



Industry	Consumer Services
Bloomberg	SECIS IN
BSE CODE	540673

Exit EBITDA margins at an all time high, on course to achieve VISION 2020

RATING	BUY
CMP	924
Price Target	1100
Potential Upside	19%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	1390/707
Mkt Capital (Rs Cr)	6,773
Free float (%)	14%
Avg. Vol 1M (,000)	40
No. of Shares (Cr)	7.33
Promoters Pledged %	0%

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4QFY19 Result Update

- ❑ SIS posted a strong revenue growth of 22.8% YoY to INR 1955cr as against our expectation of INR 2020cr, driven by an organic growth of 13.6%.
- ❑ Security-India segment ended the year with a monthly runrate of INR 267cr, making SIS the largest security company in India. The segment grew by 36.7% YoY to INR 779cr, with an organic growth of 20.3%.
- ❑ Security-International & Facility Management segments grew by 7.3% & 52.5% YoY respectively. With the newly acquired Henderson & P4G consolidated for only 1 month in FY19, Security-International segment is expected to witness higher revenue growth along with margin expansion as Henderson operates at 11% margins as against FY19 margins of 4.4%. Facility Management segment ended the year at No.2 position with INR 235cr organic increase in revenues.
- ❑ Cash Logistics Business (accounted using equity method) reported revenues of INR 77cr with a 4 fold rise in EBITDA at INR 9.4cr.
- ❑ SIS exited FY19 with highest ever quarterly EBITDA margin of 5.9% as against 5.3% in Q3FY19 and 5.4% in Q4FY18 (our expectation of 5.6%). On a full year basis, margins contracted by 20bps as Security-India segment margins contracted due to provisioning in Q1FY19 (INR 7cr) & one off expenses towards contract wins in Q2FY19 (INR 5.7cr).
- ❑ PAT for the quarter stood at INR 73cr with a growth of 118% YoY (our expectation of INR 61cr) despite higher than expected interest cost as tax rate continued to be lower. (-2.3% in FY19 as against 12.2% in FY18).

View and Valuation

Post the market leadership in Security-India Business, SIS is on course to achieve its Vision 2020 of achieving No.1 position in Cash Logistics & Facility Management segments. We expect SIS to take advantage of the recent woes at global leader and garner additional market share. For FY20, we expect SIS to outpace its FY19 growth of 22% driven by mid teen organic growth and 1st full year of consolidation of 5 acquired entities. Margins are expected to rebound sharply in FY20 as contribution of higher margin India business increases going forward (from 35% in FY16 to 51.4% in FY19 & further to 53.4% in FY20) and consolidation of Henderson. Management believes that SIS can reach a market share of over 10% as against current 4/3% in the Security-India/Facility Management business in the long run. We expect SIS to deliver revenue, EBITDA and PAT to grow at 27%, 43% and 49.5% in FY20e. We continue to maintain a BUY rating on the stock with a target price of INR 1100 (25x FY20e EPS).

Key Risks to our rating and target

- ❑ Margin pressure due to federal wage hike.
- ❑ Hiccups in integration of newly acquired entities.

KEY FINANCIAL/VALUATIONS	FY16*	FY17*	FY18	FY19	FY20E
Net Sales	3836	4567	5833	7093	9007
EBITDA	130	221	312	365	522
EBIT	87	175	256	299	449
PAT	43	91	162	216	323
EPS (Rs)	6	13	22	29	44
EPS growth (%)	-31%	109%	68%	33%	50%
ROE (%)	10%	17%	16%	17%	21%
ROCE (%)	10%	14%	16%	14%	18%
BV	66	79	140	170	210
P/B (X)	12.4	10.3	8.0	5.0	4.4
P/E (x)	129.4	61.8	50.6	29.1	21.0

