

COMPANY VISIT NOTE

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GENUS POWER INFRASTRUCTURE LTD

PRICE: RS.52
 TARGET PRICE: RS.79

RECOMMENDATION: BUY
 PE FY20: 14x

We recently met the management of Genus Power (GPIL). The management was very positive on the demand outlook for meters. Our interaction with other industry players also corroborates this view. After the order win of smart meters in Q3FY18, news-reports indicate that GPIL is the lowest bidder in prepaid meter tender. Based on robust demand outlook, we project strong revenue and earnings growth. We reiterate BUY with a target price of Rs 79 (21x FY20E).

Risks

- 1) Higher commodity prices could dent near-term margins in excess of our projections;
- 2) Delay in payment from SEBs/EESL could elongate working capital, which could lead to higher interest expenses.

Summary table

(Rs mn)	FY18E	FY19E	FY20E
Sales	8043	10247	12416
Growth %	25.2	27.4	21.2
EBITDA	859	1230	1618
EBITDA margin %	10.7	12.0	13.0
PBT	723	1,017	1,301
PAT	537	752	963
EPS (Rs)	2.1	2.9	3.7
Growth %	-7.2	40.0	28.0
CEPS	2.8	3.6	4.5
Book value (Rs/share)	27.9	30.2	33.4
Dividend per share (Rs)	0.5	0.5	0.5
ROE %	7.4	9.7	11.4
ROCE %	12.3	15.5	17.3
Net cash (debt)	-1984	-2840	-3293
Net Working Capital (Days)	181	191	193
EV/Sales (x)	1.7	1.5	1.2
EV/EBITDA (x)	16.3	12.1	9.5
P/E (x)	25.0	17.9	14.0
P/Cash Earnings	19.0	14.4	11.5
P/BV (x)	1.9	1.7	1.6

Source: Company, Kotak Securities – Private Client Research

Demand Scenario

Demand scenario for the electric meters business remains robust. The management indicated that orders (inclusive of EESL smart meter orders) of electric meters of Rs 100-110 bn are in various stages of tendering.

Demand for meters is fuelled by various government schemes to ensure electricity to all households. Among the major schemes include –

- Deendayal Upadhyay Gram Jyoti Yojna (DDUGJY),
- Saubhagya: Pradhan Mantri Sahaj Bijli Har Ghar Yojana and
- Integrated Power Development Scheme (IPDS).

DDUGJY

The broad objective of the DDUGJY scheme is to ensure reliable and continuous power to rural and agricultural consumers. This is being achieved through feeder separation of agricultural and non-agricultural consumers. The scope of work includes 1) Feeder separation 2) Strengthening of sub-transmission and distribution system and 3) Metering.

The scope of work under metering involves installation of suitable static meters for feeders, distribution transformers and all categories of consumers for un-metered connections, replacement of faulty meters & electro-mechanical meters.

DDUGJY : All India Physical Performance as on Dec 31 2017

	Sanctioned	Acheivement	Acheivement (%)
Feeder Separation (Nos)	159801	15244	10%
Distribution transformer (Nos)	385883	38719	10%
Consumer metering (mn)	150	35.4	24%
DTR and Feeder Metering (mn)	4.06	0.42	10%

Source: DDUGJY.gov.in

The Saubhagya

Pradhan Mantri Sahaj Bijli Har Ghar Yojana scheme aims to provide electricity to unelectrified households. Since its launch in 2017, the scheme has been 9 states have opted for the scheme and have placed request for funds.

Status of Saubhagya scheme (lacs)

Un-electrified households as reported by States as on 10th October 2017 (nos)	460
Already Sanctioned under DDUGJY (nos)	80
Balance (nos)	380
Proposed under Saubhagya (nos)	30
Progress since launch in oct 2017 (nos)	20

Source: DDUGJY.gov.in

The Integrated Power Development Scheme (IPDS)

IPDS scheme also aims to achieve broadly the same objectives related to rural electrification, system strengthening and metering. The estimated outlay under IPDS is Rs 326 bn out of which Rs 253 bn is budgetary support from GOI.

Status of IPDS (Rs bn)

Sanctioned cost	265
Award value	249
Fund released	49

Source: DDUGJY.gov.in

Several states that have signed the MOU for availing the UDAY scheme have given a detailed trajectory of Aggregate Transmission and Commercial (AT & C) loss reduction to be achieved till 2020-21. Besides this, states that are signatories to UDAY schemes have targets to install smart meters for consumers exceeding 500 Unit by Dec 17 and by Dec 2019 for consumers exceeding 200 units.

The strong demand outlook in the meters business has also been corroborated by other players in the industry that we have interacted with.

