

BLS International Services

BUY

INDUSTRY	IT Processing		
CMP (as on 10 Nov 2017)	Rs 256		
Target Price	Rs 300		
Nifty	10,322		
Sensex	33,315		
KEY STOCK DATA			
Bloomberg	BLSIN IN		
No. of Shares (mn)	102		
MCap (Rs bn) / (\$ mn)	26/403		
6m avg traded value (Rs mn)	120		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 283/119		
	3M	6M	12M
Absolute (%)	42.9	40.3	46.8
Relative (%)	37.3	30.1	25.7
SHAREHOLDING PATTERN (%)			
Promoters	74.24		
FIs & Local MFs	1.49		
FPIs	4.26		
Public & Others	20.01		
Source : BSE			

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Near-term hiccups

BLS International witnessed a mixed set of numbers in 2QFY18, with a miss on revenue, but beat on margins (+105bps QoQ to 23.2% vs our est. of 20%). Margin expansion was led by a greater contribution from the higher-margin Spanish Visa (~25%) and Punjab e-governance businesses (~30%). Revenue came in Rs 1.86bn, down 4.4% QoQ, led by 6.4% drop in the Visa business (~75% of rev). Visa revenue was soft, owing to seasonality. However, it is expected to revive in 2H, led by a rise in Visa applications in Spain, higher realisations led by VAS services, and contributions from new contracts.

We like BLS' business model, as it is a niche G2C service provider, with growing sustainably at high-teen margins, low working capital requirements and high return ratios. Growth capital can be funded largely by internal accruals, providing scope for sustained growth. Near-term concerns are mounting receivables (Rs 1.33bn in 1HFY18 vs Rs 0.60bn in FY17), and a slowing Visa business. High receivables suggest that no payments have been received from the Punjab govt. in the last six months.

Niche focus, strong execution and an asset-light model resulted in a healthy RoE of 35% in FY17. We

Financial Summary (Consolidated)

YE March (Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	1,865	1,536	21.5	1,951	(4.4)	5,050	6,350	7,964	8,529	9,229
EBITDA	433	125	245.5	433	0.2	367	824	1,663	1,905	2,180
APAT	268	90	197.1	291	(7.8)	309	499	1,090	1,182	1,300
Diluted EPS (Rs)	2.7	0.9	197.1	2.9	(7.8)	3.0	4.9	10.6	11.5	12.7
P/E (x)						84.9	52.5	24.1	22.2	20.2
EV / EBITDA (x)						70.4	32.1	15.9	13.6	11.5
RoE (%)						30.5	35.2	51.3	37.8	30.8

Source: Company, HDFC sec Inst Research

expect revenue/PAT to grow at a CAGR of 13/38% respectively over FY17-20E, led by the Spanish Visa contract and Punjab e-governance project. **Maintain BUY with a TP of Rs 300, based on 25x Sep-19 EPS.**

Highlights of the quarter

- Punjab e-governance revenue stood at Rs 470mn (~25% of rev, +2.2% QoQ). The company is processing ~20K applications daily in 2,147 centres.
- BLS is billing the Punjab government ~Rs 100mn/month for revenue shortfall, and earning Rs ~56mn/month from collection of facilitation fees from citizens.
- BLS will not require monetary assistance from the govt when the daily application count reaches ~64K/day, providing 223 services (currently at 169) at an average realisation of Rs ~100/application.
- **Near-term outlook:** The stock has run-up 42% in the last three months, and will be under pressure till there is no clarity on growing receivables and a revival in Visa revenues (ex-Spain). Any fresh contract wins in both segments of the business are likely to act as positive triggers for the stock.

Growth was down QoQ, owing to a slowdown in Spain (seasonality) and fall in the core visa biz (~10-15% YoY).

