

Estimate change	↔
TP change	↔
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Bloomberg	SECIS IN
Equity Shares (m)	147
M.Cap.(INRb)/(USDb)	62.6 / 0.8
52-Week Range (INR)	474 / 318
1, 6, 12 Rel. Per (%)	1/4/-22
12M Avg Val (INR M)	39

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	113.5	128.4	148.7
EBITDA margin	4.9	6.2	7.9
Adj. PAT	3.5	3.9	5.4
EPS (INR)	23.2	26.4	35.8
EPS Gr. (%)	19.7	13.7	35.4
BV/Sh. (INR)	341.3	398.8	477.7

Ratios

RoE (%)	15.7	15.5	18.0
RoCE (%)	13.1	11.8	14.1
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	18.5	16.3	12.0
P/BV (x)	1.3	1.1	0.9
EV/EBITDA (x)	14.6	11.4	8.6
EV/Sales (x)	0.6	0.5	0.5

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	71.6	71.6	71.6
DII	4.0	4.1	4.0
FII	15.2	15.0	16.0
Others	9.2	9.4	8.5

FII Includes depository receipts

CMP: INR430 TP: INR510 (+19%) Buy

Good growth along with margin recovery to drive earnings

Strong growth visibility over medium term

- SIS (SECIS) reported an in-line performance with revenue up 11.1% YoY and its EBITDA margin standing at 4.7%. Despite a weak macro environment, SIS delivered healthy growth in 1QFY24. The management commentary remained strong. Cross-selling opportunities in India Security and FM business, coupled with an increase in minimum wages, and longer-term tailwinds from sector consolidation, are expected to position SIS for a 14.5% revenue CAGR (MOSLe) over FY23-25.
- SIS India business is expected to deliver a strong revenue CAGR of 19%/25% in the India Security/FM business for FY23-25. Conversely, its Australia business is expected to witness a modest 4% CAGR over the next two years.
- Though 1QFY24 margin was in line with our estimates, the margin expansion in India Security business was promising. The management is adopting similar margin improvement approach for the Facility Management business and expects substantial improvements in that segment. With stabilization in SG&A costs and strong growth ahead, the management expects to return to pre-covid level margin (~6%) in its India security and facility management businesses. We expect overall margins at 4.8%/5.3% for FY24/FY25. The company is expected to return to FY21-level margin in the medium term, backed by positive operating leverage in its India business and stable performance in its international business.
- We have largely maintained our EPS estimates on the stable quarter. Given the multi-dimensional opportunity, we value SIS at INR510/share (18% upside), derived by assigning 8x forward EV/EBITDA multiple to International business (in line with global peers) and DCF to India business. We reiterate our **BUY** rating on the stock.

In-line 1QFY24 performance

- SIS's revenue increased 11.1% YoY (est. 12.2%); EBITDA up 15% YoY (in line); Adj PAT up 8% YoY (vs. expectation of a 5% YoY decline)
- Sequential revenue growth was led by 3% QoQ growth in Facility management. India security grew 1.2% QoQ, while International security declined 3.7% QoQ.
- EBITDA margin stood at 4.7%, up 20bp QoQ (in line with our estimate of 4.6%). While margins for India Security improved 40bp QoQ, margin for International security and facility management was flat sequentially.
- Consolidated adj. PAT stood at INR835m (up 8% YoY), above our estimate of INR 787m on higher tax benefits (ETR at negative 6%)
- Net debt increased to INR9.8b, with Net debt/EBITDA now at 1.9x. OCF/EBITDA conversion was weak at -26.1%.

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Key highlights from the management commentary

- The company has placed tremendous focus on margin improvement, with the India Security business experiencing a significant 40bp QoQ improvement. A similar margin improvement approach is also being applied to the Facility Management business, which is expected to witness a strong margin recovery in the coming quarters.
- In Australia, there were delays in a few contracts, resulting in muted revenues during the period. However, these contracts are expected to resume in the coming quarters.
- The management is confident of restoring EBITDA margins for all businesses to pre-covid levels, primarily because the gross margins remain unaffected.

Strong and resilient growth profile to drive further upside; retain BUY

- With liberalization and formalization of labor markets and laws, SIS should be among the biggest direct beneficiaries. SIS has managed to gain market share during the pandemic and the trend is expected to continue.
- We value SECIS using SOTP: 1) DCF for the India Security business (INR347), 2) an EV/EBITDA multiple of 8x (INR110) for the International Security business (in line with global peers), and 3) DCF for the Facilities Management business (INR122) less net debt (INR67). Consequently, we arrive at our TP of INR510. We reiterate our BUY rating on the stock.
- Our TP implies a target P/E multiple of 14x for FY25E. We view this as reasonable, given its strong growth profile and unique resilience to macroeconomic shocks.

