

STEADY BUSINESS, RESILIENT DEMAND

SIS reported steady set of results in Q1 FY21. Revenue for the period of Q1 FY21 stood at Rs. 2,167 cr grew by 7.9% YoY much in line with the expectations. Consolidated EBITDA for the quarter ended Q1 FY21 stood at Rs. 121crs declined 3%YoY due to higher provisioning of Rs. 54 crs for the uncertainty in the environment. Net income declined by 22.7% YoY and stood at Rs. 57.9 cr. Security Services in India has shown growth of 6% YoY and stood at Rs. 658 crs.

International Security services also remained robust at Rs. 1,020 crs showed a growth of 12% YoY. Facility management business also showed a marginal growth of 0.4% and stood at Rs.293 crs. Cash conversion remained high during Q1 FY21, OCF / EBITDA stood at 81%.

Strong broad based performance

Security Services in India has shown growth of 6% YoY and stood at Rs. 658 crs. Management attributed the QoQ drop to lower volume in segments like retail/ entertainment/ hospitality which were hit by the COVID outbreak.

International Security services also remained robust at Rs. 1,020 crs showed a growth of 12% YoY. Singapore and Australia were less disrupted by the pandemic and will likely to maintain growth momentum.

Facility management business also showed a marginal growth of 0.4% and stood at Rs.293 crs. Cash conversion remained high during Q1 FY21, OCF / EBITDA stood at 81%.

Our Take:

We believe SIS has a better services mix and multiple long term contracts spread across verticals. With depreciation in INR and strong execution EBITDA margins likely to expand in near term. **We recommend BUY and assign 20x P/E multiple to its FY22E earnings of Rs. 20.4 per share which gives a TP of Rs. 410 per share, an upside of 12%.**

Key Financials (Consolidated)

(Rs. Cr)	FY19	FY20	FY21E	FY22E
Net Sales	7,093	8,485	9,615	10,814
EBIDTA	365	520	609	687
Net Profit	207	226	249	299
EPS (Rs)	14.7	15.4	17.0	20.4
PER (x)	29.9	23.5	21.2	17.7
EV/EBIDTA (x)	17.5	9.7	8.2	7.0
P/BV (x)	4.9	3.6	3.1	2.7
ROE (%)	18%	16%	16%	16%

Source: Company, Axis Research

(CMP as of Jul 30, 2020)

CMP (Rs)	364
Upside /(Downside (%))	12%
High/Low (Rs)	624/324
Market cap (Cr)	Rs 5168
Avg. daily vol. (6m) Shrs.	18,39,129
No. of shares (Cr)	14.2

Shareholding (%)

	Dec -20	Mar -19	Jun-19
Promoter	74.3	74.3	74.3
FIIIs	11.1	11.7	11.6
MFs / UTI	6.1	6.4	6.4
Banks / FIIs	0.0	0.0	0.0
Others	8.5	7.5	7.6

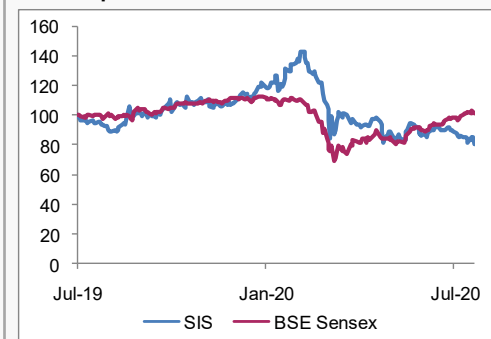
Financial & Valuations

Y/E Mar (Rs. Cr)	2020	2021E	2022E
Net Sales	8,485	9,615	10,814
EBITDA	520	609	687
Net Profit	226	249	299
EPS (Rs)	15.4	17.0	20.4
PER (x)	23.5	21.2	17.7
EV/EBITDA (x)	9.7	8.2	7.0
P/BV (x)	3.6	3.1	2.7
RoE (%)	16%	16%	16%

Change in Estimates (%)

Y/E Mar	FY21E	FY22E
Sales	9,615	10,814
EBITDA	609	687
PAT	249	299

Relative performance



Source: Capitaline, Axis Securities

Omkar Tanksale
 Research Analyst

Call: (022) 4267 1759, 9819327371
 email: Omkar.tanksale@axissecurities.in

Key Concall takeaways

- 1) COVID-19 crisis has opened a huge opportunity to add new customers and increase wallet share from existing customers. Management expects consolidation in highly fragmented security space in India, as clients would prefer vendors with scale and ability to offer a bouquet of services.
- 2) International operations were less disrupted by COVID-19 crisis. Australia did not have any national lockdown and proactive measures in New Zealand helped it quickly attain Covid-19 free status. SIS continued to have excellent control over DSOs in the international business and closed Jun-20 with DSO of 47 days.
- 3) COVID-19 crisis, demand for disinfection and sanitation service under the new hygiene protocols would result in industry consolidation, as clients prefer vendors with scale. This would open multiple cross selling opportunities for SIS; targets to add new customers and increase wallet share of existing ones.