~ 50% of revenue in the Spanish contract comes from facilitation partners, realised at the EBITDA level

Revenue from the Visa business (core visa + Spain) was at Rs 139.5mn (-6.4% QoQ), and PAT at Rs 180 mn (~67% of consolidated PAT)

Tax rate increased to 13.9% in the quarter vs 8.3% in 1Q FY18, owing to higher profit contribution from the India e-governance business, which attracts the full tax rate

Quarterly Consolidated Financials Snapshot

Particulars (Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Net Sales	1,865	1,536	21.5	1,951	(4.4)
Cost of service consumed	1,152	1,243	(7.3)	1,218	(5.4)
Personnel expenses	126	97	29.3	119	6.1
Operating and other expenses	154	70	119.0	182	(15.0)
EBITDA	433	125	245.5	433	0.2
Depreciation	102	23	338.1	95	7.8
EBIT	331	102	224.3	338	(2.0)
Other Income	8	6	48.0	7	22.2
Interest Cost	28	8	234	28	1.0
PBT	311	99	213.4	317	(1.7)
Tax	43	9	NM	26	65.8
Minority Interest	0	0	NM	0	NM
RPAT	268	90	197.1	291	(7.8)
EO Items (Adj For Tax)	0	0	NM	0	NM
APAT	268	90	197.1	291	(7.8)

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS %	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Cost of services % Net Sales	61.7	80.9	(1,916)	62.4	(68)
Employee Expenses % Net Sales	6.7	6.3	41	6.1	66
Operating Expenses % Net Sales	8.3	4.6	368	9.3	(104)
Gross Margin %	38.3	19.1	1,916	37.6	68
EBITDA Margin (%)	23.2	8.2	1,507	22.2	105
EBIT Margin (%)	17.7	6.6	1,110	17.3	43
Tax Rate (%)	13.9	9.2	474	8.3	568
APAT Margin (%)	14.4	5.9	849	14.9	(54)

Source: Company, HDFC sec Inst Research

YoY growth is coming down after highs in the last two quarters owing to a higher base

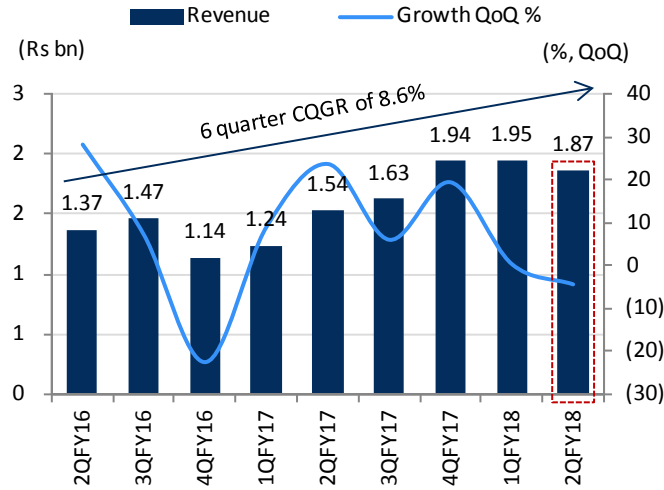
Six-quarter revenue growth is healthy at 8.6% CQGR

Delta in revenue growth will come from new contract wins

EBITDA has grown at a healthy six-quarter CQGR of 43.1%, led by contracts from Punjab and Spain

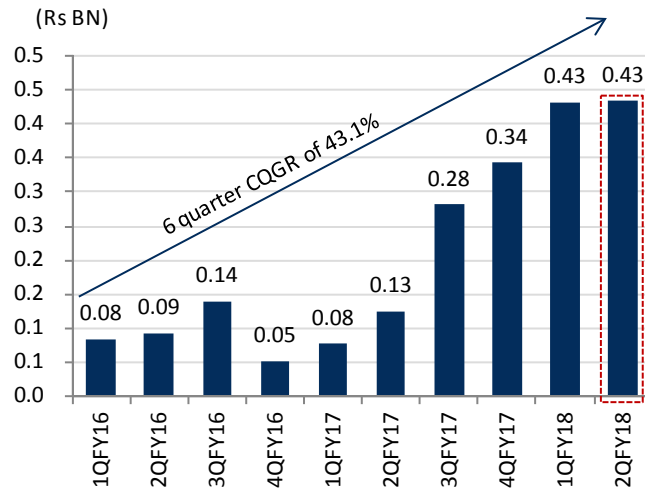
Reported strongest-ever EBITDA margins, expanding in the last seven quarters

Revenue And Revenue Growth (QoQ)



