

Industry
Bloomberg
BSE CODE

Consumer Services
SECIS IN
540673

Integration of acquired companies will drive the growth going ahead

RATING	NEUTRAL
CMP	908
Price Target	900
Potential Upside	-1%

Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	994/702
Mkt Capital (Rs Cr)	6,587
Free float (%)	14%
Avg. Vol 1M (,000)	15
No. of Shares (Crs)	7.30
Promoters Pledged %	0%

2QFY20 Result update

- SIS reported a revenue growth of Rs. 2089 Cr. (vs our estimate of Rs. 2195 Cr.) largely driven by organic growth and inorganic growth in Security services – India and Facility management services.
- Organic growth in Security services – India and Facility management services is 24% and 31.5% YoY respectively. However, Organic growth in Security services – International business de-grew by 2.3% YoY.
- The in-organic growth in revenue from Security Service – India and Facility Management services are 39.1% and 41.8% YoY respectively.
- Security services Australia business revenue decline in 2QFY20 mainly due to impact of one-off events managed by SXP in Q1 FY20.
- EBITDA margins during the quarter 5.9% reduced by 30bps on QoQ basis due to decline in margins of Security services – India and Australia business.
- Reduction in margins of Security services – India business and Australia business was on account of the annual salary increment for back office staff in India and the federal minimum wage hikes in Australia which take time to get passed on.
- PAT during the quarter stood at Rs. 76 Cr. on account of deferred tax benefit received in 2QFY20.
- Management is focusing towards integration of the acquisitions done by the company and in FY20 no further expansions will take place. However, in FY21 management expects some expansions particularly in India.

View and Valuation

SIS in 2QFY20 continues to outperform with the revenue growth of 23.6% along with the integration of 5 acquisitions done by the company in FY19. Management expects the same growth rate of higher double digit going ahead. Strong focus on cost and operating leverage across segment will help to maintain the overall margins in the range of 6-6.5%. Qantas business will be discontinuing from the coming quarter due to certain change in norms in Australia, which will impact the aviation business revenue (currently, at 12-15% of Australian revenue). Going forward, we expect to maintain a NEUTRAL rating on the stock with a target price of Rs. 900 (10x FY21e EV/EBITDA).

Key Risks to our rating and target

- Margin pressure due to wage hike.
- Integration of newly acquired entities.

RESEARCH ANALYST

AYUSHI RATHI

ayushi.rathi@narnolia.com

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17*	FY18	FY19	FY20E	FY21E
Net Sales	4,567	5,833	7,093	8,662	9,894
EBITDA	221	312	365	532	622
EBIT	175	256	299	407	492
PAT	91	162	216	363	292
EPS (Rs)	13	22	30	50	40
EPS growth (%)	109	68	33	68	(19)
ROE (%)	17	16	17	23	16
ROCE (%)	14	16	14	16	17
BV	79	140	171	213	248
P/B (X)	10	8	5	4	4
P/E (x)	62	51	29	18	22

* Based on Issue Price

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Robust Performance

2QFY20 Results

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,690	1,837	1,955	2,008	2,089	24%	4%	5,833	7,093	22%
Other Income	5	4	3	0	(2)	-142%	-1307%	37	18	-51%
COGS	14	17	19	18	20	40%	11%	36	63	73%
Employee Cost	1,383	1,478	1,569	1,642	1,709	24%	4%	4,766	5,757	21%
Other Expenses	214	244	253	223	236	10%	6%	719	908	26%
EBITDA	78	98	115	125	124	58%	-1%	312	365	17%
EBITDA Margin	4.6%	5.3%	5.9%	6.2%	5.9%	28%	-5%	5.3%	5.1%	-4%
Depreciation	16	18	19	29	33	104%	11%	56	66	18%
Interest	18	23	36	37	38	105%	2%	93	94	1%
Tax	0	(2)	(10)	(19)	(25)	-5987%	32%	24	(5)	-121%
E/O Items	-	-	-	-	-	0%	0%	(1)	-	-100%
MI/Associate & JV	(5)	(4)	(1)	(2)	0	-101%	-102%	(11)	(15)	36%
Net Profit	44	59	73	75	76	72%	2%	162	216	33%
PAT Margin	2.6%	3.2%	3.7%	3.7%	3.6%	40%	-2%	2.8%	3.0%	10%

Security Services- India Business

Revenue from Security services- India business stood at Rs. 879 Cr. in 2QFY20 with an organic and in-organic growth of 24% and 39.5% YoY. The acquired SLV and Uniq businesses have been contributing healthily to both revenues and EBITDA. EBITDA margin in 2QFY20 reduce by 50bps QoQ to 6.1% due to the full quarter impact of the annual wage revisions for the non-billing staff in June 2019. However, management expects margins to remain in the range of 6-6.5% going ahead.

