Equity Research

July 10, 2023

BSE Sensex: 65280

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Capital goods

Company update and target price revision

Target price: Rs185

Target price revision
Rs185 from Rs121

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	50.4	50.4	50.4
Institutional investors	7.7	7.7	7.9
MFs and other	5.0	5.0	5.4
FIs/Ins Co	0.2	0.3	0.2
FIIs	2.5	2.4	2.3
Others	41.9	41.9	41.7

Source: BSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	**NA**	**NA**	**NA**
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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INDIA

ICICI Securities

Genus Power Infrastructure

BUY
Maintain

The power of 'two'

Rs161

Genus Power Infrastructure (Genus) has entered into the big league by: a) striking a marquee deal with GIC for an equity infusion of Rs5.2bn for 15% stake, and b) setting up a platform – an SPV (26% Genus and 74% GIC). This will enable Genus to participate in smart meter bids – an opportunity size of Rs300bn. Genus's share in equity contribution towards the platform stands at US$210mn. It will be the exclusive supplier of smart meters to the SPV. Note that bidding for smart meters is picking up – orders worth Rs180bn have been concluded while another Rs780bn are under bidding. We also expect Genus to benefit from the easing semiconductor supply constraints and falling semiconductor prices. We expect 74% revenue CAGR and 6x profit growth through FY23-FY25E driven by strong order backlog and pick-up in execution. We value Genus at a target price of Rs185/share, or 28x FY25E EPS of Rs6.5/share (earlier TP: Rs121/share).

- **A marquee deal:** GIC has committed to infuse Rs5.2bn for a 15% stake in Genus. Also, GIC along with Genus is setting up an SPV to participate in the smart meter opportunity and the latter will be the sole supplier of smart meters to this SPV. GIC has also committed to infuse US$2bn in the SPV and will hold 74% stake while Genus will hold 26%, for which it will have to infuse US$210mn over the next 3-4 years.
- **SPV to target orders worth a total of Rs300bn; Genus aims to supply smart meters worth Rs180bn:** The SPV is targeting smart metering orders worth Rs300bn, of which meter supply will constitute 60% (i.e. Rs180bn) and the rest will be monthly payments from discoms. Thus we expect Genus to receive orders worth Rs180bn over the next 3-4 years (excluding the current order book value).
- **RDSS-related orders finally picking up:** After the government's announcement of the RDSS scheme, ordering activity for the same has finally picked up. Various discoms have awarded orders for a total of 20mn smart meters worth Rs180bn while orders worth Rs780bn are in various stages of bidding. Larger orders from Uttar Pradesh, Tamil Nadu and Maharashtra are still in the pipeline and likely to be tendered in FY24E
- **Orderbook at 7.5x – including L1 at 12.5x:** Genus has won smart meter orders worth Rs55bn, which is 14% of the market (awards + L1). As a result, its orderbook has spiked to Rs.63bn as of Q1FY24, i.e. 7.5x FY23 revenue of Rs8bn. Note that the company is L1 in a further Rs40bn worth of orders.
- **Easing semiconductor supply and higher capacity utilisation to drive profitability:** Semiconductors are a key raw material for smart meters and easing global supply constraints and prices of the same are likely to aid operating margins.
- **Maintain BUY with target price of Rs185/share:** Given the high order book value and execution time of 2 years for the orders, we expect revenue CAGR of 74% to Rs25bn in FY25E. We expect EBITDA CAGR of 96% to Rs3bn in the same year with an EBITDA margin of 12.5% (+270bps). As a result, we estimate PAT growth at 6x to Rs2bn through FY23-FY25E.
- **Key risks:** Slower ordering by discoms, delay in execution of orders (or execution challenges), and high competitive intensity.

