

# BLS International Services

**SELL**

INDUSTRY	IT Processing		
<b>CMP (as on 30 Jan 2018)</b>	<b>Rs 211</b>		
<b>TP</b>	<b>Rs 160</b>		
Nifty	11,050		
Sensex	36,034		
KEY STOCK DATA			
Bloomberg	BLSIN IN		
No. of Shares (mn)	102		
MCap (Rs bn) / (\$ mn)	22/339		
6m avg traded value (Rs mn)	160		
STOCK PERFORMANCE (%)			
<b>52 Week high / low</b>	<b>Rs 293/119</b>		
	3M	6M	12M
Absolute (%)	(17.4)	8.0	13.5
Relative (%)	(25.7)	(3.5)	(15.9)
SHAREHOLDING PATTERN (%)			
Promoters	74.24		
FIs & Local MFs	0.06		
FPIs	5.28		
Public & Others	20.42		
<i>Source : BSE</i>			

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## Sailing through rough weather

Punjab government has terminated the five year e-governance contract awarded to BLS International in Mar-16. This came in as a major negative surprise as we were expecting closure of only some financially unviable centers out of total 2,147 seva kendras operated by BLS. The prime reasons for contract cancellation are (1) Increasing financial stress (2) lower number of foot falls vs. expectation (~20K application daily vs. ~65K expected) and (3) Inability to integrate 223 government services (only 169 services were offered). The termination of contract has no relation with any deficiency in services provided by BLS. As per our earlier estimates the Punjab e-governance business was contributing 26.8/36.1% to revenue/EBITDA in FY19E respectively.

What remains in BLS is the visa processing part, which is a lucrative business with huge addressable opportunity, scope for market share gains (currently 2<sup>nd</sup> largest player after VFS), low working capital requirements, asset-light model and higher return ratios.

**Mounting receivables (Rs 1.33bn in 1HFY18 vs. Rs 0.60bn in FY17) from the Punjab government has been a major concern. High receivables suggest that no payments have been received from the govt. in the last six months.** There is serious risk to these outstanding receivable and can go into arbitration. The company has incurred capex of Rs 0.70bn for setting up seva kendras infrastructure (computer, printers, scanners, CCTV camera, token machines, UPS etc). We assume that 50% of the

receivables and capex will be written-off eventually, resulting in an impact of ~Rs 10/share.

We build in revenue loss of Rs 2.29/2.55bn, resulting in 27/28% cut in our top-line estimate for FY19/20E respectively. EBITDA margin for the Punjab contract is ~30-35% and EBITDA impact will be 40/43% for FY19/20E. Margin will fall ~408/497bps to 18.3/18.7% for FY19/20E respectively. PAT impact will be in the tune of Rs 0.40/0.41bn taking PAT down by 34/32% for FY19/20E.

### Valuation & outlook

- In view of the termination of Punjab e-governance contract, uncertainty regarding high receivables and no near-term growth triggers we downgrade our rating to SELL with a TP of Rs 160, based on 20x Dec-19 EPS (earlier 25x) and adjusting for one-time write-off impact of Rs 10/share. We expect revenue/EBITDA CAGR of 1.7/14.8% for FY17-20E. The stock currently trades at a P/E of 27.6/24.4x FY19/20E earnings.

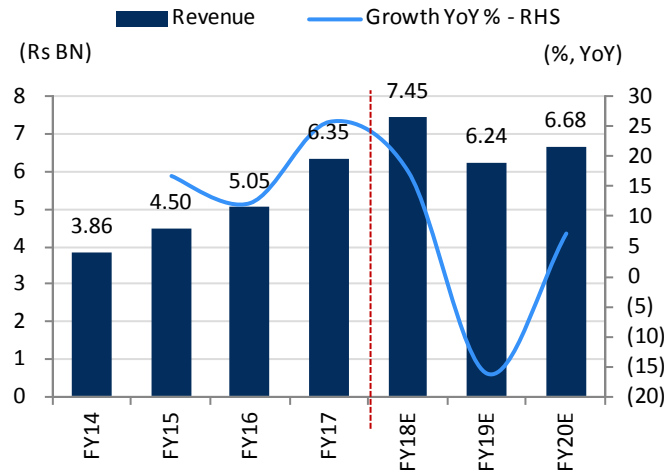
### Financial Summary (Consolidated)

YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	5,050	6,350	7,455	6,241	6,685
EBITDA	367	824	1,441	1,140	1,247
APAT	309	499	968	781	884
Diluted EPS (Rs)	3.0	4.9	9.4	7.6	8.6
P/E (x)	69.9	43.2	22.3	27.6	24.4
EV / EBITDA (x)	57.7	26.4	15.3	18.4	16.1
RoE (%)	30.5	35.2	46.7	27.5	24.7

Source: Company, HDFC sec Inst Research

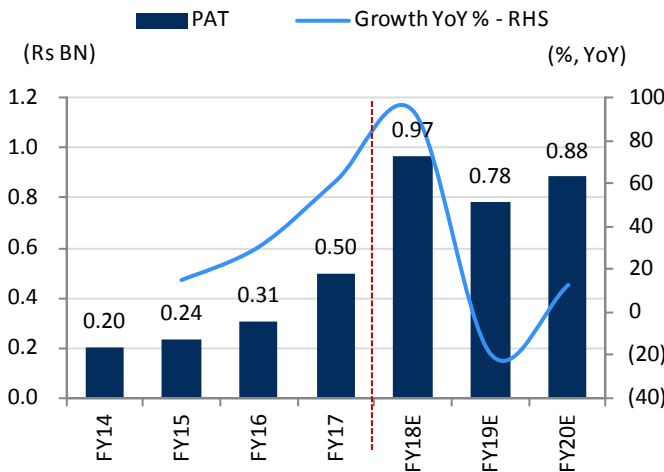
## Financial Charts

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



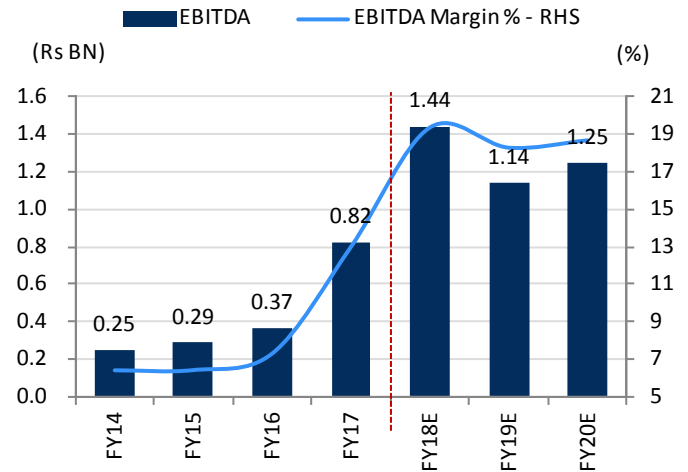
Source: Company, HDFC sec Inst Research

### PAT And PAT Growth



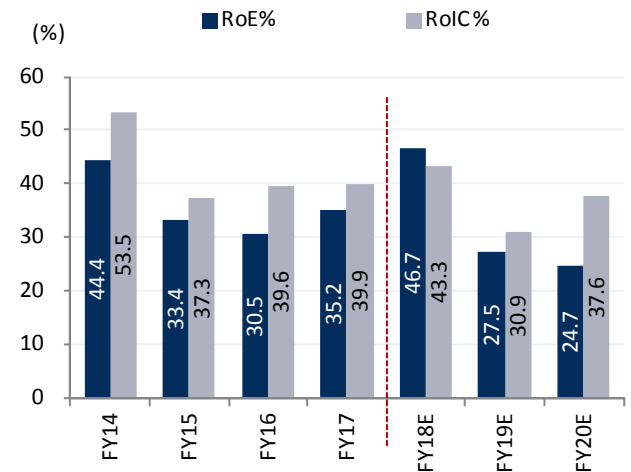
Source: Company, HDFC sec Inst Research

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



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
<b>Visa Processing (ex- Spain)</b>						
No of Visa applications (mn)	1.61	1.52	1.57	1.44	1.47	1.51
Growth YoY%	-21.1%	-5.4%	2.8%	-8.0%	2.0%	3.0%
Realisation/Application (Rs)	2,793	3,313	3,370	3,235	3,332	3,465
Growth YoY%	47.8%	18.6%	1.7%	-4.0%	3.0%	4.0%
<b>Revenue (Rs mn)</b>	<b>4,500</b>	<b>5,050</b>	<b>5,279</b>	<b>4,662</b>	<b>4,898</b>	<b>5,247</b>
Growth YoY%	16.7%	12.2%	4.5%	-11.7%	5.1%	7.1%
<b>Spain Visa Processing</b>						
No of Visa applications (mn)				1.90	1.96	2.00
Growth YoY%					3.0%	2.0%
Realisation/Application (Rs)				1,332	1,372	1,441
Growth YoY%					3.0%	5.0%
<b>Revenue (Rs mn)</b>				<b>2,531</b>	<b>2,685</b>	<b>2,876</b>
Growth YoY%					6.1%	7.1%
<b>Revenue realised (Rs mn)</b>				<b>1,265</b>	<b>1,342</b>	<b>1,438</b>
Growth YoY%					6.1%	7.1%
<b>EBITDA</b>				<b>633</b>	<b>698</b>	<b>776</b>
EBITDA Margin %				25.0%	26.0%	27.0%
<b>Total Visa Processing Business (Old + Spain)</b>						
No of Visa applications (mn)	1.61	1.52	1.57	3.34	3.43	3.51
