

October 31, 2023

RESULT REPORT Q2 FY24 | Business Services

SIS Ltd

Inline financial performance in the quarter; margin recovery on track

Result Synopsis

SIS Ltd (SECIS) reported inline financial performance for the quarter. The sequential revenue growth and EBITDA margin were as per expectation. It reported revenue growth of 11.1% YoY (up 3.3% QoQ), led by India security business (up 13.3% YoY, up 5.9% QoQ) and Facilities management business (up 11.8% YoY, up 1.7% QoQ) and International Security business (up 8.4% YoY, up 1.3% QoQ in cc terms). There was sequential improvement in EBITDA margin (up 03 bps QoQ) led by improvement in EBITDA margin of India Security segment by 30 bps QoQ. Net debt increased by Rs 0.7bn QoQ to Rs 10.5bn, on account of increase in working capital.

The growth of SIS will be fueled by rising penetration of security and facility management business in India and the shift of market share from unorganized to organized players. It has been gaining market share in Indian market growing at 1.5x the industry growth rate. Also, the vendor consolidation would benefit large players such as SIS. The EBITDA margin profile should improve going ahead led by normalization of business environment. We estimate revenue CAGR of 14.8% over FY23-25E with average EBITDA margin of 5.1%. We maintain our BUY rating on the stock with unchanged target price of Rs 570/share based on DCF methodology. The stock trades at PER of 15.7x/10.4x on FY24E/FY25E EPS.

Result Highlights

- Reported revenue of Rs 30.7bn (up 11.1% YoY, up 3.3% QoQ), led by India security business (up 13.3% YoY, up 5.9% QoQ) and Facilities Management business (up 11.8% YoY, up 1.7% QoQ). International Security business increased by 1.3% QoQ in cc terms (up 8.4% YoY).
- EBITDA margin improved by 3 bps QoQ to 4.7%. The improvement in EBITDA margin was due to efficiency measures in India Security Segment as its EBITDA margin improved by 30 bps QoQ.
- PAT for the quarter Q2FY24 was Rs. 753 mn which was down 15.9% q-o-q and up 11.6% on y-o-y basis. The decrease in PAT was due to lower tax credit in the quarter.
- Net debt increased to Rs 10.5bn (vs Rs 9.8bn as Q1FY24), with increase in debt led by increase in working capital.
- Net debt/ EBITDA was 1.93x as of September 2023 vs 1.9x in June 2023.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	30,736	31,152	31,540	-1.3%	-2.5%
EBITDA	1,445	1,486	1,515	-2.8%	-4.6%
EBITDA Margin (%)	4.70%	4.77%	4.80%	-7 bps	-10 bps
Adjusted PAT	753	978	992	-23.0%	-24.1%

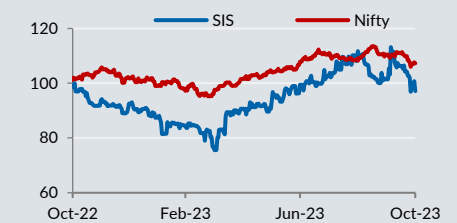
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 412
Target Price	: Rs 570
Potential Return	: + 38%

Stock data (as on October 31, 2023)

Nifty	19,080
52 Week h/l (Rs)	486 / 319
Market cap (Rs/USD mn)	62279 / 748
Outstanding Shares (mn)	146
6m Avg t/o (Rs mn):	41
Div yield (%):	-
Bloomberg code:	SECIS IN
NSE code:	SIS

Stock performance



	1M	3M	1Y
Absolute return	-4.2%	-5.5%	-1.5%

Shareholding pattern (As of Sep'23 end)

Promoter	71.6%
FII+DII	19.4%
Others	9.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	570	570

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	26.2	39.7
EPS (Old)	28.3	39.5
% change	-7.4%	0.5%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	113,458	128,619	149,378
YoY Growth	12.8%	13.4%	16.1%
EBIDTA	4,915	6,264	8,109
YoY Growth	-1.4%	27.4%	29.5%
Adjusted PAT	3,353	3,854	5,835
YoY Growth	4.0%	15.0%	51.4%
ROE	15.2%	15.2%	19.4%
EPS	23	26	40
P/E	18.1	15.7	10.4
BV/Share	341	401	477
EV/EBITDA	13.9	10.9	8.4

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Exhibit 2: Quarterly snapshot Console: EBITDA margin improved for the quarter

