

Result Update

GENUS POWER INFRASTRUCTURE LTD

Stock Details

Market cap (Rs mn)	:	7115
52-wk Hi/Lo (Rs)	:	86 / 23
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	332,091
Shares o/s (mn)	:	257.3

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	8,351	10,519	11,428
Growth (%)	30.0	26.0	8.6
EBITDA	930	1,180	1,365
EBITDA margin (%)	11	11	12
PAT	516	619	690
EPS	2.0	2.4	2.7
EPS Growth (%)	(11.0)	20.0	11.6
BV (Rs/share)	29.1	31.1	33.3
Dividend/share (Rs)	0.4	0.4	0.4
ROE (%)	7.1	8.0	8.4
ROCE (%)	12.6	12.5	13.3
P/E (x)	14.0	11.6	10.4
EV/EBITDA (x)	9.1	7.6	6.1
P/BV (x)	1.0	0.9	0.9

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	50.5	50.5	50.5
FII	1.8	1.9	1.7
DII	9.2	9.4	8.6
Others	38.5	38.3	39.2

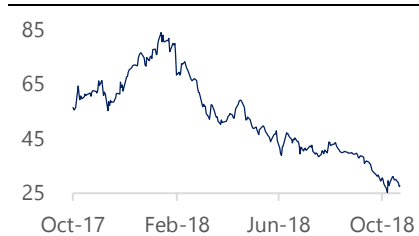
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Genus Power	(14.3)	(32.0)	(49.3)
Nifty	(6.8)	(8.2)	(3.7)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE Rs.28

TARGET Rs.40

BUY

Genus reported good numbers on the operational front and reported profits in line with estimates.

Outlook on EBITDA margins remains positive.

Further, strong order book makes us comfortable on growth in FY19-20.

Key Highlights

- Strong revenue growth on the back of pick-up in execution.
- EBITDA margin expansion despite commodity price and currency fluctuation
- Order book has almost doubled to Rs14.0bn (net of GST) on a y-o-y basis.

Valuation and Outlook

The Genus power stock has corrected sharply by 64% from its high of Rs86. The stock is trading at 11.6x and 10.4x FY19E and FY20E earnings respectively. We value the stock at 15x FY20E and arrive at a price target of Rs 40 (Unchanged). Reiterate **BUY** due to reasonable valuations, healthy profit growth and adequate upside.

Quarterly performance

Rsmn	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Net Sales	2233.6	1663.0	34.3	2385.7	-6.4
Total Expenditure					
Raw Material Consumed	1560	1195	30.6	1729	-9.7
Stock Adjustment	-15.71	-62.8	-75.0	-77.7	-79.8
Employee Expenses	232.8	204.5	13.8	225.6	3.2
Other Expenses	210.8	167.7	25.7	230.0	-8.3
Operating expenditure	1988	1504	32.2	2107	-5.6
PBIDT	245	159	54.6	279	-12.0
Depreciation	47.2	42.3	11.6	45.4	4.0
Other Income	34.4	53.1	-35.2	26.2	31.3
EBIT	233	170	37.2	260	-10.5
Interest	73.9	45.5	62.4	68.1	8.5
PBT	159	124	27.9	192	-17.2
Tax	34.8	34.0	2.2	47.7	-27.1
Reported Profit After Tax	124	90	37.7	144	-13.9
EBITDA (%)	11.0%	9.5%		11.7%	-6.0
Raw material to sales (%)	69.2%	68.1%		69.2%	-0.1
Employee costs to sales (%)	10.4%	12.3%		9.5%	10.2
Other expenditure to sales (%)	9.4%	10.1%		7.0%	34.8
Tax rate (%)	26.0%	27.4%		24.9%	4.4

Source: Company

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Reported Vs Estimated performance

Rsmn	Reported	Estimated
Revenue	2234	2100
EBITDA %	11.0%	11.00%
PAT	124	121

Source: Kotak Securities – Private Client Research

Result Highlights

Strong revenue growth

Genus reported strong revenue growth of 34% y-o-y in Q2FY19, led by robust demand for electric meters and aided by healthy order book.

On a QoQ basis, the revenue growth slowed down due to seasonal factors (Q1 and Q4 being the seasonally stronger quarters).

