

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	SECIS IN
Equity Shares (m)	144
M.Cap.(INRb)/(USDb)	55.7 / 0.7
52-Week Range (INR)	565 / 375
1, 6, 12 Rel. Per (%)	-2/-25/-37
12M Avg Val (INR M)	56

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	133.8	149.6	167.3
EBITDA Margin	4.6	4.9	5.2
Adj. PAT	3.8	4.9	5.8
EPS (INR)	26.3	33.4	39.9
EPS Gr. (%)	102.5	27.3	19.4
BV/Sh. (INR)	408.8	479.8	564.6

Ratios

RoE (%)	14.6	16.0	16.2
RoCE (%)	11.1	12.2	13.0
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	14.7	11.5	9.6
P/BV (x)	0.9	0.8	0.7
EV/EBITDA (x)	10.0	7.9	6.2
EV/Sales (x)	0.5	0.4	0.3

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	71.9	71.7	71.6
DII	5.3	3.0	3.1
FII	13.6	16.6	16.3
Others	9.3	8.7	9.0

FII includes depository receipts

CMP: INR385 TP: INR480 (+25%) Buy

International business faces short-term hurdles

Focus on rationalizing loss-making/tail accounts; reiterate BUY

- SIS (SECIS)'s 2QFY25 revenue was up 6.3% YoY/4.4% QoQ at INR32.68b, largely in line with our estimate of INR34.51b. Growth was led by Security Solutions – International business (up 5.6% QoQ/7.0% YoY). EBITDA margin came in at 4.4% (vs. est. 5.0%), down 30bp YoY. Margin for India Security contracted 20bp YoY to 5.5%, while the same for International Business contracted 70bp YoY due to the loss of certain high-margin contracts during the previous year.
- Consolidated adj. PAT stood at INR688m (down 8.6% YoY), below our estimate of INR1,161m, on account of higher ETR and interest expense. For 1HFY25, revenue grew 5.8% while EBITDA/PAT declined 0.5%/19.3% vs. 1HFY24. We expect revenue/EBITDA/PAT to grow 12.4%/42.8%/8.8x YoY (owing to low base) in 2HFY25. **We reiterate our BUY rating on the stock** with a TP of INR480, implying 25% potential upside.
- SECIS witnessed decent growth across all segments this quarter. The India Security business was up 6.3% YoY in 2Q and is expected to sustain its growth momentum, with guidance for mid-teens organic growth. Consistent deal wins in sectors such as Transportation, Logistics, and BFSI provide a stable growth foundation; however, profitability remains under pressure as SECIS's price growth has been limited due to wage hikes, with the company still aiming to return to pre-COVID margin levels of 6%. We expect the Indian business to clock a revenue CAGR of 13% over FY24-27.
- Additionally, Its International business, particularly the Australian business, is still under pressure and could post a modest 6.4% CAGR over FY24-27. Management expects turbulence in its International business in the near term, particularly in Australia.
- **Margins:** The margin contraction in 1QFY25 (-30bp YoY) was due to the International business (-60bp YoY) facing labor shortages, loss of high-margin contracts, and high labor costs. These trends are expected to continue in the short term, with higher wage costs and labor issues likely to take a couple of quarters to resolve in Australia. The International business is projected to have a ~3.9%-4.5% margin, while the FM business margin is expected to inch up towards 5.0%.
- Management aims to expand the EBITDA margin by focusing on rationalizing loss-making/tail accounts and SG&A rationalization. We expect overall margins at 4.6%/4.9%/5.2% in FY25E/26E/27E.
- We trim our EPS by ~8-9% to factor in ongoing pressure in the Australian business and lower profitability in Security Solutions – India Business. We value SECIS at INR480 (25% potential upside), assigning an 8x forward EV/EBITDA multiple to its international business (in line with global peers) and DCF to its Indian business. We reiterate our **BUY** rating on the stock.