Consolidated - Quarterly performance

Y/E March	FY23				FY24				FY23	FY24E	(INR m)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			Est. 1Q	Var (%/bp)
Gross Sales	26,782	27,677	29,043	29,957	29,767	31,023	33,036	34,549	1,13,458	1,28,375	30,059	-1.0
YoY Change (%)	12.6	13.9	11.7	13.1	11.1	12.1	13.8	15.3	12.8	13.1	12.2	-110bp
Total Expenditure	25,575	26,579	27,779	28,610	28,377	29,606	31,438	32,779	1,08,543	1,22,200	28,673	-1.0
EBITDA	1,207	1,098	1,264	1,347	1,390	1,417	1,598	1,770	4,915	6,175	1,387	0.3
Margin (%)	4.5	4.0	4.4	4.5	4.7	4.6	4.8	5.1	4.3	4.8	4.6	10bp
Depreciation	286	331	342	388	358	377	392	408	1,347	1,535	393	-8.9
Interest	247	275	310	317	327	327	327	-21	1,149	961	240	36.3
Other Income	67	81	30	149	88	88	88	-63	327	200	50	75.3
PBT	742	572	642	791	793	800	967	1,320	2,747	3,880	804	-1.3
Tax	-80	-80	-379	-77	-50	40	48	66	-616	105	40	-223.2
Rate (%)	-10.7	-14.1	-59.0	-9.7	-6.2	5.0	5.0	5.0	-22.4	2.7	5.0	-1,120bp
MI & Profit/Loss of Asso. Cos.	4	22	13	64	52	33	31	36	102	152	24	121
Adjusted PAT	825	674	1,034	931	895	793	949	1,290	3,465	3,927	787	13.7
YoY Change (%)	59.0	7.7	35.5	-4.4	8.4	17.6	-8.2	38.5	20.2	13.3	-4.6	
Margins (%)	3.1	2.4	3.6	3.1	3.0	2.6	2.9	3.7	3.1	3.1	2.6	40bp

Key Performance Indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Segment Revenue (INR m)										
India Security business	10,588	11,491	12,032	12,149	12,291				46,261	
International Security business	12,051	11,613	12,191	12,904	12,427				48,759	
Facilities Management	4,265	4,724	4,973	5,037	5,190				18,998	
EBITDA Margin (%)										
India Security business	3.9	4.5	4.9	5.0	5.4				4.6	
International Security business	4.9	3.3	4.0	4.0	4.0				4.1	
Facilities Management	4.5	4.4	4.0	4.4	4.4				4.3	



Key highlights from the management commentary

Quarterly performance

- SECIS witnessed decent revenue growth and healthy margins in 1QFY24 and expects further margin recovery in the future.
- The company has placed tremendous focus on margin improvement, with the India Security business experiencing a significant 40bp QoQ improvement. A similar margin improvement approach is also being applied to the Facility Management business, which is expected to witness a strong margin recovery in the coming quarters.
- There has been significant wage hike in the Australia business. Due to the lag in price increases compared to wage hikes, there may be some near-term pressure on margins. However, the management anticipates that margins will revert to their normal levels once the contracts are re-negotiated.
- In Australia, there were delays in a few contracts, resulting in muted revenues during the period. However, these contracts are expected to resume in the coming quarters.
- Cash flow conversion was lower due to higher DSOs caused by collection delays typically observed in April and May, following collections made in March. The management expects this to normalize in the coming quarters.
- In FY22, due to strong focus on growth, SECIS decided to top up branch costs, leading to an impact on margins. Additionally, the return of travel expenses and higher wage costs also contributed to margin pressures. However, the management is confident of continued margin recovery. Looking ahead, the company expects to leverage various margin-improvement factors, including securing new contracts with better margins, a robust solutions business (high margin), and optimizing SG&A expenses.
- In cash logistics business, unlike peers, the company generates 80% of its revenue from bank process outsourcing and 20% from the ATM business. Over the years, the company has successfully transformed from a traditional cash-focused business to a primarily bank outsourcing-oriented enterprise.
- Consolidation of players in cash management helps improve pricing and route density, and reduce competition.
- In the cash logistics segment, SECIS is also working with a few micro-finance companies, which presents a promising growth opportunity for the business.
- VProtect, the company's alarm monitoring business, currently operates in double-digit margins.

Outlook

- The management is confident of restoring EBITDA margins for all businesses to pre-covid levels, primarily because the gross margins remain unaffected.
- The growth in underlying businesses remains strong, and the management remains confident of strong growth ahead.