In terms of revenue mix, revenue from sale of meters stood at Rs1.9bn while the balance revenue of Rs320mn were contributed by EPC projects.

Exports of meters grew to Rs 280 mn in Q2FY19 as compared to Rs 80 mn in the corresponding quarter of the previous fiscal.

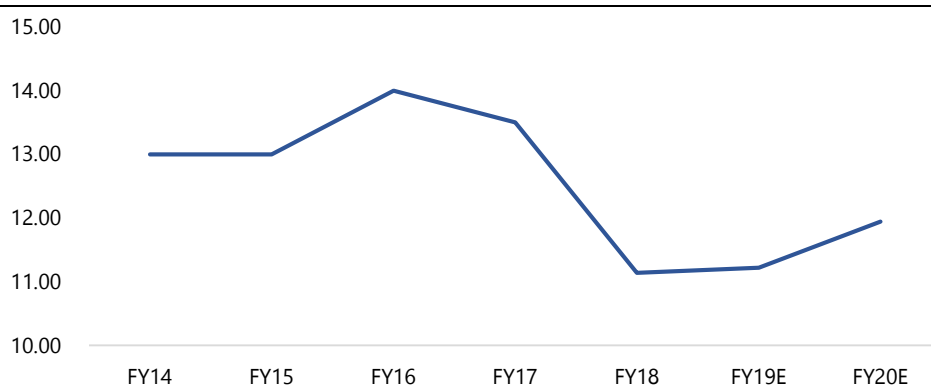
EBITDA margins higher despite cost pressures.

The company reported healthy expansion in EBITDA margins of 150 bps on a y-o-y basis. However, EBITDA margins contracted on a q-o-q basis.

Gross margins have however declined to 30.8% vs 31.9% on a y-o-y basis, which is mainly attributed to increase in commodity prices – price of Polycarbonate used in meter casing has gone up sharply in past few months.

The company also booked forex loss of Rs15mn under the head of “Other expenditure” as against gain of Rs7mn in Q2FY18.

EBITDA (%)



Source: Company

Interest cost has gone up

Genus reported increase in interest cost by 62% y-o-y due to combined effect of

- higher revenue growth necessitating higher working capital engagement and
- higher than normal receivables and general increase in cost of borrowing

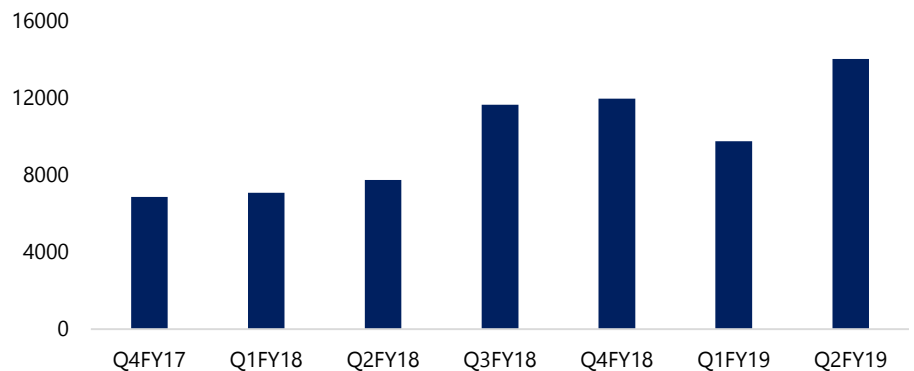
Strong order book getting stronger

Order book at the end of Q2FY19 stands at Rs14.0bn as against Rs7.7 bn at the end of Q2FY18.

The company recently announced two major order wins

- Supply of 5 mn single phase Prepaid meters, valued at Rs 6.5 bn.
- Supply of Advanced Metering Infrastructure (AMI) including 4.31 Iakhs smart meters. The value of the order is pegged at Rs. 3.1 bn (net of tax).

