



## Superior Execution; Improving Outlook to Support Growth

**Est. Vs. Actual for Q2FY24:** Revenue – **INLINE** ; EBITDA Margin – **INLINE** ; PAT – **MISS**

### Changes in Estimates post Q2FY24

**FY24E/FY25E:** Revenue 0.5%/0.5%; EBITDA 1%/1%; PAT 0.5%/ 1%

### Recommendation Rationale

- The outlook for vertical businesses such as Security Solutions and Facility Management remains good.
- International business has improved and is likely to regain momentum.
- The management is confident that demand will pick up in the medium term based on orders won in recent quarters. It also expects further improvement on the margin front.

**Sector Outlook:** Cautiously positive

**Company Outlook & Guidance:** The management has given an improved outlook for FY24, 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 FY25E P/E; Earlier Valuation: 16x FY25E

**Current TP:** 475/share (Earlier TP: Rs 475/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 Q2FY24, SIS reported revenue at Rs 3,074 Cr, registering a growth of 3.3% on a QoQ basis. The company's consolidated EBITDA for the quarter grew by 3.9% QoQ to Rs 145 Cr, owing to the rebound of international business and strong demand for Indian security solutions. It reported a net income of Rs 76 Cr, which declined by 15.9% QoQ. Security Services in India exhibited an encouraging growth of 5.9% QoQ, driven by the rising demand for security guards and mandatory checkups.

## Outlook

From a long-term perspective, we believe SIS is sorting out client-specific engagement in verticals such as International business. However, rising concerns over the prospects of large economies along with prevailing business and demographic constraints pose uncertainties over 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 FY25E earnings of Rs 29.7/share to arrive at a TP of Rs 475/share, implying an upside of 15% from the CMP.

### Key Financials (Consolidated)

(Rs Cr)	Q2FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	3,074	3%	11%	3050	1%
EBITDA	145	3%	10%	110	32%
EBITDA Margin	5%	12 bps	(27) bps	4%	31%
Net Profit	75.27	-16%	-11%	100	-25%
EPS (Rs)	5.17	0%	3%	6	-14%

Source: Company, Axis Research

(CMP as of 31 October 2023 )

CMP (Rs)	412
Upside /Downside (%)	15%
High/Low (Rs)	485/318
Market cap (Cr)	6,005
Avg. daily vol. (6m)Shrs.	5,94,320
No. of shares (Cr)	14.6

### Shareholding (%)

	Jun-22	Sep-22	Dec-22
Promoter	49.2	49.2	49.2
FII's	16.0	9.2	10.8
MFs / UTI	12.6	11.8	11.4
Banks / FI's	22.3	29.9	28.8
Others	49.2	49.2	49.2

### Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	11,346	12,477	13,699
EBITDA	491	786	863
Net Profit	223	376	435
EPS (Rs)	15.3	25.7	29.7
PER (x)	23.7	14.1	12.2
P/BV (x)	6.6	3.0	2.1
EV/EBITDA (x)	2.3	2.0	1.7
ROE (%)	10%	15%	15%

### Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	0.5%	0.5%
EBITDA	1%	1%
PAT	0.5%	1%

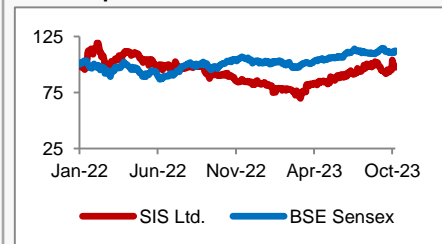
### ESG disclosure Score\*\*

Environmental Disclosure	0
Social Disclosure Score	12.3
Governance Disclosure	78.6
Total ESG Disclosure Score	30.4
Sector Average	40.5

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 2020 disclosures

### Relative performance



Source: Capitaline, Axis Securities

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## Key Highlights

- **Medium-term demand continues:** The Indian security business continued to be strong with 1.2% QoQ growth. Moreover, major wins for the company during the quarter were contributed by the verticals such as Finance, Retail, Healthcare, and Education. The company's EBITDA margins continued to improve with strong profit improvement initiatives.
- **Strong pick-up in the International Business:** On the International Business front, growth was driven by all entities across geographies and a high growth in New Zealand, which was on account of the FIFA Women's World Cup event held during the quarter. EBITDA margins improved by around 70bps YoY, primarily driven by the margin improvement initiatives implemented which include SG&A rationalization and contract-level reviews.
- **Facility management:** The segment reported the highest-ever quarterly revenue of Rs 528 Cr, which was a 12% growth over Q2FY23. This demonstrated the strong growth potential of the business and it continues to be the # 1 FM player in India. Major wins during the quarter came from the Healthcare, Manufacturing, Education, IT/ITes, and Pharma sectors.

## 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	Q2FY24	Q1FY24	Q2FY23	% change (YoY)	% change (QoQ)
<b>Total Income</b>	<b>3,074</b>	<b>2,977</b>	<b>2,768</b>	<b>11%</b>	<b>3%</b>
Raw Material Consumed	16	16	15		
Stock Adjustment	34	18	10		
Purchase of Stock in Trade	-2	2	2		
Employee Expenses	2,528	2,431	2,278		
Other Expenses	353	376	353	0%	-6%
<b>TOTAL EXPENDITURE</b>	<b>2,929</b>	<b>2,843</b>	<b>2,658</b>	<b>10%</b>	<b>3%</b>
<b>EBITDA</b>	<b>145</b>	<b>134</b>	<b>112</b>	<b>29%</b>	<b>8%</b>
EBITDA margin	5%	5%	4%	(67)	(46)
-	-	-	-		
Other Income	13	9	8		
Interest	35	33	28	26%	6%
Depreciation	40	36	33		
<b>EBIT</b>	<b>88</b>	<b>92</b>	<b>59</b>	<b>49%</b>	<b>-4%</b>
EBIT Margin	3%	3%	2%	(73)	(95)
Exceptional Items	0	5	0		
<b>PBT</b>	<b>88.40</b>	<b>84.20</b>	<b>74.50</b>	<b>19%</b>	<b>5%</b>
Tax	13	4.9	8		
Effective tax rate(%)	15%	6%	11%		
<b>Reported Profit After Tax</b>	<b>75.27</b>	<b>89.50</b>	<b>67.00</b>	<b>-11%</b>	
<b>EPS (Basic)</b>	<b>5.17</b>	<b>6.14</b>	<b>4.58</b>	<b>-11%</b>	<b>-16%</b>
<b>EPS (Diluted)</b>	<b>5.12</b>	<b>6.14</b>	<b>4.54</b>		

