

RESEARCH

Power

IndiGrid call takeaways - Rs 120bn+ transmission opportunity

SUMMARY

Power

- IndiGrid is an InvIT focused on interstate transmission assets, though up to 25% of its AUM can be in state transmission, solar and storage
- Company expects Rs 120bn+ of new transmission projects to be bid out this fiscal and sees inorganic growth potential in both state & central assets
- Focus areas include maintaining its AAA rating and investing in projects that have earnings visibility, robust PPAs and strong counterparties

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.52	(2bps)	21bps	83bps
India 10Y yield (%)	6.21	(2bps)	(5bps)	20bps
USD/INR	74.15	(0.1)	(0.6)	(0.5)
Brent Crude (US\$/bbl)	78.64	(0.6)	8.2	92.0
Dow	34,391	0.3	(3.0)	23.8
Shanghai	3,536	(1.8)	0.4	9.9
Sensex	59,413	(0.4)	5.9	56.1
India FII (US\$ mn)	28-Sep	MTD	CYTD	FYTD
FII-D	7.3	1,556.9	143.1	2,170.3
FII-E	(254.5)	1,226.5	8,617.1	1,290.7

Source: Bloomberg

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30 September 2021

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We spoke with Meghana Pandit, Chief Investment Officer, and Anisha Jain, Head of Investor Relations, at India Grid Trust (IndiGrid, Not Rated). Key takeaways:

Focused on transmission and solar projects: IndiGrid is an infrastructure investment trust (InvIT) established to own and operate power assets in India. While the company started off with a mandate to run transmission projects, it subsequently diversified into renewables. The platform will, however, continue to maintain at least 70-75% of assets in the interstate transmission sector (ISTS), with the balance 25% across intrastate transmission and solar projects. Given its track record, IndiGrid sees itself as a dividend-plus-growth platform, in line with other global REITs and InvITs.

Robust growth plans: Growth plans include the inorganic route (ISTS transmission/solar), partnering for new bids, transmission asset acquisition from state transcos, and asset purchase in case of divestment by Power Grid. IndiGrid does not expect its credit profile to change materially with exposure to state transcos, although many of them may not have the security of a pooling mechanism like ISTS assets. For instance, it runs state transco Jhajjar KT Transco where collections have been smooth. IndiGrid will focus on acquiring transmission and solar projects that have stable long-term cash flows, quality plants, strong PPAs and financially strong/creditworthy counterparties.

AAA rating underpinned by risk and cash flow management: IndiGrid's average cost of debt is 7.9% whereas incremental debt is being raised at 7.0-7.5%. The company will evaluate a diversification strategy into allied sectors – among these is storage, a nascent area where the company sees a growing need for investment.

Rs 120bn+ of new projects expected to be bid out: IndiGrid expects projects worth Rs 120bn-150bn to be bid out this fiscal as transmission assets are built up to maintain grid stability. Further, the recent proposal of transmission network sharing may help improve utilisation along certain lines and encourage construction of new lines. At the same time, competition will increase as players such as Tata Power (TPWR) are planning to reenter the segment.



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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