

SIS INDIA

Strong growth continues...

India Equity Research | Business Services

We attended the post Q4FY18 result analyst meet organised by SIS India (SIS). The quarter's earnings as well as the business outlook provided by the company's top management further reaffirm our positive stance. FY18 sales of domestic security business jumped ~33% (headcount up ~15% YoY). This bolsters our thesis that SIS has the right attributes and strategy in place to sustainably outpace peers over the next four-five years. Facility management (FM) business too is ramping up rapidly, in-line with our thesis that India will be the growth engine. However, we marginally tweak FY19/20E PAT by -1%/-3% adjusting for below EBITDA items. Maintain "Buy" with a revised TP of INR1,532 (INR1,545 earlier)

Growth outlook remains robust

SIS management's growth outlook is positive. Management believes, SIS will continue to outpace peers and become the industry leader in India over the next two years. Our industry checks and analysis indicate that SIS' aggressive expansion strategy and its execution have remained excellent and, consequently, it becoming the market leader holds high probability. We estimate its India business to clock 23-25% sales growth in FY19/20. Management's outlook on the FM business is also very aggressive and we estimate ~25% sales in FY19/20. Overall, we estimate FY18-20 consolidated sales/PAT CAGR of 18%/42% (18%/37% in FY15-18).

FY18 ends on a high note

India security business grew 24% YoY in Q4FY18, sustaining the rapid pace seen in 9mFY18. For FY18, India security segment clocked 33% sales growth (~15% headcount growth) along with EBITDA margin expansion of 50bps to 6.9%. Our industry checks indicate this is yet again a strong outperformance by SIS over its closest peers. The India FM segment clocked sales growth of ~69% in FY18 as Dusters' acquisition had a full year impact. Nonetheless, we peg FY18 organic growth at 30% plus. The Australia security business grew ~26%, leading to consolidated topline clocking ~33% sales growth for FY18 along with 30bps EBITDA margin expansion (see detailed table inside).

Outlook & valuations: A large opportunity to tap; retain 'BUY'

We value SIS on a three-stage DCF basis to capture the long-term potential. We marginally cut FY19/20E PAT 1%/3% after incorporating FY18 numbers. Hence, our revised DCF-based TP is slightly lower at INR1,532 (INR1,545 earlier). Maintain 'BUY'.

EDELWEISS RATINGS			
Absolute Rating	BUY		
Investment Characteristics	Growth		
MARKET DATA (R: SECR.BO, B: SECIS IN)			
CMP	: INR 1,379		
Target Price	: INR 1,532		
52-week range (INR)	: 1,405 / 705		
Share in issue (mn)	: 73.2		
M cap (INR bn/USD mn)	: 101 / 0		
Avg. Daily Vol. BSE/NSE ('000)	: 103.2		
SHARE HOLDING PATTERN (%)			
	Current	Q3FY18	Q2FY18
Promoters *	75.5	75.5	75.5
MF's, FI's & BKs	4.8	4.8	4.4
FII's	5.7	5.7	5.3
Others	14.0	14.0	14.8
* Promoters pledged shares (% of share in issue)	:	NIL	
RELATIVE PERFORMANCE (%)			
	Sensex	Stock	Stock over Sensex
1 month	2.9	23.1	20.3
3 months	4.8	21.2	16.4
12 months	15.4	81.6	66.2
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Financials

	INRmm							
Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net rev. (INR mn)	15,922	12,381	28.6	15,377	3.5	58,334	69,517	80,569
EBITDA (INR mn)	866	652	32.8	843	2.7	3,120	3,989	4,795
Adj. PAT (INR mn)	333	560	(40.4)	472	(29.3)	1,629	2,595	3,283
Adj. Dil. EPS (INR)	4.5	7.5	(40.4)	6.3	(29.3)	21.9	35.5	44.9
Diluted P/E (x)							38.9	30.7
EV/EBITDA (x)							25.2	20.6
ROAE (%)							22.9	23.9

