ACCUMULATE

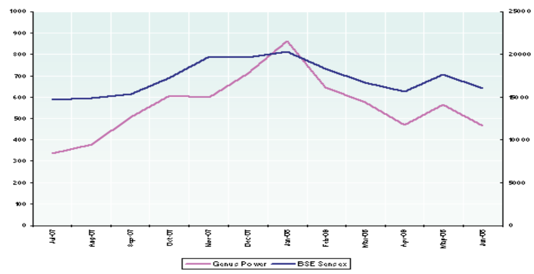
28th June 2008

Genus Power Infrastructure Ltd.

Price	336.45
Price Target	**411**
Price Appreciation (%)	22.2
Dividend yield (%)	0.5
Stock Return (%)	22
52 week range	1050/295
No. of Shares (Cr.)	1.5
Free Float (%)	62.6
Market Cap (Rs. Crores)	497.6
Avg Daily Volume ('000)	439.3

	2007	2008	2009(E)	2010(E)
Net Sales (Rs. Cr.)	363.1	564.9	757.9	943.9
Growth (%)	71%	56%	34%	25%
EPS (Rs.)	26.7	35.6	48.4	60.6
EBIT(%)	13%	15%	14%	15%
P/E(x)	-	9.4	6.9	5.5
ROE (%)	47%	41%	34%	31%
EV/EBITA	-	5.2	4.1	3.3
ROCE(%)	45%	52%	49%	47%

Performance Rs.



Largest Electronic meter manufacturer

Genus Overseas Electronics Ltd (GPL) is amongst the largest electronic meter manufacturers in the country and diversified into manufacturing inverters and undertaking power distribution projects on turnkey basis.

Electronic meters: sustained high growth period ahead

GPL's capabilities in automatic meter reading technologies and ability to detect a wide range of frauds, from electricity theft to tampering and vandalism makes us believe that demand for company's Electronic meters is on a verge of a sustained high growth period.

Biggest beneficiary of APDRP

GPL stands to be the largest beneficiary of the on going Accelerated Power Development and Reform Program (APDRP), under which the government intends to implement 100% tamper-proof metering.

Turnkey projects: New business opportunity

Per-capita consumption of electricity in India in 2001 was 408 kWh, which is significantly less than 1093 kWh of China. Per-capita consumption is projected at 932 kWh till 2012. Perennial power supply deficit across major parts of the country indicates that more power generation is needed if Indian were to attain high GDP growth and "Power for all by 2012" mission.

This enhances the opportunities for GPL's business of electronic meters and turnkey projects.

Latin American foray : New growth Frontier

GPL entered into joint venture with Mobix, a Brazilian company operating in Communication Technology. GPL's products have found wide acceptance in Latin America. The company has done a pilot project in Brazil since last two years and has got all necessary approvals from there. The company expects this venture to contribute 10 to 15% pf the overe all revenues going forward.

Valuation:

Government's thrust on 100% electronic metering & expansion in power generation capacity to sustain GDP growth are key revenue drivers for Genus Power infrastructure ltd. An enormous opportunity of replacing approximately 14 million electronic meters is available for companies operating in this space.

Going by a conservative base case for revenue growth and earnings multiple we expect, GPL to clock Rs. 48 per share for FY09. The stock is available at extremely attractive valuation of 7 times forward earnings at Rs. 336. Investors can accumulate the share with a conservative price target of Rs. 411 (8.5 x FY09 EPS 48) with twelve month horizon.

