

# BLS International Services

**BUY**

INDUSTRY	IT PROCESSING
<b>CMP (as on 9 Aug 2018)</b>	<b>Rs 183</b>
<b>TP</b>	<b>Rs 265</b>
Nifty	11,471
Sensex	38,024
<b>KEY STOCK DATA</b>	
Bloomberg	BLSIN IN
No. of Shares (mn)	102
MCap (Rs bn) / (\$ mn)	18/274
6m avg traded value (Rs mn)	46
<b>STOCK PERFORMANCE (%)</b>	
<b>52 Week high / low</b>	<b>Rs 293/115</b>
	3M 6M 12M
Absolute (%)	13.6 (4.3) (0.3)
Relative (%)	5.9 (16.1) (19.9)
<b>SHAREHOLDING PATTERN (%)</b>	
Promoters	74.24
FIs & Local MFs	0.10
FPIs	3.75
Public & Others	21.91
Source : BSE	

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## Visa traction

BLS International posted mixed set of numbers in 1QFY19, with muted revenue growth but strong operational performance. Revenue stood at Rs 2.01bn, down 1.6% QoQ lower than our est. of Rs 2.12bn. EBITDA margin expanded 792bps QoQ (highest ever) to 24.6% (our est. was 17.0%) due to higher revenue contribution from VAS services (Spain) which is higher margin. Recent wins in the visa business has been encouraging. BLS won the contract for processing of Italian visa for Singapore residents, this is the third win in the European region apart from Spain & UK Visa & Immigration (UKVI). The UKVI contract will start contributing from 2HFY19 and we have assumed revenue of Rs 1.64/3.19bn in FY19/20E (0.45mn annual visas @GBP 80/application).

The Punjab e-governance revenue stood at Rs 0.46bn for 1Q and Rs 1.85bn for FY18. The contract has been renegotiated and awarded to BLS for period of five years but at a reduced scale. BLS will operate 352 centers across 11 districts but there will be no minimum revenue guarantee. The new model is better, asset-light in nature and similar to the visa model. The total receivables (including capex) stand at Rs 2.12bn and any write-off can have an impact of

### Financial Summary (Consolidated)

YE March (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2,013	1,951	3.2	2,046	(1.6)	5,050	6,350	7,891	8,976	10,435
EBITDA	495	433	14.4	341	45.1	367	824	1,587	1,663	2,003
APAT	340	291	17.1	201	69.5	309	499	965	1,164	1,414
Diluted EPS (Rs)	3.4	2.9	17.1	2.0	69.5	3.0	4.9	9.4	11.4	13.8
P/E (x)						60.8	37.6	19.5	16.1	13.3
EV / EBITDA (x)						50.1	23.0	11.7	10.7	8.3
RoE (%)						30.5	35.1	45.3	37.5	33.7

Source: Company, HDFC sec Inst Research

Rs ~10/share (assuming ~50% write-off). Growth in the visa business will off-set the loss from Punjab contract. We expect Revenue/EBITDA/PAT CAGR of 15/12/21% for FY18-20E.

We like the visa segment which is a lucrative business with huge addressable opportunity, scope for market share gain, asset-light with higher return ratios. In view of the large UK contract win and growth visibility in the visa business, we maintain our BUY rating with a TP of Rs 265, based on 20x FY20 EPS.

### Highlights of the quarter

- BLS acquired Starfin India Pvt Ltd for a sum of Rs 92mn for 74% stake. Starfin is a banking business correspondent for SBI and has presence across 11 states in India with 1,500 customer service points.
- Spain visa count registered strong growth, was up 10% YoY. VAS revenue from Spain contract resulted in lower cost of services (-8.8% QoQ).
- **Near-term outlook:** BLS has shifted to the new contract in Punjab from Aug-18 and UKVI will start contributing to revenue from 3QFY19. Margin will drop due to closure of higher margin Punjab contract in July-18.

