

Estimate change	↓
TP change	↑
Rating change	↔

Bloomberg	SECIS IN
Equity Shares (m)	147
M.Cap.(INRb)/(USDb)	71 / 0.9
52-Week Range (INR)	565 / 318
1, 6, 12 Rel. Per (%)	7/2/7
12M Avg Val (INR M)	50

Financials & Valuations (INR b)

Y/E Mar	2024E	2025E	2026E
Sales	124.7	142.6	164.5
EBITDA	6.0	7.5	9.1
Adj. PAT	3.2	5.2	6.7
EPS (INR)	21.4	34.5	45.1
EPS Gr. (%)	-7.9	61.3	30.6
BV/Sh. (INR)	387.8	463.9	561.7

Ratios

RoE (%)	12.8	17.9	19.1
RoCE (%)	10.5	13.7	15.4
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	22.9	14.2	10.9
P/BV (x)	1.3	1.1	0.9
EV/EBITDA (x)	13.2	10.2	7.7
EV/Sales (x)	0.6	0.5	0.4

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	71.6	71.6	71.6
DII	3.2	3.1	4.5
FII	16.4	16.3	14.7
Others	8.8	9.2	9.3

FII Includes depository receipts

CMP: INR487 **TP: INR590 (+21%)** **Buy**

Balancing growth equation; FM to drive earnings growth

Valuations remain favorable; reiterate BUY

- SECIS reported revenue growth of 5.8% YoY in 3QFY24, lower than our estimate of 10.6% YoY due to a weakness in the Facility Management (FM) business (+2% YoY). Despite weak growth, the margin improved materially by 50bp YoY in 3Q. The weakness in FM growth was due to the company's decision to move away from contracts that are low-margin and cost-intensive. However, the management is confident about a recovery in the FM segment, aided by quality contracts with multi-year commitments.
- However, the India business is on a solid footing and should sustain its growth momentum going ahead. We expect the India business to clock a revenue CAGR of 20.5% over FY24-26. Conversely, its Australia business is still under pressure and could post a modest 6.1% CAGR over FY24-26.
- The margin improvement in 3Q (+50bp YoY) was led by the India business (+120bp YoY), which has already achieved the pre-Covid level margin. Despite the weakness in the FM business, its margin performance was strong (+30bp YoY). The management aspires to achieve 6% EBITDA margin in the FM business as it transitions to high-margin quality contracts. The transition will result in a near-term weakness in the FM business, which will be partly offset by strong momentum in the India business. Additionally, the cash logistics business (non-ATM linked) might see positive momentum with increased outsourcing from banks, which we see as an upside risk to our estimates. We expect overall margins at 5.3%/5.6% in FY25E/FY26E. The company is expected to return to its FY21-level margin in the medium term, backed by positive operating leverage in its India business and stable performance in the FM business.
- We trim our FY24E EPS by ~5% (excluding the deferred tax impact) to factor in the revenue miss in 3Q. Given the multi-dimensional opportunity, we value SECIS at INR590 per share (21% upside), assigning an 8x forward EV/EBITDA multiple to its international business (in line with global peers) and DCF to its India business. We reiterate our **BUY** rating on the stock.

Miss on revenue, in-line margin expansion

- Revenue was up 5.8% YoY and flat QoQ at ~INR30.7b, below our estimate of 10.6% YoY growth.
- Revenue growth was aided by ~10% YoY growth in India Security. FM grew 6% YoY, while International Security saw weak growth at 2% YoY.
- EBITDA margin grew 50bp YoY to 4.9% (vs. est. 4.8%). India business margin surged 120bp YoY due to the execution of margin management initiatives.
- PBT stood at INR748m (+16.4% YoY), below our estimates of INR1,003m, led by higher finance costs and lower other income.
- Consolidated adj. PAT stood at INR369m (down 64.3% YoY). The tax rate was steep at 60% as deferred tax increased substantially to INR405m due to the absence of 80JAA benefits on account of lower growth.

