

Industry
Bloomberg
BSE CODE

Consumer Services
SECIS IN
540673

Integration of acquired companies will drive the growth going ahead

RATING	NEUTRAL
CMP	538
Price Target	492
Potential Upside	-8%

Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	555/351
Mkt Capital (Rs Cr)	7,882
Free float (%)	14%
Avg. Vol 1M (,000)	41
No. of Shares (Crs)	14.60
Promoters Pledged %	0%

3QFY20 Result update

- SIS reported revenue of Rs. 2178 Cr. (vs our estimates of Rs. 2208 Cr.) grew by 19% YoY largely driven by growth in India services business and FMS business of 25.3% YoY and 32.7% YoY respectively.
- India business reported revenue of Rs. 909 Cr. growth of 25.3% YoY based on organic growth of 18.5% YoY and rest is in consolidation of Uniq and SLV business.
- International business reported revenue of Rs. 940 Cr. grew 8.9% YoY largely driven by acquisitions of P4G and Henderson while organically it grew by 2.4% YoY.
- FMS business contributes revenue of Rs. 334 Cr. based on organic growth of 30.5% YoY. EBITDA during the quarter is Rs. 134 Cr. with an EBITDA margin of 6.1%. Management expects EBITDA margin in the range of 6-6.5% going ahead.
- PAT in 3QFY20 stood at Rs. 78 Cr. tax benefit under 80 JJ helps PAT margin to remain at 3.6%.
- Tax benefit of 80 JJ in domestic business reduced the tax liability during the quarter. Company has some MAT credit available, although company opting for the new tax regime will be clear in 4QFY20.
- The debt fund of the company is largely used for the working capital cycle, which is around 2 months for payment of wages, bonus, PF etc. Working capital intensity is higher in this business.
- Return matrix of ROCE and RoE are maintained at 20.5% and 23% respectively.

View and Valuation

SIS in 3QFY20 continues to outperform with the revenue growth of 18.6% 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%. Higher working capital requirement of around 2 months funded through long term debt will create pressure on PAT margins. Going forward, we expect to maintain a NEUTRAL rating on the stock with a target price of Rs. 492 (12x 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	4567	5833	7093	8537	9672
EBITDA	221	312	365	527	604
EBIT	175	256	299	398	470
PAT	91	162	216	328	285
EPS (Rs)	13	22	30	22	20
EPS growth (%)	109	68	33	-24	-13
ROE (%)	17	16	17	22	17
ROCE (%)	14	16	14	15	16
BV	79	140	171	102	116
P/B (X)	10.3	8.0	5.0	5.2	4.6
P/E (x)	61.8	50.6	29.0	23.7	27.2

* Based on Issue Price

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Revenue in line with estimates

3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY%	QoQ%	FY18	FY19	YoY %
Net Sales	1,690	1,837	1,955	2,008	2,089	24%	3%	5,833	7,093	22%
Other Income	5	4	3	0	(2)	-142%	-94%	37	18	-51%
COGS	14	17	19	18	20	40%	-4%	36	63	73%
Employee Cost	1,383	1,478	1,569	1,642	1,709	24%	5%	4,766	5,757	21%
Other Expenses	214	244	253	223	236	10%	-12%	719	908	26%
EBITDA	78	98	115	125	124	58%	9%	312	365	17%
EBITDA Margin	4.6%	5.3%	5.9%	6.2%	5.9%	28%	0%	5.3%	5.1%	-4%
Depreciation	16	18	19	29	33	104%	54%	56	66	18%
Interest	18	23	36	37	38	105%	4%	93	94	1%
Tax	0	(2)	(10)	(19)	(25)	-5987%	86%	24	(5)	-121%
E/O Items	-	-	-	-	-			(1)	-	-100%
MI/Associate & JV	(5)	(4)	(1)	(2)	0	-101%	-150%	(11)	(15)	36%
Net Profit	44	59	73	75	76	72%	3%	162	216	33%
PAT Margin	2.6%	3.2%	3.7%	3.7%	3.6%	40%	0%	2.8%	3.0%	10%

Security Services- India Business

Revenue from Security services- India business stood at Rs. 908.9 Cr. in 3QFY20 with an organic and in-organic growth of 18.5% and 25.4% YoY. The acquired SLV and Uniq businesses have been contributing healthily to both revenues and EBITDA. EBITDA margin in 3QFY20 reduce by 10bps QoQ to 6% 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 3QFY20 stood at Rs. 940 Cr. grew by 8.9% YoY largely driven by Singapore business revenue of 15 million Singapore dollars. The strong revenue growth has been coupled with a margin upside too with EBITDA margin increasing from 4.6% in 3QFY19 to 5.8% in 3QFY20. As has happened in the past and indicated earlier, management continue to pass on the wage revisions to the clients, albeit with a lag. The DSQs in Australia came down from 54 in 2QFY20 to 46 days in 3QFY20. This has been the result of a coordinated effort between the business and finance teams on accounts receivables.