Security Solutions

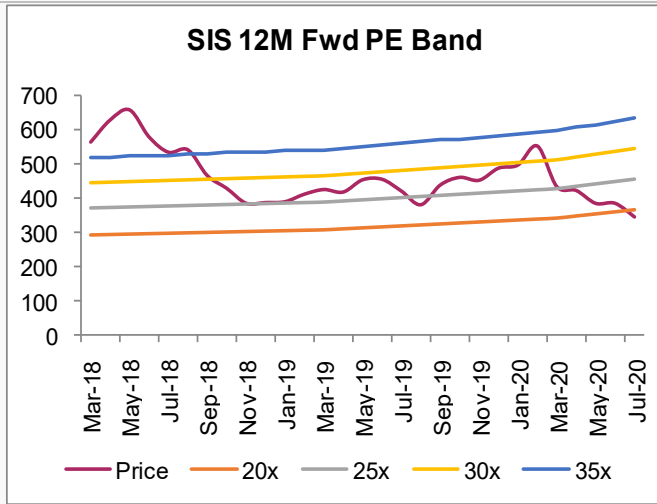
In Rs. Crs	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Security Solutions- India					
Employee	149,200	154,700	149,674	157,590	141,469
YoY	40%	22%	14%	14%	10%
Revenue	808	879	912	924	858
EBITDA	53	54	55	50	46
Margin (%)	7%	6%	6%	5%	5%
Share of Group Revenues	40%	42%	42%	42%	40%
Share of group EBITDA	43%	44%	41%	36%	32%
Security Solutions- International					
Employee	10,500	9,000	8,132	9,500	9,000
YoY	21%	27%	14%	14%	2%
Revenue	913	903	940	949	1,019
EBITDA	54	50	54	64	60
Margin (%)	6%	5%	6%	7%	6%
Share of Group Revenues	46%	43%	43%	43%	41%
Share of group EBITDA	43%	40%	41%	46%	50%
Facility Management Solutions					
Employee	58,300	58,300	61,539	64,500	54,000
Revenue	290	314	333	343	293
EBITDA	18	21	22	23	15
Margin (%)	6%	7%	7%	7%	5%
Share of Group Revenues	14%	15%	15%	16%	14%
Share of group EBITDA	15%	17%	17%	17%	12%
Cash Logistics Solutions					
Revenue	80	89	81	82	72
EBITDA	3	8	5	5	6
Margin (%)	4%	9%	6%	6%	6%

Source: Company, Axis Research

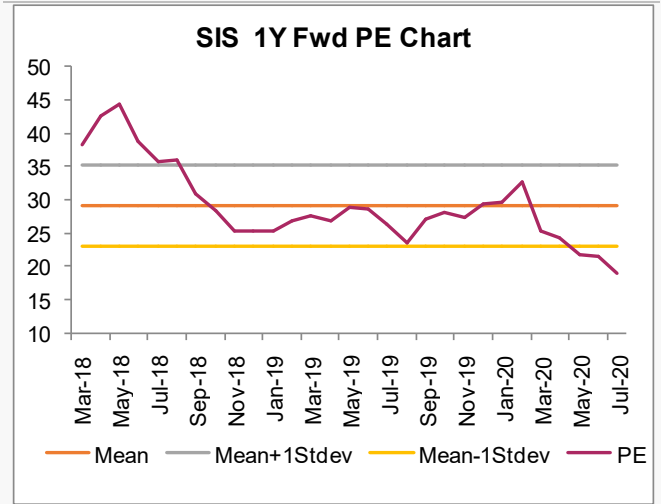
Valuation and Outlook

Resilient business structure, better services mix will help SIS to attain long term sustainable growth. We believe in SIS will deliver long term sustainable growth aided by healthy deal pipeline and strong execution. **We maintain BUY rating and target price of Rs.410/share.**

SIS 12M Fwd PE Band



SIS 1Y Fwd PE Chart



Source: Company, Axis Securities

Result Update

(Rs Cr)

