

Industry
Bloomberg
BSE CODE

Consumer Services
SECIS IN
540673

Shift towards organized sector from un-organized will drive growth going ahead

RATING	NEUTRAL
CMP	400
Price Target	465
Potential Upside	16%

Rating Change	↔
Estimate Change	↔
Target Change	↓

STOCK INFO	
52wk Range H/L	624.1/332
Mkt Capital (Rs Cr)	5,863
Free float (%)	25%
Avg. Vol 1M (,000)	41
No. of Shares (Crs)	14.60
Promoters Pledged %	0%

RESEARCH ANALYST

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4QFY20 Result update

- SIS reported revenue of Rs. 2210 Cr. (vs our estimates of Rs. 2321 Cr.) grew by 13% YoY largely driven by growth in India services business and FMS business of 18.6% YoY and 23.6% YoY respectively.
- India business reported revenue of Rs. 924.3 Cr. growth of 18.6% YoY based on organic growth of 19.7% YoY and rest is in consolidation of Uniq and SLV business. Essential services provided to hospitals, grocery stores, manufacturing essentials etc. drive the growth during the quarter.
- International business reported revenue of Rs. 949 Cr. grew 5.2% YoY on account of acquisitions of P4G and Henderson while slowdown in the Australian economy hampered the topline growth.
- FMS business contributes revenue of Rs. 343 Cr. based on robust growth in RARE hospitality business due to the current pandemic COVID-19 across the country.
- EBITDA during the quarter is Rs. 139 Cr. with an EBITDA margin of 6.3%. In this current situation; providing ration to the employees and to their family of Rs. 5 Cr. further dropped margins.
- Inspite higher other income; PAT during the quarter stood negative at Rs. 1 Cr. on the back of deferred tax reversal for FY20 during the quarter.
- Management will be continuing with the reduced tax rates of 25.17% (inclusive of cess) for india business but cannot avail MAT credit benefit. However, section 80JJAA can be availed with this reduced tax rates.

View and Valuation

The current economic scenario; COVID-19 demanding the services across the world creating huge demand for the company at large. Robust order book lined up by the company includes hospitals, railways, security etc. consist large share in topline. SIS in 4QFY20 continues to outperform with the revenue growth of 13% 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%. Retrospective impact on deferred tax due to adopting lower tax rate for India business impacted the bottom line during the quarter. Going forward, we expect to maintain a NEUTRAL rating on the stock with a target price of Rs. 465 (12x FY21e EV/EBITDA).

Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17*	FY18	FY19	FY20	FY21E
Net Sales	4,567	5,833	7,093	8,485	10,001
EBITDA	221	312	365	520	594
EBIT	175	256	299	392	460
PAT	91	162	216	225	385
EPS (Rs)	13	22	30	15	26
EPS growth (%)	109	68	33	(48)	71
ROE (%)	17	16	17	16	23
ROCE (%)	14	16	14	15	16
BV	79	140	171	95	116
P/B (X)	10	8	5	4	3
P/E (x)	62	51	29	26	15

* Based on Issue Price

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Revenue in line with estimates

4QFY20 Results

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	1,955	2,008	2,089	2,178	2,210	13%	1%	7,093	8,485	20%
Other Income	3	0	(2)	5	50	1645%	969%	18	53	198%
COGS	19	18	20	23	22	18%	-2%	63	83	33%
Employee Cost	1,569	1,642	1,709	1,766	1,779	13%	1%	5,757	6,896	20%
Other Expenses	253	223	236	256	270	7%	6%	908	985	8%
EBITDA	115	125	124	134	139	21%	4%	365	520	43%
EBITDA Margin	5.9%	6.2%	5.9%	6.1%	6.3%	7%	2%	5.1%	6.1%	19%
Depreciation	19	29	33	33	33	73%	-1%	66	129	95%
Interest	36	37	38	38	39	8%	1%	94	152	62%
Tax	(10)	(19)	(25)	(11)	119	-1270%	-1158%	(5)	64	-1333%
E/O Items	-	-	-	-	-	-	-	-	-	-
MI/Associate & JV	(1)	(2)	0	0	(2)	167%	-785%	(15)	(4)	-70%
Net Profit	73	75	76	78	(4)	-105%	-105%	216	225	4%
PAT Margin	3.7%	3.7%	3.6%	3.6%	-0.2%	-105%	-105%	3.0%	2.7%	-13%

