



Power Grid Corporation of India Ltd. FPO Note

Special Report

FPO Details	
Issue Period	Nov 09, 2010 to Nov 12, 2010
Issue Size	Public offer of 841,768,246 equity shares of face value of Rs. 10 each
Issue Type	100% Book Building
Price Range	Rs 85 to Rs 90 (5% discount will be available to Retail investors and Eligible Employees at the Issue Price on allotment)
Market Lot	65 Equity Shares
Minimum Order Quantity	65 Equity Shares
Equity Shares outstanding prior to the Issue	4,208,841,230 Equity Shares
Equity Shares outstanding after the Issue	4,629,725,353 Equity Shares

OBJECTS OF THE ISSUE:

The Issue comprises a Fresh Issue by the Company and an Offer for Sale by the Selling Shareholder.

- Offer for Sale

The object of the Offer for Sale is to carry out the disinvestment of 420,884,123 Equity Shares of Rs.10 each by the Selling Shareholder. The Company will not receive any of the proceeds from the Offer for sale.

- Fresh Issue

- To meet the capital requirements for the implementation of certain identified transmission projects.
- General corporate purposes.

POWER INDUSTRY OUTLOOK:

India is both a major energy producer and consumer of Power. According to the CIA Fact book, India ranked as the world's fifth largest energy producing nation in 2009 with estimated total production of 723.8 billion kWh. It is also the world's fifth largest energy consuming nation, with estimated total consumption of 566 billion kWh in 2008. However, as can be seen from the following table per capita consumption of power in India remains relatively low compared to other major economies. 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.

Per capita consumption	k WH in 2008
India	566
World Average	2782

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.

To deliver a sustained economic growth rate of 8.0% through 2031-2032 and to meet the "lifeline energy" needs of all its citizens, India needs, at the least, to increase its primary energy supply by 3 to 4 times and its electricity generation capacity by 5 to 6 times based on FY2004 levels. This represents a need for the substantial augmentation of power generation capacity. Such investment in power generation will require increased investment in power transmission and distribution if the additional power is to be effectively disseminated among potential customers. 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 transmission of electricity is typically defined as the bulk transfer of power over a long distance at a high voltage, generally 132 KV and above. The distribution of electricity is the delivery of power from the transmission system to the customer. A reliable transmission and distribution system is important for the proper and efficient transfer of power from generating stations to load centers and beyond. A transmission and distribution (T&D) system is typically comprised of transmission lines, sub-stations, switching stations, transformers and distribution lines. If the GoI intends 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.

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.

Company:

Power Grid is India's principal electric power transmission company. It owns and operates more than 95% of India's inter state and inter-regional electric power transmission system (ISTS). As on September 30, 2010, it owned and operated 79,556 circuit kilometers of electrical transmission lines and 132 electrical substations. In Fiscal 2010, it transmitted approximately 363.72 billion units of electricity, representing approximately 47% of all the power generated in India. In the six months ended September 30, 2010, we transmitted approximately 202.59 billion units of electricity, representing approximately 51% of all the power generated in India. As at September 30, 2010, the company had 68 transmission projects in various stages of implementation. It is ranked as the world's third largest transmission utility by the World Bank.

The Government of India has entrusted the statutory role of Central Transmission Utility (CTU) to the company. As CTU, it operates and is responsible for the planning and development of the country's Nation wide power transmission network, including interstate networks. The GOI has accorded the status of "Navratna" to the company, which provides it a greater autonomy to undertake new projects without GoI approval and allows making investments in subsidiaries and joint ventures, subject to an investment ceiling set by the GoI.

The tariffs for company's transmission projects are determined by the Central Electricity Regulatory Commission (CERC). The current CERC regulations are based on a cost-plus-tariff based system and provides Power Grid a return on equity on pre-tax basis at a base rate of 15.5%, to be grossed up by the normal tax rate as applicable for the respective year.

Diversification:

By leveraging its strength as India's principal power transmission company, the company has diversified itself into the consultancy business. Since Fiscal 1995, consultancy division has provided transmission related consultancy services to over 115 clients in over 330 domestic and international projects. The company has also diversified into the telecommunications business since 2001, utilizing its nationwide transmission system to create an overhead fibre-optic telecommunication cable network using optical ground wire on power transmission lines. As at September 30, 2010, the network consisted of 20,733 kilometers and connected 129 Indian cities, including all major metropolitan areas. The availability of company's telecom backbone network has been consistently maintained at 99.9% during Fiscal 2010.

