

Better Recovery; Improving Outlook to Support Growth

Est. Vs. Actual for Q2FY25: Revenue – **BEAT**; EBITDA Margin – **BEAT**; PAT – **BEAT**

Changes in Estimates post Q2FY25

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 Q2FY25, SIS reported revenue of Rs 3,269 Cr, reflecting growth of 4.4% QoQ and 6.4% YoY. The company's consolidated EBITDA for the quarter increased by 5.4% QoQ to Rs 144.5 Cr, attributed to a recovery in international business and strong demand for Indian security solutions. Net income for the quarter was Rs 68.8 Cr, indicating a robust recovery. Security Services in India declined by 6.2% QoQ for the quarter. However, the management remains 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 40% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	3,269	4%	6%	3210	2%
EBIT	144.8	5%	0%	135	7%
EBIT Margin	4%	230 bps	300 bps	4%	5%
Net Profit	68.8	7%	-9%	60	15%
EPS (Rs)	4.8	7%	-64%	4.05	19%

Source: Company, Axis Securities Research

(CMP as of 29th October 2024)

CMP (Rs)	385
Upside /Downside (%)	40%
High/Low (Rs)	560/375
Market cap (Cr)	5,556
Avg. daily vol. (6m) Shrs.	5,94,320
No. of shares (Cr)	14.6

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	71.6	71.7	71.7
FIIs	16.4	16.9	16.8
MFs/UTI	2.8	2.5	2.5
Banks/FIs	0	0	0
Others	9.2	9.0	9.2

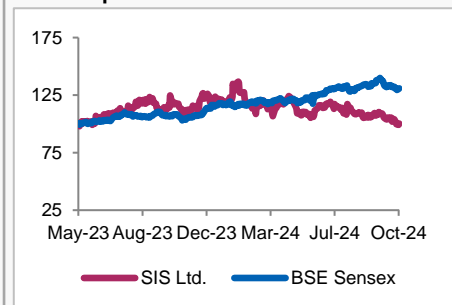
Financial & Valuations

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%

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	Q2FY25	Q1FY25	Q2FY24	% Change (YoY)	% Change (QoQ)
Total Revenue	3,269	3,130	3,074	6%	4%
Total Cost of Sales	3,124	2,993	2,929		
EBITDA	144.8	137.4	144.5	0%	5%
Margin (%)	4%	4%	5%		
Depreciation	42	40	39.5		
Operating Income	102.8	97.4	105	-2%	6%
Margin (%)	3%	3%	3%	-469	6
Impairment loss	0	0	0		
Income Before Income Taxes	76	71.2	88.4		
Total Taxes	7.2	7	13.2		
ETR (%)	9%	10%	15%	-75	-4%
Net Profit After Taxes	68.8	64.2	75.5	-9%	7%
Margin (%)	2%	2%	2%	-	-
EPS	4.8	4.5	5.2	-8%	7%

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

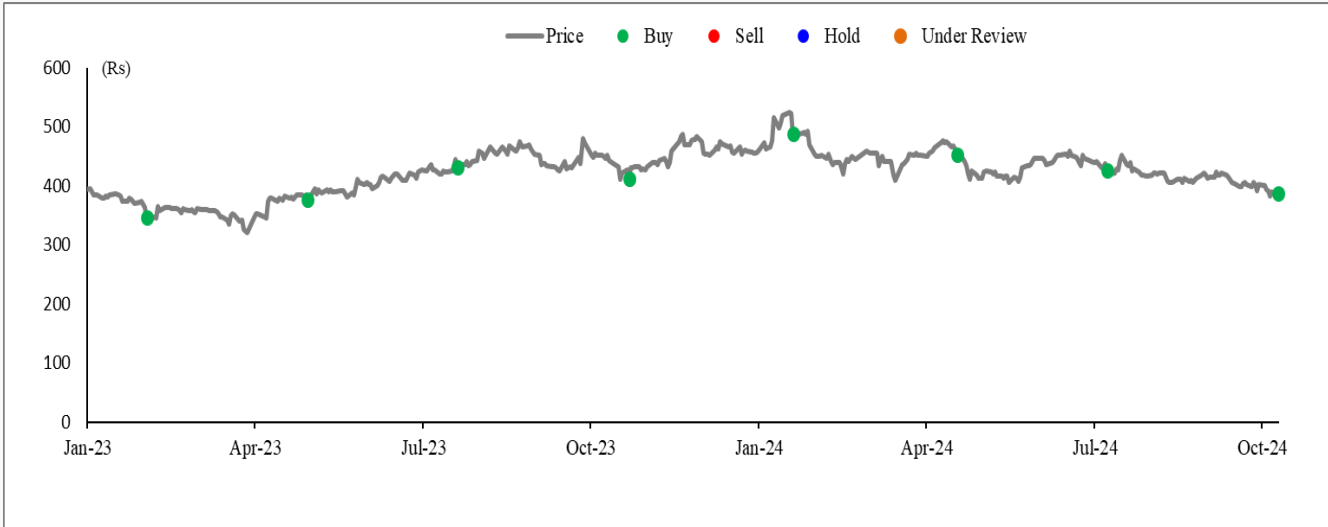
Ratio Analysis

(%)

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
30-Oct-24	BUY	540	Result Update

Source: Axis Securities Research

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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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