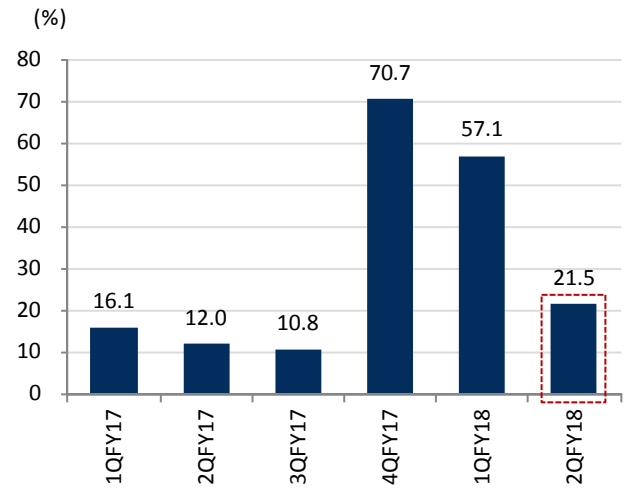
Source: Company, HDFC sec Inst Research

Healthy EBITDA Growth



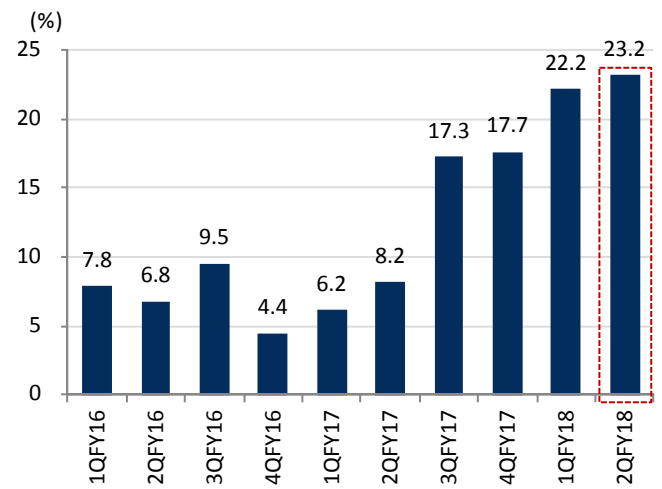
Source: Company, HDFC sec Inst Research

Revenue Growth (YoY)



Source: Company, HDFC sec Inst Research

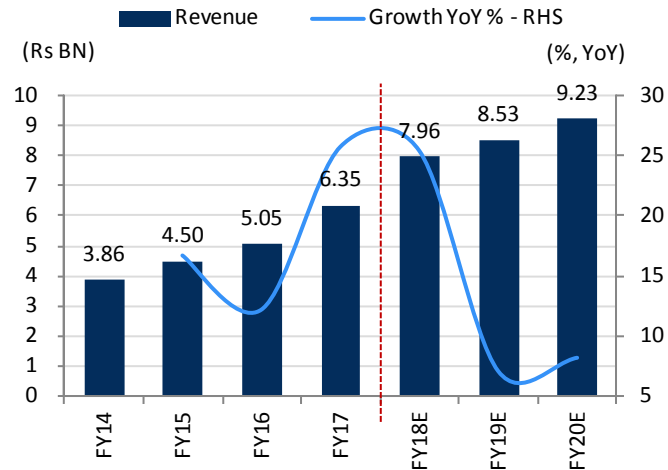
EBITDA Margin (%)



