

Power Grid Corporation of India Ltd.

November 8, 2010

Price Band	: ₹85 - 90 per share
Minimum Bid Lot Size	: 65 Equity Share
FPO open during	: November 9 - 12, 2010 (for QIBs issue closes on November 11, 2010)
Book Running Lead Managers	: SBI Capital Markets, Goldman Sachs (India) Securities, ICICI Securities and J.P. Morgan India
To list on	: NSE & BSE
PE	: 17.53x (based on base price)* : 18.56x (based on cap price)*
Market Cap post-listing	: ₹41667Cr or \$9424.91mn (based on the cap price)
Market Cap of Free-Float	: ₹12741.31Cr or \$2882mn (based on the cap price)

* based on FY10 EPS.

FPO of 841.77mn equity shares of ₹10 each, aggregating to ₹7575.91Cr or \$1713.62mn (at the cap price) consisting of a fresh issue of 420.88mn shares aggregating to ₹3787.95Cr (at the cap price) and an offer for sale of up to 420.88mn shares aggregating to ₹3787.95Cr (at the cap price) by the Government of India.

Shareholding Pattern

Shareholder Categories	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoters & Promoter Group	3,634,908,335	86.36%	3,214,024,212	69.42%
QIBs excl. Mutual Funds	573932895	13.64%	1,415,701,141	30.58%
Mutual Funds				
Non-Institutional Investors				
Public				
Total	4,208,841,230	100.00%	4,629,725,353	100.00%

Executive Summary

- Power Grid Corporation of India Ltd. is India's principal electric power transmission company. The company owns and operates more than 95% of India's inter-state and inter-regional electric power transmission system. As at September 30, 2010, Power Grid owned and operated 79,556ckm of electrical transmission lines and 132 electrical substations.
- Government of India had allotted Navratna status to Power Grid in May 2008. The said status provides greater autonomy to the company undertake new projects without Govt. of India approval and allows it to make investments in subsidiaries and joint ventures.
- Power Grid also provides consultancy services in the transmission and distribution network, including in grid management and capacity building and in the telecom services to over 115 clients in over 330 domestic and international projects.
- The company has diversified itself into the telecommunications infrastructure business, utilizing its nationwide transmission system to create an overhead fibre-optic telecommunication cable network using optical ground wire on its power transmission lines.
- Power Grid has maintained an average availability of over 99% for its transmission system and has not had a major grid disturbance, meaning an interruption affecting an entire region or an inter-regional transmission system.

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Bloomberg KNTE <GO>, Thomson One Analytics, Reuters Knowledge, Capital IQ, TheMarkets.com and securities.com
Keynote Capitals Institutional Research - awarded "India's Best IPO Analyst 2009" by MCX-Zee Business

- The company has extensive experience and expertise in implementing new transmission projects and expanding India's transmission systems.

Company Background

Government of India formed national power grid in 1981 based on Rajadhyaksha Committee's recommendations pursuant to this decision National Power Transmission Corporation Limited was incorporated in October 1989 with the responsibility of planning, executing, owning, operating and maintaining the high voltage transmission systems in the country. The name of the company was changed to its present name 'Power Grid Corporation of India Limited' (PGCIL) in October 1992.

PGCIL was received designation as a Mini-Ratna in October 1998 and was conferred the status of Navratna by the Govt. of India in May 2008.

In 1992-94, Government of India decided to consolidate all the interstate and inter-regional electric power transmission assets of the country in a single entity, PGCIL.

Promoters and Management

Government of India through President of India holds 86.36% in PGCIL while the company comes under the ambit of Ministry of Power (MoP) and the Ministry of Development of North Eastern Region (MoDoNER).

Mr. S. K. Chaturvedi is the Chairman and Managing Director of the Company since August 2008 with an experience of 30 years in diverse fields such as human resources management, industrial relations and organizational development. He also worked for SAIL, NTPC and NHPC.

Mr. J. Sridharan, having 35 years of work experience primarily in financial management, is the Director (Finance) of the Company since December 2005. Prior to joining PGCIL, he has worked in organizations including the Airport Authority of India and Bharat Heavy Electricals Limited.

Mr. V. M. Kaul, having 37 years of work experience primarily in the power sector, is the Director (Personnel) of PGCIL since March 2009. He has a prior experience in NTPC and Engineers India Limited.

