

## Genus Overseas

**STOCK INFO.**  
BSE Sensex: 10,765

**BLOOMBERG**  
GOE IN

**REUTERS CODE**  
GEOE.BO

S&P CNX: 3,184

14 March 2006

Buy

Rs171

Equity Shares (m) 10.2

52-Week H/L (Rs) 186/56

1,6,12 Rel. Perf. (%) 11/-23/96

M.Cap. (Rs b) 1.7

Avg. Daily Vol. ('000) 75.0

YEAR END	NET SALES (Rs M)	PAT* (Rs M)	EPS** (Rs)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES (X)	EV/ EBITDA (X)
3/05A	1,317	74	7.3	140.4	23.6	7.4	27.8	18.4	1.7	14.6
3/06E	1,829	111	10.2	40.4	16.8	4.3	24.1	19.9	1.4	10.3
3/07E	2,769	189	17.4	71.0	9.8	3.2	30.7	25.6	1.0	6.4

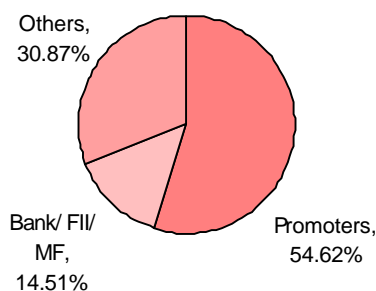
\* Adjusted for pref. dividend \*\* Fully diluted

Genus Overseas Electronics, one of the largest producers of single phase multifunction electronic energy meters in India, is a major beneficiary of the ongoing APDRP scheme. The company's order book stands at Rs4.1b, 2.7x FY05 sales and we expect 45% CAGR in sales and 60% CAGR in post-tax profit over FY05-07. The stock quotes at 16.8x FY06E and 9.8x FY07E earnings. We recommend **Buy** with a one-year price target of Rs209.

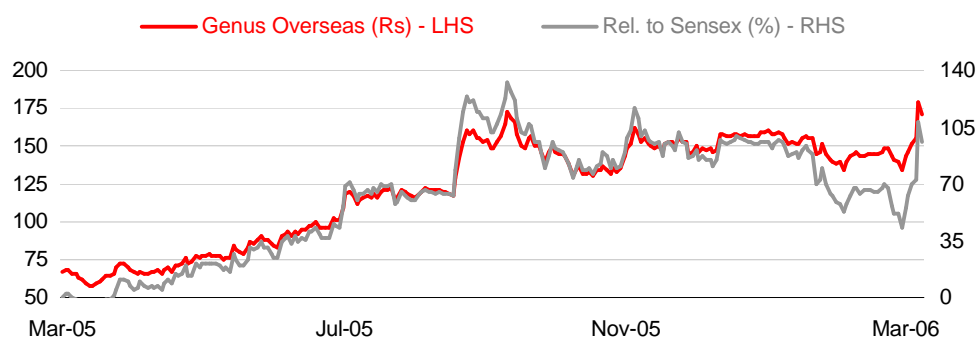
- **Demand for electronic meters surging:** The government's thrust on modernizing the transmission & distribution (T&D) network has led to a surge in the demand for electronic meters. Genus' credible track record with various SEBs and private power distributors has ensured a sharp increase in its order book.
- **Expanding capacity to exploit the opportunity:** Genus' new manufacturing facility at Uttaranchal, which would contribute 25-30% of its sales in FY07, is likely to be commissioned in April 2006. Besides helping the company to meet surging demand, this plant would also enable it to avail tax benefits.
- **Now emerging as a comprehensive solutions provider:** Genus is transforming itself from being just a meter supplier to a comprehensive solutions provider. It has begun undertaking turnkey contracts involving setting up distribution networks.



### SHAREHOLDING PATTERN



### STOCK PERFORMANCE (1 YEAR)



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### **A major beneficiary of the ongoing APDRP scheme**

A major reason for the deterioration of the financial health of the SEBs is T&D losses and power pilferage. Therefore, there is increased thrust by the government on modernizing the country's T&D network. One of the focus areas of the ongoing APDRP scheme is ensuring 100% metering. Also, to bring down power pilferage, SEBs across the country are replacing old mechanical meters, which can be tampered easily, with new electronic meters.

Electrification of new regions would drive demand for meters further. Under the Rajiv Gandhi Grameen Vidyutikaran Yojana, the government plans to make power available in another 10,000 villages in 2005-06 and in yet another 40,000 villages in 2006-07. Genus, which manufactures high quality single phase and three phase electronic meters, is a major beneficiary. It has been able to bag huge orders due to its strong brand name and long standing in the industry.