Source: Company, HDFC sec Inst Research

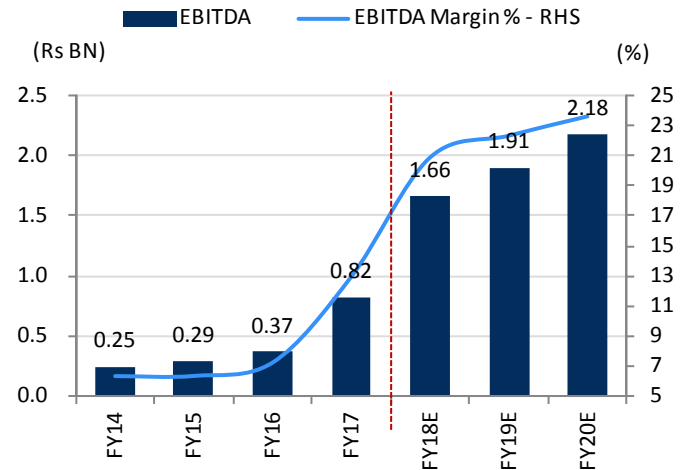
Financial Charts

Healthy Revenue Growth Led By Spanish Visa And Punjab E-Governance Contract Wins



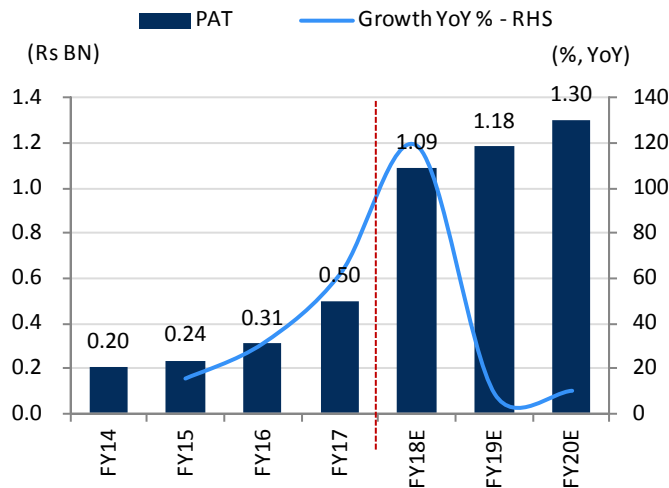
Source: Company, HDFC sec Inst Research

Strong EBITDA Growth Fuelled By New Contract Wins



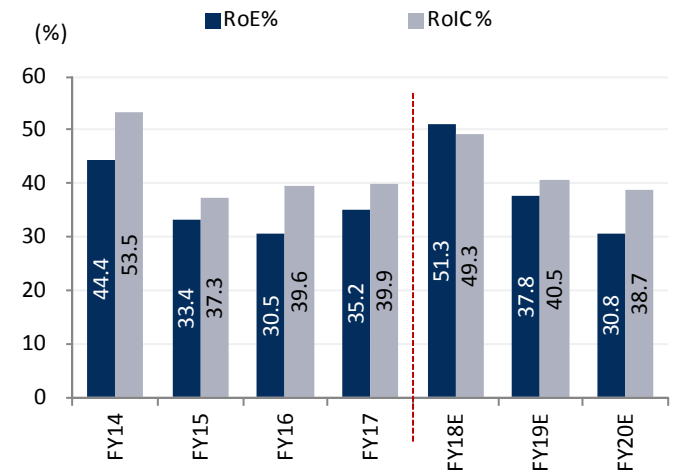
Source: Company, HDFC sec Inst Research

PAT And PAT Growth



Source: Company, HDFC sec Inst Research

Healthy Return Ratios



Source: Company, HDFC sec Inst Research

Key Assumptions And Summary

	FY15	FY16	FY17	FY18E	FY19E	FY20E
Visa Processing (ex- Spain)						
No of Visa applications (mn)	1.61	1.52	1.57	1.44	1.47	1.51
Growth YoY%	-21.1%	-5.4%	2.8%	-8.0%	2.0%	3.0%
Realisation/Application (Rs)	2,793	3,313	3,370	3,235	3,332	3,465
Growth YoY%	47.8%	18.6%	1.7%	-4.0%	3.0%	4.0%
Revenue (Rs mn)	4,500	5,050	5,279	4,662	4,898	5,247
Growth YoY%	16.7%	12.2%	4.5%	-11.7%	5.1%	7.1%
Spain Visa Processing						
No of Visa applications (mn)				1.90	1.96	2.00
Growth YoY%					3.0%	2.0%
Realisation/Application (Rs)				1,332	1,372	1,441
Growth YoY%					3.0%	5.0%
Revenue (Rs mn)				2,531	2,685	2,876
Growth YoY%					6.1%	7.1%
Revenue realised (Rs mn)				1,265	1,342	1,438
Growth YoY%					6.1%	7.1%
EBITDA				633	698	776
EBITDA Margin %				25.0%	26.0%	27.0%
Total Visa Processing Business (Old + Spain)						
No of Visa applications (mn)	1.61	1.52	1.57	3.34	3.43	3.51
Growth YoY%	-21.1%	-5.4%	2.8%	113.3%	2.6%	2.4%
Realisation/Application (Rs)	2,793	3,313	3,370	1,774	1,821	1,904
Growth YoY%	47.8%	18.6%	1.7%	-47.4%	2.6%	4.6%
Revenue (Rs mn)	4,500	5,050	5,279	5,928	6,241	6,685
Growth YoY%	16.7%	12.2%	4.5%	12.3%	5.3%	7.1%
EBITDA	287	367	428	1,063	1,164	1,299
EBITDA Margin %	6.4%	7.3%	8.1%	17.9%	18.7%	19.4%
Punjab e-Governance Project						
No of Applications (mn)			9.9	20.0	21.0	22.0
Growth YoY%				102.4%	5.0%	5.0%
Realisation/Application (Rs)			108	102	109	115
Growth YoY%				-6.0%	7.0%	5.9%
Revenue (Rs mn)			1,071	2,036	2,288	2,545
Growth YoY%				90.2%	12.4%	11.2%
EBITDA			396	600	741	881
EBITDA Margin %			37.0%	29.5%	32.4%	34.6%
Total Revenue	4,500	5,050	6,350	7,964	8,529	9,229
Growth YoY%	16.7%	12.2%	25.7%	25.4%	7.1%	8.2%
Total EBITDA	287	367	824	1,663	1,905	2,180
EBITDA Margin %	6.4%	7.3%	13.0%	20.9%	22.3%	23.6%

