

CMP: ₹ 355

Target: ₹ 345 (-3%)

Target Period: 12 months

HOLD

July 31, 2020

Steady execution in challenging environment...

Security and Intelligence Services (SIS) reported a revenue fall of 1.9% QoQ with Indian security business, facility management down 7.2%, 14.6%, QoQ, primarily due to volume reduction within retail, entertainment & hospitality clients. International business grew 3.5% QoQ in constant currency (CC) terms. SIS, being an essential service provider, faced minimal interruption in its business in terms of supply-side issues (within India Security Services business, 98% of headcount was available). The company also provided ₹ 54 crore in provisioning for doubtful debts, credit notes. Gross margins were broadly stable across segments. SIS believes the current tough environment provides a ripe opportunity to gain market share both in terms of organic (as customers prefer high quality vendors), inorganic means (consolidation of vendors), suggesting significant headroom for growth.

India security business reports steady numbers despite weak macro

India security services business declined 7.2% QoQ with headcount declining 16,121 QoQ (-10% QoQ) to 141,469 security guards. EBITDA margin remained flattish QoQ to 5.4%. Margins were primarily impacted by increased provisioning for credit notes and doubtful debts. With focus on having tech as a greater mix in services, SIS launched two new offerings, which enabled the company to gain 220 recurring orders since April. Facility management revenue fell 14.6% QoQ (up 1% YoY) due to offices and railways being shut. In light of the current pandemic, it is becoming a general trend for SIS's client to intensify focus on cleanliness and sanitisation services as there is a greater need to keep a safe environment. Gross margins were broadly intact but EBITDA margins fell 170 bps QoQ primarily due to higher provisioning.

Stellar performance in international businesses

Revenue execution continues to be strong in SIS International segment with revenue growth being 3.5% QoQ in CC terms. The performance was stable primarily on account of Australia not declaring a lockdown and increased support by national governments for aiding recovery in their local economy. DSO also remained stable and increased by two days to 47 in Q1.

Valuation & Outlook

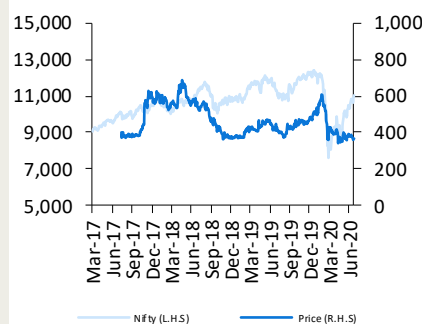
With its leadership positioning in majority of key verticals, SIS should be able to partake in consolidation opportunities within the security and facility management space (fiscal positioning net debt/EBITDA 1.31x). Strong focus on cost optimisation and prudent provisioning should ameliorate margin trajectory, going forward. OCF/EBITDA conversion was also healthy at 81%. DSO day increased by six days; with gradual unlocking of economies, the management expects DSO to be in-line with historical trends. Growth should stabilise, going forward, considering the gradual unlocking of economy, though margin execution, quality of earnings, improved collection and SIS' differentiated inorganic strategy will be key upside catalysts in the near term. We maintain **HOLD** with a revised DCF based target price of ₹ 345.



Particulars

Particulars	Amount
Market Capitalisation (₹crore)	5204
Total Debt (₹crore)	1397
Cash & investment (₹crore)	722
EV (₹crore)	5879
52 Week H/L (₹)	624 / 324
Equity Capital ₹(crore)	73.3
Face Value	₹5

Price Performance



*limited history available

Research Analyst

- Stellar performance from SIS International
- Differentiated inorganic strategy will be key upside catalysts
- Maintain HOLD rating

