

Results Inline with Expectations; Improving Outlook to Support Growth
Est. Vs. Actual for Q1FY25: Revenue – **INLINE**; EBITDA Margin – **BEAT**; PAT – **BEAT**
Changes in Estimates post Q1FY25
FY25E/FY26E: Revenue 0.5%/0.5%; EBITDA 1%/1%; PAT 0.5%/ 1%

Recommendation Rationale

- The outlook for verticals such as Security Solutions and Facility Management remains positive.
- International business has experienced a decline but is expected to regain momentum.
- The management is confident that demand will pick up in the medium term, supported by orders won in recent quarters. It also anticipates further improvement in margins moving forward.

Sector Outlook: Cautiously positive
Company Outlook & Guidance: The management has given an improved outlook for FY25, backed by the robust pick-up in Security Business and Facility Management in India. The company's margins are likely to expand in the near term.

Current Valuation: 16x FY26E P/E; **Earlier Valuation:** 16x FY26E

Current TP: 540/share (Earlier TP: Rs 540/share)

Recommendation: Given the company's strong recovery potential backed by strong deal wins and improved client engagement, we **maintain** our **BUY** recommendation on the stock.

Financial Performance

In Q1 FY25, SIS reported revenue of Rs 3,130 Cr, showing no growth QoQ but a 5% decline YoY. The company's consolidated EBITDA for the quarter decreased by 8% QoQ to Rs 137 Cr, attributed to a lower international business and strong demand for Indian security solutions. Net income for the quarter was Rs 64 Cr, reflecting a strong recovery. Security Services in India declined by 2.1% QoQ for the quarter. However, the management is optimistic about increasing demand for security guards and mandatory checkups in the future.

Outlook

From a long-term perspective, we believe SIS is addressing client-specific engagement issues in verticals such as the International business. However, rising concerns over the prospects of large economies, coupled with prevailing business and demographic constraints, introduce uncertainties regarding the company's short-term growth rates.

Valuation & Recommendation

We recommend a **BUY** rating on the stock and assign a 16x P/E multiple to its FY26E earnings of Rs 34.7/share to arrive at a TP of Rs 540/share, implying an upside of 27% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	3,130	0%	5%	3210	-2%
EBIT	137.4	-8%	2%	120	15%
EBIT Margin	4%	230 bps	300 bps	4%	17%
Net Profit	64.2	-649%	-28%	38	69%
EPS (Rs)	4.5	-280%	-64%	2.7	67%

Source: Company, Axis Securities Research

(CMP as of 25 July 2024)

CMP (Rs)	426
Upside /Downside (%)	27%
High/Low (Rs)	560/393
Market cap (Cr)	6,153
Avg. daily vol. (6m) Shrs.	5,94,320
No. of shares (Cr)	14.6

Shareholding (%)

	Dec-23	Marc-24	Jun-24
Promoter	49.2	49.2	49.2
FIIs	10.8	10.8	10.8
MFs / UTI	11.4	11.4	11.4
Banks / FIIs	28.8	28.8	28.8
Others	49.2	49.2	49.2

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	12,261	13,699	15,180
EBITDA	585	863	956
Net Profit	206	435	507
EPS (Rs)	14.09	29.74	34.66
PER (x)	25.7	12.2	10.4
P/BV (x)	2.0	1.7	1.5
EV/EBITDA (x)	5.1	3.1	2.5
ROE (%)	8%	15%	15%

Change in Estimates (%)

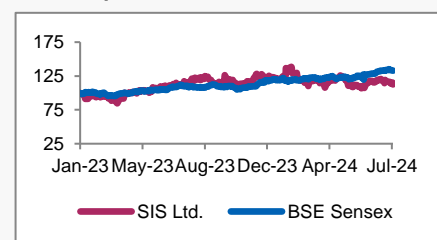
Y/E Mar	FY25E	FY26E
Sales	0.5%	0.5%
EBITDA	1%	1%
PAT	0.5%	1%

ESG disclosure Score**

Environmental Disclosure	44
Social Disclosure Score	60
Governance Disclosure Score	59
Total ESG Disclosure Score	51

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: AceEquity, Axis Securities Research

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Key Highlights

- **Medium-term demand continues:** The Indian security business remained strong, delivering a 2.5% YoY increase in volume. Major wins for the company during the quarter came from verticals such as Finance, Retail, Healthcare, and Education. The company's EBITDA margins continued to improve due to effective profit enhancement initiatives.

