



“Genus Power Infrastructures Limited
Q2 & H1 FY2020 Earnings Conference Call

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MANAGEMENT:

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Moderator: Good day and welcome to Genus Power Infrastructures Limited Q2 and H1 FY2020 earnings conference call. This conference call may contain certain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by entering “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kailash Agarwal – Vice Chairman of Genus Power and Infrastructures Limited. Thank you and over to you Mr. Agarwal!

Kailash Agarwal: Thank you. Good afternoon ladies and gentlemen, a very warm welcome. Along with me on this call, I have Mr. Jitendra Agarwal, Joint Managing Director of the company and SGA, who are our Investor Relation Advisors. We are delighted to report our performance for the first half of FY2020 and glad to say that we have maintain our growth trajectory. We have recorded a sales of 275.4 Crores a growth of almost 23% for Q2 FY2020 as compared to Q2 FY2019 led by a better execution of order, better product mix, lower raw material prices and on half yearly basis we have recorded a sales of 544.1 Crores a growth of almost 18% as compared to H1 FY2019.

Our EBITDA also stood very well at 43.9 Crores compared to 24.5 Crores for Q2 FY2019, a growth of almost 79% year-on-year basis. For H1 FY2020 EBITDA stood at 83 Crores as compared to 52.4 Crores, a growth of almost 58%. For Q2 FY2020, our EBITDA margin has expanded by 490 basis points to 15.9% from 11%. Similarly for H1 FY2020, our margin has expanded by 400 bps to 15.3% from 11.3% of H1 FY2019. Profit after tax stood at 24.3 Crores as compared to 12.4 Crores last year almost a 96% year-on-year basis growth. For H1 FY2020 profit after tax stood at 44.4 Crores against 26.8 Crores, a growth of almost 66%.

Our current order book stands at 1,188 Crores out of which maximum order is meters only. There is an export order worth 98 Crores, ECC order worth 38 Crores and rest are meters orders. We are delighted to report that after considering cash and investment, our net debt equity is less than 0.1%. Capacity utilization levels are also at 65% to 70% and because of these utilizations we feel that there won't be any significant capex for the next two years except maintenance capex. We continue to focus on technology upgradation, operational efficiency and longlasting relationship with our clients and hope to do a very good business in coming time. We will now open the floor for the question and answers.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Bhavik Shah from Ace Lansdowne. Please go ahead.

Bhavik Shah: Mr. Kailash, congratulations for good set of numbers and there are two questions, number one is the margin, which is very appreciable that you have gained a good set of margins in this quarter, so just wanted to ask whether these margins are sustainable going forward?

Jitendra Agarwal: Yes, definitely they are sustainable.

Bhavik Shah: And the second question is, which states are opting for smart meters and the demand for smart meters is majorly coming from which state in India?

Jitendra Agarwal: To answer your first question, these margins are sustainable because there is continuous demand and we are witnessing it in our order book. All the order book, which you are seeing around 1200 Crores, we have been executing this order in the last two quarters and at the same time we have done a lot of work on the engineering, which is a continuous process and raw material prices have also improved. So there is overall positive scenario, the margins will be better in the times to come or atleast sustainable at this level. Your second question regarding the smart meters, smart meters are getting traction from almost everywhere in the country. There are tenders from almost all the major states like Jharkhand, Bihar, UP, Rajasthan, Tamil Nadu, Kerala, Karnataka etc. So there is a traction almost everywhere in the country because the central government is very keen on implementing this program of the smart meters. So there is a very good traction going on all across the country.

Bhavik Shah: So, what will be the percentage contribution you are targeting or expecting from this prepaid meters or smart meters? revenue for this year vis-à-vis the previous year?

Jitendra Agarwal: We see the revenue from smart meters will have a major number. So it will be almost on the term of 40% for this financial year. Genus is focusing quite a lot in the smart meters.

Bhavik Shah: So, this revenue contribution as we going forward will rise?

Jitendra Agarwal: Yes.

Bhavik Shah: Sir, the last question, I was looking at the previous quarter results as well as this quarter, so there is difference in other expenses, can you highlight the difference, for example, like in June 30, 2019 results the other expenses were 35 Crores and for this particular quarter you had mentioned 28.6 Crores?

