

Estimate change	↓
TP change	↔
Rating change	↔

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Bloomberg	SECIS IN
Equity Shares (m)	147
M.Cap.(INRb)/(USDb)	65.7 / 0.8
52-Week Range (INR)	560 / 423
1, 6, 12 Rel. Per (%)	-6/-12/-19
12M Avg Val (INR M)	109

#### Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	100.6	114.9	133.3
EBITDA margin	5.0	5.3	6.5
PAT	2.9	3.1	4.0
EPS (INR)	19.4	20.8	27.1
EPS Gr. (%)	49.0	7.1	30.4
BV/Sh. (INR)	303.0	348.3	407.2

#### Ratios

RoE (%)	14.8	13.9	15.6
RoCE (%)	11.8	10.9	12.3
Payout (%)	0.0	0.0	0.0

#### Valuations

P/E (x)	23.0	21.5	16.5
P/BV (x)	1.5	1.3	1.1
EV/EBITDA (x)	14.5	13.7	10.7
EV/Sales (x)	0.7	0.6	0.5

#### Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	71.6	71.6	72.9
DII	4.0	4.3	5.5
FII	16.0	15.4	11.5
Others	8.5	8.7	10.1

FII Includes depository receipts

**CMP: INR447 TP: INR520 (+16%) Buy**

### Strong revenue growth to continue in FY23

#### Gradual margin recovery ahead

- SECIS reported an in line revenue (up 12.6% YoY), with margin 20bp above our estimate of 4.5%. PAT was higher at INR 8.25b on account of an income tax benefit under section 80JJAA.
- With an improving macroeconomic environment, the management commentary suggests a strong pickup in FY23, with an aspirational target of 20% revenue growth. Strong order book, increasing pipeline, and long-term tailwinds from a sector consolidation will help SECIS deliver 15% revenue CAGR (MOSLe) over FY22-24E.
- SECIS' India business should deliver a strong 22%/30% CAGR in the India Security/FM business over FY22-24E. Conversely, its Australia business should see a modest 4% CAGR over the next two years as a reduction in the ad-hoc business will partially depress recovery in the normal business.
- Margin in 1QFY23 came in ahead of our estimate. With strong growth ahead, the management expects the India business to return to a normalized margin of 5.5-6% over the next two-to-three quarters. We see a slower improvement in margin over the next four quarters as the international business reverts to a lower margin profile (4.6% for FY23E). SECIS should revert to FY21 margin levels in the medium term, backed by positive operating leverage in the India business and stable performance in the international business.
- We have tweaked our FY23/FY24 EPS estimate by 2%/6% to account for lower margin in the international business. Given the multi-dimensional opportunity, we value SECIS at INR520/share (16% upside), derived by assigning 8x forward EV/EBITDA multiple to the International business (in line with global peers) and DCF to the India business. **We maintain our Buy rating.**

### In line revenue; PAT beat on higher margin and negative ETR

- Revenue grew 12.6% YoY (est. 14.6%), EBITDA was flat (est. -4%), and adjusted PAT rose 59% (est. 16.9%) in 1QFY23.
- Increase in revenue was driven by a 40% YoY rise in FM and India Security Services (up 20%), while Australia Security Services was largely flat YoY.
- EBITDA margin contracted by 20bp QoQ to 4.5% (20bp above our estimate).
- Consolidated adjusted PAT stood at INR825m (up 59% YoY), above our estimate of 16.9%, propelled by negative ETR (down 10.7%) on account of income tax benefits under section 80JJAA.
- Net debt stood at INR6.87b (v/s INR7.2b in 3QFY22), implying a net debt/EBITDA ratio of 1.38x (as against 1.44x in 3QFY22).
- OCF/EBITDA ratio stood at 4.2% in 1QFY23 due to deployment in new large projects.

**Key highlights from the management commentary**

- The international business benefited from high margin COVID-related work, which is now coming down. The management expects COVID-related work to go away by 2QFY23. As it was a high margin business (~2% higher than regular business), margin will remain volatile in the near term. Revenue loss due to this will be offset by the regular business.
- The management expects margin in the international/India Security business to revert back to 4.5-5%/5.5-6% in a few quarters as margin is fundamentally intact.
- The management indicated that growth is returning with the economy opening up and maintained its 20% revenue growth aspiration for FY23.