Security Services- India Business

Revenue from Security services- India business stood at Rs. 924.3 Cr. in 4QFY20 with an organic and in-organic growth of 19.7% and 18.7% YoY. The acquired SLV and Uniq businesses have been contributing healthily to both revenues and EBITDA. EBITDA margin in 4QFY20 reduced to 5.4%. However, management expects margins to remain in the range of 6-6.5% going ahead. The current situation is demanding higher services across the country, which is currently driving revenue in the short run.

Security Services- International Business

International business revenue in 4QFY20 stood at Rs. 949 Cr. grew by 5.2% YoY largely driven by Singapore business revenue share. The strong revenue growth has been coupled with a margin upside too with EBITDA margin increasing from 4.6% in 4QFY19 to 5.4% in 4QFY20. Slowdown in Australian economy is the reason behind the slow growth in the topline of international business. The DSOs in Australia came down to 45 days by the end of March-20. 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. 343 Cr. grew organically and in-organically by 29.6% and 23.5% 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 6.6% in 3QFY20 to 6.8% in 4QFY20. COVID-19 impact leads to higher demand in hospitality services in the short term.

Other Updates

Cash logistics solutions business revenue (not included in consolidated revenue) in 4QFY20 was at Rs. 82 Cr. grew by 6.7% YoY along with an EBITDA margin of 5.2%. 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.

Webinar Highlights

Security Solutions India Business:

- The Industry is currently at Rs. 80000 Cr. with the growth of 14% YoY; despite being the largest the market share of SIS is less than 5%. Therefore, huge potential is expected by the management going ahead.
- Per capita growth prospects are highest in India business to grow with the growth prospects of 14-15% till 2025. While India has the lowest per capita spending among the most developing and developed markets along with the growth opportunity.
- Overall revenue growth of 30% YoY in FY20. Providing ration of Rs. 5 Cr. in 4QFY20 due to COVID-19 reduced EBITDA during the quarter.
- SIS India business organic growth of 20% YoY in FY20 with the EBITDA margin of 6.4% (5.7% in FY19).
- SLV integration contributed revenue growth of around 17% YoY highest over the last 5 years. Uniq business contribution reached close to Rs. 200 Cr. in terms of revenue.
- Guarding system through alarm monitoring in FY20; doubled as compared to FY14 and is expected to grow with the same trend going ahead till 2024.
- COVID- Impact essential services contribution from SIS to grocery stores, Hospitals along with essentials manufacturing sectors, Banks etc.

Security Solution International Business:

- The international business has been relatively less disrupted due to the Covid pandemic with Australia not having any national lockdown.
- New Zealand has declared itself as Covid free.
- SIS group is the market Leader in Australia business and a top 3 players in New Zealand and Singapore.
- Aviation business in Australia shown a decline in revenue in FY20, on the back of its discontinuation from Australian government side. As government will be continuing the same.
- Despite being slowdown in the Australian Economy; SIS International business grew 3% YoY.
- Structural Initiatives in MSS and SXP improved labour cost and overheads; which improved margins to 6.1% in FY20 (4.4% in FY19).
- DSO reduced to 45 Days at the end of March-20. Cash collections remains strong in 4QFY20.

