Powergrid Invit

Recommendation	SUBSCRIBE
Price Band	Rs. 99 – 100
Bidding Date	29 April – 3 May
BRLM	Axis Capital, Edelweiss ICICI Securities, HSBC
Registrar	K Fintech
Sector	Power

Minimum Retail Application	
Number of Units	1100
Min. Application Money	Rs. 1,10,000
Discount to retail	N.A
Payment Mode	ASBA

Financials (Rs Cr)	FY19	FY20
Total Income	977	1324
EBITDA	944	1286
PAT	248	379

Valuations	Upper Band
Market Cap (Rs Cr)	9,100
Book value Per Unit*	68.1
P/B Ratio*	1.5
EV/ EBITDA*	7.1
Enterprise Value (Rs Cr)	9,052

*Annualized nos. of 9MFY21; post issue basis

Post Issue Shareholding Pattern	
Sponsor	15.0%
Institutions	63.8%
Public	21.2%

Offer structure for different categories	
QIB (Including Mutual Fund)	75%
Non-Institutional Investors	25%
Retail	Nil
Post Issue Equity (Rs. in Cr)	910.0
Issue Size (Rs in Cr)	7,735
Face Value (Rs)	10

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BACKGROUND

PG Invit (Powergrid Invit) is sponsored by PGCIL, a PSU Maharatna and the largest power transmission company in India. PG Invit proposes to acquire five projects initially from PGCIL, with a total network of 11 power transmission lines of 3,699 ckm and three substations having 6,630 MVA of aggregate transformation capacity, as of December 31, 2020, across five states in India (the "Initial Portfolio Assets").

Details and Objects of the Issue

- The total issue size is Rs. 7735 Cr constituting (i) Offer For Sale of up to 27.42 Cr units aggregating to Rs. 2742 Cr by PGCIL; and (ii) fresh issue of up to 49.93 Cr units aggregating to Rs. 4993 Cr. The Offer shall constitute 85% of the post-offer paid-up equity capital of the company.
- PG Invit shall utilise the proceeds from the fresh issue towards retiring debt.

Investment Rationale

- Strong lineage and support from Sponsor and Project Manager i.e. PGCIL
- Consistent and stable cash flows from assets with long term visibility and low counter party risks
- Capitalize on value accretive growth through acquisitions
- Strong financial position

Recommendation – Attractive risk-adjusted returns - Yield of 12%

We are sanguine on PG Invit's business model, which is backed by predictable cash flows and offers growth visibility. A Government backed sponsor like PGCIL further instills confidence. PG InvIT is AAA rated and at the issue price of Rs. 100 per unit, offers 12.0% yield, trading at a spread of ~600 bps to the 10 year G-sec (6.0%). In our view, such a spread is very attractive given the high degree of certainty of cash flows & distribution per unit going forward. Investor return in PG Invit which is a quasi-equity instrument will be a combination of quarterly dividend (our expectation of Rs. 3 per unit per quarter) and the unit's price appreciation (our expectation of 20-30% listing gain). Upon listing we expect the yields to settle between 9-10% in line with that of the existing listed Invit of Indigrid; which translates to the Unit price settling in the range of Rs. 120-130. **We recommend 'subscribe' to the issue.**

(Rs Cr)

Financial Snapshot	FY18	FY19	FY20	9MFY21 Ann.
Net Revenues	344	977	1324	1323
Growth		*184%*	*36%*	*0%*
EBIDTA	335	944	1286	1281
EBITDA Margins	*97.6%*	*96.6%*	*97.1%*	*96.9%*
PAT	114	248	379	450
Growth		*209%*	*-58%*	*19%*
EPU #	0.1	0.3	0.4	0.5
ROCE	4%	10%	14%	17%
ROE	22%	20%	25%	30%
EV/Sales	26.3	9.3	6.8	6.8
EV/EBITDA	27.0	9.6	7.0	7.1
P/B	8.6	8.2	7.8	1.5

Source: Company data, NBRR; # 9MFY21 figures are annualized & also post issue in case of P/B

