

# BLS International Services Ltd (BLSN.NS)

## India | Support Services

**HOLD**

### An expanding canvas for sustained growth

BLS International is India's only listed player in the Visa & consular (VC) space with c.87% of its revenues coming from this biz. While the underlying volume of visa grows at c.3-3.5% annually, BLS is likely to see increasing market share on renewals of large contracts along with a recovery in travel. The company is also expanding its G2C (Government to Citizen services) biz and banking correspondence biz, which has similar characteristics to the asset light VC biz to drive growth. Overall the biz model is asset & capital light with low cash consumption for growth. BLS could generate c.6% of its MCAP as cash over the next two years, while growing revenue / EBITDA at c.30% CAGR at least. Good capital allocation is key to returns. Initiate at HOLD with a TP of Rs370.

Price: INR330  
Target: INR370  
Forecast Total Return: 12.7%  
Market Cap: INR34bn  
EV: INR30bn  
Average daily volume: 710k

- **A recovery + expanding market share in the VC business:** The VC biz saw a 75% drop in volumes in FY21. Despite a sharp recovery through FY24E, our underlying estimates don't factor in peak volumes of the prior year's even in FY24E, implying that our estimates are conservative. While underlying visa volumes typically grow by 3-3.5% in a normal year, higher growth is driven by market share gains. There are multiple large contracts like UK, US and Saudi Arabia that are in the process of rebids. In addition, BLS has also won contracts from multiple embassies, which are yet to reflect in the revenues.
- **Expanding the canvas for growth:** In addition to the VC business, BLS is also growing its Government to Citizen Services (G2C) and Banking correspondence (BC) business. Both these businesses are asset light and complimentary to each other as CSP's (customer service points) can be leveraged for both businesses. BLS currently works with three states in G2C and 4 banks in the BC business. There is room to expand across states and banks for both biz'.
- **An asset light business with strong cash flow:** BLS operates on an asset light model across biz's. While the first G2C contract with the Govt. of Punjab was initially structured with receivables from the govt., it was later cancelled and rebid like a VC contract where revenues are received upfront from citizens. We expect the biz to deliver ROIC's in excess of 80% going forward.
- **Acquisitions are a key to expanding the canvas:** Considering the cash generation, BLS can technically pay out 80% of its FCF as dividend. However, BLS is looking to acquire in the VC and BC businesses. We believe these acquisitions are likely EPS accretive as the yield on cash is low at 2%, considering the VC biz cash accretion happens in UAE.

**Nitin Padmanabhan**  
+91 (22) 6849 7427  
nitin.padmanabhan@investec.co.in  
Investec Capital Services (India) Pvt. Ltd  
**Hiral Shah**  
+91 (22) 6849 7418  
hiral.shah@investec.co.in  
Investec Capital Services (India) Pvt. Ltd

### Financials and valuation

Year end: 31 March

	2020A	2021A	2022E	2023E	2024E
Revenue (INRm)	7,861	4,784	8,049	9,846	13,573
EBITDA (INRm)	834	397	1,064	1,300	1,860
EBITA (INRm)	713	302	978	1,201	1,746
PBT (normalised) (INRm)	826	484	1,091	1,342	1,957
Net Income (normalised) (INRm)	524	502	1,051	1,178	1,719
EPS (norm. cont.) - FD (INR)	5.1	4.9	9.8	11.5	16.8
FCFPS - FD (INR)	9.8	3.6	16.2	9.4	13.6
DPS (INR)	1.0	0.7	1.5	1.7	2.5
PE (normalised) (x)	64.6	67.3	33.8	28.7	19.6
EV/sales (x)	3.8	6.2	3.7	3.0	2.2
EV/EBITDA (x)	35.7	74.9	27.9	22.9	16.0
FCF yield (%)	3.0	1.1	4.9	2.9	4.1
Dividend yield (%)	0.3	0.2	0.4	0.5	0.8

Source: Company accounts/Investec Securities estimates

### Price Performance



Source: FactSet

**Figure 1: Company background**

BLS started operations in 2005 in the citizen and consular services space. The company manages visa and passport issuance-related administrative and non-judgmental tasks for its client governments, enabling the governments to focus on whether the person gets the visa. As on 31<sup>st</sup> March 2021, the company has 12,000+ centres in 66+ countries and employees / associates of ~15,000 people. 86% of its revenues comes from outside India. On the non-visa services part it provides i) Government to citizen services: eg. Birth and death certificates and ii) Banking correspondence services: eg. Money transfer services, cash withdrawal, etc

Source: Company data, Investec Securities research

**Figure 2: Catalysts**

**Positive**

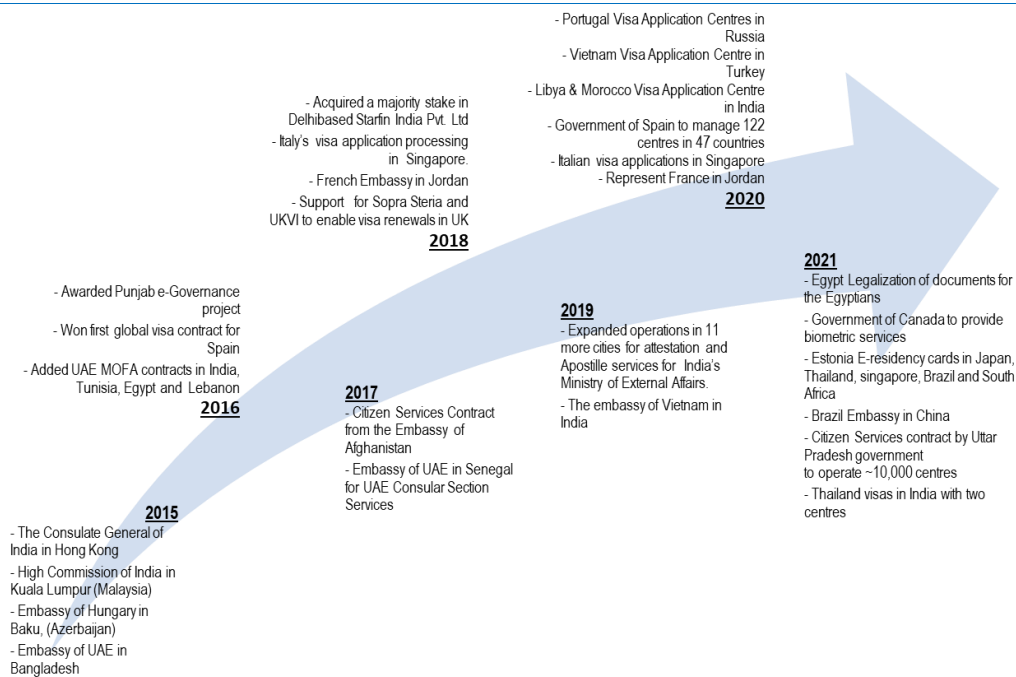
- The mkt for visa application outsourcing is oligopolistic with three global players and a few region specific players, leaving a significant moat to the business
- Large renewal opportunity of US (\$3.3bn over 10 years) and UK (GBP1.2bn for 4 years), among others

**Negative**

- Decline in global travel reducing the number of visa applications
- Potential risks from non-renewal of large contracts

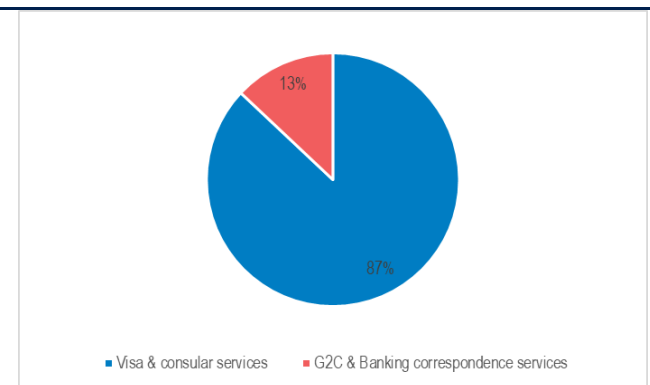
Source: Company data, Investec Securities research