Market Cap	Rs41.6bn / US$503mn
Reuters/Bloomberg	GPIN.BO/ GPIN IN
Shares Outstanding (mn)	257.6
52-week Range (Rs)	180 / 73
Free Float (%)	49.6
FII (%)	2.3
Daily Volume (US$/'000)	1986
Absolute Return 3m (%)	89.8
Absolute Return 12m (%)	112.4
Sensex Return 3m (%)	9.8
Sensex Return 12m (%)	22.0

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs bn)	6,851	8,084	12,256	24,447
Rec. Net Income (Rs bn)	258	350	765	1,987
EPS (Rs)	1.0	1.4	2.5	6.5
% Chg YoY	(49.6)	35.5	85.5	159.8
P/E (x)	160.6	118.5	63.9	24.6
CEPS (Rs)	1.8	2.1	3.1	7.2
EV/EBITDA (x)	72.8	55.3	30.7	14.9
Dividend Yield (%)	0.5	0.5	0.6	0.7
RoCE (%)	3.7	4.5	11.9	16.7
RoE (%)	2.7	3.6	6.0	12.0

Outlook and valuation

Genus Power has just landed a marquee deal with GIC for an equity investment of Rs5.2bn for 15% stake in the company. Also, it is setting up an SPV to bid for smart meter tenders in the future (Genus will be the sole supplier of smart meters to this SPV).

GIC will hold 74% stake in the SPV and Genus 26%. Genus's equity contribution towards the SPV would likely be US$210mn over the next 3-4 years.

The SPV is targeting order inflows worth Rs300bn from smart metering tenders for which GIC has committed capital worth US$2bn. The SPV will bid for projects and the supply orders (60% of total order inflow) will be given to Genus. The SPV will pay Genus after execution of the order, thus reducing the working capital requirement for Genus. Genus is expected to receive orders worth Rs180bn from the SPV over the next 3-4 years.

We expect revenue CAGR of 74% to Rs25bn in FY25E. We expect EBITDA CAGR of 96% to Rs3bn in the same year with an EBITDA margin of 12.5% (+270bps). As a result, we estimate PAT growth at 6x to Rs2bn through FY23-FY25E.

Our P/E-based target price is **Rs185/share,** valuing the business at 28x FY25E EPS of Rs6.5/share.

Given the positive outlook for execution growth and EBITDA margin expansion along with the backing of a marquee investor to underwrite the order wins and de-risk from payment risk (delay in payments), we believe Genus is well positioned to command a higher multiple. Thus we increase our P/E multiple to 28x FY25E (earlier: 17x).

Table 1: P/E based target price (Rs mn)

	FY25E PAT (Rs mn)	Multiple (x)	FY25E Equity value (Rs mn)	Value per share (Rs)
Valuation	1,987	28	56,241	185
Equity Value			**56,241**	**185**

Source: I-Sec research

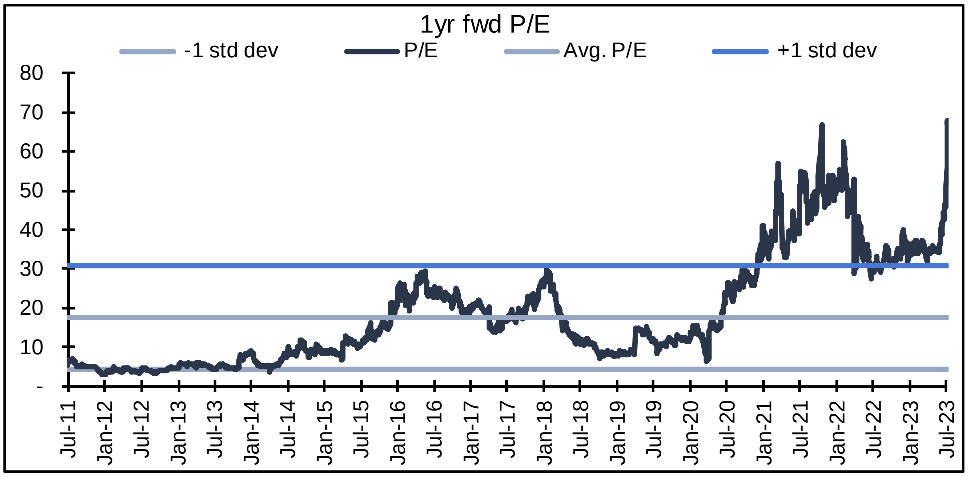
We reduce our FY24E estimated revenue by 9% owing to slower than expected pick-up in ordering and execution activity. However, most of these orders will likely be executed in FY25, hence we revise our FY25E revenue / EBITDA / PAT by 20% / 10% / 9% respectively.