Strong and resilient growth profile to drive further upside; retain BUY

- With liberalization and formalization of labor markets and laws, SIS should be among the biggest direct beneficiaries. SIS has managed to gain market share during the pandemic and the trend is expected to continue.
- We value SECIS using SOTP: 1) DCF for the India Security business (INR347), 2) an EV/EBITDA multiple of 8x (INR110) for the International Security business (in line with global peers), and 3) DCF for the Facilities Management business (INR122) less net debt (INR67). Consequently, we arrive at our TP of INR510. We reiterate our BUY rating on the stock.
- Our TP implies a target P/E multiple of 14x for FY25E. We view this as reasonable, given its strong growth profile and unique resilience to macroeconomic shocks.

Exhibit 1: Revision to our estimates

	Revised		Earlier		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue (INR m)	1,28,375	1,48,687	1,29,923	1,50,202	-1.2%	-1.0%
Growth (%)	13.1	15.8	14.5	15.6	(136)	21
EBITDA (INR m)	6,175	7,858	6,352	7,739	-2.8%	1.5%
EBITDA Margin (%)	4.8	5.3	4.9	5.2	(8)	13
PAT (INR m)	3,927	5,393	3,866	5,162	1.6%	4.5%
EPS (INR)	26.4	35.8	26.0	34.3	1.6%	4.5%

Source: Company, MOFSL

Financials and valuation

Consolidated - Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	58,334	70,933	84,852	91,273	1,00,590	1,13,458	1,28,375	1,48,687
Change (%)	33.0	21.6	19.6	7.6	10.2	12.8	13.1	15.8
Total Expenditure	55,214	67,281	79,648	86,065	95,606	1,08,543	1,22,200	1,40,829
% of Sales	94.7	94.9	93.9	94.3	95.0	95.7	95.2	94.7
EBITDA	3,120	3,652	5,204	5,208	4,985	4,915	6,175	7,858
Margin (%)	5.3	5.1	6.1	5.7	5.0	4.3	4.8	5.3
Depreciation	560	660	1,283	1,130	1,116	1,347	1,535	1,690
EBIT	2,560	2,992	3,921	4,078	3,869	3,568	4,640	6,168
Int. and Finance Charges	925	938	1,517	1,273	984	1,149	961	856
Other Income	365	177	531	279	150	327	200	200
PBT	2,001	2,231	2,935	3,085	3,035	2,747	3,880	5,513
Total Tax	244	-52	-477	1,154	179	-616	105	276
Tax Rate (%)	12.2	-2.3	-16.2	37.4	5.9	-22.4	2.7	5.0
Minority Interest	-118	-135	-44	5	26	102	152	156
Adjusted PAT	1,639	2,147	3,368	1,936	2,882	3,465	3,927	5,393
Change (%)	48.2	31.0	56.8	-42.5	48.8	20.2	13.3	37.3
Margin (%)	2.8	3.0	4.0	2.1	2.9	3.1	3.1	3.6

Consolidated - Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	732	733	733	742	735	729	729	729
Total Reserves	9,551	11,766	13,151	17,566	19,977	22,604	26,532	31,924
Net Worth	10,283	12,499	13,884	18,308	20,713	23,333	27,260	32,653
Minority Interest	14	3	3	21	31	0	0	0
Total Loans	5,361	9,498	11,722	11,646	13,283	15,223	13,723	12,223
Deferred Tax Liabilities	-2,105	-3,397	-4,374	-3,993	-5,306	-6,405	-6,405	-6,405
Capital Employed	13,553	18,603	21,235	25,980	28,720	32,151	34,578	38,471
Gross Block	4,024	5,158	7,362	8,394	9,737	11,398	13,198	14,998
Less: Accum. Deprn.	2,757	3,416	4,699	5,830	6,945	8,292	9,827	11,517
Net Fixed Assets	1,267	1,742	2,662	2,564	2,792	3,106	3,371	3,481
Goodwill on Consolidation	4,691	12,284	12,323	11,413	11,647	11,395	11,395	11,395
Capital WIP	10	10	17	50	23	195	205	215
Others	1,466	1,891	1,737	1,750	1,820	2,004	1,886	1,936
Total Investments	1,460	1,782	1,490	1,494	1,673	1,579	1,579	1,579
Curr. Assets, Loans&Adv.	16,943	21,137	23,919	29,133	27,702	32,443	35,529	41,616
Inventory	142	254	339	309	340	314	334	354
Account Receivables	6,243	9,530	11,750	12,430	13,913	16,777	19,214	22,013
Cash and Bank Balance	5,428	5,429	6,137	10,880	7,384	7,510	7,354	9,759
Loans and Advances	4,238	0	0	0	0	0	0	0
Others	893	5,925	5,693	5,513	6,065	7,842	8,626	9,489
Curr. Liability & Prov.	8,449	10,938	13,715	17,621	13,967	15,417	16,233	18,597
Account Payables	806	661	538	661	583	639	994	1,139
Other Current Liabilities	5,457	7,864	10,599	13,270	9,526	10,820	10,932	12,525
Provisions	2,185	2,413	2,578	3,689	3,858	3,958	4,307	4,934
Net Current Assets	8,495	10,199	10,204	11,512	13,735	17,026	19,296	23,018
Other Non-Current Liabilities	-3,834	-9,305	-7,198	-2,803	-2,970	-3,154	-3,154	-3,154
Appl. of Funds	13,553	18,603	21,234	25,980	28,720	32,151	34,578	38,471