* Based on Issue Price

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4QFY19 Results

Robust Performance

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,592	1,611	1,690	1,837	1,955	22.8%	6.4%	5,833	7,093	21.6%
Other Income	5	6	5	4	3	-41.6%	-27.6%	37	18	-51.6%
COGS	14	12	14	17	19	38.0%	9.5%	36	63	72.7%
Employee Cost	1,284	1,327	1,383	1,478	1,569	22.2%	6.1%	4,766	5,757	20.8%
Other Expenses	208	197	214	244	253	21.3%	3.6%	719	908	26.3%
EBITDA	87	74	78	98	115	32.6%	17.4%	312	365	17.0%
EBITDA Margin	5.4%	4.6%	4.6%	5.3%	5.9%	0.4%	0.5%	5.3%	5.1%	-0.2%
Depreciation	18	13	16	18	19	4.4%	8.1%	56	66	17.8%
Interest	28	17	18	23	36	28.9%	56.2%	93	94	1.4%
Tax	3	6	0	(2)	(10)	-440%	469%	24	(5)	-121.1%
E/O Items	(1)	-	-	-	-			(1)	-	
MI/Associate & JV	(3)	(5)	(5)	(4)	(1)	68%	77.1%	(11)	(15)	-36%
Net Profit	33	40	44	59	73	117.8%	22.8%	162	216	33.2%
PAT Margin	2.1%	2.5%	2.6%	3.2%	3.7%	1.6%	0.5%	2.8%	3.0%	0.3%

Robust Revenue Growth across all revenue streams

The company reported a healthy revenue growth of 22.8% YoY at INR 1955cr in 4QFY19. This robust growth was supported by strong revenue growth across all 3 segments.

Security-India segment grew by 36.7% YoY to INR 779cr, with an organic growth of 20.3%. Total Contribution from SLV (consolidated from September 2018) and Uniq (consolidated from February 2019) stood at INR 93cr. The segment ended the year with a monthly runrate of INR 267cr, making SIS the largest security company in India.

Security-International segment grew by 7.3% YoY to INR 903cr with a full year growth of 14.6% (2-3x growth of Australia security market). Henderson & P4G (both consolidated for 1 month) have added annualized revenue of AUD 70mn.

Facility Management segment grew 52.5% YoY to INR 277cr, with Rare Hospitality contributing around INR 24cr this quarter. Contribution of company's newly introduced TFM initiative has increased to 6% in FY19. With a strong organic increase of revenues (INR 235cr) in FY19, SIS ended the year at No.2 in India.

Cash Logistics Business (accounted using equity method) reported revenues of INR 77cr with a 4 fold rise in EBITDA at INR 9.4cr.

Highest ever quarterly EBITDA margins at 5.9%

SIS exited FY19 with highest ever quarterly EBITDA margin of 5.9% as against 5.3% in Q3FY19 and 5.4% in Q4FY18.

Security-India segment margins recovered to 6.3% in Q4FY19 as against 5.3% in 9MFY19 (due to one off provisioning & training costs of INR 12.7cr in H1FY19).

Security-International segment margins improved to 5.2% in Q4FY19 as against 4.6% in the base quarter due to consolidation of higher margin acquisitions for the first time (1 month). For the full year, margins improved by 10bps to 4.4% despite steep federal wage hike.

Facility Management segment margins improved from 5.1% to 6.8% in FY19 as significant amount of operating leverage is kicking in. Management believes that Facility Management margins are expected to be remain in 7-9% range going forward.

As contribution from higher margin India business increases going forward, blended margins are expected to continue witness an uptick. Also, recently acquired Henderson (11%) has far superior margins than Security-International segment (4.4%).

