



**HDFC securities**

Equity  
Research

Pick<sub>of the</sub>  
week

Industry	CMP	Recommendation	Add on dips to	Target	Time Horizon
<b>IT Processing</b>	Rs. 195	Buy at CMP ( Upto 200 ) and add on Dips	Rs. 170	Rs. 239	4 Quarters

BLS International Services Ltd. (BLS) is a specialist provider for outsourcing visa, passport and attestation services to governments across the world. It is globally the second largest visa processing player (after VFS Global). The company manages all administrative and on-judgmental tasks related to the entire life cycle of a visa application process. The company has operations in 51 countries, and processes visas for countries like Spain, UAE, Russia and China. It has processed ~18mn applications over the last 12 years and currently processes around 3 million application annually.

We recommend BLS International BUY at CMP of Rs. 195 and add on dip of Rs. 170 for the Target of Rs. 239.

### Investment Rationale:

#### Niche services provider

The visa application outsourcing market is a niche and young, with few specialised players. In very short run it has witnessed significant change. Visa applications are largely processed in-house, with only 30% being outsourced. The rise in global travel outsourcing is going to continue, and will provide huge opportunities for companies like BLS. The main competitors of BLS (second largest) is VFS Global (leading with ~50%+ market share). Other players are TLS Contact and Cox & Kings Global Services. These players are largely focussed on the domestic market, and have not aggressively bid for global tenders.

#### Punjab e-Governance project: Gathering steam

In Mar-16, BLS won a five-year e-Governance project in Punjab for providing 223 citizen services through 2,147 centres or 'Seva Kendras' along with manpower and IT infrastructure. BLS aims to earn ~Rs 85 each from ~29mn applications, at an est. EBITDA margin of 27% in FY18E. Total revenue scope is Rs 14.9bn over five-years.

The Punjab e-governance win is a step towards harnessing the tremendous opportunity offered by the Digital India campaign. This is a first-of-its-kind project in India, and several other states such as Haryana, Delhi and Orissa are looking to replicate this model.

HDFC Scrip Code	BLSINT
BSE Code	540073
NSE Code	BLS
Bloomberg	BLSIN
CMP as on 28 Jul'17	195
Equity Capital (Rs mn)	102.5
Face Value (Rs)	1.00
Equity O/S (mn)	102.5
Market Cap (Rs mn)	19998
Book Value (Rs)	16
Avg. 52 Week Vol	74151
52 Week High	221.5
52 Week Low	88.2

Shareholding Pattern (%)	
Promoters	74.24
Institutions	0.01
Non Institutions	25.75

PCG Risk Rating*	<b>RED</b>
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\* Refer Rating explanation

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**Spanish visa processing contract: Huge opportunity**

Spain is the 3rd most travelled country globally by number of arrivals in 2015.

In Dec-16, BLS won a €175mn (~Rs 13bn) Spanish visa processing contract, spread over five years. It is the first Indian company to bag a Schengen visa contract. BLS expects to process ~2mn Spanish visas annually, at ~€18.5 per visa (~Rs 1,330) for travellers from 48 countries. Five major foreign mission tenders for ~8.6mn visas p.a. are likely to be bided in FY18-19.

Spain is an important travel destination, and success of the Spanish contract will help the company to win other upcoming European contracts.

**Win from Afghanistan Embassy to support growth**

- Recently in June-17, BLS won a contract from the Embassy of Afghanistan in U.A.E. This contract is related to digitisation of existing passports of Afghanistan citizens in five gulf countries, i.e. UAE, Kuwait, Oman, Bahrain and Qatar.
- BLS will open eight visa application centres to support the Embassy of Afghanistan in the passport upgradation process.
- The company expects ~200,000 to 300,000 applications, and will charge a facilitation fee of ~Rs 800-900/passport.

**Asset-light Business model**

BLS reported healthy revenue growth of 25.7% (Rs 6.35bn) with EBITDA margin expansion of 570bps (13.0%) making excellent PAT growth of 62% in FY17.

BLS' revenue/EBITDA grew at a healthy CAGR of 40/52% over FY14-17. Niche focus, strong execution and an asset-light model resulted in a healthy RoE of 35% in FY17. We expect revenue/PAT to grow at a CAGR of 36/45% over FY17-19E, led by the Spanish visa contract and Punjab e-governance project. Fresh contract wins in both segments of the business are likely to act as triggers for the stock.

