

BLS International Services

SELL

INDUSTRY	IT PROCESSING		
CMP (as on 14 Feb 2018)	Rs 196		
TP	Rs 170		
Nifty	10,501		
Sensex	34,156		
KEY STOCK DATA			
Bloomberg	BLSIN IN		
No. of Shares (mn)	102		
MCap (Rs bn) / (\$ mn)	20/314		
6m avg traded value (Rs mn)	132		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 293/119		
	3M	6M	12M
Absolute (%)	(20.3)	9.3	9.5
Relative (%)	(23.7)	(0.1)	(10.9)
SHAREHOLDING PATTERN (%)			
Promoters	74.24		
FIs & Local MFs	0.06		
FPIs	5.28		
Public & Others	20.42		
Source : BSE			

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Uncertainty persist

BLS International posted a mixed set of numbers in 3QFY18, with beat on revenue, but miss on margins (-450bps QoQ to 18.7% vs our est. of 22.7%). Revenue stood at Rs 2.03bn, up 8.8% QoQ, led by 9.5% QoQ rise in the Visa segment (~75% of rev). Growth in visa business was led by pick-up in Spain visa applications and contribution from newer contracts (Afghanistan). The Punjab e-governance revenue stood at Rs 0.50bn (~25% of rev). Punjab government terminated the contract in Jan-18 and has given six months time to wind-up. The company is negotiating with the Govt. for partial closure (Type-3 centers), which remains an uncertainty.

Mounting receivables (Rs 1.45bn in 9MFY18 vs. Rs 0.60bn in FY17) from the Punjab government is the prime concern. Management has stated that they will recover the dues with interest (12% annual) before the closure of the contract in July-18. We continue to like the visa segment which is a lucrative business with huge addressable opportunity, scope for market share gain, asset-light model and higher return ratios. We will watch out for new contract wins in this space.

Financial Summary (Consolidated)

YE March (Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	2,028	1,628	24.6	1,865	8.7	5,050	6,350	7,939	6,742	6,779
EBITDA	380	281	35.2	433	(12.3)	367	824	1,617	1,255	1,306
APAT	206	167	23.6	268	(23.1)	309	499	986	855	942
Diluted EPS (Rs)	2.1	1.7	23.6	2.7	(23.1)	3.0	4.9	9.6	8.3	9.2
P/E (x)						65.1	40.3	20.4	23.5	21.4
EV / EBITDA (x)						53.7	24.6	12.7	15.5	14.1
RoE (%)						30.5	35.2	47.4	29.6	25.6

Source: Company, HDFC sec Inst Research

In view of the termination of Punjab e-governance contract, uncertainty regarding receivables and no near-term growth visibility, we maintain our SELL rating with a TP of Rs 170, based on 20x Dec-19E EPS. Receivable write-off may have an impact of Rs 10/share (assuming ~50% write-off). We expect revenue/EBITDA CAGR of 2.2/16.6% for FY17-20E. The stock trades at a P/E of 23.5/21.4x FY19/20E earnings.

Highlights of the quarter

- Reasons for contract cancellation are (1) Increasing financial stress of Punjab govt. (2) Lower number of foot falls vs. expectation (~20K application daily vs. ~65K expected), and (3) Govt. inability to integrate 223 services. There is no deficiency in services provided by BLS.
- Near-term outlook:** BLS will continue to book revenue from the Punjab Govt. in 4QFY18. Stock is down ~20% in the last three months and will be under pressure till there is clarity on receivables. Any fresh contract wins in visa segment can act as a positive trigger.

Revenue from visa segment stood at Rs 1.53bn up 9.5% QoQ led by traction in Spain and Afghanistan contract

EBITDA margin contracted due to investments made to fuel future growth (hiring of senior consulate members and legal and consulting charges for visa contracts bidding)

PAT from visa business stood at Rs 1.83bn (~89% of consolidated PAT)

The Punjab revenue will be booked till 1QFY19, as per the current status of the contract

