



COMPANY NAME	: Security & Intelligence Services India Ltd
BSE Code	: 540673
Time Duration	: 1 year
CMP	: ₹1139 (as on 21 June, 2018)
Target Price	: ₹1504

The Mid Bridge for the month of June is Security & Intelligence Services India Limited (SIS). The company provides security services in India and Australia. Also, it provides facility management services and cash logistics. Company's sales have grown at a CAGR of 17.9%, while profits have grown at 37.8% over the last three years. Company has been growing organically and in-organically. Company has ROE of 20% and has been improving the same. The business model of the company is more resilient and is a non-discretionary expense by the consumers. Revenue for the company has been growing at strong +30% over last 10 years.

India contributes ~48.6% to the revenue while it contributes 60% to EBITDA. Rest is contributed by Australia. Share of India in the company's revenue pie was only 26% in FY13 and has grown consistently and it has now presence in 125 cities.

Facility management services driving growth - Company entered this space in 2009 and partnered with ServiceMaster Corporation, USA. From there it has come a long way. It mainly caters to industries such as manufacturing, IT/ ITES, retail and commercial, hospital, hotel and educational. It has 59 branches of the same mainly in major cities. Its main brands Service Master Clean and Dusters Total Solutions Services (DTSS) have shown strong organic growth. Margins have also improved from 3.4% in FY17 to 5.1% in FY18. This segment contributes 10.9% to the EBITDA and is expected to grow higher.

Security services - Company enjoys market share of 3.5% in India. In India, some positives that benefited the company are trends towards outsourcing of security services which are non-core to their operations by banks, corporates and industrial majors. Also, privatization of security in government organization like metro stations, law enforcement agencies, etc. Also, there is increased sense of security need felt by citizens leading to growth in security.

Also, company has been able to benefit in pricing due to wage rise inflation of 8-10%.

Company has witnessed organic growth of 12% in Australia while

strategic acquisition of SXP fueled the remaining 14% growth spiking the total growth to 26% in FY18. With this acquisition, the company now is able to offer bouquet of services and would command 21% market share. Security services contribute 89% to the EBITDA.

SIS India operation's revenue grew to Rs. 2144.41cr in FY18 from Rs. 1594.9cr in FY17. EBITDA margins also improved slightly to 6.9% from 6.4% during the same period.

In Australia too, some growth pockets have been witnessing more requirement for security personnel in commercial spaces and infrastructure. Also, growth in the aviation sector and tourism has triggered demand.

IPO helped in deleveraging the balance sheet - The IPO in FY18 helped the company to recapitalize the balance sheet. It substituted the high cost borrowing with equity. Company had Rs. 699cr as debt in FY17 which has come down to Rs. 556cr in FY18. We expect interest rate to be in line with the same from FY19 which is expect to augment earnings.

Industry is growing strong - Security service markets typically are growing at 1-1.5x of GDP in developed and at 2x-3x of GDP in developing markets. Also, India lies in the lower range of per capita spend on security. This has been growing with rising need felt for secured living spaces.

SIS has grown at 34% in FY18 much better than industry growth of 18-20%.

In Facility management, market in India is expected to grow from Rs. 100 bn in FY15 to Rs. 252 bn in FY20E, at 20% CAGR. Within this, Hard services, pest services and Cleaning services are expected to grow at 21%, 12% and 22% CAGR.

Strong financial performance

Consolidated revenue increased by 33% yoy to Rs. 5833cr which was higher than its 5 year CAGR of 17.1%. EBITDA also increased by 41.6% yoy to Rs. 311.96cr, higher than the 5 year CAGR of 18.4%. Company's EBITDA margins have been in the range of 3.3 to 5%. For FY18, margins were 5.35% while we expect it to be

Continued On PG 2...

CONFIDENTIALITY NOTICE : Information contained in this report is intended for the subscribers of this product only. Unauthorized forwarding, printing, copying, distribution, or using the information in a searchable, machine-readable database is strictly prohibited and may be unlawful. **Disclaimer**: The recommendations are purely a view point and there is no guarantee on the returns. Hence all the clients (paid or unpaid) are requested to apply their prudence before acting on any of the recommendations. Neither DSIJ Pvt Ltd nor any of its promoters, members, or employees shall be held responsible for any losses incurred (if any) by acting on the recommendations. Disclosure : Kindly refer to the detailed disclosures as per SEBI (investment advisors) regulations, 2013 placed at www.DSIJ.in

slightly lower for FY19. Company's PAT in FY18 grew by strong 48.6% in FY18.