**Risk & Concerns:**

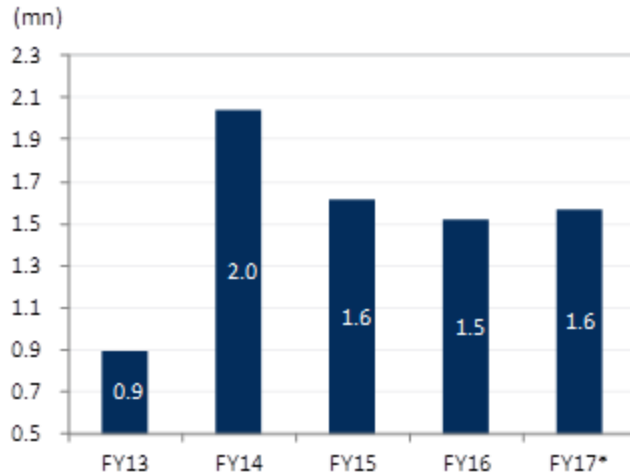
- Major economic slowdown leading to reduction in global travel.
- Increased adoption of e-visas globally.
- Execution risk for Punjab e-governance project.

**View & Valuation:**

Five major foreign mission tenders for ~8.6mn visas per annum are likely to be up for bidding in FY18-19. After the successful win for Spanish Visa processing contract, we believe company is well poised to participate and win such large contracts. The company has won lucrative e-Governance five-year contract in the Indian state of Punjab. Many more states are looking to implement such e-governance projects. We expect revenue/PAT to grow at a CAGR of 36/45% over FY17-19E, led by the Spanish visa contract and Punjab e-governance project. Fresh contract wins in both segments of the business are likely to act as triggers for the stock.

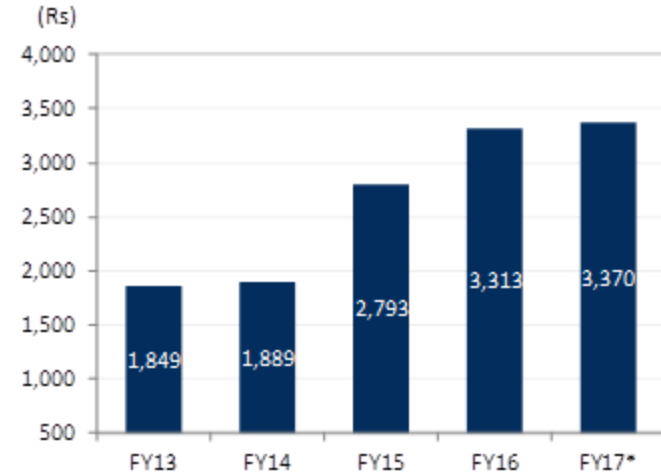
Niche focus, strong order execution, asset-light business model and sustainable growth puts Company in to strong BUY. We recommend BLS International BUY at CMP of Rs. 195 and add on dip of Rs. 170 for the Target of Rs. 239.