Facility Management Services

Revenue at facility management services was at Rs. 333 Cr. grew organically and in-organically by 29.2% and 32.7% YoY respectively. Robust growth is expected going ahead based on the second largest and fastest growing FM business in the country. The EBITDA margin improved from 6.7% in 2QFY20 to 7.2% in 3QFY20.

Other Updates

Cash logistics solutions business revenue (not included in consolidated revenue) in 3QFY20 was at Rs. 86 Cr. grew by 17.4% YoY along with an EBITDA margin of 6% (down 140 bps YoY). 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

- Revenue during the quarter is Rs. 2178 Cr. grew at 5.8% CAGR along with an EBITDA growing at 7.6% CAGR over the past 11 quarters.
- Management expects organic growth of 20% YoY and 20% return matrix (ROE) for FY21. Australia business is expected to grow by 5-7% organically.
- Top 10 Clients contribution in revenue of India and Australia business is around 23-25% and 40% respectively. Around 60-65% of revenue is from India business.
- Management is focusing on expanding the market share in domestic as well as international market with a target to reach around 15%-20% (currently in India the market share is ~4%).
- Solution based offering in 3QFY20 is to BFSI sector (SBI is the current customer) apart from the oil and gas pipeline security, city gas network started during last year with the better use of technology. However, the contribution of the same in revenue is single digit in 3QFY20.
- India security business is maintaining an EBITDA margins in the range of 6-6.5% and the same is expected to maintain going ahead.
- India security business is expected to maintain the margins between 6-6.5% going ahead.
- The DSOs in Australia came down from 54 in Q2FY20 to 46 days in Q3FY20. This has been the result of a coordinated effort between the business and finance teams on accounts receivables.
- Management expects DSOs to be in the range of 46-49 days going forward.
- Changes in the labour reforms over the last 6 months, which 44 labour legislations changed to 4 regulations and national floor wage will establish soon which help in detaining good workers.
- The debt fund of the company is largely used for the working capital cycle, which is around 2 months for payment of wages, bonus, PF etc.
- Working capital intensity is higher in this business. Management first pay and then collect while other companies model is to collect first and then pay.
- Management won't go for repayment of its debt despite surplus cash available with the company. The debt repayment will create huge payment of tax liability, which is stopping to repay its debt (Australian debt).
- Tax benefit of 80 JJ in domestic business reduced the tax liability during the quarter. Company has some MAT credit available, although company opting for the new tax regime is clear in 4QFY20.
- In the new tax regime even if company adopt will avail benefit of 80 JJ.
- Return matrix of ROCE and RoE are maintained at 20.5% and 23% respectively.

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

Revenue growth of 19% YoY on account of India as well as International business..

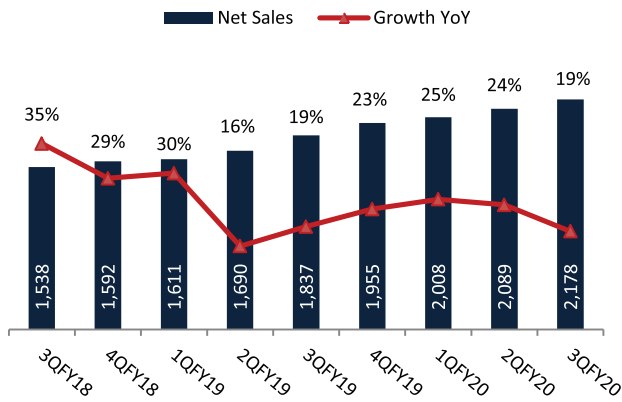


Exhibit: Trend in Segmental Revenue

India business contribution remain in the range of 60-65% in the overall revenue..

