

Estimate change	↔
TP change	↓
Rating change	↔

Bloomberg	SECIS IN
Equity Shares (m)	147
M.Cap.(INRb)/(USDb)	60.1 / 0.7
52-Week Range (INR)	486 / 318
1, 6, 12 Rel. Per (%)	-1/2/-7
12M Avg Val (INR M)	42

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	113.5	126.6	145.8
EBITDA margin	4.9	6.1	7.7
Adj. PAT	3.5	3.8	5.3
EPS (INR)	23.2	25.5	35.5
EPS Gr. (%)	19.7	9.8	39.0
BV/Sh. (INR)	341.3	396.8	474.9

Ratios

RoE (%)	15.7	15.0	17.9
RoCE (%)	13.1	11.8	13.9
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	17.8	16.2	11.6
P/BV (x)	1.2	1.0	0.9
EV/EBITDA (x)	14.1	11.1	8.4
EV/Sales (x)	0.6	0.5	0.4

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	71.6	71.6	71.5
DII	3.1	4.0	4.5
FII	16.3	15.2	15.0
Others	9.0	9.2	9.0

FII Includes depository receipts

CMP: INR412 TP: INR490 (+19%) Buy

Growth to remain strong; margin recovery to drive earnings

Valuations remain favorable; reiterate BUY

- SIS reported an in-line performance in 2QFY24. Its revenue increased 11.1% YoY, while its EBITDA margin stood at 4.7%. Despite a weak macro environment, SIS delivered healthy growth in 2QFY24. The management commentary remained strong, suggesting robust growth in 2HFY24 aided by strong order book. Cross-selling opportunities in India Security and Facility Management (FM) businesses, coupled with an increase in minimum wages and long-term tailwinds from sector consolidation, are expected to position SIS for a 13.4% revenue CAGR (MOSLe) over FY23-25.
- India Security/FM businesses are likely to deliver a strong revenue CAGR of 19%/18% for FY23-25. Conversely, its Australia business is anticipated to report a modest 6.8% CAGR over the next two years.
- After recording a strong improvement in 1QFY24, the margin uptrend continued for the India Security business. Margin improved 70bp over the last two quarters, which is promising. Though FM posted a 40bp sequential margin decline, management is adopting a similar margin improvement approach for the FM business by rationalizing its low-margin accounts. The management expects a gradual margin recovery in the FM business. With stabilization in SG&A costs and strong growth ahead, SIS anticipates to return to the pre-Covid level margin (of ~6%) in its India Security and FM businesses. We expect an overall margin of 4.8%/5.3% for FY24/FY25. The company is likely to return to FY21-level margin in the medium term, backed by healthy operating leverage in its India business and stable performance in its international business.
- We have largely maintained our EPS estimates aided by the stable quarter. Given the multi-dimensional opportunity, we value SIS at INR490/share (19% potential upside), derived by assigning 8x forward EV/EBITDA multiple to International business (in line with global peers) and DCF to the India business. **We reiterate our BUY rating on the stock.**

Operating performance in line

- SIS's revenue increased 11.1% YoY and 3% QoQ to ~INR30.7b in 2QFY24, in line with our expectations.
- Sequential revenue growth was led by ~6% QoQ growth in India Security. FM business rose 1.7% QoQ while International security grew 1.3% QoQ.
- EBITDA margin, at 4.7%, was flat QoQ (in line with our estimate of 4.6%).
- Consolidated adj. PAT stood at INR753m (+12% YoY; in line). Tax rate was higher at 16% vs. 5% estimated.
- Net debt increased to INR10.5b. Net debt/EBITDA was at 1.9x. OCF/EBITDA conversion was weak at 2.3% in 2QFY24.

Key highlights from the management commentary

- During Covid-19, as FM business was hit, SIS had to take up several low-margin contracts. Currently, the FM business is under a portfolio review exercise to identify and fix the low-margin contracts. These contracts are either negotiated for re-pricing or replaced with better-margin contracts.
- VProtect continues to see strong traction and has an order book of over 5k. Tech SIS is expected to deliver one of its best years backed by a strong order book. Currently, 8-10% of its security business revenue comes from solutions. For the FM segment, solutions business contributes as much as 30% to revenue.
- Management suggested a strong 2HFY24 aided by a strong order book. It is confident of restoring EBITDA margins for all businesses to the pre-Covid levels.

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

- With the 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 last few years, and the trend is expected to continue.
- We value SIS by using an SoTP method: 1) DCF for the India Security business (INR347), 2) an EV/EBITDA multiple of 8x (INR116) for the International Security business (in line with global peers), and 3) DCF for the FM business (INR100) less net debt (INR71). Consequently, we arrive at our TP of INR490. **We reiterate our BUY rating on the stock.**
- Our TP implies a target P/E multiple of 12x for FY25E. We view this as reasonable, given its strong growth profile and unique resilience to macro shocks.

