

SIS Ltd

Recovery in operating margin on track

We attended Investor and Analyst Meet of SIS Ltd. The management reiterated the high growth potential of domestic business (at ~1.5x industry growth) due to growing formalization, high fragmented nature of business, foray into electronic security and shift towards organized players. EBITDA margin is expected to reach pre-covid level over next few quarters. The business remains resilient to macro cycles due to essential nature of these services.

Key highlights of the Analyst Meet

- India security business is expected to grow at CAGR of around 20% going ahead, gaining market share in the process. It remains committed to double its market share in India Security business from current 5% over next 3 years. Tech based security accounts for 8% of segmental revenue
- The revenue mix of international business has been on a decreasing trend. Currently only ~35% of the revenue is contributed by international segment.
- International Security Segment is viewed as a perfect hedge against India Security business. During covid-19, international business segment grew at high teens due to a few large deal wins. This segment is expected to grow at CAGR of 6% pa
- Facilities management has bounced sharply led by opening up of offices across industries as employees return to office. The covid19 Pandemic has led to increasing traction in facilities management business with greater focus towards disinfection and hygiene requirements.
- The current focus on infrastructure creation in India will also drive demand for security and facility management business.
- Management has been exploring ways to cross sell its solutions across clients to drive overall revenue growth.
- EBITDA margin has improved over last 3 quarters and it is expected to reach precovid margin of 5.5%-6% going ahead led by normalization of business and expansion into tech-based security.
- The company is broadly comfortable with current financial leverage as net debt/ LTM EBITDA stands at 1.9x as of June' 2023. It might repay a part of its debt in current scenario of higher interest rates
- The focus remains on organic driven growth. However, it has been evaluating select inorganic opportunities, but any acquisition will be done only if it makes strategic sense or to acquire key skills/service lines.
- It is aiming to achieve Return on Equity of 20%+, with OCF/EBITDA of more than 50% for the consolidated business

View and valuation

- We maintain BUY recommendation on SIS Ltd. Our one year target price is Rs 570, based on DCF methodology. It implies PE of 14.4x on FY25E EPS. We estimate revenue CAGR growth of ~14% over FY24-FY33 driven by ~9% CAGR increase in volume and ~5% CAGR increase in realization, with average EBITDA margin of 6.0% during the period. The current valuation remains attractive as it trades at PE of 11.3x on FY25E EPS. RoE profile is on rising trend led by growing scale and prudent capital allocation.

Reco	: BUY
CMP	: Rs 447
Target Price	: Rs 570
Potential Return	: + 27.5%

Stock data (as on Oct 03, 2023)

Nifty	19,529
52 Week h/l (Rs)	482 / 319
Market cap (Rs/USD mn)	62709 / 754
Outstanding Shares (mn)	146
6m Avg t/o (Rs mn):	37
Div yield (%):	-
Bloomberg code:	SECIS IN
NSE code:	SIS

Stock performance



Shareholding pattern (As of Jun'23 end)

Promoter	71.6%
FII+DII	19.2%
Others	9.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	570	560

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	28.3	39.5
EPS (Old)	28.0	38.4
% change	1.2%	2.9%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	113,458	130,136	150,943
YoY Growth	12.8%	14.7%	16.0%
EBIDTA	4,915	6,458	8,282
YoY Growth	-1.4%	31.4%	28.2%
Adjusted PAT	3,353	4,221	5,884
YoY Growth	4.0%	25.9%	39.4%
ROE	15.2%	16.7%	19.8%
EPS	23	28	40
P/E	19.8	15.7	11.3
BV/Share	341	396	472
EV/EBITDA	15.0	11.4	8.9