## Trend Of Total No Of Applications Processed



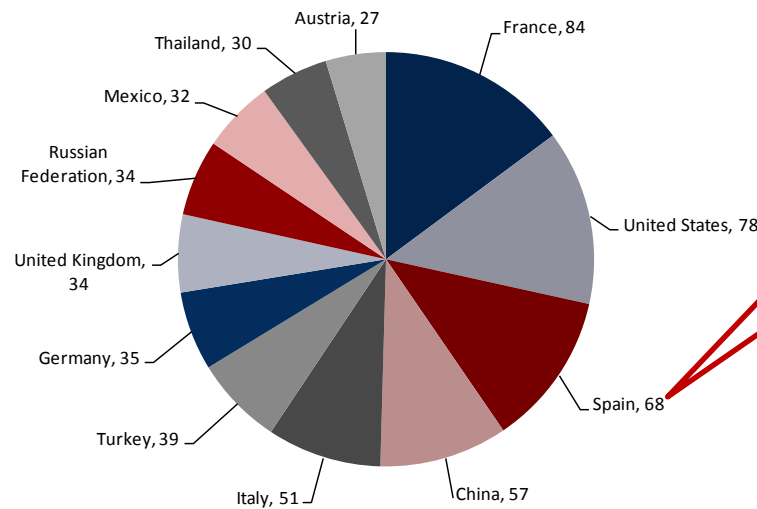
Source: Company, HDFC sec Research

## Revenue Per Application Trend (Rs)



Source: Company, HDFC sec Research

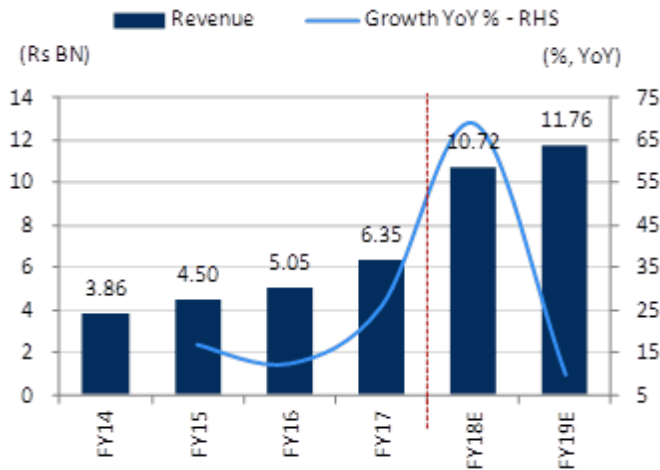
## Top Travelled Countries In The World



Spain is the third most traveled country globally by Number of Arrivals 2015 (mn)

