



Choice

Nurturing Financial Excellence

IPO REPORT

**“Subscribe for Long Term” to
POWERGRID Infrastructure Investment Trust**

Strong parentage linkage with operations supported by an established regulatory framework

Salient features of the InvIT IPO:

- POWERGRID Infrastructure Investment Trust (PGInvIT)**, is India's first InvIT sponsored by Maharatna PSU i.e. Power Grid Corporation of India Ltd. The trust is planning to raise Rs. 7,735cr through an InvIT IPO, which will open on 29th Apr. and close on 3rd May 2021. The price band is Rs. 99 - 100 per unit.
- The issue is a combination of fresh issue and OFS. PGInvIT will not receive any proceeds from the OFS portion. Of the net proceeds from the fresh issue, Rs. 4,993.5cr will be utilized for the repayment/prepayment of existing debt availed by its asset SPVs.
- PGInvIT been given a credit rating of AAA/Stable by ICRA Ltd., CARE Ratings Ltd. and CRISIL Ratings Ltd.

Key competitive strengths:

- Strong lineage and support from the Sponsor and Project Manager
- Consistent and stable cash flows from assets with long term visibility and low counter party risks
- Strong financial position
- Government support and an established regulatory framework
- Strategic and critical nature of power transmission infrastructure with low risk of emergence of alternate transmission infrastructure
- Skilled and experienced Investment Manager having strong corporate governance philosophy

Risk and concerns:

- Unfavorable change in government policies & regulations
- Poor availability of transmission assets
- Delay or difficulty in expanding the asset base
- Poor financial position of its customers
- Unfavorable interest/finance costs

Peer comparison and valuation: PGInvIT has not disclosed the NAV, thus the valuation and its benchmarking with the listed peer cannot be ascertained.

Below are few key observations of the issue: (continued in next page)

- PGInvIT - an infrastructure investment trust is set-up to own, construct, operate, maintain and invest in power transmission assets in India. The trust is sponsored and managed by Maharatna PSU (i.e. Power Grid Corporation of India Ltd., PGCIL).
- PGCIL is the largest power transmission company in India in terms of length of transmission lines measured in circuit kilometers (ckm). As of 31st Aug. 2020, PGCIL's share in India's cumulative inter-regional power transfer capacity and transmission charges were more than 85%. Moreover, according to the World Bank, the sponsor was internationally the third largest transmission utility in Oct. 2019.

Recommendation	Subscribe for Long Term
Price band	Rs. 99 - 100 per unit
Units for fresh issue	49.9 - 50.4cr units (Rs. 4,993.5cr)
Units for OFS issue	27.4 - 27.7cr units (Rs. 2,741.5cr)
Total issue size	77.3 - 78.1cr units (Rs. 7,735cr)
Bidding Date	29 th Apr. - 3 rd May 2021
Trustee	IDBI Trusteeship Services Ltd.
Sponsors	Power Grid Corporation of India Ltd.
Investment manager	POWERGRID Unchahar Transmission Ltd.
Project manager	Power Grid Corporation of India Ltd.
Book Running Lead Manager	ICICI Securities Ltd., Axis Capital Ltd., Edelweiss Financial Services Ltd. and HSBC Securities and Capital Markets (India) Pvt. Ltd.
Registrar	KFin Technologies Pvt. Ltd.
Sector/Industry	Investment companies

Issue structure details

Institutional investors	58 - 58.6cr units (75% of the issue)
Non-institutional portion	19.3 - 19.5cr units (25% of the issue)

Application money at higher cut-off price per lot

Number of units per Lot	1,100
Application money	Rs. 110,000 per lot

Analyst

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Financial snapshot (Rs. cr)	FY18	FY19	FY20	9M FY21	FY22E	FY23E	FY24E
Revenue from operations	344	977	1,324	992	1,314	1,259	1,234
Cash flow from operating activities	373	342	1,052	901	1,209	1,168	1,137
Total debt	5,975	5,767	5,256	5,051			
Net debt	5,958	5,765	5,216	4,996			
Debt to equity (x)	11.6	4.7	3.4	3.4			
Net debt to EBITDA (x)	17.8	6.1	4.1	5.2			
Net debt to equity (x)	11.6	4.7	3.4	3.4			