Financials and valuation

Ratios								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	20.3	29.3	24.1	13.0	19.4	23.2	26.4	35.8
Cash EPS	32.2	41.1	68.0	44.9	58.5	70.4	79.9	103.6
BV/Share	150.4	182.8	203.1	267.8	303.0	341.3	398.8	477.7
DPS	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	9.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	21.2	14.7	17.9	33.1	22.2	18.5	16.3	12.0
Cash P/E	13.4	10.5	6.3	9.6	7.4	6.1	5.4	4.2
P/BV	2.9	2.4	2.1	1.6	1.4	1.3	1.1	0.9
EV/Sales	0.6	0.5	0.8	0.7	0.7	0.6	0.5	0.5
EV/EBITDA	11.1	9.8	12.6	12.4	14.0	14.6	11.4	8.6
FCF per share	16.6	16.7	8.9	39.9	8.9	3.5	15.5	31.6
Return Ratios (%)								
RoE	20.9	18.8	25.5	12.0	14.8	15.7	15.5	18.0
RoCE	17.9	17.2	21.7	9.8	11.8	13.1	11.8	14.1
RoIC	31.0	33.9	36.5	18.8	21.9	20.6	18.7	22.4
Working Capital Ratios								
Fixed Asset Turnover (x)	14.5	13.8	11.5	10.9	10.3	10.0	9.7	9.9
Asset Turnover (x)	4.3	3.8	4.0	3.5	3.5	3.5	3.7	3.9
Debtor (Days)	39	49	51	50	50	54	55	54
Creditor (Days)	5	3	2	3	2	2	3	3
Leverage Ratio (x)								
Interest Cover Ratio	2.8	3.2	2.6	3.2	3.9	3.1	4.8	7.2
Net Debt/Equity	-0.1	0.2	0.3	0.0	0.2	0.3	0.2	0.0

Consolidated - Cash Flow Statement								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	1,874	2,095	2,891	4,826	3,439	2,849	4,032	5,669
Depreciation	560	660	1,283	1,130	1,116	1,347	1,535	1,690
Interest & Finance Charges	654	751	791	-3,061	444	884	961	856
Direct Taxes Paid	-706	-1,054	-1,276	-604	-2,059	-938	-105	-276
(Inc)/Dec in WC	-549	-742	-2,100	1,537	-899	-2,608	-2,426	-1,317
CF from Operations	1,832	1,710	1,590	3,828	2,040	1,535	3,997	6,621
Others	25	339	424	2,568	295	174	0	0
CF from Operating incl EO	1,858	2,049	2,014	6,396	2,335	1,709	3,997	6,621
(Inc)/Dec in FA	-516	-829	-775	-464	-1,021	-1,187	-1,693	-1,860
Free Cash Flow	1,342	1,220	1,239	5,931	1,314	522	2,304	4,761
(Pur)/Sale of Investments	-464	-4,537	-2,110	-2,296	-485	-632	0	0
Others	109	142	127	1,125	281	340	0	0
CF from Investments	-871	-5,224	-2,758	-1,635	-1,224	-1,480	-1,693	-1,860
Issue of Shares	3,411	0	0	8	2	1	0	0
Inc/(Dec) in Debt	-1,360	2,098	204	1,342	-1,333	-219	-1,500	-1,500
Interest Paid	-880	-718	-986	-909	-933	-1,066	-961	-856
Dividend Paid	-174	-112	-631	0	0	0	0	0
Others	-1,062	1,908	2,866	-458	-2,345	1,180	0	0
CF from Fin. Activity	-66	3,177	1,453	-18	-4,608	-103	-2,461	-2,356
Inc/Dec of Cash	921	1	708	4,743	-3,497	126	-156	2,406
Opening Balance	4,508	5,429	5,430	6,138	10,881	7,384	7,510	7,354
Closing Balance	5,429	5,430	6,138	10,881	7,384	7,510	7,354	9,759

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SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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