Mukul Garg – Research analyst (Mukul.Garg@MotilalOswal.com)

Pritesh Thakkar – Research analyst (Pritesh.Thakkar@MotilalOswal.com)

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- Net debt increased to INR10.6b from INR9.9b in 3QFY23. The net debt-to-EBITDA ratio stood at 1.9x vs. 2.1x in 3QFY23. The OCF-to-EBITDA conversion was strong at 111.7%.
- SIS announced a plan to unlock the value of its cash JV.

Key highlights from the management commentary

- The management believes that the FM business has a potential of 30%+ growth, which was the trend before Covid. Weak growth in the FM business is attributed to the company's conscious decision to trim some of the contracts that are fault-fee, have low margin, and carry a huge penalty. We believe that it will take a couple of quarters for SECIS to achieve the turnaround.
- The management is confident of sustaining EBITDA margin of 6% for its India Security business. However, the sequential trend could be volatile due to the contact mix.

Valuation and view: Resilient growth profile to drive further upside

- With the liberalization and formalization of labor markets and laws, SECIS should be among the biggest direct beneficiaries. It has managed to gain market share during the last few years and the trend is expected to continue.
- We value SECIS using SOTP: 1) DCF for the India Security business (INR431), 2) an EV/EBITDA multiple of 8x (INR110) for the International Security business (in line with global peers), and 3) DCF for the FM business (INR126) less net debt (INR71). Consequently, we arrive at a TP of INR590. We reiterate our BUY rating on the stock.
- Our TP implies a P/E multiple of 13x FY26E EPS, which is reasonable given its strong growth profile and unique resilience to macroeconomic shocks.

Consolidated - Quarterly performance

Y/E March	(INR m)											
	FY23				FY24				FY23	FY24E	Est.	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QFY24	(%/bp)
Gross Sales	26,782	27,677	29,043	29,957	29,767	30,736	30,734	33,471	1,13,458	1,24,709	32,108	-4.3
YoY Change (%)	12.6	13.9	11.7	13.1	11.1	11.1	5.8	11.7	12.8	9.9	10.6	-470bp
Total Expenditure	25,575	26,579	27,779	28,610	28,377	29,292	29,221	31,802	1,08,543	1,18,691	30,560	-4.4
EBITDA	1,207	1,098	1,264	1,347	1,390	1,445	1,514	1,670	4,915	6,019	1,548	-2.2
Margin (%)	4.5	4.0	4.4	4.5	4.7	4.7	4.9	5.0	4.3	4.8	4.8	10bp
Depreciation	286	331	342	388	358	404	416	447	1,347	1,625	415	0.2
Interest	247	275	310	317	327	347	404	294	1,149	1,372	250	61.7
Other Income	67	81	30	149	88	125	54	133	327	400	120	-54.9
PBT	742	572	642	791	793	819	748	1,062	2,747	3,421	1,003	-25.4
Tax	-80	-80	-379	-77	-50	132	447	-53	-616	476	50	792.3
Rate (%)	-10.7	-14.1	-59.0	-9.7	-6.2	16.1	59.8	-5.0	-22.4	13.9	5.0	5,480bp
MI & Profit/Loss of Asso. Cos.	4	22	13	64	52	66	69	48	102	235	37	88
Adjusted PAT	825	674	1,034	931	895	753	369	1,163	3,465	3,180	989	-62.7
YoY Change (%)	59.0	7.7	35.5	-4.4	8.4	11.6	-64.3	24.9	20.2	-8.2	-4.3	
Margins (%)	3.1	2.4	3.6	3.1	3.0	2.4	1.2	3.5	3.1	2.5	3.1	-190bp