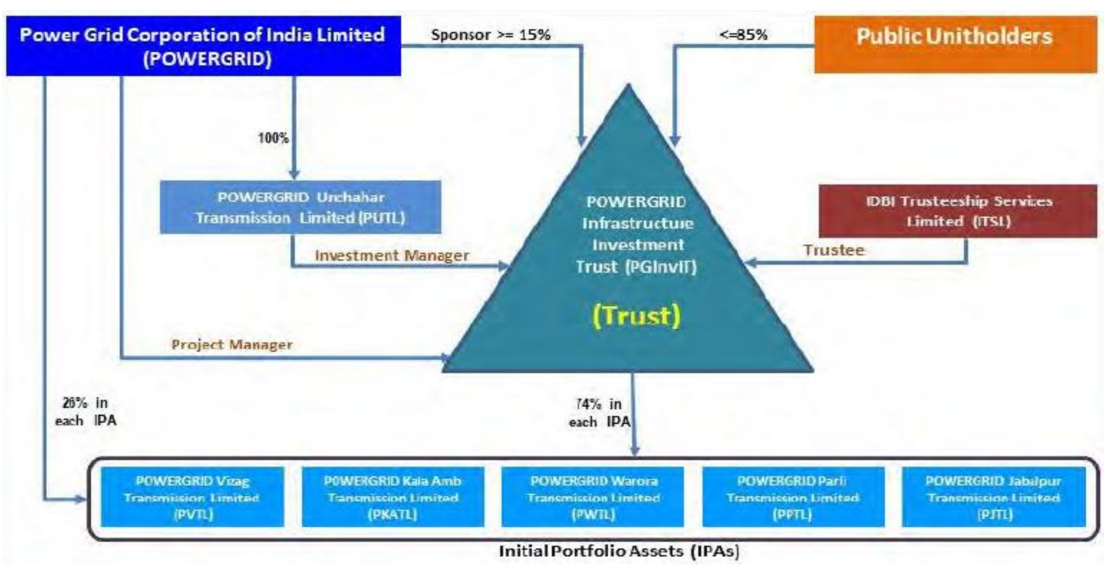
Company Background

PG Invit (Powergrid Invit) was registered with SEBI in January 2021. Its sponsor, PGCIL (Powergrid Corporation of India Ltd), also acting in the capacity of the Invit's Project Manager, is a CPSE under the Ministry of Power, GoI. PGCIL was conferred with 'Maharatna' status on October 23, 2019 by the GoI. As of March 31, 2019, PGCIL was the third largest CPSE in terms of gross block. PGCIL is also the largest power transmission company in India in terms of length of transmission lines measured in circuit kilometres. As of August 31, 2020, PGCIL's share in India's cumulative inter-regional power transfer capacity was more than 85%. %. PG Invit's Trustee is IDBI Trusteeship Services.

PG Invit's sponsor, PGCIL is engaged in project planning, designing, financing, constructing, operating, and maintaining power transmission projects across India and undertakes operations in the Indian telecom infrastructure sector. PGCIL, through its wholly-owned subsidiaries, is setting up, implementing and operating transmission projects at various locations in India where the right to provide transmission services is procured under the TBCB (tariff based competitive bidding) mechanism. As of December 31, 2020 , eight of these ISTS (inter state transmission system) SPVs had commenced commercial operations, comprising 39 transmission lines (6,398 ckm), with a total power transformation capacity of 9,630 MVA. The remaining Sponsor TBCB Projects are at different stages of development.

PG Invit proposes to acquire five projects initially with a total network of 11 power transmission lines of approximately 3,699 ckm and three substations having 6,630 MVA of aggregate transformation capacity, as of December 31, 2020, across five states in India (the "Initial Portfolio Assets"). The Initial Portfolio Assets were awarded to PGCIL (Sponsor) under the TBCB mechanism on a build-own-operate-maintain ("BOOM") basis. **The Initial Portfolio Assets earn revenues, i.e. availability based transmission charges, pursuant to the transmission service agreements ("TSAs"), from the DICs under such TSAs irrespective of the quantum of power transmitted through the transmission line.** In addition, maintaining availability of the Initial Portfolio Assets in excess of 98%, gives PG Invit the right to claim incentives under the 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, and is subject to renewal in accordance with the relevant TSA and the CERC.