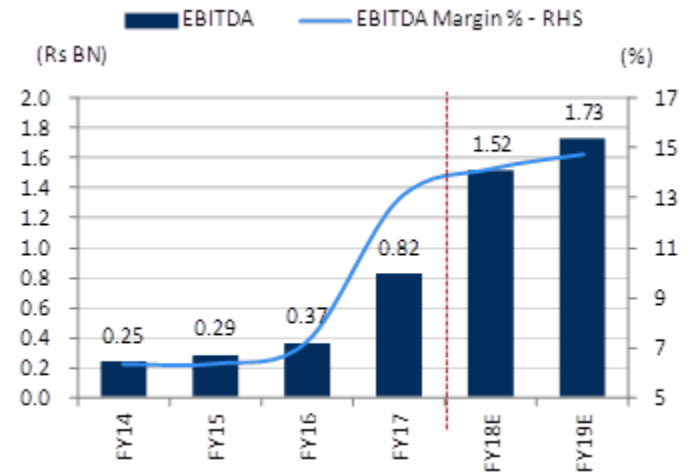
Source: Company, HDFC sec Research

## Healthy Revenue Growth Led By Spanish Visa and Punjab E-Governance Contract Wins



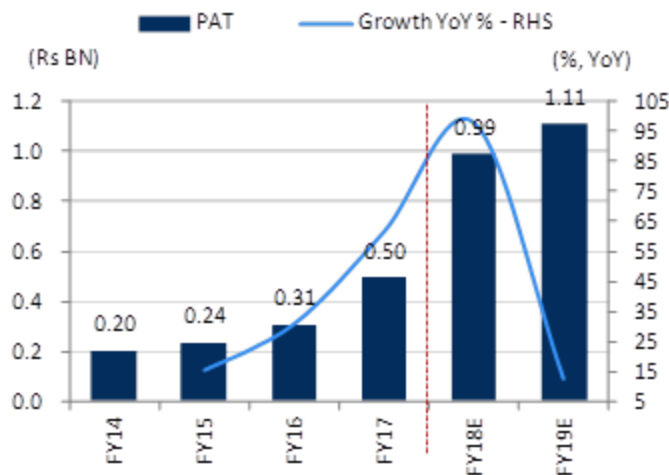
Source: Company, HDFC sec Research

## Strong EBITDA Growth Fuelled By New Contract Wins



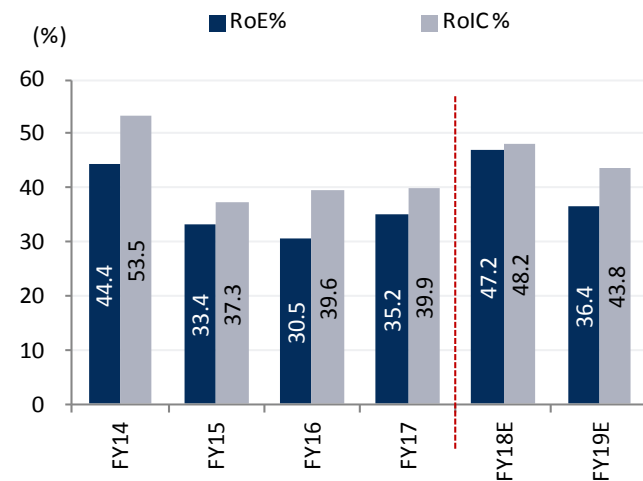
Source: Company, HDFC sec Research

## PAT And PAT Growth



Source: Company, HDFC sec Research

## Asset-light model resulted in a healthy return



Source: Company, HDFC sec Research

**Key Assumptions & Summary**

	FY15	FY16	FY17E	FY18E	FY19E
<b>Visa Processing (ex- Spain)</b>					
No of Visa applications (mn)	1.61	1.52	1.57	1.64	1.73
Growth YoY%	-21.1%	-5.4%	2.8%	5.0%	5.0%
Realisation/Application (Rs)	2,793	3,313	3,370	3,471	3,575
Growth YoY%	47.8%	18.6%	1.7%	3.0%	3.0%
<b>Revenue (Rs mn)</b>	<b>4,500</b>	<b>5,050</b>	<b>5,279</b>	<b>5,709</b>	<b>6,174</b>
Growth YoY%	16.7%	12.2%	4.5%	8.1%	8.2%
<b>Spain Visa Processing</b>					
No of Visa applications (mn)				1.90	2.00
Growth YoY%					5.0%
Realisation/Application (Rs)				1,332	1,399
Growth YoY%					5.0%
<b>Revenue (Rs mn)</b>				<b>2,531</b>	<b>2,790</b>
Growth YoY%					10.3%
<b>EBITDA</b>				<b>506</b>	<b>583</b>
EBITDA Margin %				20.0%	20.9%
<b>Total Visa Processing Business (Old + Spain)</b>					
No of Visa applications (mn)	1.61	1.52	1.57	3.54	3.72
Growth YoY%	-21.1%	-5.4%	2.8%	126.3%	5.0%
Realisation/Application (Rs)	2,793	3,313	3,370	2,325	2,409
Growth YoY%	47.8%	18.6%	1.7%	-31.0%	3.6%
<b>Revenue (Rs mn)</b>	<b>4,500</b>	<b>5,050</b>	<b>5,279</b>	<b>8,240</b>	<b>8,965</b>
Growth YoY%	16.7%	12.2%	4.5%	56.1%	8.8%
<b>EBITDA</b>	<b>287</b>	<b>367</b>	<b>529</b>	<b>849</b>	<b>954</b>
EBITDA Margin %	6.4%	7.3%	10.0%	10.3%	10.6%
<b>Punjab e-Governance Project</b>					
No of Applications (mn)			12.3	29.1	30.6
Growth YoY%				136.1%	5.0%
Realisation/Application (Rs)			87	85	91
Growth YoY%				-1.8%	7.0%
<b>Revenue (Rs mn)</b>			<b>1,071</b>	<b>2,483</b>	<b>2,791</b>
Growth YoY%				131.9%	12.4%
<b>EBITDA</b>			<b>295</b>	<b>670</b>	<b>779</b>
EBITDA Margin %			27.6%	27.0%	27.9%
<b>Total Revenue</b>	<b>4,500</b>	<b>5,050</b>	<b>6,350</b>	<b>10,723</b>	<b>11,755</b>
Growth YoY%	16.7%	12.2%	25.7%	68.9%	9.6%
<b>Total EBITDA</b>	<b>287</b>	<b>367</b>	<b>824</b>	<b>1,519</b>	<b>1,733</b>
EBITDA Margin %	6.4%	7.3%	13.0%	14.2%	14.7%