Particulars(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY%	QoQ%	H1FY24	H1FY23	YoY%
Revenue	27,677	29,043	29,957	29,767	30,736	11.1	3.3	60,504	54,458	11.1
EBITDA	1,098	1,264	1,347	1,390	1,445	31.6	3.9	2,835	2,305	23.0
EBITDA margin	4.0%	4.4%	4.5%	4.7%	4.7%	73 bps	3 bps	4.7%	4.2%	45 bps
Depreciation	331	342	388	358	404	22.0	12.9	761	617	23.4
EBIT	767	922	959	1,033	1,041	35.8	0.8	2,074	1,688	22.9
EBIT margin	2.8%	3.2%	3.2%	3.5%	3.4%	62 bps	-8 bps	3.4%	3.1%	33 bps
Interest	275	310	317	327	347	26.0	6.0	675	522	29.2
Other Income	81	30	149	88	125	54.2	42.7	213	149	43.2
PBT	572	642	791	793	819	43.1	3.2	1,612	1,314	22.6
Tax expense	-80	-379	-77	-50	132	-263.5	-365.8	82	-160	-151.3
Profit After Tax	674	1,034	931	895	753	11.6	-15.9	1,648	1,500	9.9
Adjusted PAT	674	1,034	931	895	753	11.6	-15.9	1,648	1,500	9.9
Net profit margin	2.4%	3.6%	3.1%	3.0%	2.4%	1 bps	-56 bps	2.7%	2.8%	-3 bps

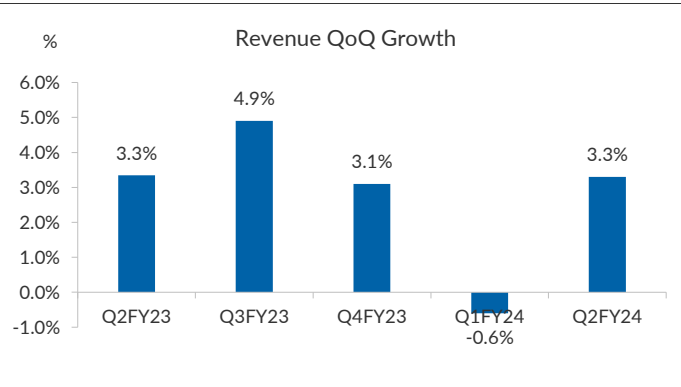
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Security Solutions India segment has reported the highest ever quarterly revenues of INR 1,302 Cr. for Q2 FY24 which was a 13.2% growth over Q2 FY23.
- EBITDA Margin of Indian Security Solutions improved due to lower advertisement spends.
- International Security Solutions witnessed growth momentum on the back of new wins mainly in the Mining, Technology, Retail, and Hospitality sectors.
- Fair Work Australia (Minimum wage equivalent in Australia) announced another record wage hike of 5.75% in Australia effective 1st July. The wage hike would be transferred to customers with a lag.
- Under Facility Management business, EBITDA margins were impacted as the planned shedding of low profit contracts has commenced which has led to an overall decline in the EBITDA margin.
- 17% of the ATMs serviced by SIS Ltd have been converted to the cassette swap mechanism which enhances security of the cash.
- More than 90% of debt is working capital requirement loans backed by receivables.
- Order pipeline looks strong for H2FY24. Once the wage hike is completely passed on, Margins would improve.
- Attrition Rate is 30% to 40% for the company, against industry attrition rate of ~50%.
- No single sector contributes more than 15% of revenue. Key sectors as part of revenue mix include Manufacturing, IT, Healthcare and Commercial Building Management.