Business and background

(largest electronic meter manufacturers)

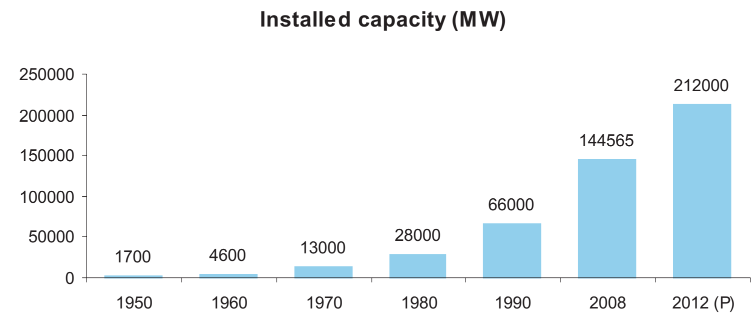
Genus Overseas Electronics Ltd (GPL) is amongst the largest electronic meter manufacturers in the country and diversified into manufacturing ainverters and undertaking power distribution projects on turnkey basis. The Company is exporting its products to U.K., U.S.A. as well as developing counties like Russia, Korea, Singapore, Bangladesh etc. GPL entered into joint venture with Mobix, a Brazilian company that is leader in Communication Technology.

Company started with turnkey project business in 2006, which contributed 52% to revenues while electronic meters contributed 40% to revenues in 2006. The installed capacity of energy meters is 22.4 lakhs and company utilized 57% of capacity in 2006. GPL has strong customer base spanning from SEBs to private companies.

Investment Rationale

POWER SECTOR- GROWTH POTENTIAL

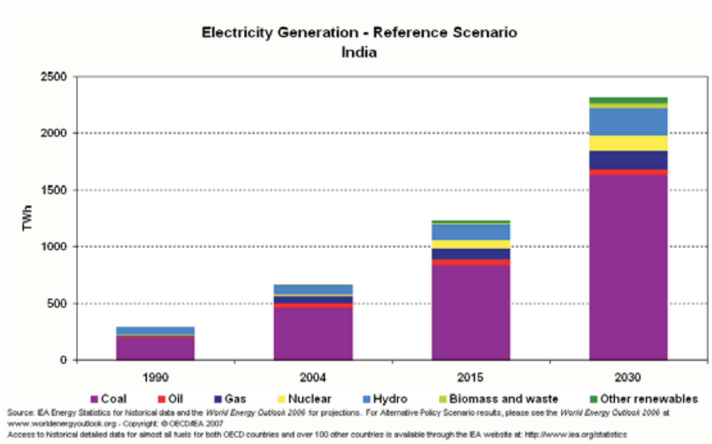
In India, the ratio of demand growth in power to GDP growth is around 1.5. Therefore, in order to support the GDP growth of around 8% per annum (which is the goal of "Power for all by 2012" mission), the rate of growth for power supply needs to be over 10% annually. From the current levels the installed capacity is projected to increase at 10% CAGR till 2012.



Source: powermin

(Per-capita consumption is projected at 932 kWh till 2012.)

- Per-capita consumption of electricity in 2001 was 408 kWh, which is significantly less than 1093 kWh of China. Per-capita consumption is projected at 932 kWh till 2012.
- Ever-increasing demand for power in the country's vibrant economy leading to a widening gap between the supply and demand. The supply deficit during April-May 2007 was 9.9% and peak hour deficit during the same period was 14.5%, which was as high as deficit during 1997-98, which indicates that more power generation is needed for attaining objectives of government plan and GDP growth. This enhances the opportunities for GPL's business of electronic meters and turnkey projects.



WHY NEW METERS?

According to a consumer satisfaction survey commissioned by the Delhi Electricity Regulatory Commission 60% of those surveyed said that load shedding was their biggest problem while 40% had problem with meters and metering. Due to this electronic meters will be required to replace old meters.

APDRP SCHEME

The gap between average revenue realization and average cost of supply has been constantly growing, because of this SEBs losses have mounted to Rs 26000 crores annually. Out of total energy generated, 55% is billed and only 41% is realized. During 2000-01 the average cost of supply from SEBs was 304 paisa per unit and average revenue per unit was 212 paisa per unit i.e. a gap of 92 paisa per unit.

This accumulated losses of Rs 40000 crores which can depress the growth of power sector are mainly due to Transmission & Distribution (T&D) largely due to theft which accounted for Rs 20000 crores and lack of accounting and accountability due to unmetered supply. To address this issues and accelerate power sector development central government introduced metering up to 11 kV feeder level and 100% metering of all consumers under APDRP scheme. For achieving this target the amount sanctioned under APDRP scheme is Rs 17033.58 crores out of which Rs.6223 crores are still unutilized. Also proposed under APDRP scheme is development of digital mapping of entire distribution system and computerized load flow studies for long-term strengthening of distribution system.