*The total applications processed for the quarter stood at 2.8mn including both visa and Punjab*

*Revenue from the Visa business (core visa + Spain) was at Rs 1.55bn down 2.1% QoQ while Punjab revenue was fixed at Rs 0.46bn*

*EBITDA margin stood at 24.6% (vs our expectation of 17.0%), up 792bps QoQ. Expansion in margins was a positive surprise and was led by 8.8/29.8% drop in cost of services/other expenses*

*Depreciation was down due to lower asset base*

### Quarterly Consolidated Financials Snapshot

Particulars (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
<b>Net Sales</b>	<b>2,013</b>	<b>1,951</b>	<b>3.2</b>	<b>2,046</b>	<b>(1.6)</b>
Cost of service consumed	1,148	1,218	(5.8)	1,258	(8.8)
Personnel expenses	155	119	30.3	140	10.4
Operating and other expenses	215	182	18.6	307	(29.8)
<b>EBITDA</b>	<b>495</b>	<b>433</b>	<b>14.4</b>	<b>341</b>	<b>45.1</b>
Depreciation	49	95	(48.1)	98	(49.6)
<b>EBIT</b>	<b>446</b>	<b>338</b>	<b>32.0</b>	<b>243</b>	<b>83.1</b>
Other Income	10	7	38.8	15	(38.0)
Interest Cost	34	28	21	32	4.8
<b>PBT</b>	<b>422</b>	<b>317</b>	<b>33.1</b>	<b>227</b>	<b>85.9</b>
Tax	81	26	NM	26	212.9
Minority Interest	0	0	NM	0	NM
<b>RPAT</b>	<b>340</b>	<b>291</b>	<b>17.1</b>	<b>201</b>	<b>69.5</b>
EO Items (Adj For Tax)	0	0	NM	0	NM
<b>APAT</b>	<b>340</b>	<b>291</b>	<b>17.1</b>	<b>201</b>	<b>69.5</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

MARGIN ANALYSIS %	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Cost of services % Net Sales	57.0	62.4	(540)	61.5	(446)
Employee Expenses % Net Sales	7.7	6.1	160	6.8	84
Operating Expenses % Net Sales	10.7	9.3	139	15.0	(430)
Gross Margin %	43.0	37.6	540	38.5	446
EBITDA Margin (%)	24.6	22.2	241	16.7	792
EBIT Margin (%)	22.1	17.3	483	11.9	1,025
Tax Rate (%)	19.3	8.3	NM	11.5	783
APAT Margin (%)	16.9	14.9	201	9.8	710

Source: Company, HDFC sec Inst Research

*YoY revenue growth is coming down since the last five quarters*

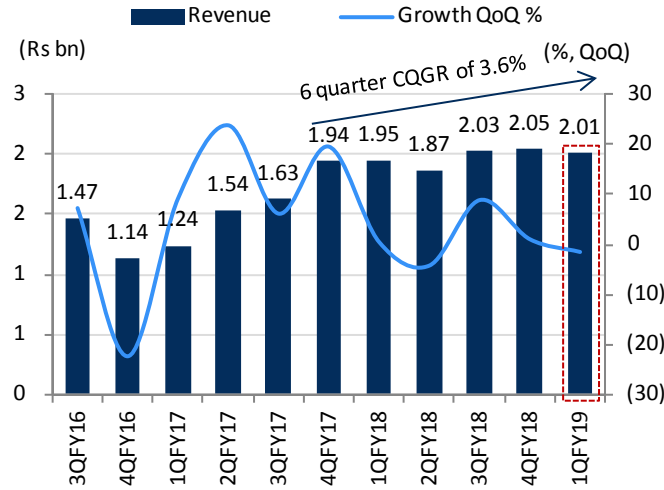
*Six-quarter revenue growth is at 3.6% CQGR, will accelerate with UKVI coming from 3QFY19E*