Quarterly Consolidated Financials Snapshot

Particulars (Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)
Net Sales	2,028	1,628	24.6	1,865	8.7
Cost of service consumed	1,316	1,139	15.5	1,152	14.3
Personnel expenses	142	111	27.9	126	12.9
Operating and other expenses	190	97	96.6	154	23.0
EBITDA	380	281	35.2	433	(12.3)
Depreciation	101	55	81.7	102	(1.8)
EBIT	279	226	23.8	331	(15.6)
Other Income	10	6	73.6	8	16.6
Interest Cost	36	22	65	28	29.0
PBT	253	209	20.8	311	(18.8)
Tax	47	43	NM	43	7.9
Minority Interest	0	0	NM	0	NM
RPAT	206	167	23.6	268	(23.1)
EO Items (Adj For Tax)	0	0	NM	0	NM
APAT	206	167	23.6	268	(23.1)

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS %	3QFY18	3QFY17	YoY (%)	2QFY18	QoQ (%)
Cost of services % Net Sales	64.9	70.0	(509)	61.7	316
Employee Expenses % Net Sales	7.0	6.8	18	6.7	26
Operating Expenses % Net Sales	9.4	5.9	343	8.3	108
Gross Margin %	35.1	30.0	509	38.3	(316)
EBITDA Margin (%)	18.7	17.3	148	23.2	(450)
EBIT Margin (%)	13.8	13.9	(8)	17.7	(397)
Tax Rate (%)	18.5	20.4	(185)	13.9	458
APAT Margin (%)	10.2	10.2	(8)	14.4	(420)

Source: Company, HDFC sec Inst Research

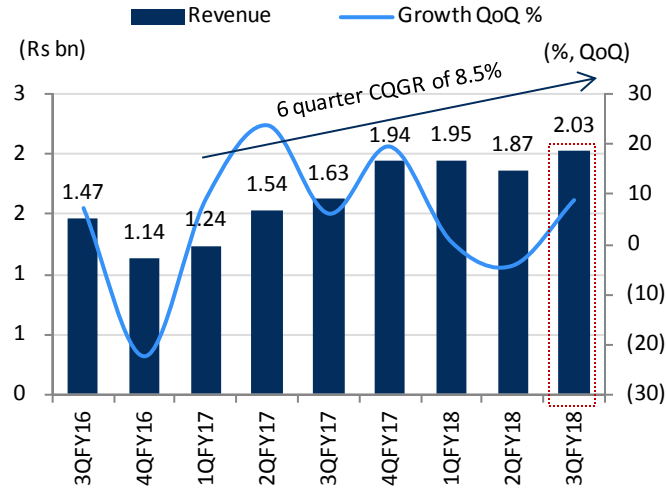
Six-quarter revenue growth is healthy at 8.5% CQGR led by Spain and Punjab contracts

Delta in revenue growth will come from new contract wins in the visa segment

EBITDA has grown at a healthy six-quarter CQGR of 30.6%, led by contracts from Punjab and Spain

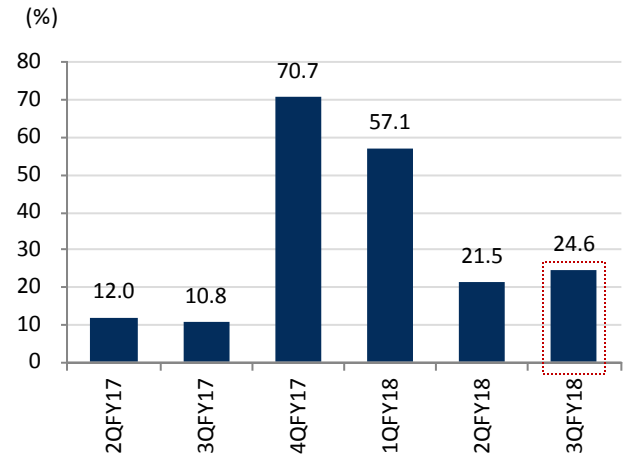
Reported drop in EBITDA margins after six quarters of expansion

Revenue And Revenue Growth (QoQ)



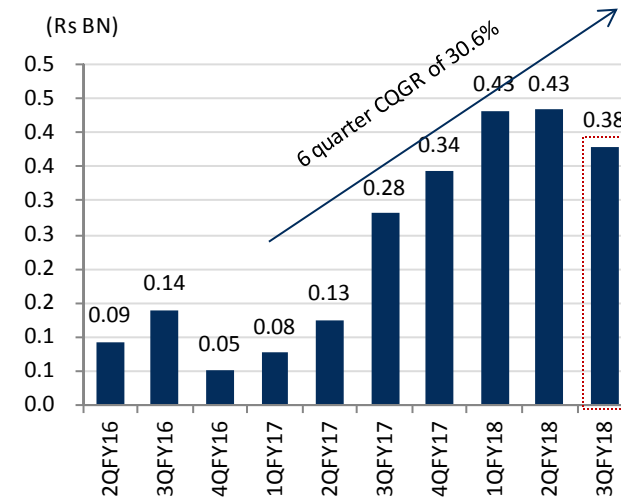
Source: Company, HDFC sec Inst Research

Revenue Growth (YoY)