**Strong and resilient growth profile to drive further upside; retain Buy**

- With liberalization and the formalization of the labor market and laws, SECIS should be among the biggest direct beneficiaries. It has managed to gain market share during the COVID-19 pandemic, and the trend is expected to continue.
- We value SECIS using SoTP valuation: 1) DCF for the India Security business (INR298), 2) an EV/EBITDA multiple of 8x (INR134) for the international Security business (in line with global peers), and 3) DCF for the Facilities Management business (INR137) less net debt (INR46). Consequently, we arrive at our TP of INR520 per share. **We reiterate our Buy rating.**
- Our TP implies a target P/E multiple of ~25x/19x for FY23E/FY43E. We view this as reasonable, given its strong growth profile and unique resilience to macroeconomic shocks.

**Consolidated quarterly performance**

Y/E March	FY22				FY23				FY22	FY23E	FY23E	(INR m)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Var. (%/bp)
<b>Gross Sales</b>	<b>23,793</b>	<b>24,309</b>	<b>26,008</b>	<b>26,480</b>	<b>26,782</b>	<b>28,213</b>	<b>29,837</b>	<b>30,114</b>	<b>1,00,590</b>	<b>1,14,945</b>	<b>27,261</b>	<b>-1.8</b>
Change (YoY %)	9.8	12.7	10.3	8.3	12.6	16.1	14.7	13.7	10.2	14.3	14.6	<b>-200bp</b>
Total Expenditure	22,580	23,079	24,711	25,236	25,575	26,962	28,484	28,652	95,606	1,09,673	26,097	-2.0
<b>EBITDA</b>	<b>1,214</b>	<b>1,231</b>	<b>1,297</b>	<b>1,244</b>	<b>1,207</b>	<b>1,250</b>	<b>1,353</b>	<b>1,462</b>	<b>4,985</b>	<b>5,272</b>	<b>1,165</b>	<b>3.7</b>
Margin (%)	5.1	5.1	5.0	4.7	4.5	4.4	4.5	4.9	5.0	4.6	4.3	20bp
Depreciation	270	264	283	298	286	296	305	309	1,116	1,196	308	-7.2
Interest	246	247	245	246	247	232	232	232	984	928	214	15.1
Other Income	39	26	35	49	67	50	50	50	150	200	50	34.8
<b>PBT</b>	<b>738</b>	<b>745</b>	<b>804</b>	<b>748</b>	<b>742</b>	<b>772</b>	<b>866</b>	<b>971</b>	<b>3,035</b>	<b>3,348</b>	<b>692</b>	<b>7.2</b>
Tax	212	112	38	-183	-80	104	117	131	179	273	93	-185.1
Rate (%)	28.8	15.0	4.7	-24.4	-10.7	13.5	13.5	13.5	5.9	8.1	13.5	-2,420bp
MI and Profit/Loss of Asso. Cos.	-6	-8	-3	43	4	6	6	8	26	24	8	-52
<b>Adjusted PAT</b>	<b>519</b>	<b>626</b>	<b>763</b>	<b>974</b>	<b>825</b>	<b>674</b>	<b>755</b>	<b>848</b>	<b>2,882</b>	<b>3,099</b>	<b>607</b>	<b>36.0</b>
Change (YoY %)	31.2	25.1	12.0	171.0	59.0	7.7	-1.1	-13.0	48.8	7.5	16.9	
Margin (%)	2.2	2.6	2.9	3.7	3.1	2.4	2.5	2.8	2.9	2.7	2.2	90bp

**Key performance indicators**

Y/E March	FY22				FY23				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Segment revenue (INR m)</b>										
India Security business	8,806	9,453	9,945	10,366	10,588				38,569	46,620
International Security business	12,007	11,563	12,469	12,366	12,051				48,405	49,792
Facilities Management	3,050	3,363	3,678	3,855	4,265				13,947	18,656
<b>EBITDA Margin (%)</b>										
India Security business	5.0	4.1	4.3	3.8	3.9				4.3	4.5
International Security business	5.3	5.9	5.6	5.4	4.9				5.6	4.6
Facilities Management	4.3	4.6	4.8	4.5	4.5				4.6	4.7

