



“Genus Power Infrastructures Limited Q2 FY 23 Earnings Conference Call”

November 14, 2022

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MANAGEMENT: **MR. KAILASH AGARWAL - THE VICE CHAIRMAN**
 MR. JITENDRA AGARWAL - JOINT MANAGING
 DIRECTOR

Moderator:

Ladies and gentlemen, good day, and welcome to Genus Power Infrastructures Limited Q2 FY23 Earnings Conference Call. This conference call may contain 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.

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I now hand the conference over to Mr. Jitendra Agarwal, Joint Managing Director of Genus Power Infrastructures Limited. Thank you, and over to you, sir.

Jitendra Agarwal:

Good evening, everyone. A very warm welcome to the Q2 FY23 earnings call of Genus Power. Along with me, I have Mr. Kailash Agarwal, the Vice Chairman; and SGA, our Investor Relations advisor. The results and investor presentations are uploaded on the stock exchange and company website. I hope everybody has had a chance to look at it.

So, we have recorded sales of INR 219 crore in Q2 FY23 up by 23% as compared to INR 178 crore in last quarter. Revenue growth for Q2 was impacted on account of reduced capacity utilization due to disruptions in supply of semiconductors and some other essential electronic components. However, we anticipate a sharp revenue rebound in H2 on account of robust order book and healthy order inflow and normalcy in supply chain to be restored within the next 3 to 4 months.

Post that, we expect to carry forward that momentum in financial year '24. For Q2 FY23, EBITDA stood at INR 17 crore as compared to INR 15 crore in last quarter, an increase of 16%. Higher prices of raw materials and a lack of operating leverage as a result of lower capacity utilization continued to hamper operating margins. Profit after taxes stood at INR 10 crore as compared to INR 7 crore in the last quarter, a growth of 56% on YoY basis.

In April 2022, we received a LOA for appointment of AMISP, including design of AMI system supply, installation and commissioning of about 10 lakh smart prepaid meters. DT meter reliable energy counting and FMS for these smart meters from a state utility. That total order worth INR 828.57 crore (net of tax) is the largest single order finalized by any state utility in India for AMISP during that period.

As on 30th September 2022, our order book stood at INR 1,761 crore (net of tax).

On 30th July 2022, Prime Minister Shri. Narendra Modi ji launched the Power Ministry's flagship RDSS (Revamped Distribution Sector Scheme), which aims to improve the operational efficiencies and financial sustainability of stressed power distribution companies and state power departments, while modernizing and strengthening distribution infrastructure. The union cabinet has approved an outlay of over INR 3 lakh crore for RDSS which the ministry also describes as 'Reforms Based Results Linked Scheme'.

DISCOMs suffer massive losses due to power theft, AT&C losses, meter tempering, inaccurate billing. RDSS is touted as a lifeline that can help DISCOMs turn around their fortunes and strengthen the power sector. RDSS is intended to assist DISCOMs in improving their operational efficiencies, reducing their losses and becoming

financially sustainable. Half of the scheme's outlay is for the better feeder and transformer metering and prepaid smart meters. The scheme aims to reduce technical and commercial losses to pan-India levels of 12% to 15% by 2024-25 and eliminate cost revenue gaps by 2024-25. Rural Electrification Corporation and Power Finance Corporation have been nominated as the nodal agencies for the scheme.

One aspect that distinguishes RDSS from previous government schemes is the emphasis on mandatory smart metering infrastructure. Smart meter enables consumers to learn about their consumption patterns, while also assisting utilities with system monitoring and customer billing without the need for manual intervention. This can significantly reduce inefficiencies in DISCOMs' billing and collection can lead to significant operational improvements. The scheme's impact can be felt on the ground and almost every state electricity board has issued enquiries and floated tenders for smart meter installation. As a result, we anticipate strong order inflow in coming quarter of financial year '23.