Order book (Rs mn)



Source: Company

Conference call highlights

- Deliveries of EESL order for smart meter has picked up in Q2FY19. Revenue of Rs 750 mn in H1FY19 from sale of smart meters.
- Except for the EESL order which is partly deliverable (40% of EESL order of Rs 4.5 bn in FY19), the rest of the order book is deliverable in current fiscal. Thus, the company expects to close the fiscal with good growth in revenue. The management is guiding for ~ Rs 11 bn revenue in FY19.
- The management indicated that there are enough orders in the pipeline from several states like Rajasthan/Maharashtra.
- Order book mix consists of Rs 12 bn in meters and rest being EPC and Export.
- In the recent EESL tender for supply of 5 mn smart meters, three Chinese companies had emerged lowest bidders. EESL has issued LOIs to these three companies but none of them have submitted performance guarantee so far. Also, none of the three companies has domestic manufacturing unit in India. As per the tender conditions, foreign suppliers have to source minimum 70% of the order from domestic manufacturing unit.
- The management believes that if the USD/INR rate remains stable in the coming quarters, then it can improve upon its margins. It is negotiating with vendors for supply discounts in view of the adverse currency movement. Another factor that can aid margin expansion is that legacy orders (low margins) for supply of meters are now at very low levels.
- The management expects to reach EBITDA margins of 13-14% by the end of the fiscal driven by higher revenue booking and fixed cost absorption. However, our forecast is conservative given elevated cost pressures.
- The management expects tax rate to remain at 26-27% in FY19.
- Gross debt at the end of Q2FY19 stood at Rs2.7 bn as against Rs2.38 bn.

Industry Scenario

Demand scenario for smart and prepaid meters remains strong.

- Average level of consumer metering in India is around 89%, with 28 out of 50 Govt. owned Utilities showing more than 90% consumer metering. Large number of consumers are still unmetered, with Electronic Meters or with defective meters, which does not enable proper accounting of energy.
- Government of India has requested states to go for smart/prepaid meters only in place of normal meters and exercise aggregation of quantities to achieve the benefits from economy of scale.
- The demand for smart metering market is set to witness robust growth on account of adoption of automated technologies across energy utilities to ensure load management, loss reduction and better customer service.
- The global market for smart meters is valued at USD 12.8 bn in 2017, and is expected to grow at a CAGR of 9.34% from 2017-2022.

Automated Meter Reading (AMI)/Smart Meters

- AMI systems are used for metering as well as monitoring the energy uses by consumer and its control near real-time meter readings, power outage notification, load disconnection/re-connection and power quality monitoring.
- For allowing different prices for consumption based on the time of day and season, which can be used to reduce peaks in demand.
- AMI/Smart meters can offer benefits to Utilities/consumers including AT&C loss reduction

Prepaid meters

- Prepaid meters require customer to make advance payment before use of electricity. If available credit is exhausted then supply of electricity is disconnected by the relay, which is reconnected only when consumer recharges credit again.
- Prepaid metering of electricity enhances utility revenue and reduces costs in multiple ways: accelerated cash-flow; theft avoidance; bad debt reduction; no cost towards meter reading & billing; lower administrative costs; advance demand planning; and no disconnect/re-connect costs

Earnings Outlook

On the basis of the strong order book, we project strong revenue growth in FY19. We project revenue CAGR of 17% over FY18-20E.

Forecast EPS to grow from Rs 2.0 per share in FY18E to Rs 2.7 per share in FY20E.

Valuations

The Genus power stock has corrected sharply by 64% from its high of Rs86. The stock is trading at 11.6x and 10.4x FY19E and FY20E earnings respectively.

Deteriorating macroeconomic parameters, sell off in mid and small caps and cost pressures from commodity prices and forex fluctuation has weighed on the stock price, in our view. We have built in these concerns/risks in our earnings projections and target price. Other risks include irrational competition from rivals/foreign players in bidding for the smart meter tenders. Slippage in actual delivery versus the management guidance also remains a concern area for the company and the management should take cognizance of the same for future. We value the stock at 15x FY20E and arrive at a price target of Rs 40 (Unchanged). Reiterate BUY due to reasonable valuations, healthy profit growth and adequate upside.