**Key highlights from the management commentary****Quarter performance and outlook**

- SECIS witnessed robust revenue growth, with good margin in 1QFY23.
- The international business benefited from high margin COVID-related work, which is now coming down. The management expects COVID-related work to go away by 2QFY23. As it was a high margin business (~2% higher than regular business), margin will remain volatile in the near term. Revenue loss due to this will be offset by the regular business.
- The Australian government has announced a 4.5% increase in the minimum wage hike, the benefit of which accrue in one or two quarters as the contract price gets negotiated. It will impact margin in the near term as increased wages will have to be paid immediately.
- Though Henderson was a high-margin business, it is currently loss-making as it was non-compliant with some regulations and had to incur certain costs. It also lost some customers due to this. It has recently received an INR30m grant from the Singapore government and has an INR25m fund to turn around and become profitable.
- There will be volatility in margin in coming quarters. In the medium-term, margin should revert to pre-COVID levels.
- In the Cash Logistics business, all service lines are growing well and the company has a strong order book and pipeline. The management suggested that this may be the best year for the cash business both in terms of revenue growth and margin.
- As the company is growing fast, it has to incur a lot of project startup costs, which will remain an overhang on cash conversion and will keep OCF/EBITDA conversion below 50% in FY23.

**Outlook**

- The management expects margin in the international/India Security business to revert back to 4.5-5%/5.5-6% in a few quarters as margin is fundamentally intact.
- The management indicated that growth is returning with the economy opening up and maintained its 20% revenue growth aspiration for FY23.
- One SIS currently contributes sub-1% to revenue. The management expects it to contribute mid-single digits in the long run.

**Strong and resilient growth profile to drive further upside; retain Buy**

- With liberalization and the formalization of the labor market and laws, SECIS should be among the biggest direct beneficiaries. It has managed to gain market share during the COVID-19 pandemic, and the trend is expected to continue.
- We value SECIS using SoTP valuation: 1) DCF for the India Security business (INR298), 2) an EV/EBITDA multiple of 8x (INR134) for the international Security business (in line with global peers), and 3) DCF for the Facilities Management business (INR137) less net debt (INR46). Consequently, we arrive at our TP of INR520 per share. **We reiterate our Buy rating.**
- Our TP implies a target P/E multiple of ~25x/19x for FY23E/FY43E. We view this as reasonable, given its strong growth profile and unique resilience to macroeconomic shocks.

**Exhibit 1: Revision to our estimates**

	Revised estimates		Earlier estimates		Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue (INR m)	1,14,945	1,33,267	1,17,307	1,35,834	-2.0%	-1.9%
Growth (%)	14.3	15.9	16.6	15.8	(235)	15
EBITDA (INR m)	5,272	6,534	5,563	6,899	-5.2%	-5.3%
EBITDA Margin (%)	4.6	4.9	4.7	5.1	(16)	(18)
PAT (INR m)	3,099	4,026	3,172	4,296	-2.3%	-6.3%
EPS (INR)	20.8	27.1	21.3	28.9	-2.3%	-6.3%

Source: Company, MOFSL

## Financials and valuation

### Consolidated Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Total Income from Operations</b>	<b>43,872</b>	<b>58,334</b>	<b>70,933</b>	<b>84,852</b>	<b>91,273</b>	<b>1,00,590</b>	<b>1,14,945</b>	<b>1,33,267</b>
Change (%)	14.4	33.0	21.6	19.6	7.6	10.2	14.3	15.9
<b>Total Expenditure</b>	<b>41,668</b>	<b>55,214</b>	<b>67,281</b>	<b>79,648</b>	<b>86,065</b>	<b>95,606</b>	<b>1,09,673</b>	<b>1,26,733</b>
As a percentage of Sales	95.0	94.7	94.9	93.9	94.3	95.0	95.4	95.1
<b>EBITDA</b>	<b>2,204</b>	<b>3,120</b>	<b>3,652</b>	<b>5,204</b>	<b>5,208</b>	<b>4,985</b>	<b>5,272</b>	<b>6,534</b>
Margin (%)	5.0	5.3	5.1	6.1	5.7	5.0	4.6	4.9
Depreciation	356	560	660	1,283	1,130	1,116	1,196	1,301
<b>EBIT</b>	<b>1,848</b>	<b>2,560</b>	<b>2,992</b>	<b>3,921</b>	<b>4,078</b>	<b>3,869</b>	<b>4,076</b>	<b>5,232</b>
Int. and Finance Charges	767	925	938	1,517	1,273	984	928	996
Other Income	113	365	177	531	279	150	200	200
<b>PBT</b>	<b>1,193</b>	<b>2,001</b>	<b>2,231</b>	<b>2,935</b>	<b>3,085</b>	<b>3,035</b>	<b>3,348</b>	<b>4,436</b>
Total Tax	27	244	-52	-477	1,154	179	273	450
Tax Rate (%)	2.3	12.2	-2.3	-16.2	37.4	5.9	8.1	10.2
Minority Interest	-60	-118	-135	-44	5	26	24	40
<b>Adjusted PAT</b>	<b>1,106</b>	<b>1,639</b>	<b>2,147</b>	<b>3,368</b>	<b>1,936</b>	<b>2,882</b>	<b>3,099</b>	<b>4,026</b>
Change (%)	46.1	48.2	31.0	56.8	-42.5	48.8	7.5	29.9
Margin (%)	2.5	2.8	3.0	4.0	2.1	2.9	2.7	3.0