- Kailash Agarwal:** It is basically a regrouping, you will see there is a difference in revenue also. That is because of some auditors new rules have come for some LD, which we get when we supply the meters to the electricity boards. So this is just regrouping of revenue and regrouping of other expenses.
- Bhavik Shah:** Thank you for answering the questions.
- Moderator:** Thank you. We have the next question from the line of Ria Mehta from AnandRathi. Please go ahead.
- Ria Mehta:** Congratulations on good set of numbers. The numbers are really great this quarter. Sir basically we see whatever margin improvement we are seeing is coming from the gross margins, so basically because the raw material prices have deteriorated. So since we are aware that all our contracts are fixed price contracts, so we are getting that leverage and arbitrage and hence our margins have improved, so going forward are we expecting that because of the decrease in raw material the customers that the government would want to reduce the realization to pass through the benefit of lower raw material prices?
- Jitendra Agarwal:** First of all these are fixed contracts that government have no right to ask us for the reduction of the price. For the new contracts these raw material prices have not come down, it is the better engineering what the company has done, so our major story has always been continuous development, so it is our in-house engineering that we keep on doing that surely impacts our bottomline.
- Kailash Agarwal:** Basically, cost reduction is not only due to raw material prices but also due to better research and development.
- Ria Mehta:** Because if we see the gross margins have improved there on 600 basis points?
- Kailash Agarwal:** It might be 200 points with raw material prices and 400 points with the improvement in technology and everything.
- Ria Mehta:** So, improvement in technology could you please elaborate more on that, what do you mean by that? As Sir has said that the improvement was on account of 200 basis points because of the reduction in prices and 400 basis points on account of technological upgradation, so could you elaborate on what kind of technological upgradation and what actually happened that we could see such a great high jump in the margins and how do we see go about in the future?

Jitendra Agarwal: There are two things very clear thing, one thing is Genus is a very technology driven company, which has a lot of focus on the research and development. So because we are continuously focusing on a new product, product mix and the current ongoing product there is a continuous improvement in the BUM of the product, which is clearly visible in our bottomline in margins, so it is definitely sustainable.

Ria Mehta: So, coming forward we would see the same 15% in our margin level?

Jitendra Agarwal: Yes, for sure.

Ria Mehta: On the realization part from the state government and all as you are saying some reduction in the realization, so what is the scenario now, what levels are the bids right now happening?

Jitendra Agarwal: Bid is very different, it is very difficult to say realization will improve or it will decrease because every bid is a different bid in itself.

Ria Mehta: So, in the coming tenders, whatever tenders are coming right now, so how is the realization rate as compared to the earlier tenders like is it decreasing or is it stable?

Jitendra Agarwal: Market is stable.

Ria Mehta: Because last time I heard there were a lot of Chinese players and other players, which are coming and slashing down the rates?

Jitendra Agarwal: Maybe on a Particular tender, in India there are lot of tenders and there was a very large number of customers. So one particular customer there were some Chinese people who quoted in the prices were very challenging, but in general that is not true.

Ria Mehta: So, are you seeing competition from China still continuing?

Jitendra Agarwal: Competition was always there from China.

Ria Mehta: No, they were not able to execute the orders, right?

Jitendra Agarwal: They were doing business and they have been active in India about more than 2 decades.

Ria Mehta: They are not able to execute the orders of EESL right?

Jitendra Agarwal: Yes, China never got any orders of EESL.

- Ria Mehta:** Yes, but they had bid for those tenders, right, so the thing is what do we see, are we seeing the Chinese players still bidding or how is it? I want to ask whether the realization because of the Chinese players, they are going down or not?
- Jitendra Agarwal:** It is not getting affected right now, future it is very difficult to predict. But just to update you, situation is very much under control.
- Ria Mehta:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Manish Goyal from Enam Holdings. Please go ahead.
- Manish Goyal:** Thank you so much. Just if you can elaborate on the pipeline of smart meters what you are mentioning. Apart from smart meters as well as conventional meter, if you can quantify what is the tender pipeline and what kind of order inflow we can see going forward?
- Jitendra Agarwal:** Currently, almost 2700 Crores tenders are in pipeline, which has been bid or which will get tender in next two to three months. Further, they have enquiries of almost 1500 Crores of further coming, which have already been declared on the portal, but still the submission dates have not come. So I am seeing almost 3500 to 4000 Crores of tenders will be coming and getting decided in the next 6 to 8 months so that is why it is looking very healthy.
- Manish Goyal:** Sorry, you said earlier 2700 Crores tender floated and another?
- Jitendra Agarwal:** 2700 Crores tenders are already floated and most of them have been already been bid also, the tender has been submitted and few will be submitted in the next I would say 15 to 30 days. Further 1250 Crores of notification that come, so once the notification has come, it is almost like tender has come, but we see differently unless the dates have come for the tender submission.
- Manish Goyal:** And out of this, how much would be roughly smart meters and conventional meters?
- Jitendra Agarwal:** There are lot of smart meters also and there are a lot of high end meters also where there is DT metering, there is a lot of focus on the DT metering, feeder metering. These kind of work is also coming in fairly large number, so it is a very good mix if you see overall, but yes, majority of these are smart meters.
- Manish Goyal:** And how is the competition intensity right now?