Research Analyst

Devang Bhatt
devang.bhatt@icicisecurities.com

Key Financial Summary

in ₹ crore	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	8485.2	8817.7	9574.4	10928.0	8.8%
EBITDA	520.4	505.9	549.5	634.4	6.8%
EBITDA margin (%)	6.1	5.7	5.7	5.8	
Net Profit	226.6	291.8	348.7	439.5	24.7%
EPS	15.1	19.3	22.8	28.5	
P/E	23.5	18.4	15.6	12.5	
RoNW ex cash	29.3	28.5	30.1	33.8	
RoCE ex cash	12.8	17.4	17.4	18.2	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit & loss statement (₹ crore)				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue from operations				
Operating Expenses	8485.2	8817.7	9574.4	10928
EBITDA	520	506	550	634
EBITDA margins(%)	6.1	6.1	6.1	6.2
Depreciation & Amortisation	128.3	132.3	138.8	158.5
EBIT	392	374	411	476
EBIT margins(%)	4.6	4.2	4.3	4.4
Finance Cost	151.7	151.7	143.7	135.7
Other Income	48.7	11.5	12	11.4
PBT before extraordinary	289	233	279	352
Less: Taxes	63.6	-58.4	-69.7	-87.9
PAT before extraordinary & MI	226	292	349	440
Less Non controlling interest	-1.1	0	0	0
Recurring Net Profit	227	292	349	440
Extraordinary items	-	-	-	-
Reported Net Profit	227	292	349	440

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	2392	2666	2993	3582
Total Current Liabilities	1914	1968	1959	2099
Net Current Assets	478	698	1,035	1,483
Net Fixed Assets				
Tangible assets incl leases	266	204	141	92
Intangible assets	161	161	161	161
CWIP	2	2	2	2
Intangible assets (CWIP)	11	11	11	11
Goodwill	1232	1232	1232	1232
Non-current Investments	93	98	103	108
Other Assets	495	495	495	495
Total Assets	2,738	2,900	3,179	3,584
Liabilities				
Long Term Borrowings	630	630	630	630
Other Liabilities	720	643	636	680
Minority interest	0	0	0	0
Equity Share Capital	73	73	73	73
Reserves & Surplus	1315	1554	1840	2201
Net Worth	1,388	1,628	1,914	2,274
Total Liabilities	2,738	2,900	3,179	3,584

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement (₹ crore)				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Operating CF before W Cap changes				
Working Capital Inflow / (Outflow)	411.3	460.4	498.5	582.8
Capex	-210	-276.4	-203	-223.6
Free Cash flow	124	144	219	250
Cash Flow from other Invest Act (Ex Capex)				
Proceeds from Issue of Share Capital	-198.4	-44.6	-16.8	12.9
Inc/(Dec) in Borrowings	0	0	0	0
Interest paid	50.3	0	0	0
Dividend paid including distribution tax	-98.6	-151.7	-143.7	-135.7
Others	-63.1	-52.5	-62.8	-79.1
Increase/(Decrease) in Cash	(216)	(11)	153	218

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
Recurring EPS - Diluted	15.1	19.3	22.8	28.5
Recurring Cash EPS	23.7	28.0	31.9	38.8
Dividend per share	2.0	2.9	3.4	4.3
Book Value per share	92.7	107.6	125.3	147.4
Valuation Ratios				
P/E	23.5	18.4	15.6	12.5
P/CEPS	15.0	12.7	11.1	9.1
P/BV	3.8	3.3	2.8	2.4
EV/EBITDA	11.3	11.6	10.7	9.3
EV/Sales	0.7	0.7	0.6	0.5
EV/FCF	47.5	40.7	26.9	23.5
Operating Ratio				
Operating Exp./Sales (%)	93.9	94.3	94.3	94.2
NWC / Total Assets (%)	16.9	4.9	4.3	3.2
Fixed Asset Turnover (x) on	5.2	5.4	6.1	7.2
Receivables (days)	51	53	53	54
D/E Ratio (x)	0.8	0.7	0.6	0.5
Return/Profitability Ratio (%)				
Recurring Net Income Margins	2.7	3.3	3.6	4.0
RoCE ex cash	12.8	17.4	17.4	18.2
RoNW ex cash	29.3	28.5	30.1	33.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Devang Bhatt, PGDBM, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.