Mr. R. N. Nayak, having 32 years of work experience primarily in the power sector, is the Director (Operations) of the company. He has a prior experience in NTPC and SAIL.

Industry Overview

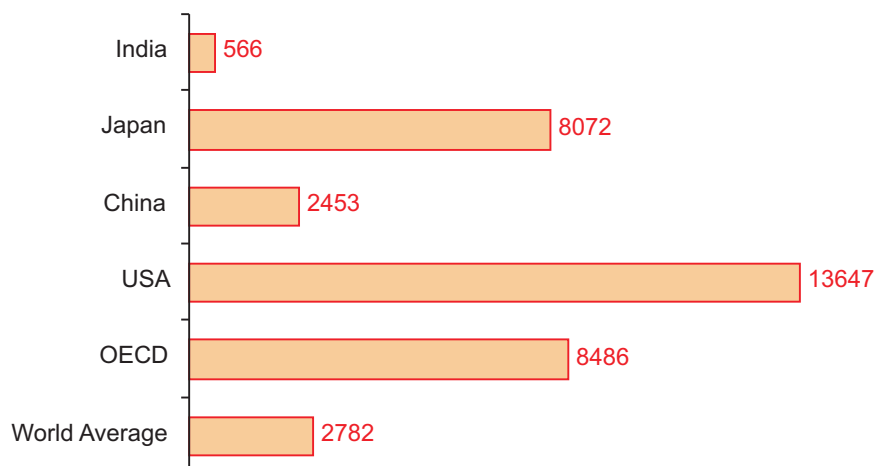
India ranked as the world's fifth largest energy producing nation in 2009 behind the United States, China, Russia and Japan with estimated total production of 723.8bn kWh. It is also the world's fifth largest energy consuming nation, with estimated total consumption of 568bn kWh in 2007.

Demand for electric power transmission services is largely dependent on levels of demand for electric power and on the ability of the electric power generation and distribution sectors to service that demand. The Govt. of India has developed a national electricity policy, which aims at accelerating the development of the power sector through the generation of additional power, in order to provide for establishment of infrastructure to increase the amount of power generated. This policy is being promoted by the Ministry of Power as "Mission 2012: Power for All".

Demand for Electricity in India

Per capita consumption of power in India remains relatively low compared to other major economies, as below:

Per Capita Electricity Consumption (kWh) in 2008



(Source: RHP)

The low per capita consumption of electricity in India compared to the world average presents significant potential for sustainable growth in the demand for electric power in India. The projected energy demand in India is as mentioned below:

Year	Electricity Energy Requirements at Power Station Bus Bars (GWh)	Annual Peak Electric Load at Power Station Bus Bars (MW)
2011-2012	968,959	152,746
2016-2017	1,392,066	218,209
2021-2022	1,914,508	298,253

(Source: RHP)

Supply of Electricity in India

Since the 1980's, India has been facing an imbalance with respect to its energy requirements. The demand for energy, particularly commercial energy, has been growing rapidly in India along with the growth of the economy, changes in the demographic structure, rising urbanization, socio-economic development and the desire for attaining and sustaining self-reliance in some sectors of the economy. India faces significant challenges in meeting its energy needs in a sustainable manner and at competitive prices. Primary energy requirements grew at an average annual growth rate of 3.67% between FY91 and FY07, with the primary commercial energy requirement growing at an average annual growth rate of 4.93% during the same period.

According to provisional figures in the Central Electricity Authority's (CEA) Monthly Review of the Power Sector for August, 2010, the monthly national power supply deficit was at 7.5%, with the monthly national peak power deficit at 10.7%. The chart below sets out the actual power supply position from FY2007-FY2010:

Period	Peak Demand (MW)	Peak Met (MW)	Peak Deficit/ Surplus (MW)	Peak Deficit/ Surplus (%)
FY2007	100,715	86,818	-13,897	-13.8
FY2008	108,866	90,793	-18,073	-16.6
FY2009	109,809	96,885	-13,124	-12
FY2010	118,472	102,725	-15,748	-13.3

(Source: RHP)

Transmission of Power in India

To increase installed power generation capacity by 78,700 MW by 2012, it must also facilitate an expansion of the transmission network and inter-regional capacity to transmit power. Average investment in T&D in India during the Tenth Plan was about 32% of investment in generation.

