

BLS International Services

BUY

INDUSTRY	IT Processing		
CMP (as on 23 May 2018)	Rs 170		
TP	Rs 230		
Nifty	10,430		
Sensex	34,345		
KEY STOCK DATA			
Bloomberg	BLSIN IN		
No. of Shares (mn)	102		
MCap (Rs bn) / (\$ mn)	18/255		
6m avg traded value (Rs mn)	89		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 293/115		
	3M	6M	12M
Absolute (%)	(7.0)	(30.8)	(10.3)
Relative (%)	(7.6)	(33.0)	(23.4)
SHAREHOLDING PATTERN (%)			
Promoters	74.24		
FIs & Local MFs	0.28		
FPIs	4.54		
Public & Others	20.94		
Source : BSE			

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Back on track

BLS International posted muted set of numbers in 4QFY18, but the new contract win from United Kingdom Visas & Immigration (UKVI) with strategic alliance with Sopra Steria (French IT company) is a game changer. The total contract value for BLS is GBP 110mn (Rs 100bn) over three year period with margin of ~22%. The UK contract is bigger than Spain and will start contributing from Oct-18. BLS will open 60 offices (capex of GBP 1mn) in UK and process ~0.5mn visa (renewals) at average realization of GBP 80/application. We have assumed Rs 1.64/3.37bn revenue from UK in FY19/20E.

Revenue for 4QFY18 stood at Rs 2.05bn, up 0.9% QoQ less than our est. of Rs 2.10bn. The Punjab e-governance revenue stood at Rs 0.50bn for 4Q and Rs 1.92bn for FY18. Punjab revenue contribution will continue till 1QFY19 and BLS is negotiating with the Govt. for partial closure of centers (only Type-2&3, no clarity as of now). High receivables from Punjab govt. (Rs 2.12bn in FY18 vs. Rs 0.60bn in FY17) is a concern. Receivable write-off can have an impact of Rs ~10/share (assuming ~50% write-off). However,

Financial Summary (Consolidated)

YE March (Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2,046	1,944	5.3	2,028	0.9	5,050	6,350	7,891	8,600	10,438
EBITDA	341	343	(0.6)	380	(10.2)	367	824	1,587	1,450	1,799
APAT	201	171	17.7	206	(2.6)	309	499	965	950	1,224
Diluted EPS (Rs)	2.0	1.7	17.7	2.1	(2.6)	3.0	4.9	9.4	9.3	11.9
P/E (x)						56.5	35.0	18.1	18.4	14.3
EV / EBITDA (x)						46.5	21.4	10.8	11.4	8.6
RoE (%)						30.5	35.1	45.3	31.4	30.7

Source: Company, HDFC sec Inst Research

growth in the visa business will off-set the drag from loss of Punjab contract.

We like the visa segment which is a lucrative business with huge addressable opportunity, scope for market share gain, asset-light model with higher return ratios. In view of the large UK contract win and growth visibility in visa business, we upgrade BLS to BUY with a TP of Rs 230, based on 20x FY20 EPS. We increase our revenue estimate by 28/54% and PAT est. by 11/30% for FY19/20E. We expect Rev/EBITDA/PAT CAGR of 15/7/13% for FY18-20E.

Highlights of the quarter

- EBITDA stood at Rs 0.34bn down 10.2% QoQ vs our expectation of Rs 0.37bn. EBITDA margin stood at 16.7% (vs our expectation of 17.7%), down 206bps QoQ.
- Total 11mn application was processed in FY18 out of which ~8mn was Punjab and ~3mn were visa applications including Spain.
- Near-term outlook:** BLS will continue to book revenue from the Punjab in 1QFY19. For Visa 1Q is a strong quarter.

Punjab application count increased from 2.5mn in FY17 to 8mn in FY18

Punjab contract can run at a reduced scale. Revenue from Punjab stood at Rs 0.50bn flat QoQ.