Key Performance Indicators

Y/E March	FY23			FY24			FY23	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q		
Segment Revenue (INR m)									
India Security business	10,588	11,491	12,032	12,149	12,291	13,020	13,180	46,261	52,528
International Security business	12,051	11,613	12,191	12,904	12,427	12,591	12,453	48,759	51,512
Facilities Management	4,265	4,724	4,973	5,037	5,190	5,279	5,251	18,998	21,114
EBITDA Margin (%)									
India Security business	3.9	4.5	4.9	5.0	5.4	5.7	6.1	4.6	5.8
International Security business	4.9	3.3	4.0	4.0	4.0	4.0	3.9	4.1	4.0
Facilities Management	4.5	4.4	4.0	4.4	4.4	4.0	4.3	4.3	4.3



Key highlights from the management commentary

Quarterly performance

- The management believes that the FM business has a potential of 30%+ growth, which was the trend before Covid. Weak growth in the FM business is attributed to the company's conscious decision to trim some of the contracts that are fault fee, have low margin, and carry a huge penalty. We believe that it will take a couple of quarters for SECIS to achieve the turnaround.
- The management remains selective in wining contracts from the existing or a new account. The company would look to play around annuity-based or outcome-based contracts that are stickier in nature with longer terms and higher tenure. Additionally, the margin profile of those contracts is superior to that of resource-led contracts.
- In outcome-based contracts, the company gets to work on ancillary services with a layer of solution on top, including digitization, automation, and mechanization, to deliver the outcome.
- In cash logistics, the ATM business, which is subsiding, contributes 20% to the overall segment, while 80% of revenue comes from the non-ATM business or bank outsourcing services. The ATM count has gone down by 100+ in 3Q, which did not impact its revenue growth. However, the company believes the number of ATM routes it serves with density will not have any adverse impact going forward.

Outlook

- The management is confident of sustaining EBITDA margin of 6% for its India Security business. However, the sequential trend could be volatile due to the contact mix.
- For the alarm monitoring business, the company generates 15%-20% EBITDA margin, while it believes route-based cash logistics business with huge productivity and high density could fetch 20%+ EBITDA margin.

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

- With liberalization and formalization of labor markets and laws, SECIS should be among the biggest direct beneficiaries. It has managed to gain market share during the last few years and the trend is expected to continue.
- We value SECIS using SOTP: 1) DCF for the India Security business (INR431), 2) an EV/EBITDA multiple of 8x (INR110) for the International Security business (in line with global peers), and 3) DCF for the FM business (INR126) less net debt (INR71). Consequently, we arrive at our TP of INR590. We reiterate our BUY rating on the stock.
- Our TP implies a target P/E multiple of 13x FY26E EPS, which we see as reasonable given its strong growth profile and unique resilience to macroeconomic shocks.

Exhibit 1: Revision to our estimates

	Revised			Earlier			Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E*	FY25E	FY26E
Revenue (INR m)	1,24,709	1,42,560	1,64,451	1,26,643	1,45,794	1,68,619	-1.5%	-2.2%	-2.5%
Growth (%)	9.9	14.3	15.4	11.6	15.1	15.7	-170bp	-81bp	-30bp
EBITDA (INR m)	6,019	7,525	9,150	6,111	7,667	9,205	-1.5%	-1.9%	-0.6%
EBITDA Margin (%)	4.8	5.3	5.6	4.8	5.3	5.5	0bp	2bp	10bp
PAT (INR m)	3,180	5,199	6,689	3,790	5,342	6,743	-16.1%	-2.7%	-0.8%
EPS (INR)	21.4	34.5	45.1	25.5	35.5	45.4	-16.1%	-2.7%	-0.8%

* If adjusted against deferred tax in 3Q, (FY24E EPS (INR) change is -5.3%)

