



VISIT NOTE

SIS INDIA

Moving towards leadership

India Equity Research | Business Services



We recently met SIS India's Group Managing Director Mr. Rituraj Sinha for a strategic and business update. SIS reiterated its objective of becoming the leader across business segments, but cautioned that its M&A approach is extremely selective with only strategic-fits on the radar. Furthermore, the operating strategy remains centered on improving the proprietary operational model. This is in line with our view that SIS has a best-in-class operational model in terms of efficiency. The MD said the FY18 growth momentum has continued into FY19E, which indicates that the current growth run-rate is healthy. We reiterate 'BUY' with an unchanged TP of INR1,532.

Focus remains on prudent M&A, improving operating efficiency

We recently met SIS's top management for a strategic and business update. On M&A, SIS reiterated its aim of becoming the leader across the three domestic segments, (viz. security services (SS), facility management (FM) and cash logistics (CL)), stressing that it would selectively choose targets and thus consider only strategic-fits. SIS also outlined its unwavering focus on improving the 'seven-finger operational model', which monitors key parameters such as receivables collections, recruitment, retention and monthly net change in sales. Our checks show that SIS's peers are behind the curve in implementing such an efficient operating model. On growth, SIS indicated that the FY18 growth momentum continues into FY19E; we thus estimate the domestic SS and FM segments will clock FY19E sales growth of ~20% and ~30%, respectively.

Robust sector dynamics, strong competitive edge

India businesses are SIS's growth engines, and we believe the company's strong competitive edge in the country underpins its outperformance. Our initiation report *Guarding the gates* published [on April 23, 2018](#) details SIS's strong key operating and strategic parameters. Given the company's track record, we expect its India growth to be 18–20% p.a. over the next three-four years.

Outlook and valuation: An attractive zone to 'BUY'

We value SIS on a three-stage DCF to capture its long-term potential and thus retain 'BUY' with an unchanged TP of INR1,532. Our analysis shows that CMP builds in an EBITDA CAGR of ~15% for FY18–28E, which might actually come in higher around 18%.

Financials

(INRmn)

Year to March	FY17	FY18E	FY19E	FY20E
Revenues (INR mn)	43,872	58,334	69,205	78,857
EBITDA (INR mn)	2,204	3,120	3,959	4,670
Adjusted Profit (INR mn)	1,118	1,629	2,554	3,209
Adjusted Diluted EPS (INR)	16.3	22.2	34.9	43.8
P/E (x)	67.7	49.5	31.6	25.2
EV/EBITDA (x)	35.3	25.9	20.2	16.7
ROACE (%)	18.9	21.0	21.9	22.9
ROAE (%)	21.4	20.1	22.6	23.5

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: SECR BO, B: SECIS IN)

CMP	: INR 1,102
Target Price	: INR 1,532
52-week range (INR)	: 1,405 / 705
Share in issue (mn)	: 73.2
M cap (INR bn/USD mn)	: 81 / 1,207
Avg. Daily Vol. BSE/NSE ('000)	: 95.2

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

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(1.7)	(10.4)	(8.7)
3 months	(1.3)	10.0	11.3
12 months	8.6	NA	NA

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Key takeaways from meeting with SIS India senior management

- **M&A approach:** Management reiterated its ambition of becoming a leader across its three domestic segments, namely SS, FM and CL. SIS is currently the second-largest SS, fourth-largest FM and second-largest CL player in India. That said, management categorically stated that M&A, if any, will be based on strategic-fit and not just valuation.
- **Improving operating model:** SIS continues to improve its proprietary seven-finger operational model, which is based on driving branch-level KRAs such as new sales, receivable collections, recruitment, retention and other targets. This unique model is allowing the company to scale up faster than peers, in our view.
- **India SS business:** Management indicated that the momentum seen in the domestic SS business continues into FY19E, and that it expects healthy growth this year.
- **FM:** The newly acquired Dusters business continues to leverage SIS's branch network and thus has a healthier growth rate than the industry's.