Security Services- International Business

International business revenue in 2QFY20 stood at Rs. 903 Cr. grew by 7.1% YoY largely driven by Singapore business revenue of Rs. 72 Cr. Revenue declined in 2QFY20 was mainly due to impact of one-off events managed by SXP in Q1 FY20. Margins deteriorate in 2QFY20 due to timing impact of wage revisions in Australia vise-a-versa pricing renewals. Management expects the wage revisions to be passed through with a time lag over the 2HFY20. However, margins at Singapore business grew by 200bps QoQ to 11.6% during the quarter.

Facility Management Services

Revenue at facility management services was at Rs. 314 Cr. grew organically and in-organically by 31.5% and 42% YoY respectively. Robust growth is expected going ahead based on the second largest and fastest growing FM business in the country. Margins during the quarter improved by 40bps QoQ to 6.6% on the back of good contract wins.

Other Updates

Cash logistics solutions business revenue (not included in consolidated revenue) in 2QFY20 was at Rs. 89 Cr. grew by 31.1% YoY along with an EBITDA margin of 9.5% (up by 520 bps QoQ). Focus on non-ATM business and exiting unprofitable contracts has helped management to improve profitability. Management continue to prioritize non-ATM business over ATM business, as steadily reduce the share of the ATM business in overall mix, given the pricing and penalty terms.

Concall Highlights

- **Operational and Financial Performance**

- Revenue for 1HFY20 crossed Rs. 4000 Cr. with the monthly run rate of Rs. 747 Cr. from Rs. 670 Cr. at June 2019 with a quarterly CAGR of 5.9% over the last 10 quarters.
- Aviation business contributes 12-15% of revenue from Australia international business revenue.
- Quarterly EBITDA grew at a CAGR of 11% over the past 10 quarters.
- SIS international business EBITDA margin grew significantly from 4.6% in FY19 to 5.7% in 1HFY20.
- SIS India business EBITDA margin were maintained in the range of 6-6.5%.
- RONW stands at 22.6%, Cost of capital is 7.5% and Net debt to EBITDA is at 1.4x. Management expects Net Debt to EBITDA at 1.5x or less which is comparatively lower to that of peers, where the Net Debt to EBITDA is 2-2.5x.
- Acquisition: In FY20 management is not looking for any acquisitions; whereas they will be focusing in integrating the acquisitions done along with the IRR need to be maintained of 22% which the investments were maintaining. Management will also be focusing on the market share being acquired across the geography and penetrating the new customer segment.

- **Acquisition Highlights**

- Acquisition: In FY20 management is not looking for any acquisitions; whereas they will be focusing in integrating the acquisitions done along with the IRR need to be maintained of 22% which the investments were maintaining. Management will also be focusing on the market share being acquired across the geography and penetrating the new customer segment.
- In FY21 management expects further acquisitions where geographically India will be a priority.
- Acquisitions at slow growth country like Australia, New Zealand and Singapore was due to return prospective (IRR return), assets acquired overseas are favorable in terms of leverage capacity, lower multiples, acquired assets are more stable and assets contribute OCF to the company at an overall level.
- Qantas contract in Australia: Fundamental change in the regulation in Australia where there is no CISF at airport terminals Qantas themselves do the screening and SIS was the preferred vendor. As per the fundamental change the Quantez is now given to airlines which will no longer be seen at SIS.
- Qantas business handed back in Mel burn is worth 14 million which will discontinue in calendar year 20.

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

Robust revenue growth of 25% YoY on account of India as well as Facility management business

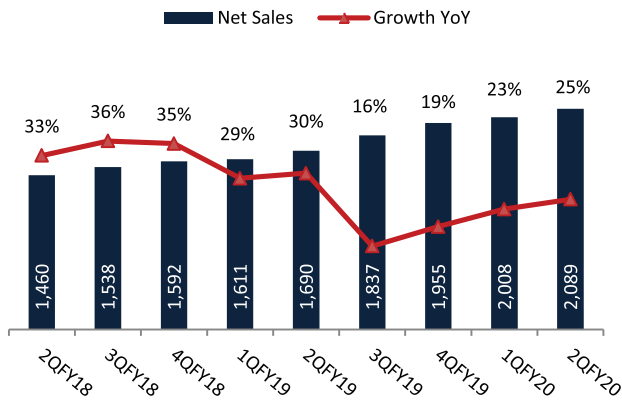


Exhibit: Trend in Segmental Revenue

Contribution of higher margin India business has gone down due to impact of the annual wage revisions in Jun-19