All reforms implemented to improve the efficiency of the power sector over the last 3 decades have followed the letter of law, while haphazardly ignoring the spirit. With this scheme, the central government has done away with one-size-fits-all-approach of previous schemes.

Most of the apprehensions of SEBs has been addressed by customizing the policy guideline as per their respective specifications. Thus, all stakeholders are on board and the rollout of the smart metering scheme across India is anticipated to be a very smooth affair. With the implementation of RDSS, we expect the entire landscape of the Indian metering industry to drastically change with multifold jump in the annual industry size. This will also lead to momentous shift from conventional meters to smart meters in Indian metering industries, thus enabling much improved operating margins.

The TOTEX model is now getting increasingly accepted among SEBs wherein the CapEx will be undertaken by AMISPs, also known as system integrators under the Design Build Finance Own Operate and Transfer (DBFOOT) arrangement. From the monthly savings made on account of the smart meters, the SEBs will undertake monthly payments to system integrators for a period of 6 to 8 years known as 'pay-as-you-save-model'. All these developments will culminate into robust order inflows, healthy top line growth, better operating margins as well as improved working capital cycle for coming 6 to 7 years starting from next quarter, next half yearly for Indian metering industries.

We plan to play dual roles of being system integrators ourselves as well as being vendors to other system integrators for their smart metering requirements. We are confident of significant improvement in our business operations in the next half of financial year 2023.

We can now open the line for Q&A.

Moderator:

The first question is from the line of Anshuman Ashit from ICIC Securities.

Anshuman Ashit:

Sir, the first question is on the tenders which have been floated recently. If you could quantify and give us some more details on which states have come out with what amount of tenders? And how confident are you of these being awarded over the next 3 to 6 months?

Jitendra Agarwal:

So, I'll just give the brief in the interest of everyone. The tenders to the tune of INR 60,000 crore are in the market right now. And this includes tenders which are already participated and tenders which will be participated. So, tenders which are already

participated are to the tune of INR 36,000 crore which are in the Totex model or AMISP. Not every tender, Genus participates as a system integrator. So, we participate few tenders as system integrators, few tenders as a meter manufacturer.

As I said earlier in my statement, that we will be playing the dual role in this industry. So that Totex model live tender to the tune of INR 36,000 crore, which are already participated. Conventional meter tenders to the tune of INR 726 crore have already participated. Live tender, which are for the smart meters, which are on the CapEx model are INR 950 crore, which are already participated. So, in total, around INR 38,000 crore tenders has been participated. They are from different state utilities from UP, power grid for Gujarat, BRPL, BYPL, Jharkhand, Pondicherry, Tamil Nādu, et cetera. So, this are the tenders which are already participated.

Tenders, which will be participated in the next, I would say, 2 to 3 months which are already in the market, but it will be participated in next 2 months or to the tune of -- for Totex model they are to the tune of INR 20,000 crore from MP, Maharashtra, Mizoram, West Bengal, Himachal, Chhattisgarh, from multiple states has come out with the system integrator tenders on the Totex model. And thus, for the conventional meters, which will be participated in the next couple of months to the tune of INR 50 crore. So, in total, that is around INR 20,000 crore tenders will be participated in the next 2 to 3 months. So, in total, tenders either participated or to be participated are to the tune of INR 66,700 crore.

Anshuman Ashit: INR 66,700 crore. Sir, would you please repeat the conventional meter forthcoming tenders, the amount which you have said?

Jitendra Agarwal: As I said the conventional meter tenders which are already participated are to the tune of INR 950 crore, and which will be participated in next 2 to 3 months are in the tune of INR 1,045 crore.

Anshuman Ashit: Sir, so we already have Bihar in our fold as AMISP. How much more capacity and capability do we have to take AMISP orders?

Jitendra Agarwal: So, as I said, Genus will be playing the dual role. As you see there are live tenders to the tune of INR 36,000 crore which are already being participated. So, Genus has not participated as system integrators in all that stuff. So, we have decided our own capacity, our appetite to quote as system integrators, and we are working on that lines only.