Consolidated - Quarterly performance

Y/E March	FY23				FY24				FY23	FY24E	Est.	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2Q	(%/bp)
Gross Sales	26,782	27,677	29,043	29,957	29,767	30,736	32,108	34,032	1,13,458	1,26,643	30,404	1.1
YoY Change (%)	12.6	13.9	11.7	13.1	11.1	11.1	10.6	13.6	12.8	11.6	9.9	120bp
Total Expenditure	25,575	26,579	27,779	28,610	28,377	29,292	30,560	32,304	1,08,543	1,20,532	29,006	1.0
EBITDA	1,207	1,098	1,264	1,347	1,390	1,445	1,548	1,728	4,915	6,111	1,398	3.4
Margin (%)	4.5	4.0	4.4	4.5	4.7	4.7	4.8	5.1	4.3	4.8	4.6	10bp
Depreciation	286	331	342	388	358	404	415	434	1,347	1,611	377	7.1
Interest	247	275	310	317	327	347	250	242	1,149	1,166	327	6.0
Other Income	67	81	30	149	88	125	120	117	327	450	88	42.7
PBT	742	572	642	791	793	819	1,003	1,169	2,747	3,784	781	4.8
Tax	-80	-80	-379	-77	-50	132	50	58	-616	191	39	237.1
Rate (%)	-10.7	-14.1	-59.0	-9.7	-6.2	16.1	5.0	5.0	-22.4	5.0	5.0	NM
MI & Profit/Loss of Asso. Cos.	4	22	13	64	52	66	37	42	102	197	33	99
Adjusted PAT	825	674	1,034	931	895	753	989	1,153	3,465	3,790	775	-2.9
YoY Change (%)	59.0	7.7	35.5	-4.4	8.4	11.6	-4.3	23.8	20.2	9.4	14.9	
Margins (%)	3.1	2.4	3.6	3.1	3.0	2.4	3.1	3.4	3.1	3.0	2.5	-10bp

Key Performance Indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Segment Revenue (INR m)										
India Security business	10,588	11,491	12,032	12,149	12,291	13,020			46,261	
International Security business	12,051	11,613	12,191	12,904	12,427	12,591			48,759	
Facilities Management	4,265	4,724	4,973	5,037	5,190	5,279			18,998	
EBITDA Margin (%)										
India Security business	3.9	4.5	4.9	5.0	5.4	5.7			4.6	
International Security business	4.9	3.3	4.0	4.0	4.0	4.0			4.1	
Facilities Management	4.5	4.4	4.0	4.4	4.4	4.0			4.3	



Key highlights from the management commentary

Quarterly performance

- SIS witnessed decent revenue growth and healthy margins in 2QFY24 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 30bp QoQ improvement.
- During Covid-19, as FM business was hit, SIS had to take up several low-margin contracts. Currently, the FM business is under a portfolio review exercise to identify and fix the low-margin contracts. These contracts are either negotiated for re-pricing or replaced with better-margin contracts.
- Management remains confident of reclaiming 6% EBITDA margin level for FM, but the recovery is likely to remain gradual given the large contract volumes.
- On the large base of last year, growth for FM is expected to be in the range of 15-20% despite account rationalization efforts. Some branches have lost as much as 40% revenue due to account rationalization.
- Australia business saw a significant wage hike in the last quarter. As there is a lag in price increases compared to wage hikes, management anticipates that margins would improve further as the contracts get re-negotiated.
- VProtect continues to see strong traction and has an order book of over 5k. Tech SIS is expected to deliver one of its best years backed by a strong order book. Currently, 8-10% of its security business revenue comes from solutions. For the FM segment, solutions business contributes as much as 30% to revenue.
- SIS has an annual attrition rate of 30-40% vs. industry average of around 50%.
- ATM is a small portion of cash business (~15%). Cash business is expected to see a very strong growth and management is planning to conduct a value unlocking exercise for this business.
- Management is comfortable with the current leverage and will maintain the same in the range of 1.5-2.0x.

Outlook

- Management suggested a strong 2HFY24 aided by a strong order book. It is confident of restoring EBITDA margins for all businesses to the pre-Covid levels.
- 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; reiterate BUY

- With the 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 last few years, and the trend is expected to continue.
- We value SIS by using an SoTP method: 1) DCF for the India Security business (INR347), 2) an EV/EBITDA multiple of 8x (INR116) for the International Security business (in line with global peers), and 3) DCF for the FM business (INR100) less net debt (INR71). Consequently, we arrive at our TP of INR490. **We reiterate our BUY rating on the stock.**
- Our TP implies a target P/E multiple of 12x for FY25E. We view this as reasonable, given its strong growth profile and unique resilience to macro shocks.