**Figure 1: BLS evolution over the years**



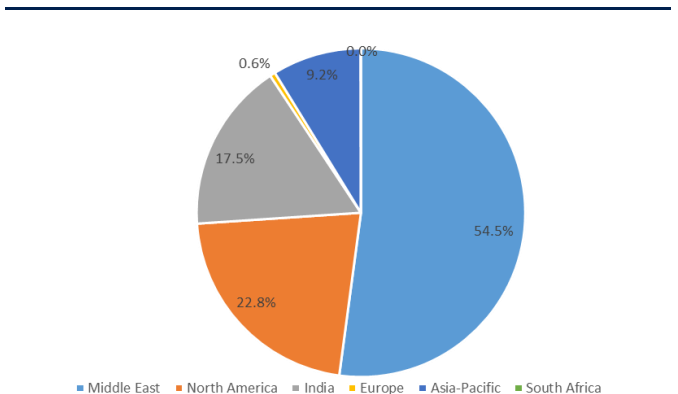
Source: Investec Securities research

**Figure 2: Revenue exposure by vertical (Q3FY22)**



Source: Company, Investec Securities research

**Figure 3: Revenue exposure by geography (FY21)**



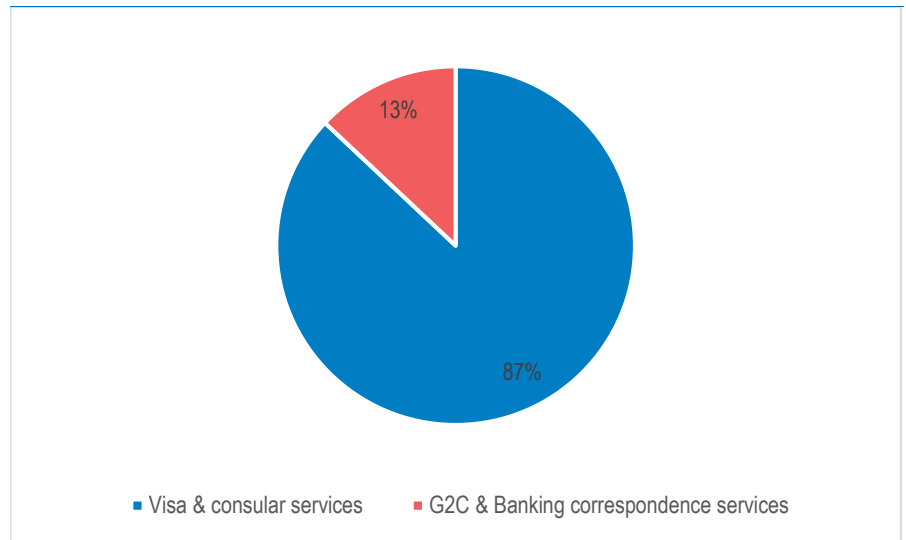
Source: Company, Investec Securities research

## Story in charts

**Figure 4: BLS derives an est. 87% of its revenue from Visa & consular services**

*87% of biz from Visa & consular services*

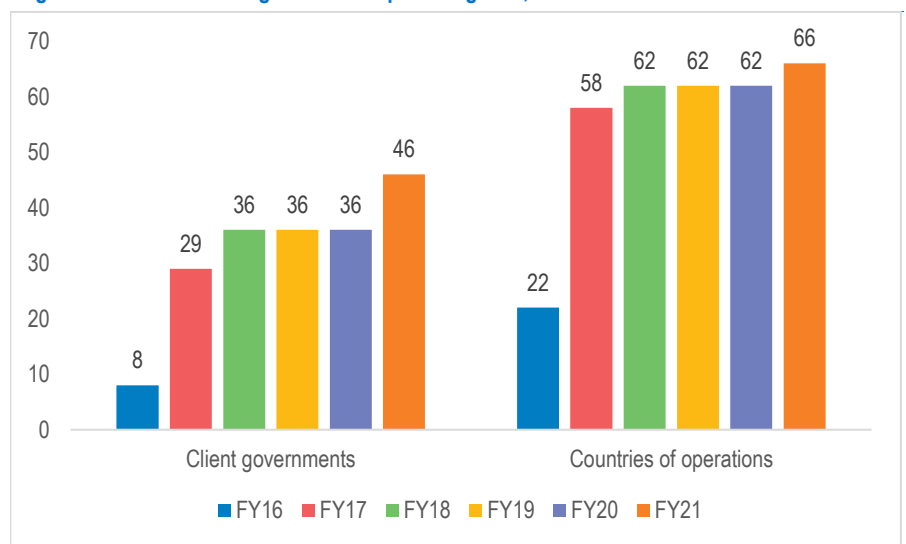
*Govt. to citizen svcs (G2C) and banking correspondence (BC) business built from FY16 and is an India focussed business currently*



Source: Company, Investec Securities estimates

**Figure 5: BLS works with governments providing Visa, consular and G2C services**

*BLS now works with 46 client govts. vs just 8 in FY16*



Source: Company, Investec Securities research

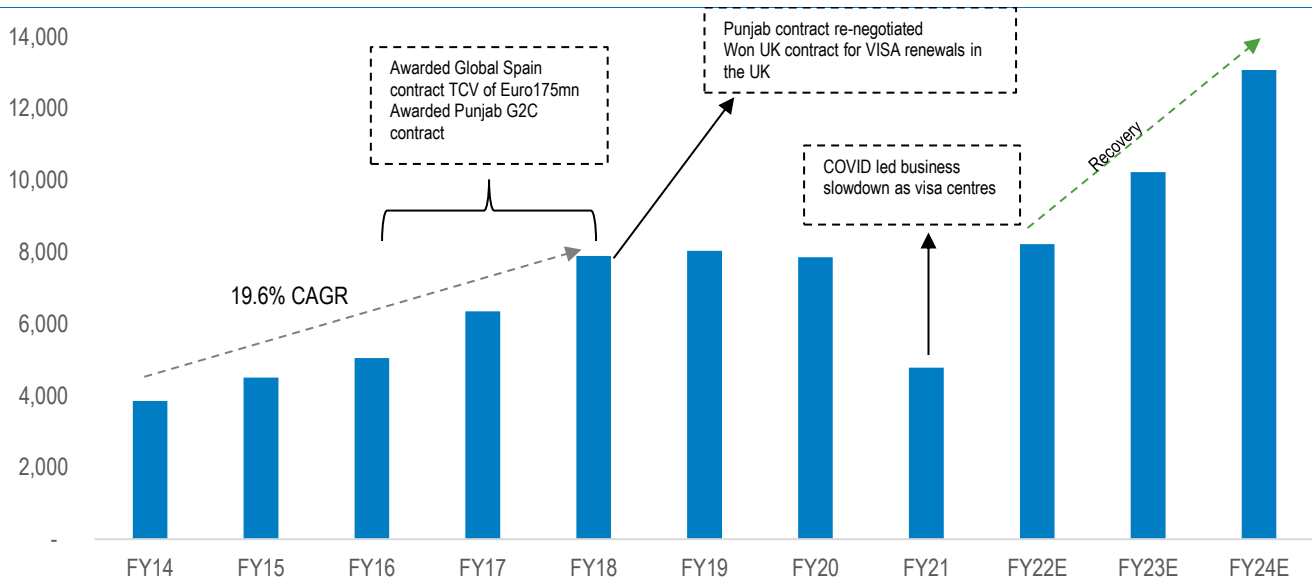
- Visa & Consular services is an oligopolistic mkt
- BLS is the third largest global player
- CGI Federal is a US govt. contractor that subcontracts visa processing to VFS Global and CSC
- The US contract has now been awarded to CGI Federal, PAE and GDIT, which will inturn subcontract to the top three players

Figure 6: BLS is the third largest global player

Company	Sizing	Applications processed (2019 in mn)	Mkt share %
VFS Global	Global	29.3	64%
TLS Contact	Global	4.0	9%
<b>BLS International</b>	<b>Global</b>	<b>3.0</b>	<b>7%</b>
CGI Federal	US	3.8	8%
CSC	US	1.7	4%
GVCW	Greece	NA	NA
Visametric	Germany, Italy	NA	NA
Others inc GVCW & Visametric	Regional	4.1	9%
<b>Total</b>		<b>46</b>	<b>100%</b>