Revenue from the Visa business (core visa + Spain) was at Rs 1.55mn (+1.2% QoQ)

EBITDA margin for FY18 stood at 20.1% +711bps QoQ

Quarterly Consolidated Financials Snapshot

Particulars (Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
Net Sales	2,046	1,944	5.3	2,028	0.9
Cost of service consumed	1,258	1,292	(2.6)	1,316	(4.4)
Personnel expenses	140	117	19.6	142	(1.4)
Operating and other expenses	307	192	60.1	190	61.8
EBITDA	341	343	(0.6)	380	(10.2)
Depreciation	98	168	(41.6)	101	(2.7)
EBIT	243	176	38.6	279	(12.9)
Other Income	15	2	792.7	10	57.4
Interest Cost	32	26	22	36	(11.6)
PBT	227	151	50.1	253	(10.3)
Tax	26	(20)	NM	47	(44.5)
Minority Interest	0	0	NM	0	NM
RPAT	201	171	17.7	206	(2.6)
EO Items (Adj For Tax)	0	0	NM	0	NM
APAT	201	171	17.7	206	(2.6)

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS %	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
Cost of services % Net Sales	61.5	66.5	(498)	64.9	(343)
Employee Expenses % Net Sales	6.8	6.0	82	7.0	(16)
Operating Expenses % Net Sales	15.0	9.9	514	9.4	565
Gross Margin %	38.5	33.5	498	35.1	343
EBITDA Margin (%)	16.7	17.7	(98)	18.7	(206)
EBIT Margin (%)	11.9	9.0	286	13.8	(188)
Tax Rate (%)	11.5	(13.0)	NM	18.5	(706)
APAT Margin (%)	9.8	8.8	103	10.2	(35)

Source: Company, HDFC sec Inst Research

YoY growth is coming down since the last five quarters

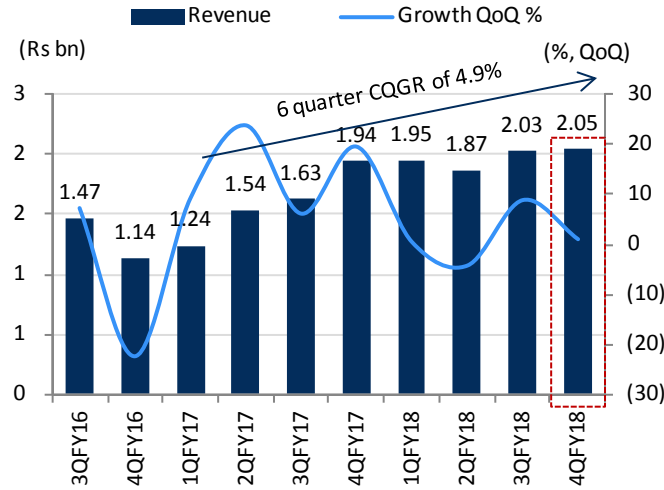
Six-quarter revenue growth is healthy at 4.9% CQGR

Delta in revenue growth will come from new contract wins (UK visa)

EBITDA is on a declining trend since the last four quarters

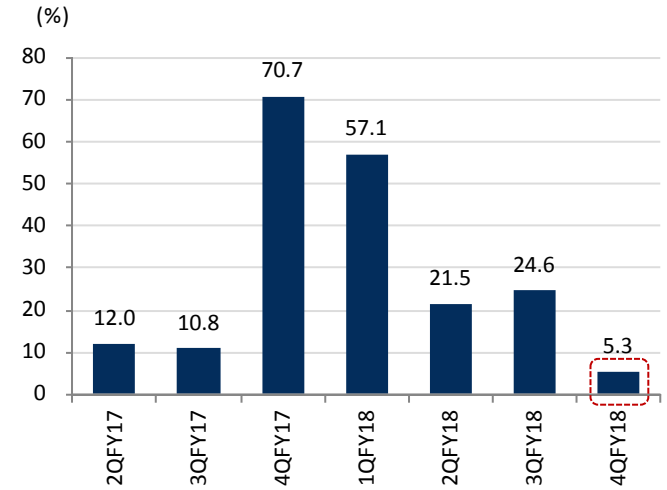
EBITDA margin at six quarter low

Revenue And Revenue Growth (QoQ)



