Narnolia™

SIS (India) Ltd.

Industry	Consumer Services
Bloomberg	SECIS IN
BSE CODE	540673

Margins recovered post slack in H1FY19, Inorganic Growth to bolster topline in FY20

RATING	BUY
CMP	772
Price Target	1009
Potential Upside	31%

Rating Change	⟷
Estimate Change	↑
Target Change	⟷

3QFY19 Results Update

- SIS posted a strong revenue growth of 19.5% YoY to INR 1837cr in line with our expectation of INR 1858cr on the back of robust growth across all 3 segments.
- Security-India segment grew by 29.5% YoY to INR 725cr. Contribution from SLV acquisition (consolidated from September 2018) stood at INR 70cr.
- Security-Australia & Facility Management segments grew by 7.2% & 46.4% YoY respectively. Security-Australia continues to witness deal wins, contract retention & price increases post wage increase in Q2FY19. Facility Management crossed a monthly revenue run rate of INR 91cr in December 2018 on the back of minimum wage hike in Karnataka & railway cleaning contract wins. Contribution from Rare Hospitality acquisition (consolidated from November 2018) stood at INR 15cr.
- Cash Logistics Business (accounted using equity method) reported revenues of INR 79cr with EBITDA losses contained at INR 1cr as against INR 3.7cr in Q2FY19.
- EBITDA margin contracted by 15bps YoY to 5.3% (our expectation of 5.4%) in 3QFY19. However, margins recovered QoQ by 70bps after doubtful debt related provisioning (INR 7cr in Q1FY19) & one off expenses towards contract wins in H1FY19.
- PAT for the quarter stood at INR 59cr with a growth of 25.4% YoY (our expectation of INR 55cr) despite higher than expected interest cost as tax rate continued to be lower. (-2.9% in Q3FY19 as against 18.9% in Q3FY18, our expectation of 16.5%).

View and Valuation

SIS is on course to achieve its Vision 2020 of achieving No.1 position in Security-India, Cash Logistics & Facility Management segments. Going forward, we expect SIS to continue with its mid teens organic growth. Also, 4 acquisitions in FY19 (2 in Security-India, 1 in Facility Management & Henderson acquisition in Singapore market) are expected to take fuel the top line growth prospects going ahead (around INR 800cr annualized revenue in FY18). We incorporate Henderson acquisition in Singapore & thus, increase our estimates of revenue/EBITDA/PAT by 6.1%/9.2%/6.5% in FY20. Management believes that SIS can reach a market share of over 10% as against current 3% in the India security market in the long run. We expect SIS to deliver revenue, EBITDA and PAT to grow at 24.8%, 28.9% and 39.5% CAGR respectively over FY18-20e. We continue to maintain a BUY rating on the stock & keep the target price unchanged at INR 1009.

Key Risks to our rating and target

- Capital Allocation policy post levering of balance sheet to fund 4 acquisitions in FY19.
- Unrests among the manpower as it is a manpower intensive business and also certain operational risks as it provides private security to sensitive sectors.

Stock Info

52wk Range H/L	1398/707
Mkt Capital (Rs Cr)	5,662
Free float (%)	14%
Avg. Vol 1M (,000)	24
No. of Shares	7.33
Promoters Pledged %	0%

KEY FINANCIAL/VALUATIONS	FY16*	FY17*	FY18	FY19E	FY20E
Net Sales	3836	4567	5833	7153	9086
EBITDA	130	221	312	363	518
EBIT	87	175	256	298	450
PAT	43	91	162	204	315
EPS (Rs)	6	13	22	28	43
EPS growth (%)	-31%	109%	68%	26%	54%
ROE (%)	10%	17%	16%	17%	22%
ROCE (%)	10%	14%	16%	14%	20%
BV	66	79	140	162	197
P/B (X)	12.4	10.3	8.0	4.8	3.9
P/E (x)	129.4	61.8	50.6	27.8	18.0