In-line revenues and margins

- SECIS's revenue grew 6.3% YoY/4.4% QoQ at ~INR32.68b vs. our est. of INR34.51b.
- Revenue growth was aided by ~6.3% YoY growth in India Security, whereas Facility Management/International Security posted a modest growth of 4.8%/3.2% YoY.
- EBITDA margin came in at 4.4%, down 30bp YoY (vs. est. 5.0%). Margin for India Security contracted 20bp YoY to 5.5%, while the same for International Business contracted 70bp YoY.
- Consolidated adj. PAT stood at IN688m (down 8.6% YoY). On a standalone basis, SECIS's current tax rate continues to be close to NIL due to the benefits accruing under Section 80JJAA of the Income Tax Act, 1961.
- Net debt amounted to INR8.6b from INR10.2b in 1QFY25. Net debt/EBITDA stood at 1.4x vs. 1.7x in 1QFY25.
- OCF/EBITDA conversion was 166.1% owing to better working capital management.

Key highlights from the management commentary

- Revenue stood at INR32.68b, up 6.4% YoY. Growth was observed across all three segments. There are no M&A activities at an advanced stage; organic growth remains the key driver.
- Australia and India have a strong order book lined up for the 2H.
- Security Solutions – India noted margin expansion QoQ despite the full impact of annual salary revisions for back-office employees effective Jun'24, supported by focused margin management initiatives.
- The company expects mid-teens organic growth in the India Security business.
- Security Solutions – International: EBITDA margin for Q2 FY25 was 3.3%, slightly down from 3.4% in Q1 FY25, marginally impacted by the 3.75% minimum wage revision by Fair Work Australia effective July 1st.
- The Singapore acquisition is performing well, with the business at breakeven and cash/bank balances exceeding USD20m, though it remains a small part of the SECIS ecosystem.
- Net Debt/EBITDA was 1.47x at the end of 2QFY25, down from 1.76x at the end of 1QFY25, driven by the repayment of certain long-term debts and improved working capital management.

Valuation and view

- With the liberalization and formalization of labor markets and laws, SECIS should be among the biggest direct beneficiaries. It has managed to gain market share during the last few years, and the trend is expected to continue.
- We value SECIS using SOTP: 1) DCF for the India Security business (INR291), 2) an EV/EBITDA multiple of 8x (INR130) for the International Security business (in line with global peers), and 3) DCF for the FM business (INR113) less net debt (INR106). **Consequently, we arrive at our TP of INR480. We reiterate our BUY rating on the stock.**

Consolidated - Quarterly Model

(INR m)

Y/E March	FY24				FY25E				FY24	FY25E	Est.	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QFY25	(%/bp)
Gross Sales	29,767	30,736	30,734	31,376	31,299	32,688	34,594	35,220	1,22,614	1,33,800	34,508	-5.3
YoY Change (%)	11.1	11.1	5.8	4.7	5.1	6.3	12.6	12.3	8.1	9.1	12.3	-590bp
Total Expenditure	28,377	29,292	29,221	30,537	29,925	31,241	32,959	33,495	1,17,426	1,27,619	32,797	-4.7
EBITDA	1,390	1,445	1,514	839	1,374	1,447	1,635	1,725	5,188	6,181	1,712	-15.4
Margins (%)	4.7	4.7	4.9	2.7	4.4	4.4	4.7	4.9	4.2	4.6	5.0	-50bp
Depreciation	358	404	416	486	427	420	441	459	1,663	1,748	469	-10.4
Interest	327	347	404	403	422	404	143	143	1,482	1,112	200	101.8
Other Income	88	125	54	160	118	76	76	231	427	500	118	-36.1
PBT	793	819	748	111	643	699	1,126	1,353	2,470	3,821	1,161	-39.8
Tax	-50	132	447	289	70	72	56	68	819	266	58	24.0
Rate (%)	-6.2	16.1	59.8	261.6	10.9	10.3	5.0	5.0	33.1	7.0	5.0	530bp
MI & Profit/Loss of Asso. Cos.	52	66	69	62	69	61	63	65	249	257	64	-5
Adjusted PAT	895	753	369	-117	642	688	1,133	1,350	1,900	3,813	1,167	-41.0
YoY Change (%)	8.4	11.6	-64.3	-112.6	-28.3	-8.6	206.8	NA	-45.2	100.7	55.0	
Margins (%)	3.0	2.4	1.2	-0.4	2.1	2.1	3.3	3.8	1.5	2.8	3.4	-130bp