- Jitendra Agarwal:** Competition I would say it is almost same where it used to be, we are not seeing anything new. We are always in a fairly big competitive industry, I see the same trend going on.
- Manish Goyal:** And also just if you can clarify that you did mention earlier that the raw material prices have come down, so do you see this sustainable going forward?
- Jitendra Agarwal:** Yes, these are sustainable going forward because they went into an unrealistic level. So now they are almost on the normal levels, which has been in the trend over the years, so I do not see any major problem in the times to come.
- Manish Goyal:** And in other overheads that amount has been 30 Crores versus basically 21 Crores, so just wanted to know is that any forex element in these other expenses, which has been booked?
- Kailash Agarwal:** No, it is a very small, it is only I think 40 lakhs or something like that.
- Manish Goyal:** And can you update us on the EESL tender, how much have we supplied till now and in the first six months and how much is pending?
- Jitendra Agarwal:** EESL gave us almost 2 million meters out of that around 800,000 has been supplied and we will finish the supplies by April or May.
- Manish Goyal:** We have supplied 8 lakhs meters still now?
- Jitendra Agarwal:** Yes, 850,000 apart from it.
- Manish Goyal:** And by this year end, how much you will end up supplying?
- Jitendra Agarwal:** Almost 1.5 to 1.6 million.
- Manish Goyal:** And is EESL coming up with further tender?
- Jitendra Agarwal:** Yes, EESL has already came out with a tender and is included in that 2700 Crores bid pipeline. So they have came up with 5 million meters tenders, which will be due by October 30, 2019. We think it will further get postponed to mid of November and it should get quoted.
- Manish Goyal:** And this is also again for prepaid similar type of meter what we are?
- Jitendra Agarwal:** Yes, prepaid are smart meters.

- Manish Goyal:** And would you like to kind of give some indication on what kind of order inflow we can expect in the full year because ideally what we have seen is that on a YoY basis our order backlog has come down from 1400 Crores to 1190 Crores, no doubt we have been doing a very good execution, just to get a sense as to how do we see going forward like what kind of order book we can end up within the current year?
- Jitendra Agarwal:** Current order book situation is very healthy for this financial year and for some time of the next financial year is quite sorted. But at the same time, there was a very good amount of tenders going on and there are very good smart meter tenders also going on. So, I am very confident that out of this 4000 Crores of bid, which will happen in the next 4 to 6 months, Genus will have its good share, so we are very well placed in almost all the tenders. There is smart meter tender in down south it is almost 175 to 200 Crores and very confident that within a day or two we should be getting that also, so in that sense order pipeline also looks very healthy.
- Kailash Agarwal:** Typically, we feel that we would not close lesser than 1200 or 1300 Crores as of March 31, 2019?
- Manish Goyal:** Sir, probably my point is that we have seen a very strong growth in the current year and just to probably get a growth visibility for the next year as well, 1200 Crores would not be enough?
- Kailash Agarwal:** How can you say that it is not enough because basically.
- Manish Goyal:** No, I am just referring from say FY2019.
- Kailash Agarwal:** The order book will be for the whole year, one whole year and it is an ongoing process, still we have another five months to more tenders to come or more pipelines to come.
- Manish Goyal:** No, the point is that FY2019, we ended up with 1500 Crores order book, so from that perspective probably this year?
- Jitendra Agarwal:** The first six months were very slow all across the country, very few tenders were decided and very few tenders were coming, but you will see major traction in the next two quarters.
- Manish Goyal:** I just missed on the order backlog breakup you mentioned how much is the EEC out of this 1189?
- Jitendra Agarwal:** It is all 35 to 40 Crores that is it.