Source: CGI Federal's app. count is also outsourced to VFS Global; VFS numbers adjusted for citizen services est.; BLS does not ; ; Company, Investec Securities estimates

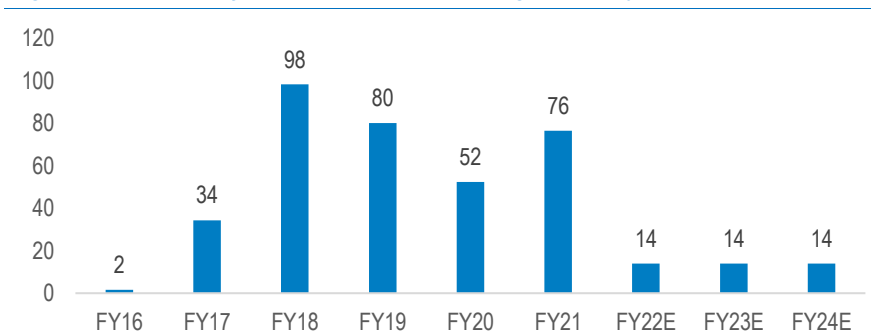
Figure 7: Growth from FY18-FY20 impacted by restructuring of Punjab G2C contract and exit from UKVI Visa contract



Source: Company, Investec Securities estimates

- The Punjab G2C contract is BLS' first G2C contract
- The contract initially was structured with receivable from the Govt. for services provided, which led to peak DSO of 98 days
- Post restructuring the contract is similar to a Visa & consular services contract where payments are made by citizens for the required services
- The company has "Zero receivables from the govt. leading to a normalization of DSO going forward"

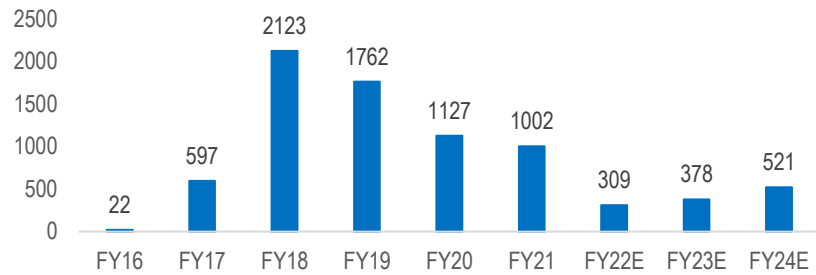
Figure 8: Receivable days normalize post restructuring of the Punjab G2C contract



Source: Company, Investec Securities estimates

**Figure 9: Absolute receivables likely significantly lower vs the past 4 years**

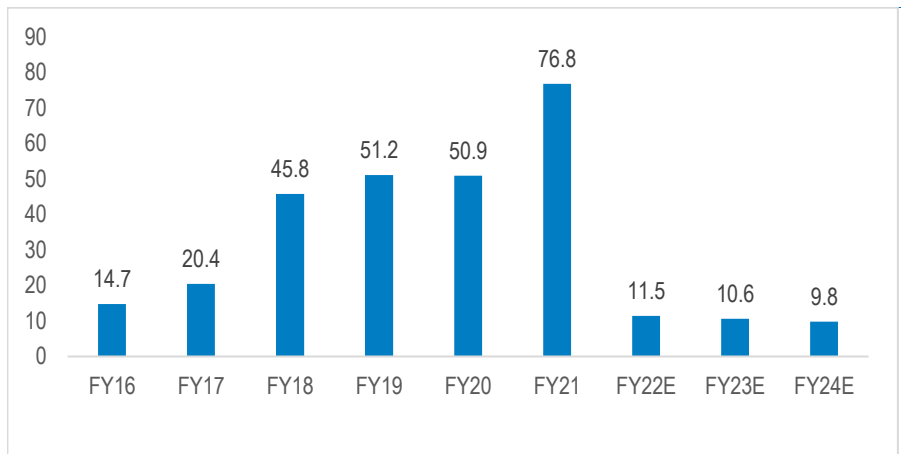
- Absolute receivables are likely to decline from a peak of Rs2,123m to Rs309m in FY22E



Source: Company, Investec Securities estimates

**Figure 10: ...leading to lower working capital intensity**

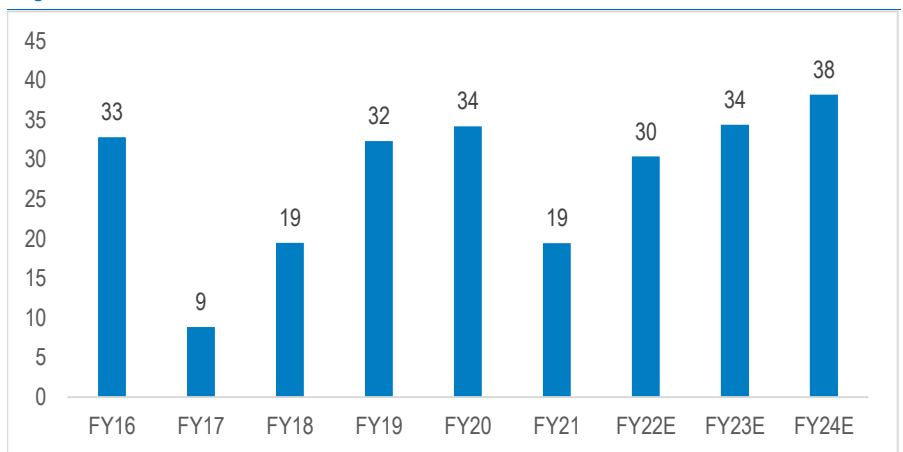
*The business is now capital light ...*



Source: Company, Investec Securities estimates

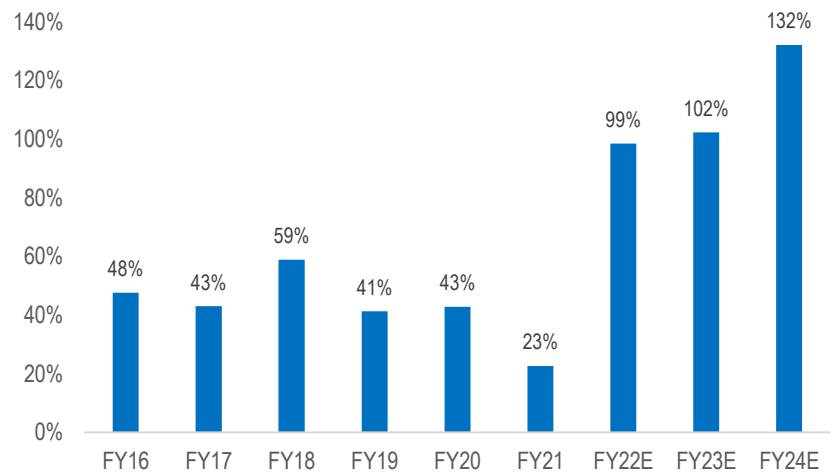
**Figure 11: Fixed asset turnover ratio**

*And asset light ...*



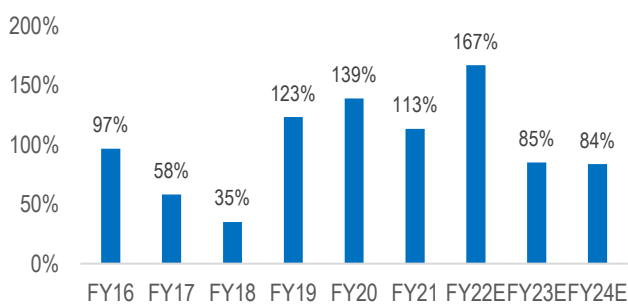
Source: Company, Investec Securities estimates