Table 2: Financial estimates revision

	FY24E			FY25E		
Rs mn	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)
Revenue	13,536	12,256	-9%	20,291	24,447	20%
EBITDA	1,636	1,368	-16%	2,773	3,046	10%
PAT	1,031	765	-26%	1,827	1,987	9%

Source: I-Sec research

Chart 1: 1-year forward P/E chart (x)



Source: I-Sec research

Deal details with the marquee investor GIC

Genus Power has signed a two-pronged deal with GIC:

- Equity infusion of Rs5.2bn for a 15% stake in Genus
- Setting up an SPV to execute all future and current smart metering orders

A brief about the marquee deal

GIC will infuse Rs5.2bn into Genus for which it will be allotted share warrants of worth 15% stake (post money). This transaction is being done at a valuation of Rs113/share.

An SPV will be set up in which GIC will hold 74% stake and Genus 26% stake. Genus will have to infuse US$210m into the SPV over a span of 3-4 years. It will be the sole supplier of smart meters to the SPV for all orders it executes.

The SPV is targeting to win smart metering orders worth Rs300bn over the next 3-4 years. Of this, Genus will supply meters worth Rs180bn (60% of the contract value is for meter supply) while the rest Rs120bn will be monthly annuity payments from discoms over 100months after execution of the order.

All contractual payments to Genus for supplying the meters will be done by GIC, thus easing the working capital cycle for the latter. GIC will pay Genus 45 days after execution of the cycle, thus de-risking Genus from untimely payments from the discoms. Thus the SPV will act as a financing SPV for Genus going ahead.

The SPV will bid for all the smart metering orders for GIC together – and whichever opportunity the SPV decides not to pursue, Genus will be free to bid on its own. Genus will transfer its L1 orders worth Rs46bn to this SPV for execution.

Table 3: Genus Power commands 14% market share in recent smart meter tenders (for which bids are conducted)

Company	Number of meters (mn)	Values (Rs bn)	Market share (%)
Intelli smart	13.3	103	26%
Genus	**11.5**	**55**	**14%**
Apraava	4.9	47	12%
Adani Transmission	2.0	21	5%
Secure	2.6	22	6%
Techno Electric	1.8	17	4%
Tata Power	2.1	17	4%
GMR	5.7	51.3	13%
Others	1.8	61.3	15%
Total	45.8	396	

