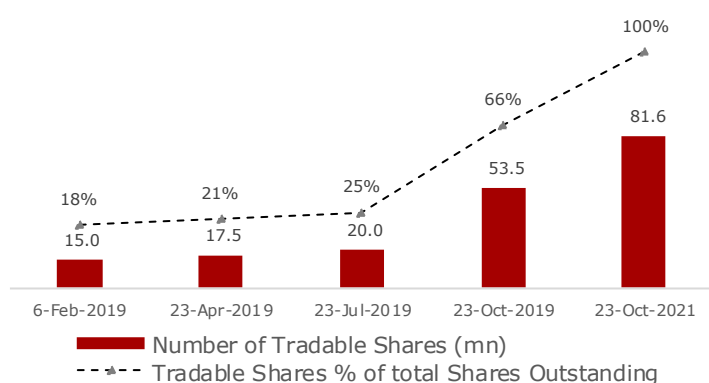


# Genex Infosys Limited

Issued 20 mn shares at offer price BDT 10

We initiate IPO note on Genex Infosys Limited (GENEXIL) with no assigned rating. The company plans to raise BDT 200mn through initial public offering (IPO) under fixed price method. The fund would be utilized for **expansion of call center business (61.5%), partial long-term loan repayment (30.0%), and IPO expenses (8.5%)**. In FY17, gross profit margin (GPM), EBIT margin and net profit margin (NPM) stood at 34.1%, 26.0% and 16.0% respectively. Considering pre-IPO number of shares, return on equity (ROE) and return on asset (ROA) stood at 18.8% and 7.1% respectively in FY17. At Present, GENEXIL has 100% stake in a subsidiary named Green and Red Technologies Limited.

## Lock-in Provision



Source: IPO Prospectus

- Pre-IPO shares of GENEXIL (61.6 mn) is classified into three categories: sponsors & directors (28.1 mn), institution (2.0 mn) and general public (31.5 mn). In post-IPO basis, total number of shares would increase by 20.0 mn to 81.6 mn. Out of post-IPO shares, sponsors & directors, institution, and general public would hold 28.1 mn, 12.0 mn, and 41.5 mn shares respectively.
- Out of shares issued at IPO (20.0 mn), 18.0% (15.0 mn) shares will be tradable on the first trading date. All shares purchased by general public (10.0 mn) and 50% shares of institutional investors (5.0 mn) purchased at IPO would be tradable on the debut trading date.
- On 23 April 2019, tradable shares will increase by 2.5 mn and on 23 July 2019, tradable shares will increase by further 2.5 mn. On 23 October 2019, tradable shares will increase by 33.5 mn. On 23 October, 2021 shares of sponsors and directors will be tradable, increasing total tradable shares by 28.1 mn.

## Equity Research

### IPO Note

Genex Infosys Limited | IT

### IPO Summary

IPO Type	Fixed Price
DSE Ticker	GENEXIL
Face Value (BDT)	10
Offer Price (BDT)	10
Market Lot (shares)	500
Issue Manager	Imperial Capital Limited
Underwriters	1. AFC Capital Limited 2. EBL Investments Limited 3. BMSL Investment Limited
Auditor	Masih Muhith Haque & Co.

### Paid up Capital & No. of Shares

Pre-IPO paid-up Capital (BDT mn)	616
IPO size at offer price (BDT mn)	200
Post-IPO Paid-up Capital (BDT mn)	816
Pre-IPO Number of Shares (mn)	61.6
IPO Issue size ( No. of Shares) (mn)	20.0
Post-IPO Number of Shares (mn)	81.6
Tradable Shares at Debut Trading Day (mn)	15.0

Shareholding Structure	Pre-IPO			Post-IPO		
	Shares (mn)	BDT Mn	%	Shares (mn)	BDT Mn	%
Sponsors	28.1	281.2	45.6%	28.1	281.2	34.5%
Institutions	2.0	20.0	3.2%	12.0	120.0	14.7%
General Public	31.5	314.8	51.1%	41.5	414.8	50.8%
<b>Total</b>	<b>61.6</b>	<b>616.0</b>	<b>100.0%</b>	<b>81.6</b>	<b>816.0</b>	<b>100.0%</b>

### Utilization of IPO Proceeds

Particulars	BDT mn	%
Expansion of Call Centre Business	123	61.50%
Partial Long-Term Loan Repayment	60	30.00%
IPO Expenses	17	8.50%

Annualized EPS (BDT)	Offer Price (BDT)								Theoretical Market Price (BDT)							
1.89	10	15	20	25	30	35	40	45	10	15	20	25	30	35	40	45
Trailing P/E	5.3	7.9	10.6	13.2	15.8	18.5	21.1	23.8								

