

Company Background

Genex Infosys Limited is an IT service company whose services include data entry, data processing, business process outsourcing, IT support & software maintenance, digital content development & management, call center service, website development, marketing of software products and providing maintenance and support services both to domestic and international clients. The company's standalone revenue breakdown for FY 2017 is provided below:

Service	Mn BDT	% of Revenue
Data Entry	10.7	1.6%
Business Process Outsourcing	16.1	2.5%
IT Support & Software Maintenance	21.1	3.2%
Digital Content Development & Management	20.7	3.2%
Call Centre Service	370.9	56.9%
Software Development	194.2	29.8%
Website Development	18.6	2.9%
Total	652.1	100.0%

Genex Infosys Limited commenced its commercial operation as a private limited company in 2012 and was converted to a public limited company in 2016. As of June 2017, the company's call center seat occupancy was ~59.5% which was 22.7 percentage points lower than the previous year's and according to management, it was because of the nature of the business where capacity utilization cannot be achieved immediately with capacity enhancement. However, the management is expecting to achieve 80% capacity utilization by FY 2020.

The chairman of the company, Mr. Chowdhury Fazle Imam, has working experience of more than 41 years. The management team is led by the Managing Director, Mohammed Adnan Imam, the son of the chairman of the company. He also holds the chairman position of Green and Red Technologies Ltd. - the subsidiary of the company. On the basis of the pre-IPO number of shares, the Chairman owns 18.27%, the Managing Director owns 10.86%, other sponsor & directors own 14.12%, institutional investors own 3.25% and individual investors own the remaining 50.82% shares of the company.

Genex Infosys Limited has no holding or associate companies but has a subsidiary named Green and Red Technologies Limited. Green and Red Technologies Limited is an ITES service provider which provides web-based solution and consultancy services. Genex Infosys Limited owns 99.9%

IPO Details

Genex Infosys Limited will raise BDT 200.0 million as IPO proceeds through fixed price method by offering 20.0 million ordinary shares of BDT 10.0 each. Proceeds from the initial public offering will be used for capacity enhancement of the call center business which is directly related to the major revenue earners for the company, and repay a portion of the long-term loan from AB Bank. These processes are to be implemented within 3 months after receiving the IPO proceeds and will have a positive impact on the company's capacity, capacity utilization, and revenue. The break down of the use of IPO proceeds is shown below:

Use of IPO Proceeds	Mn BDT	% of Proceed
Expansion of Call Center Business (Capital Expenditure)	123.0	61.5%
Partial Long Term Loan Repayment (AB Bank)	60.0	30.0%
IPO Expenses	17.0	8.5%
Total	200.0	100.0%

Key Points

- Genex Infosys Limited has reported a top line CAGR of 65.7% from FY 2013 to FY 2017 with an average gross profit margin of 33.5%. The bottom line CAGR was 18.6% with an average net profit margin of 21.2% during the same period.
- The issuance of bonus shares and new shares in 2017 resulted in a substantial change in the debt to equity ratio as it went down from 161% in FY 2016 to 96% in FY 2017.
- A large portion of the revenue of Genex Infosys Limited is generated from providing service to Robi Axiata Limited and the revenue contribution from Robi was ~42.9% of the revenue in FY17. The current contract expires after FY2020, and if the contract is not renewed further, it can cause significant harm to the revenue of the Genex Infosys Limited.
- The BPO and Call Centre industry is highly dependent on the telecommunication sector's penetration. More penetration of the telecommunication sector leads to more services of the telecommunication companies and to support that the companies will require more service the BPO and Call Centre industry. This will have positive impact on the revenue generation of the industry.
- Currently, IT and IT Enabled Services (ITES) service providers do not need to pay any tax as per the government's tax exemption on these services.
- Other than Robi, the client base of Genex Infosys Limited include corporations like Grameenphone Limited, Banglalink Ltd., Uber, Samsung, British American Tobacco Limited.
- Genex Infosys Limited has been allocated 2.0 (Two) acres of land at Hi-Tech Park, Gazipur, by Bangladesh Hi-Tech Park Authority, Information & Communication Technology Division, Ministry of Posts, Telecommunication and Information Technology. Genex Infosys Limited will utilize it by setting up BPO, Research & Development (R&D) and Data Center.
- The subsidiary company, Green and Red Technologies Limited, is a profitable company. With a net profit of BDT 7.2 million, it amounted to 10% of the consolidated net profit of Genex Infosys Limited in FY17.

Comparable & Trading Multiples

Trailing P/E multiples of other listed comparable stocks in the IT sector are given below:

DSE Ticker	Market Cap [†]	TTM Earnings [*]	P/E**
AAMRATECH	1,539.3	107.2	14.5x
BDCCOM	1,209.6	64.1	18.9x
INTECH	1,814.4	29.9	60.6x
DAFODILCOM	1,791.9	120.8	14.8x
ITC	4,526.3	127.0	35.8x

*In BDT Million **Collected from S&P Capital IQ

Company Summary

Post IPO No. of Shares (Mn)	81.6
Post-IPO Paid-up Capital (Mn BDT)	816.0
Pre-IPO Paid-up Capital (Mn BDT)	616.0
New Shares Issued (Mn)	20.0
IPO Proceeds (Mn BDT)	200.0
Face Value (BDT)	10.0
Market Lot	500.0
Free Float*	-
Accounting Year End	June
Auditor	Masih Muhith Haque & Co.
Issue Manager	Imperial Capital Limited