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INVESTMENT RATIONALE

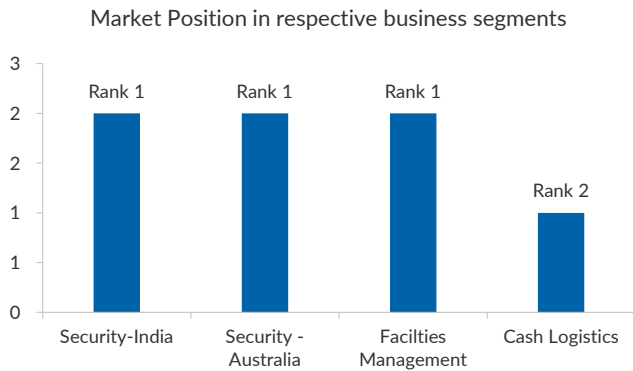
- Among the largest business service providers in India with good presence in key Asia Pacific markets, SECIS offers Security Services, Facilities Management, and Cash Logistics. It has a high growth potential (at ~1.5x industry growth) due to low formalization, high fragmented nature of business, foray into electronic monitoring and shift towards organized players; and also provides resilience to macro cycles due to their essential nature.
- Promoter strength is evident in solid execution track record and successful acquisitions. Promoters still hold 72% stake and have played key role in maintaining faster than industry growth. The company has maintained a prudent capital allocation policy and has historically maintained RoE in the range of 17-22%.
- Strong balance sheet compared to most other companies in the sector, DSO is at a manageable 60 days. with robust OCF generation. Other weaker players got severely impacted due to Covid restrictions. Net Debt/EBITDA is manageable at 1.9x as of June'23.
- High cash reserves of Rs 7.9bn will enable it to target inorganic growth opportunities to consolidate position in high growth areas, while maintaining 20%+ ROCE. The Pandemic has thrown up new opportunities as weaker players are facing financial constraints.
- Although a B2B business, SIS has a strong brand recall in the market. It is the largest player in India and has ~20% market share in Australia. Proven track record and dominant size in a business with low margins denote robust business model. Strong focus on processes and technology acts as a moat. Threat from foreign players entering India is limited as there is a 49% FDI limit.
- Foray into electronic security which is high margin business would help to improve margin going ahead. Currently, tech-based security solutions contribute around 8% to revenue.
- Moreover, the company is best placed to benefit from migration from unorganized to organized in this space led by its strong focus on service quality.
- Diversified client base protects it from financial stress in a particular sector. Its balance sheet is strong with lower financial leverage and is well placed to support long term sustainable growth.
- Strong revenue growth outlook along with improving margin trajectory led by technology adoption make the current valuation attractive. Revenue/ EBITDA / PAT are expected to grow at CAGR of 15.3%/29.8% /32.6% over FY23-FY25E.

Industry tailwinds supporting business growth across segments

- Rising urbanization and increasing demand for protection from crimes is driving demand for security services in India. International market will witness steady growth going ahead.
- Focus on infrastructure through higher capex outlay by the government as reflected in FY23-24 Budget will drive demand for the services of the company from construction stage through asset life cycle management.
- The sector is ripe for vendor consolidation and it will benefit bigger players such as SIS.