### **Strong order book; expect robust financial performance**

Genus has seen its order book bloating to Rs4.1b - 2.7x FY05 sales, buoyed by surging demand. Its credible track record with SEBs and private power distributors has enabled Genus to bag an increasing number of order wins. The company is now in a very comfortable position as regards its sales growth. Its bargaining power has increased substantially and it is bidding for orders at relatively higher margins. We expect the company to register 45% CAGR in sales and 60% CAGR in post tax profit during FY05-07.

### **Stiff entry barriers to ensure relatively high margins**

SEBs have various pre-qualification requirements like successful track record over the last 3-5 years in supplying products, ISO and other certificates, performance guarantee, etc. These requirements act as entry barriers for new players and the unorganized sector. Genus has ISO-certified products and is able to fulfill all the pre-qualification requirements. This helps it to get priority in order allotment. Also, the limited number of qualified players helps ensure relatively high margins.

### **Expanding capacity to make the most of the opportunity**

Buoyed by the increase in demand for its products, Genus is setting up a new manufacturing facility at Uttaranchal. Capex for the plant is around Rs250m, and the plant is likely to commission in April 2006. This will help Genus to increase its sales turnover significantly. The company is likely to derive 25-30% of sales in FY07 from this facility. The new plant would be excise exempt for 10 years and would also be eligible for income tax benefits.

### **Now undertaking turnkey projects**

Genus is moving up the value chain. It is now undertaking turnkey projects involving setting up the distribution network, like installing the meters, mapping the area, erection of towers and distribution grid, etc. This will increase its competitiveness vis-à-vis other meter manufacturers as the SEBs prefer to outsource the entire work to one player. Genus will benefit from increase in orders, and also higher margins, as the entire process involves technological competency and experience. Around 50% of the company's current order book is for turnkey projects.

### **Inverter division to break even in FY06**

Demand for inverters has increased significantly, due to frequent power outages. Genus has started manufacturing inverters employing sine wave technology and is one of the pioneers in this technology. It has set aside a budget of Rs15-20m for product promotion and has signed up television actress, Gauri Pradhan (Nandini of Kyunki Saas Bhi Kabhi Bahu Thi) as its brand ambassador. While the turnover from the division is likely to be Rs100-150m in FY06, it would double in

#### **Background**

Genus Overseas Electronics, promoted by the Rs5b Kailash Group, is India's largest producer of single phase multifunction electronic energy meters. The company manufactures about 1m meters per annum. It also manufactures inverters, hybrid microcircuits and resistor networks, and undertakes contract job work for SMT board assemblies.

FY07. The division should break even in FY06 and should have profits from FY07.

### Overseas tie-ups: investing in the future

It has a tie up with Mobix to develop and manufacture Energy Management Systems (EMS) using AMR technology that would monitor power distribution billing. However, it is a new concept, not yet popular and basically the company is undertaking research on the systems. It also has a tie up with Corintech, a UK-based company, for Hybrid Micro Circuits (HMC). However, as of now, volume from these businesses is minimal at around Rs10m.

### Focusing on R&D

All of Genus' meters are indigenously developed by its strong R&D team, which constantly upgrades its products to meet international quality standards. Expenditure on R&D incurred by Genus in FY05 was Rs36.4m, 2.4% of its turnover, up from Rs12.8m (1.4%) in FY04. The company plans to further step up its R&D efforts in order to be the technology leader in its field. Its R&D efforts have not only helped Genus ward off competition from the unorganized sector but also secure more contracts.

### Recent performance reflects higher business momentum

For the nine months ended December 2005 (9MFY06), Genus reported net sales of Rs1b, against Rs1b in 9MFY05. The decline in sales was due to lower sales in 3QFY06, during which sales were impacted due to a fire in the company's plant. EBITDA was at Rs133.4m, v/s Rs105.7m, EBITDA margins expanded from 10.5% to 13.3%. Post-tax profit was at Rs67.5m, v/s Rs45.4m. This reflects the increase in business momentum.

### Issued FCCBs

It has issued FCCBs for \$2.5m at Rs162 per share. Equity capital post conversion would be Rs108m.

### Concerns

- High level of debtors has been a regular feature of business, due to delayed payments from its main customers - the SEBs. This puts severe strain on its working capital and cash. This has also led to

high debt and interest burden on the company. Any write off for bad debts by the company may deal a severe blow to its bottomline.

- As business depends on the power sector, which is highly regulated by the government, political events and policies may have a significant bearing on the fortunes of the company.