Financials (BDT mn)	FY15	FY16	FY17
Revenue	488	575	700
EBITDA	-	244	335
EBIT	140	184	182
Net Profit After Tax	117	132	112
Retained Earnings	204	322	244
Total Assets	618	1,396	1,763
Total Liabilities	404	1,064	903
EPS (Post IPO)	1.44	1.61	1.37
OCF/Share (Post IPO)	1.06	1.40	2.90
BVPS (Post IPO)	2.62	4.07	10.54

### Analyst

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### INDUSTRY OVERVIEW

Bangladesh offers one of the most liberal tax policy regime for IT/ITeS service providers – currently, all income from IT/ITeS is tax exempted. For tax exemption purpose, ITES means Digital Content Development and Management, GIS, IT Support and Software Maintenance Services, web site services, Digital data analytics, call center service, Digital graphics design, Search Engine Optimization, Web Listing, etc.

### COMPANY BACKGROUND

GENEXIL was incorporated as a private limited company on 22 May, 2012 and started its commercial operations on 01 July, 2012. The company was converted into a public limited company on 15 September 2016. GENEXIL provides Information Technology Services (ITES).

### BUSINESS MODEL

The principal service of the Company is Information Technology Enabled Service (ITES), such as Data Entry, Business Process Outsourcing, IT Support & Software Maintenance, Digital Content Development & Management, Call Centre Service, Website Development, and software development. Green and Red Technologies Ltd. is a fully owned subsidiary of GENEXIL.

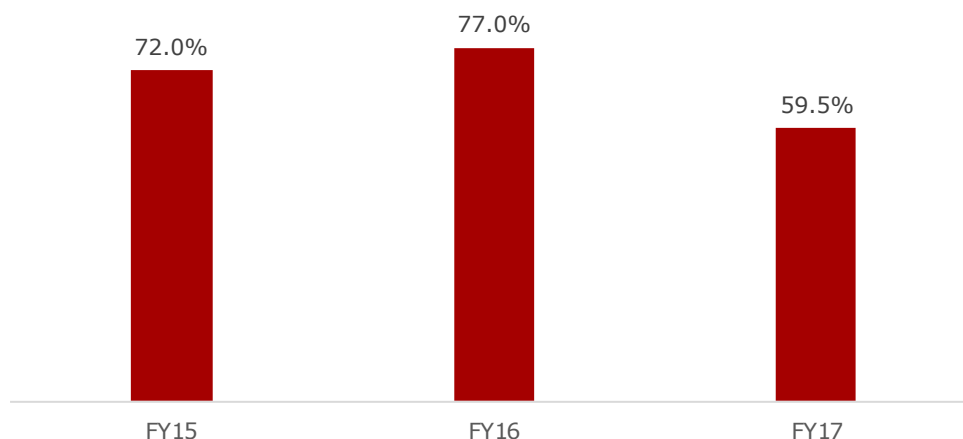
Sl. Revenue Contributor	% of Revenue
1 Call Center Service	53%
2 Software Development	28%
3 Revenue of Green and Red Technologies Limited (Subsidiary)	7%
4 It Support & Software Maintenance	3%
5 Digital Content Development & Management	3%
6 Website Development	3%
7 Business Process Outsourcing	2%
8 Data Entry	2%
Total	100%

Source: IPO Prospectus

### CAPACITY UTILIZATION

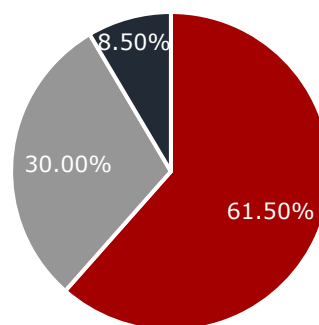
The call centers of Genex operate in three shifts. In FY17, the capacity utilization of the company decreased to 60.0% from 77.0% in FY16.