Post listing structure



Source: RHP

Investment Rationale

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

PG Invit derives revenues for electricity transmission from contracted transmission charges under long term TSAs (transmission service agreements) which characterizes its power transmission business with low level of risk. **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.**

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. Maintaining annual availability in excess of 98% also gives the right to claim incentives under the terms of the respective TSAs, ensuring adequate benefit to maximize availability. From the respective CODs until December 31, 2020, each of the Initial Portfolio Assets has consistently achieved annual average availability of more than 98% for which the Initial Portfolio Assets have earned incentive revenues in accordance with the respective TSAs. In FY20, the incentive revenue amounted to Rs. 42 Cr. **Further, the average remaining term of the TSAs entered into by the Initial Portfolio Assets is over 32 years, and with carrying out required renovation works, the useful life of the transmission assets can be extended up to 50 years. The long residual life of the Initial Portfolio Assets provides long visibility of cash flows.**

Under the PoC (point of connection) mechanism, **PGCIL acts as the revenue aggregator and collects payments from all the customers based on the inputs received related to utilisation of the transmission network. The pooling mechanism ensures that there is no stranded asset risk i.e. no bilateral counter party / user. This differentiates power transmission assets from other annuity assets like power generation and road.**

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. Operating expenses are much lower at 3-5% of revenues compared to 20-25% for operational road projects.

Inter state power transmission – Safest Business Model

	Inter State Power Transmission	Power Generation	Roads	Ports
Certainty of Cash Flows	Driven by long-term agreements	Offtake and cost of fuel a key risk	Traffic risk in BOT projects	End-user industry risk
Counter Party Risk	Exposure limited to systemic risk	Direct exposure to debt-laden SEBs	O&M impact collection	Exposure to multiple end-users
Operational Risk	Limited O&M requirements	Substantial maintenance need	High O&M required	Limited O&M requirements
Future Growth Potential	Staggering owing to deficit	High potential given deficit	High growth potential	Good potential, limited by location
Competitive Environment	Few credible private players	Highly competitive (multiple players)	Highly competitive (multiple players)	Few private players
Summary				

Source: Industry data

Strong lineage and support from Sponsor and Project Manager

The experience and expertise of PGCIL, its Sponsor, provides PG Invit with a significant competitive advantage within the Indian power transmission industry. Its Sponsor is engaged in project planning, designing, financing, constructing, operating, and maintaining power transmission projects across India. The Sponsor's Maharatna status provides it with strategic and operational flexibility as well as enhanced financial autonomy to take certain investment decisions without seeking approval from the GoI. PGCIL is the third largest CPSE in terms of gross block and the largest power transmission company in India. PGCIL's share in India's cumulative inter-regional power transfer capacity was more than 85%. Between 2008-2020, the Sponsor was declared as the successful bidder for 16 out of 52 ISTS projects awarded under the TBCB mechanism. PGCIL has also recently emerged as the successful bidder in the bids for five TBCB projects. As of December 31, 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. In addition, it benefits from a strong balance sheet by leveraging it to support its growth. Since PGCIL - the Sponsor, will also act as the Project Manager, and will continue to provide O&M services to the Initial Portfolio Assets, PG Invit will benefit from its Sponsor's experience including from its O&M expertise.

Capitalize on value accretive growth through acquisitions

Other than the Initial Portfolio Assets, the Sponsor owns two operational subsidiaries with an aggregate gross block of Rs. 5029 Cr as on December 31, 2020. Further, there were seven subsidiaries in the construction phase, and the project cost estimated by the Sponsor is Rs. 9200 Cr. In addition, four subsidiaries in intra-state power transmission (with the project cost estimated at Rs. 3000 Cr) are also in construction phase. The subsidiaries in construction phase are progressively scheduled for completion by FY23.

As of December 31, 2020, 14 inter-state transmission projects estimated at Rs. 16,242 Cr were under bidding by the BPCs. PGCIL, the sponsor, emerged as the successful bidder in the bids for five of these TBCB projects. The Cabinet Committee on Economic Affairs, while granting approval to the Sponsor for monetisation of the Initial Portfolio Assets through the InvIT route, has also permitted the Sponsor to monetise, through the Invit route, its other TBCB subsidiaries, which are either under construction or shall be acquired by it in future, as per the directives and targets fixed by the Government of India. Accordingly, when the Sponsor intends to monetise its power transmission subsidiaries acquired through the TBCB route, PG Invit, as a ready investment vehicle set up by the Sponsor, shall stand to be benefitted as a preferred route of monetisation. PG Invit's future growth will be derived primarily from its acquisition strategy, which will be focused on acquiring power transmission projects as and when such opportunities arise.