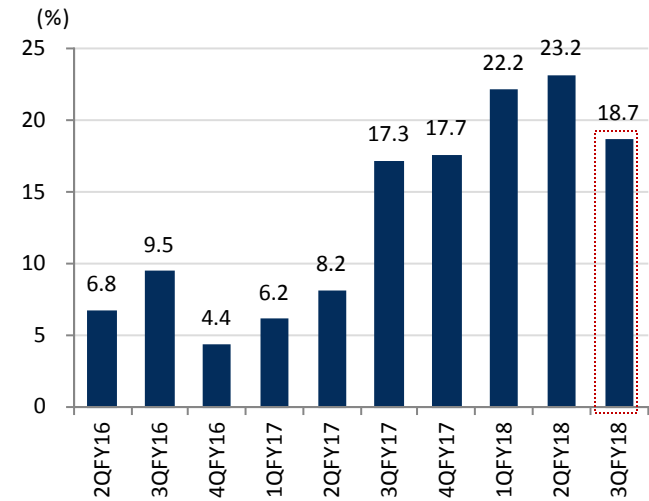
Source: Company, HDFC sec Inst Research

Healthy EBITDA Growth



Source: Company, HDFC sec Inst Research

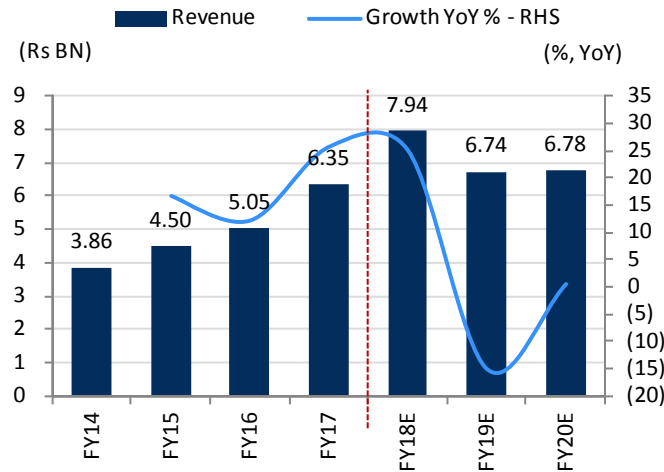
EBITDA Margin (%)