Anshuman Ashit: Okay. So, off late, we have seen some slowdown in the installation. So, if I look at the smart meter installation monthly data, so last month, in fact, it has been only 85,000. Is there a particular reason for it? If you could give some color on that?

Jitendra Agarwal: So, there is no particular reason. Already last month -- because very few tenders are on ground right now. So, the real momentum has come in the last 3 to 4 months only when the bids are getting decided, bids are coming out. So real momentum of installation, you will see from next year onwards. So, this 85,000 maybe because of the very limited orders which are decided on the ground. That can be the only reason. And other reason can be Diwali holidays and such. Definitely across my 20 years' experience in installation business, Diwali month and the Chhath month are the lowest always across the country.

Anshuman Ashit: Sir, next question is on our guidance for H2. So, do we still stand by our EBITDA margin guidance for FY23? Will we see a bit of drop in it?

Jitendra Agarwal: So, we are maintaining our -- what guidance we gave in the last quarter in the conference call, we are maintaining that. But we don't see not achieving it.

- Anshuman Ashit:** So, given the first half has been 7.7%, so EBITDA margin of 13% to achieve that, we need to have more than 15% growth EBITDA margins in the second half. So, do you see that as a possibility?
- Jitendra Agarwal:** So, in the last conference call, we gave you the guidance of 12% to 13%. And I am confident, that yes, we should be able to achieve that.
- Anshuman Ashit:** Sir, how does the semiconductor supply issue panned out, where do we currently stand and now are we getting the supplies – has it ease a bit?
- Jitendra Agarwal:** So, I won't say it is back to normalcy. It will still take some time. As I said in my speech also that it will take 3 to 4 months to become further normal, but it is improving every day.
- Anshuman Ashit:** Sir, one final question before I move back into the queue. Could you please give us the order book breakup in terms of smart, conventional, FMS and all?
- Jitendra Agarwal:** So, our order book stands at INR 1,700 crore as we -- INR 1761 crore (net of tax). Out of that on supply portion is around INR 1,000 crore. So, if you want the breakup of supply and system integration wise or conventional and smart meters.
- Anshuman Ashit:** Conventional, smart, FMS. And so, what portion is for exports as well, if you can share that?
- Jitendra Agarwal:** So, around INR 100 crore is the export order.
- Anshuman Ashit:** And the breakup between conventional and smart?
- Jitendra Agarwal:** And conventional is around INR 200 crore. And smart meters supply is around INR 750 crore. INR 200 crore is the conventional meters. INR 100 crore is export order and remaining is all FMS and installation.
- Moderator:** The next question is from the line of Nikhil Jain from Galaxy International.
- Nikhil Jain:** I just wanted to understand, in the last quarter, say, July to September, how much tenders were actually awarded? Do you have any idea?
- Jitendra Agarwal:** Can you repeat your question? I missed somewhere in between.
- Nikhil Jain:** No, I was just trying to understand, in the last quarter, so like while the tender processes have started, like how much worth of tenders were awarded?
- Jitendra Agarwal:** In last quarter?
- Nikhil Jain:** Yes. Last 3, 4 months, let's say, from -- since the time the activity has fixed up?
- Jitendra Agarwal:** How much of orders -- tenders has been awarded?
- Nikhil Jain:** Yes, not to us but to the industry globally or to the industry here?
- Jitendra Agarwal:** So, I don't have the exact figures with me, so I don't want to comment on that because very few tenders have been decided in the last 2 quarters. But cannot give you any figure right now off hand.