Source: Company, HDFC sec Inst Research

Change In Estimate

Particulars	Earlier estimates	Revised estimates	% change
FY18E			
Revenue (Rs mn)	9,457	7,964	(15.8)
EBITDA (Rs mn)	1,599	1,663	4.0
<i>EBITDA margin (%)</i>	16.9	20.9	398 bps
APAT (Rs)	1,004	1,090	8.5
FY19E			
Revenue (Rs mn)	10,360	8,529	(17.7)
EBITDA (Rs mn)	1,835	1,905	3.8
<i>EBITDA margin (%)</i>	17.7	22.3	462 bps
APAT (Rs)	1,102	1,182	7.3

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (Rs mn)	5,050	6,350	7,964	8,529	9,229
Growth (%)	12.2	25.7	25.4	7.1	8.2
Cost of services	4,132	4,196	4,945	5,155	5,458
Employee Benefit	329	417	474	512	548
Other Expenses	221	912	881	957	1,044
EBITDA	367	824	1,663	1,905	2,180
EBITDA Margin (%)	7.3	13.0	20.9	22.3	23.6
EBITDA Growth (%)	27.8	124.3	101.9	14.5	14.4
Depreciation	55	260	351	456	568
EBIT	312	564	1,313	1,450	1,612
Other Income (Including EO Items)	5	23	27	31	35
Interest	3	55	113	113	113
PBT	314	532	1,226	1,367	1,534
Tax (Incl Deferred)	5	32	136	185	234
Minority Interest	0	0	0	0	0
RPAT	309	500	1,090	1,182	1,300
EO (Loss) / Profit (Net Of Tax)	0	0	0	0	0
APAT	309	499	1,090	1,182	1,300
APAT Growth (%)	30.8	61.7	118.3	8.5	9.9
Adjusted EPS (Rs)	3.0	4.9	10.6	11.5	12.7
EPS Growth (%)	31.0	61.7	118.2	8.5	9.9

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	102	102	102	102	102
Reserves	1,085	1,543	2,505	3,549	4,697
Total Shareholders' Funds	1,187	1,645	2,608	3,651	4,799
Minority Interest	1	1	1	1	1
Total Debt	41	838	1,050	1,050	1,050
Net Deferred Taxes	-4	0	0	0	0
Long Term Provisions & Others	11	26	26	26	26
TOTAL SOURCES OF FUNDS	1,237	2,511	3,685	4,729	5,877
APPLICATION OF FUNDS					
Net Block	242	784	884	928	960
CWIP	0	0	0	0	0
Investments	17	305	305	305	305
LT Loans & Advances	175	6	8	9	9
Total Non-current Assets	434	1,095	1,197	1,242	1,275
Inventories	0	0	0	0	0
Debtors	22	597	1,527	1,869	2,276
Other Current Assets	486	611	727	793	846
Cash & Equivalents	426	665	799	1,426	2,129
Total Current Assets	934	1,873	3,053	4,089	5,250
Creditors	68	130	150	158	168
Other Current Liabilities & Provns	63	326	414	444	480
Total Current Liabilities	131	457	564	601	648
Net Current Assets	803	1,416	2,489	3,488	4,602
TOTAL APPLICATION OF FUNDS	1,237	2,511	3,685	4,729	5,877

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Consolidated)