Company Background

Genus is the flagship company of the USD 400 million Kailash group. The company primarily manufactures and distributes Electric meters (EMs) and hybrid microcircuits as well as executes power distribution management projects in India and across the world. It manufactures the entire range of EMs, ie from transformer meters to household and industrial meters. The company also has a rich clientele that includes the state electricity boards (SEBs) as well as private utility firms like Reliance Energy, the Torrent Group, Tata Power and JSW Energy.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	6,424	8,351	10,519	11,428
% change yoy	(25.1)	30.0	26.0	8.6
EBITDA	866	930	1,180	1,365
% change yoy	(30.3)	7.4	26.9	15.6
Depreciation	153	171	185	210
EBIT	712	759	996	1,155
% change yoy	(35.4)	6.5	31.2	16.0
Net Interest	249	228	284	347
Other Income	240	220	113	125
Earnings Before Tax	704	751	824	933
% change yoy	(26.3)	6.7	9.8	13.2
Tax	125	235	206	243
as % of EBT	17.7	31.3	25.0	26.0
Net Income adj	579	516	619	690
% change yoy	(23.9)	(11.0)	20.0	11.6
Exceptional items	0.0	0.0	0.0	0.0
Reported Net Income	579	516	619	690
Shares outstanding (m)	256.9	256.9	256.9	256.9
EPS (Rs)	2.3	2.0	2.4	2.7
DPS (Rs)	0.4	0.4	0.4	0.4
CEPS	2.9	2.7	3.1	3.5

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
PBDIT	866	930	1,180	1,365
Tax and adjustments	(232)	126	(206)	(243)
Cash flow from operations	634	1,056	975	1,122
Net Change in Working Capital	471	(1,061)	(959)	78
Net Cash from Operations	1,105	(4)	15	1,201
Capital Expenditure	(351)	(260)	(250)	(270)
Cash from investing	(593)	201	113	125
Net Cash from Investing	(944)	(59)	(137)	(145)
Interest paid	(249)	(228)	(284)	(347)
Issue of Shares	0	0	-	-
Dividends Paid	(108)	(108)	(127)	(123)
Debt Raised	(128)	178	534	500
Net cash from financing	(484)	(158)	123	30
Net change in cash	(323)	(221)	1	1,085
Free cash flow	754	(264)	(235)	931
cash at end	568	377	378	1,463

Source: Company, Kotak Securities – Private Client Research

Balancesheet(Rsmn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	568	377	378	1,463
Accounts receivable	3,305	5,083	6,052	6,262
Stocks	1,160	1,956	2,450	2,661
Loans and Advances	-	-	-	-
Others	61	102	102	102
Current Assets	5,094	7,518	8,982	10,489
LT investments	3,242	3,083	3,082	3,082
Net fixed assets	1,620	1,655	1,720	1,780
Intangible assets	16	12	12	12
Deferred tax assets	459	367	367	367
CWIP	-	19	19	19
Other non current assets	385	563	563	563
Total Assets	10,815	13,216	14,745	16,312
Payables	942	2,497	3,000	3,500
Provisions	31	104	104	104
Current liabilities	973	2,601	3,104	3,604
LT debt	2,199	2,377	2,911	3,411
Other liab(def tax+minority int)	598	735	735	735
Equity & reserves	7,045	7,485	7,980	8,547
Total Liabilities	10,815	13,216	14,745	16,312
BVPS (Rs)	27.4	29.1	31.1	33.3

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	13.5	11.1	11.2	11.9
EBIT margin (%)	11.1	9.1	9.5	10.1
Net profit margin (%)	9.0	6.2	5.9	6.0
Adjusted EPS growth (%)	(23.9)	(11.0)	20.0	11.6
Receivables (days)	187.8	222.2	210.0	200.0
Inventory (days)	65.9	85.5	85.0	85.0
Sales / Net Fixed Assets (x)	4.0	5.0	6.1	6.4
ROE (%)	8.5	7.1	8.0	8.4
ROCE (%)	11.8	12.6	12.5	13.3
EV/ Sales	1.3	1.0	0.9	0.7
EV/EBITDA	9.3	9.1	7.6	6.1
Price to earnings (P/E)	12.4	14.0	11.6	10.4
Price to book value (P/B)	1.1	1.0	0.9	0.9
Price to cash earnings	9.8	10.5	9.0	8.0

Source: Company, Kotak Securities – Private Client Research

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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
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
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