Key Performance Indicators

Y/E March	FY24				FY25		FY24
	1Q	2Q	3Q	4Q	1Q	2Q	
Segment Revenue (INR m)							
India Security business	12,291	13,020	13,180	13,093	13,375	13,843	51,585
International Security business	12,427	12,591	12,453	13,219	12,760	13,473	50,690
Facilities Management	5,190	5,279	5,251	5,201	5,303	5,534	20,921
EBITDA Margin (%)							
India Security business	5.4	5.7	6.1	5.5	5.4	5.5	5.7
International Security business	4.0	4.0	3.9	4.3	3.4	3.3	4.1
Facilities Management	4.4	4.0	4.3	3.9	4.2	4.3	4.1



Key highlights from the management commentary

Quarterly performance & outlook

- Revenue stood at INR32.68b, up 6.4% YoY. Growth was observed across all three segments. There are no M&A activities at an advanced stage; organic growth remains the key driver.
- Australia and India have a strong order book lined up for the 2H.
- **Security Solutions – India** noted margin expansion QoQ despite the full impact of annual salary revisions for back-office employees effective Jun'24, supported by focused margin management initiatives.
- The company introduced the latest cloud recording technology in alarm monitoring and response, reducing dependency on NVR/DVR and hard disks at sites.
- It posted YoY growth of 6.3% driven by new wins, with major contributions from the Transportation, Logistics, Energy, and Real Estate sectors.
- The company expects mid-teens organic growth in the India Security business and revival to pre-COVID EBITDA margin level of 6%. The company is working toward revenue growth, cutting off bad contracts, and restructuring branch network cost issues to aid better margin profile.
- There are some contracts that the company is required to honor due to penalty causes; however, the margin profile of such contracts yields below average margin. Once these contracts end, the company will see a gradual uptick in EBITDA margin levels.

- **Facility Management Solutions:** EBITDA margin for Q2 FY25 was 4.3%, up from 4.0% in Q2 FY24. Margin expansion was achieved despite the full impact of annual salary revisions, driven by targeted margin management efforts.
- **Security Solutions – International:** Annual wage hikes are declared by Fair Work Australia every July, after which the company requests a pro-rata price increase from clients, with no effect on the margin profile. Generally, all price increases are implemented by 3Q, with the full-quarter effect visible in Q4. Margin expansion remains a key management focus.
- The company is continuously focused on enhancing the margin profile through contract optimization and SG&A rationalization.
- Effective tax rate for the Indian business is NIL due to benefits accruing under Section 80JJAA of the Income Tax Act, 1961.
- The company expects return ratios (ROE/ROCE) to improve to pre-COVID levels. ROE and ROCE have moderated to 11-12 % post-COVID from levels of 20% pre-COVID, largely due to goodwill charges and higher working capital. The company is working on freeing up working capital and reducing goodwill charges.
- Return ratios are expected to improve to 15% by the end of FY25 and return to pre-COVID levels within the next two fiscal years.
- Net Debt/EBITDA was 1.47x at the end of Q2 FY25, down from 1.76 at the end of Q1 FY25, driven by the repayment of certain long-term debts and improved working capital management.
- On a consolidated basis, OCF/EBITDA was 166.1% for the quarter, attributed to improved working capital management.
- DSO improved by 4 days, down to 70 from 74 days QoQ, due to better collections.

Valuation and view

- With the liberalization and formalization of labor markets and laws, SECIS is expected to be among the biggest direct beneficiaries. It has managed to gain market share during the last few years, and the trend is expected to continue.
- We value SECIS using SOTP: 1) DCF for the India Security business (INR291), 2) an EV/EBITDA multiple of 8x (INR130) for the International Security business (in line with global peers), and 3) DCF for the FM business (INR113) less net debt (INR106). **Consequently, we arrive at our TP of INR480. We reiterate our BUY rating on the stock.**

Exhibit 1: Revision to our estimates

	Revised			Earlier			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue (INRm)	1,33,800	1,49,637	1,67,298	1,37,311	1,53,702	1,72,689	-2.6%	-2.6%	-3.1%
Growth (%)	9.1	11.8	11.8	12.0	11.9	12.4	-286bp	-10bp	-55bp
EBITDA (INRm)	6,181	7,346	8,674	6,827	8,045	9,254	-9.5%	-8.7%	-6.3%
EBITDA Margin (%)	5.0	5.0	5.0	5.0	5.0	5.0	0bp	0bp	0bp
PAT (INRm)	3,813	4,852	5,795	4,390	5,401	6,193	-13.1%	-10.2%	-6.4%
EPS (INR)	26.3	33.4	39.9	29.1	36.4	41.7	-9.9%	-8.1%	-4.2%