Growth YoY%	-21.1%	-5.4%	2.8%	113.3%	2.6%	2.4%
Realisation/Application (Rs)	2,793	3,313	3,370	1,774	1,821	1,904
Growth YoY%	47.8%	18.6%	1.7%	-47.4%	2.6%	4.6%
<b>Revenue (Rs mn)</b>	<b>4,500</b>	<b>5,050</b>	<b>5,279</b>	<b>5,928</b>	<b>6,241</b>	<b>6,685</b>
Growth YoY%	16.7%	12.2%	4.5%	12.3%	5.3%	7.1%
<b>EBITDA</b>	<b>287</b>	<b>367</b>	<b>428</b>	<b>1,063</b>	<b>1,140</b>	<b>1,247</b>
EBITDA Margin %	6.4%	7.3%	8.1%	17.9%	18.3%	18.7%
<b>Punjab e-Governance Project</b>						
No of Applications (mn)			9.9	20.0	0.0	0.0
Growth YoY%				102.4%	NM	NM
Realisation/Application (Rs)			108	102	0	0
Growth YoY%				-6.0%	NM	NM
<b>Revenue (Rs mn)</b>			<b>1,071</b>	<b>1,527</b>	<b>0</b>	<b>0</b>
Growth YoY%				42.6%	NM	NM
<b>EBITDA</b>			<b>396</b>	<b>379</b>	<b>0</b>	<b>0</b>
EBITDA Margin %			37.0%	24.8%	NM	NM
<b>Total Revenue</b>	<b>4,500</b>	<b>5,050</b>	<b>6,350</b>	<b>7,455</b>	<b>6,241</b>	<b>6,685</b>
Growth YoY%	16.7%	12.2%	25.7%	17.4%	-16.3%	7.1%
<b>Total EBITDA</b>	<b>287</b>	<b>367</b>	<b>824</b>	<b>1,441</b>	<b>1,140</b>	<b>1,247</b>
EBITDA Margin %	6.4%	7.3%	13.0%	19.3%	18.3%	18.7%

Source: Company, HDFC sec Inst Research

### Change In Estimate

Particulars	Earlier estimates	Revised estimates	% change
<b>FY18E</b>			
Revenue (Rs mn)	7,964	7,455	(6.4)
EBITDA (Rs mn)	1,663	1,441	(13.3)
<i>EBITDA margin (%)</i>	20.9	19.3	(155) bps
APAT (Rs)	1,090	968	(11.2)
<b>FY19E</b>			
Revenue (Rs mn)	8,529	6,241	(26.8)
EBITDA (Rs mn)	1,905	1,140	(40.2)
<i>EBITDA margin (%)</i>	22.3	18.3	(408) bps
APAT (Rs)	1,182	781	(33.9)
<b>FY20E</b>			
Revenue (Rs mn)	9,229	6,685	(27.6)
EBITDA (Rs mn)	2,180	1,247	(42.8)
<i>EBITDA margin (%)</i>	23.6	18.7	(497) bps
APAT (Rs)	1,300	884	(32.0)