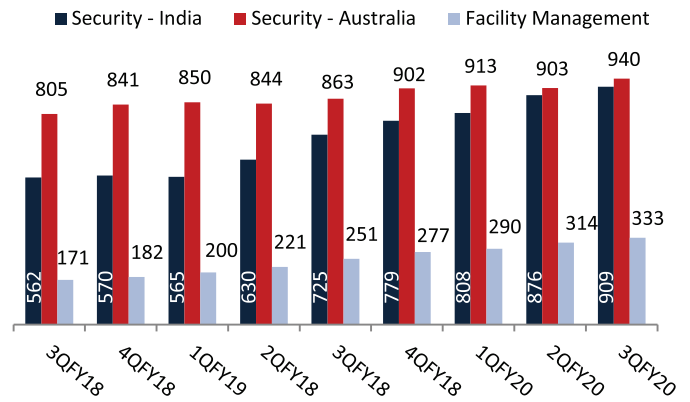


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Margins remain in the range of 6-6.5% ..

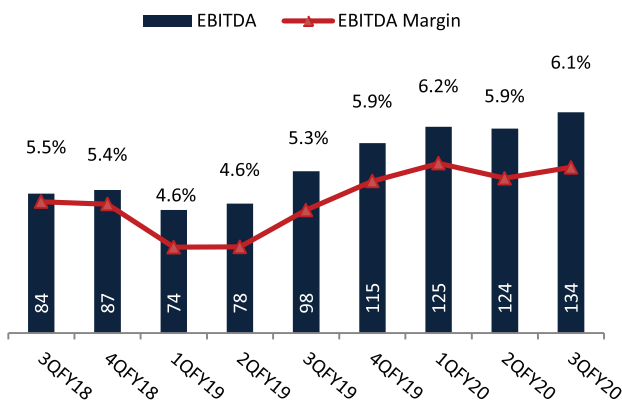


Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT margin remained flat on QoQ basis..

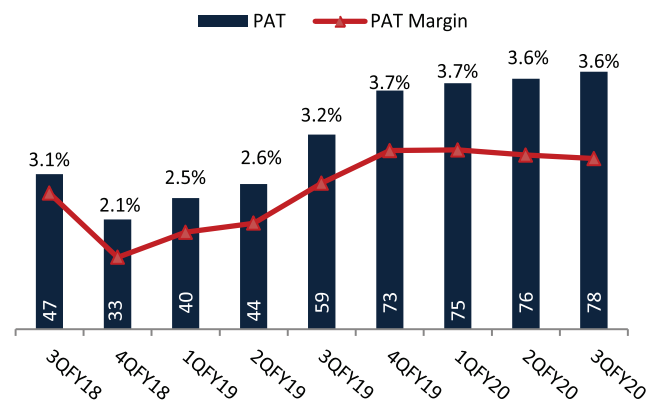


Exhibit: Debt Equity Ratio

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

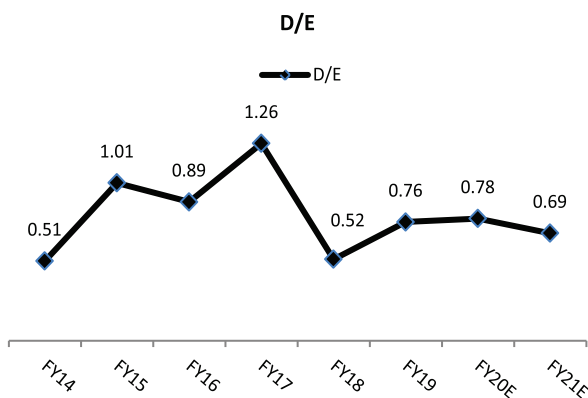
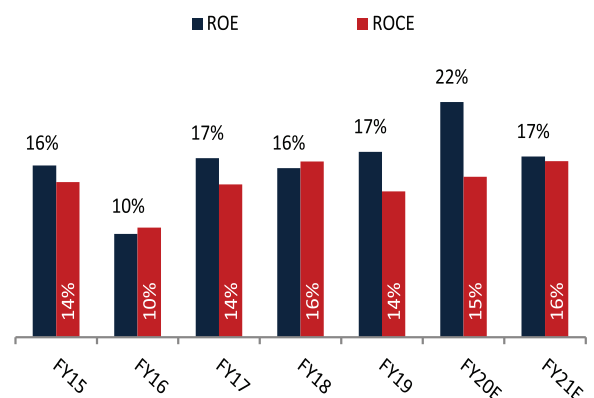


Exhibit: Return Ratios

Higher profitability leads to higher return ratios..