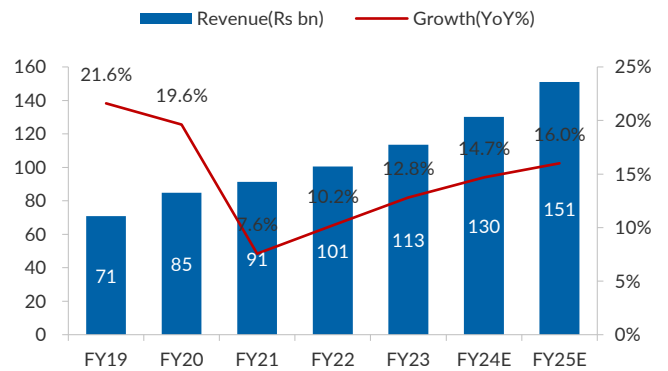
STORY IN CHARTS

Exhibit 1: Leading market position in most of the segments



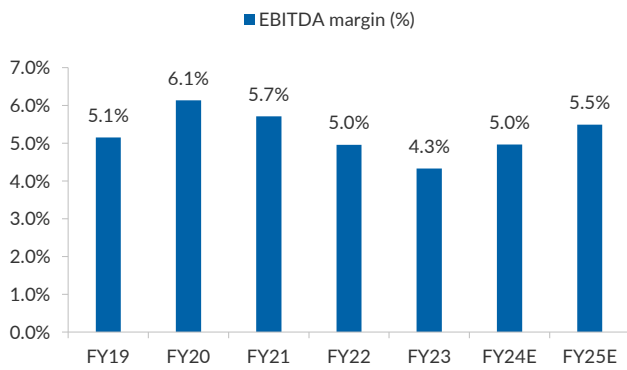
Source: Company, YES Sec

Exhibit 2: Revenue growth led by rising formalization of the sector



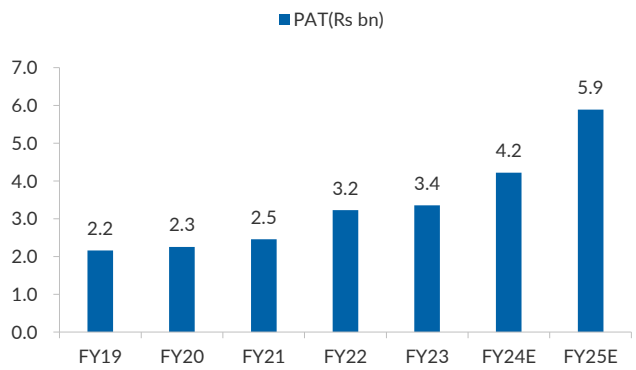
Source: Company, YES Sec

Exhibit 3: EBITDA Margin to improve going ahead



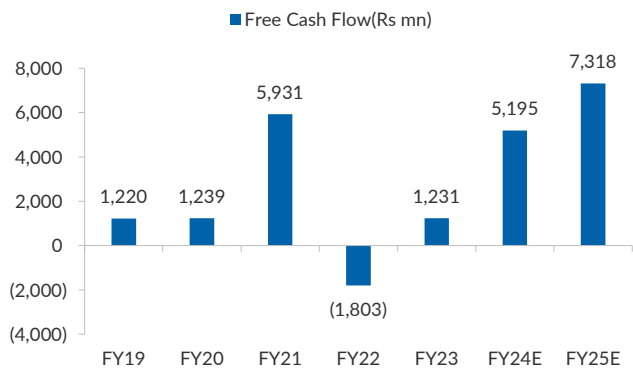
Source: Company, YES Sec

Exhibit 4: PAT maintains rising trend



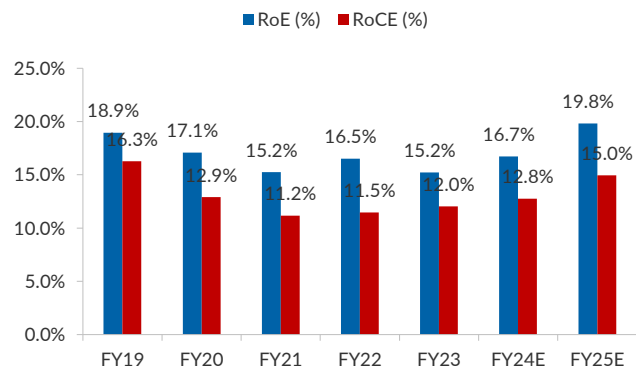
Source: Company, YES Sec

Exhibit 5: FCF to rise going ahead led by strong CFO



Source: Company, YES Sec

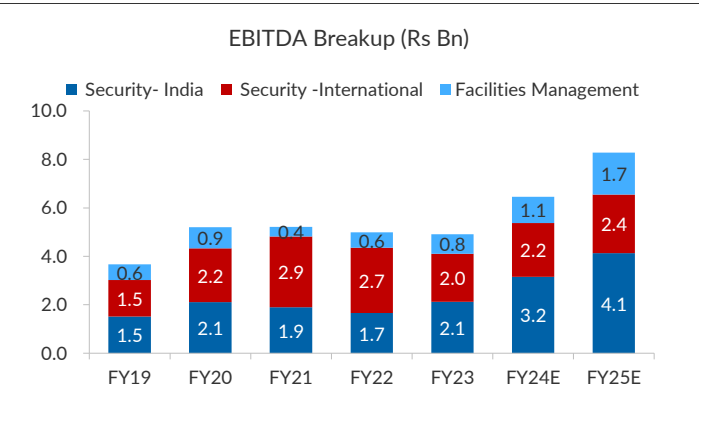
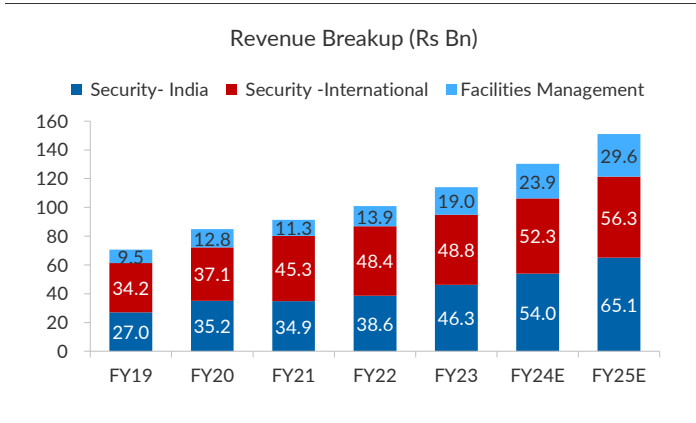
Exhibit 6: Maintain healthy returns ratios