### Consolidated Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	687	732	733	733	742	735	735	735
Total Reserves	4,744	9,551	11,766	13,151	17,566	19,977	23,077	27,103
<b>Net Worth</b>	<b>5,431</b>	<b>10,283</b>	<b>12,499</b>	<b>13,884</b>	<b>18,308</b>	<b>20,713</b>	<b>23,812</b>	<b>27,838</b>
Minority Interest	146	14	3	3	21	31	31	31
Total Loans	7,625	5,361	9,498	11,722	11,646	13,283	14,283	13,283
Deferred Tax Liabilities	-629	-2,105	-3,397	-4,374	-3,993	-5,306	-5,306	-5,306
<b>Capital Employed</b>	<b>12,573</b>	<b>13,553</b>	<b>18,603</b>	<b>21,235</b>	<b>25,980</b>	<b>28,720</b>	<b>32,820</b>	<b>35,846</b>
Gross Block	3,853	4,024	5,158	7,362	8,394	9,725	11,225	12,725
Less: Accum. Deprn.	2,197	2,757	3,416	4,699	5,830	6,934	8,129	9,431
<b>Net Fixed Assets</b>	<b>1,657</b>	<b>1,267</b>	<b>1,742</b>	<b>2,662</b>	<b>2,564</b>	<b>2,792</b>	<b>3,096</b>	<b>3,295</b>
Goodwill on Consolidation	2,724	4,691	12,284	12,323	11,413	11,647	11,647	11,647
Capital WIP	40	10	10	17	50	23	33	43
Others	0	1,466	1,891	1,737	1,750	1,820	1,709	1,759
<b>Total Investments</b>	<b>195</b>	<b>1,460</b>	<b>1,782</b>	<b>1,490</b>	<b>1,494</b>	<b>1,673</b>	<b>1,673</b>	<b>1,673</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>15,240</b>	<b>16,943</b>	<b>21,137</b>	<b>23,919</b>	<b>29,133</b>	<b>27,702</b>	<b>32,985</b>	<b>37,060</b>
Inventory	40	142	254	339	309	340	360	380
Account Receivables	4,617	6,243	9,530	11,750	12,430	13,913	17,125	19,721
Cash and Bank Balance	4,508	5,428	5,429	6,137	10,880	7,384	8,829	9,620
Loans and Advances	6,075	4,238	0	0	0	0	0	0
Others	0	893	5,925	5,693	5,513	6,065	6,671	7,338
<b>Curr. Liability and Prov.</b>	<b>7,283</b>	<b>8,449</b>	<b>10,938</b>	<b>13,715</b>	<b>17,621</b>	<b>13,967</b>	<b>15,353</b>	<b>16,661</b>
Account Payables	466	806	661	538	661	583	886	1,020
Other Current Liabilities	3,827	5,457	7,864	10,599	13,270	9,526	10,334	11,221
Provisions	2,991	2,185	2,413	2,578	3,689	3,858	4,134	4,420
<b>Net Current Assets</b>	<b>7,958</b>	<b>8,495</b>	<b>10,199</b>	<b>10,204</b>	<b>11,512</b>	<b>13,735</b>	<b>17,632</b>	<b>20,399</b>
Other Non-Current Liabilities	0	-3,834	-9,305	-7,198	-2,803	-2,970	-2,970	-2,970
<b>Appl. of Funds</b>	<b>12,573</b>	<b>13,553</b>	<b>18,603</b>	<b>21,234</b>	<b>25,980</b>	<b>28,720</b>	<b>32,820</b>	<b>35,845</b>