Inter-regional transmission networks are required in India because power generation sources are unevenly distributed and power needs to be carried over large distances from areas where power is generated to areas where load centers and demand exist.

In order to ensure the reliable supply of power, efficient utilization of generating capacity and effective exploitation of unevenly distributed generating resources in the country so as to optimize their potential, a strong interconnected transmission grid is required, which interconnects various generating stations and load centers. This ensures an uninterrupted supply of power to a load center, even if there is a failure at the local generating station or a maintenance shutdown.

In India, the T&D system is a 3-tier structure comprising distribution networks, state grids, and regional grids. The distribution networks and state grids are principally owned and operated by SEBs or other state utilities, or state governments (through state electricity departments). Most of the interstate and inter-regional transmission lines are owned and operated by Power Grid or its joint ventures. At present there are five regional grids operating in India, in the Northern, Eastern, Western, Southern and Northeastern regions. Regional or interstate grids facilitate the transfer of power from a region with a surplus to one with a deficit. These regional grids also facilitate the scheduling of maintenance outages and coordination between power plants. Presently the Northern, Eastern, Western and North Eastern regions, are operating in one synchronous mode with total installed capacity of 90,000 MW and the Southern region is interconnected with Western Region and Eastern Region through HVDC links.

Increase to Transmission Capacity under the Eleventh and Twelfth Five Year Plans

The focus of transmission system development for the Eleventh Five Year Plan is to provide adequate inter-regional and intra-regional transmission capacity so as to consolidate and strengthen the national grid towards a strong all-India grid. With the strengthening of inter-regional connections by 2012, the inter-regional capacity is expected to grow to 27,950 MW by the end of the Eleventh Five Year Plan, according to the Planning Commission's Mid-Term Appraisal of the Eleventh Five Year Plan. The CEA anticipates that inter-regional transmission capacity would be on the order of 57,000 MW by 2015 and 75,000 MW by the end of the Twelfth Five Year Plan. The actual increase in transmission capacity will depend on corresponding growth in generation capacity.

Setting up a national grid requires the gradual strengthening and improvement of regional grids and their progressive integration through extra high voltage and HVDC transmission lines. The existing capacity as at September 30, 2010 and the proposed addition to transmission lines at the outset of the Eleventh Five Year Plan are set forth in the table below:

	Transmission Capacity	
	Existing Capacity as at September 30, 2010 (ckm)	Targeted Capacity under Eleventh Plan (ckm)
765 kV	3,829	7,850
HVDC Up to 500 kV	8,234	7,432
400 kV	100,910	125,000
230/220 kV	130,788	150,000
Total	243,761	290,282

(Source: RHP)

Investment in Transmission under the Eleventh and Twelfth Five Year Plans

Traditionally, the government has focused on investments in power generation to alleviate the acute power shortage in the country. In the process, the T&D segment has remained neglected and attracted significantly less investments in comparison to generation. The investment ratio between generation and T&D in India has historically been 2:1 against an ideal investment ratio of 1:1. Average investment in T&D during the Tenth Five Year Plan was about 32% of investment in generation. An investment of ₹1,400 billion was originally planned in the transmission sector in the Eleventh Five Year Plan, out of which ₹750bn is for Inter-State while ₹650bn is for Intra-State.

Business Operations

PGCIL is India's major electric power transmission company. It owns and operates more than 95% of India's inter-state and inter-regional electric power transmission system. As at September 30, 2010, PGCIL owned and operated 79,556 circuit kilometers of electrical transmission lines and 132 electrical substations. The company has been granted by the Govt. of India with the statutory role of Central Transmission utility(CTU). As CTU, Power Grid operates and is responsible for the planning and development of the country's nationwide power transmission network including interstate networks.

Transmission Business

PGCIL's core business is the transmission of electric power. It owns and operates a large network of transmission lines and infrastructure that constitutes most of India's Interstate and Inter- regional electric power transmission system (ISTS) and carries electric power across India. The Indian power system has been divided into five regions for planning and operation of electricity generation, transmission and distribution namely the Northern, Southern, eastern, Western, and North Eastern Regions. As the owner and operator of most of the ISTS, it expands the system progressively, connects new customers to the system and operates and maintains the system. It is also engaged through joint ventures with respect to certain transmission projects.