Source: I-Sec

Table 4: Status of recent orders and tenders

DISCOM	Number of meters (m)	Bidders	Values (Rs bn)	Status
Bihar				
South Bihar	2.6	Secure Meter	22.0	Awarded
North Bihar	1.0	Genus	8.1	Awarded
New Tender	11.2		89.6	Under bidding
Chhattisgarh				
Ambikapur Bilaspur, Raigarh	2.7	Genus Power	22.1	Awarded
Raipur	2.1	Tata Power	17.4	Awarded
Assam				
Package 7	1.4	Intelli Smart	13.6	Bids conducted
Package 6	0.8	Adani Transmission	8.4	Bids conducted
Package 5	0.7	Hi-Print Metering	7.3	Bids conducted
Package 4	0.8	Genus Power	7.6	Bids conducted
Package 3	0.7	Hi-Print Metering	6.8	Bids conducted
Package 2	0.7	Apraava Energy	6.6	Bids conducted
Package 1	0.7	Apraava Energy	6.6	Bids conducted
UP				
DVVNL	5.6		50.0	Retendering
MVVNL	6.7		60.0	Retendering
PuVVNL				
Cluster 1	2.7	GMR Smart	23.9	L1
Cluster 2	3.4	Genus	30.6	L1
Cluster 3	3.0	GMR Smart	27.4	L1
PaVVNL	7.2		65.0	Retendering
Maharashtra				
BEST	1.1	Adani Transmission	13.0	Awarded
MSEDCL	18.6		167.0	Under bidding
Goa	0.6		5.0	Under bidding
Madhya Pradesh				
MP East	1.0	Montecarlo	9.2	Awarded
MP West	0.4	BCITS	4.0	Awarded
MP west	0.3	India Power Corp.	2.6	Awarded
Gujarat				
UGVCL bid	10.0	Intellismart	74.2	Bids conducted
PGVCL Bid	2.4	Apraav a	19.7	Bids conducted
DGVCL Bid	1.8	Intellismart	15.0	Bids conducted
Himachal Pradesh				
Central	0.9	Genus Power	10.4	L1
South	0.9	Apraava Energy	10.8	L1
North	0.8	Apraava Energy	9.8	L1
Delhi				
BSES Rajdhani	0.9		8.0	Under bidding
BSES Yamuna	0.7		6.0	Under bidding
Rajasthan				
Jaipur	3.6		32.0	Under bidding
Jodhpur Vidyut	1.5		12.7	Under bidding
Jaisalmer Vidyut	0.0			Under bidding
Ajmer Vidyut	1.1		9.2	Under bidding
Barmer	0.9		7.6	Under bidding
Bikaner	1.4		12.3	Under bidding

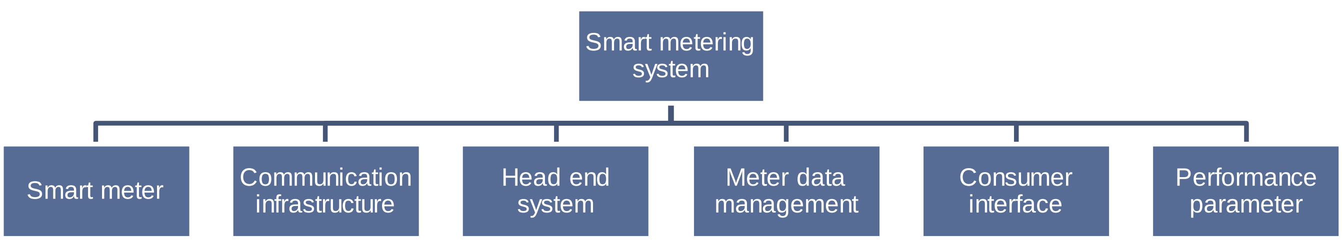
Jharkhand				
Dhanbad and Giridih	0.5	Technoelectric	4.2	Bids conducted
Hazaribagh	0.7	Technoelectric	6.3	Bids conducted
Dumka Electric Supply Area	0.3	Bentec	2.3	Bids conducted
Jamshedpur	0.4	Technoelectric	3.5	Bids conducted
Ranchi	0.4	Genus	2.1	Awarded
Jammu Kashmir	0.3	Techno electric	3.4	Awarded
West Bengal	0.6		5.0	Under bidding
Kerala				
KSEBL	3.7		33.3	Under bidding
Total	**110.0**		**962**	
Awarded	**20.7**		**182**	
Bids Conducted	**25.0**		**214**	
Under bidding	**44.6**		**388**	
Retendering	**19.4**		**175**	

Source: I-Sec

How a smart metering system works

The main objective of a smart metering system is to enable two-way communication between the smart energy meter and head-end system (HES) to enable remote reading, monitoring and control of electrical energy meters (it can be at consumer or a feeder level); it also serves as a storage for raw data collected.

