

GENEX INFOSYS LIMITED.

Company Overview

Genex Infosys Ltd. (GIL) was incorporated and started commercial operation on 22nd May, 2012. The Company is a IT service provider. It is engaged in providing services such as Data Entry, Data Processing, Business Process Outsourcing, IT Support & Software Maintenance, Digital Content Development & Management, Call Centre Service, Website Development, and providing maintenance and support services both to domestic and international clients.

There is one subsidiary company - Green & Red Technologies Ltd (99.99% ownership) and one sister concern company - IPE Technologies Ltd. The Company has its registered office at Nitol-Niloy Tower (Level 8), Nikunja-2, Dhaka and principal place of business is located at Uttara, Dhaka, and Khulshi, Chittagong, Bangladesh.

As of June 30, 2017, the Company's two products & services i.e. Call Center Services and Software Development contribute 56.87% & 29.78% respectively to its total sales revenue. The Company's products are sold to various customers but Robi Axiata Limited and Grameenphone Limited Contribute 42.91% & 15.90% respectively of the Company's total revenue. The subsidiary Company contributed 6.78% to its total sales revenue.

The major raw materials are human resources. There are no registered suppliers of human resources of the Company. However, as Bangladesh has a very large pool of skilled worker graduating from several universities, Genex Infosys Limited always has a large pool of applicants to include in its work force.

Installed capacity and its utilization are shown in the following table:

Particular	Call Center seat occupancy (3 Shifts)		
	2014-15	2015-16	2016-17
Capacity Utilization	72.0%	77.0%	59.5%

The Company raised its capital amounting of BDT 200 million in November 2018 through fixed price method of Initial Public Offering (IPO). Imperial Capital Limited are the issue manager and Masih Muhith Haque & Co. is the auditor of the Company.

Utilization of the proceeds of IPO is as follows:

Use of Proceeds	BDT (in mn)	%	Implementation Schedule
Expansion of Business (Acquisition & Installation of Machineries)	123.0	61.5%	Within 3 months after receiving IPO Fund.
Long Term Loan Repayment	60.0	30.0%	Within 1 months after receiving IPO Fund.
IPO expenses	17.0	8.5%	As and when required
Total	200.0	100%	

IPO Details

No. of Shares (Post-IPO) in mn	81.6
Authorized Capital (BDT mn)	1,000.0
Pre-IPO Paid-up Capital (BDT mn)	616.0
Post-IPO Paid-up Capital (BDT mn)	816.0
IPO size in shares (mn)	20.0
Face value per share (BDT)	10.0
NAVPS (Post-IPO, BDT) Q 2	15.3
6M Ann. EPS (Post-IPO, 2018-19, BDT)	1.5

	2014-15*	2015-16	2016-17	2017-18 (9M Ann)
Financial Information (BDT mn):				
Sales	488	575	700	834
Gross Profit	172	226	239	292
Operating Profit	140	184	182	228
Profit After Tax	117	132	112	117
Assets	618	1,396	1,763	1,904
Capex	-	5	136	16
Long Term Debt	45	225	367	393
Short Term Debt	213	339	483	501
Equity	214	332	860	948
Margin:				
Gross Profit	35.2%	39.4%	34.1%	35.1%
Operating Profit	28.7%	32.1%	26.0%	27.4%
Pre Tax Profit	24.1%	22.9%	16.0%	14.0%
Net Profit	24.1%	22.9%	16.0%	14.0%
Growth*:				
Sales	44.7%	-	21.7%	19.2%
Gross Profit	68.8%	-	5.5%	22.5%
Operating Profit	77.1%	-	-1.5%	25.6%
Net Profit	81.0%	-	-15.0%	4.4%
Profitability:				
ROA	23.7%	13.1%	7.1%	6.4%
ROE	75.5%	48.2%	18.8%	12.9%
Operating Efficiency Ratios:				
Inventory TO	62.54	47.53	37.80	33.48
Receivable TO	2.87	2.24	2.28	2.53
A/C Payable TO	153.52	56.07	76.47	227.67
Total Asset TO	0.98	0.57	0.44	0.45
Fixed Asset TO	7.81	2.33	0.95	0.80
Leverage:				
Debt Ratio	41.9%	40.4%	48.2%	46.9%
Debt-Equity	120.9%	169.6%	98.9%	94.3%
Int. Coverage	6.2	4.0	2.8	2.2

* 2014-15 Given data is parent company only. *Growth rate of 2015-16 is not calculated due to data is not available.

Board of Directors of the Company

Name of the directors	Position	% of Holdings
		Post-IPO
Mr. Chowdhury Fazle Imam	Chairman	13.79
Mr. Mohammed Adnan Imam	Managing Director	8.20
Mr. Prince Mojumder	Director	4.10
Mr. Mezbah Uddin	Director	6.57
Total		32.66%

The Chairman and Managing directors are involved in other organizations namely AWR Developments (BD) Ltd., AWR Real Estate Ltd., Oracle Services Ltd., IPE Capital Ltd., IPE Building Products Ltd. Mr. Chowdhury Fazle Imam (Chairman) are the father of Mr. Mohammed Adnan Imam (Managing Director).