Source: Company, YES Sec

Exhibit 7: Revenue Growth is led by India Business

Exhibit 8: Robust EBITDA even in Pandemic impacted years

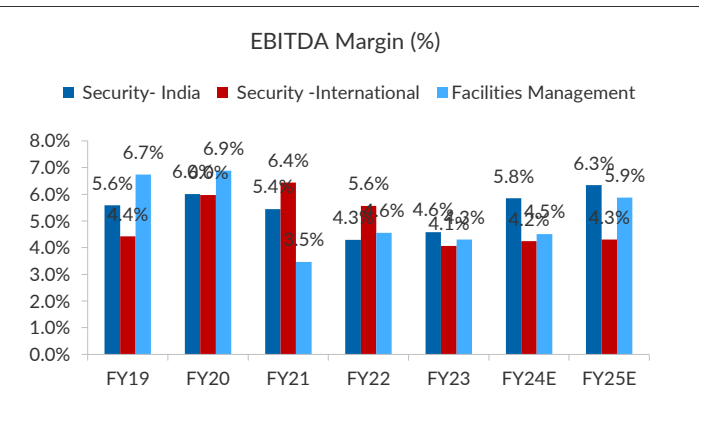
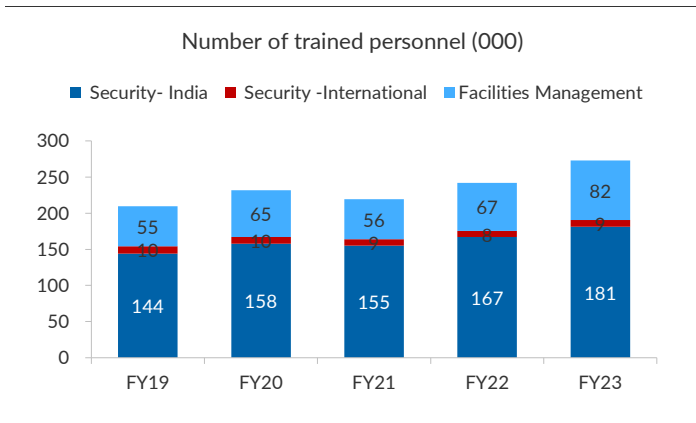


Source: Company, YES Sec

Source: Company, YES Sec

Exhibit 9: Employs more than 200K trained personnel

Exhibit 10: EBITDA margin on improving trajectory

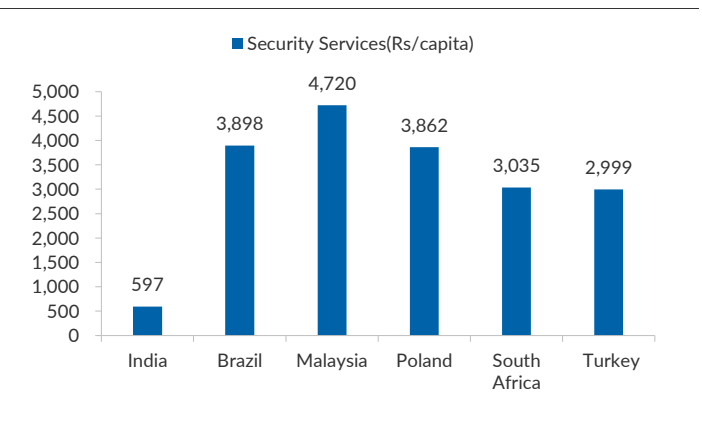
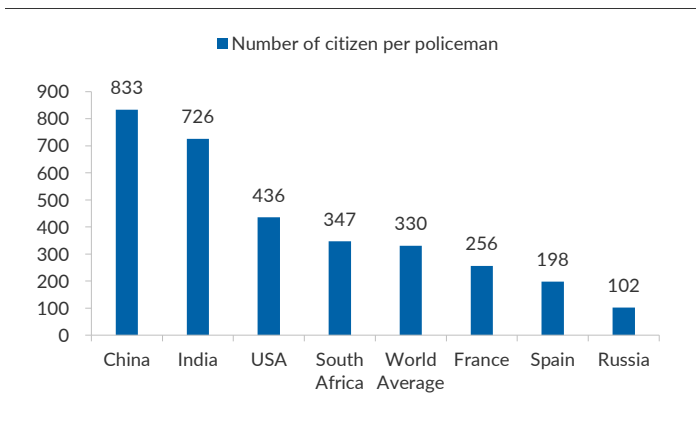