Significant smart metering opportunity

Smart meters have significant potential in the medium to long term as government rolls out smart city programme across India.

India has 200 million legacy meters and there are plans to install up to 130 million smart meters by 2021 (Source: Company presentation and Ministry of Power).

Under the smart meters, the consumers will have a choice to choose between pre-paid and post-paid meters

A smart, automated metering system reduces meter-reading, data-entry errors and costs by removing the need for manual meter reading. Therefore, the Smart Meter can enable utilities to reduce their Aggregate Transmission and Commercial (AT&C) losses and billing inefficiencies. These meters, connected through a web-based monitoring system, will help reduce commercial losses of Utilities, enhance revenues, and serve as a crucial tool in power sector reforms.

EESL has taken the initiative in helping utilities reduce these billing inefficiencies by deploying smart meters through the Smart Meter National Programme (SMNP). The SMNP aims to replace India's 250 million conventional meters with smart meters. The agency's smart meters procurement has commenced in November 2017 for the states of Haryana and Uttar Pradesh, states with AT&C losses as large as 28.42% and 34.36% respectively.

Upcoming Smart meter tenders

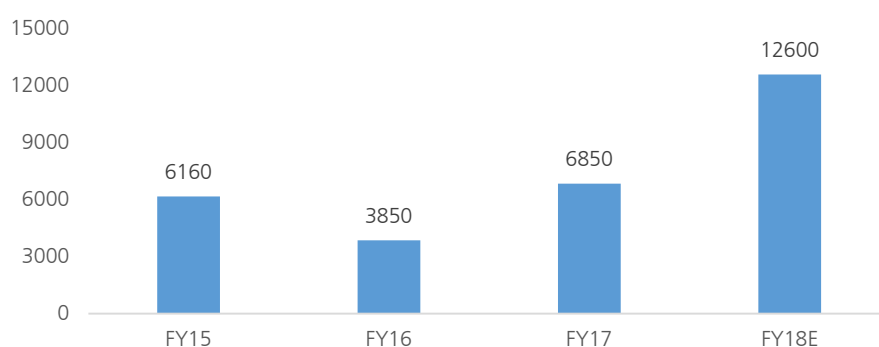
Tangedco is set to sign an MoU with Energy Efficiency Services Limited (EESL) to procure one million smart meters. These smart meters will be installed on all premises that consume more than 200 units of power per month in a phased manner from June 1. At present, digital meters have been installed at nearly 80% of consumer premises and these will be replaced by smart meters.

EESL had awarded five million smart meter order in Q3FY18 (winners – ITI, KEONICS and Genus). In addition to this, Energy Efficiency Services Ltd (EESL) has floated its second tender for procuring five million smart meters to be installed on a pan-India basis.

Recent order wins have built a strong order book

The sale of meters in volume terms has grown at a CAGR 21% between 2012-16. However, there was a temporary blip in offtake of meters by state utilities in FY17, as the Power ministry contemplated on central procurement of meters (in line with LEDs) in bulk with a view to optimize purchase cost. This resulted in some uncertainty, thereby leading to state utilities deferring their procurement programmes until further clarity. However, this issue has been resolved in FY18 and procurement by state utilities is back on track. Genus has announced major order wins in FY18, which has boosted its order book to Rs 12.6 bn in Q4FY17 as compared to Rs 6.8 bn in Q4FY17. Newsreports indicate that Genus has emerged as the L-1 (lowest bidder at Rs 1185 per meter) in a tender for supply of ten million prepaid meters in the state of UP. Genus will be awarded 50% of the tender value. The second lowest bid was that of L&T (Rs 1204 per meter).

Order book (Rs mn)



Source: Kotak PCG

Major order wins in FY18

Date	Product	Value (Rs mn)	Units	Realisation	Agency
Mar-18	Three phase meters and other installations	1250	30000	na	DDUGJY
Mar-18	DT meters and Annual Maintenance	540	10000	54000	JBVNL
Nov-18	Smart meter	4530	1.35	3356	EESL

Source: Company

However cost pressures have started to build

Our discussions with meter manufacturers indicate that there has been significant increase in Polycarbonate prices in the past few months, from USD 2300/ton to USD 4000/ton. Polycarbonate accounts for 25% of raw material cost for meter manufacturers. The sharp rise in this commodity has surprised the industry and there is a good chance of cost increased eating into margins for the meter industry.

Earnings Revision

We have revised our earnings which is mainly due to lower forecast margins in FY19E in view of the higher commodity prices.

Earnings revision

Rs mn	FY18		FY19	
	Earlier	Revised	Earlier	Revised
Revenue	8,043.0	8,042.9	9,623.0	10,246.7
EBITDA %	10.7	10.7	13.6	12.0
PAT	2.1	2.1	3.3	2.9

Source: Kotak Securities – Private Client Research

Earnings Outlook

On the basis of the strong order book, we project robust revenue growth in FY19. We project revenue growth of 24% CAGR over FY18-20E.