* Based on Issue Price

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3Q FY19 Results

Margins back on track

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	**1,538**	**1,592**	**1,611**	**1,690**	**1,837**	*19.5%*	*8.7%*	**4,567**	**5,833**	*27.7%*
Other Income	4	5	6	5	4	*6.9%*	*-21.3%*	10	37	*264.2%*
COGS	12	14	12	14	17	*47.3%*	*19.6%*	16	36	*121.0%*
Employee Cost	1,233	1,284	1,327	1,383	1,478	*19.8%*	*6.9%*	3,789	4,766	*25.8%*
Other Expenses	208	208	197	214	244	*17.0%*	*13.7%*	541	719	*32.8%*
EBITDA	**84**	**87**	**74**	**78**	**98**	*16.0%*	*25.1%*	**221**	**312**	*41.4%*
EBITDA Margin	**5.5%**	**5.4%**	**4.6%**	**4.6%**	**5.3%**	*-0.2%*	*0.7%*	**4.8%**	**5.3%**	*0.5%*
Depreciation	12	18	13	16	18	*41.6%*	*10.7%*	46	56	*22.6%*
Interest	20	28	17	18	23	*14.1%*	*23.8%*	75	93	*23.5%*
Tax	10	3	6	0	(2)	*-117%*	*-521%*	22	24	*11.0%*
E/O Items	-	(1)	-	-	-			-	(1)	
MI/Associate & JV	1	(3)	(5)	(5)	(4)	*-568%*	*-19.2%*	1	(11)	*-1215%*
Net Profit	**47**	**33**	**40**	**44**	**59**	*25.4%*	*33.9%*	**91**	**162**	*78.8%*
PAT Margin	**3.1%**	**2.1%**	**2.5%**	**2.6%**	**3.2%**	*0.2%*	*0.6%*	**2.0%**	**2.8%**	*0.8%*

Robust Revenue Growth across all revenue streams

The company reported a healthy revenue growth of 19.5% YoY at INR 1837 cr in 3QFY19. This robust growth was supported by strong revenue growth across all 3 segments. Security-India segment grew by 29.5% YoY to INR 725cr. Contribution from SLV acquisition (consolidated from September 2018) stood at INR 70cr. Security-Australia & Facility Management segments grew by 7.2% & 46.4% YoY respectively. Security-Australia continues to witness deal wins, contract retention & price increases post wage increase in Q2FY19. Facility Management crossed a monthly revenue run rate of INR 91cr in December 2018 on the back of minimum wage hike in Karnataka & railway cleaning contract wins. Contribution from Rare Hospitality acquisition (consolidated from November 2018) stood at INR 15cr.

EBITDA margins expanded QoQ by 70bps to 5.3%

Overall EBITDA margin expanded by 70bps QoQ but contracted by 15bps YoY to 5.3% in Q3FY19 (our expectation of 5.4%). On a segmental basis, Security-India, Security-Australia & Facility Management reported EBITDA margins of 5.8%, 4.6% & 6.6%. Margin recovery in Q3FY19 is after doubtful debt related provisioning (INR 7cr in Q1FY19) & one off expenses towards contract wins in H1FY19.

PAT growth of 25.4% YoY despite a spike in finance cost as tax rates continue to be lower

PAT for the quarter stood at INR 59cr (our expectation of INR 55cr) despite higher than expected interest cost as tax rate continued to be lower (-2.9% in Q3FY19 as against 18.9% in Q3FY18, our expectation of 16.5%). Management has lowered its tax rate guidance from 13% earlier for FY19. PAT margin expanded by 10 bps YoY & 60 bps QoQ to 3.2%.

Concall Highlights

- DTSS saw over 30% YoY growth on back of good clients wins, strong MW hike in Karnataka and became zero debt. Erstwhile management to take an exit in August 2019 & in turn will increase SIS's stake to 100% from 85% in FY18. SMC also posted strong growth of 50% YoY with sound contract flow and railway cleaning contract wins.
- Uniq & Henderson acquisition are likely to be consolidated from February & March 2019 respectively.
- Facility Management opportunity in India is pretty big considering that FM spends per sq ft are generally 3x of security spend but revenues of largest FM company is 1/3rd of largest Security services company.
- Tax Rate to be in single digits as against 13% guided earlier for FY19.
- $10 billion security market in India currently has around 15,000 license holders. Out of these, only 2 companies, SIS & G4S have revenues more than INR 2000cr. Management believes that SIS can reach a market share of over 10% as against current 3% in the long run. Market leaders in developed markets of US, UK have more than a 20% market share. SIS through its Australia business (MSS) also has around 20% market share.
- Net Debt on the books as of December 31, 2018 stood at INR 468cr, acquisition funding for Henderson would be in addition to the same. Interest cost was high this quarter on the back of liability towards fair value of call & put options towards acquisitions.
- SIS aspires to transform from being a pure service company to a total solutions company as it ventures into allied & complimentary services.