Takeaways in line with our investment thesis

As highlighted in our initiation, we believe that SIS has a disciplined M&A strategy and would only opt for targets that plug either the geographical or segmental gaps. Hence, we believe that SIS is more likely to look for targets in the western region area for the SS business and in hard services (electrical, plumbing, etc) for the FM business.

Management's focus on improving the operational model reinforces our belief that: 1) it is already ahead of peers in developing a scalable operating model; and 2) the company's growth is sustainable over the next few years due to a defined recruitment strategy.

The healthy growth run-rates indicated by SIS management again reaffirm our investment thesis. We thus estimate FY19E sales growth will be 18–20% in the SS segment and 30%+ in the FM segment. The Australian business continues to be steady with an estimate of ~10% growth during the period.

Chart 1: Segment-wise EBITDA breakdown

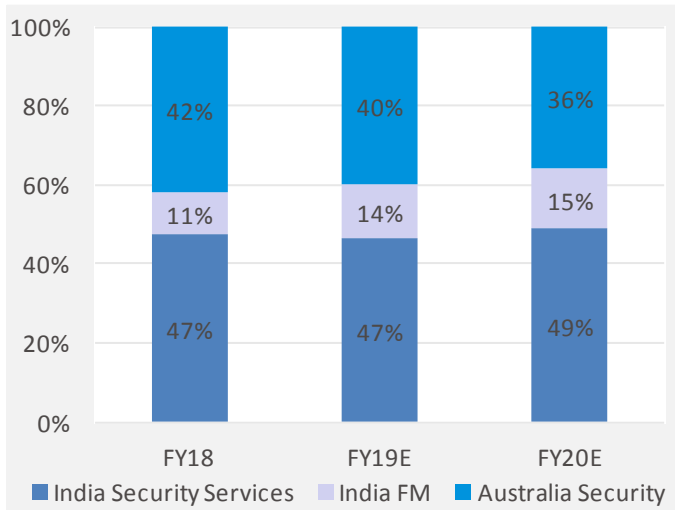
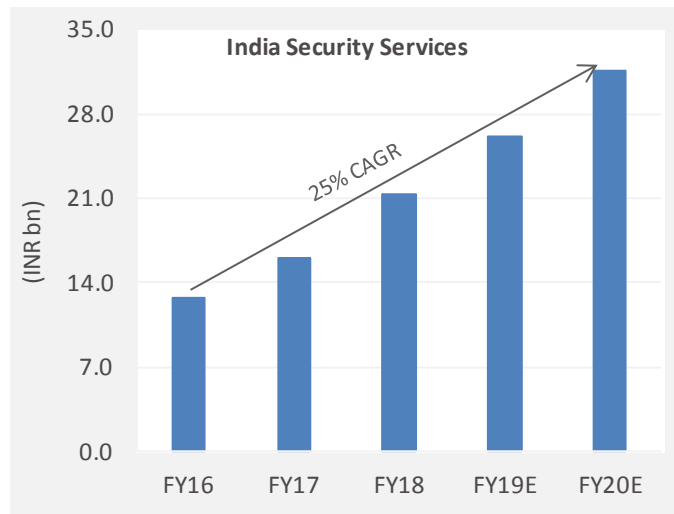


