeds from fresh issue for: providing loans to the Initial Portfolio Assets for repayment or pre-payment of debt, including any accrued interest, availed by the Initial Portfolio Assets.

Investment Rationale

Government support and an established regulatory framework

The GoI 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

Skilled and experienced Investment Manager having strong corporate governance philosophy

PGInvIT is managed by qualified personnel of the Investment Manager who have management and operational experience in the power transmission sector and established track records in negotiating, structuring and financing investments of power transmission assets, and managing those assets. They also benefited from the skills and experience of the board of directors and the management teams of their Investment Manager while making investment decisions and financially managing the Initial Portfolio Assets.

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

PGInvIT derives their 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

Valuation and Outlook

Powergrid Infra InvIT is the first InvIT from Public Sector Undertaking (PSU) with strong track record long term contracts and healthy cashflows. Moreover, power sector in India is set for a booming period ahead and this being the major grid service player for overall development. On the valuation front, at the upper price band, the company is valued at 20x P/E based on FY20 numbers considering its diluted equity shares. Going ahead, company’s healthy growth prospects and strong pipeline of projects will enable to leverage its operational performance in long term Therefore, we assign a “SUBSCRIBE” rating to this IPO issue for long term.

Issue Details

Offer Period	Apr 29th - 03rd May 2021
Price Band	INR.99 to INR.100
Bid Lot	1100
Listing	BSE&NSE
Issue Size (no. of shares in mn)	773
Issue Size (INR. in bn)	77.3

Issue Structure

Intititutional	75%
Non-Institutional	25%
BRLM	ICICI Securities, Edelweiss Financial, HSBC Securities
Registrar	KFin Technologies Pvt. Ltd

Research Team - 022-61596407



Particulars	FY18	FY19	FY20	9MFY21
Revenue				
Revenue from operations	3,436	9,772	13,243	9,923
Total revenue	3,436	9,772	13,243	9,923
Expenses				
Other expenses	81	330	382	312
Total Operating expenses	81	330	382	312
EBITDA	3,355	9,442	12,861	9,611
Depreciation and amortisation expense	932	2,750	3,794	1,392
Other income	20	70	98	168
EBIT	2,443	6,762	9,165	8,387
Finance costs	1,158	3,281	4,291	2,910
PBT	1,285	3,480	4,874	5,477
Current tax	274	754	852	(285)
Deferred Tax charge	(130)	246	234	2,390
Total tax	144	1,000	1,086	2,105
PAT	1,141	2,481	3,788	3,371
Diluted EPS	1.5	3.2	4.9	4.4

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Cash Flow from operating activities	3,732	3,425	10,521	9,005
Cash flow from investing activities	(32,739)	(6,428)	(1,072)	(145)
Cash flow from financing activities	29,141	2,860	(9,077)	(8,719)
Net increase/(decrease) in cash and cash equivalents	133	(143)	372	141
Cash and cash equivalents at the beginning of the period	37	170	27	399
Cash and cash equivalents at the end of the period	170	27	399	541

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Equity				
Share Capital	4,423	9,987	12,007	12,130
Other Equity	712	2,196	3,330	2,751
Net worth	5,135	12,183	15,337	14,881
Long-Term Borrowings	52,367	53,369	44,293	47,507
Deferred tax Liabilities	-	53	287	2,677
Total Non Current Liabilities	52,367	53,422	44,580	50,185
Trade payables	1	4	9	87
current tax liability	1	31	1	2
Other current liabilities	157	53	15	31
Short Term Provisions	0	6	1	0
Other Financial Liabilities	7,388	4,305	8,268	2,998
Total Current Liabilities	7,547	4,398	8,295	3,119
Total liabilities	65,049	70,003	68,212	68,185
Assets				
Tangible Assets	17,787	66,153	63,219	61,994
Capital work in Progress	45,293	87	-	22
Intangible Assets	4	885	1,155	1,117
Intangible Assets under development	187	-	-	-
Deferred tax Assets	193	-	-	-
Other non-current assets	412	55	41	620
Total Non current assets	63,875	67,180	64,415	63,753
Trade Receivables	507	1,189	1,737	1,881
Cash and cash equivalents	170	27	399	541
Inventories	109	210	310	310
Current tax Assets	49	57	57	-
Other current assets	0	34	34	296
Other current Financial assets	339	1,306	1,260	1,405
Total Current Asset	1,174	2,823	3,797	4,432
Net Current Assets	(6,373)	(1,575)	(4,498)	1,313
Total Assets	65,049	70,003	68,212	68,185

Source: RHP, BP Equities Research

Key Risks.

- ⇒ *This trust is new settled trust and does not have any operating history. This will make it difficult to accurately assess its future growth prospects*
- ⇒ *The company may be unable to operate and maintain its power transmission projects to achieve the prescribed availability which may adversely affect its cash flows and results of operations.*
- ⇒ *Its revenues are derived from payments received from DICs (Designated Inter State Transmission System Customers) and any delay in payments of such billed transmission charges can affect cash flows and results of operations.*

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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