Concall Highlights for Henderson Acquisition

- SIS acquires an initial 60% stake in Henderson Security Services Pte. Ltd (“HSS”) and Henderson Technologies Pte Ltd (“HT”) (Security service provider) through SIS Group International Holdings Pty Ltd., a wholly owned subsidiary of the Company at an interim consideration of SGD 43mn in cash. The balance 40% to be acquired between October 2020 and April 2024 based on agreements entered into. HSS & HT have clocked in revenues of SGD 51.9mn & SGD 6.1mn respectively in FY17. Both the companies together have over 1500 employees operating at over 200 sites. The acquisition will give the Company an entry into the Singapore market and this would help the Company to expand its presence in the Asia Pacific region. Transaction is expected to close by February 2019.
- This acquisition makes SIS the 3rd largest & fastest growing security company in Singapore with 3 year revenue CAGR of 14%, 2.5 times Singapore Industry growth.
- With this acquisition, SIS has entered the list of Top 10 security companies in the world & is the fastest growing security company among the large companies.
- No. 1 player in Singapore is 5 times larger than Henderson which continues to provide sufficient headroom for growth. Henderson is larger than Securitas & G4S operations in Singapore.
- Henderson operates in 3 key segments viz. Condominiums, public transport & high rise corporate towers with 10% of the total revenue coming from electronic security type solutions.'
- Henderson currently has a Grade A license (renewed annually) since last 10 years in Singapore which enables company to be eligible for larger number of potential orders.
- A key footprint in Singapore will help to finalize large contracts across Australia & India markets as large number of global corporate houses have their head offices in Singapore.
- EBITDA margins of Henderson are 11-12% over the last 2 years with a debt free balance sheet & cash of SGD 4.5mn. OCF/EBITDA is close to 75% for this acquisition.
- Deal is funded through 100% debt from the Australian books through National Australian Bank at a cost of 5-5.5%, structured in a manner that there will be no hedging risk between SGD & AUD.
- First 60% is acquired at 11x P/E. The remaining 40% would be acquired over a period of 3-5 years through a performance ratchet linked to EBITDA CAGR.
- If the performance targets are met by the existing management, the balance 40% would be acquired at a premium (which marks as an incentive for existing management). The balance consideration is linked in such a way that if the performance targets are met, SIS will generate an IRR in excess of its internal threshold of 21-22%. On the flip side, if management falls short of the targets, consideration would be such that IRR of 21-22% is maintained.
- Management has reiterated its focus on 20% YoY revenue growth, 25% ROCE & 50% OCF/EBITDA going forward as well.

Exhibit: Net sales (Rs. Crore) and Sales Growth trend

Growth rates have normalized after SXP acquisition in Q2FY18, FY20 pipeline fuelled by 4 acquisitions in FY19

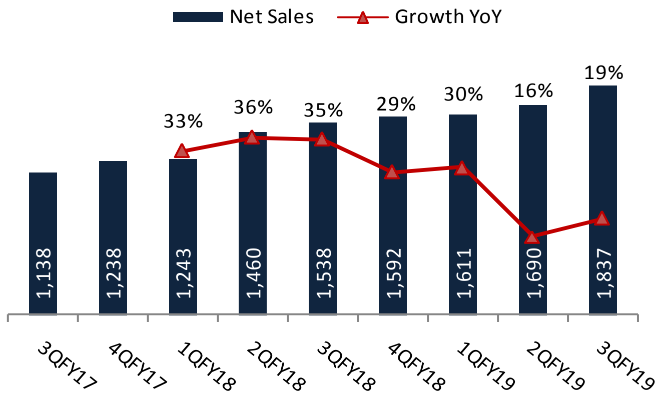


Exhibit: Trend in Segmental Revenue

Contribution of Facilitiy Management to the Revenue has gone up from 11.7% in 3QFY17 to 13.6% in 3QFY19

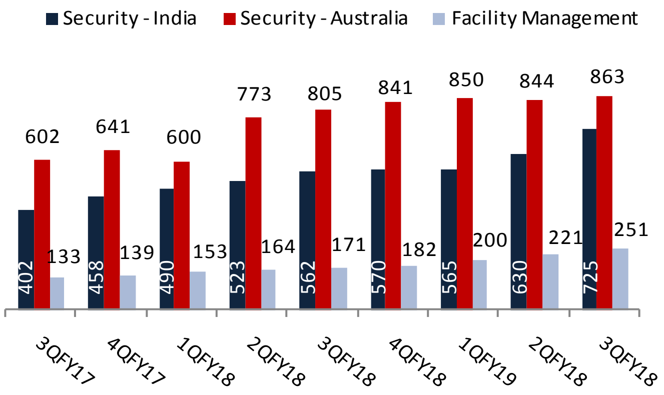


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Margins recovered post slack in H1FY19, driven by price revisions & MW hike