Chart 2: India Security to cloak 25% sales CAGR



Source: Company information, Edelweiss research

Chart 3: India FM to cloak 87% sales CAGR over FY16-20E

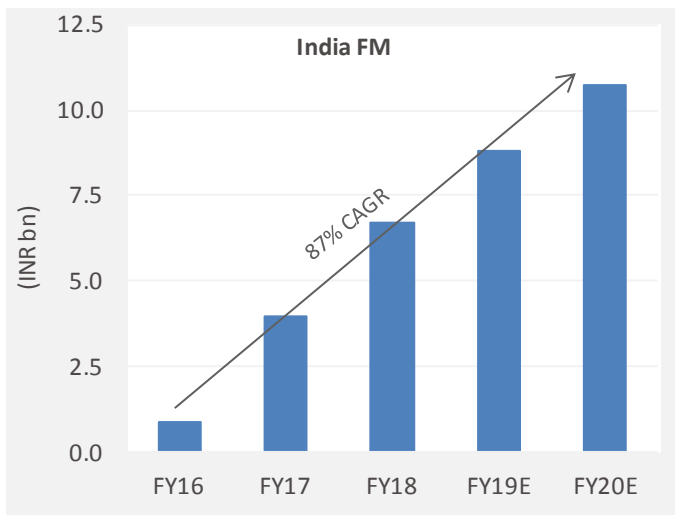
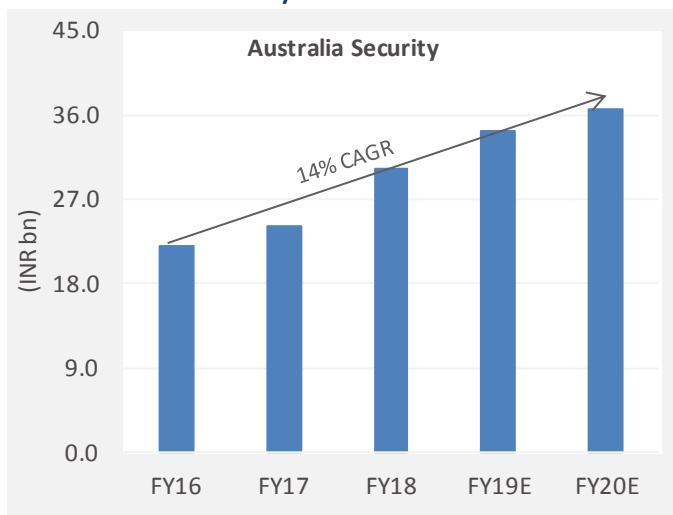


Chart 4: Australia Security to cloak 14% sales CAGR



Source: Company information, Edelweiss research

Company Description

SIS India (SIS) is a security services company with a presence in India and Australia and leadership in the CL and FM services. SIS offers solutions across service lines including SS (mainly the manned guarding business in India and Australia), wherein it has expanded operations via the acquisition of Chubb Security Personnel Pty Ltd (later renamed and rebranded as MSS Security). SIS provides CL 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 through an exclusive license agreement with Service Master for the Service Master Clean brand. In FY17, SIS acquired 78.72% of the outstanding equity shares of Dusters, the fourth-largest FM provider in India by revenue.

Investment Theme

Since FY06, SIS's domestic SS segment has clocked a sales CAGR of ~35%, and we expect this outperformance to sustain as the company shines on all critical success-enablers, viz: 1) scale; 2) reinvestment in core business; 3) pan-India presence; and 4) expansion to tier II-III cities. We expect SIS to emerge as the market leader in the Indian manned guarding services by FY20 with a market share of ~5%. Its market leadership in Australia is also expected to remain unchallenged. Besides, SIS's domestic FM segment may undergo a huge ramp-up over the next two years. Over FY18–20E, high organic growth should drive a consolidated EPS CAGR of ~40% and RoE expansion from 20.2% to 23.5%.

Key Risks

Our estimates and target price are based on the assumption that SIS would consistently gain market share in the Indian manned guarding business over the next six–seven years. A failure thereof is the key downside risk to our estimates and target price.

In Australia, we expect sales to grow ~8% based on a headcount (security guards) growth assumption of 4–5%. Any slowdown in the Australian economy leading to lower demand for SS is a downside risk to our Australia business assumptions.

Higher-than-expected pricing intensity in the SS business, which could exert pressure on our margin assumptions, is another downside risk to our estimates.

We have assumed an annual wage hike of 7–8% over FY18–20 for security guards in India. A lower-than-expected annual hike and SIS's inability to gain from these hikes are the other downside risks to our investment thesis.