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>7,455</b>	<b>6,241</b>	<b>6,685</b>
<b>Growth (%)</b>	<b>12.2</b>	<b>25.7</b>	<b>17.4</b>	<b>(16.3)</b>	<b>7.1</b>
Cost of services	4,132	4,196	4,739	4,090	4,355
Employee Benefit	329	417	474	512	548
Other Expenses	221	912	800	499	535
<b>EBITDA</b>	<b>367</b>	<b>824</b>	<b>1,441</b>	<b>1,140</b>	<b>1,247</b>
<b>EBITDA Margin (%)</b>	<b>7.3</b>	<b>13.0</b>	<b>19.3</b>	<b>18.3</b>	<b>18.7</b>
<b>EBITDA Growth (%)</b>	<b>27.8</b>	<b>124.3</b>	<b>75.0</b>	<b>(20.9)</b>	<b>9.4</b>
Depreciation	55	260	250	258	265
<b>EBIT</b>	<b>312</b>	<b>564</b>	<b>1,191</b>	<b>882</b>	<b>981</b>
Other Income (Including EO Items)	5	23	27	31	35
Interest	3	55	113	113	113
<b>PBT</b>	<b>314</b>	<b>532</b>	<b>1,104</b>	<b>799</b>	<b>903</b>
Tax (Incl Deferred)	5	32	136	17	19
Minority Interest	0	0	0	0	0
<b>RPAT</b>	<b>309</b>	<b>500</b>	<b>968</b>	<b>781</b>	<b>884</b>
EO (Loss) / Profit (Net Of Tax)	0	0	0	0	0
<b>APAT</b>	<b>309</b>	<b>499</b>	<b>968</b>	<b>781</b>	<b>884</b>
<b>APAT Growth (%)</b>	<b>30.8</b>	<b>61.7</b>	<b>93.9</b>	<b>(19.3)</b>	<b>13.1</b>
<b>Adjusted EPS (Rs)</b>	<b>3.0</b>	<b>4.9</b>	<b>9.4</b>	<b>7.6</b>	<b>8.6</b>
<b>EPS Growth (%)</b>	<b>31.0</b>	<b>61.7</b>	<b>93.8</b>	<b>(19.3)</b>	<b>13.1</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	1,543	2,398	3,088	3,868
<b>Total Shareholders' Funds</b>	<b>1,187</b>	<b>1,645</b>	<b>2,500</b>	<b>3,190</b>	<b>3,971</b>
Minority Interest	1	1	1	1	1
<b>Total Debt</b>	<b>41</b>	<b>838</b>	<b>1,050</b>	<b>1,050</b>	<b>1,050</b>
Net Deferred Taxes	-4	0	0	0	0
Long Term Provisions & Others	11	26	26	26	26
<b>TOTAL SOURCES OF FUNDS</b>	<b>1,237</b>	<b>2,511</b>	<b>3,578</b>	<b>4,268</b>	<b>5,049</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	242	784	984	776	560
CWIP	0	0	0	0	0
Investments	17	305	305	305	305
LT Loans & Advances	175	6	7	6	7
<b>Total Non-current Assets</b>	<b>434</b>	<b>1,095</b>	<b>1,296</b>	<b>1,087</b>	<b>872</b>
Inventories	0	0	0	0	0
Debtors	22	597	1,532	1,368	1,465
Other Current Assets	486	611	683	621	655
Cash & Equivalents	426	665	601	1,656	2,553
<b>Total Current Assets</b>	<b>934</b>	<b>1,873</b>	<b>2,816</b>	<b>3,645</b>	<b>4,673</b>
Creditors	68	130	147	140	149
Other Current Liabilities & Provns	63	326	388	325	348
<b>Total Current Liabilities</b>	<b>131</b>	<b>457</b>	<b>534</b>	<b>464</b>	<b>497</b>
<b>Net Current Assets</b>	<b>803</b>	<b>1,416</b>	<b>2,282</b>	<b>3,181</b>	<b>4,176</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>1,237</b>	<b>2,511</b>	<b>3,578</b>	<b>4,268</b>	<b>5,049</b>