Source: Company, HDFC sec Inst Research

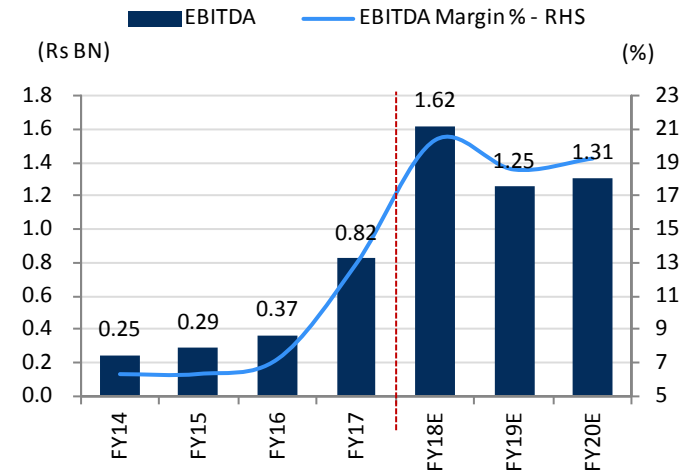
Financial Charts

Sharp decline in Revenue Growth Led By Punjab E-Governance Contract Cancellation



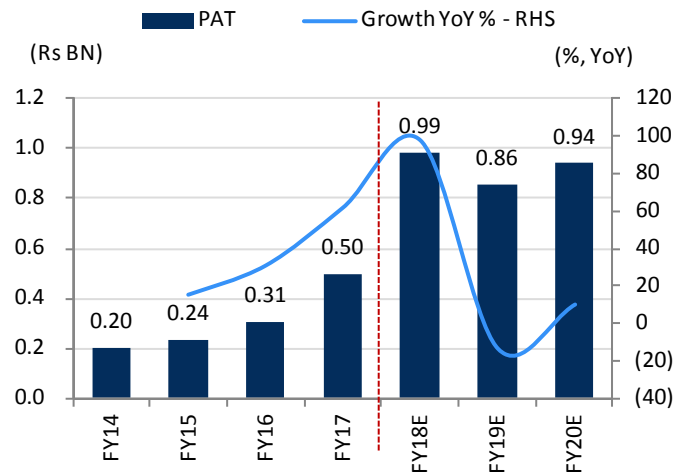
Source: Company, HDFC sec Inst Research

EBITDA margin To Decline Led By Loss Of Higher Margin Punjab Business



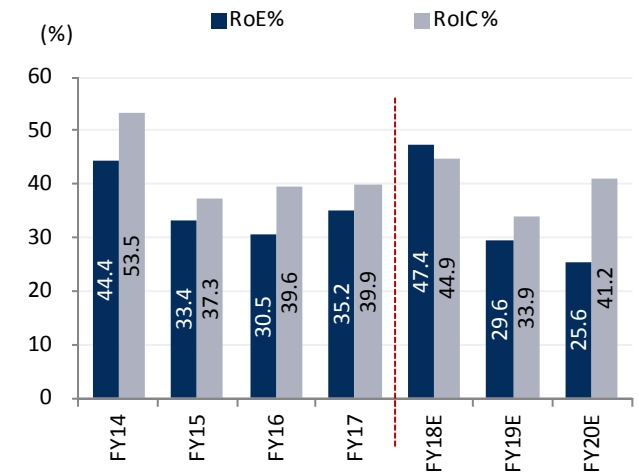
Source: Company, HDFC sec Inst Research

PAT And PAT Growth



Source: Company, HDFC sec Inst Research

Return Ratios To Come Down In FY19-20E



Source: Company, HDFC sec Inst Research

Key Assumptions And Summary

	FY15	FY16	FY17	FY18E	FY19E	FY20E
Visa Processing (ex- Spain)						
No of Visa applications (mn)	1.61	1.52	1.57	1.44	1.47	1.53
Growth YoY%	-21.1%	-5.4%	2.8%	-8.0%	2.0%	4.0%
Realisation/Application (Rs)	2,793	3,313	3,370	3,218	3,315	3,447
Growth YoY%	47.8%	18.6%	1.7%	-4.5%	3.0%	4.0%
Revenue (Rs mn)	4,500	5,050	5,279	4,638	4,873	5,270
Growth YoY%	16.7%	12.2%	4.5%	-12.1%	5.1%	8.2%
Spain Visa Processing						
No of Visa applications (mn)				1.90	1.96	2.09
Growth YoY%					3.0%	7.0%
Realisation/Application (Rs)				1,332	1,372	1,441
Growth YoY%					3.0%	5.0%
Revenue (Rs mn)				2,531	2,685	3,017
Growth YoY%					6.1%	12.4%
Revenue realised (Rs mn)				1,265	1,342	1,508
Growth YoY%					6.1%	12.4%
EBITDA				633	698	814
EBITDA Margin %				25.0%	26.0%	27.0%
Total Visa Processing Business (Old + Spain)						
No of Visa applications (mn)	1.61	1.52	1.57	3.34	3.43	3.62
Growth YoY%	-21.1%	-5.4%	2.8%	113.3%	2.6%	5.7%
Realisation/Application (Rs)	2,793	3,313	3,370	1,767	1,814	1,871
Growth YoY%	47.8%	18.6%	1.7%	-47.6%	2.6%	3.2%
Revenue (Rs mn)	4,500	5,050	5,279	5,903	6,215	6,779
Growth YoY%	16.7%	12.2%	4.5%	11.8%	5.3%	9.1%
EBITDA	287	367	428	1,017	1,115	1,306
EBITDA Margin %	6.4%	7.3%	8.1%	17.2%	17.9%	19.3%
Punjab e-Governance Project						
No of Applications (mn)			9.9	20.0	4.8	0.0
Growth YoY%				102.4%	-75.9%	NM
Realisation/Application (Rs)			108	102	109	0
Growth YoY%				-6.0%	7.0%	NM
Revenue (Rs mn)			1,071	2,036	526	0
Growth YoY%				90.2%	-74.1%	NM
EBITDA			396	600	139	0
EBITDA Margin %			37.0%	29.5%	26.5%	NM
Total Revenue	4,500	5,050	6,350	7,939	6,742	6,779
Growth YoY%	16.7%	12.2%	25.7%	25.0%	-15.1%	0.6%
Total EBITDA	287	367	824	1,617	1,255	1,306
EBITDA Margin %	6.4%	7.3%	13.0%	20.4%	18.6%	19.3%