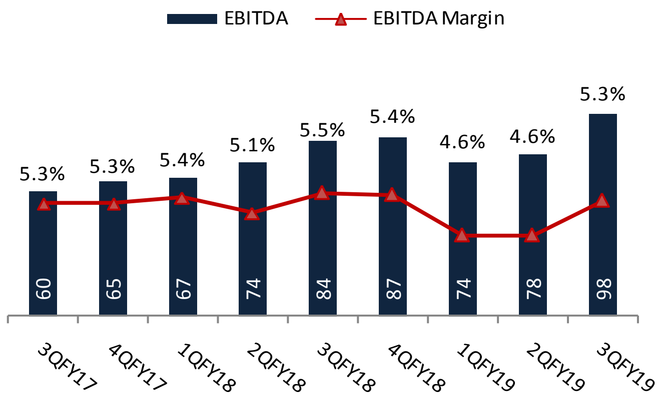


Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT margin improved QoQ despite higher finance cost as margins improved & tax rates continued to be low

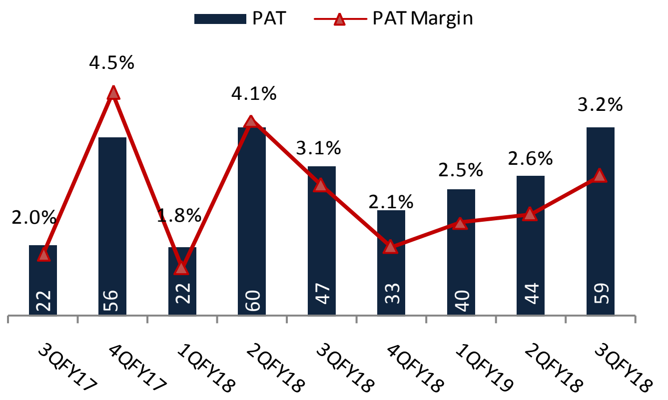


Exhibit: Debt Equity Ratio

Despite 4 acquisitions in FY19, D/E ratio will continue to be below 1

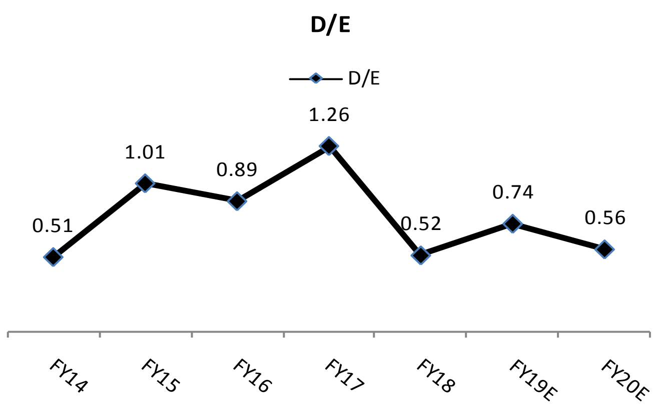
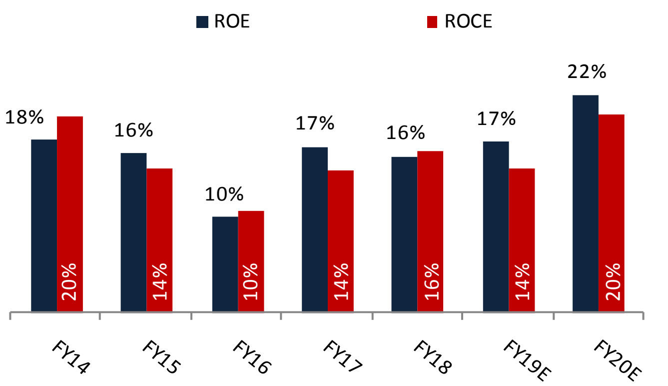


Exhibit: Return Ratios

Return ratios to improve going ahead as the profitability improves



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	6	6	6	69	73	73	73
Reserves	*386*	*385*	*444*	*474*	*955*	*1,115*	*1,370*
Networth	**392**	**392**	**450**	**543**	**1,028**	**1,188**	**1,443**
Debt	200	395	400	685	536	874	811
Other Non Current Liab	75	55	67	76	361	387	387
Total Capital Employed	***667***	***842***	***917***	***1,305***	***1,925***	***2,449***	***2,641***
Net Fixed Assets (incl CWIP)	137	137	137	172	253	300	329
Non Current Investments	*11*	*10*	*12*	*20*	*92*	*188*	*174*
Other Non Current Assets	172	252	233	358	638	784	784
Non Current Assets	**321**	**399**	**383**	**549**	**983**	**1,272**	**1,287**
Inventory	5	7	1	4	14	11	14
Debtors	253	312	289	462	624	705	896
Cash & Bank	297	374	349	451	543	660	639
Other Current Assets	270	360	440	582	607	745	946
Current Assets	**826**	**1,053**	**1,080**	**1,499**	**1,788**	**2,121**	**2,494**
Creditors	29	43	33	47	81	70	90
Provisions	156	164	201	223	219	219	219
Other Current Liabilities	258	321	309	460	546	655	832
Curr Liabilities	**443**	**528**	**543**	**729**	**845**	**944**	**1,140**
Net Current Assets	382	525	536	770	944	1,177	1,354
Total Assets	**1,146**	**1,452**	**1,462**	**2,048**	**2,772**	**3,394**	**3,781**