Key takeaways from the Analyst Meet

- Management reconfirmed its vision of being a market leader, not only in India's private security market, but also facility management and cash logistics segments. We believe, SIS is now in a position to become the market leader in the domestic security market even without any acquisitions. As per SIS, it is now only INR3bn behind the current market leader G4S, in terms of revenue. In our view, given the company's rapid growth, it has a high likelihood of becoming the market leader in FY20.
- Margin of the Indian security business is also expected to be stable or improving given the technology driven operating platform consistently creating operating leverage. SIS' technology also is a key success factor for its scalability as it has been able to streamline its recruitment processes. Note that SIS recruits nearly 65,000 employees annually at the gross level.
- SIS is actively scouting for acquisitions in the facility management space. However, management approach is of acquiring a target that suits its needs rather than looking for businesses that are on sale. Its FM business is currently the third largest in India and we believe an inorganic approach will be needed to become the market leader.
- Australia business is expected to deliver 7-8% sales growth on a steady-state basis with stable margin.

Table 1: Quarterly performance snapshot – Standalone and Consolidated

INR mn	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	YoY (%)	YoY (%)	FY17	FY18	YoY (%)
Standalone (India Security segment)										
Sales	4,553	4,883	5,217	5,605	5,645	24.0	0.7	16,018	21,351	33.3
EBITDA	292	358	365	373	380	30.0	1.7	983	1,476	50.2
PBT	69	137	154	241	240	248.8	(0.7)	294	773	162.7
PAT	399	115	166	225	224	(43.8)	(0.4)	540	730	35.3
EBITDA margin (%)	6.4	7.3	7.0	6.7	6.7			6.1	6.9	
Consolidated										
Sales	12,381	12,435	14,600	15,377	15,922	28.6	3.5	43,872	58,334	33.0
EBITDA	652	670	741	843	866	32.8	2.7	2,175	3,120	43.4
PBT	313	366	624	555	447	42.7	(19.5)	1,137	1,992	75.2
PAT	560	220	596	472	333	(40.4)	(29.3)	1,093	1,620	48.2
EBITDA margin (%)	5.3	5.4	5.1	5.5	5.4			5.0	5.3	

Table 2: Segment-wise quarterly performance snapshot

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	YoY (%)	YoY (%)	FY17	FY18	YoY (%)
Sales										
India Security Services	4,580	4,890	5,230	5,620	5,700	24.5	1.4	15,950	21,440	34.4
Australia Security Services	6,410	6,000	7,730	8,050	8,410	31.2	4.5	23,950	30,190	26.1
India Facility Management	1,390	1,540	1,640	1,710	1,820	30.9	6.4	3,971	6,710	69.0
EBITDA										
India Security Services	316	348	372	380	374	18.4	(1.6)	1,013	1,474	45.5
Australia Security Services	270	250	290	368	384	42.2	4.3	1,028	1,292	25.7
India Facility Management	66	61	78	96	108	63.6	12.5	132	343	159.8
EBITDA margin (%)										
India Security Services	6.9	7.1	7.1	6.8	6.6			6.4	6.9	
Australia Security Services	4.2	4.2	3.8	4.6	4.6			4.3	4.3	
India Facility Management	4.7	4.0	4.8	5.6	5.9			3.3	5.1	

Source: Company information

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	15,922	12,381	28.6	15,377	3.5	58,334	69,517	80,569
Employee Exp + other	12,973	10,417	24.5	12,450	4.2	48,023	56,483	65,717
Gross Profit	2,949	1,964	50.1	2,927	0.7	10,311	13,034	14,852
Other expenses	2,083	1,312	58.8	2,084	(0.1)	7,191	9,045	10,057
Total expenditure	15,056	11,729	28.4	14,534	3.6	55,214	65,528	75,774
EBITDA	866	652	32.8	843	2.7	3,120	3,989	4,795
Depreciation	183	102	79.1	125	46.6	560	585	657
EBIT	683	550	24.2	718	(4.9)	2,560	3,404	4,138
Interest	277	244	13.6	200	38.2	925	730	730
Other income	49	7	596.9	37	32.6	365	284	313
Add: Exceptional items	(8)							
Profit before tax	447	313	42.7	555	(19.5)	2,001	2,958	3,722
Provision for taxes	30	(232)	(112.8)	105	(71.5)	244	362	439
Minority interest	27	(4)	(753.3)	(6)	(527.4)	10	-	-
Associate profit share	(57)	10	NA	15	NA	(118)	-	-
Reported net profit	333	560	(40.4)	472	(29.3)	1,629	2,595	3,283
Adjusted Profit	333	560	(40.4)	472	(29.3)	1,629	2,595	3,283
Diluted shares (mn)	74	74		74		74	73	73
Adjusted Diluted EPS	4.5	7.5	(40.4)	6.3	(29.3)	21.9	35.5	44.9
Diluted P/E (x)							38.9	30.7
EV/EBITDA (x)							25.2	20.6
ROAE (%)							22.9	23.9