Key Risks to Our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession in the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.

Results Review
(Rs Cr)

In Cr	Q1FY25	Q4FY24	Q1FY24	% change (YoY)	% change (QoQ)
Total Revenue	3,130	3,138	2,977	5%	0%
Total Cost of Sales	2,993	2,988	2,842		
EBITDA	137.4	149.6	134.8	2%	-8%
Margin(%)	4%	5%	5%		
Depreciation	40	48.2	35		
Operating Income	97.4	101.4	99.8	-2%	-4%
Margin(%)	3%	3%	3%	-469	6
Impairment loss	0	65.6	0		
Income Before Income Taxes	71.2	17.3	85		
Total Taxes	7	28.9	-5		
ETR (%)	10%	167%	-6%	-75	-94%
Net Profit After Taxes	64.2	-11.7	89.5	-28%	-649%
Margin(%)	2%	0%	3%	-	-
EPS (Rs)	4.5	-2.5	6.1	-26%	-280%

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net revenues	11,346	12,261	13,699	15,180
Other operating Income	0	0	0	0
Total Operating income	11,346	12,261	13,699	15,180
Employee Expenses	9,308	10,194	11,302	12,524
Cost of material consumed	1,546	1,483	1,534	1,700
EBITDA	491	585	863	956
EBITDA Margin (%)	4%	5%	6%	6%
Depreciation	135	166	162	162
Interest (Net)	115	148	147	147
Other Income	10	-25	0	0
PBT	285	288	582	678
PBT Margin (%)	3%	2%	4%	4%
Tax	62	82	146	171
Adjusted PAT	223	206	435	507
Extraordinary Items	5	5	5	5
Reported PAT	223	206	435	507

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	4,130	4,250	4,550	4,650
Net Block	129	30	-65	-160
CWIP	12	16	18	22
Investments	1,278	1	1	1
Wkg. cap. (excl cash)	1,137	1,319	1,588	1,871
Cash / Bank balance	1,528	2,956	3,243	3,589
Misc. Assets	0	0	0	0
Capital employed	4,130	4,250	4,550	4,650
Equity capital	73	73	73	73
Reserves	2,494	2,700	3,135	3,643
Minority Interests	0	0	0	0
Borrowings	886	883	880	876
Def Tax Liabilities	910	910	910	910

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
PBT	536	594	671	757
Add: Depreciation	126	137	154	172
Other Adjustments	-10	-10	-10	-10
Chg. in working capital	-157	-164	-170	-175
Taxes paid	-134	-149	-168	-189
Extra Ordinary Items	-	-	-	-
CF from operations	277	310	360	416
Change in fixed assets	-38	-38	-38	-38
Purchase of investment	-38	-38	-38	-38
Proceeds from Invest. Sale	10	10	10	10
Other Adjustments	4	4	4	4
CF from Investing acti.	-7	-7	-7	-7
Chg. in debt	-19	-24	-30	-37
Chg. in Equity capital	-	-	-	-
Chg. in Pref. capital	-	-	-	-
Dividend & dividend tax	-50	-50	-50	-50
CF from Financing acti.	-7	-7	-8	-9
Chg. in cash	26	30	34	40
Opening cash	4	3	2	1
Closing cash	1,528	2,956	3,243	3,589