Strong financial position

PG Invit's strong financial position will help it finance its future expansion plans. It has a credit rating of Provisional [ICRA] AAA (Stable), CARE AAA (Is); Stable and Provisional CCR AAA/Stable by ICRA Limited, CARE Ratings Limited and CRISIL Ratings Limited, respectively. Following utilization of the Offer Proceeds of Rs. 4993 Cr, the consolidated borrowings will be almost nil and well below the regulated threshold of 49% of the total value of assets, as prescribed by the InvIT Regulations. Further, low debt position of the balance sheet will provide PG Invit with the ability to finance growth of its business without substantial dilution to Unitholders in future. In addition, the security of payments for the transmission service by the Initial Portfolio Assets, as ensured under the terms of the TSAs and the CERC Sharing Regulations, which results in low receivables/counter-party risk, ensures timely payment and increases the financial strength.

Concerns

- PG Invit, like all Invits is exposed to interest rate fluctuations as returns are benchmarked to 10 year G-sec yields with respect to its yield. Based on issue price of Rs. 100 per unit, PG Invit's yield offers a 600 bps spread over the 10 year G-sec yield of 6.0%.
- The DICs (designated Interstate Customers) under the Sharing Regulations include generating stations, State Transmission Utilities ("**STUs**"), distribution licensees including state electricity boards, electricity departments of various states, bulk consumers and any other entity directly connected to the ISTS. A failure or delay on the part of any DIC to make timely payments to the CTU (Central Transmission Utility) i.e. PGCIL, could affect the capability of the CTU to make the corresponding payments to transmission licensees, including PG Invit's Portfolio Assets. The payments received by the CTU from the DICs are distributed proportionally to the transmission licensees based on their billing amount.
- Any power transmission project that PG Invit acquires in future, which is still under construction and development including the framework arrangements, may be subject to cost overruns or delays.
- All income received by the InvIT from the SPVs receives a pass through treatment and is not taxable at the InvIT level. Any adverse change in such taxation laws on Invits could negatively impact PG Invit.

Recommendation – Attractive risk-adjusted returns – yield of 12%

We are sanguine on PG Invit's business model, which is backed by predictable cash flows and offers growth visibility. A Government backed sponsor like PGCIL further instills confidence. PG InvIT is AAA rated and at the issue price of Rs. 100 per unit, offers 12.0% yield, trading at a spread of ~600 bps to the 10 year G-sec (6.0%). In our view, such a spread is very attractive given the high degree of certainty of cash flows & distribution per unit going forward. Investor return in PG Invit which is a quasi-equity instrument will be a combination of quarterly dividend (our expectation of Rs. 3 per unit per quarter) and the unit's price appreciation (our expectation of 20-30% listing gain). Upon listing we expect the yields to settle between 9-10% in line with that of the existing listed Invit of Indigrid; which translates to the Unit price settling in the Rs. 120-130 range. **We recommend 'subscribe' to the issue.**

Indicative Average Yield Estimation for next 3 years

	Gross Value (Rs Cr)	Per Unit (Rs)
Equity Value (At Issue Price)	9,100	100
Avg. NDCF (Net Distributable Cash Flow) projected by PG Invit for next 3 years.	1,150	12.6
% of Payout Assumed	95%	95%
NDCF Payout	1,093	12.0
Indicative Yield over next 3 years	12.0%	12.0%

Source: RHP, Co

*Note: Equity value has been calculated by extrapolating the total primary issuance of Rs. 7735 Cr for an 85% stake in PG InvIT (Rs. 7,735 Cr / 85% *100% = Rs. 9,100 Cr)*