Source: Choice Broking Research

Peer comparison and valuation (Contd...):

- The sponsor through its wholly owned subsidiaries is engaged in setting-up, implementing and operating transmission projects procured via tariff based competitive bidding (TBCB) mechanism. As of 31st Dec. 2020, eight of these projects have commenced commercial operations, comprising of 39 transmission lines (6,398ckm) with a total power transformation capacity of 9,630MVA. PGINvIT intends to acquire five of these projects comprising of 11 power transmission lines (3,698.6ckm) with three substations having 6,630MVA of aggregate transformation capacity (cumulatively named as “Initial Portfolio Assets”) and spread across five states in India.
- These initial portfolio assets were awarded to the Sponsor on a build-own-operate-maintain basis and are characterized with perpetual ownership, higher visibility on cash flows, minimal counter party risk and lower operating risk. These assets earn revenues based on the availability of the assets and are not dependent on the quantum of power transmitted from the network. As per the agreement, the assets are supposed to maintain an availability of 98% and for the availability in excess of 98% it has right to claim incentive and similarly penalty for availability below 98%.
- These initial portfolio assets are contracted for the period of 35 years. With a blended operational run of three years, these assets have an average residual life 32 years. With necessary retrofitting/overhauling and regulatory approvals, the life of these assets can be extended up to 50 years.
- In future, PGINvIT will be an asset monetization vehicle of PGCIL. In future, the trust intends to acquire various operational assets of the sponsor. As of 31st Dec. 2020, PGCIL had two operational assets with a gross block of Rs. 5,029cr. Additionally, it had 11 assets in the construction phase with an estimated project cost of Rs. 12,200cr. These assets are scheduled to be completed by FY23.
- With the commissioning of all the elements of the initial portfolio assets, the trust reported a 96.3% CAGR rise in total operating revenue over FY18-20 to Rs. 1,324.3cr in FY20. EBITDA increased by 95.8% CAGR to Rs. 1,286.1cr in FY20. Average EBITDA margin stood at 97.1% during FY18-20. With 101.8% and 92.5% CAGR rise in the depreciation charge and finance costs, reported PAT increased by 82.2% CAGR to Rs. 378.8cr in FY20. PAT margin contracted by around 460bps over the period to be at 28.6% in FY20. Operating cash flow increased by 67.9% CAGR with an average cash flow of Rs. 589cr.
- As per the guidance provided in the RHP, operating revenue is forecasted to decline by 1.7% CAGR over FY20-24 to Rs. 1,234cr in FY24E. Operating cash flow is expected to increase by 2% CAGR over the same period to Rs. 1,137cr in FY24E.
- As of 31st Dec. 2020, the trust had total debt of Rs. 5,051cr with a debt-equity ratio of 3.4x. Post the application of the fresh issue, the trust will be virtually debt free and thus will be well positioned to finance growth without substantial dilution of the unitholders.
- The trust intends to distribute at least 90% of the net available cash to the unitholders once at least every quarter in every financial year. However, the first declaration of distribution by the trust shall be made within six months from the listing and trading of units. According to the management, the distribution-mix will mainly consist of interest payment (50%), dividend payment (35%) and rest will be repayments.

With initial portfolio assets characterized with perpetual ownership, higher visibility on cash flows, minimal counter party risk and lower operating risk, we feel that the trust is well placed to get benefited from the structural growth in the power transmission space. PGINvIT asset SPVs normally pays 6-7% as interest charge on the borrowed funds. So with no disclosure of the yield income from the trust, it will be fair to assume that PGINvIT will have an pre-tax yield of over 7%, which is better than the prevailing fixed deposit rates offered by the banks. Thus considering the above observations, we assign a “**Subscribe for Long Term**” rating for the issue.

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