#### Capacity Utilization



Source: IPO Prospectus

## IPO PROCEED UTILIZATION



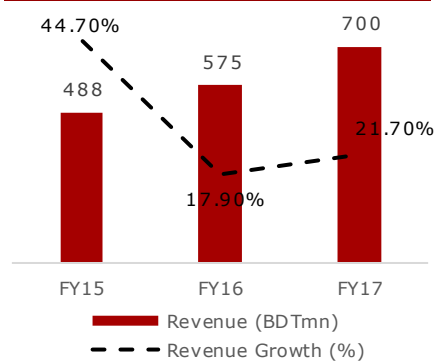
■ Expansion of call center business ■ Partial Long-Term Loan Repayment ■ IPO Expenses

Source: IPO Prospectus

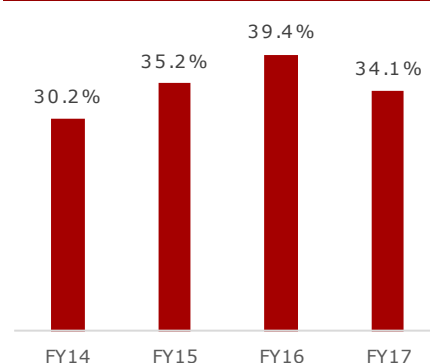
## PERFORMANCE ANALYSIS

Revenue grew 21.7% YoY while and gross profit margin declined by 5.3% percent points in FY17. Depreciation expense (93.0% of which was recognized in cost of sales in FY17), increased nearly three times as the company invested BDT 642mn in purchasing machinery and equipment (60.5% YoY growth in PPE), and the company used declining balance method for depreciation calculation. However, the number of employee grew only 16.8% YoY in FY17. Capacity utilization fell to 59.5% in FY17 from 77.0% in FY16 as a result. High depreciation expense and lower capacity utilization mostly explain the fall in gross profit margin in FY17. Net profit margin also dropped by 6.9 percent points in FY17 compared to FY16 for the same reason. Asset turnover truncated to 0.44x in FY17 against 0.57x in FY16. Cash conversion cycle remained same in FY17 as compared to FY16.

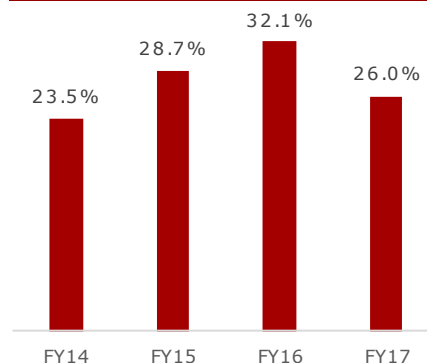
### Revenue and Revenue Growth (YoY)



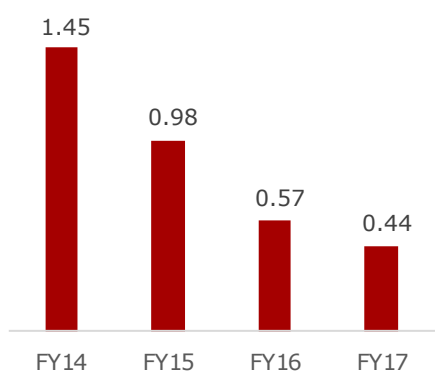
### Gross Profit Margin



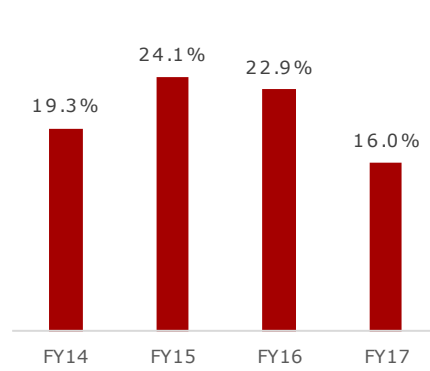
### EBIT Margin



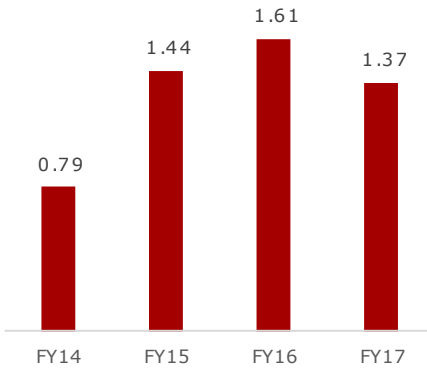
### Asset Turnover



### Net Profit Margin



### Post-IPO EPS



Source: IPO Prospectus and UCBCML Research

## PEER ANALYSIS

Name	GP Margin	EBITDA Margin	NP margin	ROE	ROA	Asset Turnover (x)	Assets/Equity (x)	P/E (x)
Genex Infosys LTD	34.10%	47.90%	16.00%	18.80%	7.10%	0.44	2.05	-
Tata Consultancy Services LTD	42.10%	26.40%	21.00%	29.40%	24.20%	1.15	1.24	21.2
Wipro LTD	29.20%	19.10%	14.70%	16.00%	10.30%	0.7	1.57	16.7
Infosys LTD	36.00%	27.00%	22.70%	23.90%	19.60%	0.86	1.26	15.9
SCICOM MSC Bhd	na	26.60%	19.50%	30.30%	27.80%	1.42	1.12	22.0
Tech Mahindra LTD	na	15.30%	12.40%	21.50%	13.50%	1.09	1.57	14.9