Forecast EPS to grow from Rs 2.1 per share in FY18E to Rs 3.7 per share in FY20E.

Expecting ROCE to grow from 12.1% in FY17 to 17.3% in FY20E.

Valuations

After a strong outperformance in Q3FY18, the GPIL stock has corrected sharply by 38% from its high of Rs86. Weak Q3FY18 and concerns on future margins and working capital led to this selloff, in our view. However, we note that the demand outlook for the meters business remains strong. We are projecting EPS growth of 34% CAGR between FY18-20E. Hence, we reiterate BUY on the stock.

However, in view of the earnings revision, we have revised our target price on the company to Rs 79 (Rs 86 earlier), valuing the stock at 21x FY20 earnings (earlier target was also based on 25x FY19).

ANNEXURE

Advanced Metering Infrastructure

What is Advanced Metering Infrastructure?

AMI (Advanced Metering Infrastructure) is the collective term to describe the whole infrastructure from Smart Meter to two way-communication network to control center equipment and all the applications that enable the gathering and transfer of energy usage information in near real-time. AMI makes two-way communications with customers possible and is the backbone of smart grid. The objectives of AMI can be remote meter reading for error free data, network problem identification, load profiling, energy audit and partial load curtailment in place of load shedding.

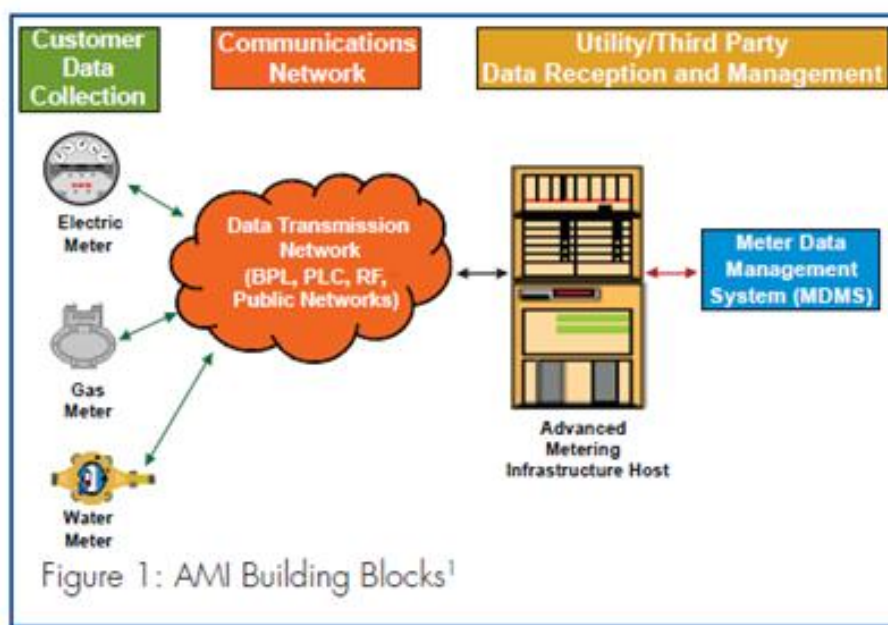
Building Blocks of AMI

AMI is comprised of various hardware and software components, all of which play a role in measuring energy consumption and transmitting information about energy, water and gas usage to utility companies and customers. The overarching technological components of AMI include:

- **Smart Meters:** Advanced meter devices having the capacity to collect information about energy, water, and gas usage at various intervals and transmitting the data through fixed communication networks to utility, as well as receiving information like pricing signals from utility and conveying it to consumer.

- **Communication Network:** Advanced communication networks which supports two way communication enables information from smart meters to utility companies and vice-versa. Networks such as Broadband over PowerLine (BPL), Power Line Communications, Fiber Optic Communication, Fixed Radio Frequency or public networks (e.g., landline, cellular, paging) are used for such purposes.
- **Meter Data Acquisition System:** Software applications on the Control Centre hardware and the DCUs (Data Concentrator Units) used to acquire data from meters via communication network and send it to the MDMS
- **Meter Data Management System (MDMS):** Host system which receives, stores and analyzes the metering information.
- **Home Area Network (HAN)** - It can be an extension of AMI deployed at consumer premises to facilitate the communication of home appliances with AMI and hence enable a better control of loads by both utility and consumer.

Figure-1: illustrates the components that make up AMI, including advanced electric, gas and water meters a data transmission network and a data management system



Source: EESL

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- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
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- NOTE** – Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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