More than double PAT growth YoY despite a spike in finance cost as tax rate continues to be lower

PAT for the quarter stood at INR 73cr with a 118% growth YoY. This is primarily on the back of higher EBITDA margins and lower tax rates. Interest cost increased from INR 28cr in Q4FY18 to INR 36cr in Q4FY19. For the full year, interest cost remained largely constant despite acquisition borrowings & utilization of existing working capital lines as company utilized INR 200cr IPO proceeds to repay borrowings in FY18. SIS continues to benefit from lower tax rate due to Section 80JJAA benefit. On a full year basis, tax rate for FY19 stood at -2.3% as against 12.2% in FY18. Q4FY19 tax rate was at -16.1% due to some catch effect of benefits.

Highlights from Investor & Analyst Meet:

Security-India

- Revenues grew by 36.7% YoY to INR 779cr, with an organic growth of 20.3%. EBITDA grew by 32% YoY to INR 49cr. EBITDA margins stood at 6.3% as against 5.3% in 9MFY19.
- Ended the year at a monthly revenue run rate of INR 267cr, which makes SIS the largest security company in India.
- Average revenue per branch has increased from INR 10.3cr in FY17 to INR 13.5cr in FY18 & further to INR 16cr in FY19. This is expected to bring in operating leverage into play going forward.
- Contribution of company's Mantech initiatives has increased from 3% in FY18 to 6% in FY19.
- SIS currently has a market share of ~4%, with management eyeing a market share of 10% in the medium term. 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.
- Currently, India security is INR 65,000cr market & is slated to grow at 18-20% annually. Industry has over 21,000 security agencies which is expected to witness consolidation over 4-5 years.
- Security market global/Asia Pacific have grown from \$80 bn in 2013 to \$ 168/47 bn in 2017. By 2025, it is expected to grow to \$227/80 bn within which India is expected to be a \$ 20bn market. Also, Indian security market is expected to witness an increase in share of organized players from 40% in FY19 to 60% in FY25.

Security-Australia

- Revenues grew by 7.3% YoY to INR 903cr, with newly acquired Henderson & P4G consolidated for only 1 month. EBITDA grew by 21.2% YoY to INR 47cr. EBITDA margins stood at 5.2% as against 4.6% in Q4FY18. This is primarily due to consolidation of higher margins business (11.5% margins for Henderson).
- MSS & SXP are now present at 20 of the 30 regional airports providing a combination of security & cleaning services.
- Australia Security market is expected to grow at 5% going forward, despite some pressure due to steep wage hike in FY19.
- Henderson & P4G acquisitions have paved the way for SIS to win more of global contracts due to their presence in strategic locations of Singapore & New Zealand. The former being a focal point of global corporates. These acquisitions have added annualized revenue of AUD 70mn.
- Australia business generated a free cash flow of AUD 27.3mn.

Facility Management

- Revenues grew by 52.5% YoY to INR 277cr, Rare Hospitality contributed to around INR 24cr this quarter. EBITDA grew by 78.9% YoY to INR 19cr. EBITDA margins improved from 5.1% in FY18 to 6.8% in FY19.
- With INR 235cr of organic increase in revenues in FY19, SIS ended the year at No.2 in India.
- Terminix (a JV of SIS) has achieved a monthly breakeven & is operating at 50% gross margins.
- Contribution of company's newly introduced TFM initiative has increased to 6% in FY19.
- Company is looking to increase its service offerings to Airports. (out of the 20 FM services at Airports, SIS currently caters to only 2-3).
- SIS currently has a market share of ~3%, but opportunity for FM in India is pretty large as FM spends per sq ft are generally 3x of security spend but revenues of largest FM company is 1/2 of largest Security services company.
- Currently, FM industry is expected to grow at 18-20% with SIS slated to double the industry growth. Within this, Railways has emerged as an annualized INR 2,500cr opportunity.

Cash Logistics

- Full year revenues declined by 8% YoY to INR 287cr as company gave up unprofitable routes, with EBITDA at INR 1.7cr in FY19 as against INR 4.5r in FY18.
- To bring in stability in revenue & margins going forward, SIS has consciously changed its mix from 47% non ATM business in April 2017 to 65% currently.
- Cash Logistics industry is poised to witness consolidation post RBI regulations which will drive out inefficient & smaller players.
- DSB revenue per pickup has grown from INR 3,932 in October '16 to INR 5,463 in March '19.
- SIS, currently has a market share of 14% as against CMS, the market leader at 30-34%.