**Income Statement (Consolidated)**

YE March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Net Revenues</b>	<b>4,500</b>	<b>5,050</b>	<b>6,350</b>	<b>10,723</b>	<b>11,755</b>
<b>Growth (%)</b>	<b>16.7</b>	<b>12.2</b>	<b>25.7</b>	<b>68.9</b>	<b>9.6</b>
Cost of services	3,676	4,132	4,303	4,994	5,405
Employee Benefit	351	329	417	2,188	2,391
Other Expenses	185	221	805	2,022	2,227
<b>EBITDA</b>	<b>287</b>	<b>367</b>	<b>824</b>	<b>1,519</b>	<b>1,733</b>
<b>EBITDA Margin (%)</b>	<b>6.4</b>	<b>7.3</b>	<b>13.0</b>	<b>14.2</b>	<b>14.7</b>
<b>EBITDA Growth (%)</b>	<b>16.9</b>	<b>27.8</b>	<b>124.3</b>	<b>84.4</b>	<b>14.1</b>
Depreciation	51	55	260	308	365
<b>EBIT</b>	<b>236</b>	<b>312</b>	<b>564</b>	<b>1,211</b>	<b>1,368</b>
Other Income (Including EO Items)	4	5	23	27	31
Interest	1	3	55	81	81
<b>PBT</b>	<b>239</b>	<b>314</b>	<b>532</b>	<b>1,157</b>	<b>1,318</b>
Tax (Incl Deferred)	3	5	32	168	206
Minority Interest	(0)	0	0	0	0
<b>RPAT</b>	<b>236</b>	<b>309</b>	<b>500</b>	<b>989</b>	<b>1,112</b>
EO (Loss) / Profit (Net Of Tax)	0	0	0	0	0
<b>APAT</b>	<b>236</b>	<b>309</b>	<b>499</b>	<b>989</b>	<b>1,112</b>
<b>APAT Growth (%)</b>	<b>15.3</b>	<b>30.8</b>	<b>61.7</b>	<b>98.1</b>	<b>12.5</b>
<b>Adjusted EPS (Rs)</b>	<b>2.3</b>	<b>3.0</b>	<b>4.9</b>	<b>9.7</b>	<b>10.9</b>
<b>EPS Growth (%)</b>	<b>15.3</b>	<b>31.0</b>	<b>61.7</b>	<b>98.0</b>	<b>12.5</b>

Source: Company, HDFC sec Research

**Balance Sheet (Consolidated)**

YE March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	102	102	102	102	102
Reserves	733	1,085	1,543	2,445	3,461
<b>Total Shareholders' Funds</b>	<b>835</b>	<b>1,187</b>	<b>1,645</b>	<b>2,548</b>	<b>3,563</b>
Minority Interest	1	1	1	1	1
<b>Total Debt</b>	<b>56</b>	<b>41</b>	<b>838</b>	<b>1,050</b>	<b>1,050</b>
Net Deferred Taxes	0	-4	0	0	0
Long Term Provisions & Others	10	11	26	26	26
<b>TOTAL SOURCES OF FUNDS</b>	<b>902</b>	<b>1,237</b>	<b>2,511</b>	<b>3,626</b>	<b>4,641</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	242	242	784	963	1,041
CWIP	0	0	0	0	0
Investments	17	17	305	305	305
LT Loans & Advances	141	175	6	11	12
<b>Total Non-current Assets</b>	<b>401</b>	<b>434</b>	<b>1,095</b>	<b>1,279</b>	<b>1,358</b>
Inventories	0	0	0	0	0
Debtors	59	22	597	1,028	1,288
Other Current Assets	416	486	611	925	1,035
Cash & Equivalents	159	426	665	1,179	1,820
<b>Total Current Assets</b>	<b>633</b>	<b>934</b>	<b>1,873</b>	<b>3,133</b>	<b>4,143</b>
Creditors	74	68	130	228	248
Other Current Liabilities & Provns	58	63	326	558	611
<b>Total Current Liabilities</b>	<b>132</b>	<b>131</b>	<b>457</b>	<b>786</b>	<b>860</b>
<b>Net Current Assets</b>	<b>501</b>	<b>803</b>	<b>1,416</b>	<b>2,347</b>	<b>3,284</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>902</b>	<b>1,237</b>	<b>2,511</b>	<b>3,626</b>	<b>4,641</b>