**Figure 12: RoIC to reach 132% by FY24E given the asset light model in each segment**



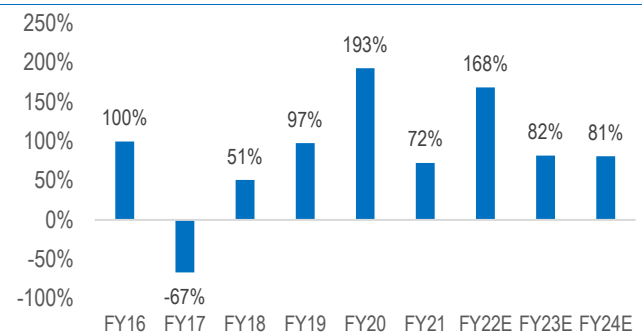
Source: Company, Investec Securities estimates

**Figure 13: OCF / EBITDA trends to remain strong**



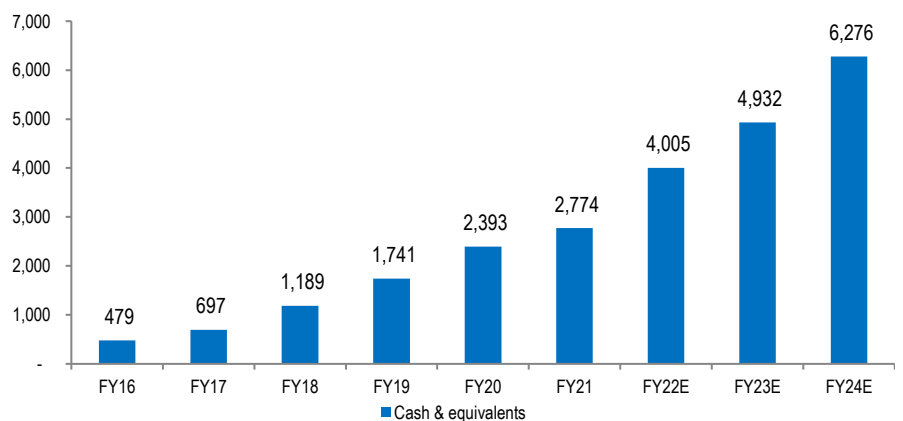
Source: Company, Investec Securities estimates

**Figure 14: FCF to PAT conversion trends**



Source: Company, Investec Securities estimates

**Figure 15:**



Source: Company, Investec Securities estimates

## Visa & consular services

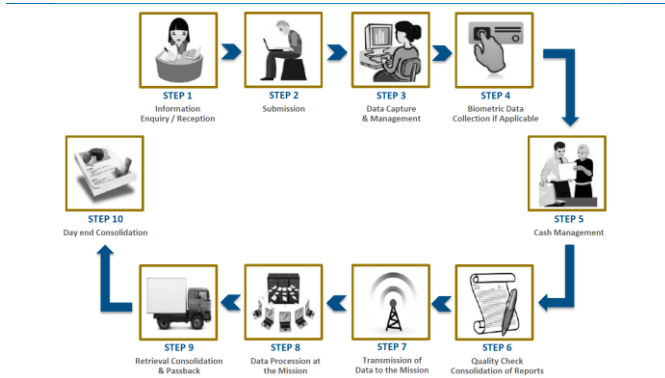
Countries globally interact with other countries to increase trade and tourism. Embassies overseen by ambassadors are set up in foreign countries as a channel of communication between both countries. A Consulate is an extension of an embassy that focusses on administrative duties such as processing visa's for citizens of their host country as well as providing information and guidance about immigration processes. They also perform functions like replacing / renewing passports for their citizens in the host country.

### What does the visa and consular service business do?

The Visa and consular services business takes over non-judgemental and administrative work from the consulates so that they can focus on making decisions and handle large volumes of applications. This includes i) data capture & management, ii) biometric data collection, iii) cash management, iv) quality checks and consolidation of reports, v) transmission of data to the mission, vi) retrieval, consolidation and pass back to the customer.

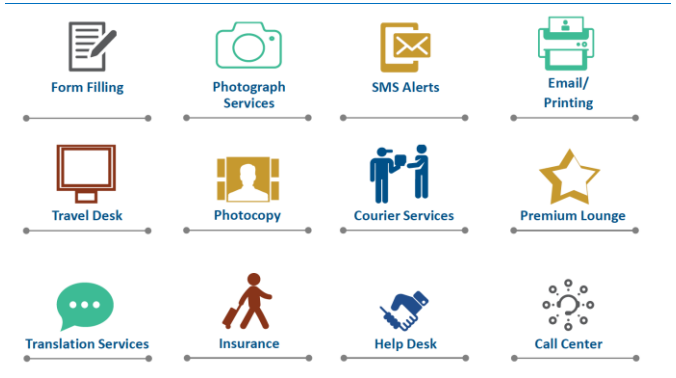
While the above entails a revenue on every visa / passport processed, value added services (highlighted in Figure 2) account for 30-40% additional revenue. Typically the revenue per application is in the range of US\$20-30, pass thru on consular charges are c.US\$25 and value added services are 30-40% of the revenue per application. The business does not require working capital as revenue for the services provided is collected from citizens upfront. There is some marginal working capital requirement in low volume countries where the services are provided through partners.

Figure 16: Process flow – Visa and passport processing



Source: Investec Securities estimates

Figure 17: Value added services



Source: Investec Securities estimates

## An oligopolistic market

The market for visa application outsourcing for all practical purposes is oligopolistic with three global players and a few region specific players. Global players need to have the requisite eligibility criteria to participate in tenders. The ability of regional players to participate in global tenders is limited. CGI and CSC are the only region specific players that appear to have relative scale, however even these have been put for re-bid, with three primary contractors (GDIT, PAE and CGI) winning a US\$3.3b tender spread over 10 yrs. Each of these players are likely to have one of the top 3 (VFS Global, TLS contact and BLS international) as partners for execution.

**Figure 18: Applications processed by various players**

Company	Sizing	Applications processed (2019 in mn)	Mkt share %
VFS Global	Global	29.3	64%
TLS Contact	Global	4.0	9%
BLS International	Global	3.0	7%
CGI Federal	US	3.8	8%
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<b>Total</b>		<b>46</b>	<b>100%</b>

Source: CGI Federal's app. count is also outsourced to VFS Global ; VFS numbers adjusted for citizen services est.; BLS does not ; Company, Investec Securities estimates

Hence, we believe that for all practical purposes the Visa application market is an oligopolistic market. Also, note that the companies "applications processed" data also include passport processing and G2C services in some cases, the data for which is not available separately.

### Sizing the market

There is no single source of data for the total number of visa applications globally. Presentations of companies like "TLS Contact" (subsidiary of Teleperformance) and BLS International refer to the "D&B Visa Application Outsourcing report" – 2013). Data on presentations imply that companies arrive at market sizing by applying an annual growth rate of c.3-3.% on D&B' estimate of 113m visas' in 2013. Based on this methodology the **total market size in 2019 is likely in the range of 135-139m per annum.**

An alternate way to look at this is based international travel arrivals as disclosed by the World bank. The total number of international arrivals is pegged at 2.28b. We eliminate 50% of this as it would pertain to return to the home country. A large part of the remaining can be eliminated, as nationals from multiple countries do not require visas to travel to neighbouring countries or because of visa on arrival arrangements. The table below highlights citizens of USA, UK, Canada and Australia who can travel to 95-99 countries without a visa. Another key variable is the avg tenure of a visa. Shorter the visa granted, more the number of applications.

**Figure 19: Country specific arrangements limit the no. of visas**

	No. of countries		
	Visa free	On arrival	Visa required
USA	97	49	46
UK	99	47	44
Canada	99	47	47
Australia	95	53	44

Source: Investec Securities estimates

Based on this, an avg conversion of 6.3% of international arrivals based on extrapolated data from D&B's 2013 estimate seems appropriate.

The table below shows the visa applications in a few countries and the visa applications as a percentage of international arrivals.



Figure 20: Visa applications vs international travel arrivals

Visa applications (in mn)	2019	International arrivals	as % of visa applications
US	8.7	166	5.2%
UK	3.2	146	2.2%
Schengen	16.9	966	1.7%
Australia	6.0	9	64.1%
Canada	3.7	32	11.4%

Source: Individual Govt. websites, world bank, Investec Securities research

### Room for increased penetration of outsourcing

Before the health crisis, the Schengen area and the English-speaking countries in the FCC (Five Countries Conference), including Australia, Canada, New Zealand, UK and USA, represented a market of around 39-40 million visa applications per year in 2019, i.e. a value of c.US\$1bn. The remaining countries put together account for another c.100m visas. Based on the above, the outsourcing penetration is c.33%.