M&A for FY20

- Company is looking to beef up its presence in the key micro markets across security, FM & cash logistics verticals. Within this, SIS is targeting the western region in particular.
- With 1.1 times Net debt to EBITDA (Full year consolidation of acquisitions in FY20), management is willing to look for strategic targets as debt levels are within comfortable levels. Target Net debt to EBITDA is 2.
- Net Debt on the books as of FY19 stood at INR 400cr.

Exhibit: Net sales (Rs. Crore) and Sales Growth trend
Organic revenue growth of 13.6%. FY20 to be first full year of consolidation for 5 acquisitions.

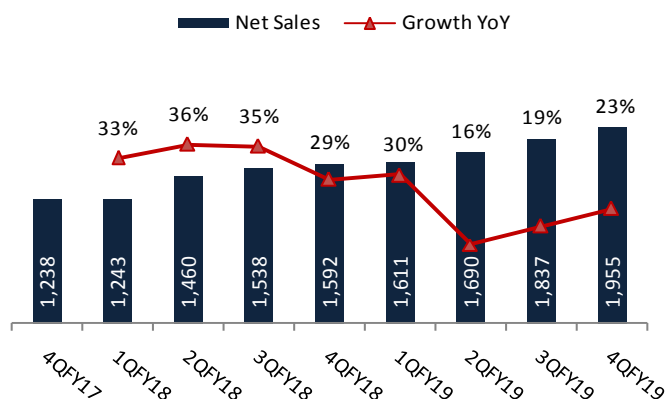


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend
Exited FY19 with highest ever quarterly margins

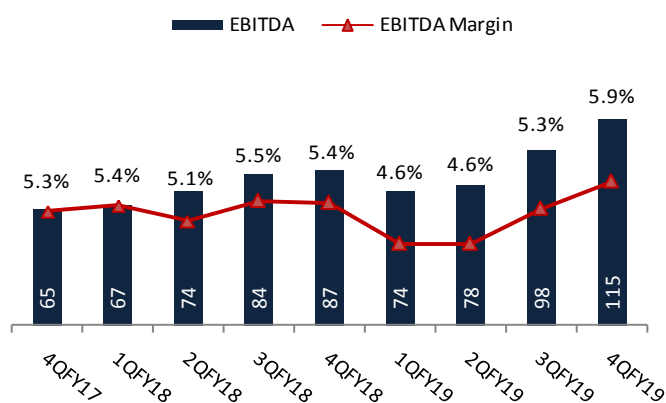


Exhibit: Debt Equity Ratio
Despite 5 acquisitions in FY19, D/E ratio continues to be below 1. Net Debt : EBITDA at 1.1.

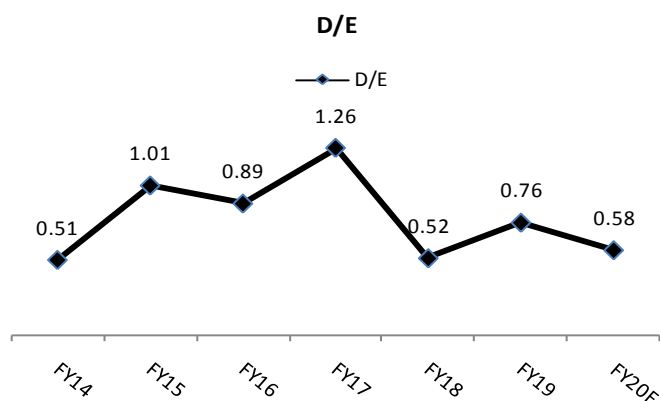


Exhibit: Trend in Segmental Revenue
Contribution of higher margin India business has gone up from 45.4% in FY17 to 51.3% in FY19