- Nikhil Jain:** And the second question was that we read in the news that Adani has actually got an order for Bombay for 10 lakh meters plus kind of a thing?
- Jitendra Agarwal:** Yes, from BEST, yes they have received it
- Nikhil Jain:** Yes. So, Genus is also participating or supplying to them? Or we will be able to partake in that thing or that's not?
- Jitendra Agarwal:** We are their -- as of now, we are their main vendors. We have been supplying maximum smart meters purchased by Adani is all by Genus in their own utility in Mumbai. Rather, we have the 100% market share of smart meters in Adani Electricity Mumbai. So, we'll definitely have our own share in BEST supply also.
- Nikhil Jain:** But that is not included as part of our order book or is it already included?
- Jitendra Agarwal:** No, that is not included. Look, whatever we already purchase order we have received, that is part of our order book. But BEST have not yet released the order.
- Nikhil Jain:** Okay. But let's say, from our past experiences and with our good relations with Adani, you would definitely be participating in that kind of?
- Jitendra Agarwal:** We are confident of getting business from them.
- Moderator:** The next question is from the line of Srijan Sinha from Future Generali India Life Insurance.
- Srijan Sinha:** Sir, just a couple of questions. One, you mentioned that there are INR 36,000 crore worth of orders where tenders have already been floated. The AMISP piece talking about. What would be quantum where Genus has participated?
- Jitendra Agarwal:** In the Totex model?
- Srijan Sinha:** Yes, Sir, AMISP?
- Jitendra Agarwal:** So, our quantum will be of this around 30% is quoted by us also as system integrators. In all the remaining tenders, we are working with almost everybody as meter supply.
- Srijan Sinha:** Okay. So out of INR 36,000 crore, you would have participated in, let's say, INR 10,000 - 12,000 crore directly plus you will be supplying to the other AMISP players as well, is that right?
- Jitendra Agarwal:** Yes, that's right.
- Srijan Sinha:** Okay. And sir, my second question is, is Adani manufacturing the meter on its own as well, or are they completely sourcing it from other players?
- Jitendra Agarwal:** As of now they are completely sourcing it from the market. And we are their main suppliers from Mumbai utility. A part from that, I have no -- I can't.
- Srijan Sinha:** So, we have got 100% share in Mumbai utility?
- Jitendra Agarwal:** For the smart meters, as of now. I'm talking about as of now.
- Srijan Sinha:** Yes, of course. Sir, my second question is on -- you mentioned that you expect a sharp rebound in revenues in H2. We have already witnessed significant sequential

improvement in Q2 INR 180 crore going to INR 220 crore. What is the number that we are looking at for Q3 and Q4? What can be the potential top line for us in Q3, Q4?

- Jitendra Agarwal:** In the last concall, I reduced the guidance, the overall guidance I gave around INR 1,000 crore. So, we definitely expect that to be done looking into the performance, what is going on for quarter 3 and quarter 4.
- Srijan Sinha:** INR 1,000 crore for the full year, meaning that we have already done about INR 400 crore, so we should be doing about INR 300 crore in both the quarters on an average?
- Jitendra Agarwal:** Yes, on an average, yes.
- Srijan Sinha:** Okay. And sir, have we started supplying to Bihar utility the AMISP order?
- Jitendra Agarwal:** No, we will start from this month end.
- Srijan Sinha:** This month end, we will start.
- Jitendra Agarwal:** Our pilot will start from this month end.
- Srijan Sinha:** Okay. And sir, apart from the Bihar AMISP order that we won, has there been any other orders in Q2 for us? Have you won any other orders?
- Jitendra Agarwal:** Nothing of this size, but yes multiple supply orders, we have been winning from different utilities of small, small sizes, nothing of this size.
- Srijan Sinha:** Okay. So, sir, internally, what is the number that you are working with in terms of order book, let's say, for this fiscal year and over the next 2 quarters, what would be the number which you say will excite you in terms of order book? Which will make you happy that okay we have done our, we have achieved our targets?
- Jitendra Agarwal:** I don't want to comment on any number because it gives a lot of idea of how we are thinking about the markets. I want to be little conservative on speaking those numbers. But yes, we are targeting the market with the best potential what we have. And you will see a very, very healthy order book in times to come.
- Srijan Sinha:** Okay. And my final question, sir, these orders that are being -- this INR 60,000 crore worth of tenders that is in the market, these are fixed-price order or is there some bit of input prices?
- Jitendra Agarwal:** These are all fixed price orders. In our business, there is no price variation clause. They are all fixed price tenders.
- Moderator:** The next question is from the line of Shreya Varma from MR Securities.
- Shreya Varma:** Just had a couple of questions. Firstly, when you think the supply of semiconductors will return to normal?
- Jitendra Agarwal:** So, as I said earlier, it is improving by the day, but it is not yet normal, not yet to the pre-COVID levels. That will take some 3 to 4 months.
- Shreya Varma:** Okay. And what are the primary reasons for the decline in operating margins in H1 despite increased sales? What has been our capacity utilization for the first half?
- Jitendra Agarwal:** As I said during the speech also, it is due to lower capacity utilization and some increase in the raw material prices.