Facility Management Solutions India:

- FMS proven to be positive in the current COVID-19 in terms of marketing prospective. Health care business RARE acquisition has proven to be positive in this current scenario.
- Organically FMS segment revenue grew by 35% YoY in FY20 along with an EBITDA growth of 32% YoY. Going forward it's expected to grow by 25% YoY.
- Railways business contribution is larger to the revenue in 4QFY20 and management expects it will continue to maintain the hygiene even more than the current level.
- Management is expecting higher demand from railway side being the largest player in the Railways business as of now.
- High demand for sanitization, deep cleaning, disinfection etc. based on the current scenario of COVID-19 across the country. Healthy order book lined up by the management as of now.
- Banks and manufacturing sector along with the quarantine areas cover huge demand for SIS services during the lockdown.

Cash Logistics Business:

- Shift from un-organized to organized business could be seen during the current situation in the market across the world; which will be favorable for the SIS group at large.
- Management is focusing more towards the non-ATM business line as compared to ATM business; as it contributes in margins as compared to FY19.
- Management is trying to reduce the share of ATM business.
- Cash in transit and Doorstep banking business picked up an additional volume in 4QFY20 where there has been an uptick in pricing.

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

Revenue growth of 13% YoY on account of Security Business India as well as FMS business..

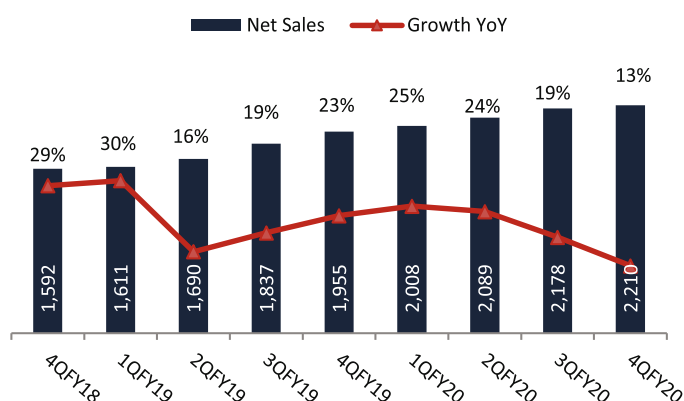


Exhibit: Trend in Segmental Revenue

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

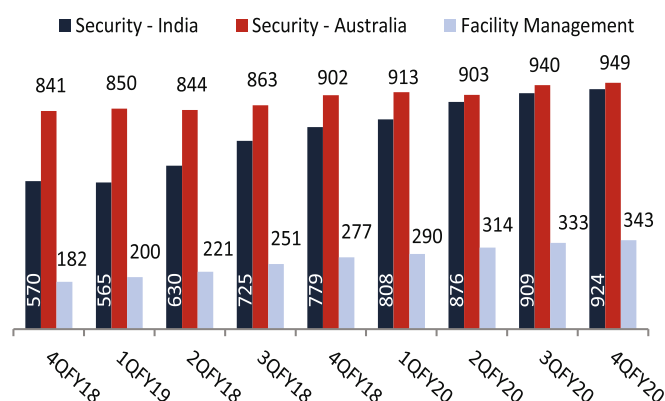


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

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

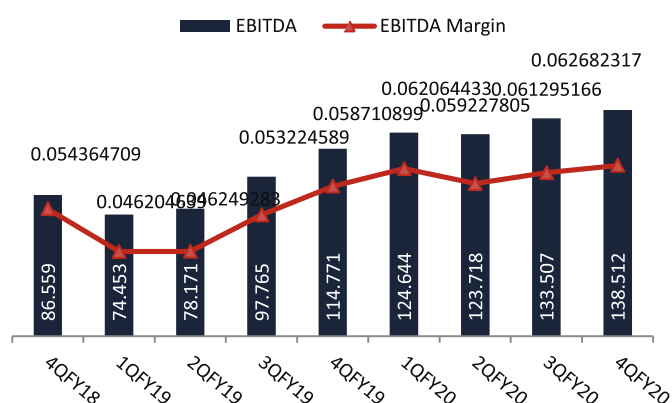


Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT margin declined due to retrospective effect of deferred tax during the quarter.