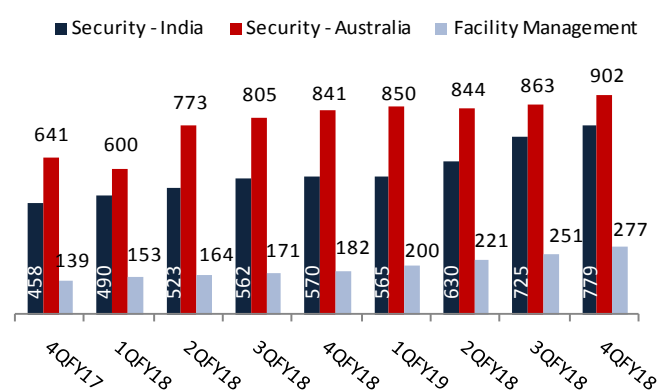


Exhibit: PAT (Rs. Crore) and PAT Margin trend
PAT margin improved YoY & QoQ despite higher finance cost as margins improved & tax rates remained low

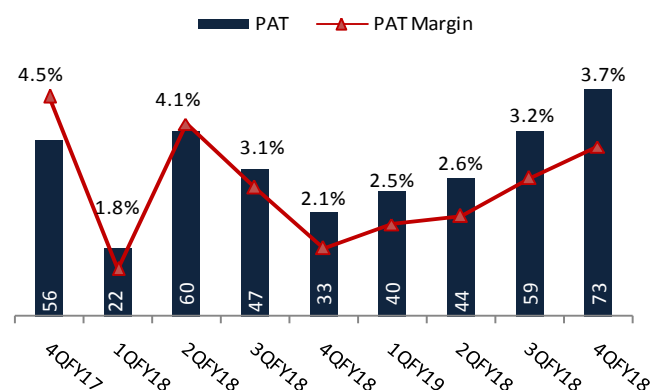
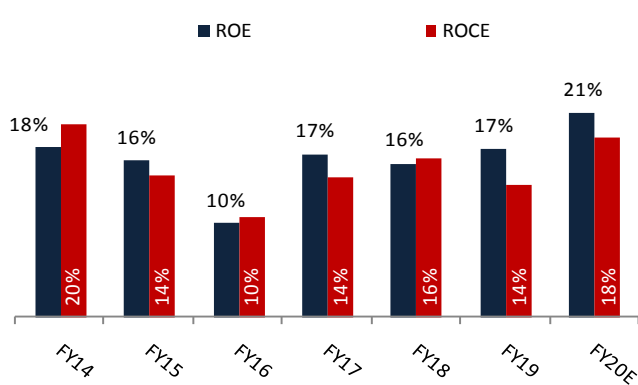


Exhibit: Return Ratios
Return ratios to improve going ahead as the profitability improves



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Equity Share Capital ²	6	6	6	69	73	73	73
Reserves	386	385	444	474	955	1,177	1,469
Networth	392	392	450	543	1,028	1,250	1,543
Debt	200	395	400	685	536	950	887
Other Non Current Liab	75	55	67	76	361	930	853
Total Capital Employed	667	842	917	1,305	1,925	3,130	3,283
Net Fixed Assets (incl CWIP)	137	137	137	172	253	355	430
Non Current Investments	11	10	12	20	92	115	115
Other Non Current Assets	172	252	233	358	638	1,641	1,641
Non Current Assets	321	399	383	549	983	2,111	2,186
Inventory	5	7	1	4	14	25	25
Debtors	253	312	289	462	624	953	1,001
Cash & Bank	297	374	349	451	543	543	580
Other Current Assets	270	360	440	582	607	592	751
Current Assets	826	1,053	1,080	1,499	1,788	2,114	2,357
Creditors	29	43	33	47	81	66	93
Provisions	156	164	201	223	219	241	241
Other Current Liabilities	258	321	309	460	546	786	927
Curr Liabilities	443	528	543	729	845	1,094	1,261
Net Current Assets	382	525	536	770	944	1,020	1,096
Total Assets	1,146	1,452	1,462	2,048	2,772	4,224	4,544