Source: Company, Axis Securities Research

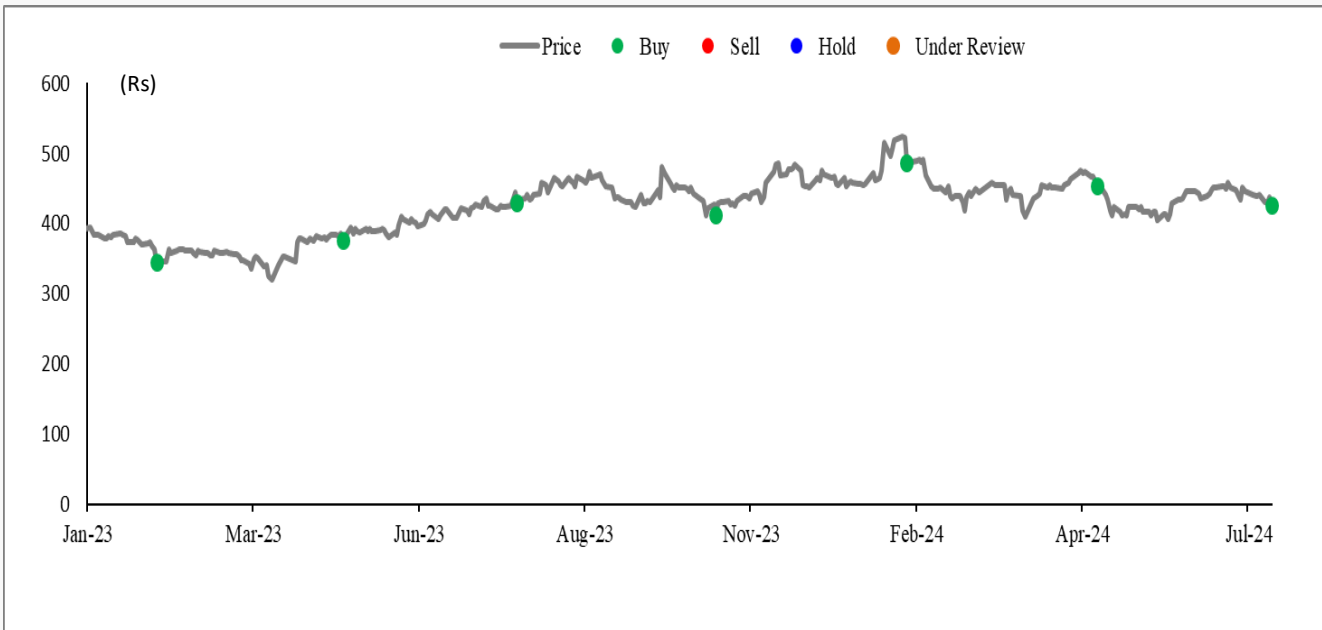
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Per Share Ratios				
Fully diluted E P S	17.63	19.57	22.13	25.01
Book Value	116.51	129.73	144.40	161.00
Dividend per share	2.90	2.90	2.90	2.90
Valuation Ratio				
P/E	22.98	20.70	18.30	16.19
P/BV	3.48	3.12	2.80	2.52
EV/EBITDA	13.58	12.52	11.34	10.31
EV/Sales	2.12	1.97	1.78	1.62
Growth Ratios				
Sales Growth	15%	9%	12%	12%
EBITDA Growth	-44%	10%	12%	12%
Net Profit Growth	31%	11%	13%	13%
EPS Growth	32%	11%	13%	13%
Common Size Ratios				
EBITDA Margin	16%	16%	16%	16%
EBIT margin	13%	13%	13%	13%
PAT margin	9%	9%	9%	10%
Employee cost	67%	67%	67%	67%
Return ratios				
RoNW	15%	15%	15%	16%
RoCE	19%	19%	19%	19%
Solvency Ratios				
Total Debt/Equity	16%	14%	13%	12%

Source: Company, Axis Securities Research

SIS Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
06-Feb-23	BUY	425	Result Update
05-May-23	BUY	425	Result Update
04-May-23	BUY	425	Result Update
27-Jul-23	BUY	475	Result Update
04-May-23	BUY	425	Result Update
31-Oct-23	BUY	425	Result Update
01-Feb-24	BUY	540	Result Update
03-May-24	BUY	540	Result Update
26-Jul-24	BUY	540	Result Update

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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