Source: Company, HDFC sec Inst Research

**Cash Flow Statement (Consolidated)**

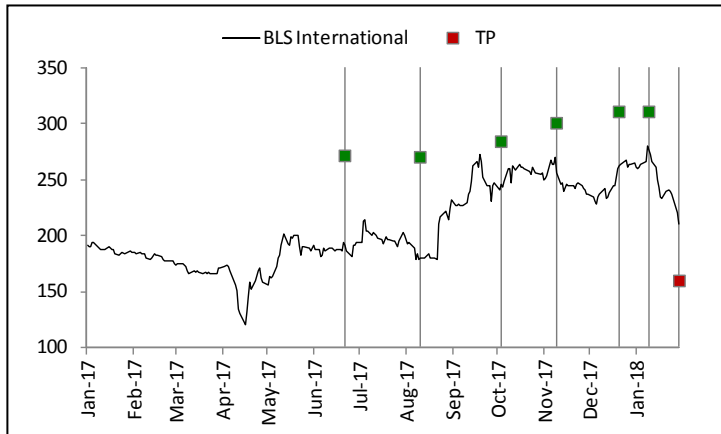
YE March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	314	532	1,104	799	903
Non-operating & EO items	(5)	(23)	(27)	(31)	(35)
Interest expenses	3	55	113	113	113
Depreciation	55	260	250	258	265
Working Capital Change	(42)	(277)	(931)	156	(99)
Tax Paid	(8)	(32)	(136)	(17)	(19)
<b>OPERATING CASH FLOW ( a )</b>	<b>317</b>	<b>515</b>	<b>374</b>	<b>1,279</b>	<b>1,129</b>
Capex	(55)	(802)	(450)	(50)	(50)
Free cash flow (FCF)	262	(287)	(76)	1,229	1,079
Investments	(25)	(201)	0	0	0
Non-operating Income	5	23	27	31	35
<b>INVESTING CASH FLOW ( b )</b>	<b>(75)</b>	<b>(980)</b>	<b>(423)</b>	<b>(19)</b>	<b>(15)</b>
Debt Issuance/(Repaid)	(15)	797	212	0	0
Interest Expenses	(3)	(55)	(113)	(113)	(113)
FCFE	244	455	23	1,115	966
Share Capital Issuance	0	0	0	0	0
Dividend	0	(42)	(113)	(91)	(103)
<b>FINANCING CASH FLOW ( c )</b>	<b>(18)</b>	<b>700</b>	<b>(14)</b>	<b>(205)</b>	<b>(217)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>224</b>	<b>235</b>	<b>(64)</b>	<b>1,054</b>	<b>897</b>
EO Items, Others	44	(4)	0	0	0
<b>Closing Cash &amp; Equivalents</b>	<b>426</b>	<b>665</b>	<b>601</b>	<b>1,656</b>	<b>2,553</b>

Source: Company, HDFC sec Inst Research

**Key Ratios (Consolidated)**

	FY16	FY17	FY18E	FY19E	FY20E
<b>PROFITABILITY (%)</b>					
GPM	18.2	33.9	36.4	34.5	34.9
EBITDA Margin	7.3	13.0	19.3	18.3	18.7
APAT Margin	6.1	7.9	13.0	12.5	13.2
RoE	30.5	35.2	46.7	27.5	24.7
RoIC (or Core RoCE)	39.6	39.9	43.3	30.9	37.6
RoCE	29.2	29.4	35.1	22.7	21.4
<b>EFFICIENCY</b>					
Tax Rate (%)	1.5	6.0	12.3	2.2	2.1
Fixed Asset Turnover (x)	12.1	5.2	4.5	3.6	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	81	87	87
Debt/EBITDA (x)	0.1	1.0	0.7	0.9	0.8
Net D/E (x)	(0.3)	0.1	0.2	(0.2)	(0.4)
Interest Coverage (x)	91	10	11	8	9
<b>PER SHARE DATA (Rs)</b>					
EPS	3.0	4.9	9.4	7.6	8.6
CEPS	3.6	7.4	11.9	10.1	11.2
Dividend	0	0	1	1	1
Book Value	12	16	24	31	39
<b>VALUATION</b>					
P/E (x)	69.9	43.2	22.3	27.6	24.4
P/BV (x)	18.2	13.1	8.6	6.8	5.4
EV/EBITDA (x)	57.7	26.4	15.3	18.4	16.1
EV/Revenues (x)	4.2	3.4	3.0	3.4	3.0
OCF/EV (%)	1.5	2.4	1.7	6.1	5.6
FCF/EV (%)	1.2	-1.3	-0.3	5.9	5.4
FCFE/Mkt Cap (%)	1.1	2.1	0.1	5.2	4.5
Dividend Yield (%)	0.0	0.2	0.4	0.4	0.4

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

**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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