Consultancy Business

The company is also into Consultancy Business. Since FY95 the company has provided

consultancy services in the transmission and distribution network, including in grid management and capacity building and in the telecom services to over 115 clients in over 330 domestic and international projects. It has undertaken and is currently undertaking international transmission, grid management and telecom consultancy services in Afghanistan, Bangladesh, Sri Lanka, Bhutan, Nepal, United Arab Emirates and Nigeria. Power grid is associated with the construction of 220/110/20 kv Chimtala substation and the Pul-e-Khumri, Kabul 220 kv double circuit transmission line in Kabul, Afghanistan that was completed by them pursuant to a consultancy assignment from the Govt. of India. PGCIL's assignments tend to fall in three broad categories

- Electricity distribution strengthening schemes and rural electrification.
- Execution of transmission and communication system related projects on a turnkey basis.
- Engineering consulting assignments for Indian utilities and utilities in other countries

Telecommunication

PGCIL has diversified itself into telecommunications infrastructure business, utilizing its nationwide transmission system to create an overhead fibre–optic telecommunication cable network using optical ground wire on its power transmission lines. As at September 30, 2010, the network consisted of 20,733kms and connected 129 Indian cities, including all major metropolitan areas. The telecommunication infrastructure network benefits from the extensive geographic reach of its power transmission network and covers substantially all the main territories of India. PGCIL is currently one of the few telecommunication infrastructure providers, which is also present in remote areas of India viz., Jammu and Kashmir, Himachal Pradesh and the North Eastern Region (Assam, Manipur, Meghalaya, Tripura and Nagaland).

Research and Development

PGCIL engages in research and development to improve the performance of the transmission system, optimize costs and incorporate new technologies. The company has adopted many state of the art condition monitoring and diagnostic techniques including DGA, FRA, PDC, RVM for transformers, DCRM for circuit breakers, and third harmonic resistive current measurement for surge arrestors to improve reliability, availability and life extension. As part of the R & D initiatives PGCIL has undertaken a pilot project in the northern region for the implementation of Phasor management units in a wide area measurement system.

Strengths

Leadership position in Indian power transmission sector

PGCIL owns and operates 79,556 circuit kilometers of interstate transmission lines, which is more than 95% of India's ISTS, 132 EHV AC and HVDC substations with transformation capacity of about 89,170 MVA.

High operational efficiencies

PGCIL maintained an average availability of over 99% for its transmission system and has not had a major grid disturbance, meaning an interruption affecting an entire region or an inter-regional transmission system.

Effective project implementation

PGCIL has extensive experience and expertise in implementing new transmission projects and expansion of transmission systems. During the ninth, tenth and eleventh five year plans (through to September 30, 2010), the company added 12,436ckm, 19,172ckm and 20,086ckm of transmission lines and 14, 36 and 30 sub-stations, respectively.

Attractive tariffs, competitive landscape and business model

PGCIL is able to recover operating and maintenance charges as determined by CERC tariff regulations. Its transmission tariffs are presently determined under the Fiscal 2010-2014 Regulations on a cost plus-tariff basis and provide it with a 15.5% return on equity until March 31, 2014. Further, as CTU, the company has no direct competitors of significant size for its transmission business. The core business of the company is benefited from consistent and growing demand for power transmission and provides an essential input for economic and societal growth.

Diversified business portfolio

The consultancy division of PGCIL has provided transmission-related consultancy services to over 115 clients in over 330 domestic and international projects and is currently involved in 63 domestic consultancy contracts of various sizes. The company has also leveraged our nationwide transmission system to create an overhead fibre-optic telecommunication cable network using optical ground wire on power transmission lines.

Government support

Power Grid derives a strategic advantage from its strong relationship with the Govt. of India and occupies a key position in plans for the growth and development of the Indian power sector. The grant of “Navratna” status by the Govt. of India provides strategic and operational autonomy and enhanced financial powers to take investment decisions without seeking Government approval.

Objects of the Issue

The object for the offer of sale is to carry out the disinvestment of 4,20,884,123 equity shares of ₹10 each by the selling shareholder.