### The large renewal opportunity

VFS Global has the highest market share in the industry. A few of VFS' large contracts are up for renewal in addition to some large markets like the US where there is an opportunity to gain market share for companies like BLS.

### The US renewal opportunity

The US has awarded a cumulative US\$3.3b 10 year contract for its GSS 2.0 (Global Support Strategy for overseas consular support services – 2.0) to three primary contractors: i) CGI Federal Inc, ii) GDIT (General Dynamic IT) and iii) PAE (Pacific Architects and Engineers). While TLS Contact has already announced their partnership with PAE for this contract, both BLS and VFS are yet to announce, which is a potential optionality going forward. We believe these partnerships are likely to be announced as and when the US government awards work orders to individual prime contractors.

### The UK renewal opportunity

The UK recently put out a tender for outsourcing visa application services across 5 regions, totalling GBP1.2b over a 4 yr period. The vendors currently catering to the UK visa outsourcing opportunity are VFS Global and TLS contact. The tender seeks to invite 5 candidates of which, BLS International is the only third player at scale. Based on the tender the final winners of the contract could be announced by the end of CY2022. A win by BLS even on the smallest geographic lot could imply a 40% growth over FY21' revenue base.

Figure 21: UK visa application outsourcing tender

Geography	Lots	Tender size (GBP m)	Tenure (Yrs)	Extension	Candidates to be invited
UK	Africa & ME	316	4	1+1+1	5
	Americas, Canada, Australasia and Europe	303	4	1+1+1	5
	China & Taiwan	147	4	1+1+1	5
	Asia & Asia Pac	271	4	1+1+1	5
	The UK	163	4	1+1+1	5
<b>Total</b>		<b>1,200</b>	<b>4</b>	<b>1+1+1</b>	<b>5</b>

Source: find-tender.service.gov.uk; Investec Securities research

### Kingdom of Saudi Arabia visa application outsourcing

Saudi Arabia had historically outsourced its visa application outsourcing contract to VFS global. VFS Global had entered into a JV agreement with TasHeel Group in Saudi Arabia in 2013 to provide visa application services across 30 countries. A part of the contract has been renewed in favour of “Saudi company for Visa and travel solutions” (SVTS), while the remainder is likely to come up for renewal. It’s likely that this could be subcontracted to players like VFS Global and BLS International.

### What is BLS doing to win?

BLS has hired key people from its competition to target and win contracts coming up for renewals. The company historically won contracts based on better pricing based on its initial experiences of working with the Indian Govt missions, which are L1 based. Post multiple professional leadership hires from competition including VFS Global, BLS is approaching contracts in a more holistic manner. Contracts in the UK and Canada, for instance, have a 60% weightage on technical capability and a 40% weightage on price. The strategy appears to be playing out well with the company receiving a 15% hike in service fees for the Portugal govt. in Russia, the Spanish mission and Italy.

In addition BLS is engaging with Govt’. 2-3 yrs before the contract is up for renewal.

### New visa contracts yet to reflect in revenue

BLS won multiple Visa and consular services contracts through FY21 and FY22, however these are yet to meaningfully reflect in revenue considering the Covid led curbs on travel. A normalization of travel could aid meaningful growth from these new contracts in addition to a normalization of volumes from existing contracts. We believe BLS currently has only 50% of the volumes from contracts that are live pre-Covid. A normalization here itself could imply strong growth.

**Figure 22: Visa contracts won recently, yet to be reflected in revenue**

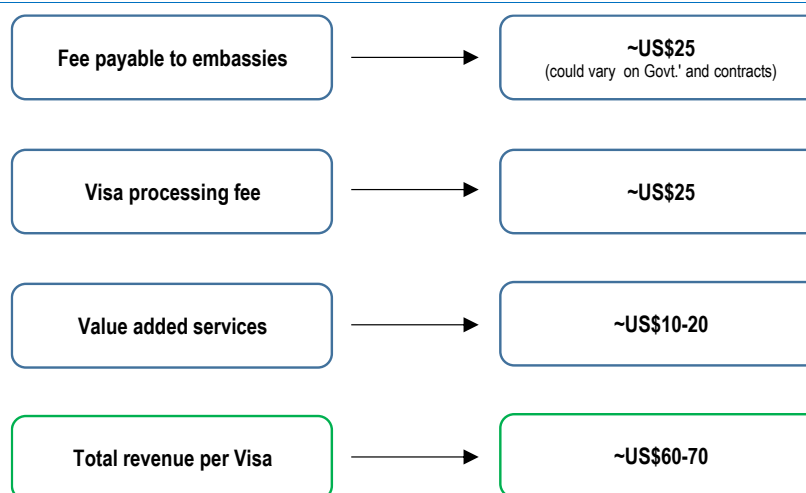
Visa contracts to be reflected in revenue
Portugal Visa Application Centres in Russia
Vietnam Visa Application Centre in Turkey
Brazil Visa Application Centre in Lebanon and China
Libya and Morocco Visa Application Centre in India
Republic of Philippines to provide e-Passport Renewal services initially starting with Italy, Qatar and Malaysia.
Wins contract for Italy Visa Processing Services in Russia for a period of 5 years in partnership
Embassy of India in Kuwait with three centres in Sharq, Fahaheel and Jleb Al Shuwaikh (~200,000 applications a year)

Source: Investec Securities research

## Modelling the visa and consular business

The Visa and consular business model is based on receipt of revenue for services provided from citizens and not end governments. This makes the business capital light. BLS does not own visa processing centers, but leases them making the business asset light as well. The table below highlights a simplistic revenue model where US\$25 is a pass through revenue paid to the respective embassies. In addition to this, costs related to running the individual centers together constitute c.70% of overall costs implying a gross margin of c.30%.

**Figure 23: Visa & consular services revenue model (indicative only)**



Source: Investec Securities estimates

### How BLS manages global visa contracts

BLS won a global visa contract from Spain in FY17. The table below is an example of Spain, where significant proportion of visa application volumes are from a few consulates. The characteristics are similar for all global visa contracts. The top 3 consulates account for c.40% of the volumes, while the top 10 accounts for 61%. BLS leases and runs Visa application centres in high volume locations and outsources low volume consulates to local partners. These are usually large travel agents in the consulate region, who are willing to use available space to process visa applications and are compensated on a revenue share.

**Figure 24: Spain: Visa volumes by consulate; Top 10 consulates = 61% of total volume**

Spain	Consulates	Visa applications processed (mn)	Avg	as % of total
Top 10	Moscow, Russia	1.1	109,647	61%
	Shanghai, China			
	Beijing, China			
	Casablanca, Morocco			
	Tanger, Morocco			
	Algiers, Algeria			
	Guangzhou, China			
	Oran, Algeria			
	Mumbai, India			
	Riyadh, Saudi Arabia			
Next 10	Istanbul, Turkey	0.3	27,762	15%
	Santo Domingo, Dominican Republic			
	Nador, Morocco			
	Quito, Ecuador			
	New Delhi, India			
	Kuwait, Kuwait			
	Rabat, Morocco			
	Guayaquil, Ecuador			
	Teheran, Iran			
	London, UK			
<b>Total</b>	<b>161</b>	<b>1.8</b>	<b>11,180</b>	<b>100%</b>

Source: schengenvisa.info; Investec Securities estimates

## Citizen services business

Citizen services focuses on outsourced “government to citizen” front end interactions that do not require decision making. Eg. birth / death certificates, legal heir certificates, identity cards to freedom fighters, water bill collection, among others.