Financials

P&L (Rs. Cr)	FY18	FY19	FY20	9MFY21	9MFY21 Ann
Net Revenue	**344**	**977**	**1324**	**992**	**1323**
% Growth		*184%*	*36%*		*0%*
Other expenses	8	33	38	31	42
% of Revenues	*2.4%*	*3.4%*	*2.9%*	*3.1%*	*3.1%*
EBITDA	**335**	**944**	**1286**	**961**	**1281**
EBITDA Margin	*97.6%*	*96.6%*	*97.1%*	*96.9%*	*96.9%*
Depreciation	93	275	379	139	186
Other Income	2	7	10	17	22
Interest	116	328	429	291	388
PBT before Except	**129**	**348**	**487**	**548**	**730**
Exceptional Items	0	0	0	0	0
PBT	**129**	**348**	**487**	**548**	**730**
Tax	14	100	109	211	281
Tax rate	*11%*	*29%*	*22%*	*38%*	*38%*
PAT	**114**	**248**	**379**	**337**	**450**
% Growth		*117%*	*53%*	*-11%*	*19%*
EPU (Post Issue)	**0.1**	**0.3**	**0.4**	**0.4**	**0.5**

Ratios & Others	FY18	FY19	FY20	9MFY21	9MFY21 Ann
EBITDA Margin	97.6%	96.6%	97.1%	96.9%	96.9%
PAT Margin	33.2%	25.4%	28.6%	34.0%	34.0%
ROE	22%	20%	25%	30%	-
ROCE	4%	10%	14%	17%	-

Turnover Ratios	FY18	FY19	FY20	9MFY21	9MFY21 Ann
Debtors Days	54	44	48	52	-
Inventory Days	12	8	9	9	-
Creditor Days	0	0	0	2	-
Asset Turnover (x)	0.1	0.1	0.2	0.2	-

Valuation Ratios	FY18	FY19	FY20	9MFY21	9MFY21 Ann
Price/Earnings (x)	797	367	240	-	202
EV/EBITDA (x)	27.0	9.6	7.0	-	7.1
EV/Sales (x)	26.3	9.3	6.8	-	6.8
Price/BV (x)	8.6	8.2	7.8		1.5

Balance Sheet (Rs. C	FY18	FY19	FY20	9MFY21
Share Capital	442	999	1,201	1,213
Reserve & Surplus	71	220	333	275
Networth	**513**	**1,218**	**1,534**	**1,488**
Total Loans	**5,347**	**5,577**	**5,177**	**4,999**
Other non-curr liab.	-	5	29	268
Trade payable	0	0	1	9
Other Current Liab	645	199	81	54
Total Current Liab.	**645**	**200**	**82**	**63**
Total Equity & Liab.	**6,505**	**7,000**	**6,821**	**6,818**
Fixed Assets & CWIP	6,308	6,624	6,322	6,202
Intangible assets anc	19	88	116	112
Other non Curr. asse	60	5	4	62
Cash & Bank	17	3	40	54
Debtors	51	119	174	188
Inventories	11	21	31	31
Current Tax Assets N	5	6	6	-
Other Current assets	34	134	129	170
Total Assets	**6,505**	**7,000**	**6,821**	**6,818**

Cash Flow (Rs. Cr)	FY18	FY19	FY20	9MFY21
EBITDA	335	944	1,286	961
Provisions & Others	2	7	10	16
Op. profit before W	**338**	**951**	**1,296**	**977**
Change in WC	62	(535)	(157)	(53)
Less: Tax	(27)	(74)	(87)	(24)
CF from operations	**373**	**342**	**1,052**	**901**
Addition to assets	(3,274)	(643)	(107)	(14)
CF from Investing	**(3,274)**	**(643)**	**(107)**	**(14)**
Dividend Paid	(21)	(83)	(220)	(395)
Equity capital raised	206	556	202	12
Interest Paid	(74)	(401)	(444)	(312)
Proceeds from Loans	2,803	213	(445)	(177)
CF from Financing	**2,914**	**286**	**(908)**	**(872)**
Net Change in cash	**13**	**(14)**	**37**	**14**
Cash at beginning	4	17	3	40
Cash at end	17	3	40	54

Source: Company Data, NBRR

Note: Valuation ratios are on post issue basis; P/BV 9MFY21 Ann. is on post issue basis

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