Source: Company, MOFSL

Financials and valuation

Consolidated - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	70,933	84,852	91,273	1,00,590	1,13,458	1,24,709	1,42,560	1,64,451
Change (%)	21.6	19.6	7.6	10.2	12.8	9.9	14.3	15.4
Total Expenditure	67,281	79,648	86,065	95,606	1,08,543	1,18,691	1,35,036	1,55,301
% of Sales	94.9	93.9	94.3	95.0	95.7	95.2	94.7	94.4
EBITDA	3,652	5,204	5,208	4,985	4,915	6,019	7,525	9,150
Margin (%)	5.1	6.1	5.7	5.0	4.3	4.8	5.3	5.6
Depreciation	660	1,283	1,130	1,116	1,347	1,625	1,835	1,985
EBIT	2,992	3,921	4,078	3,869	3,568	4,394	5,690	7,165
Int. and Finance Charges	938	1,517	1,273	984	1,149	1,372	856	751
Other Income	177	531	279	150	327	400	400	400
PBT	2,231	2,935	3,085	3,035	2,747	3,421	5,234	6,814
Total Tax	-52	-477	1,154	179	-616	476	262	351
Tax Rate (%)	-2.3	-16.2	37.4	5.9	-22.4	13.9	5.0	5.1
Minority Interest	-135	-44	5	26	102	235	226	226
Adjusted PAT	2,147	3,368	1,936	2,882	3,465	3,180	5,199	6,689
Change (%)	31.0	56.8	-42.5	48.8	20.2	-8.2	63.5	28.7
Margin (%)	3.0	4.0	2.1	2.9	3.1	2.5	3.6	4.1

Consolidated - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	733	733	742	735	729	729	729	729
Total Reserves	11,766	13,151	17,566	19,977	22,604	25,784	30,983	37,672
Net Worth	12,499	13,884	18,308	20,713	23,333	26,513	31,711	38,401
Minority Interest	3	3	21	31	0	0	0	0
Total Loans	9,498	11,722	11,646	13,283	15,223	13,723	12,223	10,723
Deferred Tax Liabilities	-3,397	-4,374	-3,993	-5,306	-6,405	-6,405	-6,405	-6,405
Capital Employed	18,603	21,235	25,980	28,720	32,151	33,831	37,529	42,718
Gross Block	5,158	7,362	8,394	9,737	11,398	13,198	14,998	16,798
Less: Accum. Deprn.	3,416	4,699	5,830	6,945	8,292	9,917	11,752	13,737
Net Fixed Assets	1,742	2,662	2,564	2,792	3,106	3,281	3,246	3,061
Goodwill on Consolidation	12,284	12,323	11,413	11,647	11,395	11,395	11,395	11,395
Capital WIP	10	17	50	23	195	205	215	225
Others	1,891	1,737	1,750	1,820	2,004	1,886	1,936	1,986
Total Investments	1,782	1,490	1,494	1,673	1,579	1,579	1,579	1,579
Curr. Assets, Loans&Adv.	21,137	23,919	29,133	27,702	32,443	34,625	40,252	48,234
Inventory	254	339	309	340	314	334	354	374
Account Receivables	9,530	11,750	12,430	13,913	16,777	18,923	21,235	24,393
Cash and Bank Balance	5,429	6,137	10,880	7,384	7,510	6,742	9,174	13,029
Loans and Advances	0	0	0	0	0	0	0	0
Others	5,925	5,693	5,513	6,065	7,842	8,626	9,489	10,438
Curr. Liability & Prov.	10,938	13,715	17,621	13,967	15,417	15,987	17,940	20,608
Account Payables	661	538	661	583	639	979	1,098	1,262
Other Current Liabilities	7,864	10,599	13,270	9,526	10,820	10,766	12,082	13,879
Provisions	2,413	2,578	3,689	3,858	3,958	4,241	4,760	5,467
Net Current Assets	10,199	10,204	11,512	13,735	17,026	18,639	22,312	27,626
Other Non-Current Liabilities	-9,305	-7,198	-2,803	-2,970	-3,154	-3,154	-3,154	-3,154
Appl. of Funds	18,603	21,234	25,980	28,720	32,151	33,831	37,530	42,719