*Delta in revenue growth will come from new contract wins (UK visa)*

*Posted the highest quarterly EBITDA*

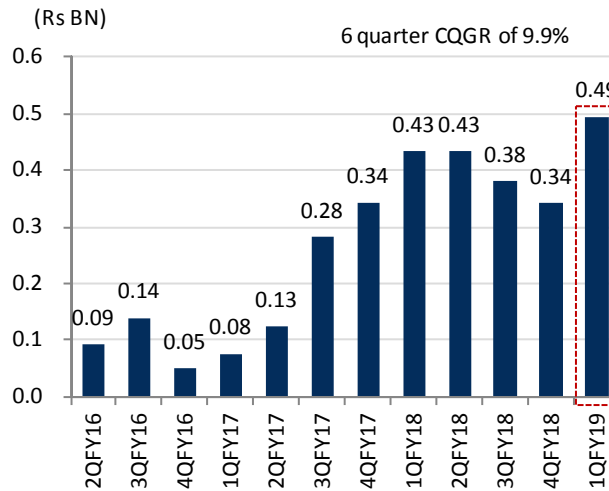
*EBITDA margin was also at all time high*

**Revenue And Revenue Growth (QoQ)**



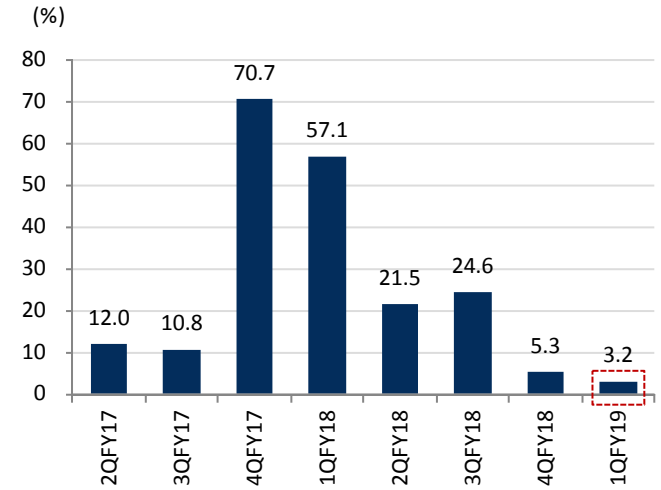
Source: Company, HDFC sec Inst Research

**EBITDA Growth Will Resume with UK**



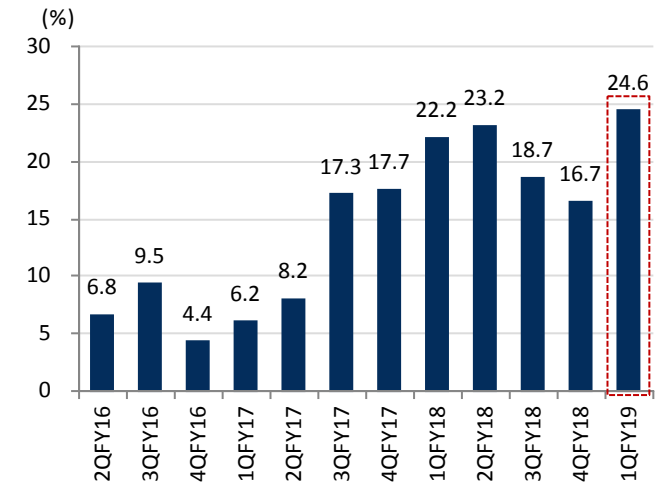
Source: Company, HDFC sec Inst Research

**Revenue Growth (YoY)**



Source: Company, HDFC sec Inst Research

**EBITDA Margin (%)**



Source: Company, HDFC sec Inst Research

*Revenue from Punjab contract will start pouring in from August-18 but the revenue will be lower. We have assumed Rs 903/521mn in FY19/20E*