Source: Company, Axis Securities

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Net revenues	4,244	4,740	5,309	5,946
Other operating Income	0	0	0	0
<b>Total Operating income</b>	<b>4,244</b>	<b>4,740</b>	<b>5,309</b>	<b>5,946</b>
Employee Cost	2,922	3,176	3,557	3,984
<b>EBITDA</b>	<b>678</b>	<b>744</b>	<b>833</b>	<b>933</b>
EBITDA Margin (%)	16%	16%	16%	16%
Depreciation	126	137	154	172
Other Income	91	32	37	41
Interest (Net)	35	45	45	45
<b>PBT</b>	<b>574</b>	<b>594</b>	<b>671</b>	<b>757</b>
PBT Margin (%)	12%	13%	13%	13%
Tax	153	149	168	189
Adjusted PAT	422	446	503	568
Extraordinary Items	5	5	5	5
<b>Reported PAT</b>	<b>416</b>	<b>440</b>	<b>498</b>	<b>563</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Equity capital	45	45	45	45
Reserves & Surplus	2576	2874	3204	3578
<b>Net worth</b>	<b>2,621</b>	<b>2,919</b>	<b>3,249</b>	<b>3,623</b>
Total debt	420	420	420	420
<b>Total Liabilities &amp; Equity</b>	<b>4,402</b>	<b>4,880</b>	<b>5,416</b>	<b>6,026</b>
Tangible Assets	452	488	527	569
Total fixed assets	1,477	1,708	1,978	2,296
Investments	75	75	75	75
Goodwill	1,025	1,220	1,451	1,727
Other Fixed Assets	-	-	-	-
<b>Total Non-Current Assets</b>	<b>303</b>	<b>349</b>	<b>403</b>	<b>467</b>
Debtors	1,333	1,533	1,762	2,027
Cash & bank	323	217	78	(96)
Loans & advances	-	-	-	-
Other Current Assets	1,015	1,168	1,343	1,544
<b>Total Current Assets</b>	<b>2,851</b>	<b>3,097</b>	<b>3,363</b>	<b>3,655</b>
Creditors	1,085	1,226	1,386	1,566
Provisions	195	235	281	338
<b>Current Liab. &amp; Prov.</b>	<b>1,281</b>	<b>1,461</b>	<b>1,667</b>	<b>1,904</b>
<b>Total Assets</b>	<b>4,402</b>	<b>4,880</b>	<b>5,416</b>	<b>6,026</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
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	-	-	-	-
<b>CF from operations</b>	<b>277</b>	<b>310</b>	<b>360</b>	<b>416</b>
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
<b>CF from Investing acti.</b>	<b>(7)</b>	<b>(7)</b>	<b>(7)</b>	<b>(7)</b>
Chg. in debt	(19)	(24)	(30)	(37)
Chg. in Equity capital	-	-	-	-
Chg. in Pref. capital	-	-	-	-
Dividend & dividend tax	(50)	(50)	(50)	(50)
<b>CF from Financing acti.</b>	<b>(7)</b>	<b>(7)</b>	<b>(8)</b>	<b>(9)</b>
Chg. in cash	26	30	34	40
Opening cash	4	3	2	1
Closing cash	32	22	8	(10)

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY22A	FY23E	FY24E	FY25E
<b>Sales growth</b>	<b>10.1</b>	<b>12.8</b>	<b>10.0</b>	<b>9.8</b>
<b>OPM</b>	<b>5.0</b>	<b>4.3</b>	<b>6.3</b>	<b>6.3</b>
Oper. profit growth	(11.0)	(1.4)	59.9	9.8
COGS / Net sales	78.4	82.0	82.5	82.5
Overheads/Net sales	16.6	13.6	11.2	11.2
Depreciation / G. block	(253.4)	(200.5)	(17.9)	(100.0)
Effective interest rate (%)	11.0	12.9	33.1	-
Net wkg.cap / Net sales	0.08	0.03	0.03	0.07
Net sales / Gr block (x)	14.9	15.3	-	-
<b>RoCE</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>
Debt / equity (x)	0.30	0.27	0.00	0.00
Effective tax rate	5.2	21.6	25.2	25.2
<b>RoE</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>
Payout ratio (Div/NP)	7.5	0.0	0.0	0.0
<b>EPS (Rs.)</b>	<b>22.2</b>	<b>15.3</b>	<b>25.7</b>	<b>29.7</b>
EPS Growth	40.8	(31.2)	68.3	15.8
CEPS (Rs.)	29.8	24.5	36.8	40.8
DPS (Rs.)	1.7	0.0	0.0	0.0

Source: Company, Axis Securities

## SIS Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
07-Feb-22	BUY	590	Result Update
06-May-22	BUY	590	Result Update
28-Jul-22	BUY	500	Result Update
04-Nov-22	BUY	475	Result Update
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

Source: Axis Securities

#### About the analyst



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