### BLS’ entry into Government to Citizen services (G2C)

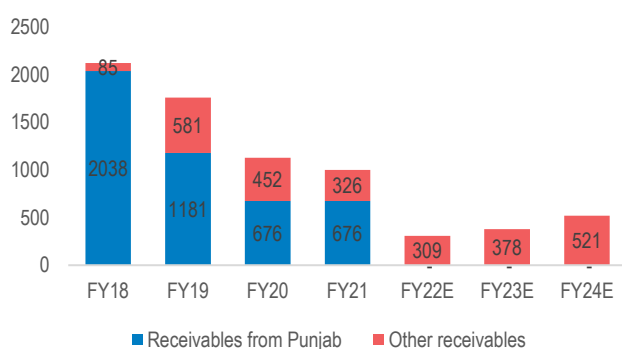
BLS entered the citizen services space in FY17 with the Punjab Sewa Kendra project. This adds an additional market opportunity for BLS. The initial contract structure required upfront investments on Sewa Kendra’s (BLS invested Rs900m) and was dependent on receivables from the government, unlike a Visa & Consular services contract which is asset light.

### Punjab contract termination and re-tendering

The contract was terminated within a year, post a change in govt. and re-bid under new terms. The earlier contract had 2,147 “Sewa Kendras” and receivables were from the Govt. of Punjab. Under the terms of the new contract all the assets were transferred to the Govt. at book value (on WDV). Citizens are charged for services provided, of which a percentage is shared with the govt. The new contract makes the business both asset and capital light. The business is now a negative working capital business with upfront collection from citizens.

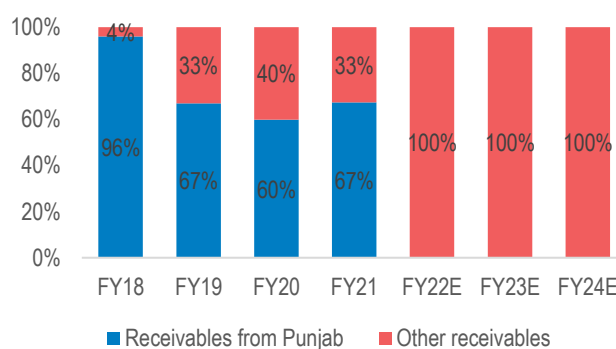
The charts below show how receivables from the Punjab contract had an impact on the overall receivables of the company. Receivables related to the earlier contract have now been completely received and the company’s overall receivables are now significantly lower than prior years.

Figure 25: Punjab contract: significant impact on receivables (Rs mn)



Source: Investec Securities estimates

Figure 26: Punjab contract: significant impact on receivables (%)



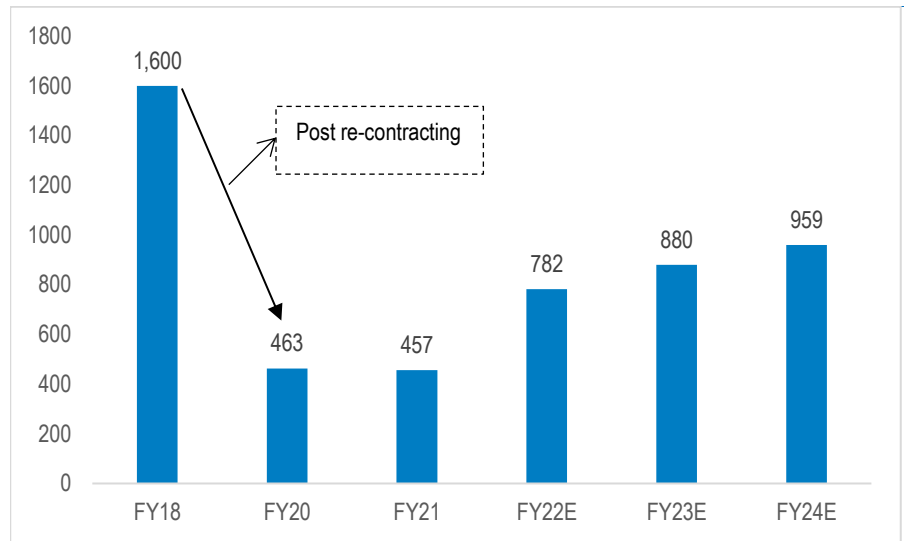
Source: Investec Securities estimates

### Key learnings from the Punjab contract

Post the Punjab contract, BLS has decided that it would not pursue any Govt. business where receivables are due from the Govt. The company will participate in contracts only if the revenues are to be collected from Citizens, with a share of revenue going to the Govt. Post re-contracting of the Punjab contract, the company has entered into two additional contracts with the states of Rajasthan and Uttar Pradesh. In both these contracts, BLS has provided the software necessary to provide services to local entrepreneurs and charges a fee per transaction, making the model even more capital light. Under the new model, BLS is looking to increase the number of saleable offerings to entrepreneurs, in an effort to help increase their revenue and increase the overall size of the business. BLS has tie ups with e-

commerce companies and acquired a banking correspondence business to help increase the reach and improve overall profitability of entrepreneurs.

**Figure 27: Punjab contract revenue trajectory**



Source: Investec Securities estimates

## Banking correspondence business

BLS entered the banking correspondence business post the acquisition of Starfin India in August 2018. BLS paid Rs124m at a P/S of 0.68x. The acquisition was on a no cash, no debt basis and was EPS accretive. The business had 1500 CSP's (customer service points), with State Bank of India being the primary banking relationship. Starfin has geographic exclusivity with SBI in the areas that it operates. Strategically BLS is looking to leverage CSP's to provide not only banking correspondence but also provide G2C services over time. In addition, BLS also signed an agreement with e-commerce companies to provide last mile connectivity through its G2C centres and CSP's.

Figure 28: Starfin is a North India based BC

Presence in North India	No. of CSP's
Ahmedabad	12
Chandigarh	23
Delhi	983
Jaipur	287
Lucknow	53
Others	235
<b>Total</b>	<b>1593</b>

Source: Company, Investec Securities research

Figure 29: Revenue by services provided

Service revenue contribution%	FY20
Money transfer	28%
Avg balance maintenance	20%
Cash withdrawal	14%
Rural commission	13%
AePS Withdrawal	8%
Cash Deposit	7%
Debit card	2%
IMPS	2%
Others	6%

AePS = Aadhar enabled payment service; Source: Company, Investec Securities research

The business has revenues of c.Rs180m with EBITDA% of c.12% (accounted for less than 4% of BLS's revenue in FY21). BLS could look to expand this business through acquisitions to add CSP's and to increase the number of services provided through these CSP's over time.

### An asset light, capital light business

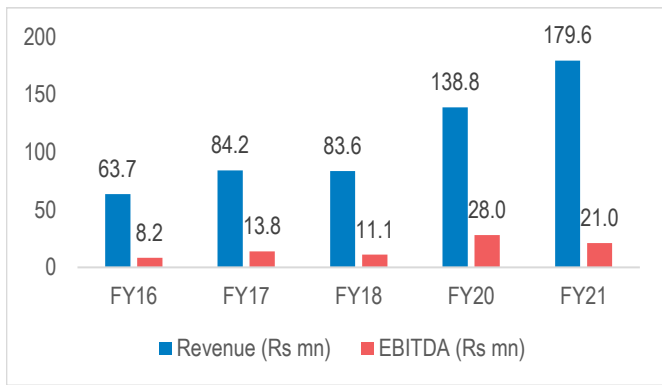
Starfin's business model is both asset light and capital light. The business derives revenue from commissions on services provided by customer service points who are local entrepreneurs. Revenues of Rs180m are on a gross basis. Starfin pays 65-70% of the gross revenue as commissions to the CSP's, with remaining costs being corporate & operational costs. The business does not entail any capex. There is room to increase revenue from existing CSP's itself by addition additional services like debt recovery, loans etc.

