

IPO Note on Genex Infosys Limited

Key IPO Facts

IPO Size (BDT mn)	200
IPO Size (Shares in mn)	20
Public Offer Price Per Share (BDT)	10
Authorized Capital (BDT mn)	1000
Pre-IPO Paid up Capital (BDT mn)	616
Post IPO Paid up Capital (BDT mn)	816
Year End	June
Sector	IT
Revenue Size in 2016-17 (BDT mn)	700
Net Profit in 2016-17 (BDT mn)	112
Total Assets in 2016-17 (BDT mn)	1763
Retained Earnings in 2016-17 (BDT mn)	244
Annualized. Post-IPO EPS (Q2, 2018-19)	1.43
Post-IPO NAV per Share (Q2, 2018-19)	15.25
Issue Date of Prospectus	Oct 23, 2018
Issue Managers:	Imperial Capital Limited

Company Overview

Genex Infosys Limited has, part of the IPE Group of UK, was incorporated in Bangladesh as a Private Limited Company on 22nd May, 2012. Genex Infosys, the largest call center operator in Bangladesh, has a subsidiary company named Green and Red Technologies (G&R) and it holds 99.99% shares of it, to diversify and grow into a major ICT company. The Company's product line has variety and sells services in 6 different areas. The principal activities of the company are ITES Services, Ad Network Solution; Web based solution and Consultancy, E-commerce, Data Processing, Graphics Design, IT Consulting, IT Training Centre and Software development in Bangladesh. The Company has major customer Robi Axiata Limited which constitute more than 10% of the Company total revenues.

Corporate Profile

Incorporation	May 22, 2012
Commercial Operation	July 01, 2012
Key	Chairman
	Chowdhury Fazle Imam
People	MD
	Mohammed Adnan Imam
Operational Office	Sonargaon, Dhaka and Khulshi, Chittagong.
Subsidiary/Associate	Green and Red Technologies Limited.

Products and Services

Product	Market
Data Entry	
Website & Software Development	
Business Process Outsourcing	Bangladesh & Malaysia
IT Support & Software Maintenance	
Call Centre Service	

Source: BASL Research and Company Prospectus

IPO Plan

Net proceeds from Initial Public Offering (IPO) will be used for expansion of call center business and partial repayment of long term loan. The IPO plan is described below:

Particulars	BDT (mn)	As (%)
Expansion of call center business	123,000,000	62%
Partial Long-Term Loan Repayment	60,000,000	30%
IPO Expenses	17,000,000	9%
Total	200,000,000	100%

The IPO project will be implemented within 6 months after receiving IPO fund.

Capacity & Utilization

The company has projected that Capacity will be increased as new plants and machineries will be introduced. Capacity utilization will be increased for new machinery installation and efficient use of machinery.

Year	Capacity Utilization (Seat occupancy %)
2016-17	59.50%
2017-18E	70%
2018-19E	80%
2019-20E	85%

Source: BASL Research and Company Prospectus

Shareholding Structure

Shareholder Type	No. of Stocks		Post IPO Holding (%)
	Pre-IPO	Post-IPO	
Director	26,640,192	26,640,192	32.65%
Sponsor	1,480,000	1,480,000	1.81%
Institutional	2,000,000	10,000,000	12.25%
Mutual fund	0	2,000,000	2.45%
Individual	31,479,808	39,479,808	48.38%
NRBs	0	2,000,000	2.45%
Total	61,600,000	81,600,000	100%

IPO Shareholdings:

Category	Percentage (%)	No. of Stocks
Eligible Investors (EIs)	10% for Mutual Funds	2,000,000
	40% for Other EIs	8,000,000
General Public	10% for NRBs	2,000,000
	40% for Other Gen. Public	8,000,000
Total		20,000,000

Source: BASL Research and Company Prospectus

Lock-in Period

Type	Lock-in Share	Lock-in Free Date
Directors/Sponsors	26,640,192	October 23, 2021
Private Placement Holders	1,480,000	October 23, 2019
	5,000,000	February 06, 2019
Institutions (Post-IPO)	2,500,000	April 23, 2019
	2,500,000	July 23, 2019
Public (Post-IPO)	10,000,000	February 06, 2019
Total	48,120,192	

* Issue of prospectus date is on October 23, 2018.

* 15,000,000 Shares will be tradable on 1st trading day.

Source: BASL Research and Company Prospectus

Industry Insights

Business process outsourcing (BPO) is a subset of outsourcing that involves the contracting of the operations and responsibilities of a specific business process to a third-party service provider. BPO is often divided into two categories- Back office outsourcing & Front office outsourcing services. At present people are getting involved in various types of online service outsourcing jobs in Bangladesh. IT related job like Data Entry, graphic design, Software Design and Development, Web Designing, multimedia are the most popular online outsourcing job in Bangladesh. In Bangladesh, there are more than 100 software houses, 35 data entry centers, thousands of formal and informal IT Training centers and numerous computer workshops.

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. As the mobile phone sector in Bangladesh is well-developed, ICT-related service trade is progressing, particularly in business process outsourcing (BPO). The prime driver for growth of the BPO and Call Center industry has been the telecommunications sectors' penetration across the and the increase of products ranging from voice, data and SMS. 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.