Source: Company, HDFC sec Research

**Cash Flow Statement (Consolidated)**

YE March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Reported PBT	239	314	532	1,157	1,318
Non-operating & EO items	(4)	(5)	(23)	(27)	(31)
Interest expenses	1	3	55	81	81
Depreciation	51	55	260	308	365
Working Capital Change	(167)	(42)	(277)	(422)	(297)
Tax Paid	(6)	(8)	(32)	(168)	(206)
<b>OPERATING CASH FLOW ( a )</b>	<b>114</b>	<b>317</b>	<b>515</b>	<b>930</b>	<b>1,230</b>
Capex	(72)	(55)	(802)	(486)	(442)
Free cash flow (FCF)	42	262	(287)	443	788
Investments	(46)	(25)	(201)	0	0
Non-operating Income	4	5	23	27	31
<b>INVESTING CASH FLOW ( b )</b>	<b>(114)</b>	<b>(75)</b>	<b>(980)</b>	<b>(460)</b>	<b>(412)</b>
Debt Issuance/(Repaid)	56	(15)	797	212	0
Interest Expenses	(1)	(3)	(55)	(81)	(81)
FCFE	98	244	455	574	707
Share Capital Issuance	0	0	0	0	0
Dividend	0	0	(42)	(86)	(97)
<b>FINANCING CASH FLOW ( c )</b>	<b>55</b>	<b>(18)</b>	<b>700</b>	<b>45</b>	<b>(178)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>55</b>	<b>224</b>	<b>235</b>	<b>514</b>	<b>641</b>
EO Items, Others	24	44	(4)	0	0
<b>Closing Cash &amp; Equivalents</b>	<b>159</b>	<b>426</b>	<b>665</b>	<b>1,179</b>	<b>1,820</b>

Source: Company, HDFC sec Research

**Key Ratios**

	FY15	FY16	FY17	FY18E	FY19E
<b>PROFITABILITY (%)</b>					
GPM	18.3	18.2	32.2	53.4	54.0
EBITDA Margin	6.4	7.3	13.0	14.2	14.7
APAT Margin	5.2	6.1	7.9	9.2	9.5
RoE	33.4	30.5	35.2	47.2	36.4
RoIC (or Core RoCE)	37.3	39.6	39.9	48.2	43.8
RoCE	31.8	29.2	29.4	34.5	28.6
<b>EFFICIENCY</b>					
Tax Rate (%)	1.4	1.5	6.0	14.5	15.6
Fixed Asset Turnover (x)	12.4	12.1	5.2	6.3	5.5
Inventory (days)	0	0	0	0	0
Debtors (days)	5	2	34	35	40
Other Current Assets (days)	34	35	35	32	32
Payables (days)	6	5	9	9	9
Other Current Liab & Provns (days)	5	5	19	19	19
Cash Conversion Cycle (days)	27	27	42	38	44
Debt/EBITDA (x)	0.2	0.1	1.0	0.7	0.6
Net D/E (x)	(0.1)	(0.3)	0.1	(0.1)	(0.2)
Interest Coverage (x)	269	91	10	15	17
<b>PER SHARE DATA (Rs)</b>					
EPS	2.3	3.0	4.9	9.7	10.9
CEPS	2.8	3.6	7.4	12.7	14.4
Dividend	0	0	0	1	1
Book Value	8	12	16	25	35
<b>VALUATION</b>					
P/E (x)	82.6	63.3	38.8	19.6	17.4
P/BV (x)	23.8	15.8	11.9	7.6	5.4
EV/EBITDA (x)	64.2	49.5	22.7	12.1	10.3
EV/Revenues (x)	4.1	3.6	3.0	1.7	1.5
OCF/EV (%)	0.6	1.7	2.7	5.0	6.9
FCF/EV (%)	0.2	1.4	-1.5	2.4	4.4
FCFE/Mkt Cap (%)	0.5	1.3	2.5	3.1	3.8
Dividend Yield (%)	0.0	0.0	0.2	0.4	0.4

Source: Company, HDFC sec Research

**Rating Chart**

R E T U R N	HIGH			
	MEDIUM			
	LOW			
		LOW	MEDIUM	HIGH
		RISK		

**Ratings Explanation:**

RATING	Risk - Return	BEAR CASE	BASE CASE	BULL CASE
BLUE	LOW RISK - LOW RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 20% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 15% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 15%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 20% OR MORE
YELLOW	MEDIUM RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 35% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 20% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 35% OR MORE
RED	HIGH RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 50% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 30% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 50% OR MORE



**Rating Definition:**

Buy: Stock is expected to gain by 10% or more in the next 1 Year.

Sell: Stock is expected to decline by 10% or more in the next 1 Year.

**Disclosure:**

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Any holding in stock –No

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