Projects:

- ➔ From April 1, 2007 to September 30, 2010 the company has completed 32 transmission projects valued in the aggregate at approximately Rs 138.6 billion.
- ➔ As at September 30 2010, it owns and operates 79,556 circuit kilometers of electrical transmission lines and 132 electrical substations.

Operating Parameters:

	Fiscal			For the six months ended
	2008	2009	2010	September 30, 2010
Transmission Network (circuit kilometers)	66,809	71,437	75,289	79,556
Substations (number)	111	120	124	132
Transformation Capacity (MVA)	73,122	79,522	83,402	89,170
System Availability (%)	99.65%	99.55%	99.77%	99.86%

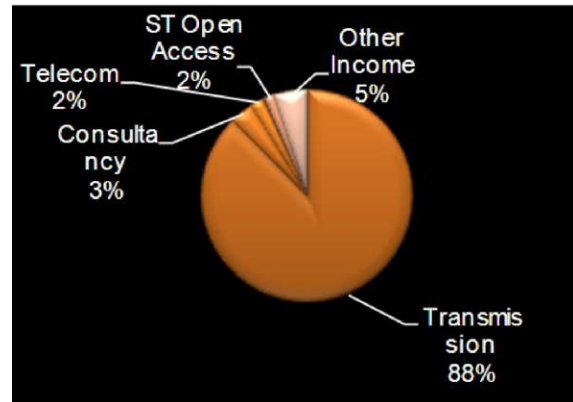
Key Financials:

Key Financials				
Particulars	Mar-07	Mar-08	Mar-09	Mar-10
Equity Paid Up	3787.41	4208.84	4208.84	4208.84
Networth	10926.07	13754.17	14848.94	16140.72
Top Line	3589.85	4614.82	5689.99	7127.45
Bottom Line	1229.37	1448.47	1690.61	2040.94
EPS	3.09	3.24	3.81	4.60
EBIDTA Margin	96.28	91.41	87.26	86.28
PAT Margin	57.48	55.65	48.94	56.41
Book Value	28.85	32.68	35.28	38.35
Debt Equity Ratio	1.64	1.69	1.77	2.03
Interest Coverage Ratio	2.30	2.43	2.36	2.70
Return on Equity	11.77	12.99	11.82	13.17
3 Years Sales CAGR				25.69%
3 Years PAT CAGR				18.41%
Market Price (08/11/10)				98.35
P/E Ratio FY X 2010				21.38
Price to Book Value				2.56
Dividend Yield				1.53%

Strengths:

- ➔ Power Grid is country's principal electric power transmission company, owning and operating more than 95% of India's ISTS.
- ➔ The company was able to maintain an average availability of over 99% for its transmission system since Fiscal 2002.
- ➔ The company has extensive experience and expertise in implementing new transmission projects and expanding India's transmission systems.
- ➔ Its transmission tariffs are presently determined under the Fiscal 2010-2014 Regulations on a cost plus-tariff basis and provide s with a 15.5% return on equity until March 31, 2014. It also earns additional incentives for the timely commissioning of transmission projects and for maintaining high system availability pursuant to CERC norms.
- ➔ As Power Grid is being designated as the CTU by the GoI, the company does not have any direct competitors of significant size for transmission business. Therefore, its core transmission business is characterized by a stable business model with low volatility and consistent returns.

- **Diversified business portfolio:** As can be seen from the chart that apart from the core transmission business the company is diversifying itself into consultancy and telecom business using its transmission work experience.
- **Government support:** The Company derives a strategic advantage from its strong relationship with the GoI and it occupies a key position in plans for the growth and development of the Indian power sector. The President of India is the promoter of the Company and holds 86.36% of equity share capital.
- **Future plans:** The Company intends to continue to rapidly increase its capacity to maintain and grow its leadership position and remain as the largest Indian power transmission company. The GoI's Eleventh Five Year Plan commenced on April 1, 2007. The mid-term goal of the Eleventh Five Year Plan is to achieve a national power grid with inter-regional power transfer capacity of 27,950 MW, which would include Power Grid's transmission system and that of others. During the Eleventh Five Year Plan, up to March 31, 2010, the company invested 254,405.2 million to develop the national grid. Based on generation capacity targeted under the Eleventh Five Year Plan, the company has a plan on capital expenditure of an aggregate amount up to 295,594.8 million for expansion in Fiscal 2011 and Fiscal 2012.



Peer comparison:

None of the listed companies in India has its core business as power transmission. Hence, Comparative data for the peer group/industry is not available.

Disclosure:

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