Source: Bloomberg, and UCBCML Research

## MAJOR CUSTOMERS

Principal Customers	Contribution in Revenue (BDTmn)	% contribution in Revenue
Robi Axiata Limited	279.82	42.91%
Grameen Phone Limited	103.69	15.90%

Source: IPO Prospectus

## BOARD OF DIRECTORS

Sl. Name	Designation
1 Chowdhury Fazle Imam	Chairman
2 Mohammed Adnan Imam	Managing Director
3 Prince Mojumder	Director
4 Mezbah Uddin (Representative of Oracle Services LTD)	Director
5 Mohammed Ziaul Islam Chowdhury	Independent Director
6 Tanveer Ali	Independent Director

Source: IPO Prospectus

## Financials

Figures in BDT mn

Consolidated Income Statement	FY13*	FY14*	FY15*	FY16	FY17	
Revenue	93	337	488	575	700	
Cost of Sales	66	235	316	348	461	
<b>Gross profit</b>	<b>27</b>	<b>102</b>	<b>172</b>	<b>226</b>	<b>239</b>	
Operating Expense	4	23	32	42	57	
<b>EBIT</b>	<b>23</b>	<b>79</b>	<b>140</b>	<b>184</b>	<b>182</b>	
Financial expense	1	14	23	46	64	
Provision for WPPF	-	-	-	7	6	
<b>Profit before tax</b>	<b>22</b>	<b>65</b>	<b>117</b>	<b>132</b>	<b>112</b>	
Provision for tax	-	-	-	-	-	
<b>Net profit after tax</b>	<b>22</b>	<b>65</b>	<b>117</b>	<b>132</b>	<b>112</b>	
EBITDA	-	-	-	244	335	
Pre-IPO EPS (BDT)	0.35	1.05	1.91	2.14	1.82	
<b>Post-IPO EPS (BDT)</b>	<b>0.27</b>	<b>0.79</b>	<b>1.44</b>	<b>1.61</b>	<b>1.37</b>	
<b>Consolidated Balance Sheet</b>						
	FY13*	FY14*	FY15*	FY16	FY17	
Non-current assets:						
Properties, plant & equipment		40	43	82	410	1,068
Intangible Assets			19	126	232	208
Capital work in Progress		-	-	-	97	86
Investments		-	-	-	102	0
<b>Total non-current assets</b>		<b>40</b>	<b>61</b>	<b>208</b>	<b>841</b>	<b>1,363</b>
Current assets:						
Inventories		6	8	8	16	21
Trade receivables		18	124	216	296	319
Advance, deposits and prepayments		25	179	186	213	36
Cash and cash equivalent		1	2	1	30	25
<b>Total current asset</b>		<b>50</b>	<b>312</b>	<b>410</b>	<b>555</b>	<b>401</b>
<b>Total asset</b>		<b>90</b>	<b>374</b>	<b>618</b>	<b>1,396</b>	<b>1,763</b>
Shareholders' equity:						
Share capital		10	10	10	10	616
Retained earnings		22	87	204	322	244
<b>Total shareholders' equity</b>		<b>32</b>	<b>97</b>	<b>214</b>	<b>332</b>	<b>860</b>
Non-current liabilities:						
Long term loan		-	30	45	225	367
Share Money Deposit		25	110	110	453	
<b>Total non-current liabilities</b>		<b>25</b>	<b>140</b>	<b>156</b>	<b>678</b>	<b>367</b>
Current liabilities:						
Accounts payable		19	2	2	10	2
Liabilities for expense		2	22	33	37	50
Current position of Long term loan		-	15	18	10	17
Short term loan		13	98	195	329	467
<b>Total current liabilities</b>		<b>33</b>	<b>137</b>	<b>248</b>	<b>386</b>	<b>535</b>
<b>Total liabilities</b>		<b>58</b>	<b>277</b>	<b>404</b>	<b>1,064</b>	<b>903</b>
<b>Total liabilities and equities</b>		<b>90</b>	<b>374</b>	<b>618</b>	<b>1,396</b>	<b>1,763</b>
BVPS (BDT) - Pre-IPO		0.52	1.57	3.47	5.39	13.96
<b>BVPS (BDT) - Post-IPO</b>		<b>0.39</b>	<b>1.19</b>	<b>2.62</b>	<b>4.07</b>	<b>10.54</b>

