With InvIT ahead, Power Grid should reveal cash usage policy

R. Sree Ram
sree@livemint.com

Power Grid Corp. of India Ltd has received the government’s approval to monetize its assets through infrastructure investment trust (InvIT). The approval pertains to monetizing projects won through tariff-based competitive bidding.

Last year, the board of the company gave in-principle approval to raise up to ₹10,000 crore through InvITs. It is not clear how many transmission projects will be part of the initial InvIT.

As of the last fiscal year, Power Grid had commissioned eight transmission projects won through tariff-based competitive bidding. According to analysts, five of these projects have been operating for more than a year and may be included in the InvIT, helping Power Grid free-up sizeable equity capital. “It is possible that five assets with ₹2,000 crore equity are monetized,” Jefferies India Pvt. Ltd said in a note.

But the moot question is, what is the need for Power Grid to monetize transmission projects? As of the last fiscal, the company had cash and cash equivalents of ₹4,795 crore. A debt-to-equity ratio of around two times is not out of control. Importantly, capital expenditure at the company is steadily falling, reflecting a slowdown in the order book.

According to Motilal Oswal Financial Services Ltd, the lower capex will help Power Grid pay higher dividends. However, there is no clear articulation of the cash usage policy. “Power Grid management, in past result calls, has mentioned that any InvIT proceeds will go towards new and under-construction projects. Cabinet announcement confirms the same. We believe higher dividend payout may not be at the top of the management’s mind as they are hopeful of medium-term growth picking up,” add analysts at Jefferies India.

Indeed, Power Grid sees opportunities in integration of renewable energy sources. ICRA Ltd estimates an investment of ₹1.8 trillion over the five-year period till FY2025 in the power transmission sector, driven by evacuation infrastructure for renewable energy projects.

But projects are delayed and the private sector is gaining market share. It’s best the company articulates a clear cash usage policy, so that its investors can take informed decisions.