- Manish Goyal:** And the export order book?
- Jitendra Agarwal:** 95 Crores.
- Manish Goyal:** Thank you so much Sir.
- Moderator:** Thank you. We have the next question from the line of Vikram Kotak from Crest Capital. Please go ahead.
- Vikram Kotak:** Mr. Kailash, thank you for taking my question. I have couple of questions, the first question is that it is a very strong execution in the first half and typically we had seen 40:60 sales ratio in the first half to second half it means the second half has much more stronger execution as you pointed to Manish right now, so we can expect the same kind of ratio that first half is 40% and second half is 60% in terms of sales?
- Kailash Agarwal:** If you see the earlier trends also the history of the company is always like that.
- Vikram Kotak:** So, we can take on a safer side, right?
- Kailash Agarwal:** Yes.
- Vikram Kotak:** And order book, I think Manish asked the question, 70% market share in the smart meters and such a good margin, why there is no competition, why there is no entry, why people are not jumping into your business, I just wanted to understand because if you look at your business in such a slow down of the country that you are doing so well?
- Jitendra Agarwal:** No, that is not true that the people are not looking towards it. Since, we were the early movers and the smart meter market itself was very small, so it is a 70% market share as on date. For sure it will come down significantly in the times to come the market share because the overall market right now is very small for smart meter till the whole country will go for the smart meters then we will surely have the current levels of our overall market size.
- Kailash Agarwal:** We have a market share of almost 30%, so we will be on that and it is not that anybody can come and start making smart meters.
- Vikram Kotak:** Sure, and I understand, I am not trying to say that, I am saying such a lucrative business model and you are doing well in such a tough time, so I think I just wanted to see that there can be a competition or entry barriers is there any issue in terms of why people are not joining?

- Jitendra Agarwal:** It is very difficult product in itself, so of course it has its own very serious technical entry barriers.
- Vikram Kotak:** Fair point, Mr. Kailash, which are the states, which have gone compulsory till now in the smart meters or is there any one has not started yet?
- Jitendra Agarwal:** Not a single state.
- Vikram Kotak:** Okay and still you are seeing this number of demand. If a couple of above states are going compulsory then the demand can actually go up right?
- Jitendra Agarwal:** Yes, it will go up eventually because slowly and gradually the whole country will move from conventional meters to smart meters. It will happen gradually, there is no compulsion right now.
- Vikram Kotak:** And one last question on the receivable cycle, are you seeing a difficulty to get a payment from SEBs or your cycle has been delayed in last six months or last three months?
- Jitendra Agarwal:** Yes, some of the SEBs are really slow down quite a lot that is one of the major reasons, but yes, we are hoping and we have been in touch with them continuously and we are hoping that it will surely improve in November and December.
- Vikram Kotak:** But you typically have an escrow or some guarantee run of mechanism before supplying that?
- Jitendra Agarwal:** No, absolutely there is no escrow, there is no guarantee, it is actually a clean credit to state electricity boards.
- Vikram Kotak:** But normally you see there is no issue with any other board?
- Jitendra Agarwal:** It will never be a bad debt.
- Vikram Kotak:** So, there is some delay in the last quarter and you are saying that this can improve over a period of next three months or so, right?
- Jitendra Agarwal:** Yes, it should.
- Vikram Kotak:** This sounds good. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

Sanjeev Zarbade: Sir, my question was on the tax rate, we had around 33% tax rate in Q1 and around 27% in Q2, so in view of the changed tax regime, what kind of tax rate?

Kailash Agarwal: Tax rate is basically same for the second quarter also and first quarter also. And we will be in the same regime because company is holding a MAT of almost 47 Crores and so if we moving to any new regime that is not possible for us because we have to take our net credit and of that we are hopeful that all the MAT credit will be over by say financial year March 31, 2021 and then we will move to that 22% tax regime and all.

Sanjeev Zarbade: So, next year also we would probably looking at remaining in the same tax 27% or so?

Kailash Agarwal: Yes.

Sanjeev Zarbade: Sir, my next question was regarding the savings that we have earned through value engineering basically, which you were alluding at, which is almost 4% of sales you said, so this should be sustainable in my view because these are kind of in-house savings that we have done?

Jitendra Agarwal: It is surely sustainable, it is not only value engineering on the 4%, but the value engineering has also played a major role into it. The reason I was specifically mentioning to the question was it is not only the raw material reduction that has got this improvement, it is raw material reduction, value engineering, all things put together, which has bought this kind of results and it is surely sustainable.

Sanjeev Zarbade: Sir, any scope for our gross borrowings reducing by the end of FY2020 from the levels that we are currently right now?

Kailash Agarwal: You will see that we are almost at the 0.1 debt to equity and we are in the working capital oriented business i.e. is almost 180 days cycle and all so there is a growth we are growing by almost 20%, first half we have grown by 20%, we are hopeful that we will not be increasing the borrowing.

Sanjeev Zarbade: That is it from my side. All the best.