Source: Company, HDFC sec Inst Research

Change In Estimate

Particulars	Earlier estimates	Revised estimates	% change
FY18E			
Revenue (Rs mn)	7,455	7,939	6.5
EBITDA (Rs mn)	1,441	1,617	12.2
<i>EBITDA margin (%)</i>	19.3	20.4	103 bps
APAT (Rs)	968	986	1.8
FY19E			
Revenue (Rs mn)	6,241	6,742	8.0
EBITDA (Rs mn)	1,140	1,255	10.1
<i>EBITDA margin (%)</i>	18.3	18.6	35 bps
APAT (Rs)	781	855	9.5
FY20E			
Revenue (Rs mn)	6,685	6,779	1.4
EBITDA (Rs mn)	1,247	1,306	4.8
<i>EBITDA margin (%)</i>	18.7	19.3	62 bps
APAT (Rs)	884	942	6.6

Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (Rs mn)	5,050	6,350	7,939	6,742	6,779
Growth (%)	12.2	25.7	25.0	(15.1)	0.6
Cost of services	4,132	4,196	4,971	4,366	4,374
Employee Benefit	329	417	531	510	556
Other Expenses	221	912	820	612	542
EBITDA	367	824	1,617	1,255	1,306
EBITDA Margin (%)	7.3	13.0	20.4	18.6	19.3
EBITDA Growth (%)	27.8	124.3	96.3	(22.4)	4.1
Depreciation	55	260	401	258	265
EBIT	312	564	1,216	997	1,041
Other Income (Including EO Items)	5	23	27	31	35
Interest	3	55	126	113	113
PBT	314	532	1,116	914	962
Tax (Incl Deferred)	5	32	131	59	20
Minority Interest	0	0	0	0	0
RPAT	309	500	986	855	942
EO (Loss) / Profit (Net Of Tax)	0	0	0	0	0
APAT	309	499	986	855	942
APAT Growth (%)	30.8	61.7	97.4	(13.2)	10.1
Adjusted EPS (Rs)	3.0	4.9	9.6	8.3	9.2
EPS Growth (%)	31.0	61.7	97.3	(13.2)	10.1

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	102	102	102	102	102
Reserves	1,085	1,543	2,413	3,168	4,000
Total Shareholders' Funds	1,187	1,645	2,516	3,271	4,103
Minority Interest	1	1	1	1	1
Total Debt	41	838	1,050	1,050	1,050
Net Deferred Taxes	-4	0	0	0	0
Long Term Provisions & Others	11	26	26	26	26
TOTAL SOURCES OF FUNDS	1,237	2,511	3,594	4,349	5,181
APPLICATION OF FUNDS					
Net Block	242	784	834	626	410
CWIP	0	0	0	0	0
Investments	17	305	305	305	305
LT Loans & Advances	175	6	8	7	7
Total Non-current Assets	434	1,095	1,147	938	722
Inventories	0	0	0	0	0
Debtors	22	597	1,631	1,478	1,486
Other Current Assets	486	611	717	659	662
Cash & Equivalents	426	665	662	1,770	2,813
Total Current Assets	934	1,873	3,010	3,906	4,961
Creditors	68	130	150	144	150
Other Current Liabilities & Provns	63	326	413	351	352
Total Current Liabilities	131	457	563	495	502
Net Current Assets	803	1,416	2,447	3,411	4,459
TOTAL APPLICATION OF FUNDS	1,237	2,511	3,594	4,349	5,181

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Consolidated)