As % of net revenues

Raw material	81.5	84.1		81.0		82.3	81.3	81.6
Employee cost	18.5	15.9		19.0		17.7	18.7	18.4
Other expenses	13.1	10.6		13.6		12.3	13.0	12.5
EBITDA	5.4	5.3		5.5		5.3	5.7	6.0
Reported net profit	2.1	4.5		3.1		2.8	3.7	4.1

Company Description

SIS is a leading security services company in India and Australia enjoying leadership positions in cash logistics and FM services. The SIS Group offers solutions across service lines including security services (mainly manned guarding business) in India and Australia where it has expanded operations with the acquisition of Chubb Security Personnel Pty Ltd which was later renamed and rebranded as MSS Security. It provides cash logistics through SIS Cash Services, a joint venture with Prosegur of Spain and the second largest cash logistics service provider in India. The company forayed into FM services by entering into an exclusive license agreement with Service Master for the 'Service Master Clean brand. In FY17, the SIS Group acquired 78.72% of the outstanding equity shares of Dusters, the fourth largest FM provider in India, in terms of revenues.

Investment Theme

Since FY06, SIS has clocked ~36% sales CAGR and we expect this outperformance to peers to extend as the company aces on all critical success enablers, viz: 1) scale; 2) reinvesting in core business; 3) pan-India presence; and 4) expansion in tier II-III cities, among others. We expect SIS to emerge market leader in Indian manned guarding services by FY20 with ~5% market share. SIS's market leadership position in Australia is also expected to remain unchallenged. Also, SIS's domestic FM segment should see huge ramp up in next two years. A combination of high organic growth should lead to EPS CAGR of ~38% over FY18-20E and RoE expansion from 21.7% to 23.3%.

Key Risks

- Our estimates and target price are based on assumptions which factor in consistent market share gains in the Indian manned guarding business for SIS over next six to seven years. Failure to consistently gain market share poses downside risk to our estimates and target price.
- In Australia, we expect sales to grow ~8% which in turn assumes 4-5% headcount growth in security guards. Any slowdown in the Australian economy leading to lower demand for security services will pose downside risk to our Australia business assumptions.
- Higher than expected pricing intensity in security services business could exert pressure on our margin assumptions and pose downside risk to our estimates.
- We have assumed 7-8% annual wage hike for security guards in India. Lower than expected annual hike and SIS's inability to gain from these hikes would pose downside risk to our thesis.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro - GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Sector - India Security Sector	7.0	7.7	8.5	9.3
Annual wage hike (%)	9.0	9.0	9.0	9.0
India Security Sector size	10.7	12.8	15.3	18.3
Company - India Security business (INR mn)	16,018	21,351	26,791	33,301
India FM business (INR mn)	3,970	6,710	8,388	10,484
Australia business (INR mn)	23,956	30,185	34,338	36,783
Gross margins (%)	15.2	17.7	18.7	18.4
Opex (%)	10.2	12.3	13.0	12.5
EBITDA margins (%)	5.0	5.3	5.7	6.0
Capex (INR mn)	(647)	(1,210)	(650)	(650)
Net borrowings (INR mn)	1,914	-67	-478	-2,016
Receivable (days)	30	33	36	36
Inventory (days)	48	88	76	32
Payable (days)	815	604	413	159
Cash conversion cycle (days)	-737	-483	-302	-91