Source: Company, MOFSL

Financials and valuation

Consolidated - Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	84,852	91,273	1,00,590	1,13,458	1,22,614	1,33,800	1,49,637	1,67,298
Change (%)	19.6	7.6	10.2	12.8	8.1	9.1	11.8	11.8
Total Expenditure	79,648	86,065	95,606	1,08,543	1,17,426	1,27,619	1,42,292	1,58,624
% of Sales	93.9	94.3	95.0	95.7	95.8	95.4	95.1	94.8
EBITDA	5,204	5,208	4,985	4,915	5,188	6,181	7,346	8,674
Margin (%)	6.1	5.7	5.0	4.3	4.2	4.6	4.9	5.2
Depreciation	1,283	1,130	1,116	1,347	1,663	1,748	1,983	2,420
EBIT	3,921	4,078	3,869	3,568	3,525	4,433	5,363	6,254
Int. and Finance Charges	1,517	1,273	984	1,149	1,482	1,112	1,007	902
Other Income	531	279	150	327	427	500	500	500
PBT	2,935	3,085	3,035	2,747	2,470	3,821	4,856	5,852
Total Tax	-477	1,154	179	-616	819	266	260	314
Tax Rate (%)	-16.2	37.4	5.9	-22.4	33.1	7.0	5.4	5.4
Minority Interest	-44	5	26	102	249	257	257	257
Adjusted PAT	3,368	1,936	2,882	3,465	1,900	3,813	4,852	5,795
Change (%)	56.8	-42.5	48.8	20.2	-45.2	100.7	27.2	19.4
Margin (%)	4.0	2.1	2.9	3.1	1.5	2.8	3.2	3.5

Consolidated - Balance Sheet

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	733	742	735	729	721	721	721	721
Total Reserves	13,151	17,566	19,977	22,604	23,415	27,228	32,079	37,874
Net Worth	13,884	18,308	20,713	23,333	24,135	27,948	32,800	38,595
Minority Interest	3	21	31	0	0	0	0	0
Total Loans	11,722	11,646	13,283	15,223	15,086	15,886	14,386	12,886
Deferred Tax Liabilities	-4,374	-3,993	-5,306	-6,405	-5,921	-5,921	-5,921	-5,921
Capital Employed	21,235	25,980	28,720	32,151	33,300	37,913	41,265	45,559
Gross Block	7,362	8,394	9,737	11,398	13,690	15,490	17,290	19,090
Less: Accum. Deprn.	4,699	5,830	6,945	8,292	9,955	11,703	13,686	16,106
Net Fixed Assets	2,662	2,564	2,792	3,106	3,735	3,787	3,604	2,984
Goodwill on Consolidation	12,323	11,413	11,647	11,395	10,679	10,679	10,679	10,679
Capital WIP	17	50	23	195	22	32	42	52
Others	1,737	1,750	1,820	2,004	2,008	1,780	1,830	1,880
Total Investments	1,490	1,494	1,673	1,579	1,720	1,720	1,720	1,720
Curr. Assets, Loans&Adv.	23,919	29,133	27,702	32,443	35,645	40,554	45,843	52,946
Inventory	339	309	340	314	309	329	349	369
Account Receivables	11,750	12,430	13,913	16,777	18,858	20,373	22,520	25,181
Cash and Bank Balance	6,137	10,880	7,384	7,510	7,405	9,892	12,017	15,343
Loans and Advances	0	0	0	0	17	0	0	0
Others	5,693	5,513	6,065	7,842	9,056	9,961	10,957	12,053
Curr. Liability & Prov.	13,715	17,621	13,967	15,417	17,082	17,211	19,025	21,274
Account Payables	538	661	583	639	847	1,054	1,165	1,302
Other Current Liabilities	10,599	13,270	9,526	10,820	12,144	11,591	12,813	14,327
Provisions	2,578	3,689	3,858	3,958	4,091	4,566	5,048	5,644
Net Current Assets	10,204	11,512	13,735	17,026	18,564	23,343	26,818	31,672
Other Non-Current Liabilities	-7,198	-2,803	-2,970	-3,154	-3,428	-3,428	-3,428	-3,428
Appl. of Funds	21,234	25,980	28,720	32,151	33,300	37,913	41,265	45,559