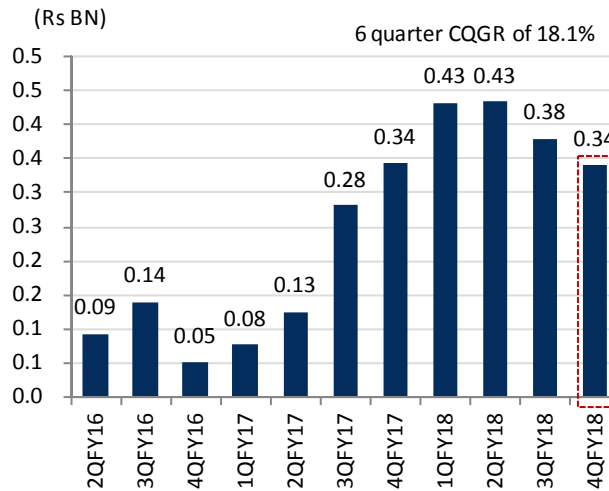
Source: Company, HDFC sec Inst Research

Revenue Growth (YoY)



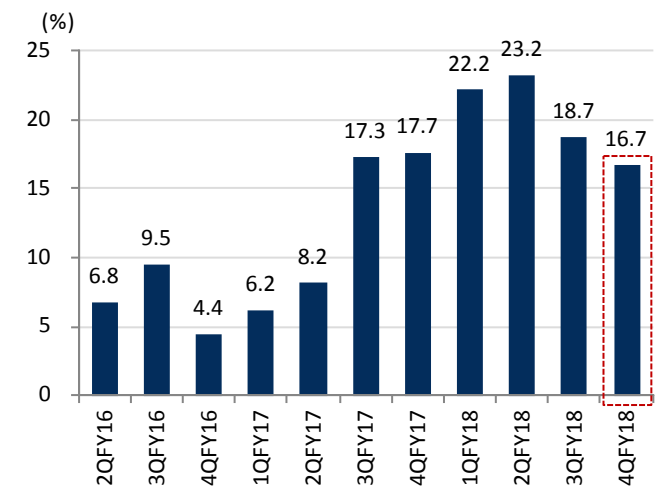
Source: Company, HDFC sec Inst Research

EBITDA Growth Will Resume with UK



Source: Company, HDFC sec Inst Research

EBITDA Margin (%)



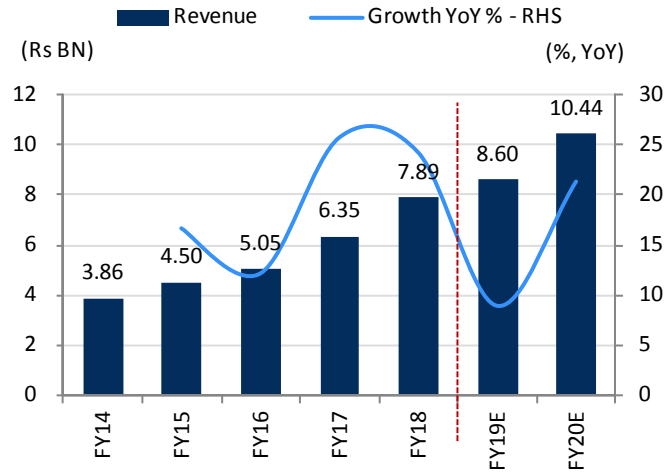
Source: Company, HDFC sec Inst Research

Financial Charts

Revenue will decline in FY19E Led by Punjab E-Governance Contract Cancellation (only 1Q contribution in FY19E)

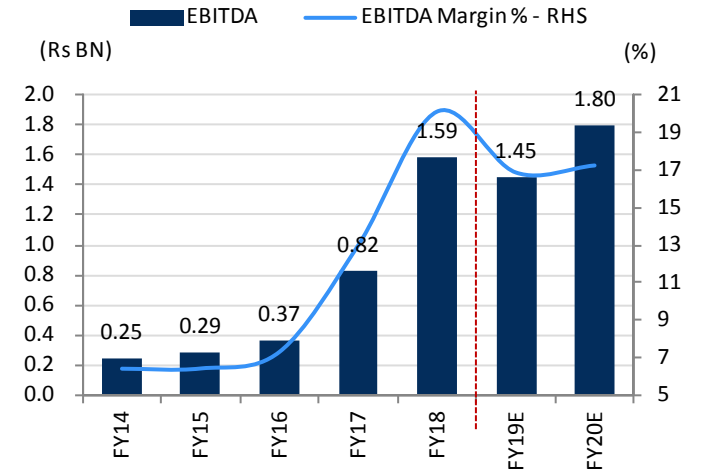
Revenue growth will revive in FY12E with full year contribution coming in from the UK contract