Chart 2: Main components in a smart metering system



Source: I-sec, National smart metering mission

The AMI system shall have following core components of AMI system –

- Smart Meters
- Communication infrastructure
- Head End System (HES)
- Meter Data Management System (MDM)
- Network Management System (NMS)

Smart meters

Smart meters will be of single phase whole current smart meters, three-phase whole current single, and three-phase CT-operated smart meters. The primary function of a smart meter will be to measure flow of current; it should be remotely accessible for data collection and should have a two-way communication capability. It is very important for the meter to immune to tampering.

After meter installation, details of consumer – such as consumer identification number, meter ID, its hardware & software configuration, name plate details, make, type (i.e. 1-

phase or 3-phase – shall be updated in the system so that the consumer can access real time data whenever needed.

Communication infrastructure

The communication infrastructure consists of various devices such as gateway, router, access point, data concentrator units which will transport all the data from individual smart meters to the head-end system (HES) through a secured network.

Head-end system

The main objective of HES is to acquire and store meter data automatically – avoiding any human intervention – and monitor parameters acquired from meters.

HES shall be responsible for discovery of all smart meters once deployed in the field, the periodic collection of all meter data as well as the processing of all alarms and commands such as connect/disconnect for those meters.

Some of the parameters which HES will be able to capture and track are – load profile capture, demand integration, load limit, etc.

Meter data management system

The meter data management system (MDM) shall support storage, archiving, retrieval & analysis of meter data and various other MIS along with validation and verification algorithms.

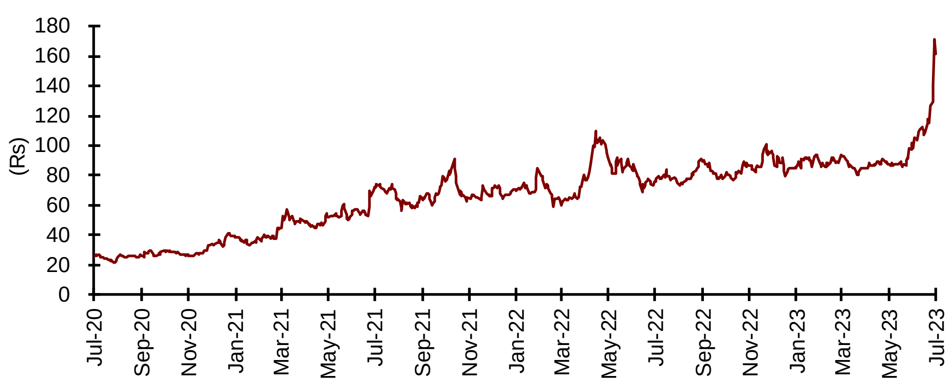
It shall have capability to import raw or validated data in defined formats and export the processed and validated data to various other systemsin the agreed format. It shall provide validated data for upstream systems such as billing, analytics, reporting, etc.

Consumer interface

The consumer web portal and the mobile application (for smartphone and tablet devices using latest and commonly available browsers, operating systems and platforms) shall provide consumers ready access to features extended by MDM.

It shall also provide for self-service capabilities such as usage management, billing, service requests, participation in energy-efficiency programmes, etc.

Price chart



Source: Bloomberg

Financial summary

Table 5: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Income (Sales)	**6,851**	**8,084**	**12,256**	**24,447**
Operating Expenses	**6,254**	**7,295**	**10,887**	**21,401**
EBITDA	**596**	**788**	**1,368**	**3,046**
% margins	*8.7*	*9.8*	*11.2*	*12.5*
Depreciation & Amortisation	205	187	191	201
Gross Interest	257	282	352	440
Other Income	268	184	202	263
Recurring PBT	**403**	**503**	**1,027**	**2,668**
Add: Extraordinaries	-	-	-	-
Less: Taxes				
- Current tax	*138*	*168*	*262*	*680*
- Deferred tax	*7*	*(15)*	*-*	*-*
Net Income (Reported)	**258**	**350**	**765**	**1,987**
Recurring Net Income	258	350	765	1,987

