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GENUS OVERSEAS ELECTRONICS

BSECODE: 530343
EQUITY: 10.6 CRS
CMP: 102

NSE CODE: N/A
Industry: ELECTRONICS
TARGET: 200

GENUS OR GENIUS?

BACKGROUND

Genus Overseas Electronics Ltd. is a public limited company incorporated in August 1992 with the purpose of setting up a project for the manufacture of thick film hybrid micro circuits (HMCs) and Surface Mounted Assemblies (SMAs) with latest technology from Germany. The company is promoted by Mr. B.K. Goyal, Mr. Subodh Kumar, Mr. Basant Goyal. Initially the company carried on trading of computers, however to adhere the main object of the company implement the HMC/SMA project all trading activities were discontinued from April, 1993 and industrial land was taken in a notified Industrial area at Sitapura near Jaipur. Thereafter the company started negotiating with various foreign technological suppliers and persuades the implementation of this project. The project is for the manufacture of HMCs and SMAs to cater the requirement of Telecommunication, Automobile, Informatics, Medial Electronics and Instrumentation sectors. The products have a wide range of applications in various sectors and hence a large market potential.

INTRODUCTION

Genus overseas electronics is engaged in the design and manufacturing of Electronic Energy Meters(EEM), Hybrid Microcircuits (HMCs), Printed Circuit Boards, Resistor Networks etc. It is one of leaders in this segment and is continuously updating its product portfolio with new products and solutions. Genus is one of the very few companies in India to have the state-of-art facilities offering an installation base of manufacturing over 40laks meters. Further, it has plans to diversify into products like Set-top box, Digital Signature Receiver, Set-top Box, AMR based Meter etc. The demand for EEM is increasing at a rapid pace, (due to Central Government's policy of 100% electricity metering). As the new Electricity Act and Power Reform programs are being implemented in phased manner to prevent increasing T&D losses, SEBs are considering to procure only highly accurate and fully tamper proof meters, Genus is in strong position to take full advantage of the voluminous business in the sector.

EXPORT THRUST

Exports accounts for around 1% of the total turnover of the company. But this is set to change dramatically going forward as Genus already has started giving huge thrusts on exports. The Company is exporting its products to the developed nations like USA, U.K., Germany, Italy, Korea, Malaysia, Bangkok etc. The export potential is also substantial with vast untapped market existing in the neighboring countries, from where it has received a number of inquires. With global companies looking to cut costs and outsource scope also exists of doing Contract Manufacturing

for them. Genus has got international quality accreditations, state-of-the-art production facilities and vast experience. It has a tie up with UK based company Corintech for hydro mybrid circuits (HMC). Corintech currently outsource its requirements from the company with a contract of around 1cr, but seeing its quality of products, brand image, sophisticated technology, stunning execution ability we believe this contract for Genus can turn many fold in the years to come. It also has a technical tie up with Erickson mobix for developing and manufacturing electronic meters.

QUALITY & CERTIFICATIONS

Genus is one of the pioneers in developing and launching of Electronic Energy Meters with Hybrid Micro Circuit (HMC) in India for domestic and international markets. The company has the latest modern plant & machinery and has been awarded various national and international quality accreditations such as ISO-9001, IECQ, EMC, CDoT, BIS, etc. Genus is having ISI certificate for 9 different rated meters, which is highest in India in Electronic Energy Meter Industry. It is also the first company in India to get ISI certificate for Taxi Meter. These quality certificates are an added advantage to the Company to get orders and marketing its products as almost all State Electricity Boards & Private Utilities are procuring only ISI marked meters. Genus is producing quality products meeting international quality standards. The production facilities of the company are designed for maximizing efficiency with zero defects, which smoothes production flow with fewer disruptions. These factors have provided a competitive edge for Genus over it peers.

CLIENTELE

Genus has a strong clientele base of topline companies from both private and public sectors. The company has a market share of around 26% in single phase meters. Genus clientele includes companies like Tata power, NTPC, reliance energy, torrent power, Surat electric, RPG group e.t.c and some SEB's like ASEB, KSEB, MSEB, RSEB and few others. It has got an impressive mix with 60%of revenues contributed by private players and 40% by the SEB'S. Genus has a solid order book position of about 115crs which will be completed over the next 20months.Though rising input costs may hurt margins but company's strategy on cost cutting measures will help it to make neutral. We expects its margin to be firm at around 9.7%.With government's thrust on power sector increasing day by day, company like Genus are benefiting the most and thus increase in topline and bottomline.

RISKS & CONCERNS

Some risks of the company are tough competition, any rapid changes in technologies, economic conditions affecting demand, supply and price conditions in the domestic and international markets getting harder, changes in the frequent Government policies, regulations, tax laws and other statutes continue to be the main cause for concern of the company.

FUTURE OUTLOOK

The demand of Electronic Energy Meters in country has been continuously increasing for the last 10 years and likely to continue in future as well. Genus is expected to perform well in future with strong & fair brand image, new & improved product range and aggressive marketing policies. Genus has consistently increased its R&D over the last 3yrs and is further expected to continue in the near future. This has enabled it to manufacture high-end meters, diversify in the UPS market and reduce its dependency on imported outsource components. The fund allocation of Rs.200 billion under elevated Power Development and Reforms Program (ARDRP) for investing in revamping distribution network, substantial investment lined up by private utilities like Reliance Energy, Tata Power for Delhi distribution circle and likely privatization of distribution in Uttar Pradesh shall ensure sustained strong growth for Genus for next 3-4 years. It has also bid for

projects for installing 10 lakh meters with different utilities. Considering its focus on high end products, initiatives of increasing order book, exports and customer satisfaction, Genus growth potential and prospects are very bright.

CONCLUSION

Genus has shown strong exponential growth of over 30% in past three years on the back of strong demand in power sector. Genus is further expected to show strong growth in core business and diversification into new products and we expect it to drive revenue growth of over 40% CAGR over the next 3-4 years. With more and more power project coming into the act, the orders are expected to flow tremendously for it in the coming years. Genus is quoting at a compelling valuation of about 7.8 times its expected fy-06 earnings. Considering the products standards, exports initiatives, order flow and cost cutting measures, we rate the stock as an MARKET OUTPERFORMER. So, **we recommend a buy rating on it with a price target of 200 in 12 months.**

KEY FINANCIALS (Rs. Cr)

Year End	2003	2004	2005	2006E
Net Sales	62.6	79.4	131.7	185.0
OP	7.5	10.7	15.9	18.0
PAT	2.9	3.6	7.8	13.0
EPS	2.9	3.6	7.8	13.0
BV(rs)	17	18	27	35.0
P/BV	6.1	5.7	3.8	2.9
NW	22.3	23.1	31.2	39.0
D/E	1.7	1.5	1.1	0.9
ROE(%)	13	15	23	26.0
ROCE(%)	12	13	16	19.5
EV/EBITDA	7.4	7.4	5.6	3.4
DIV(%)	5	12	15	20.0
DIV(yield%)	0.5	1.2	1.5	2.0
Equity	10.16	10.16	10.16	10.16

Shareholding Pattern (%)

Indian Promoters	54.92%
Mutual Funds and UTI	0.53 %
Banks, FII, Insurance comp.	0.78%
PCB	10.19%
Indian Public	24.56%
NRIs / OCBs	8.21%
Trust	0.51%
Clearing Members	0.29%

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