Major Competitors

Virgo Contact Center Services Ltd
Digicon Technologies Limited
Impel Service & Solutions Limited (ISSL)
My Outsourcing Ltd
Wintel Limited

Turnover (mn)

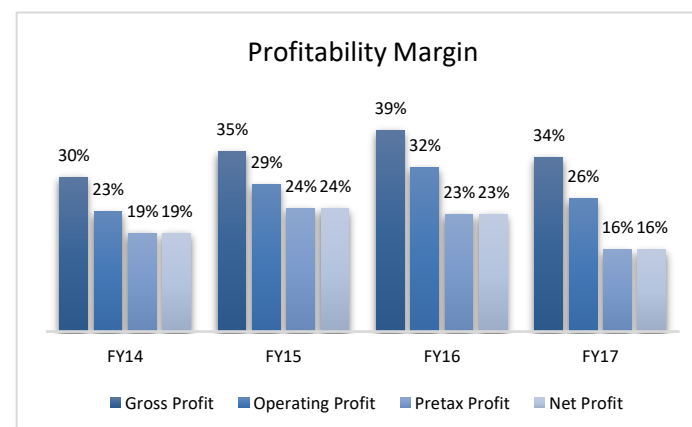
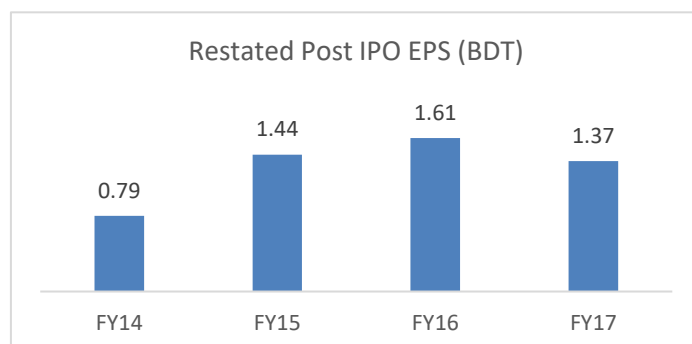
No data is available in respect of turnover or percentage and volume of market shares

Source: BASL Research and Company Prospectus

Financial Information (BDT mn) and Key Ratio

Financials	Figure (mn)			
	FY14	FY15	FY16	FY17
Sales	337	488	575	700
Operating Profit	79	140.08	184.41	182
Profit After Tax	65	117	132	112
Assets	374	618	1,396	1,763
Short Term Debt	113	213	339	483
Long Term Debt	30	45	225	367
Equity	97	214	332	860
Dividend (C/B) %	-	-	-	-
Margin Ratio (%)				
Gross Profit	30%	35%	39%	34%
Operating Profit	23%	29%	32%	26%
Pretax Profit	19%	24%	23%	16%
Net Profit	19%	24%	23%	16%
Growth (%)				
Sales		45%	18%	22%
Gross Profit		69%	32%	5%
Operating Profit		77%	32%	-1%
Net Profit		81%	12%	-15%
Profitability (%)				
ROA	17%	19%	9%	6%
ROE	67%	55%	40%	13%
Debt Ratio				
Debt Ratio	38%	42%	40%	48%
Debt-Equity	147%	121%	170%	99%
Int. Coverage	4.6	5.2	2.9	1.7
Valuation				
Rstd. EPS(BDT)	0.79	1.44	1.61	1.37
Post-IPO NAVPS	1.2	2.6	4.1	10.5

Source: BASL Research and Company Prospectus



Investment Rationale

- Genex Infosys Limited signed an agreement with Nitol Motors Ltd. for the expansion of operation center premises. With the IPO proceeds, the Company has planned to spend BDT 123 mn for the Expansion of call center business. On the completion of the expansion project, the company will be able to serve existing client as well as new client-UBER and Banglalink Limited. The sales revenue from the expansion assumed to increase by 24.60%, 42.60% and 13.50% respectively in the year 2017-18, 2018-19 and 2019-20.
- Company will repay BDT 60 mn loan by using their IPO proceed which will reduce company's financial expenses and intend to pay off their 6 crore long term loan fully by 2019 with IPO proceed and this will lower their financial expenses significantly.
- The company is pursuing a sound financial position in the last two year along with 22% sales growth and maintaining a decent equity base.

Risk Factors

- The Company has major customer Robi Axiata Limited which constitute more than 10% of the Company total revenues and in 2017 it generates 42.91% of total revenue. Hence, losing Robi, Axiata Limited contract will affect the business performance and revenue significantly.
- ROA and ROE ratio of the company is decreasing over years. According to statement in FY16-17, ratio of the company was 6% and 13% against 9% & 40% in FY15-16.
- The profit margin of this company is in decline trend for the last three years. In 2014-15 Net Profit Margin was 24% whereas in 2016-17 it stood at 16%. Moreover, Gross Profit Margin 34% and Operating Margin was 26% in FY 2016-17 compared to 39% and 32% in FY 2015-16 respectively.
- Any kind of change in economic recession, and entrance of new technology, changes in government monetary & industrial policy, increasing competition, power supply disruption and political unrest may affect the business of the Company.