- Shreya Varma:** And when can we expect the revenue traction to pick up given our strong order book? And when can we expect the company to return to its historical margin profile of 16% to 17%?
- Jitendra Agarwal:** From next financial year, definitely, we'll be back to a normal number.
- Shreya Varma:** Okay. So, I also wanted to ask what were the factors that led to decrease in our financing costs in Q2?
- Jitendra Agarwal:** Can you repeat that?
- Shreya Varma:** What were the factors that led to a decrease in our financing cost in Q2 FY23?
- Kailash Agarwal:** Actually, that is because of the improvement in working capital. Earlier because of the covid a lot of payments were getting delayed with the electricity boards and all. So, there is a significant improvement in the working capital cycle and the payments we received back. So, there was less utilization of the working capital limits. So that resulted in the improvement in the financial costs for this quarter.
- Shreya Varma:** Okay. Right. That helps. And how much top line growth and operating margin expansion can we expect in H2 FY23?
- Jitendra Agarwal:** So, as I said earlier, that we gave the guidance of around INR 1,000 crore to be achieved in this financial year in the last conference call, and we are confident of achieving that, and we are maintaining the same guidance for the next 2 quarters.
- Shreya Varma:** Okay. And what is the same guidance for FY24 to next year, if you could give some color?
- Jitendra Agarwal:** So, it will be much, much better from wherever we are today. I don't want to speak on any numbers right now, as we would like to give guidance closer to the financial year.
- Moderator:** The next question is from the line of Akash Mehta from Capez Investment.
- Akash Mehta:** I had 3 questions really. So first 1 on the CapEx side. So, what is the level of capital expenditure that the company is required to make for participating as a system integrator say coming in the next 2 years?
- Jitendra Agarwal:** Kailash sir, you want to answer this?
- Kailash Agarwal:** No, no CapEx, I think there won't be much CapEx required. We already have a meter manufacturing capacity of 10 million meters, we have to increase, even if we have to increase to 15 million or 20 million that won't require a lot of CapEx also. That will be -- in case if it will be done, it will be hardly INR 25 crore, INR 30 crore for making it just the double from the capacity we have from here. So, you can just assume that for doubling the capacity, there might be our CapEx requirement in next 2 years.
- Akash Mehta:** Okay. But given the expected multifold increase in size, basically, are we -- and when will we be required to undertake this CapEx, any guidance on that?
- Kailash Agarwal:** Sorry, can you come again, please?
- Akash Mehta:** In terms of the time line, when will we be required to take this expecting the multi-fold increase in the?

Kailash Agarwal: That depends on the order book, how we build up order in the next 3 to 6 months. Right now, we have a 10-million-meter capacity, and we -- highest we have made around 7 million meters and all. So, we have a sufficient capacity to grow even at the existing capacities and all. So basically, that -- and it takes hardly a 6 months' time to increase the capacities and all. That won't be -- we will take a decision on this in next financial year in the month of April, but our order book will be at the closure of this financial year.

Moderator: The next question is from the line of Parth Dattani from KK Adviser.