Financials and valuation

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	29.3	24.1	13.0	19.4	23.2	21.4	34.5	45.1
Cash EPS	41.1	68.0	44.9	58.5	70.4	70.3	102.9	126.9
BV/Share	182.8	203.1	267.8	303.0	341.3	387.8	463.9	561.7
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	16.7	20.3	37.5	25.2	21.0	22.9	14.2	10.9
Cash P/E	11.9	7.2	10.9	8.4	6.9	7.0	4.8	3.9
P/BV	2.7	2.4	1.8	1.6	1.4	1.3	1.1	0.9
EV/Sales	0.6	0.9	0.8	0.8	0.7	0.6	0.5	0.4
EV/EBITDA	10.9	14.2	14.1	15.7	16.4	13.2	10.2	7.7
FCF per share	16.7	8.9	39.9	8.9	3.5	14.2	31.8	41.1
Return Ratios (%)								
RoE	18.8	25.5	12.0	14.8	15.7	12.8	17.9	19.1
RoCE	17.2	21.7	9.8	11.8	13.1	10.5	13.7	15.4
RoIC	33.9	36.5	18.8	21.9	20.6	15.7	20.8	25.0
Working Capital Ratios								
Fixed Asset Turnover (x)	13.8	11.5	10.9	10.3	10.0	9.4	9.5	9.8
Asset Turnover (x)	3.8	4.0	3.5	3.5	3.5	3.7	3.8	3.8
Debtor (Days)	49	51	50	50	54	55	54	54
Creditor (Days)	3	2	3	2	2	3	3	3
Leverage Ratio (x)								
Interest Cover Ratio	3.2	2.6	3.2	3.9	3.1	3.2	6.6	9.5
Net Debt/Equity	0.2	0.3	0.0	0.2	0.3	0.2	0.0	-0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	2,095	2,891	4,826	3,439	2,849	3,656	5,460	7,040
Depreciation	660	1,283	1,130	1,116	1,347	1,625	1,835	1,985
Interest & Finance Charges	751	791	-3,061	444	884	1,372	856	751
Direct Taxes Paid	-1,054	-1,276	-604	-2,059	-938	-476	-262	-351
(Inc)/Dec in WC	-742	-2,100	1,537	-899	-2,608	-2,381	-1,241	-1,459
CF from Operations	1,710	1,590	3,828	2,040	1,535	3,797	6,648	7,966
Others	339	424	2,568	295	174	0	0	0
CF from Operating incl EO	2,049	2,014	6,396	2,335	1,709	3,797	6,648	7,966
(Inc)/Dec in FA	-829	-775	-464	-1,021	-1,187	-1,693	-1,860	-1,860
Free Cash Flow	1,220	1,239	5,931	1,314	522	2,104	4,788	6,106
(Pur)/Sale of Investments	-4,537	-2,110	-2,296	-485	-632	0	0	0
Others	142	127	1,125	281	340	0	0	0
CF from Investments	-5,224	-2,758	-1,635	-1,224	-1,480	-1,693	-1,860	-1,860
Issue of Shares	0	0	8	2	1	0	0	0
Inc/(Dec) in Debt	2,098	204	1,342	-1,333	-219	-1,500	-1,500	-1,500
Interest Paid	-718	-986	-909	-933	-1,066	-1,372	-856	-751
Dividend Paid	-112	-631	0	0	0	0	0	0
Others	1,908	2,866	-458	-2,345	1,180	0	0	0
CF from Fin. Activity	3,177	1,453	-18	-4,608	-103	-2,872	-2,356	-2,251
Inc/Dec of Cash	1	708	4,743	-3,497	126	-768	2,432	3,856
Opening Balance	5,429	5,430	6,138	10,881	7,384	7,510	6,742	9,174
Closing Balance	5,430	6,138	10,881	7,384	7,510	6,742	9,174	13,029

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NOTES

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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

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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
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