*FY19E also has Rs 610mn from the old contract*

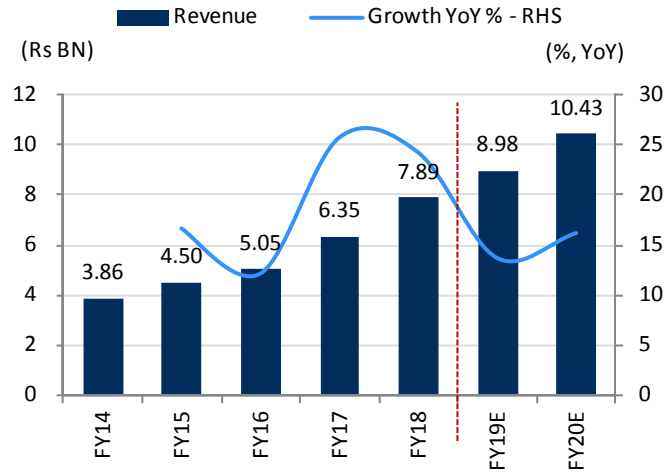
*Revenue growth will revive in FY20E with full year contribution coming in from the UK contract*

*Margin will expand with higher VAS revenue and increase in application count*

*Return ratios are high due to asset light business model*

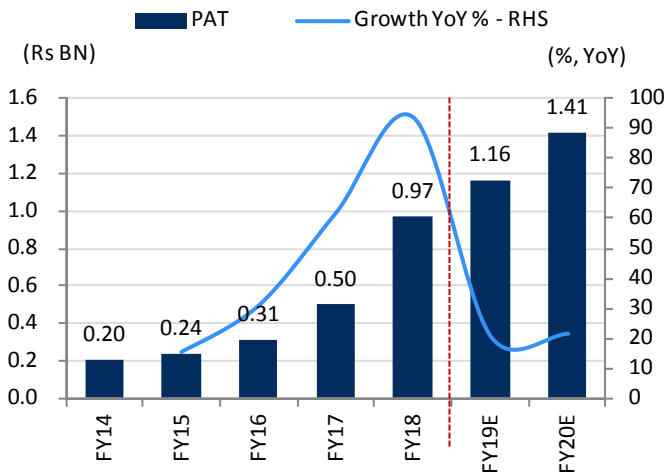
## Financial Charts

### Revenue Push Led By UK Win



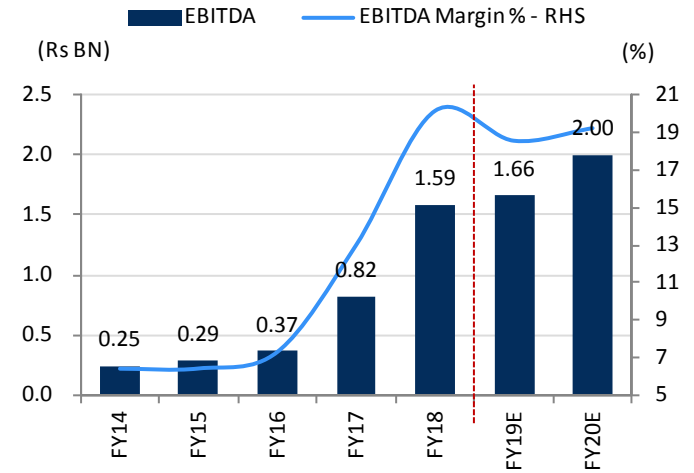
Source: Company, HDFC sec Inst Research

### PAT And PAT Growth



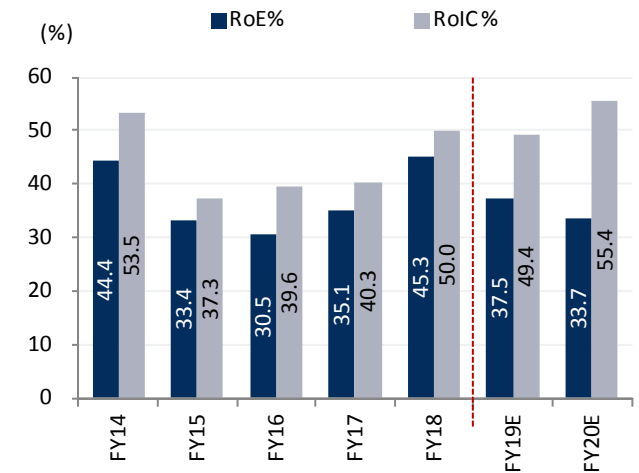
Source: Company, HDFC sec Inst Research

### EBITDA To Revive With UK Contribution



Source: Company, HDFC sec Inst Research

### Healthy Return Ratios



Source: Company, HDFC sec Inst Research

## Key Assumptions And Summary

	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Visa Processing (ex- Spain)</b>						
No of Visa applications (mn)	1.61	1.52	1.57	1.41	1.48	1.51
Growth YoY%	-21.1%	-5.4%	2.8%	-10.0%	5.0%	2.0%
Realisation/Application (Rs)	2,793	3,313	3,370	3,337	3,437	3,506
Growth YoY%	47.8%	18.6%	1.7%	-1.0%	3.0%	2.0%
<b>Revenue (Rs mn)</b>	<b>4,500</b>	<b>5,050</b>	<b>5,279</b>	<b>4,705</b>	<b>5,089</b>	<b>5,294</b>
Growth YoY%	16.7%	12.2%	4.5%	-10.9%	8.2%	4.0%
<b>Spain + UK Visa Processing</b>						
No of Visa applications (mn)				1.90	2.18	2.44
Growth YoY%					14.8%	11.9%
Realisation/Application (Rs)				1,332	1,983	2,476
Growth YoY%					48.9%	24.9%
<b>Revenue (Rs mn)</b>				<b>2,531</b>	<b>4,327</b>	<b>6,044</b>