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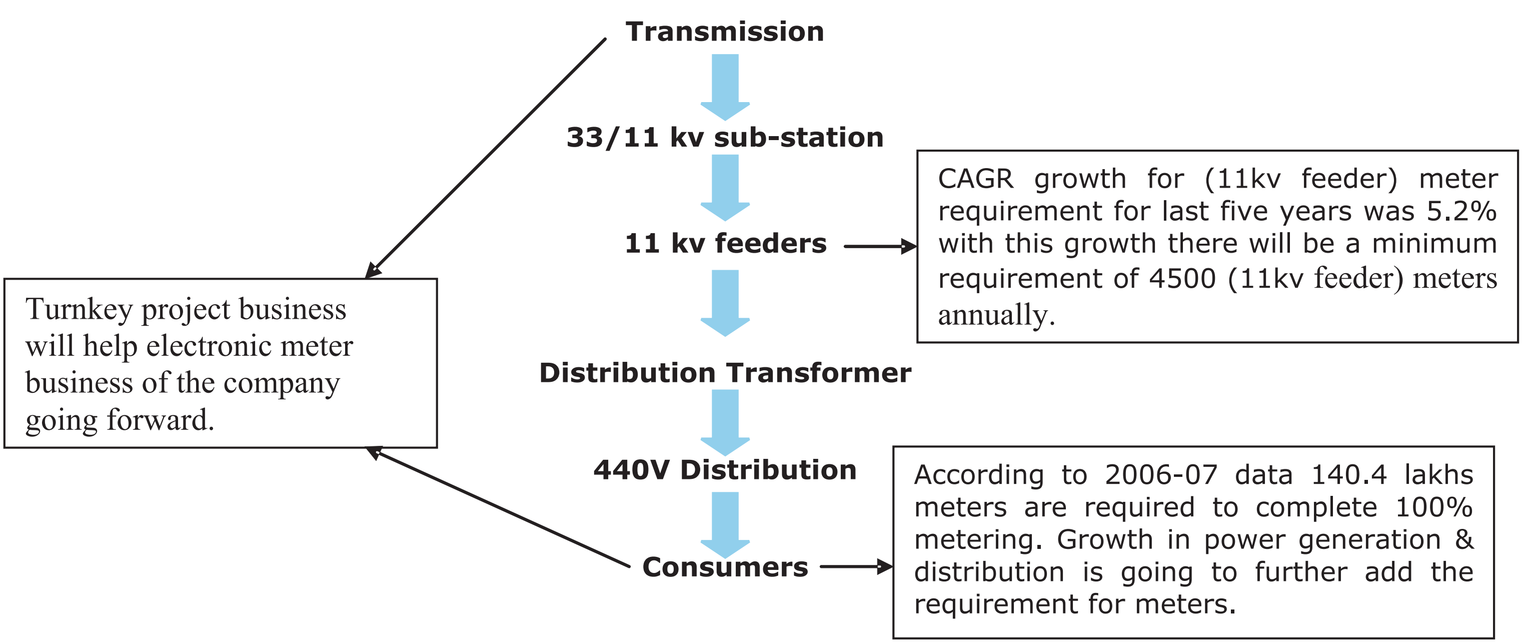
POWER FLOW



GROWTH IN CONSTRUCTION

(Growth in construction to boost volumes)

According to Frost & Sullivan "The rate of growth in the different regional markets for electricity meters depends on the rate of construction of new residential and commercial building, as well as on the stage of privatization and deregulation in the national electricity supply industry".

RURAL ELECTRIFICATION

(Reduction in AT&C losses to be fulfilled by EEMs)

There are 5.94 lakhs villages out of which 1.13 lakhs villages are still to be electrified. GPL both business i.e. turnkey projects and electronic meter business will benefit from RGGVY (Rajiv Gandhi Gramin Vidhyut Yojna) which is proposed under power for all by 2012.