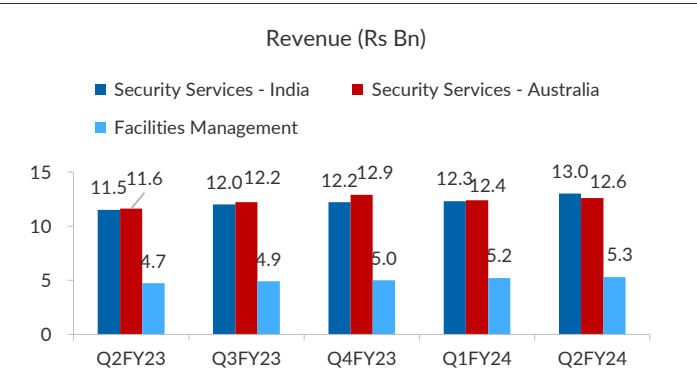
STORY IN CHARTS

Exhibit 3: Sequential revenue growth was as per expectation



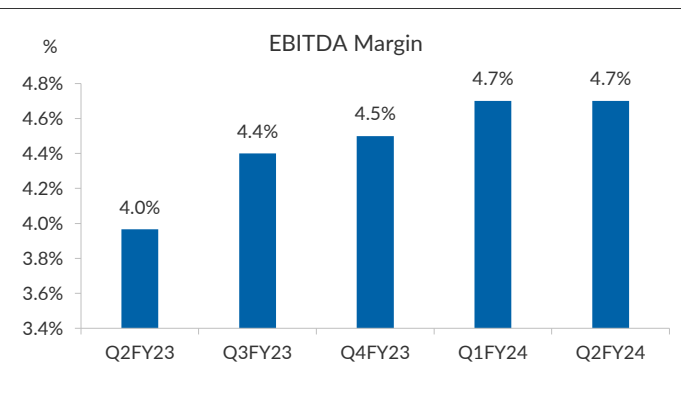
Source: Company, YES Sec

Exhibit 4: Facility Management business on fast growth lane



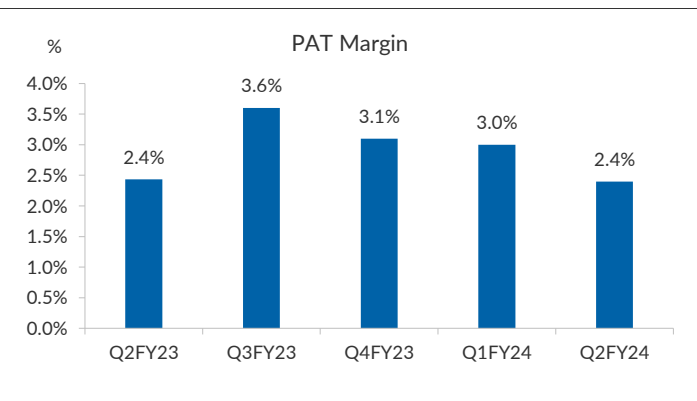
Source: Company, YES Sec

Exhibit 5: EBITDA margin expected to improve to pre covid level



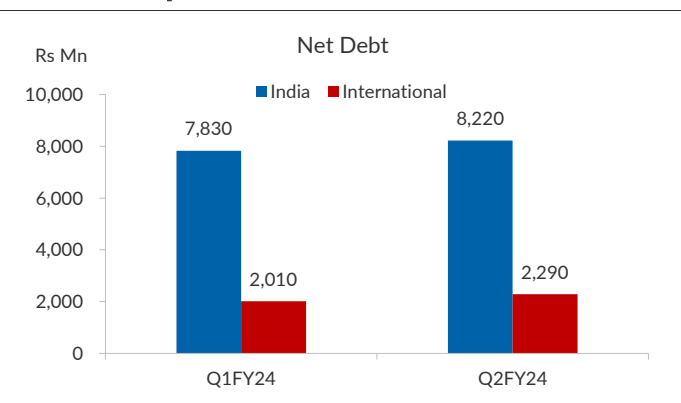
Source: Company, YES Sec

Exhibit 6: PAT Margin decreased due to high tax expenses



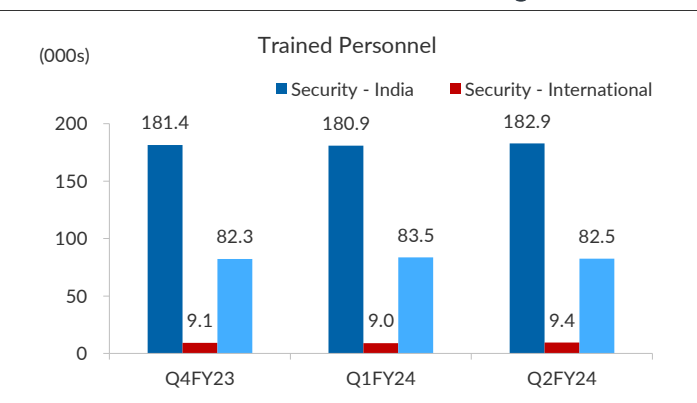
Source: Company, YES Sec

Exhibit 7: Sequential increase in net debt



Source: Company, YES Sec

Exhibit 8: Overall headcount continues to grow



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	733	742	735	729	729	729
Other equity	13,151	17,566	19,977	22,604	26,709	31,894
Shareholders' equity	13,884	18,308	20,713	23,333	27,438	32,623
Non controlling interest	3	21	31	-	-	-
Total equity	13,887	18,328	20,743	23,333	27,438	32,623
Secured loans	11,722	11,646	13,283	15,223	15,023	14,823
Total borrowings	11,722	11,646	13,283	15,223	15,023	14,823
Provisions	1,176	1,414	1,700	1,750	1,785	1,820
Deferred tax liabilities	519	475	370	430	439	448
Other financials liabilities	5,503	914	900	974	954	935
Total non current liabilities	7,198	2,803	2,970	3,154	3,178	3,203
Account payables	538	661	583	639	836	960
Other Current Liabilities	10,599	13,270	9,526	10,820	11,361	11,929
Provisions	2,578	3,689	3,858	3,958	4,006	4,600
Total current liabilities	13,715	17,621	13,967	15,417	16,202	17,489
Total Equity and Liabilities	46,521	50,398	50,963	57,127	61,841	68,138
Net fixed assets	2,662	2,564	2,792	3,106	3,032	2,756
Other NonCurrent assets	19,940	18,701	20,469	21,578	25,044	30,233
Total non-current assets	22,602	21,265	23,261	24,684	28,077	32,989
Inventories	339	309	340	314	330	346
Trade receivables	11,750	12,430	13,913	16,777	17,616	18,497
Cash and cash equivalents	6,137	10,880	7,384	7,510	7,585	7,661
Others	5,693	5,513	6,065	7,842	8,234	8,646
Total current assets	23,919	29,133	27,702	32,443	33,765	35,150