Source: Company, YES Sec

Source: Company, YES Sec

Exhibit 11: India has lesser number of policemen adjusted for its size of population

Exhibit 12: India has one of the lowest per capita spending on security services



Source: Company, YES Sec

Source: Company, YES Sec

FINANCIALS

Exhibit 13: 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	26,372	31,561
Shareholders' equity	13,884	18,308	20,713	23,333	27,101	32,289
Non controlling interest	3	21	31	-	-	-
Total equity	13,887	18,328	20,743	23,333	27,101	32,289
Secured loans	11,722	11,646	13,283	15,223	15,023	14,823
Unsecured loans	-	-	-	-	-	-
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	841	971
Other Current Liabilities	10,599	13,270	9,526	10,820	11,361	11,929
Provisions	2,578	3,689	3,858	3,958	4,031	4,651
Total current liabilities	13,715	17,621	13,967	15,417	16,233	17,551
Total Equity and Liabilities	46,521	50,398	50,963	57,127	61,535	67,867
Net fixed assets	2,662	2,564	2,792	3,106	3,116	2,916
Other NonCurrent assets	19,940	18,701	20,469	21,578	24,654	29,801
Total non-current assets	22,602	21,265	23,261	24,684	27,770	32,717
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
Loans and advances	-	-	-	-	-	-
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	61,535	67,867

Source: Company, YES Sec

Exhibit 14: 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	130,136	150,943
Operating Expenditure	79,648	86,065	95,606	108,543	123,678	142,661
EBITDA	5,204	5,208	4,985	4,915	6,458	8,282
Depreciation	1,283	1,130	1,116	1,347	1,490	1,699
EBIT	3,921	4,078	3,869	3,568	4,967	6,582
Int. and Finance Charges	1,517	1,273	984	1,149	1,252	1,151
Other Income	531	4,778	527	327	367	383
PBT bef. EO Exp.	2,935	7,583	3,413	2,747	4,082	5,814
EO Items	-	(2,762)	-	-	-	-
PBT	2,935	4,821	3,413	2,747	4,082	5,814
Total Tax	636	1,154	179	(616)	(148)	(80)
Share of (Profit)/Loss of Asso. Cos.	(44)	5	26	102	202	210
Minority Interest	(0)	(18)	(10)	(10)	(10)	(10)
Reported PAT after MI	2,255	3,690	3,269	3,475	4,443	6,114
Adjusted PAT after MI	2,255	2,453	3,223	3,353	4,221	5,884

Source: Company, YES Sec

Exhibit 15: 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	4,284	6,024
Depreciation	1,283	1,130	1,116	1,347	1,490	1,699
Interest & Finance Charges	791	1,273	984	1,149	1,252	1,151
Direct Taxes Paid	(1,276)	(604)	(179)	616	148	80
(Inc)/Dec in WC	(2,100)	1,537	(5,554)	(2,981)	(407)	34
CF from Operations	1,590	8,161	(195)	2,980	6,768	8,989
Others	424	(1,766)	(10)	31	-	-
CF from Operating incl EO(a)	2,014	6,396	(205)	3,011	6,768	8,989
(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	5,195	7,318
(Pur)/Sale of Investments	(2,110)	(2,296)	(152)	197	(50)	(50)
Others	127	1,125	(834)	(860)	(2,587)	(4,542)
CF from Investments(b)	(2,759)	(1,635)	(2,584)	(2,443)	(4,209)	(6,263)
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)	(1,252)	(1,151)
Dividend Paid	(631)	-	-	-	(665)	(916)
Others	2,866	(825)	(1,355)	(1,227)	(367)	(383)
CF from Fin. Activity(c)	1,453	(17)	(707)	(442)	(2,483)	(2,650)
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 16: Ratio Analysis