Figure 30: New contracts won in the banking correspondence business

Date	Bank
Aug-21	Bank of Baroda ( <a href="#">link</a> )
Nov-21	Punjab National Bank ( <a href="#">link</a> )
Nov-21	Central Bank of India ( <a href="#">link</a> )

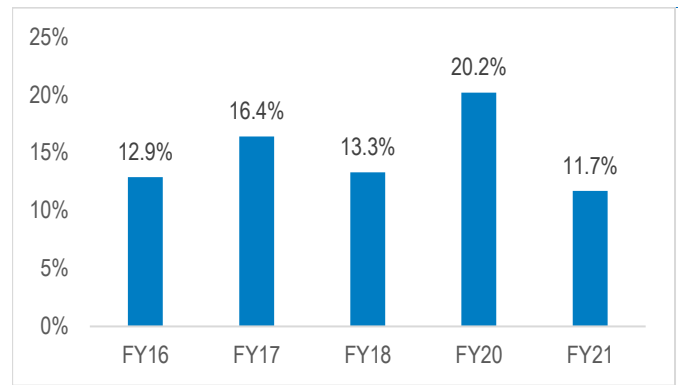
Source: Investec Securities research

**Figure 31: Starfin – Revenue and EBITDA trends**



Source: Company, Investec Securities research

**Figure 32: Starfin – EBITDA% trends**



Source: Company, Investec Securities research

**Operating structure = low tax outflow; cash likely used for acquisitions**

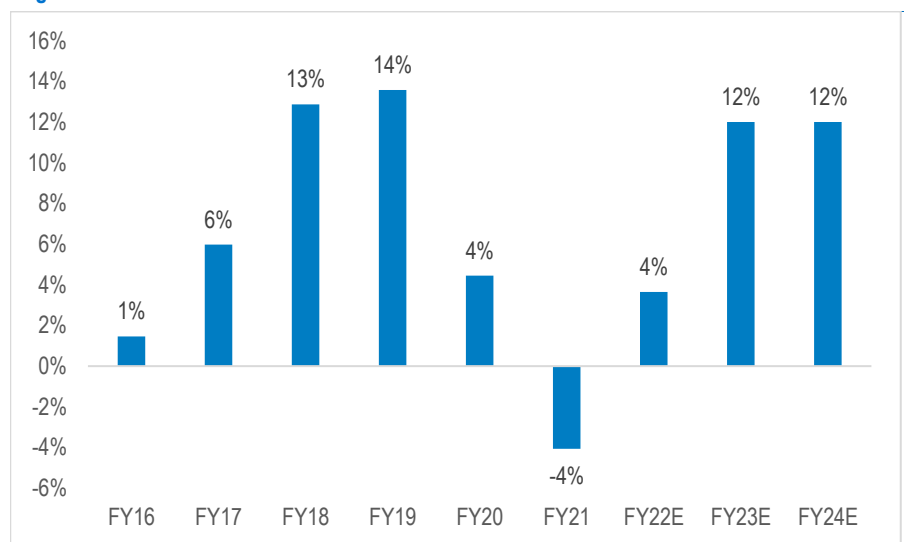
BLS’s effective tax rate over the last 5 years has been at less than 5%. This is because of the group structure where BLS International FZE, incorporated in Sharjah, UAE is in a tax free zone and is the holding company for global subsidiaries. This also implies that a bulk of the cash flow accretion happens in UAE and has very low yield on cash of c.2%.

BLS pays a dividend of 15% of PAT to shareholders, of which most of the cash is up streamed from BLS international FZE through a dividend to the parent.

Considering the asset light / capital light nature of the business, BLS can technically payout c.80% of its FCF as dividend to shareholders. However, BLS would like to deploy cash for acquisitions while maintaining a 15% of PAT dividend payout.

Acquisitions are likely in the Visa & consular services and Banking Correspondence space. Considering the yield on cash is low, we believe acquisitions are likely EPS accretive.

**Figure 33: ETR% trends**



Source: Company, Investec Securities estimates

## Valuations

BLS international is India's only listed play on the global visa processing and government to citizen services outsourcing market. The business is both asset and capital light with strong cash generation and very low cash consumption for growth. All this makes the company very interesting in addition to being a strong play on the global recovery in travel.

The company is debt free and is likely to have c.4000m of cash on books by the end of FY22 (c.11% of MCAP). The company will also generate c.6% of its MCAP as cash over the next two years. In addition there is scope for an improvement in earnings as cash generation is largely from its subsidiary in UAE, with an average annual yield of 2%. Deploying this in strategic acquisitions would imply a higher yield and accretion over time. In addition, we believe BLS has sufficient room to increase dividend payout over time.

Key risks though are investor perception on quality of capital allocation over time.

**We initiate coverage at HOLD with a TP of Rs370.** Our target price discounts our FY24E EPS by 22x. There aren't any listed global comparable companies in this space. A DCF implies a similar FV with an average growth of 13% from FY26E to FY32E after a strong growth of 26% from FY23E to FY25E. We also model stable margins of c.14%. Good capital allocation is key to stock returns for BLS.

Figure 34: DCF key assumptions

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
	A	E	E	E	E	E	E	E	E	E	E	E
Sales Growth Rate (Rs)	-39%	68%	22%	38%	20%	15%	15%	12%	12%	12%	12%	12%
EBITDA%	8.3%	13.2%	13.2%	13.7%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
Depreciation as % of Sales	2.0%	1.1%	1.0%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Capex as % of sales	-1.0%	-1.5%	-1.4%	-1.2%	-0.8%	-0.7%	-0.7%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%
Growth capex as % of sales	0.9%	-0.5%	0.1%	0.2%	0.0%	-0.1%	-0.1%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%
Working Capital as % of sales	21.0%	3.2%	2.9%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Cash Tax Rate (%)	-6.5%	4.0%	13.4%	13.5%	13.5%	13.5%	13.5%	13.5%	20.0%	20.0%	20.0%	20.0%
Working capital days	77	12	11	10	10	10	10	10	10	10	10	10

Source: Investec Securities estimates

Figure 35: DCF key assumptions and target price

Beta	0.9
Cost of Debt	0.0%
Cost of equity	10.5%
Risk free rate	6.5%
Market return	11.0%
WACC	10.5%
<b>Target Price</b>	<b>365</b>
Terminal growth	3%