Income Statement

Mn BDT	2013	2014	2015	2016	2017
Revenue	93	337	488	575	700
Cost of Sales	(66)	(235)	(316)	(348)	(461)
Gross Profit	27	102	172	226	239
Administrative Expenses	(4)	(22)	(31)	(41)	(55)
Selling Expenses	(0)	(0)	(0)	(1)	(2)
Profit from Operation	23	79	140	184	182
Other Income	0	-	-	-	-
Profit Before Finance Cost	23	79	140	184	182
Financial Expenses	(1)	(14)	(23)	(46)	(64)
Profit Before WPPF	22	65	117	138	118
Provision for WPPF	-	-	-	(7)	(6)
Profit Before Income Tax	22	65	117	132	112
Provision for Income Tax	-	-	-	-	-
Profit After Income Tax	22	65	117	132	112
EPS (BDT)	0.35	1.05	1.91	2.14	1.82

Balance Sheet

Mn BDT	2013	2014	2015	2016	2017
Non-Current Assets	40	61	208	739	1,362
Property, Plant & Equipment	40	43	82	410	1,068
Intangible Assets	-	19	126	232	208
Capital Work in Progress	-	-	-	97	86
Investment	-	-	-	102	0
Current Assets	50	312	410	555	401
Inventories	6	8	8	16	21
Accounts Receivables	18	124	216	296	319
Advances & Deposits	25	179	186	213	36
Cash & Cash Equivalent	1	2	1	30	25
Total Assets	90	374	618	1,396	1,763
Shareholders' Equity	32	97	214	332	860
Share Capital	10	10	10	10	616
Retained Earnings	22	87	204	322	244
Non-Controlling Interest	-	-	-	(0)	0
Non-Current Liabilities	25	140	156	678	367
Share Money Deposit	25	110	110	453	-
Long Term Loan	-	30	45	225	367
Current Liabilities	33	137	248	386	535
Accounts & Other Payable	19	2	2	10	2
Short Term Loan	13	98	195	329	467
Current Portion of Long term Loan	-	15	18	10	17
Provision and Accruals	2	22	33	37	50
Total Equity and Liabilities	90	374	618	1,396	1,763

Cash Flow Statement

Mn BDT	2013	2014	2015	2016	2017
Operating Activities	N/A	N/A	N/A	113	234
Investing Activities	N/A	N/A	N/A	(696)	(526)
Financing Activities	N/A	N/A	N/A	287	611
Net Cash Flow	N/A	N/A	N/A	(296)	318

Ratios

	2013	2014	2015	2016	2017
Gross Profit Margin	29%	30%	35%	39%	34%
Op. Profit margin	25%	23%	29%	32%	26%
Net Profit Margin	24%	19%	24%	23%	16%
Revenue Growth	N/A	263%	45%	18%	22%
Gross Profit Growth	N/A	280%	69%	32%	5%
Op. Profit Growth	N/A	246%	77%	32%	-1%
NPAT growth	N/A	197%	81%	12%	-15%
Debt to Asset	14%	38%	42%	40%	48%
Net Debt to Equity	36%	146%	121%	161%	96%
Return on Asset	24%	17%	19%	9%	6%
Return on Equity	69%	67%	55%	40%	13%
Effective Tax Rate	0%	0%	0%	0%	0%

*Consolidated data
*Year ending on June

IMPORTANT DISCLOSURES

Analyst Certification: Each research analyst and research associate who authored this document and whose name appears herein certifies that the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed therein that are within the coverage universe.

Disclaimer: Estimates and projections herein are our own and are based on assumptions that we believe to be reasonable. Information presented herein, while obtained from sources we believe to be reliable, is not guaranteed either as to accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation of the purchase or sale of any security. As it acts for public companies from time to time, BRAC-EPL may have a relationship with the above mentioned company(s). This report is intended for distribution in only those jurisdictions in which BRAC-EPL is registered and any distribution outside those jurisdictions is strictly prohibited.

Compensation of Analysts: The compensation of research analysts is intended to reflect the value of the services they provide to the clients of BRAC-EPL. As with most other employees, the compensation of research analysts is impacted by the overall profitability of the firm, which may include revenues from corporate finance activities of the firm's Corporate Finance department. However, Research analysts' compensation is not directly related to specific corporate finance transaction.

General Risk Factors: BRAC-EPL will conduct a comprehensive risk assessment for each company under coverage at the time of initiating research coverage and also revisit this assessment when subsequent update reports are published or material company events occur. Following are some general risks that can impact future operational and financial performance: (1) Industry fundamentals with respect to customer demand or product / service pricing could change expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes; (3) Unforeseen developments with respect to the management, financial condition or accounting policies alter the prospective valuation; or (4) Interest rates, currency or major segments of the economy could alter investor confidence and investment prospects.

BRAC EPL Stock Brokerage Limited

Research

Ayaz Mahmud, CFA	Deputy Head of Research	ayaz.mahmud@bracepl.com	01708 805 221
Md. Sakib Chowdhury	Research Analyst	sakib.chowdhury@bracepl.com	01709 641 247
S. M. Samiuzzaman	Research Analyst	sm.samiuzzaman@bracepl.com	01708 805 224
Sadman Sakib	Research Associate	sadman.sakib@bracepl.com	01730 727 939
Ahmed Zaki Khan	Research Associate	zaki.khan@bracepl.com	01708 805 211
Md. Rafiqul Islam	Research Associate	mrafiquislam@bracepl.com	01708 805 229

International Trade and Sales

Ahsanur Rahman Bappi	Head of International Trade & Sales	bappi@bracepl.com	01730 357 991
----------------------	--	--	---------------

BRAC EPL Research

www.bracepl.com

Symphony, Plot No.: S.E.(F) – 9(3rd Floor), Road No.: 142

Gulshan Avenue, Dhaka – 1212

Phone: + (880)-2-9852446-50

Fax: + (880)-2-9852451-52