Exhibit 1: Revisions to our estimates

	Revised		Earlier		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue (INR m)	1,26,643	1,45,794	1,27,567	1,47,702	-0.7	-1.3
Growth (%)	11.6	15.1	12.4	15.8	(81)	(66)
EBITDA (INR m)	6,111	7,667	6,119	7,766	-0.1	-1.3
EBITDA Margin (%)	4.8	5.3	4.8	5.3	2.9	0.1
PAT (INR m)	3,790	5,342	3,867	5,294	-2.0	0.9
EPS (INR)	25.5	35.5	26.0	35.1	-2.0	0.9

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	1,26,643	1,45,794
Change (%)	33.0	21.6	19.6	7.6	10.2	12.8	11.6	15.1
Total Expenditure	55,214	67,281	79,648	86,065	95,606	1,08,543	1,20,532	1,38,127
% 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	6,111	7,667
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	1,611	1,792
EBIT	2,560	2,992	3,921	4,078	3,869	3,568	4,500	5,875
Int. and Finance Charges	925	938	1,517	1,273	984	1,149	1,166	856
Other Income	365	177	531	279	150	327	450	400
PBT	2,001	2,231	2,935	3,085	3,035	2,747	3,784	5,419
Total Tax	244	-52	-477	1,154	179	-616	191	271
Tax Rate (%)	12.2	-2.3	-16.2	37.4	5.9	-22.4	5.0	5.0
Minority Interest	-118	-135	-44	5	26	102	197	194
Adjusted PAT	1,639	2,147	3,368	1,936	2,882	3,465	3,790	5,342
Change (%)	48.2	31.0	56.8	-42.5	48.8	20.2	9.4	41.0
Margin (%)	2.8	3.0	4.0	2.1	2.9	3.1	3.0	3.7

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	26,394	31,736
Net Worth	10,283	12,499	13,884	18,308	20,713	23,333	27,123	32,465
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	34,441	38,283
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	9,903	11,695
Net Fixed Assets	1,267	1,742	2,662	2,564	2,792	3,106	3,295	3,303
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	35,351	41,296
Inventory	142	254	339	309	340	314	334	354
Account Receivables	6,243	9,530	11,750	12,430	13,913	16,777	19,077	21,646
Cash and Bank Balance	5,428	5,429	6,137	10,880	7,384	7,510	7,314	9,807
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	16,116	18,287
Account Payables	806	661	538	661	583	639	987	1,120
Other Current Liabilities	5,457	7,864	10,599	13,270	9,526	10,820	10,854	12,316
Provisions	2,185	2,413	2,578	3,689	3,858	3,958	4,276	4,852
Net Current Assets	8,495	10,199	10,204	11,512	13,735	17,026	19,234	23,009
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	34,441	38,283

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	25.5	35.5
Cash EPS	32.2	41.1	68.0	44.9	58.5	70.4	79.0	104.4
BV/Share	150.4	182.8	203.1	267.8	303.0	341.3	396.8	474.9
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	20.3	14.1	17.1	31.7	21.2	17.8	16.2	11.6
Cash P/E	12.8	10.0	6.1	9.2	7.1	5.9	5.2	4.0
P/BV	2.7	2.3	2.0	1.5	1.4	1.2	1.0	0.9
EV/Sales	0.6	0.5	0.7	0.7	0.7	0.6	0.5	0.4
EV/EBITDA	10.7	9.4	12.1	11.9	13.5	14.1	11.1	8.4
FCF per share	16.6	16.7	8.9	39.9	8.9	3.5	16.6	32.2
Return Ratios (%)								
RoE	20.9	18.8	25.5	12.0	14.8	15.7	15.0	17.9
RoCE	17.9	17.2	21.7	9.8	11.8	13.1	11.8	13.9
RoIC	31.0	33.9	36.5	18.8	21.9	20.6	17.7	21.5
Working Capital Ratios								
Fixed Asset Turnover (x)	14.5	13.8	11.5	10.9	10.3	10.0	9.6	9.7
Asset Turnover (x)	4.3	3.8	4.0	3.5	3.5	3.5	3.7	3.8
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	3.9	6.9
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	3,981	5,613
Depreciation	560	660	1,283	1,130	1,116	1,347	1,611	1,792
Interest & Finance Charges	654	751	791	-3,061	444	884	1,166	856
Direct Taxes Paid	-706	-1,054	-1,276	-604	-2,059	-938	-191	-271
(Inc)/Dec in WC	-549	-742	-2,100	1,537	-899	-2,608	-2,404	-1,281
CF from Operations	1,832	1,710	1,590	3,828	2,040	1,535	4,163	6,709
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	4,163	6,709
(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	2,470	4,849
(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	-1,166	-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	-2,666	-2,356
Inc/Dec of Cash	921	1	708	4,743	-3,497	126	-196	2,493
Opening Balance	4,508	5,429	5,430	6,138	10,881	7,384	7,510	7,314
Closing Balance	5,429	5,430	6,138	10,881	7,384	7,510	7,314	9,807

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Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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