Growth YoY%					71.0%	39.7%
<b>Revenue realised Spain (50%) + UK (Rs mn)</b>				<b>1,265</b>	<b>2,985</b>	<b>4,620</b>
Growth YoY%					135.9%	54.8%
<b>EBITDA</b>				<b>633</b>	<b>1,027</b>	<b>1,408</b>
EBITDA Margin %				25.0%	23.7%	23.3%
<b>Total Visa Processing Business (Old + Spain)</b>						
No of Visa applications (mn)	1.61	1.52	1.57	3.31	3.66	3.95
Growth YoY%	-21.1%	-5.4%	2.8%	111.3%	10.6%	7.9%
Realisation/Application (Rs)	2,793	3,313	3,370	1,804	2,204	2,509
Growth YoY%	47.8%	18.6%	1.7%	-46.5%	22.2%	13.8%
<b>Revenue (Rs mn)</b>	<b>4,500</b>	<b>5,050</b>	<b>5,279</b>	<b>5,971</b>	<b>8,074</b>	<b>9,914</b>
Growth YoY%	16.7%	12.2%	4.5%	13.1%	35.2%	22.8%
<b>EBITDA</b>	<b>287</b>	<b>367</b>	<b>428</b>	<b>1,080</b>	<b>1,474</b>	<b>1,913</b>
EBITDA Margin %	6.4%	7.3%	8.1%	18.1%	18.3%	19.3%
<b>Punjab e-Governance Project</b>						
No of Applications (mn)			9.9	20.0	9.0	5.0
Growth YoY%				102.4%	-54.7%	-45.2%
Realisation/Application (Rs)			108	96	100	105
Growth YoY%				-11.4%	3.9%	5.2%
<b>Revenue (Rs mn)</b>			<b>1,071</b>	<b>1,920</b>	<b>903</b>	<b>521</b>
Growth YoY%				79.3%	-53.0%	-42.3%
<b>EBITDA</b>			<b>396</b>	<b>508</b>	<b>189</b>	<b>90</b>
EBITDA Margin %			37.0%	26.4%	20.9%	17.2%
<b>Total Revenue</b>	<b>4,500</b>	<b>5,050</b>	<b>6,350</b>	<b>7,891</b>	<b>8,976</b>	<b>10,435</b>
Growth YoY%	16.7%	12.2%	25.7%	24.3%	13.8%	16.2%
<b>Total EBITDA</b>	<b>287</b>	<b>367</b>	<b>824</b>	<b>1,587</b>	<b>1,663</b>	<b>2,003</b>
EBITDA Margin %	6.4%	7.3%	13.0%	20.1%	18.5%	19.2%