The objects of the fresh issue (4,20,884,123 equity shares) are to

1. Meet capital requirements for the implementation of certain identified transmission projects.
2. General Corporate purposes

The company is developing 13 transmission projects. The projects include projects for strengthening of existing transmission lines or grids and projects for establishing new transmission lines connecting new generating plants. The transmission projects are expected to enhance the length of transmission system by 18,711ckm.

Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

Most of PGCIL's revenue is derived from the transmission of power to the State Power Utilities ("SPUs"), and many of these entities have had weak credit histories in the past.

Six transmission projects for which the company intends to utilize the net proceeds have been delayed.

Any change in current tariff policy or CERC modifies tariffs of the company, business, financial condition and results of operations can see adverse impact.

Any transmission projects require a substantial capital outlay and time before any benefits or returns on investments are realized and returns on investment may be reduced in the event of delays.

The new regulatory framework by CERC for sharing of inter-state transmission charges may adversely affect receivables.

New technologies could make telecommunication business of the company less desirable to current and potential customers and could result in decreasing revenues, which would have a material adverse effect on its business.

KEYNOTE

Profit & Loss Statements

(₹Cr)

For Period Ended	FY09	FY10	H1FY09	H1FY10
Income				
Transmission Charges	5282.84	6576.38	3202.67	3775.59
Consultancy Revenue	215.90	269.17	96.05	151.95
Telecom Revenue	149.83	157.72	81.07	89.37
Short Term Open Access Income	41.42	124.18	35.73	108.84
Total Income	5689.99	7127.45	3415.52	4125.75
Expenditure				
Employee Remuneration and Benefits	643.88	726.70	365.53	392.67
Transmission, Admin. and Other Exps	411.61	507.43	200.79	261.19
Provisions	46.23	22.15	2.15	4.15
Deferred Rev. Exp. w/o	1.83	1.78	0.92	0.89
Total Expenditure	1103.55	1258.06	569.39	658.90
EBITDA	4586.44	5869.39	2846.13	3466.85
Other Income	448.73	376.13	199.71	246.91
Interest and Finance Charges	1642.27	1543.24	768.86	809.05
PBDT	3392.90	4702.28	2276.98	2904.71
Depreciation	1093.97	1979.69	1048.86	1045.51
Profit Before Tax	2298.93	2722.59	1228.12	1859.20
Prior Period Expenditure	70.36	96.27	-0.61	2.30
Tax	537.96	585.38	222.15	502.32
Profit After Tax	1690.61	2040.94	1006.58	1354.58
EBITDA margin	80.6%	82.3%	83.3%	84.0%
EPS (₹)	4.02	4.85	2.39	3.22
Book Value (₹)	34.74	37.82	-	40.97
Paid-up Equity Capital	4208841230	4208841230	4208841230	4208841230

Balance Sheets

(₹Cr)

As at,	31.03.09	31.03.10	30.09.10
Sources of Funds			
Paid-up Equity Capital	4208.84	4208.84	4208.84
Reserves & Surplus	10414.75	11708.23	13035.11
Shareholders Funds	14623.59	15917.07	17243.95
Secured Loans	25288.25	31345.78	33656.87
Unsecured Loans	3177.18	3071.01	2967.15
Total Debt	28465.43	34416.79	36624.02
Total Liabilities	43089.02	50333.86	53867.97
Applications of Funds			
Gross Block	40319.33	43202.28	47744.06
Less: Acc. Depr.	9190.89	11141.02	12181.88
Net Block	31128.44	32061.26	35562.18
Capital Work-in-Progress	6533.43	10242.37	9475.81
Construction Stores and Advances	6752.57	10179.81	11299.71
Investments	1592.83	1453.22	1485.12
Current Assets and Loans & Advances			
Inventories	297.57	344.90	362.61
Sundry Debtors	1373.56	2214.86	2865.02
Cash and Bank Balances	2428.88	3277.64	3561.16
Other Current Assets	1384.92	487.52	474.13
Loans and Advances	2827.99	3302.40	2838.91
Total Current Assets	8312.92	9627.32	10101.83
Less: Current Liab. & Prov.	11236.67	13233.68	14059.62
Net Current Assets	-2923.75	-3606.36	-3957.79
Miscellaneous expenditure	5.5	3.56	2.94
Total Assets	43089.02	50333.86	53867.97

Keynote Capitals Ltd.

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