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	43,872	58,334	69,517	80,569
Materials costs	163	363	453	567
Employee costs	37,030	47,660	56,030	65,150
Gross profit	6,679	10,311	13,034	14,852
Other Expenses	4,475	7,191	9,045	10,057
Operating expenses	4,475	7,191	9,045	10,057
Total operating expenses	4,638	7,554	9,498	10,624
EBITDA	2,204	3,120	3,989	4,795
Depreciation	358	560	585	657
EBIT	1,845	2,560	3,404	4,138
Less: Interest Expense	767	925	730	730
Add: Other income	86.74	365.44	283.56	313.45
Profit Before Tax	1,165	2,001	2,958	3,722
Less: Provision for Tax	8	244	362	439
Less: Minority Interest	(21)	10	-	-
Associate profit share	(60)	(118)	-	-
Exceptional items	-	(8)	-	-
Reported Profit	1,118	1,620	2,595	3,283
Exceptional Items	-	(8)	-	-
Adjusted Profit	1,118	1,629	2,595	3,283
Shares o/s (mn)	69	73	73	73
Adjusted Basic EPS	16.3	22.2	35.5	44.9
Diluted shares o/s (mn)	69	73	73	73
Adjusted Diluted EPS	16.3	22.2	35.5	44.9
Adjusted Cash EPS	16.5	25.1	41.7	51.4
Dividend per share (DPS)	-	3.5	5.7	7.2
Dividend Payout Ratio(%)	-	0.2	0.2	0.2

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Gross margin	15.2	17.7	18.7	18.4
Operating expenses	10.2	12.3	13.0	12.5
EBITDA margins	5.0	5.3	5.7	6.0
EBIT margins	4.2	4.4	4.9	5.1
Interest Expense	1.7	1.6	1.0	0.9
Net Profit margins	2.5	2.8	3.7	4.1

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	14.4	33.0	19.2	15.9
EBITDA	69.6	41.6	27.9	20.2
Adjusted Profit	158.4	45.6	59.3	26.5
EPS	156.0	36.6	59.5	26.5

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	687	732	732	732	
Reserves & Surplus	5,155	9,551	11,661	14,329	
Shareholders' funds	5,842	10,283	12,392	15,061	
Minority Interest	3	14	14	14	
Long term borrowings	3,735	3,763	3,763	3,763	
Short term borrowings	2,538	1,598	1,598	1,598	
Total Borrowings	6,273	5,361	5,361	5,361	
Long Term Liabilities	1,394	3,834	3,834	3,834	
Def. Tax Liability (net)	(508)	(1,163)	(1,163)	(1,163)	
Sources of funds	13,004	18,329	20,438	23,107	
Gross Block	3,403	4,141	4,791	5,441	
Net Block	1,088	1,267	1,332	1,325	
Capital work in progress	4	10	10	10	
Intangible Assets	2,715	5,946	5,946	5,946	
Total net fixed assets	3,807	7,223	7,288	7,281	
Non current investments	989	921	921	921	
Cash and Equivalents	4,358	5,428	5,839	7,377	
Inventories	33	142	47	52	
Sundry Debtors	4,207	6,243	7,384	8,570	
Loans & Advances	1,615	1,156	1,156	1,156	
Other Current Assets	4,499	5,666	5,666	5,666	
Current Assets (ex cash)	10,353	13,206	14,253	15,444	
Trade payable	394	806	220	274	
Other Current Liab	6,110	7,642	7,642	7,642	
Total Current Liab	6,503	8,449	7,862	7,916	
Net Curr Assets-ex cash	3,850	4,757	6,390	7,528	
Uses of funds	13,004	18,329	20,438	23,107	
BVPS (INR)	85.0	140.4	169.4	205.9	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	1,118	1,620	2,595	3,283	
Add: Depreciation	358	560	585	657	
Interest (Net of Tax)	514	620	489	489	
Others	(1,804)	(1,630)	(3,309)	(2,348)	
Less: Changes in WC	(758)	(550)	(1,633)	(1,138)	
Operating cash flow	944	1,720	1,993	3,218	
Less: Capex	647	1,210	650	650	
Free Cash Flow	298	510	1,343	2,568	

Cash flow metrics				
Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	944	1,720	1,993	3,218
Financing cash flow	2,217	670	(1,215)	(1,344)
Investing cash flow	(2,057)	(750)	(366)	(337)
Net cash Flow	1,104	1,640	411	1,537
Capex	(647)	(1,210)	(650)	(650)
Dividend paid	3	(256)	(415)	(525)