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	**3,098**	**3,551**	**3,836**	**4,567**	**5,833**	**7,153**	**9,086**
Change (%)		14.6%	8.0%	19.1%	27.7%	22.6%	27.0%
Other Income	10	15	14	10	37	19	21
EBITDA	**148**	**159**	**130**	**221**	**312**	**363**	**518**
Change (%)		7.8%	-18.4%	69.8%	41.4%	16.4%	42.8%
Margin (%)	**4.8%**	**4.5%**	**3.4%**	**4.8%**	**5.3%**	**5.1%**	**5.7%**
Depr & Amor.	30	45	43	46	56	65	68
EBIT	117	114	87	175	256	298	450
Int. & other fin. Cost	26	48	52	75	93	85	102
EBT	**102**	**81**	**48**	**110**	**200**	**232**	**370**
Exp Item- Gain/(Loss)	-	-	11	-	(1)	-	-
Tax	37	33	19	22	24	12	41
Minority Int & P/L share of Ass.	(2)	(13)	(0)	1	(11)	(18)	(15)
Reported PAT	**69**	**63**	**43**	**91**	**162**	**204**	**315**
Change (%)		-8.8%	-30.9%	109.3%	78.8%	25.9%	54.5%
Margin(%)	**2.2%**	**1.8%**	**1.1%**	**2.0%**	**2.8%**	**2.9%**	**3.5%**

Financial Details

Key Ratios

Y/E March	FY14*	FY15*	FY16*	FY17*	FY18	FY19E	FY20E
ROE	17.5%	16.0%	9.6%	16.7%	15.8%	17.2%	21.8%
ROCE	19.8%	14.5%	10.2%	14.2%	16.4%	14.5%	20.0%
Asset Turnover	2.7	2.4	2.6	2.2	2.1	2.1	2.4
Debtor Days	30	29	29	30	34	36	36
Inv Days	1	1	0	0	1	1	1
Payable Days	3	4	4	3	4	4	4
Int Coverage	5	2	2	2	3	4	4
P/E	82	89	129	62	51	28	18
Price / Book Value	14.3	14.3	12.4	10.3	8.0	4.8	3.9
EV/EBITDA	37.5	35.9	43.7	26.4	26.0	15.6	10.9

* Based on Issue Price

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	102	82	50	112	188	232	370
(inc)/Dec in Working Capital	(34)	(52)	(46)	(76)	(26)	(195)	(199)
Non Cash Op Exp	45	67	90	77	58	64	68
Int Paid (+)	24	46	50	72	77	85	102
Tax Paid	(48)	(57)	(56)	(78)	(71)	(53)	(41)
others	(9)	(14)	(15)	(12)	(11)	(19)	(21)
CF from Op. Activities	**80**	**71**	**73**	**94**	**216**	**114**	**279**
(inc)/Dec in FA & CWIP	(53)	(46)	(67)	(65)	(52)	(112)	(97)
Free Cashflow	27	25	5	30	164	2	182
(Pur)/Sale of Inv	(0)	(72)	3	(152)	(76)	(113)	-
others	11	8	13	11	11	19	21
CF from Inv. Activities	**(42)**	**(110)**	**(51)**	**(206)**	**(116)**	**(206)**	**(76)**
inc/(dec) in NW	16	5	(2)	0	341	-	-
inc/(dec) in Debt	26	217	18	295	(136)	338	(63)
Int. Paid	(24)	(46)	(52)	(72)	(88)	(85)	(102)
Div Paid (inc tax)	(20)	(18)	(27)	(4)	(17)	(43)	(60)
others	10	(7)	(1)	2	(0)	-	-
CF from Fin. Activities	**7**	**152**	**(64)**	**222**	**99**	**210**	**(225)**
Inc(Dec) in Cash	45	113	(42)	110	199	118	(22)
Add: Opening Balance	**253**	**297**	**374**	**349**	**349**	**543**	**660**
Add: Forex and Other Adjustments	(1)	(35)	17	(9)	(5)	-	-
Closing Balance	**297**	**374**	**349**	**451**	**543**	**660**	**639**

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

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