Y/E March	Q1 FY21	Q4 FY20	Q1 FY20	% change (YoY)	% change (QoQ)
Total Income	2,190	2,260	2,009	9%	-3%
Raw Material Consumed	6	1	8		
Stock Adjustment	11	27	2		
Purchase of Stock in Trade	-2	-6	9		
Employee Expenses	1,688	1,778	1,642		
Other Expenses	342	270	223	53%	26%
TOTAL EXPENDITURE	2,045	2,070	1,883	9%	-1%
EBITDA	144	190	125	15%	-24%
EBITDA margin	7%	8%	6%	(37)	(216)
-	-	-	-		
Other Income	23	4	4		
Interest	37	39	37	1%	-4%
Depreciation	29	33	29		
EBIT	78	117	58	34%	-33%
EBIT Margin	4%	5%	3%	(66)	(228)
Exceptional Items	0	2	-2		
PBT	78.15	114.69	56.00	40%	-32%
Tax	20	118.6	-19		
Effective tax rate(%)	26%	103%	-34%		
Reported Profit After Tax	58.15	-17.98	72.89	25%	
EPS (Basic)	3.28	-0.28	5.12		
EPS (Diluted)	3.83	-0.28	5.04		

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Net sales	7,093	8,485	9,615	10,814
Other operating income	0	0	0	0
Total income	7,093	8,485	9,615	10,814
Employee Expense				
Contribution (%)	5,820	6,980	7,929	8,916
Other Expenses	18.0%	17.7%	17.5%	17.6%
Operating Profit	908.4	985.2	1,076.9	1,211.2
Other income				
PBIDT	365	520	609	687
Depreciation	18	53	19	22
Interest & Fin Chg.				
E/o income / (Expense)	383	574	628	708
Pre-tax profit	66	128	146	162
Tax provision	94	152	149	147
PAT	0	(4)	0	0
(-) Minority Interests	223	289	333	400
Associates	(5)	64	84	101
Other Comprehensive Income	0	0	0	0
Adjusted PAT	(14)	0	0	0
Reported PAT	215	226	249	299

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Total assets	2,744	3,073	3,233	3,533
Net Block	346.1	285.3	206.8	112.2
CWIP	0.0	0.0	0.0	0.0
Investments	1,229.4	1,240.8	1,253.2	1,265.7
Wkg. cap. (excl cash)	513	568	759	977
Cash / Bank balance	656	980	1,014	1,178
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	2,917	3,412	3,584	3,855
Equity capital	73.3	73.3	73.3	73.3
Reserves	1,177	1,475	1,702	1,975
Minority Interests	0.3	4.5	5.0	6.0
Borrowings	891	949	893	890
Def tax Liabilities	776	910	910	910

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Sources	1,160	643	301	477
Cash profit	374	506	545	608
(-) Dividends	11	20	22	26
Retained earnings	363	486	523	582
Issue of equity	0.1	0.0	0.0	0.0
Change in Oth. Reserves	142.3	126.0	(12.5)	50.3
Borrowings	744	166	(8)	(8)
Others	(90)	(135)	(201)	(147)
Applications	1,160	643	301	477
Capital expenditure	1,042.6	136.9	41.9	104.3
Investments	146.4	0.6	0.0	0.0
Net current assets	94.4	35.4	180.8	208.6
Change in cash	(123.1)	469.8	77.9	163.7
Closing cash	420	890	968	968

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY19	FY20	FY21E	FY22E
Sales growth	21.6	19.6	13.3	12.5
OPM	5.1	6.1	6.3	6.3
Oper. profit growth	17.1	42.5	17.1	12.7
COGS / Net sales	82.0	82.3	82.5	82.5
Overheads/Net sales	12.8	11.6	11.2	11.2
Depreciation / G. block	67.2	(210.9)	(186.1)	(171.3)
Effective interest rate (%)	12.9	17.3	16.7	16.5
Net wkg.cap / Net sales	0.06	0.06	0.07	0.08
Net sales / Gr block (x)	15.0	15.7	15.8	16.0
RoCE	0.1	0.1	0.1	0.2
Debt / equity (x)	0.52	0.47	0.37	0.32
Effective tax rate	(2.5)	22.0	25.2	25.2
RoE	0.2	0.2	0.2	0.2
Payout ratio (Div/NP)	2.5	7.5	7.5	7.5
EPS (Rs.)	14.7	15.4	17.0	20.4
EPS Growth	(38.1)	5.2	10.5	19.8
CEPS (Rs.)	18.6	24.2	27.0	31.5
DPS (Rs.)	0.7	1.2	1.3	1.5

Source: Company, Axis Securities

About the analyst**Analyst:** Omkar Tanksale**Contact Details:** omkar.tanksale@axissecurities.in**Sector:** IT Services**Analyst Bio:** Omkar Tanksale is BE (Computer) and MBA (Finance) with over 8 years of research experience in the IT sector**Disclosures:**

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