Profitability and efficiency ratios				
Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	18.7	21.1	22.1	23.3
ROAE (%)	21.6	20.2	22.9	23.9
Inventory Days	48	88	76	32
ROA	10.3	10.4	13.4	15.1
Debtors Days	30	33	36	36
Payable Days	815	604	413	159
Cash Conversion Cycle	(737)	(483)	(302)	(91)
Current Ratio	2.3	2.2	2.6	2.9
Debt/EBITDA (x)	2.8	1.7	1.3	1.1
Adjusted Debt/Equity	1.1	0.5	0.4	0.4
Net Debt/Equity	0.3	-	-	(0.1)
Interest Coverage Ratio	2.4	2.8	4.7	5.7
LT debt /Cap empl. (%)	28.7	20.5	18.4	16.3
Debt / Cap employed (%)	48.2	29.2	26.2	23.2

Operating ratios				
Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	4.0	3.7	3.6	3.7
Fixed Asset Turnover	12.7	10.6	9.6	11.1
Equity Turnover	8.5	7.2	6.1	5.9

Valuation parameters				
Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	16.3	22.2	35.5	44.9
Y-o-Y growth (%)	156.0	36.6	59.5	26.5
Adjusted Cash EPS (INR)	16.5	25.1	41.7	51.4
Diluted P/E (x)	84.7	62.0	38.9	30.7
P/B (x)	16.2	9.8	8.1	6.7
EV / Sales (x)	2.2	1.7	1.4	1.2
EV / EBITDA (x)	43.9	32.4	25.2	20.6
Dividend Yield (%)	-	0.3	0.4	0.5

Additional Data

Directors Data

Ravindra Kishore Sinha	Chairman	Arun Batra	Independent Director
Rituraj Kishore Sinha	Managing Director	Amrendra Prasad Verma	Independent Director
Rita Kishore Sinha	Non-Executive Director	Jayanta Kumar Basu	Non-Executive Director
Uday Singh	Wholetime Director and CEO	T C A Ranganathan	Independent Director
Arvind Prasad	Director (Finance)	Devdas Apte	Additional Director
A K Mattoo	Independent Director		

Auditor - Saxena & Saxena

**as per last available data*

Holding - Top 10

	Perc. Holding		Perc. Holding
Sundaram Asset Management	1.59	Tata Asset Management Ltd	0.42
BNP Paribas Asset Management Global	1.09	ABSL Asset Management	0.42
Reliance Capital Trustee Co Ltd	0.84	BNP Paribas Asset Management India	0.34
IDFC Mutual Fund	0.58	Principal Financial Group	0.28
Credit Agricole Group	0.42	Canara HSBC Oriental Bank of Commerce Fund	0.19

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
10 Aug 2017	Kiduja India Ltd	Buy	500000	879.80

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
12/5/2017	Dhiraj Singh	Sell	20000

**in last one year*

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Coverage group(s) of stocks by primary analyst(s): Business Services

Qness Corp Ltd, Security and Intelligence Services India Ltd, TeamLease Services Ltd

Recent Research

Date	Company	Title	Price (INR)	Recos
23-Apr-18	India Business Services	The buzz is getting louder; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

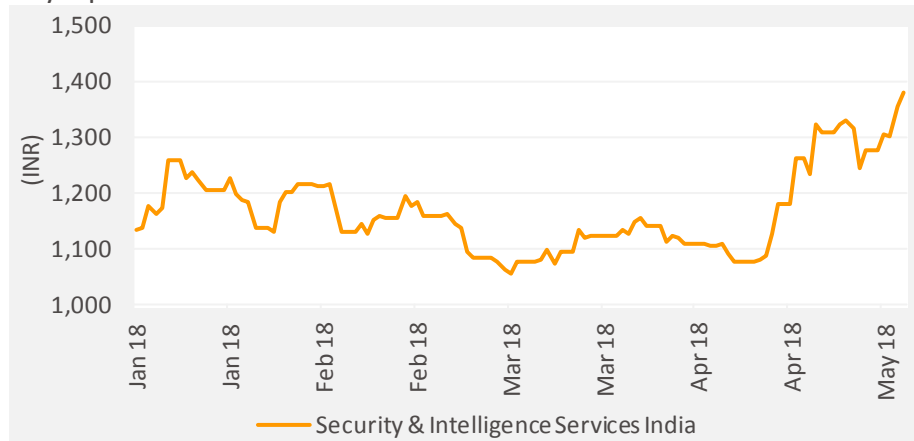
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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