Valuation and outlook

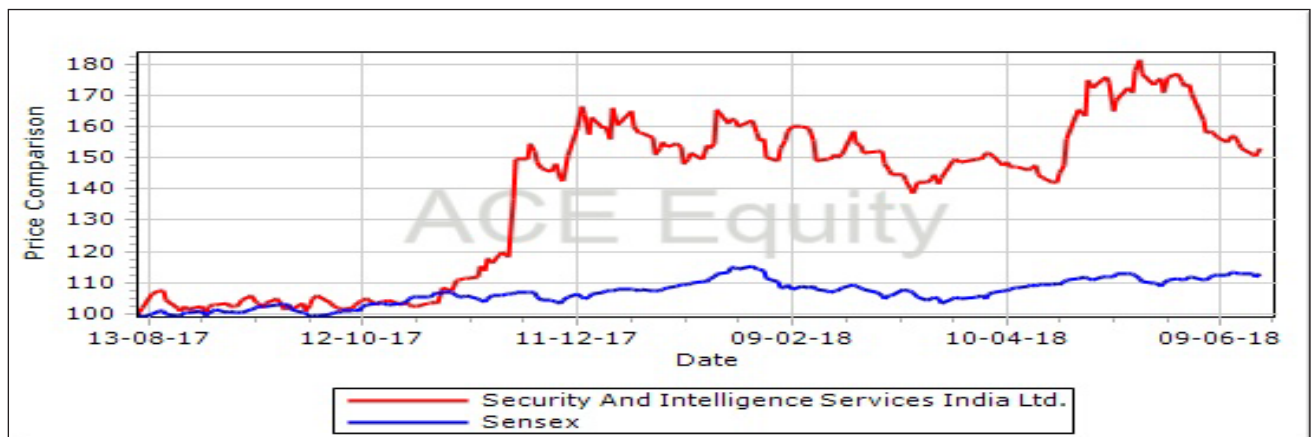
Company currently is trading at P/E of 51.8x on FY18 EPS of 22.15. Company's share price has recently corrected due to market sentiment and accounting adjustment in Q4FY18 leading to lower PAT. We see company is trading at lower P/E than its near

listed peer Team Lease Services.

Also, with IPO its balance sheet is more deleveraged and company aims to look for new acquisition targets. Also, we see double digit industry growth expectations in all sub segments of the company in security and facility management. Cash Logistics is expected to see pressure due to realignment by the company. Overall, we see company in a growth trajectory. We expect company to deliver return of 32% over one year to Rs. 1504. We urge investors to invest in tranches due to volatile market conditions.

Inc/Exp Statement(Consolidated) (Rs in Crore)					
Description	201803	201703	201603	201503	201403
Net Sales	5833.37	4387.20	3836.22	3550.63	3097.66
Total Income	5869.92	4397.89	3850.22	3566.08	3110.70
Total Expenditure	5521.39	4168.85	3704.79	3391.29	2951.97
PBIDT	348.53	229.04	145.43	174.79	158.73
PAT	174.81	115.76	30.56	48.51	65.56
Dividend %	35.00		436.14	260.00	351.38
Adj. EPS(Rs)	22.14	16.28	69.81	101.55	111.40

Quarter On Quarter (Consolidated) (Rs in Crore)					
Particulars	201803	201712	Q on Q Var%	201703	Y on Y Var%
Net Sales	1592.19	1537.72	3.54	1238.05	28.60
Total Expenditure	1505.63	1453.43	3.59	1172.85	28.37
PBIDT (Excl OI)	86.56	84.29	2.70	65.20	32.76
PAT	41.72	45.04	-7.37	54.56	-23.54
PBIDTM% (Excl OI)	5.44	5.48	-0.73	5.27	3.23
PBIDTM%	5.75	5.72	0.52	5.32	8.08
PATM%	2.62	2.93	-10.58	4.41	-40.59
Adj. EPS(Rs)	4.56	6.45	-29.30	8.15	-44.05



**Track calls using our new investor app