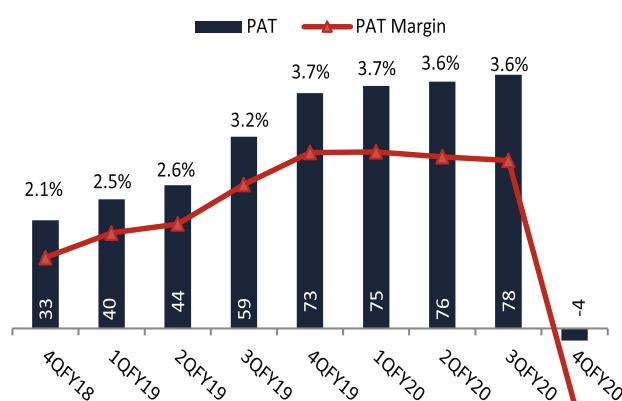


Exhibit: Debt Equity Ratio

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

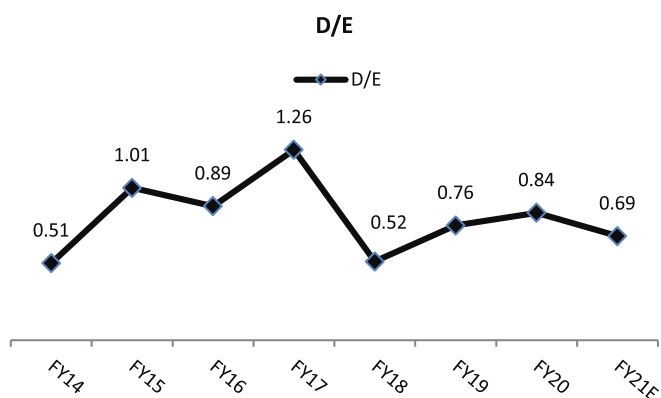
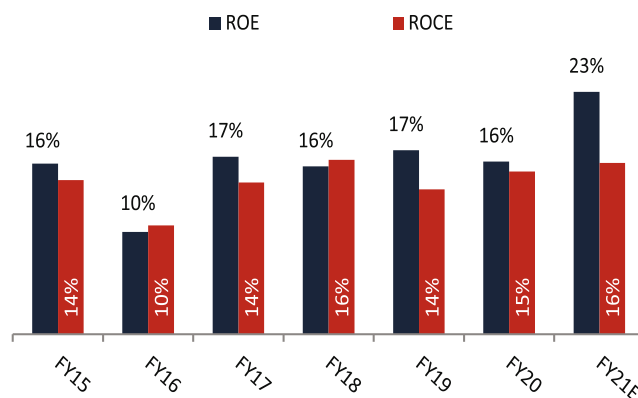


Exhibit: Return Ratios

Higher profitability leads to higher return ratios..



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Equity Share Capital	6	6	69	73	73	73	73
Reserves	385	444	474	955	1,177	1,315	1,620
Networth	392	450	543	1,028	1,250	1,388	1,693
Debt	395	400	685	536	950	1,172	1,167
Other Non Current Liab	55	67	76	361	930	720	720
Total Capital Employed	842	917	1,305	1,925	3,130	3,280	3,580
Net Fixed Assets (incl CWIP)	137	137	172	253	355	478	512
Non Current Investments	10	12	20	92	115	55	55
Other Non Current Assets	252	233	358	638	1,641	1,727	1,727
Non Current Assets	399	383	549	983	2,111	2,260	2,294
Inventory	7	1	4	14	25	34	28
Debtors	312	289	462	624	953	1,175	1,112
Cash & Bank	374	349	451	543	543	614	805
Other Current Assets	360	440	582	607	592	569	826
Current Assets	1,053	1,080	1,499	1,788	2,114	2,392	2,771
Creditors	43	33	47	81	66	54	103
Provisions	164	201	223	219	241	258	340
Other Current Liabilities	321	309	460	546	786	1,060	1,041
Curr Liabilities	528	543	729	845	1,094	1,371	1,484
Net Current Assets	525	536	770	944	1,020	1,020	1,286
Total Assets	1,452	1,462	2,048	2,772	4,224	4,652	5,064