Financial Statements

Key assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro - GDP(Y-o-Y %)	7.1	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	66.0	69.0
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)	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	18.8	18.6
Opex (%)	10.2	12.3	13.1	12.7
EBITDA margins (%)	5.0	5.3	5.7	5.9
Capex (INR mn)	(647)	(516)	(700)	(700)
Net borrowings (INR mn)	1,981	-67	-944	-2,529
Receivable (days)	28	33	36	37
Inventory (days)	48	88	113	106
Payable (days)	779	604	677	639
Cash conversion cycle (days)	-703	-483	-527	-497

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	43,872	58,334	69,205	78,857
Materials costs	163	363	476	581
Gross profit	6,679	10,311	13,028	14,648
Employee costs	37,030	47,660	55,701	63,629
Other Expenses	4,475	7,191	9,069	9,978
Operating expenses	4,475	7,191	9,069	9,978
Total operating expenses	4,638	7,554	9,545	10,559
EBITDA	2,204	3,120	3,959	4,670
Depreciation	358	560	587	637
EBIT	1,845	2,560	3,372	4,033
Less: Interest Expense	767	925	805	795
Add: Other income	86.74	365.44	283.56	318.61
Profit Before Tax	1,165	2,001	2,850	3,557
Less: Provision for Tax	8	244	271	323
Less: Minority Interest	(21)	10	-	-
Associate profit share	(60)	(118)	(25)	(25)
Exceptional items	-	8	-	-
Reported Profit	1,118	1,637	2,554	3,209
Exceptional Items	-	8	-	-
Adjusted Profit	1,118	1,629	2,554	3,209
Shares o/s (mn)	69	73	73	73
Adjusted Basic EPS	16.3	22.2	34.9	43.8
Diluted shares o/s (mn)	69	73	73	73
Adjusted Diluted EPS	16.3	22.2	34.9	43.8
Adjusted Cash EPS	16.5	25.1	40.1	48.9
Dividend per share (DPS)	-	3.5	5.6	7.0
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	18.8	18.6
Operating expenses	10.2	12.3	13.1	12.7
EBITDA margins	5.0	5.3	5.7	5.9
EBIT margins	4.2	4.4	4.9	5.1
Interest Expense	1.7	1.6	1.2	1.0
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	18.6	13.9
EBITDA	69.6	41.6	26.9	18.0
Adjusted Profit	158.4	45.6	56.8	25.6
EPS	156.0	36.6	56.8	25.6

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	687	732	732	732	
Reserves & Surplus	5,219	9,551	11,625	14,230	
Shareholders' funds	5,906	10,283	12,357	14,961	
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	1,340	3,834	3,834	3,834	
Def. Tax Liability (net)	(895)	(1,163)	(1,163)	(1,163)	
Sources of funds	12,627	18,329	20,403	23,007	
Gross Block	1,373	1,878	2,578	3,278	
Net Block	1,088	1,267	1,380	1,443	
Capital work in progress	4	10	10	10	
Intangible Assets	2,932	5,946	5,946	5,946	
Total net fixed assets	4,024	7,223	7,336	7,399	
Non current investments	989	921	921	921	
Cash and Equivalents	4,292	5,428	6,305	7,890	
Inventories	33	142	154	181	
Sundry Debtors	4,207	6,243	7,466	8,512	
Loans & Advances	925	1,151	1,151	1,151	
Other Current Assets	5,077	5,670	5,670	5,670	
Current Assets (ex cash)	10,241	13,206	14,442	15,515	
Trade payable	394	806	959	1,076	
Other Current Liab	6,525	7,642	7,642	7,642	
Total Current Liab	6,918	8,449	8,601	8,718	
Net Curr Assets-ex cash	3,322	4,757	5,841	6,797	
Uses of funds	12,627	18,329	20,403	23,007	
BVPS (INR)	86.0	140.4	168.7	204.3	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	1,118	1,637	2,554	3,209	
Add: Depreciation	358	560	587	637	
Interest (Net of Tax)	514	620	540	533	
Others	(1,400)	(766)	(2,185)	(1,968)	
Less: Changes in WC	(411)	(99)	(1,083)	(956)	
Operating cash flow	1,001	2,150	2,580	3,366	
Less: Capex	647	516	700	700	
Free Cash Flow	355	1,634	1,880	2,666	

Cash flow metrics				
Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	1,001	2,150	2,580	3,366
Financing cash flow	1,929	995	(1,286)	(1,399)
Investing cash flow	(2,886)	(1,164)	(416)	(381)
Net cash Flow	45	1,981	877	1,585
Capex	(647)	(516)	(700)	(700)
Dividend paid	(53)	(144)	(409)	(513)