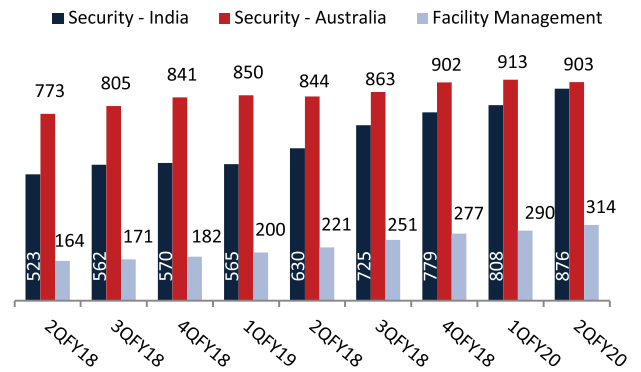


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Margins reduced by 30bps QoQ to 5.9% during the quarter

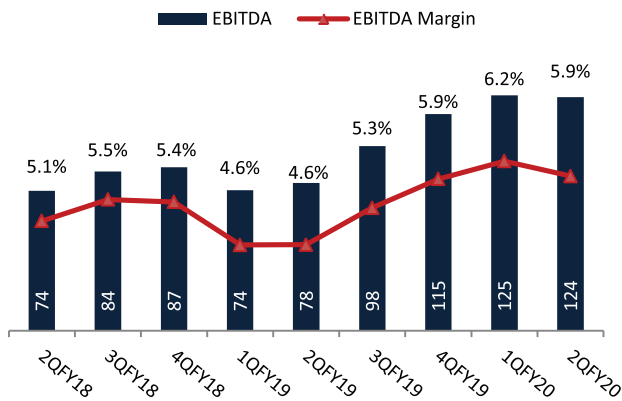


Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT margin declined QoQ despite deferred tax benefit

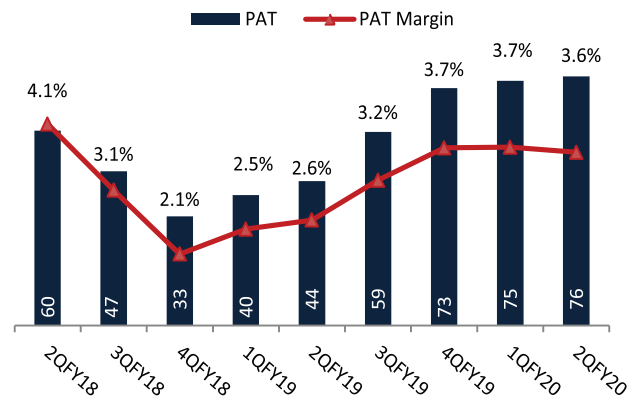


Exhibit: Debt Equity Ratio

Despite 5 acquisitions in FY19, D/E ratio continues to be below 1.

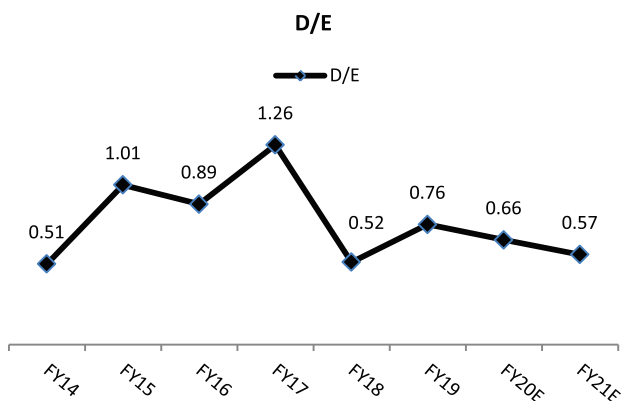
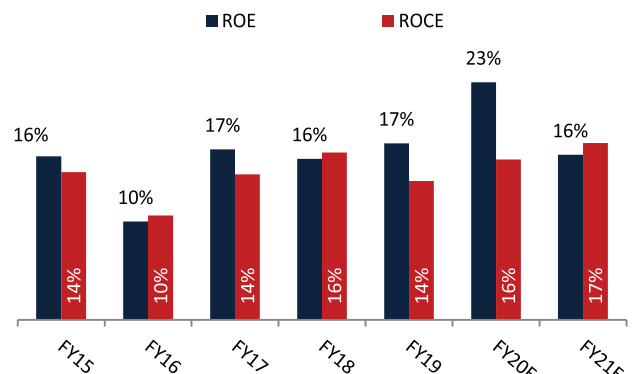