\* Stand-alone data of Genex Infosys Limited

## Financials

Figures in BDT mn

Cash Flow Statement	FY13*	FY14*	FY15*	FY16	FY17
Operating Cash Flow	-1	-55	86	114	237
Investing Cash Flow	-45	-161	-203	-697	-529
Financing Cash Flow	47	216	116	611	287
NOCFPS- Pre-IPO	0	-0.9	1.4	1.9	3.8
<b>NOCFPS- Post-IPO</b>	<b>0</b>	<b>-0.7</b>	<b>1.1</b>	<b>1.4</b>	<b>2.9</b>

Key Ratios	FY14	FY15	FY16	FY17
<b>Growth Ratios (YoY)</b>				
Revenue	262.80%	44.70%	17.90%	21.70%
Gross Profit	280.20%	68.80%	31.80%	5.50%
EBITDA	na	na	na	37.40%
EBIT	246.10%	77.10%	31.60%	-1.50%
Net Profit After Tax	196.80%	81.00%	12.20%	-15.00%
<b>Margin</b>				
Gross Profit Margin	30.20%	35.20%	39.40%	34.10%
EBITDA Margin	na	na	42.50%	47.90%
EBIT Margin	23.50%	28.70%	32.10%	26.00%
Pre Tax Profit Margin	19.30%	24.10%	22.90%	16.00%
Net Profit Margin	19.30%	24.10%	22.90%	16.00%
<b>Per Share Data</b>				
EPS - Pre IPO (BDT)	1.05	1.91	2.14	1.82
EPS - Post IPO (BDT)	0.79	1.44	1.61	1.37
BVPS - Pre IPO (BDT)	1.57	3.48	5.4	13.97
BVPS - Post IPO (BDT)	1.19	2.62	4.07	10.54
OCFPS - Pre IPO (BDT)	-0.88	1.4	1.86	3.85
OCFPS - Post IPO (BDT)	-0.67	1.06	1.4	2.9
<b>Return and Valuation</b>				
ROE	100.90%	75.50%	48.20%	18.80%
ROA	28.00%	23.70%	13.10%	7.10%
<b>Operating Efficiency Ratio</b>				
Inventory Turnover Ratio	34.13	40.51	28.81	24.91
Receivable Turnover Ratio	4.75	2.87	2.24	2.28
Average Collection Period (Days)	75.8	125.4	160.4	158.2
Inventory Conversion Period (Days)	10.55	8.89	12.5	14.45
A/C Payable Turnover Ratio	22.72	153.52	56.07	76.47
Payables Payment Period (Days)	15.85	2.34	6.42	4.77
Operating Cycle (Days)	86.34	134.28	172.88	172.68
Cash Conversion Cycle (Days)	70.49	131.93	166.46	167.91
Total Asset Turnover	1.45	0.98	0.57	0.44
Fixed Asset Turnover	6.67	3.62	1.1	0.63
<b>Liquidity Ratios</b>				
Current Ratio	2.28	1.65	1.44	0.75
Quick Ratio	2.23	1.62	1.4	0.71
Cash Ratio	0.01	0	0.08	0.05
<b>Leverage Ratio</b>				
Debt to Equity	147.50%	120.90%	169.60%	98.90%
Debt to Asset	38.20%	41.90%	40.40%	48.20%

\* Stand-alone data of Genex Infosys Limited

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We calculate our target price by weighting DCF, DDM, SOTP, asset-based and other relative valuation methods, and applying appropriate premiums/ discounts and/or other relevant adjustments.

Expected absolute returns are calculated as the percentage of difference between our target price and latest close price. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Please note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Recommendation Type	Holding period (if not otherwise mentioned)	Absolute Return Potential
Buy	12 Months	More than +15%
Neutral/ Hold	12 Months	Between +15 % and -5 %
Underweight	12 Months	Less than -5 %

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### Office Premises

<b>Head Office</b> 6, Dilkusha C/A 1st Floor Dhaka- 1000 Bangladesh	<b>Corporate Office</b> Bulus Center (Level-2) Plot-CWS(A)-1, Road No-34 Gulshan Avenue Dhaka-1212 Bangladesh	<b>DSE Extension Office</b> Room # 633, 9/E DSE Annex Building (5 th Floor) Motijheel C/A, Dhaka 1000 Bangladesh	<b>Chattogram Office</b> Ayub Trade Center 1269/B SK Mujib Road (4th Floor) Agrabad C/A, Chattogram Bangladesh
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