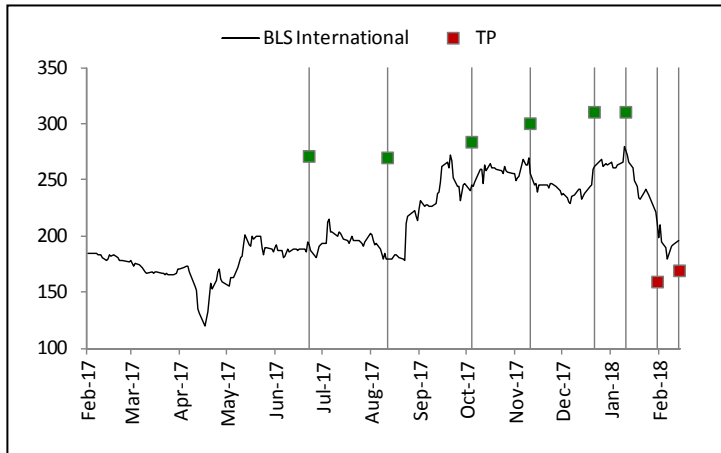
YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	314	532	1,116	914	962
Non-operating & EO items	(5)	(23)	(27)	(31)	(35)
Interest expenses	3	55	126	113	113
Depreciation	55	260	401	258	265
Working Capital Change	(42)	(277)	(1,036)	145	(3)
Tax Paid	(8)	(32)	(131)	(59)	(20)
OPERATING CASH FLOW (a)	317	515	450	1,341	1,282
Capex	(55)	(802)	(450)	(50)	(50)
Free cash flow (FCF)	262	(287)	(0)	1,291	1,232
Investments	(25)	(201)	0	0	0
Non-operating Income	5	23	27	31	35
INVESTING CASH FLOW (b)	(75)	(980)	(423)	(19)	(15)
Debt Issuance/(Repaid)	(15)	797	212	0	0
Interest Expenses	(3)	(55)	(126)	(113)	(113)
FCFE	244	455	86	1,177	1,119
Share Capital Issuance	0	0	0	0	0
Dividend	0	(42)	(115)	(100)	(110)
FINANCING CASH FLOW (c)	(18)	700	(30)	(213)	(224)
NET CASH FLOW (a+b+c)	224	235	(3)	1,108	1,044
EO Items, Others	44	(4)	0	0	0
Closing Cash & Equivalents	426	665	662	1,770	2,813

Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	18.2	33.9	37.4	35.2	35.5
EBITDA Margin	7.3	13.0	20.4	18.6	19.3
APAT Margin	6.1	7.9	12.4	12.7	13.9
RoE	30.5	35.2	47.4	29.6	25.6
RoIC (or Core RoCE)	39.6	39.9	44.9	33.9	41.2
RoCE	29.2	29.4	35.9	24.2	22.1
EFFICIENCY					
Tax Rate (%)	1.5	6.0	11.7	6.4	2.1
Fixed Asset Turnover (x)	12.1	5.2	4.8	3.9	3.8
Inventory (days)	0	0	0	0	0
Debtors (days)	2	34	75	80	80
Other Current Assets (days)	35	35	33	36	36
Payables (days)	5	9	9	10	10
Other Current Liab & Provns (days)	5	19	19	19	19
Cash Conversion Cycle (days)	27	42	80	87	87
Debt/EBITDA (x)	0.1	1.0	0.6	0.8	0.8
Net D/E (x)	(0.3)	0.1	0.2	(0.2)	(0.4)
Interest Coverage (x)	91	10	10	9	9
PER SHARE DATA (Rs)					
EPS	3.0	4.9	9.6	8.3	9.2
CEPS	3.6	7.4	13.5	10.9	11.8
Dividend	0	0	1	1	1
Book Value	12	16	25	32	40
VALUATION					
P/E (x)	65.1	40.3	20.4	23.5	21.4
P/BV (x)	16.9	12.2	8.0	6.2	4.9
EV/EBITDA (x)	53.7	24.6	12.7	15.5	14.1
EV/Revenues (x)	3.9	3.2	2.6	2.9	2.7
OCF/EV (%)	1.6	2.5	2.2	6.9	7.0
FCF/EV (%)	1.3	-1.4	0.0	6.7	6.7
FCFE/Mkt Cap (%)	1.2	2.3	0.4	5.9	5.6
Dividend Yield (%)	0.0	0.2	0.5	0.4	0.5

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

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
28-Jun-17	181	BUY	271
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

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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Any holding in stock –No

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