Profitability and efficiency ratios				
Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	18.9	21.0	21.9	22.9
ROAE (%)	21.4	20.1	22.6	23.5
Inventory Days	48	88	113	106
ROA	10.8	10.5	13.2	14.8
Debtors Days	28	33	36	37
Payable Days	779	604	677	639
Cash Conversion Cycle	(703)	(483)	(527)	(497)
Current Ratio	2.1	2.2	2.4	2.7
Debt/EBITDA (x)	2.8	1.7	1.4	1.1
Adjusted Debt/Equity	1.1	0.5	0.4	0.4
Net Debt/Equity	0.3	-	(0.1)	(0.2)
Interest Coverage Ratio	2.4	2.8	4.2	5.1
LT debt /Cap empl. (%)	29.6	20.5	18.4	16.4
Debt / Cap employed (%)	49.7	29.2	26.3	23.3

Operating ratios				
Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	4.3	3.8	3.6	3.6
Fixed Asset Turnover	13.7	10.4	9.5	10.7
Equity Turnover	8.4	7.2	6.1	5.8

Valuation parameters				
Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	16.3	22.2	34.9	43.8
Y-o-Y growth (%)	156.0	36.6	56.8	25.6
Adjusted Cash EPS (INR)	16.5	25.1	40.1	48.9
Diluted P/E (x)	67.7	49.5	31.6	25.2
P/B (x)	12.8	7.8	6.5	5.4
EV / Sales (x)	1.8	1.4	1.2	1.0
EV / EBITDA (x)	35.3	25.9	20.2	16.7
Dividend Yield (%)	-	0.3	0.5	0.6

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*

Fund holding

	Perc. Holding		Perc. Holding
Sundaram Asset Management	1.58	Tata Asset Management Ltd	0.42
BNP Paribas Asset Management Global	1.12	Credit Agricole Group	0.42
IDFC Mutual Fund	1.06	BNP Paribas Asset Management India	0.34
Reliance Capital Trustee Co Ltd	0.84	Principal Financial Group	0.27
ABSL Asset Management	0.48	Canara HSBC Oriental Bank of Commerce Fund	0.21

**as per last available data*

Bulk deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

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

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

Recent Research

Date	Company	Title	Price (INR)	Recos
18-May-18	Qess Corp	Staffing business gains market leadership; <i>Result Update</i>	1,159	Buy
17-May-18	SIS India	Strong growth continues...; <i>Result Update</i>	1,379	Buy
23-Apr-18	India Business Services	The buzz is getting louder; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

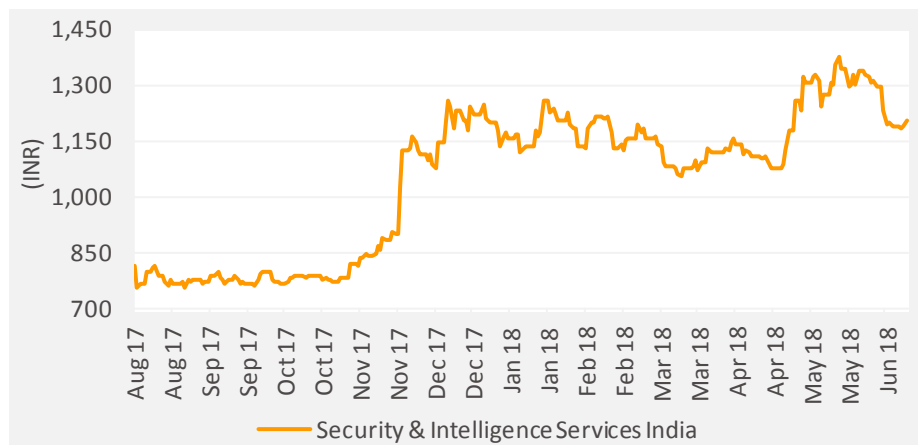
Edelweiss Research Coverage Universe

	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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