### We recommend Buy; potential upside of 22%

Genus is likely to post net sales of Rs1.8b in FY06 and Rs2.8b in FY07. Net profit is estimated at Rs111m and Rs189m, respectively. The stock currently trades at 16.8x FY06E EPS of Rs10.2 and 9.8x FY07E EPS of Rs17.4, and EV/Sales of 1.4x and 1.0x, respectively. We recommend **Buy** with a price target of Rs209, which discounts FY07E EPS by 12x.

### Industry scenario

The total installed base of meters in India is around 100m meters. All the meters installed earlier were manual meters, which were subject to tampering. Over the next 5-7 years, these meters are to be replaced. This will keep the demand for meters strong over the next 3-5 years. Also, under the Rajiv Gandhi Grameen Vidyutikaran Yojana, 10,000 villages are planned to be electrified in 2005-06 and 40,000 more villages in 2006-07. As on 18 October 2005, around 120,000 villages were pending to be electrified. This will lead to the demand for new meters for all the households.

Annual demand for meters is expected to be around 15m meters, including new installations and replacements. Of this, around 50% meters are supplied by the unorganized sector. However, under the current schemes being promoted by the government, funding and incentives are available only to products procured from organized sector, as the products are checked and tested for quality, factory is inspected and meter is analyzed in detail. The tenders also require 5 years' performance guarantee and ISO and other quality certifications. This deters players from the unorganized sector. Other players in the organized sector include Secure meters, Crompton, L&T and EMCO.

INCOME STATEMENT						(Rs M)
Y/E MARCH	2003	2004	2005	2006E	2007E	
<b>Net Sales</b>	<b>626</b>	<b>798</b>	<b>1,317</b>	<b>1,829</b>	<b>2,769</b>	
Change (%)	-47.9	27.4	65.1	38.9	51.4	
<b>EBITDA</b>	<b>106</b>	<b>101</b>	<b>154</b>	<b>248</b>	<b>418</b>	
Change (%)	13.5	-4.9	52.4	61.8	68.1	
% of Net Sales	16.9	2.6	11.7	13.6	15.1	
Depreciation	27	3	20	20	60	
<b>EBIT</b>	<b>79</b>	<b>98</b>	<b>133</b>	<b>228</b>	<b>358</b>	
Interest	50	49	49	72	95	
Other Income	7	7	6	5	5	
<b>PBT</b>	<b>36</b>	<b>56</b>	<b>90</b>	<b>161</b>	<b>268</b>	
Extra-ordinary Items (net)	0	0	0	0	0	
<b>PBT &amp; after EO Items</b>	<b>36</b>	<b>56</b>	<b>90</b>	<b>161</b>	<b>268</b>	
Tax	7	20	11	46	74	
Rate (%)	19.2	36.1	12.4	28.4	27.5	
<b>PAT Before Extraordinary Items</b>	<b>29</b>	<b>36</b>	<b>79</b>	<b>116</b>	<b>194</b>	
<b>Adj PAT before Pref Div</b>	<b>29</b>	<b>36</b>	<b>79</b>	<b>116</b>	<b>194</b>	
Preference dividend	5	5	5	5	5	
<b>Adj PAT after Pref Div</b>	<b>24</b>	<b>31</b>	<b>74</b>	<b>111</b>	<b>189</b>	
Change (%)	-19.7	26	140	50	71	
EBITDA Margin (%)	16.9	2.6	11.7	13.6	15.1	
PAT Margin (%)	4.7	4.5	6.0	6.3	7.0	

RATIOS					
Y/E MARCH	2003	2004	2005	2006E	2007E
<b>Basic (Rs)</b>					
EPS	2.9	3.5	7.8	10.7	17.9
Growth (%)	-3.3	21.4	120.7	37.4	67.9
<b>Adjusted EPS (for pref div)</b>	<b>2.4</b>	<b>3.0</b>	<b>7.3</b>	<b>10.2</b>	<b>17.4</b>
Growth (%)	-19.7	25.8	140.4	40.4	71.0
Cash EPS	5.0	3.3	9.3	12.1	23.0
Book Value	15.8	17.4	23.0	39.7	53.7
DPS	0.5	1.2	1.5	2.0	3.0
Payout (incl. Div. Tax.) (%)	17.3	34.2	21.8	21.2	18.9
<b>Valuation (X)</b>					
P/E	71.4	56.7	23.6	16.8	9.8
Cash P/E	34.2	51.8	18.5	14.2	7.5
Price/Book Value	10.8	9.9	7.4	4.3	3.2
EV/Sales	3.5	2.7	1.7	1.4	1.0
EV/EBITDA	20.4	21.2	14.6	10.3	6.4
Dividend Yield (%)	0.3	0.7	0.9	1.2	1.8
<b>Profitability Ratios (%)</b>					
RoE	13.9	15.8	27.8	24.1	30.7
RoCE	14.5	17.6	18.4	19.9	25.6
<b>Turnover Ratios</b>					
Debtors (Days)	268	170	114	113	105
Inventory (Days)	40	79	59	59	55
Creditors (Days)	118	90	47	44	38
Asset Turnover (x)	1.1	1.3	1.7	1.6	2.0
<b>Leverage Ratio</b>					
Debt/Equity (x)	18	15	16	14	12