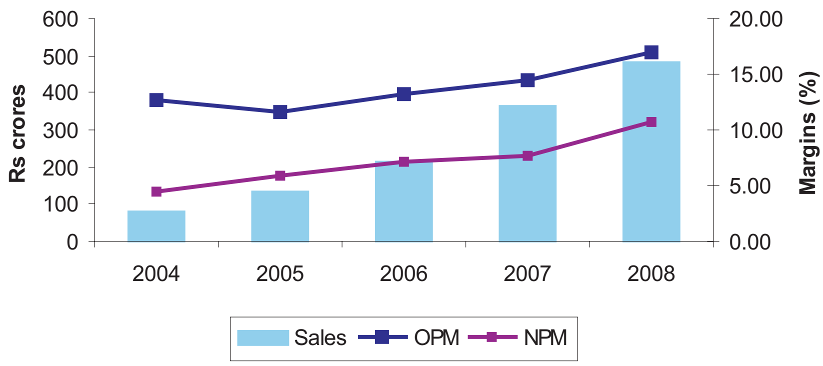
ENTERING EMERGING MARKETS

(MOBIX joint venture to increase export revenues)

The growth in demand for power in developing economies is generally higher than that of their GDP. GPL entered into joint venture with Mobix, a Brazilian company who are one of the leaders in Communication Technology. The company's products have found wide acceptance in Latin America. The company was already doing pilot projects in Brazil since last two years and have got all necessary approvals from there.

STRAGICALLY LOCATED PLANTS

The company has setup its second manufacturing plant in Uttaranchal where it is going to enjoy various tax benefits including 16% excise exemption for a period of 10 years. This tax benefits has led to increased margins for the company. Also capacity will increase from 1.4 mn pieces to 2.4 mn pieces. Also increase in capacity utilization with increase in demand for meters will further boost margins.



Concerns

- The major customers for GPL business are government utilities who by their virtue of large scale buying power create pricing pressure. With utilities proving to be smarter with their electricity meter procurement strategy through tendering, the competition is intensifying leading to increasing bargaining power of buyer.

- Target for power generation achieved for 10th plan had been considerably low at 56%, looking at this 78577 MW addition as proposed by government under 11th plan doesn't seem to add more than 53000 MW. This can lead to delays in revenue for turnkey project and metering business.

Valuation

Government's thrust on 100% electronic metering & expansion in power generation capacity to sustain GDP growth are key revenue drivers for Genus Power infrastructure ltd. An enormous opportunity of replacing approximately 14 million electronic meters is available for companies operating in this space.

The margins are expected to increase with full capacity utilization of Uttranchal plant, which enjoys certain tax benefits like 16% exemption in excise duty. The order book position as on Jan 2008 was Rs 450 crores. The order book to sales ratio stands at 0.93x. Company is already in 'L1' in other tenders of Rs 800 cr. Looking at current scenario and GPL client base we expect new orders to flow in and order book growth to be healthy.

(The stock is available at extremely attractive valuation of 7 times forward earnings at Rs. 336.)

Going by a conservative base case for revenue growth and earnings multiple we expect, GPL to clock Rs. 48 per share for FY09. The stock is available at extremely attractive valuation of 7 times forward earnings at Rs. 336. Investors can **accumulate** the share with a conservative price target of Rs. 411 (8.5 x FY09 EPS 48) with twelve month horizon.