Exhibit: Return Ratios

Return ratios to improve going ahead as the profitability improves



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	6	6	69	73	73	73	73
Reserves	385	444	474	955	1,177	1,487	1,737
Networth	392	450	543	1,028	1,250	1,561	1,810
Debt	395	400	685	536	950	1,033	1,031
Other Non Current Liab	55	67	76	361	930	930	930
Total Capital Employed	842	917	1,305	1,925	3,130	3,524	3,772
Net Fixed Assets (incl CWIP)	137	137	172	253	355	500	516
Non Current Investments	10	12	20	92	115	115	115
Other Non Current Assets	252	233	358	638	1,641	1,687	1,687
Non Current Assets	399	383	549	983	2,111	2,302	2,318
Inventory	7	1	4	14	25	24	28
Debtors	312	289	462	624	953	963	1,100
Cash & Bank	374	349	451	543	543	790	958
Other Current Assets	360	440	582	607	592	722	824
Current Assets	1,053	1,080	1,499	1,788	2,114	2,499	2,909
Creditors	43	33	47	81	66	90	102
Provisions	164	201	223	219	241	295	336
Other Current Liabilities	321	309	460	546	786	892	1,016
Curr Liabilities	528	543	729	845	1,094	1,276	1,455
Net Current Assets	525	536	770	944	1,020	1,223	1,454
Total Assets	1,452	1,462	2,048	2,772	4,224	4,801	5,227

Income Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	3,551	3,836	4,567	5,833	7,093	8,662	9,894
Change (%)	14.6%	8.0%	19.1%	27.7%	21.6%	22.1%	14.2%
Other Income	15	14	10	37	18	(7)	(8)
EBITDA	159	130	221	312	365	532	622
Change (%)	7.8%	-18.4%	69.8%	41.4%	17.0%	45.6%	17.0%
Margin (%)	4.5%	3.4%	4.8%	5.3%	5.1%	6.1%	6.3%
Depr & Amor.	45	43	46	56	66	124	130
EBIT	114	87	175	256	299	407	492
Int. & other fin. Cost	48	52	75	93	94	140	140
EBT	81	48	110	200	223	260	344
Exp Item- Gain/(Loss)	-	11	-	(1)	-	-	-
Tax	33	19	22	24	(5)	(105)	52
Minority Int & P/L share of Ass.	15	4	2	(13)	(12)	(2)	0
Reported PAT	63	43	91	162	216	363	292
Change (%)	-8.8%	-30.9%	109.3%	78.8%	33.3%	68.0%	-19.4%
Margin(%)	1.8%	1.1%	2.0%	2.8%	3.0%	4.2%	3.0%

Financial Details

Key Ratios

Y/E March	FY15*	FY16*	FY17*	FY18	FY19	FY20E	FY21E
ROE	16.0%	9.6%	16.7%	15.8%	17.3%	23.2%	16.1%
ROCE	14.5%	10.2%	14.2%	16.4%	13.6%	15.7%	17.3%
Asset Turnover	2.4	2.6	2.2	2.1	1.7	1.8	1.9
Debtor Days	29	29	30	34	41	41	41
Inv Days	1	0	0	1	1	1	1
Payable Days	4	4	3	4	4	4	4
Int Coverage	2	2	2	3	3	3	4
P/E	89	129	62	51	29	18	22
Price / Book Value	14.3	12.4	10.3	8.0	5.0	4.2	3.6
EV/EBITDA	35.7	43.4	26.4	26.0	17.9	12.4	10.3

* Based on Issue Price

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	82	50	112	188	210	240	344
(inc)/Dec in Working Capital	(52)	(46)	(76)	(26)	(30)	44	(63)
Non Cash Op Exp	67	90	77	58	31	124	130
Int Paid (+)	46	50	72	77	94	140	140
Tax Paid	(57)	(56)	(78)	(71)	(105)	105	(52)
others	(14)	(15)	(12)	(11)	(18)	(39)	8
CF from Op. Activities	71	73	94	216	182	614	508
(inc)/Dec in FA & CWIP	(46)	(67)	(65)	(52)	(172)	(269)	(147)
Free Cashflow	25	5	30	164	10	344	361
(Pur)/Sale of Inv	(72)	3	(152)	(76)	(372)	-	-
others	8	13	11	11	18	(7)	(8)
CF from Inv. Activities	(110)	(51)	(206)	(116)	(527)	(276)	(155)
inc/(dec) in NW	5	(2)	0	341	-	-	-
inc/(dec) in Debt	217	18	295	(136)	465	93	(2)
Int. Paid	(46)	(52)	(72)	(88)	(94)	(140)	(140)
Div Paid (inc tax)	(18)	(27)	(4)	(17)	(30)	(30)	(43)
others	(7)	(1)	2	(0)	-	-	-
CF from Fin. Activities	152	(64)	222	99	341	(77)	(185)
Inc(Dec) in Cash	113	(42)	110	199	(4)	261	168
Add: Opening Balance	297	374	349	349	543	543	790
Add: Forex and Other Adjustments	(35)	17	(9)	(5)	-	-	-
Closing Balance	374	349	451	543	539	804	958

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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