Revenue Push Led By UK Win



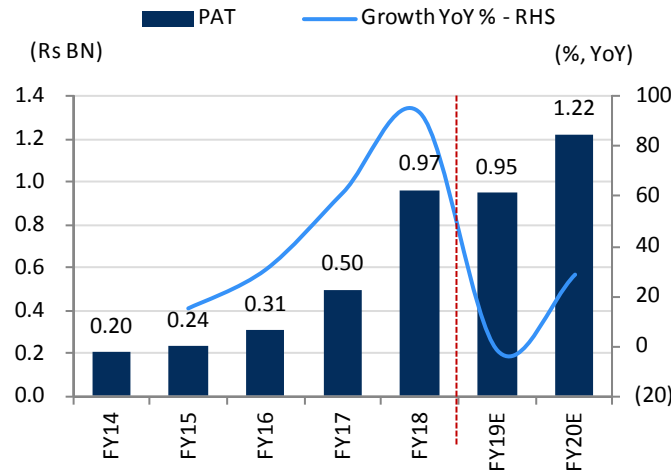
Source: Company, HDFC sec Inst Research

EBITDA To Revive With UK Contribution



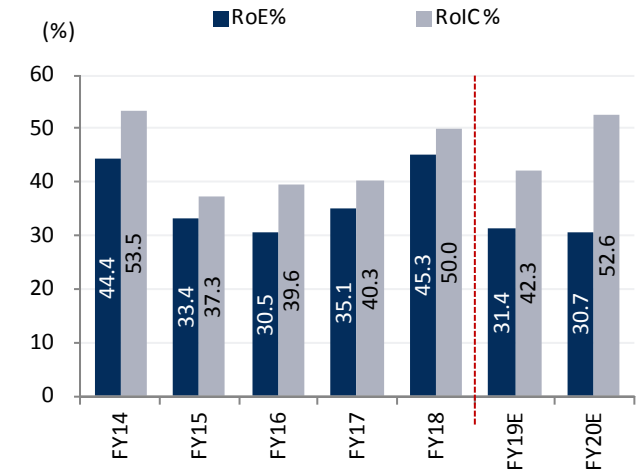
Source: Company, HDFC sec Inst Research

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	1.41	1.48	1.55
Growth YoY%	-21.1%	-5.4%	2.8%	-10.0%	5.0%	5.0%
Realisation/Application (Rs)	2,793	3,313	3,370	3,337	3,437	3,575
Growth YoY%	47.8%	18.6%	1.7%	-1.0%	3.0%	4.0%
Revenue (Rs mn)	4,500	5,050	5,279	4,705	5,089	5,557
Growth YoY%	16.7%	12.2%	4.5%	-10.9%	8.2%	9.2%
Spain + UK Visa Processing						
No of Visa applications (mn)				1.90	2.18	2.53
Growth YoY%					14.8%	16.1%
Realisation/Application (Rs)				1,332	1,983	2,521
Growth YoY%					48.9%	27.1%
Revenue (Rs mn)				2,531	4,327	6,389
Growth YoY%					71.0%	47.6%
Revenue realised Spain (50%) + UK (Rs mn)				1,265	2,985	4,881
Growth YoY%					135.9%	63.5%
EBITDA				633	1,027	1,489
EBITDA Margin %				25.0%	23.7%	23.3%
Total Visa Processing Business (Old + Spain)						
No of Visa applications (mn)	1.61	1.52	1.57	3.31	3.66	4.09
Growth YoY%	-21.1%	-5.4%	2.8%	111.3%	10.6%	11.6%
Realisation/Application (Rs)	2,793	3,313	3,370	1,804	2,204	2,553
Growth YoY%	47.8%	18.6%	1.7%	-46.5%	22.2%	15.8%
Revenue (Rs mn)	4,500	5,050	5,279	5,971	8,074	10,438
Growth YoY%	16.7%	12.2%	4.5%	13.1%	35.2%	29.3%
EBITDA	287	367	428	1,080	1,311	1,799
EBITDA Margin %	6.4%	7.3%	8.1%	18.1%	16.2%	17.2%
Punjab e-Governance Project						
No of Applications (mn)			9.9	20.0	4.8	0.0
Growth YoY%				102.4%	-75.9%	NM
Realisation/Application (Rs)			108	96	109	0
Growth YoY%				-11.4%	13.5%	NM
Revenue (Rs mn)			1,071	1,920	526	0
Growth YoY%				79.3%	-72.6%	NM
EBITDA			396	508	139	0
EBITDA Margin %			37.0%	26.4%	26.5%	NM
Total Revenue	4,500	5,050	6,350	7,891	8,600	10,438
Growth YoY%	16.7%	12.2%	25.7%	24.3%	9.0%	21.4%
Total EBITDA	287	367	824	1,587	1,450	1,799
EBITDA Margin %	6.4%	7.3%	13.0%	20.1%	16.9%	17.2%