Financials and valuation

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	24.1	13.0	19.4	23.2	13.0	26.3	33.4	39.9
Cash EPS	68.0	44.9	58.5	70.4	52.1	81.3	100.0	120.2
BV/Share	203.1	267.8	303.0	341.3	353.1	408.8	479.8	564.6
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	16.0	29.5	19.8	16.6	29.7	14.7	11.5	9.6
Cash P/E	5.7	8.6	6.6	5.5	7.4	4.7	3.9	3.2
P/BV	1.9	1.4	1.3	1.1	1.1	0.9	0.8	0.7
EV/Sales	0.7	0.6	0.6	0.6	0.5	0.5	0.4	0.3
EV/EBITDA	11.4	11.1	12.6	13.2	12.4	10.0	7.9	6.2
FCF per share	8.9	39.9	8.9	3.5	16.3	19.3	31.9	39.5
Return Ratios (%)								
RoE	25.5	12.0	14.8	15.7	8.0	14.6	16.0	16.2
RoCE	21.7	9.8	11.8	13.1	6.8	11.1	12.2	13.0
RoIC	36.5	18.8	21.9	20.6	10.0	16.4	18.9	21.2
Working Capital Ratios								
Fixed Asset Turnover (x)	11.5	10.9	10.3	10.0	9.0	8.6	8.7	8.8
Asset Turnover (x)	4.0	3.5	3.5	3.5	3.7	3.5	3.6	3.7
Debtor (Days)	51	50	50	54	56	56	55	55
Creditor (Days)	2	3	2	2	3	3	3	3
Leverage Ratio (x)								
Interest Cover Ratio	2.6	3.2	3.9	3.1	2.4	4.0	5.3	6.9
Net Debt/Equity	0.3	0.0	0.2	0.3	0.2	0.2	0.0	-0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	2,891	4,826	3,439	2,849	2,719	4,079	5,112	6,108
Depreciation	1,283	1,130	1,116	1,347	1,663	1,748	1,983	2,420
Interest & Finance Charges	791	-3,061	444	884	1,082	1,112	1,007	902
Direct Taxes Paid	-1,276	-604	-2,059	-938	-437	-266	-260	-314
(Inc)/Dec in WC	-2,100	1,537	-899	-2,608	-1,749	-2,293	-1,349	-1,529
CF from Operations	1,590	3,828	2,040	1,535	3,278	4,380	6,493	7,588
Others	424	2,568	295	174	666	0	0	0
CF from Operating incl EO	2,014	6,396	2,335	1,709	3,944	4,380	6,493	7,588
(Inc)/Dec in FA	-775	-464	-1,021	-1,187	-1,559	-1,581	-1,860	-1,860
Free Cash Flow	1,239	5,931	1,314	522	2,386	2,798	4,633	5,728
(Pur)/Sale of Investments	-2,110	-2,296	-485	-632	95	0	0	0
Others	127	1,125	281	340	816	0	0	0
CF from Investments	-2,758	-1,635	-1,224	-1,480	-647	-1,581	-1,860	-1,860
Issue of Shares	0	8	2	1	0	0	0	0
Inc/(Dec) in Debt	204	1,342	-1,333	-219	-872	800	-1,500	-1,500
Interest Paid	-986	-909	-933	-1,066	-1,405	-1,112	-1,007	-902
Dividend Paid	-631	0	0	0	0	0	0	0
Others	2,866	-458	-2,345	1,180	-1,125	0	0	0
CF from Fin. Activity	1,453	-18	-4,608	-103	-3,402	-312	-2,507	-2,402
Inc/Dec of Cash	708	4,743	-3,497	126	-105	2,486	2,125	3,326
Opening Balance	5,430	6,138	10,881	7,384	7,510	7,405	9,892	12,017
Closing Balance	6,138	10,881	7,384	7,510	7,405	9,892	12,017	15,343

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures:

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