

Powergrid Infrastructure Investment Trust

SSIS IPO GRADE 4/5 (Sound Fundamentals)
27th April, 2021

Rating Overview

The POWERGRID Infrastructure Investment Trust ("PGINVIT") was formed on September 14, 2020 by the sponsor, Power Grid Corporation of India Ltd. as an irrevocable trust, pursuant to the Trust Deed, under the provisions of the Indian Trusts Act, 1882. PWGR has transferred, 74% stake in 5 SPVs (with 11 operational power transmission lines) to the PGINVIT.

PGINVIT has issued units, which in turn, is offered for sale by PWGR. Post listing, PWGR will hold 15% in PGINVIT and remaining will be owned by the public. PGINVIT will utilize IPO money (fresh issue) to retire existing debt which was raised by PWGR to establish the transmission line.

The offer is priced at around a 3.5x multiple on the book value. Investors can expect a pre-tax yield of 9 to 11% based on the utilization of funds to repay the SPV level debt. An important feature of the InvIT is its ability to produce consistent cash flows owing to long tenure contracts, and headroom for growth given potential to lever the balance sheet and acquire more assets from PowerGrid. The management has also mentioned of a strong pipeline of projects that can be monetized by the InvIT.

Invit offer size of Rs77.3bn is priced at Rs99- 100/unit. The entire 11 asset has annuity like revenue with transmission line availability of 98%+. PGINVIT 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 Indigrid (Sterlite Sponsor) trading at 9.5-10%. For growth in NDCF, PGINVIT aims to acquire remaining 26% stake of the SPV from PWGR, and acquire additional asset by raising debt.

Our overall rating of Powergrid InvIT is fundamentally strong and it holds a fair valuation post issue. Investors looking at a consistent yield can subscribe to the issue for long term, others may avoid.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

Business Overview

POWERGRID Infrastructure Investment Trust (PGIIT) is 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. It is registered with SEBI as an InvIT on January 7, 2021. PGIIT's Sponsor, Power Grid Corporation of India Limited, also acting in the capacity of Project Manager, is a CPSE under the Ministry of Power, GoI (Government of India) and is listed on BSE and NSE. The Sponsor was conferred with 'Maharatna' status on October 23, 2019, by the GoI.

As of March 31, 2019, the Sponsor was the third-largest CPSE in terms of the 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, the Sponsor was the largest power transmission company in India in terms of the length of transmission lines measured in-circuit kilometres (Source: CEA).

As of August 31, 2020, the Sponsor's share in India's cumulative inter-regional power transfer capacity was more than 85% (Source: CEA). Further, for Fiscal 2020, the Sponsor's share in the transmission charges for ISTS billed by the CTU is over 85% (Source: POWERGRID). According to the World Bank, the Sponsor was internationally the third-largest transmission utility as of October 25, 2019 (Source: www.worldbank.org/en/country/india/overview#3).

The Sponsor has been ranked the 'Fastest Growing Electric Utility' in the 'Asia/Pacific Rim' region for seven successive years since 2014 based on compound growth rate according to Platts Top 250 Global Energy Company Rankings® and is the only Electric Utility to feature in the Top 50 Fastest-Growing Energy Companies list since 2014.

Financial Performance

PGIIT's total revenue from operations for the nine months ended December 31, 2020, and the Fiscals 2020, 2019 and 2018, was Rs. 1009.08 cr., Rs. 1334.09 cr., Rs. 984.12 cr. and Rs. 345.60 cr. while net profit for the said periods were Rs. 337.14 cr., Rs. 378.83 cr., Rs. 248.06 cr. and Rs. 114.13 cr. respectively.

PGIIT have been given 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.

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As of December 31, 2020, PGIIT's debt-equity ratio was 3.36.

Issue Details

PGIIT is coming out with a maiden InvITs issue worth Rs. 7735 cr. Consisting of fresh issue of Rs. 4993.48 cr. (approx. 499348300 units) and offer for sale of Rs. 2741.51 cr. (approx. 274150800 units) with the price band of Rs. 99- Rs. 100 per unit. Based on the upper price band, it will issue approx. 773499100 units. The minimum application will be for 1100 units and in multiples thereof, thereafter.

The issue opens for subscription on April 29, 2021, and will close on May 03, 2021. Post allotment, InvITs will be listed on BSE and NSE. PGIIT has reserved 75% of the issue for Institutional investors and a balance of 25% for non-Institutional investors (i.e. HNIs and Retail categories). This Offer shall constitute at least 10% of the total outstanding units on a post-offer basis.

The issue is jointly lead managed by ICICI Securities Ltd., Axis Capital Ltd., Edelweiss Financial Services Ltd. and HSBC Securities and Capital Markets (India) Pvt. Ltd. KFin Technologies Pvt. Ltd. is the registrar to the issue. IDBI Trusteeship Services Ltd. is the trustee for this offer.

As per the valuer's report, its Enterprise value based on the cash flow from operations ratio in relation to offer price at the upper price cap -current/projected - is at 8.65 (31.03.2020), 7.53 (31.03.2022), 7.79 (31.03.2023) and 8.00 (31.03.2023).

Application Dates	Apr 29, 2021 – May 3, 2021
Issue Type	Book Built Issue FPO
Face Value	₹100 per equity share
IPO Price	₹99 to ₹100 per equity share
Market Lot	1100 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹100 (Up to ₹7,734.99Cr)

Issue Timeline

Basis of Allotment Date	May 10, 2021
Initiation of Refunds	May 11, 2021
Credit of Shares to Demat Account	May 11, 2021
IPO Listing Date	May 17, 2021

Investment Strategy

The power sector in India is set for a booming period ahead and this being the major grid service player based on their ongoing projects is coming out with a maiden offer. Listed industry player IndiGrid has given reasonable rewards since listing. The Sponsor has good track records. Based on major concerns coupled with the disclaimer for peers comparison, investors may consider investment with a long term perspective only.