Total Asset	46,521	50,398	50,963	57,127	61,841	68,138

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	84,852	91,273	100,591	113,458	128,619	149,378
Operating Expenditure	79,648	86,065	95,606	108,543	122,355	141,269
EBITDA	5,204	5,208	4,985	4,915	6,264	8,109
Depreciation	1,283	1,130	1,116	1,347	1,574	1,776
EBIT	3,921	4,078	3,869	3,568	4,690	6,333
Int. and Finance Charges	1,517	1,273	984	1,149	1,338	1,258
Other Income	531	4,778	527	327	474	531
PBT bef. EO Exp.	2,935	7,583	3,413	2,747	3,826	5,605
EO Items	-	(2,762)	-	-	-	-
PBT	2,935	4,821	3,413	2,747	3,826	5,605
Total Tax	636	1,154	179	(616)	(38)	(240)
Share of (Profit)/Loss of Asso. Cos.	(44)	5	26	102	240	255
Minority Interest	(0)	(18)	(10)	(10)	(10)	(10)
Reported PAT after MI	2,255	3,690	3,269	3,475	4,115	6,110
Adjusted PAT after MI	2,255	2,453	3,223	3,353	3,854	5,835

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	2,891	4,826	3,439	2,849	4,067	5,860
Depreciation	1,283	1,130	1,116	1,347	1,574	1,776
Interest & Finance Charges	791	1,273	984	1,149	1,338	1,258
Direct Taxes Paid	(1,276)	(604)	(179)	616	38	240
(Inc)/Dec in WC	(2,100)	1,537	(5,554)	(2,981)	(437)	3
CF from Operations	1,590	8,161	(195)	2,980	6,579	9,137
Others	424	(1,766)	(10)	31	-	-
CF from Operating incl EO(a)	2,014	6,396	(205)	3,011	6,579	9,137
(Inc)/Dec in FA	(775)	(464)	(1,598)	(1,779)	(1,572)	(1,671)
Free Cash Flow	1,239	5,931	(1,803)	1,231	5,007	7,466
(Pur)/Sale of Investments	(2,110)	(2,296)	(152)	197	(50)	(50)
Others	127	1,125	(834)	(860)	(2,870)	(4,437)
CF from Investments(b)	(2,759)	(1,635)	(2,584)	(2,443)	(4,492)	(6,158)
Issue of Shares	0	8	(6)	(7)	-	-
Inc/(Dec) in Debt	204	1,709	1,638	1,940	(200)	(200)
Interest Paid	(986)	(909)	(984)	(1,149)	(1,338)	(1,258)
Dividend Paid	(631)	-	-	-	-	(915)
Others	2,866	(825)	(1,355)	(1,227)	(474)	(531)
CF from Fin. Activity(c)	1,453	(17)	(707)	(442)	(2,012)	(2,904)
Inc/Dec of Cash	708	4,743	(3,496)	126	75	76
Opening Cash balance	5,429	6,137	10,880	7,384	7,510	7,585
Closing Cash Balance	6,137	10,880	7,384	7,510	7,585	7,661