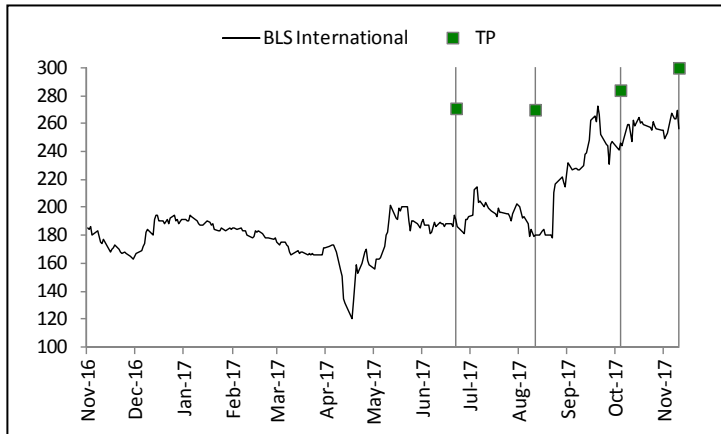
YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	314	532	1,226	1,367	1,534
Non-operating & EO items	(5)	(23)	(27)	(31)	(35)
Interest expenses	3	55	113	113	113
Depreciation	55	260	351	456	568
Working Capital Change	(42)	(277)	(941)	(372)	(413)
Tax Paid	(8)	(32)	(136)	(185)	(234)
OPERATING CASH FLOW (a)	317	515	586	1,349	1,533
Capex	(55)	(802)	(450)	(500)	(600)
Free cash flow (FCF)	262	(287)	136	849	933
Investments	(25)	(201)	0	0	0
Non-operating Income	5	23	27	31	35
INVESTING CASH FLOW (b)	(75)	(980)	(423)	(469)	(565)
Debt Issuance/(Repaid)	(15)	797	212	0	0
Interest Expenses	(3)	(55)	(113)	(113)	(113)
FCFE	244	455	235	736	820
Share Capital Issuance	0	0	0	0	0
Dividend	0	(42)	(128)	(138)	(152)
FINANCING CASH FLOW (c)	(18)	700	(29)	(252)	(265)
NET CASH FLOW (a+b+c)	224	235	134	628	703
EO Items, Others	44	(4)	0	0	0
Closing Cash & Equivalents	426	665	799	1,426	2,129

Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	18.2	33.9	37.9	39.6	40.9
EBITDA Margin	7.3	13.0	20.9	22.3	23.6
APAT Margin	6.1	7.9	13.7	13.9	14.1
RoE	30.5	35.2	51.3	37.8	30.8
RoIC (or Core RoCE)	39.6	39.9	49.3	40.5	38.7
RoCE	29.2	29.4	38.4	30.4	26.3
EFFICIENCY					
Tax Rate (%)	1.5	6.0	11.1	13.5	15.3
Fixed Asset Turnover (x)	12.1	5.2	4.8	3.9	3.3
Inventory (days)	0	0	0	0	0
Debtors (days)	2	34	70	80	90
Other Current Assets (days)	35	35	33	34	33
Payables (days)	5	9	9	9	9
Other Current Liab & Provns (days)	5	19	19	19	19
Cash Conversion Cycle (days)	27	42	76	86	96
Debt/EBITDA (x)	0.1	1.0	0.6	0.6	0.5
Net D/E (x)	(0.3)	0.1	0.1	(0.1)	(0.2)
Interest Coverage (x)	91	10	12	13	14
PER SHARE DATA (Rs)					
EPS	3.0	4.9	10.6	11.5	12.7
CEPS	3.6	7.4	14.1	16.0	18.2
Dividend	0	0	1	1	1
Book Value	12	16	25	36	47
VALUATION					
P/E (x)	84.9	52.5	24.1	22.2	20.2
P/BV (x)	22.1	16.0	10.1	7.2	5.5
EV/EBITDA (x)	70.4	32.1	15.9	13.6	11.5
EV/Revenues (x)	5.1	4.2	3.3	3.0	2.7
OCF/EV (%)	1.2	1.9	2.2	5.2	6.1
FCF/EV (%)	1.0	-1.1	0.5	3.3	3.7
FCFE/Mkt Cap (%)	0.9	1.7	0.9	2.8	3.1
Dividend Yield (%)	0.0	0.1	0.4	0.5	0.5

Source: Company, HDFC sec Inst Research; N.A – Not Applicable

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
28-Jun-17	181	BUY	271
12-Aug-17	180	BUY	270
4-Oct-17	241	BUY	284
11-Nov-17	256	BUY	300

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