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	1,422	1,622
Networth	392	450	543	1,028	1,250	1,496	1,695
Debt	395	400	685	536	950	1,169	1,167
Other Non Current Liab	55	67	76	361	930	930	930
Total Capital Employed	842	917	1,305	1,925	3,130	3,595	3,793
Net Fixed Assets (incl CWIP)	137	137	172	253	355	495	507
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	2,297	2,309
Inventory	7	1	4	14	25	24	27
Debtors	312	289	462	624	953	949	1,075
Cash & Bank	374	349	451	543	543	872	999
Other Current Assets	360	440	582	607	592	712	805
Current Assets	1,053	1,080	1,499	1,788	2,114	2,557	2,907
Creditors	43	33	47	81	66	88	100
Provisions	164	201	223	219	241	290	329
Other Current Liabilities	321	309	460	546	786	879	994
Curr Liabilities	528	543	729	845	1,094	1,258	1,423
Net Current Assets	525	536	770	944	1,020	1,298	1,484
Total Assets	1,452	1,462	2,048	2,772	4,224	4,854	5,216

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	8,537	9,672
Change (%)	14.6%	8.0%	19.1%	27.7%	21.6%	20.4%	13.3%
Other Income	15	14	10	37	18	8	22
EBITDA	159	130	221	312	365	527	604
Change (%)	7.8%	-18.4%	69.8%	41.4%	17.0%	44.3%	14.7%
Margin (%)	4.5%	3.4%	4.8%	5.3%	5.1%	6.2%	6.2%
Depr & Amor.	45	43	46	56	66	129	135
EBIT	114	87	175	256	299	398	470
Int. & other fin. Cost	48	52	75	93	94	151	158
EBT	81	48	110	200	223	256	334
Exp Item- Gain/(Loss)	-	11	-	(1)	-	-	-
Tax	33	19	22	24	(5)	(73)	50
Minority Int & P/L share of Ass.	15	4	2	(13)	(12)	(2)	1
Reported PAT	63	43	91	162	216	328	285
Change (%)	-8.8%	-30.9%	109.3%	78.8%	33.3%	51.7%	-12.9%
Margin(%)	1.8%	1.1%	2.0%	2.8%	3.0%	3.8%	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%	21.9%	16.8%
ROCE	14.5%	10.2%	14.2%	16.4%	13.6%	14.9%	16.4%
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	3
P/E	89	129	62	51	29	24	27
Price / Book Value	14.3	12.4	10.3	8.0	5.0	5.2	4.6
EV/EBITDA	35.7	43.4	26.4	26.0	17.9	15.1	12.9

* 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	250	336
(inc)/Dec in Working Capital	(52)	(46)	(76)	(26)	(30)	50	(58)
Non Cash Op Exp	67	90	77	58	31	129	135
Int Paid (+)	46	50	72	77	94	151	158
Tax Paid	(57)	(56)	(78)	(71)	(105)	73	(50)
others	(14)	(15)	(12)	(11)	(18)	(54)	(22)
CF from Op. Activities	71	73	94	216	182	599	497
(inc)/Dec in FA & CWIP	(46)	(67)	(65)	(52)	(172)	(269)	(147)
Free Cashflow	25	5	30	164	10	329	351
(Pur)/Sale of Inv	(72)	3	(152)	(76)	(372)	-	-
others	8	13	11	11	18	8	22
CF from Inv. Activities	(110)	(51)	(206)	(116)	(527)	(261)	(125)
inc/(dec) in NW	5	(2)	0	341	-	-	-
inc/(dec) in Debt	217	18	295	(136)	465	219	(2)
Int. Paid	(46)	(52)	(72)	(88)	(94)	(151)	(158)
Div Paid (inc tax)	(18)	(27)	(4)	(17)	(30)	(60)	(86)
others	(7)	(1)	2	(0)	-	-	-
CF from Fin. Activities	152	(64)	222	99	341	9	(245)
Inc(Dec) in Cash	113	(42)	110	199	(4)	346	128
Add: Opening Balance	297	374	349	349	543	543	872
Add: Forex and Other Adjustments	(35)	17	(9)	(5)	-	-	-
Closing Balance	374	349	451	543	539	889	1,000

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

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.

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.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.