Income Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	3,551	3,836	4,567	5,833	7,093	8,485	10,001
Change (%)	14.6%	8.0%	19.1%	27.7%	21.6%	19.6%	17.9%
Other Income	15	14	10	37	18	53	201
EBITDA	159	130	221	312	365	520	594
Change (%)	7.8%	-18.4%	69.8%	41.4%	17.0%	42.5%	14.2%
Margin (%)	4.5%	3.4%	4.8%	5.3%	5.1%	6.1%	5.9%
Depr & Amor.	45	43	46	56	66	129	135
EBIT	114	87	175	256	299	392	460
Int. & other fin. Cost	48	52	75	93	94	152	158
EBT	81	48	110	200	223	293	504
Exp Item- Gain/(Loss)	-	11	-	(1)	-	-	-
Tax	33	19	22	24	(5)	64	109
Minority Int & P/L share of Ass.	15	4	2	(13)	(12)	(4)	(9)
Reported PAT	63	43	91	162	216	225	385
Change (%)	-8.8%	-30.9%	109.3%	78.8%	33.3%	4.2%	71.2%
Margin(%)	1.8%	1.1%	2.0%	2.8%	3.0%	2.7%	3.9%

Financial Details

Key Ratios

Y/E March	FY15*	FY16*	FY17*	FY18	FY19	FY20	FY21E
ROE	16.0%	9.6%	16.7%	15.8%	17.3%	16.2%	22.8%
ROCE	14.5%	10.2%	14.2%	16.4%	13.6%	15.3%	16.1%
Asset Turnover	2.4	2.6	2.2	2.1	1.7	1.8	2.0
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	26	15
Price / Book Value	14.3	12.4	10.3	8.0	5.0	4.2	3.5
EV/EBITDA	35.7	43.4	26.4	26.0	17.9	12.2	10.4

* Based on Issue Price

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
PBT	82	50	112	188	210	289	495
(inc)/Dec in Working Capital	(52)	(46)	(76)	(26)	(30)	(210)	(538)
Non Cash Op Exp	67	90	77	58	31	79	135
Int Paid (+)	46	50	72	77	94	152	158
Tax Paid	(57)	(56)	(78)	(71)	(105)	(128)	(109)
others	(14)	(15)	(12)	(11)	(18)	19	(201)
CF from Op. Activities	71	73	94	216	182	201	(62)
(inc)/Dec in FA & CWIP	(46)	(67)	(65)	(52)	(172)	(77)	(168)
Free Cashflow	25	5	30	164	10	124	(230)
(Pur)/Sale of Inv	(72)	3	(152)	(76)	(372)	(124)	-
others	8	13	11	11	18	(75)	201
CF from Inv. Activities	(110)	(51)	(206)	(116)	(527)	(276)	33
inc/(dec) in NW	5	(2)	0	341	-	(30)	-
inc/(dec) in Debt	217	18	295	(136)	465	-	(5)
Int. Paid	(46)	(52)	(72)	(88)	(94)	(99)	(158)
Div Paid (inc tax)	(18)	(27)	(4)	(17)	(30)	(63)	(86)
others	(7)	(1)	2	(0)	-	50	-
CF from Fin. Activities	152	(64)	222	99	341	(141)	(248)
Inc(Dec) in Cash	113	(42)	110	199	(4)	(216)	(277)
Add: Opening Balance	297	374	349	349	543	84	614
Add: Forex and Other Adjustments	(35)	17	(9)	(5)	-	6	-
Closing Balance	374	349	451	543	539	(125)	337

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