Industry Overview

Digital Bangladesh is one of the nation's dreams, and so special emphasis is given on the application of digital technologies to realize Vision 2021, which we commonly call Digital Bangladesh. By 2021, after 50 years of independence, our goal is to be a middle-income country with peace, prosperity and dignity.

Business process outsourcing (BPO) is a business practice that helps one organization hire another company to perform a specific work. Organizations can outsource a range of back-office functions, which are also referred to as internal business functions, such as IT services, Human resources, Accounting and Payment processing. BPO helps to reduce cost, save money and effort to run any business operation efficiently.

Call center is also part of BPO, concentrating on telephonic calls. This is used for reception and transmission of huge number of telephonic requests placed by commercial users. Call center provides various services to the clients. Banks, Mobile Companies, Hospitals are providing services relating to client queries, making appointment, getting bank service through call center. Nowadays, call center is also used for telemarketing.

Software and IT service industry in Bangladesh has crossed a long road over the last few decades. It has matured. The industry no more remains at the sideline. It joined the mainstream. Not only the industry is contributing significantly in the national income, but also it has been playing very crucial role in creating high quality employment for a sizable portion of young graduates of the country.

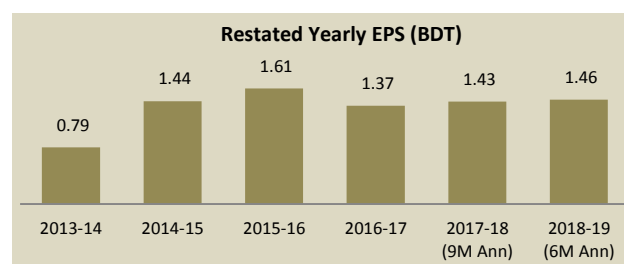
Bangladesh can draw on experiences of these countries to design and implement a rapid IT promotion strategy tailored to her own resources/objectives. The government can consider the following strategy to compliment the ongoing 'Digital Bangladesh', which will accelerate the IT industry and utilise this sector as a platform for sustainable growth. Through injecting a major investment of USD 1.0 billion over five years (USD 200 million per year), the government can accelerate progress in this sector. This strategy can intensify efforts in specific areas: (a) Speeding up IT training/skills; (b) Actively attracting international IT companies/investors (Google, Intel, etc.) to establish IT centres (R&D, Service); and (c) Helping Bangladeshi entrepreneurs to start IT companies by providing funds/incubation, sales/business, development/marketing, Software Maintenance Services, web site services, Digital data analytics, call center service support.

Investment Positives

- The Company will increase its existing client category by adding new clients such as UBER & Banglalink Limited. Service revenue is expected to increase from the new contract with UBER & Banglalink as the service capacity utilization of call center seat occupancy (3 shift) would up to 85% within 2020 from its existing capacity utilization of 60% as of June 2017. For this expansion purpose, Acquisition & Installation of Machineries for an estimated amount of BDT 123.0 million will be required which will be financed from its IPO proceeds. **The Company is expected to start commercial operation from the expanded capacity by May 2019.**
- The Company is suppose to repay its long term bank loan of BDT 60.0 million which is 15% of its existing long term loan within December 2018 from its IPO proceeds. This will increase the profit margin of the Company due to the reduction of finance expense.

Investment Negatives

- The company is exposed to high leverage. The Company's debt ratio is in increasing trend over the last few years. As of March 2018, debt ratio was 46.9%. High interest expense eats up a major part of its operating income. The Company's interest coverage ratio was 2.2x as of March 2018.
- The national budget 2018-19 imposed 5% VAT on information technology enabled services instead of 4.5% which will affect its profitability.



Lock-in Period & Indicative Price

Lock-in for 25% of the shares allotted to eligible investors shall be for 06 months and other 25% of the shares allotted to them will be for 09 months from **the date of issuance of the prospectus which was October 23, 2018.**

Free-up Date of Lock-in Shares		
Period	Date	No. of shares
6 Month	April 23, 2019	2,500,000
9 Month	July 23, 2019	2,500,000
1 Year	October 23, 2019	11,066,756
3 Year	October 23, 2021	50,533,244

Latest Declaration

As per six month financial performance for the year 2018-19, the Company reported profit after tax of BDT 59.53 mn which was BDT 60.08 mn registering 0.9% negative growth over the same period of last year. Post-IPO EPS was BDT 0.73 for Jul-Dec of 2018-19 and NAV per share was BDT 15.25 as of December 2018.

Valuation
Pricing Based on Relative Valuation:

	Market Multiples	GENEX INFOSYS LIMITED	Value/ Share
Market Forward P/E	16.5	2018-19 Ann. EPS – 1.46	24.1
Net Asset Value Per Share		NAVPS – 15.25	15.3

ILSL Research Team:

Name	Designation
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