Parth Dattani: I have couple of questions. Does the company have any significant entry barriers that give it an advantage over its competitors? And given the expected multifold increase in the industry size, are we witnessing any new players entering the smart metering industry?

Jitendra Agarwal: Being the leaders of the industry and providing end-to-end solutions, I don't say there is a entry barrier for others to do it but since we have been doing it and the reach what we have created for ourselves across the country is definitely not easy for anyone to do it and they will need a significant time to reach to this level. It's definitely not easy for anyone new coming in and becoming, creating the reach, the kind of reach Genus has across the country. So that is one of the major -- and the complete product range end-to-end and all kind of certifications, what we have, you definitely need 3 to 4 years minimum time to create this kind of technical capability, certifications, approvals.

So, these are some major entry barriers, I would say, for any new entrants to come. Industry is growing. New people are coming. So -- but I don't see a major influx of lot of new companies coming in. Old companies, which were already into the conventional meter business, yes, they are moving from conventional meters to smart meters. That is what we are witnessing.

Parth Dattani: Okay. Got it. My second question was, will the AMISP or the CapEx model have a negative impact on company's working capital cycle and create additional strain on the balance sheet? And can you explain in detail how our role or as a system integrator will impact our overall business operations?

Kailash Agarwal: Here, you have to understand that the company has already -- as told earlier also that company is already planning to take all this business in the subsidiaries of company, for that company has already made a few subsidiaries. And we will be participating in tenders, few through the main company and few through the subsidiaries companies and all. And there, the company will be acting as a supplier of meters to them. And then -- and we will be doing a fundraising in those subsidiaries for executing those projects. That already we have told earlier also and given to the exchanges also in this time results.

So basically, we won't be taking too much of a strain on our balance sheet. We will won't be going forward too much of debt on our balance sheet directly, as we have clear sense that we will be taking mostly on the business in subsidiary companies and raising funds in those companies for execution of those projects.

Parth Dattani: Okay. Got it. Just the last one, how much revenue growth can we expect from the current level in the next 3 to 4 years? And also, with the smart meters replacing the traditional meters, what is our outlook for operating margins in the coming year for the overall industry and Genus Power?

Kailash Agarwal: So that we will -- this guidance, we will be liking to give in the concall of fourth quarter of this financial year because we -- as a lot of business is coming in the

markets. Business is coming in the market. So, we are aggressively bidding on that and we just want to build our order book and we see that how much we will be able to build our order book. So, all our plans and everything will be depending on the order book. So, it's always better from our side to give a guidance after 3 to 4 months on that.

Moderator: The next question is from the line of Srijan Sinha from Future Generali India Life Insurance.

Srijan Sinha: Sir, I just wanted to check on the Power Grid order. They were supposed to float a INR 1 crore meter order, has that order been floated yet? Or are you still waiting for that?

Jitendra Agarwal: That tender is already floated. We have also bid in that tender. So POC is going on right now. I expect the order to be decided in the next couple of months.

Srijan Sinha: Next couple of months. Okay. And sir, my second question is on the AMISP piece. What is the kind of IRR that you are looking at, let's say, in your Assam project or any other project, what's the assumption that you build in -- when you bid for those models?

Kailash Agarwal: Basically, we would not like to give any numbers on that. Right now, a lot of orders are going [indiscernible]

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Jitendra Agarwal for his closing comments.

Jitendra Agarwal: So, thank you, everyone. We apply our deep industry domain knowledge to manufacture quality products and successfully resolve our clients' challenges. We are confident of delivering sustainable growth as it is on the back of robust processes. With rapid adoption of smart meters over the coming years, we are committed to continuing to deliver top-notch innovative smart metering products to meet evolving demand in the Indian marketplace. We shall continue to raise the bar and strive to maintain our leadership position.

In case you have any further queries, please get in touch with SGA, our Investors Relation advisors. So, thank you, everyone. Take care. Be safe, thank you.

Moderator: Thank you. On behalf of Genus Power Infrastructures Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.