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)						
Revenue Growth	19.6	7.6	10.2	12.8	13.4	16.1
EBITDA Growth	42.5	0.1	(4.3)	(1.4)	27.4	29.5
EBIT Growth	31.0	4.0	(5.1)	(7.8)	31.4	35.0
Net Profit Growth	4.5	8.8	31.4	4.0	15.0	51.4
Profitability Ratios(%)						
EBITDA Margin	6.1	5.7	5.0	4.3	4.9	5.4
EBIT margin	4.6	4.5	3.8	3.1	3.6	4.2
Net Profit margin	2.7	2.7	3.2	3.0	3.0	3.9
RoE	17.1	15.2	16.5	15.2	15.2	19.4
RoIC	24.6	22.9	22.1	20.6	19.2	22.8
RoCE	12.9	11.2	11.5	12.0	11.7	14.7
Per share						
EPS	15.3	16.7	21.9	22.8	26.2	39.7
Dividend / Share	3.7	-	-	-	-	6.2
BV/Share	203.1	267.8	303.0	341.3	401.4	477.2
Liquidity Ratios						
Net debt/Equity (x)	0.4	0.0	0.3	0.3	0.3	0.2
Current Ratio(x)	1.7	1.7	2.0	2.1	2.1	2.0
Working Capital/Sales(x)	0.1	0.1	0.1	0.1	0.1	0.1
Valuation Ratios						
PER(x)	NA	NA	NA	18.1	15.7	10.4
PCE(x)	NA	NA	NA	6.0	5.2	3.7
Price/Book(x)	NA	NA	NA	1.2	1.0	0.9
EV/EBITDA(x)	NA	NA	NA	13.9	10.9	8.4

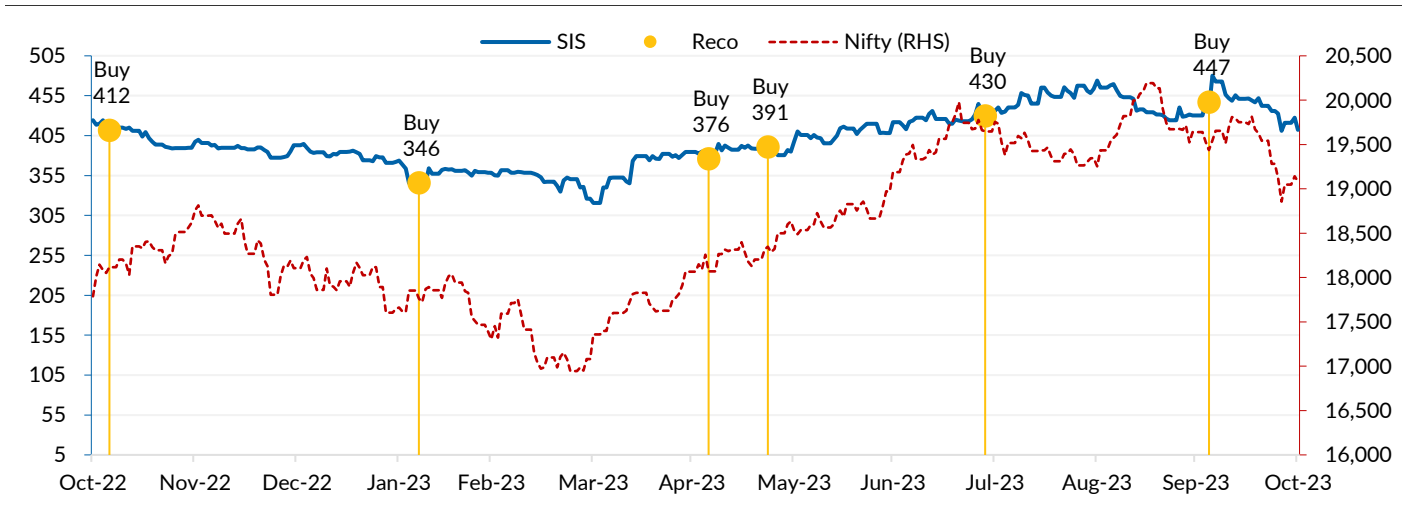
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	2.7%	2.7%	3.2%	3.0%	3.0%	3.9%
Asset turnover (x)	1.9	1.9	2.0	2.1	2.2	2.3
Leverage factor (x)	3.4	3.0	2.6	2.5	2.3	2.2
Return on Equity(%)	17.1%	15.2%	16.5%	15.2%	15.2%	19.4%

Source: Company, YES Sec

Recommendation Tracker



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RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.