## Financials and valuation

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>16.2</b>	<b>20.3</b>	<b>29.3</b>	<b>24.1</b>	<b>13.0</b>	<b>19.4</b>	<b>20.8</b>	<b>27.1</b>
Cash EPS	21.4	32.2	41.1	68.0	44.9	58.5	62.8	77.9
BV/Share	79.4	150.4	182.8	203.1	267.8	303.0	348.3	407.2
DPS	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	9.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>								
P/E ratio	27.6	22.0	15.2	18.5	34.3	23.0	21.5	16.5
Cash P/E ratio	20.9	13.9	10.9	6.6	10.0	7.6	7.1	5.7
P/BV ratio	5.6	3.0	2.4	2.2	1.7	1.5	1.3	1.1
EV/Sales ratio	0.8	0.6	0.5	0.8	0.7	0.7	0.6	0.5
EV/EBITDA ratio	15.3	11.5	10.1	13.1	12.9	14.5	13.7	10.7
FCF per share	4.4	16.6	16.7	8.9	39.9	8.9	9.2	18.8
<b>Return Ratios (%)</b>								
RoE	22.3	20.9	18.8	25.5	12.0	14.8	13.9	15.6
RoCE	17.4	17.9	17.2	21.7	9.8	11.8	10.9	12.3
RoIC	28.4	31.0	33.9	36.5	18.8	21.9	17.9	20.1
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	11.4	14.5	13.8	11.5	10.9	10.3	10.2	10.5
Asset Turnover (x)	3.5	4.3	3.8	4.0	3.5	3.5	3.5	3.7
Debtor (Days)	38	39	49	51	50	50	54	54
Creditor (Days)	4	5	3	2	3	2	3	3
<b>Leverage Ratio (x)</b>								
Interest Coverage Ratio	2.4	2.8	3.2	2.6	3.2	3.9	4.4	5.3
Net Debt/Equity ratio	0.5	-0.1	0.2	0.3	0.0	0.2	0.2	0.1

### Consolidated Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,129	1,874	2,095	2,891	4,826	3,439	3,372	4,476
Depreciation	457	560	660	1,283	1,130	1,116	1,196	1,301
Interest and Finance Charges	625	654	751	791	-3,061	444	928	996
Direct Taxes Paid	-817	-706	-1,054	-1,276	-604	-2,059	-273	-450
(Inc.)/Dec. in WC	-744	-549	-742	-2,100	1,537	-899	-2,452	-1,976
<b>CF from Operations</b>	<b>649</b>	<b>1,832</b>	<b>1,710</b>	<b>1,590</b>	<b>3,828</b>	<b>2,040</b>	<b>2,772</b>	<b>4,348</b>
Others	296	25	339	424	2,568	295	0	0
<b>CF from Operations incl. EO</b>	<b>944</b>	<b>1,858</b>	<b>2,049</b>	<b>2,014</b>	<b>6,396</b>	<b>2,335</b>	<b>2,772</b>	<b>4,348</b>
(Inc.)/Dec. in FA	-647	-516	-829	-775	-464	-1,021	-1,399	-1,560
<b>Free Cash Flow</b>	<b>298</b>	<b>1,342</b>	<b>1,220</b>	<b>1,239</b>	<b>5,931</b>	<b>1,314</b>	<b>1,373</b>	<b>2,788</b>
(Pur.)/Sale of Investments	-1,521	-464	-4,537	-2,110	-2,296	-485	0	0
Others	23	109	142	127	1,125	281	0	0
<b>CF from Investments</b>	<b>-2,146</b>	<b>-871</b>	<b>-5,224</b>	<b>-2,758</b>	<b>-1,635</b>	<b>-1,224</b>	<b>-1,399</b>	<b>-1,560</b>
Issue of Shares	0	3,411	0	0	8	2	0	0
Inc./(Dec.) in Debt	2,931	-1,360	2,098	204	1,342	-1,333	1,000	-1,000
Interest Paid	-717	-880	-718	-986	-909	-933	-928	-996
Dividend Paid	3	-174	-112	-631	0	0	0	0
Others	0	-1,062	1,908	2,866	-458	-2,345	0	0
<b>CF from Fin. Activity</b>	<b>2,217</b>	<b>-66</b>	<b>3,177</b>	<b>1,453</b>	<b>-18</b>	<b>-4,608</b>	<b>72</b>	<b>-1,996</b>
<b>Inc./Dec. in Cash</b>	<b>1,015</b>	<b>921</b>	<b>1</b>	<b>708</b>	<b>4,743</b>	<b>-3,497</b>	<b>1,445</b>	<b>791</b>
Opening Balance	3,493	4,508	5,429	5,430	6,138	10,881	7,384	8,829
<b>Closing Balance</b>	<b>4,508</b>	<b>5,429</b>	<b>5,430</b>	<b>6,138</b>	<b>10,881</b>	<b>7,384</b>	<b>8,829</b>	<b>9,620</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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