Source: Company, HDFC sec Inst Research

### Change In Estimate

Particulars	Earlier estimates	Revised estimates	% change
<b>FY19E</b>			
Revenue (Rs mn)	8,600	8,976	4.4
EBITDA (Rs mn)	1,450	1,663	14.7
<i>EBITDA margin (%)</i>	16.9	18.5	166
APAT (Rs)	950	1,164	22.6
<b>FY20E</b>			
Revenue (Rs mn)	10,323	10,435	1.1
EBITDA (Rs mn)	1,755	2,003	14.1
<i>EBITDA margin (%)</i>	17.0	19.2	220
APAT (Rs)	1,185	1,414	19.3

Source: Company, HDFC sec Inst Research

**Income Statement (Consolidated)**

YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>Net Revenues (Rs mn)</b>	<b>5,050</b>	<b>6,350</b>	<b>7,891</b>	<b>8,976</b>	<b>10,435</b>
<b>Growth (%)</b>	<b>12.2</b>	<b>25.7</b>	<b>24.3</b>	<b>13.8</b>	<b>16.2</b>
Cost of services	4,132	4,196	4,560	5,238	5,785
Employee Benefit	329	417	527	662	813
Other Expenses	221	912	1,217	1,414	1,834
<b>EBITDA</b>	<b>367</b>	<b>824</b>	<b>1,587</b>	<b>1,663</b>	<b>2,003</b>
<b>EBITDA Margin (%)</b>	<b>7.3</b>	<b>13.0</b>	<b>20.1</b>	<b>18.5</b>	<b>19.2</b>
<b>EBITDA Growth (%)</b>	<b>27.8</b>	<b>124.3</b>	<b>92.7</b>	<b>4.8</b>	<b>20.4</b>
Depreciation	55	260	396	219	243
<b>EBIT</b>	<b>312</b>	<b>564</b>	<b>1,191</b>	<b>1,444</b>	<b>1,760</b>
Other Income (Including EO Items)	5	23	41	47	54
Interest	3	55	124	114	124
<b>PBT</b>	<b>314</b>	<b>532</b>	<b>1,108</b>	<b>1,376</b>	<b>1,690</b>
Tax (Incl Deferred)	5	32	143	212	276
Minority Interest	0	0	0	0	0
<b>RPAT</b>	<b>309</b>	<b>500</b>	<b>965</b>	<b>1,164</b>	<b>1,414</b>
EO (Loss) / Profit (Net Of Tax)	0	0	0	0	0
<b>APAT</b>	<b>309</b>	<b>499</b>	<b>965</b>	<b>1,164</b>	<b>1,414</b>
<b>APAT Growth (%)</b>	<b>30.8</b>	<b>61.7</b>	<b>93.4</b>	<b>20.6</b>	<b>21.5</b>
<b>Adjusted EPS (Rs)</b>	<b>3.0</b>	<b>4.9</b>	<b>9.4</b>	<b>11.4</b>	<b>13.8</b>
<b>EPS Growth (%)</b>	<b>31.0</b>	<b>61.7</b>	<b>93.2</b>	<b>20.6</b>	<b>21.5</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet (Consolidated)**

YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	102	102	102	102	102
Reserves	1,085	1,554	2,503	3,501	4,700
<b>Total Shareholders' Funds</b>	<b>1,187</b>	<b>1,657</b>	<b>2,605</b>	<b>3,604</b>	<b>4,802</b>
Minority Interest	1	1	1	1	1
<b>Total Debt</b>	<b>41</b>	<b>838</b>	<b>933</b>	<b>952</b>	<b>952</b>
Net Deferred Taxes	(4)	5	(33)	(33)	(33)
Long Term Provisions & Others	11	13	15	15	15
<b>TOTAL SOURCES OF FUNDS</b>	<b>1,237</b>	<b>2,514</b>	<b>3,522</b>	<b>4,540</b>	<b>5,738</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	242	784	495	410	324
CWIP	0	0	0	0	0
Investments	17	320	278	278	278
LT Loans & Advances	175	6	27	36	42
<b>Total Non-current Assets</b>	<b>434</b>	<b>1,110</b>	<b>799</b>	<b>724</b>	<b>644</b>
Inventories	0	0	0	0	0
Debtors	22	597	2,123	2,459	2,573
Other Current Assets	486	566	554	706	920
Cash & Equivalents	426	697	1,189	1,923	3,036
<b>Total Current Assets</b>	<b>934</b>	<b>1,861</b>	<b>3,866</b>	<b>5,089</b>	<b>6,530</b>
Creditors	68	130	388	465	548
Other Current Liabilities & Provns	63	326	755	808	887
<b>Total Current Liabilities</b>	<b>131</b>	<b>457</b>	<b>1,143</b>	<b>1,273</b>	<b>1,435</b>
<b>Net Current Assets</b>	<b>803</b>	<b>1,404</b>	<b>2,723</b>	<b>3,816</b>	<b>5,095</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>1,237</b>	<b>2,514</b>	<b>3,522</b>	<b>4,540</b>	<b>5,738</b>

Source: Company, HDFC sec Inst Research

**Cash Flow Statement (Consolidated)**

YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	314	532	1,108	1,376	1,690
Non-operating & EO items	(5)	(23)	(41)	(47)	(54)
Interest expenses	3	55	124	114	124
Depreciation	55	260	396	219	243
Working Capital Change	(42)	(244)	(826)	(362)	(167)
Tax Paid	(8)	(32)	(143)	(212)	(276)
<b>OPERATING CASH FLOW ( a )</b>	<b>317</b>	<b>547</b>	<b>619</b>	<b>1,089</b>	<b>1,560</b>
Capex	(55)	(802)	(106)	(135)	(157)
Free cash flow (FCF)	262	(255)	513	954	1,404
Investments	(25)	(218)	22	(6)	(4)
Non-operating Income	5	23	41	47	54
<b>INVESTING CASH FLOW ( b )</b>	<b>(75)</b>	<b>(996)</b>	<b>(44)</b>	<b>(94)</b>	<b>(107)</b>
Debt Issuance/(Repaid)	(15)	797	95	19	0
Interest Expenses	(3)	(55)	(124)	(114)	(124)
FCFE	244	487	483	859	1,280
Share Capital Issuance	0	0	0	0	0
Dividend	0	(42)	(42)	(166)	(216)
<b>FINANCING CASH FLOW ( c )</b>	<b>(18)</b>	<b>700</b>	<b>(71)</b>	<b>(261)</b>	<b>(340)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>224</b>	<b>251</b>	<b>504</b>	<b>735</b>	<b>1,113</b>
EO Items, Others	44	(21)	13	0	0
<b>Closing Cash &amp; Equivalents</b>	<b>426</b>	<b>697</b>	<b>1,189</b>	<b>1,923</b>	<b>3,036</b>