Y/e March 31	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)						
Revenue Growth	19.6	7.6	10.2	12.8	14.7	16.0
EBITDA Growth	42.5	0.1	(4.3)	(1.4)	31.4	28.2
EBIT Growth	31.0	4.0	(5.1)	(7.8)	39.2	32.5
Net Profit Growth	4.5	8.8	31.4	4.0	25.9	39.4
Profitability Ratios(%)						
EBITDA Margin	6.1	5.7	5.0	4.3	5.0	5.5
EBIT margin	4.6	4.5	3.8	3.1	3.8	4.4
Net Profit margin	2.7	2.7	3.2	3.0	3.2	3.9
RoE	17.1	15.2	16.5	15.2	16.7	19.8
RoC	24.6	22.9	22.1	20.6	21.0	23.4
RoCE	12.9	11.2	11.5	12.0	12.8	15.0
Per share						
EPS	15.1	16.5	21.6	22.5	28.3	39.5
Dividend / Share	3.7	-	-	-	4.5	6.1
BV/Share	203.1	267.8	303.0	341.3	396.4	472.3
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	19.8	15.7	11.3
PCE(x)	NA	NA	NA	6.5	5.3	4.0
Price/Book(x)	NA	NA	NA	1.3	1.1	0.9
EV/EBITDA(x)	NA	NA	NA	15.0	11.4	8.9

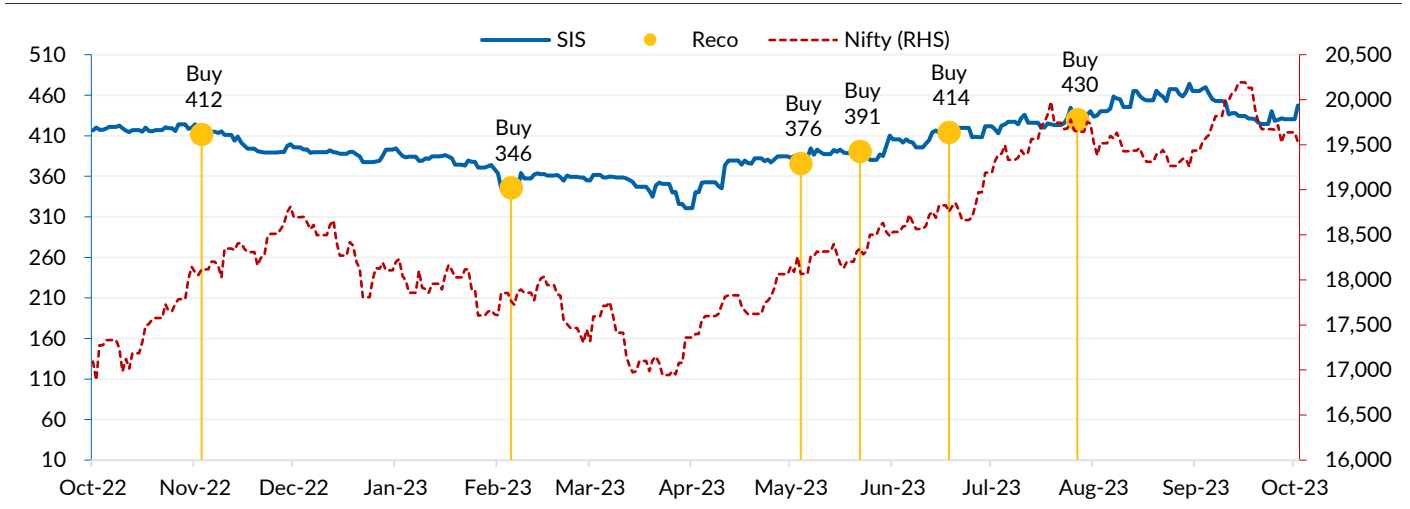
Source: Company, YES Sec

Exhibit 17: Dupont Analysis

Dupont Analysis	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	2.7%	2.7%	3.2%	3.0%	3.2%	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	2.4	2.2
Return on Equity(%)	17.1%	15.2%	16.5%	15.2%	16.7%	19.8%

Source: Company, YES Sec

Recommendation Tracker



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Analyst
Signature

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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.