Stock Pricing based on Relative Valuation

Relative Valuation	Multiple	Fair Value
Industry Forward P/E	24.6	36.0
Price to Book Value	2.3	34.5
Market Forward P/E	15.1	22.0
Latest Post-IPO NAV (Q2-2018-19)		15.3
Last twelve months average Price of Listed IT companies		27.3
Pricing Sensitivity at Different PE		Value
Stock at 15x PE	15	22
Stock at 20x PE	20	29
Stock at 25x PE	25	37
Stock at 30x PE	30	44
Stock at 35x PE	35	51
Stock at 40x PE	40	58

Source: BASL Research, Dhaka Stock Exchange Ltd and Company Prospectus

As per relative valuation, the fair value of GENEXIL ranges from 22.0 to 36.0. And the last twelve months average price of Listed IT companies is 27.3.

Income Statements (Amount in BDT mn)				
Particulars	FY14	FY15	FY16	FY17
Revenue	336,800,823	487,501,146	574,640,931	699,581,499
Cost of goods sold	235,093,213	315,798,291	348,333,617	460,916,027
Gross profit	101,707,610	171,702,855	226,307,314	238,665,472
Operating expenses	42,855,037	45,606,800	50,998,189	126,795,163
Administrative Expenses	22,315,717	31,247,378	41,016,132	54,769,695
Selling and Distribution Expenses	294,385	372,664	876,403	2,174,716
Operating Profit	79,097,508	140,082,813	184,414,779	181,721,061
Financial Expenses	14,235,608	22,701,925	46,069,504	64,128,302
Non Operating Income	0	0	0	0
Other Income	0	0	0	0
Loss on Sale of Property, Plant & equipment	0	0	0	0
Loss on Sale of Investment in Shares	0	0	0	0
Profit Before Contribution to WPPF & Welfare Fund	64,861,900	117,380,888	138,345,275	117,592,759
Contribution to WPPF & Welfare Fund	-	-	-	-
Provision for workers' profit participation and welfare	0	-	6,587,870	5,599,655
Net Profit Before Tax	64,861,900	117,380,888	131,757,405	111,993,104
Income tax expenses	0	0	0	0
Current Tax				
Deffered Tax				
Net Profit after Tax	64,861,900	117,380,888	131,757,405	111,993,104
Restated Earnings Per Share (EPS)	0.79	1.44	1.61	1.37

Statement of Financial Position (Amount in BDT mn)				
Particulars	FY14	FY15	FY16	FY17
Assets:				
Non-Current Assets	61,407,761	207,865,153	841,122,741	1,362,562,203
Property, Plant & Equipment	42,580,378	82,182,852	410,060,791	1,068,495,629
Investment in Associate Progress	-	-	-	-
Intangible assets	18,827,383	125,682,301	232,170,664	207,898,583
Capital Work-In-Progress	-	-	96,962,173	85,967,991
Investment	-	-	101,929,113	200,000
Current Assets	312,309,870	410,278,488	555,363,680	400,804,749
Inventories	7,676,527	7,912,985	16,268,360	20,741,649
Trade and Other Receivables	0	0	0	0
Accounts Receivable	123,836,334	215,771,517	296,245,551	318,730,609
Advances, Deposits & Prepayments	179,193,844	186,014,426	212,965,552	36,336,995
Loan to Sister Concern	-	-	-	-
Cash & Cash Equivalents	1,603,165	579,560	29,884,217	24,995,496
Total Assets	373,717,631	618,143,641	1,396,486,421	1,763,366,952
Shareholders Equity & Liabilities:				
Shareholders' Equity	96,715,462	214,096,349	332,377,773	860,370,877
Share Capital	10,000,000	10,000,000	10,000,000	616,000,000
Other Comprehensive Income	-	-	-	-
Revaluation Surplus	0	0	0	0
Retained Earnings	86,715,462	204,096,349	322,384,342	244,370,211
Non-Controlling Interest	0	0	-6,569	666
Liabilities:				
Non-Current Liabilities	140,151,835	155,721,593	678,090,503	367,498,161
longTerm loan	29,851,835	45,421,593	224,864,516	367,498,161
Share Money deposit	110,300,000	110,300,000	453,225,987	-
Deffered Tax Liability	-	-	-	0
Current Liabilities	136,850,334	248,325,697	386,018,146	535,497,916
Accounts Payable and Other Payables	1,772,819	2,341,309	10,083,155	1,971,745
Accrued Expense	0	0	0	0
Provision & Accruals	22,319,766	32,630,408	37,111,286	50,346,037
Short term loan	97,830,029	194,984,787	328,801,714	466,513,467
Long term loan Current Portion	14,927,720	18,369,193	10,021,991	16,666,667
Liabilities for Expenses	0	0	0	0
Provision for tax Liabilities	0	0	0	0
Total Liabilities:	277,002,169	404,047,290	1,064,108,649	902,996,077
Total Shareholders' Equity & Liabilities:	373,717,631	618,143,639	1,396,486,422	1,763,366,954

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