BALANCE SHEET						(Rs M)
Y/E MARCH	2003	2004	2005	2006E	2007E	
Equity Share Capital	102	102	102	108*	108*	
Pref. Share Capital	50	50	50	50	50	
Reserves	59	75	132	322	474	
<b>Networth</b>	<b>211</b>	<b>227</b>	<b>284</b>	<b>481</b>	<b>633</b>	
Loans	372	342	444	660	750	
Net Deferred Tax Liability	12	25	29	30	35	
<b>Capital Employed</b>	<b>595</b>	<b>593</b>	<b>756</b>	<b>1,171</b>	<b>1,418</b>	
Gross Fixed Assets	272	311	371	450	700	
Less: Depreciation	91	93	114	134	194	
<b>Net Fixed Assets</b>	<b>182</b>	<b>218</b>	<b>258</b>	<b>316</b>	<b>506</b>	
Capital WIP	14	6	0	200	20	
Investments	0	0	0	0	0	
<b>Curr. Assets</b>	<b>619</b>	<b>618</b>	<b>724</b>	<b>944</b>	<b>1,267</b>	
Inventory	57	115	139	200	280	
Debtors	460	372	412	565	800	
Cash & Bank Balance	75	89	103	89	77	
Loans & Advances	27	42	71	90	110	
<b>Current Liab. &amp; Prov.</b>	<b>222</b>	<b>250</b>	<b>227</b>	<b>290</b>	<b>375</b>	
Creditors	203	197	171	220	290	
Other Liabilities	14	33	32	40	50	
Provisions	6	19	23	30	35	
<b>Net Current Assets</b>	<b>397</b>	<b>368</b>	<b>498</b>	<b>654</b>	<b>892</b>	
Misc. Exp. (not written off)	3	2	1	1	0	
<b>Application of Funds</b>	<b>595</b>	<b>593</b>	<b>756</b>	<b>1,171</b>	<b>1,418</b>	

CASH FLOW STATEMENT						(Rs M)
Y/E MARCH	2003	2004	2005	2006E	2007E	
<b>PBT before EO Items</b>	<b>36</b>	<b>56</b>	<b>90</b>	<b>161</b>	<b>268</b>	
Add : Depreciation	27	3	20	20	60	
Interest	50	49	49	72	95	
Less : Direct taxes paid	7	20	11	46	73	
(Inc)/Dec in WC	194	43	-116	-170	-250	
<b>CF from operations</b>	<b>299</b>	<b>130</b>	<b>33</b>	<b>37</b>	<b>99</b>	
EO and Misc. Items	0	0	0	0	0	
<b>CF from Oper. incl. EO Items</b>	<b>299</b>	<b>130</b>	<b>33</b>	<b>37</b>	<b>99</b>	
(Inc)/Dec in FA	-49	-31	-55	-279	-70	
(Pur)/Sale of Investments	0	-10	0	0	0	
<b>CF from investments</b>	<b>-49</b>	<b>-41</b>	<b>-55</b>	<b>-279</b>	<b>-70</b>	
(Inc)/Dec in Networth	63	15	1	107	1	
Inc/(Dec) in Debt	57	-30	102	217	90	
Less : Interest Paid	-50	-49	-49	-72	-95	
Dividend Paid	-5	-12	-17	-24	-37	
<b>CF from Fin. Activity</b>	<b>65</b>	<b>-76</b>	<b>36</b>	<b>227</b>	<b>-41</b>	
<b>Inc/Dec of Cash</b>	<b>315</b>	<b>14</b>	<b>14</b>	<b>-14</b>	<b>-11</b>	
Add: Beginning Balance	39	75	89	103	89	
<b>Closing Balance</b>	<b>354</b>	<b>89</b>	<b>103</b>	<b>89</b>	<b>77</b>	

E: Inquire Estimates

\* Fully diluted



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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
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