Source: Company, HDFC sec Inst Research

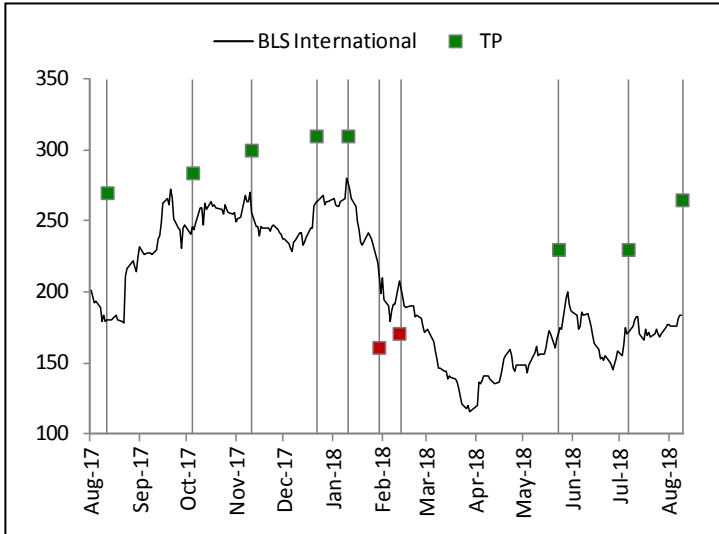
**Key Ratios (Consolidated)**

	FY16	FY17	FY18E	FY19E	FY20E
<b>PROFITABILITY (%)</b>					
GPM	18.2	33.9	42.2	41.7	44.6
EBITDA Margin	7.3	13.0	20.1	18.5	19.2
APAT Margin	6.1	7.9	12.2	13.0	13.6
RoE	30.5	35.1	45.3	37.5	33.7
RoIC (or Core RoCE)	39.6	40.3	50.0	49.4	55.4
RoCE	29.2	29.4	35.6	31.3	29.5
<b>EFFICIENCY</b>					
Tax Rate (%)	1.5	6.0	12.9	15.4	16.3
Fixed Asset Turnover (x)	12.1	5.2	6.0	6.1	6.5
Inventory (days)	0	0	0	0	0
Debtors (days)	2	34	98	100	90
Other Current Assets (days)	35	33	26	29	32
Payables (days)	5	9	22	23	24
Other Current Liab & Provns (days)	5	19	35	33	31
Cash Conversion Cycle (days)	27	40	66	73	67
Debt/EBITDA (x)	0.1	1.0	0.6	0.6	0.5
Net D/E (x)	(0.3)	0.1	(0.1)	(0.3)	(0.4)
Interest Coverage (x)	91	10	10	13	14
<b>PER SHARE DATA (Rs)</b>					
EPS	3.0	4.9	9.4	11.4	13.8
CEPS	3.6	7.4	13.3	13.5	16.2
Dividend	0	0	0	2	2
Book Value	12	16	25	35	47
<b>VALUATION</b>					
P/E (x)	60.8	37.6	19.5	16.1	13.3
P/BV (x)	15.8	11.3	7.2	5.2	3.9
EV/EBITDA (x)	50.1	23.0	11.7	10.7	8.3
EV/Revenues (x)	3.6	3.0	2.3	2.0	1.6
OCF/EV (%)	1.7	2.9	3.3	6.1	9.3
FCF/EV (%)	1.4	-1.3	2.8	5.4	8.4
FCFE/Mkt Cap (%)	1.3	2.6	2.6	4.6	6.8
Dividend Yield (%)	0.0	0.2	0.2	0.8	1.0

Source: Company, HDFC sec Inst Research; N.A – Not Applicable



**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
12-Aug-17	180	BUY	270
4-Oct-17	241	BUY	284
11-Nov-17	256	BUY	300
21-Dec-17	251	BUY	310
10-Jan-18	280	BUY	310
31-Jan-18	211	SELL	160
13-Feb-18	196	SELL	170
23-May-18	170	BUY	230
6-Jul-18	171	BUY	230
10-Aug-18	183	BUY	265

**Rating Definitions**

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

**INSTITUTIONAL RESEARCH**
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