Source: Company, HDFC sec Inst Research

Change In Estimate

Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (Rs mn)	6,742	8,600	27.6
EBITDA (Rs mn)	1,255	1,450	15.6
<i>EBITDA margin (%)</i>	18.6	16.9	(175) bps
APAT (Rs)	855	950	11.0
FY20E			
Revenue (Rs mn)	6,779	10,438	54.0
EBITDA (Rs mn)	1,306	1,799	37.8
<i>EBITDA margin (%)</i>	19.3	17.2	(203) bps
APAT (Rs)	942	1,224	29.9

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	7,891	8,600	10,438
Growth (%)	12.2	25.7	24.3	9.0	21.4
Cost of services	4,132	4,196	4,560	5,122	5,904
Employee Benefit	329	417	527	662	856
Other Expenses	221	912	1,217	1,366	1,879
EBITDA	367	824	1,587	1,450	1,799
EBITDA Margin (%)	7.3	13.0	20.1	16.9	17.2
EBITDA Growth (%)	27.8	124.3	92.7	(8.6)	24.1
Depreciation	55	260	396	291	322
EBIT	312	564	1,191	1,159	1,477
Other Income (Including EO Items)	5	23	41	47	54
Interest	3	55	124	114	124
PBT	314	532	1,108	1,092	1,407
Tax (Incl Deferred)	5	32	143	142	183
Minority Interest	0	0	0	0	0
RPAT	309	500	965	950	1,224
EO (Loss) / Profit (Net Of Tax)	0	0	0	0	0
APAT	309	499	965	950	1,224
APAT Growth (%)	30.8	61.7	93.4	(1.6)	28.9
Adjusted EPS (Rs)	3.0	4.9	9.4	9.3	11.9
EPS Growth (%)	31.0	61.7	93.2	(1.6)	28.9

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	1,554	2,503	3,342	4,422
Total Shareholders' Funds	1,187	1,657	2,605	3,444	4,525
Minority Interest	1	1	1	1	1
Total Debt	41	838	933	952	952
Net Deferred Taxes	(4)	5	(33)	(33)	(33)
Long Term Provisions & Others	11	13	15	15	15
TOTAL SOURCES OF FUNDS	1,237	2,514	3,522	4,380	5,461
APPLICATION OF FUNDS					
Net Block	242	784	495	333	167
CWIP	0	0	0	0	0
Investments	17	320	278	278	278
LT Loans & Advances	175	6	27	34	42
Total Non-current Assets	434	1,110	799	645	487
Inventories	0	0	0	0	0
Debtors	22	597	2,123	2,356	2,574
Other Current Assets	486	566	554	680	920
Cash & Equivalents	426	697	1,189	1,948	3,011
Total Current Assets	934	1,861	3,866	4,984	6,505
Creditors	68	130	388	475	592
Other Current Liabilities & Provns	63	326	755	774	939
Total Current Liabilities	131	457	1,143	1,249	1,531
Net Current Assets	803	1,404	2,723	3,735	4,974
TOTAL APPLICATION OF FUNDS	1,237	2,514	3,522	4,380	5,461

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Consolidated)