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	3,098	3,551	3,836	4,567	5,833	7,093	9,007
<i>Change (%)</i>		14.6%	8.0%	19.1%	27.7%	21.6%	27.0%
Other Income	10	15	14	10	37	18	19
EBITDA	148	159	130	221	312	365	522
<i>Change (%)</i>		7.8%	-18.4%	69.8%	41.4%	17.0%	43.0%
Margin (%)	4.8%	4.5%	3.4%	4.8%	5.3%	5.1%	5.8%
Depr & Amor.	30	45	43	46	56	66	73
EBIT	117	114	87	175	256	299	449
Int. & other fin. Cost	26	48	52	75	93	94	92
EBT	102	81	48	110	200	223	376
Exp Item- Gain/(Loss)	-	-	11	-	(1)	-	-
Tax	37	33	19	22	24	(5)	41
Minority Int & P/L share of Ass.	4	15	4	2	(13)	(12)	(12)
Reported PAT	69	63	43	91	162	216	323
<i>Change (%)</i>		-8.8%	-30.9%	109.3%	78.8%	33.2%	49.5%
Margin(%)	2.2%	1.8%	1.1%	2.0%	2.8%	3.0%	3.6%

Financial Details

Key Ratios

Y/E March	FY14*	FY15*	FY16*	FY17*	FY18	FY19	FY20E
ROE	17.5%	16.0%	9.6%	16.7%	15.8%	17.3%	20.9%
ROCE	19.8%	14.5%	10.2%	14.2%	16.4%	13.6%	18.5%
Asset Turnover	2.7	2.4	2.6	2.2	2.1	1.7	2.0
Debtor Days	30	29	29	30	34	41	41
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	3	5
P/E	82	89	129	62	51	29	21
Price / Book Value	14.3	14.3	12.4	10.3	8.0	5.0	4.4
EV/EBITDA	37.4	35.7	43.4	26.4	26.0	18.0	13.3

* Based on Issue Price

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	102	82	50	112	188	210	363
(inc)/Dec in Working Capital	(34)	(52)	(46)	(76)	(26)	(30)	(116)
Non Cash Op Exp	45	67	90	77	58	31	73
Int Paid (+)	24	46	50	72	77	94	92
Tax Paid	(48)	(57)	(56)	(78)	(71)	(105)	(41)
others	(9)	(14)	(15)	(12)	(11)	(18)	(19)
CF from Op. Activities	80	71	73	94	216	182	351
(inc)/Dec in FA & CWIP	(53)	(46)	(67)	(65)	(52)	(167)	(149)
Free Cashflow	27	25	5	30	164	14	202
(Pur)/Sale of Inv	(0)	(72)	3	(152)	(76)	(372)	-
others	11	8	13	11	11	18	19
CF from Inv. Activities	(42)	(110)	(51)	(206)	(116)	(522)	(130)
inc/(dec) in NW	16	5	(2)	0	341	-	-
inc/(dec) in Debt	26	217	18	295	(136)	465	(62)
Int. Paid	(24)	(46)	(52)	(72)	(88)	(94)	(92)
Div Paid (inc tax)	(20)	(18)	(27)	(4)	(17)	(30)	(30)
others	10	(7)	(1)	2	(0)	-	-
CF from Fin. Activities	7	152	(64)	222	99	341	(184)
Inc(Dec) in Cash	45	113	(42)	110	199	0	37
Add: Opening Balance	253	297	374	349	349	543	543
Add: Forex and Other Adjustments	(1)	(35)	17	(9)	(5)	-	-
Closing Balance	297	374	349	451	543	543	580

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