Moderator: Thank you. We have the next question from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Sir, from central government there were some orders for the various departments to expedite the payment process to private company it was last month or something, so are we seeing any good traction realistically there from the payments from the government?

- Kailash Agarwal:** It was for MSME only
- Anurag Patil:** For only MSME, so our working capital, we can expect the same range going forward?
- Kailash Agarwal:** Yes, it will be in the same range.
- Anurag Patil:** That is all. Thank you very much Sir.
- Moderator:** Thank you. We have the next question from the line of Kishan Shah from Isha Securities. Please go ahead.
- Kishan Shah:** Sir, there was this news recently that in states that is Rajasthan and other states where smart meters were installed, the kind of savings that were expected or the kind of efficiency that was expected was not seen, so what is the response from the market, what do you see right now?
- Jitendra Agarwal:** Let me explain that news properly. First of all those were prepaid standalone meter, they were not smart meters because media can hype something, which can be understood wrongly that is why I am making it clear. These are standalone prepaid meters, for the government of Rajasthan wanted to do to put this prepayment standalone meters to all the government utility areas i.e. government houses, government buildings, but the problem what happened is because the standalone meter, nobody took care of those prepayment meters that credit was zero, nobody got it recharged and the electricity got disconnected. So it was the internal management of the building owners who was government they could not manage it properly. That is the reason that the kind of results we were expecting from the meters have not come because they were standalone prepayment meters, they are offline prepayment meters. So there is nothing to do with the smart meter, the smart meter is the online meter where you can communicate with the meter 24x7 and these are all standalone meters and there was a major problem between the state government and the user, where the user was also a government department who was not getting it recharged because there was nobody responsible for it and suddenly they created a chaos.
- Kishan Shah:** Right, and Sir, what is the estimated market size for smart meters currently in India?
- Jitendra Agarwal:** Market size is very difficult to define because the government is very keen on replacing all 25 Crores to 27 Crores meters to prepayment the smart meters. They are very keen on that even recently there was a meeting of all the power secretaries, power ministers and the central minister in Gujarat just a couple of few weeks back and again, this was reinstated very strongly by the central minister that each and every consumer of India must have smart prepayment meters.

- Kishan Shah:** That explains this. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Ria Mehta from AnandRathi. Please go ahead.
- Ria Mehta:** Sir, just a followup question, in the EESL order, which was 2 million meters what was the average realization rate?
- Jitendra Agarwal:** There were three kind of meters in that single phase, three phase and LTCD. If you put a average of all the three it is around Rs 4000 .
- Ria Mehta:** And the latest tenders which we are seeing 5 million meters of ESL, which you are saying by mid November it should happen. Would those be at the same level like what are we bidding at like or it would be at a lower rate?
- Jitendra Agarwal:** Very difficult to say right now, how can I say what I am going to bid.
- Ria Mehta:** Not in that sense, when we maintaining the same realization rate or we would be increasing or decreasing?
- Kailash Agarwal:** Only time will tell. We will maintain our margins, that is for sure.
- Ria Mehta:** Sir, could you just move to get an industry sense what would be the difference in the price between the normal prepaid meter and a smart meter?
- Jitendra Agarwal:** Normal prepaid meter and a smart meter are two different concepts altogether, pricing wise both are almost in the same level. They have their own functioning according to their requirements, so they cannot be compared, they are two very different products.
- Ria Mehta:** But the rates or realization?
- Jitendra Agarwal:** Content wise even the offline prepayment meter or standalone prepayment meter it is almost equivalent to a smart meter.
- Ria Mehta:** Sir, on the current order book what would be the percentage of smart meter from the current order book?
- Jitendra Agarwal:** In the current order book, it is almost 60% to 65% is the smart meters.
- Ria Mehta:** Ok, 65% is the smart meter and could you give a number to how many meters would be there in the order book, like number of meter terms?

- Jitendra Agarwal:** As of today all put together almost 2.5 million.
- Ria Mehta:** Sir that will be great. Thank you.
- Moderator:** Thank you. As we have no further questions from participants, I would like to hand the conference back to Mr. Agarwal for closing comments. Please go ahead Sir!
- Kailash Agarwal:** Thank you ladies and gentlemen. I am very happy with the way metering businesses is shaping up and expect smart meters and exports to drive the future growth and help us maintain our leadership position. In case if you have any further queries, please get in touch with the SGA our investor relations advisors. Thank you very much.
- Jitendra Agarwal:** Thank you everybody.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Genus Power Infrastructures Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.