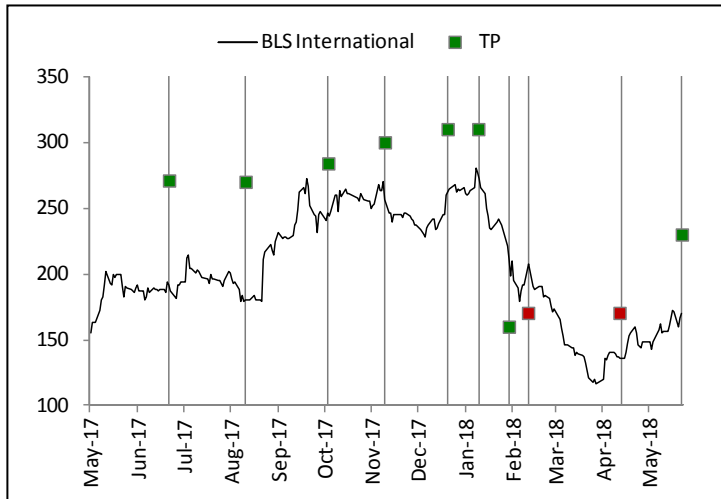
YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	314	532	1,108	1,092	1,407
Non-operating & EO items	(5)	(23)	(41)	(47)	(54)
Interest expenses	3	55	124	114	124
Depreciation	55	260	396	291	322
Working Capital Change	(42)	(244)	(826)	(256)	(178)
Tax Paid	(8)	(32)	(143)	(142)	(183)
OPERATING CASH FLOW (a)	317	547	619	1,052	1,439
Capex	(55)	(802)	(106)	(129)	(157)
Free cash flow (FCF)	262	(255)	513	923	1,282
Investments	(25)	(218)	22	(5)	(6)
Non-operating Income	5	23	41	47	54
INVESTING CASH FLOW (b)	(75)	(996)	(44)	(87)	(108)
Debt Issuance/(Repaid)	(15)	797	95	19	0
Interest Expenses	(3)	(55)	(124)	(114)	(124)
FCFE	244	487	483	828	1,158
Share Capital Issuance	0	0	0	0	0
Dividend	0	(42)	(42)	(111)	(143)
FINANCING CASH FLOW (c)	(18)	700	(71)	(206)	(267)
NET CASH FLOW (a+b+c)	224	251	504	759	1,063
EO Items, Others	44	(21)	13	0	0
Closing Cash & Equivalents	426	697	1,189	1,948	3,011

Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	18.2	33.9	42.2	40.4	43.4
EBITDA Margin	7.3	13.0	20.1	16.9	17.2
APAT Margin	6.1	7.9	12.2	11.0	11.7
RoE	30.5	35.1	45.3	31.4	30.7
RoIC (or Core RoCE)	39.6	40.3	50.0	42.3	52.6
RoCE	29.2	29.4	35.6	26.6	27.1
EFFICIENCY					
Tax Rate (%)	1.5	6.0	12.9	13.0	13.0
Fixed Asset Turnover (x)	12.1	5.2	6.0	5.9	6.5
Inventory (days)	0	0	0	0	0
Debtors (days)	2	34	98	100	90
Other Current Assets (days)	35	33	26	29	32
Payables (days)	5	9	22	24	25
Other Current Liab & Provns (days)	5	19	35	33	33
Cash Conversion Cycle (days)	27	40	66	72	64
Debt/EBITDA (x)	0.1	1.0	0.6	0.7	0.5
Net D/E (x)	(0.3)	0.1	(0.1)	(0.3)	(0.5)
Interest Coverage (x)	91	10	10	10	12
PER SHARE DATA (Rs)					
EPS	3.0	4.9	9.4	9.3	11.9
CEPS	3.6	7.4	13.3	12.1	15.1
Dividend	0	0	0	1	1
Book Value	12	16	25	34	44
VALUATION					
P/E (x)	56.5	35.0	18.1	18.4	14.3
P/BV (x)	14.7	10.5	6.7	5.1	3.9
EV/EBITDA (x)	46.5	21.4	10.8	11.4	8.6
EV/Revenues (x)	3.4	2.8	2.2	1.9	1.5
OCF/EV (%)	1.9	3.1	3.6	6.4	9.3
FCF/EV (%)	1.5	-1.4	3.0	5.6	8.3
FCFE/Mkt Cap (%)	1.4	2.8	2.8	4.7	6.6
Dividend Yield (%)	0.0	0.2	0.2	0.5	0.7

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
21-Dec-17	251	BUY	310
10-Jan-18	280	BUY	310
31-Jan-18	211	SELL	160
13-Feb-18	196	SELL	170
23-May-18	170	BUY	230

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

Disclosure:

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