Source: Investec Securities estimates



## Summary Financials (INRm)

Year end: 31 March

Income Statement	2020	2021	2022E	2023E	2024E
<b>Revenue</b>	<b>7,861</b>	<b>4,784</b>	<b>8,049</b>	<b>9,846</b>	<b>13,573</b>
<b>EBITDA</b>	<b>834</b>	<b>397</b>	<b>1,064</b>	<b>1,300</b>	<b>1,860</b>
Depreciation and amortisation	122	95	86	99	114
<b>Operating profit</b>	<b>713</b>	<b>302</b>	<b>978</b>	<b>1,201</b>	<b>1,746</b>
Other income	130	187	118	147	217
Net interest	(16)	(5)	(5)	(5)	(5)
Share-based-payments	-	-	-	-	-
<b>PBT (normalised)</b>	<b>826</b>	<b>484</b>	<b>1,091</b>	<b>1,342</b>	<b>1,957</b>
Impairment of acquired intangibles	-	-	-	-	-
Non-recurring items/exceptionals	(278)	-	-	-	-
<b>PBT (reported)</b>	<b>548</b>	<b>484</b>	<b>1,091</b>	<b>1,342</b>	<b>1,957</b>
Taxation	24	(20)	40	161	235
Minorities & preference dividends	(0)	2	1	3	3
Discontinued/assets held for sale	0	0	0	0	0
Net Income (normalised)	524	502	1,051	1,178	1,719
Attributable profit	524	502	1,051	1,178	1,719
EPS (reported)	5.1	4.9	9.8	11.5	16.8
EPS (norm., cont.) – FD (INR)	5.1	4.9	9.8	11.5	16.8
EPS (norm., cont., IAS19R adj.) – FD	-	-	-	-	-
DPS (INR)	1.0	0.7	1.5	1.7	2.5
Average number of group shares - FD (m)	103	113	102	102	102
Average number of group shares (m)	103	113	102	102	102
Total number of shares in issue (m)	103	113	102	102	102
Cash Flow	2020	2021	2022E	2023E	2024E
<b>Operating profit</b>	<b>713</b>	<b>302</b>	<b>978</b>	<b>1,201</b>	<b>1,746</b>
Depreciation & amortisation	(122)	(95)	(86)	(99)	(114)
Other cash and non-cash movements	123	171	81	94	108
Change in working capital	460	(24)	751	(34)	(71)
<b>Operating cash flow</b>	<b>1,295</b>	<b>449</b>	<b>1,810</b>	<b>1,260</b>	<b>1,783</b>
Interest	16	5	5	5	5
Tax paid	(153)	(5)	(40)	(161)	(235)
Dividends from associates and JVs	-	-	-	-	-
<b>Cash flow from operations</b>	<b>1,159</b>	<b>450</b>	<b>1,776</b>	<b>1,104</b>	<b>1,553</b>
Maintenance capex	(149)	(48)	(123)	(141)	(163)
<b>Free cash flow</b>	<b>1,010</b>	<b>402</b>	<b>1,653</b>	<b>963</b>	<b>1,391</b>
Expansionary capex	0	0	0	0	0
Exceptionals and discontinued operations	-	-	-	-	-
Other financials	(67)	55	(272)	141	211
Acquisitions	0	0	0	0	0
Disposals	153	0	0	0	0
Net share issues	-	-	-	-	-
Dividends paid	(154)	(77)	(150)	(177)	(258)
<b>Change in net cash</b>	<b>942</b>	<b>381</b>	<b>1,231</b>	<b>927</b>	<b>1,344</b>
Net cash/(debt)	2,393	2,774	4,005	4,932	6,276
FCFPS - FD (INR)	9.8	3.6	16.2	9.4	13.6
Balance Sheet	2020	2021	2022E	2023E	2024E
Property plant and equipment	230	246	283	325	374
Intangible assets	102	50	50	50	50
Investments and other non current assets	491	556	556	556	556
Cash and equivalents	2,393	2,774	4,005	4,932	6,276
Other current assets	277	302	687	687	687
<b>Total assets</b>	<b>4,692</b>	<b>4,981</b>	<b>5,941</b>	<b>6,979</b>	<b>8,515</b>
Total debt	0	0	0	0	0
Preference shares	0	0	0	0	0
Other long term liabilities	0	(3)	(3)	(3)	(3)
Provisions & other current liabilities	(215)	(251)	(251)	(251)	(251)
Pension deficit and other adjustments	0	0	0	0	0
<b>Total liabilities</b>	<b>(408)</b>	<b>(382)</b>	<b>(440)</b>	<b>(474)</b>	<b>(546)</b>
<b>Net assets</b>	<b>4,284</b>	<b>4,599</b>	<b>5,501</b>	<b>6,505</b>	<b>7,969</b>
Shareholder's equity	4,285	4,598	5,500	6,504	7,968
Minority interests	(1)	1	1	1	1
<b>Total equity</b>	<b>4,284</b>	<b>4,599</b>	<b>5,501</b>	<b>6,505</b>	<b>7,969</b>
Net working capital	1,098	1,007	641	675	747
NAV per share (INR)	41.8	40.6	53.8	63.6	77.9

Source: Company accounts, Investec Securities estimates

## Calendarised Valuation

Year end: 31 March

	2020	2021	2022E	2023E
Calendar PE (x)	66.5	38.5	29.8	21.3
Calendar Price/NAVPS (x)	8.0	6.5	5.4	4.4
EV/sales (x)	5.4	4.1	3.2	2.4
EV/EBITDA (x)	58.7	33.1	24.0	17.3
FCF yield (%)	1.6	4.0	3.4	3.8
Dividend yield (%)	0.2	0.4	0.5	0.7

Source: Company accounts, Investec Securities estimates

## Ratios and Metrics

Year end: 31 March

Ratios and metrics	2020	2021	2022E	2023E	2024E
Revenue growth (y-on-y) (%)	(2.2)	(39.1)	68.3	22.3	37.9
EBITDA growth (y-on-y) (%)	(23.1)	(52.4)	168.1	22.1	43.1
Net income (normalised) growth (yoy)	(50.2)	(4.3)	109.5	12.1	45.9
EPS (normalised) growth (y-on-y) (%)	(50.2)	(4.1)	99.2	18.0	45.9
FCFPS growth (y-on-y) (%)	(1.6)	(63.9)	355.2	(41.8)	44.4
NAVPS growth (y-on-y) (%)	14.9	(2.8)	32.4	18.3	22.5
DPS growth (y-on-y) (%)	0.0	(26.5)	99.2	18.0	45.9
Interest cover (x)	44.5	55.7	180.2	221.2	321.6
Net debt/EBITDA (x)	(2.9)	(7.0)	(3.8)	(3.8)	(3.4)
Net debt/equity (%)	(55.8)	(60.3)	(72.8)	(75.8)	(78.7)
Net gearing (%)	(126.6)	(151.9)	(267.7)	(313.6)	(370.7)
Dividend cover (x)	5.1	6.7	6.7	6.7	6.7
EBITDA margin (%)	10.6	8.3	13.2	13.2	13.7
EBITA margin (%)	9.1	6.3	12.2	12.2	12.9
ROE (%)	12.2	10.9	19.1	18.1	21.6
ROCE (%)	15.9	6.4	17.2	17.8	21.1
NWC/revenue (%)	14.0	21.1	8.0	6.9	5.5
Tax rate (normalised) (%)	(3.0)	4.1	(3.6)	(12.0)	(12.0)
Tax rate (reported) (%)	(4.5)	4.1	(3.6)	(12.0)	(12.0)

Source: Company accounts, Investec Securities estimates

## Target Price Basis

Valued at 22x FY24E EPS

## Key Risks

Risks from non-renewal of existing contracts

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Sell	less than 0%	22	6%	0	0%

Source: Investec Securities estimates

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	12m performance		% of total	Count	% of total
Buy	greater than 15%	126	64%	1	1%
Hold	5% to 15%	53	27%	0	0%
Sell	less than 5%	17	9%	0	0%

Source: Investec Securities estimates

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	Expected total return	Count	All stocks	Corporate stocks	
	12m performance		% of total	Count	% of total
Buy	greater than 15%	49	60%	11	22%
Hold	5% to 15%	21	26%	6	29%
Sell	less than 5%	12	15%	0	0%

Source: Investec Securities estimates

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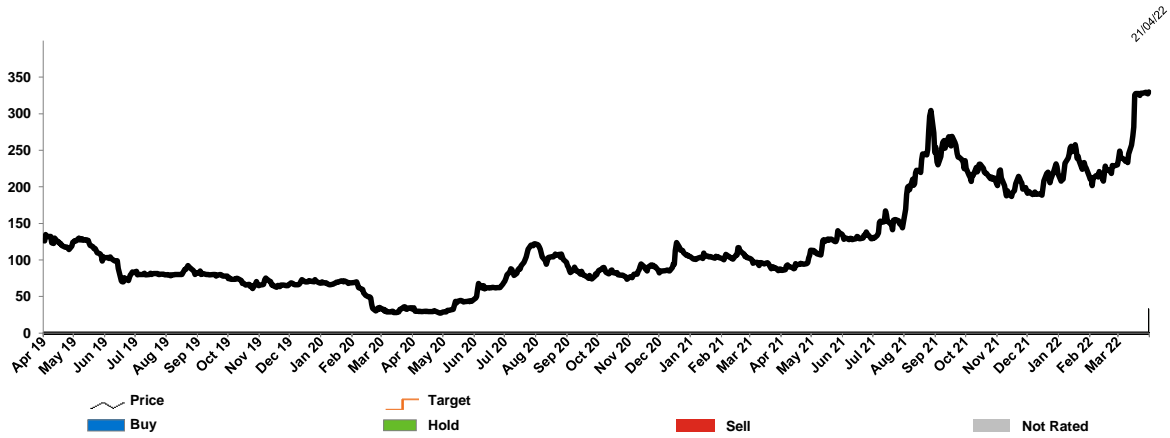
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BLS International Services Ltd (BLSN.NS) – Rating Plotter as at 22 Apr 2022



Source: Investec Securities / FactSet

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**Investec Capital Services (India) Private Limited**

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### Analyst(s)

**Nitin Padmanabhan**

+91 (22) 6849 7427

[nitin.padmanabhan@investec.co.in](mailto:nitin.padmanabhan@investec.co.in)

**Hiral Shah**

+91 (22) 6849 7418

[hiral.shah@investec.co.in](mailto:hiral.shah@investec.co.in)

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