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs bn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	9,301	9,973	22,806	28,528
of which cash & cash eqv.	867	1,365	11,184	8,702
Total Current Liabilities & Provisions	2,341	2,308	3,328	6,062
Net Current Assets	6,960	7,665	19,478	22,466
Investments	3,121	3,426	3,426	3,426
of which				
Strategic/Group	1,654	1,801	1,801	1,801
Other Marketable	1,467	1,626	1,626	1,626
Net Fixed Assets	1,675	1,639	1,448	1,248
of which				
intangibles				
Capital Work-in-Progress	20	73	73	73
Goodwill & other long term assets	1,107	1,626	1,626	1,626
Total Assets	12,863	14,357	25,979	28,766
Liabilities				
Borrowings	2,799	3,469	4,269	5,069
Deferred tax liability and others	512	1,042	1,042	1,042
Equity Share Capital	258	258	304	304
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus	9,294	9,588	20,364	22,351
Net Worth	9,552	9,846	20,667	22,654
Total Liabilities	12,863	14,357	25,979	28,766

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs bn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Cashflow	**606**	**354**	**754**	**1,936**
Working Capital Changes	(326)	(206)	(1,994)	(5,470)
Capital Commitments	(161)	(299)	-	-
Free Cashflow	**119**	**(152)**	**(1,240)**	**(3,534)**
Cashflow from Investing Activities	**(923)**	**25**	**202**	**222**
Issue of Share Capital	4	0	5,196	-
Buyback of shares				
Inc (dec) in Borrowings	217	670	800	800
Dividend paid	(115)	(219)	(288)	(319)
Extraordinary Items				
Chg. in Cash & Bank balance	**(951)**	**200**	**9,819**	**(2,512)**

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Per Share Data (Rs)				
EPS(Basic Recurring)	1.0	1.4	2.5	6.5
Diluted Recurring EPS	1.0	1.4	2.5	6.5
Recurring Cash EPS	1.8	2.1	3.1	7.2
Dividend per share (DPS)	0.8	0.9	1.0	1.1
Book Value per share (BV)	37.1	38.2	51.1	57.7
Growth Ratios (%)				
Operating Income	12.6	18.0	51.6	99.5
EBITDA	(41.5)	32.2	73.5	122.6
Recurring Net Income	(49.5)	35.5	118.6	159.8
Diluted Recurring EPS	(49.6)	35.5	85.5	159.8
Diluted Recurring CEPS	(36.6)	16.1	51.0	128.9
Valuation Ratios (x)				
P/E	160.6	118.5	63.9	24.6
P/CEPS	89.6	77.2	51.1	22.3
P/BV	4.3	4.2	3.1	2.8
EV / EBITDA	72.8	55.3	30.7	14.9
EV / Operating Income	6.3	5.4	3.4	1.9
EV / Operating FCF	364.9	(287.3)	(33.8)	(12.8)
Operating Ratios				
SG&A cost / Revenue	12.2	10.7	10.7	10.7
Operating expenses / Revenue	91.3	90.2	88.8	87.5
Other Income / PBT (%)	66.5	36.5	19.7	9.8
Effective Tax Rate (%)	36.0	33.6	25.5	25.5
NWC / Total Assets (%)	47.4	43.9	31.9	47.8
Inventory Turnover (days)	166.9	177.9	175.0	150.0
Receivables (days)	297.2	213.1	200.0	180.0
Payables (days)	161.4	115.2	120.0	120.0
Net D/E Ratio (x)	0.0	0.0	(0.6)	(0.3)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	3.8	4.3	6.2	8.1
RoCE (%)	3.7	4.5	11.9	16.7
RoE (%)	2.7	3.6	6.0	12.0
Dividend Payout Ratio	74.8	62.6	37.7	16.0

Source: Company data, I-Sec research

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