	Bear case	Base Case	Bull Case
EPS (FY 09)	46.0	48.4	50.8
P/E (one year forward)	7	8.5	14
Target Price	**331**	**411**	**711**
Dividend	12%	15%	18%
Stock return	-1%	22%	112%
Dividend Yield	3%	3%	4%
Total Return (one year)	**2%**	**26%**	**115%**

RATING INTERPRETATION

Buy Expected to appreciate more than 20% over a 12-month period

Accumulate Expected to appreciate up to 20% over a 12-month period

Hold Expected to remain in a narrow range

Avoid Expected to depreciate up to 10% over a 12-month period

Exit Expected to depreciate more than 10% over a 12-month period

Income Statement

(Rs crores)	2006	2007	2008	2009 (E)	2010 (E)
Revenue	213	363	565	758	944
Growth		*71%*	*56%*	*34%*	*25%*
COGS	-159	-273	-425	-580	-723
Gross Profit	54	90	140	177	221
SG& A	-25	-37	-49	-63	-78
Core EBITDA	28	53	91	115	143
Growth		*86%*	*72%*	*26%*	*25%*
Depreciation	-4	-4	-5	-5	-6
Core EBIT	24	48	86	109	137
Non operating income	1	1	1	2	2
Interest	-8	-16	-22	-23	-25
PBT	17	34	65	88	114
Tax	-2	-5	-12	-16	-24
Extra ordinary items	-	-	-	-	-
Pref dividend	-	-	-	-	-
Minority Interest					
Net Income	16	29	53	72	90
Growth		*84%*	*83%*	*36%*	*25%*
EPS	15.1	26.7	35.6	48.4	60.6

Balance Sheet

(Rs crores)	2006	2007	2008 (E)	2009 (E)	2010 (E)
Equity capital	10	11	15	15	15
Reserves & Surplus	30	64	162	227	310
Deffered tax liabilty	3	4	5	5	4
Networth	44	79	182	247	329
Minority Interest	-	-	-	-	-
Prefrence capital	5	5	5	5	-
Loan funds	35	54	11	6	3
Capital Employed	84	138	198	259	332
Gross Block	48	75	83	90	97
Acc Depreciation	16	20	25	30	36
Capital WIP	-	-	-	-	-
Net Block	32	56	59	60	62
Investment	2	8	17	27	27
Receivables	103	193	253	307	395
Inventories	36	46	70	95	120
Cash & Equivalents	19	33	37	30	32
Other current assets	27	31	34	36	38
Total Current Assets	185	302	394	468	585
Current Liabilities	135	229	272	296	341
Net current assets	50	73	122	171	244
Capital Employed	84	138	198	259	332

Source: Company data, Anagram Research
E = Anagram Research

Financial Ratios

	2007	2008 (E)	2009 (E)	2010 (E)
Operating Performance				
Core EBITDA margin	14.50%	16.10%	15.10%	15.20%
EBIT margin	13.30%	15.20%	14.40%	14.60%
Net profit margin	8.00%	9.40%	9.50%	9.60%
ROE	47.20%	40.80%	33.60%	31.30%
ROCE	44.60%	52.10%	48.60%	47.10%
Valuation Ratios				
P/E	-	9.4	6.9	5.5
P/B	-	2.8	2	1.5
EV/EBIDTA	-	5.2	4.1	3.3
EV/Sales	-	0.8	0.6	0.5
Risk Analysis				
Debt/Equity	69%	6%	3%	1%
Interest cover	3.1	3.9	4.8	5.5
Liquidity Ratios				
Debtors No of days	149	144	135	136
Inventories No of days	41.2	37.2	39.5	41.4
CEPS	45.3	53.8	67.2	81.1
BVPS	72.5	122	165.9	220.9

Cash flow Statement

(Rs crores)	2007	2008 (E)	2009 (E)	2010 (E)
EBIT	48	86	109	137
Depreciation/ Amortization	4	5	5	6
Change in working capital	-23	-49	-49	-73
Tax paid	-5	-12	-16	-24
Cashflow from operation	**25**	**30**	**49**	**47**
Capex	-27	-8	-7	-7
Incr/dec in investment	-6	-9	-10	-
Interest/Dividend income	1	1	2	2
Cashflow from investing	**-33**	**-15**	**-15**	**-5**
Equity raised	1	4	-	-
Incr/dec in debt	19	-43	-5	-3
Interest paid	-16	-22	-23	-25
Cashflow from financing	**4**	**-62**	**-27**	**-28**
Net change in cash	-4	-46	7	13
Free cash flow	***52***	***38***	***56***	***54***

Source: Company data, Anagram Research