

India Midcap Discovery Series -----NOT COVERED
BLS International: A challenger in the visa application outsourcing market; e-governance is a new segment

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- A visa application outsourcing player, with recent presence in e-governance: BLS claims to be one of the top three global players in visa/passport/consular/citizen services with presence in 58 countries and 29 government clients. It recently won a large citizen services project from the Punjab government.
- Visa application outsourcing has 30% penetration; BLS is a challenger: About 30% of visa processing is currently outsourced. International travel growth, increasing proportion of outsourcing, and market share gain are the key drivers. BLS has a single-digit share.
- Management hopeful of further opportunities in Europe and new e-governance contracts: BLS won the Spanish global visa outsourcing contract. This, along with the Punjab contract, adds to revenue potential of Rs28 bn over five years vs. FY17 revenue of Rs6.4 bn. Several visa contracts, including the Swiss one, are also coming up for renewal.
- BLS has had 40% revenue CAGR over the last four years (18% over the last three years), and EBITDA margins went from 9% in FY13 to 13% in FY17. Revenue rose 57% in 1QFY18 and margins expanded to 22%. The stock trades at 23x 1QFY18 annualised earnings.

In the Punjab e-governance contract, BLS will deliver 223 services (such as death, birth, and marriage certificates) across over 2,000 citizen service centres constructed by the government. It is an annuity business with assured revenue. It has incurred a capex of Rs750 mn.

BLS has a professional MD, but the founding family is also involved in the business, with Shikhar Aggarwal being the joint MD and Karan Aggarwal being the Executive Director. The founder family has several other businesses, but those are managed by other family members.

Visa application outsourcing has 30% penetration; BLS is a challenger

About 30% of visa processing is currently outsourced. There are three key primary growth drivers for individual companies in this business: (1) international travel (international tourist arrival has grown at 3-4% CAGR over the last ten years as per UNWTO estimates), (2) increasing proportion of outsourcing, and (3) market share gain.

VFS (owned by EQT) is the largest player with about 50% share of the outsourcing market. CSRA and TLS Contact are other large players. BLS has mid- to-high single-digit share in the market.

Management hopeful of further opportunities in Europe, and new e-governance contracts

BLS has recently won a global visa outsourcing contract from Spain (EUR 175 mn or about Rs14 bn contract value over five years)—VFS was the incumbent contractor. Management believes that this would be a gate opener in the European market. Several contracts are coming up for renewal in the next couple of years (Switzerland, Greece, etc.) as per management, and it is hopeful of winning additional business. In e-governance or citizen servicing, the recent Punjab contract win was followed by an Afghanistan order. The company is looking for further contracts in the domestic as well as international markets.

High cash-generating model; margin expansion supported by business-mix

BLS' revenue has grown at a 40% CAGR over the last four years (18% over the last three years), and EBITDA margins have expanded from 9% in FY13 to 13% in FY17 (based on gross revenue that includes visa charges; margins on net revenue were 38% in FY17). Revenue rose 57% in 1QFY18 (the Spain and Punjab projects together are worth Rs29 bn over five years vs Rs6.3 bn revenue in FY17) and margins have expanded to over 22% (both Spain and Punjab projects have higher margins than the rest of the business as per management). It targets to sustain the historical CAGR in the medium term.

Money is collected upfront in most cases, resulting in low working capital. Also, centres and equipment are taken on lease in most cases, which reduces capex. Until applications reach a certain level in Punjab centres, BLS will be compensated by the government, which will increase its working capital requirement, somewhat.

Given BLS' international business is through the Dubai subsidiary, the effective tax rate was only 6% in FY17. BLS pays some taxes in the countries it operates (expensed in P&L, above PBT) to the extent not offset. As per management, if the Dubai profit is taxed in future, there will be a negative impact, though offset against taxes paid in other countries (that are currently expensed) can neutralise some of this.

The stock trades at 23x multiple on 1QFY18 annualised earnings.

Figure 1: BLS International: Financial summary (BLSIN IN)

Rs mn	FY13	FY14	FY15	FY16	FY17	1QFY18
Gross revenue	1,662	3,856	4,500	5,050	6,350	1,951
Growth		132%	17%	12%	26%	57%
EBITDA	155	246	304	377	842	433
EBITDA margin	9.3%	6.4%	6.8%	7.5%	13.3%	22.2%
PBT	144	208	239	314	532	317
PAT	141	205	236	309	500	291
EPS	1.4	2.0	2.3	3.0	4.9	2.8
Growth		45%	15%	31%	62%	300%
Net debt/Equity		-0.1	-0.1	-0.4	0.2	NA
ROE			33%	31%	35%	NA
CFO		99	133	355	896	NA
FCF		2	66	308	91	NA

CMP: Rs.259, Mcap: US\$ 407 mn, ADTV: US\$ 1.8 mn, Stock perf.: 1M: 13%, 3M: 30%, 12M: 52%

Source: Company data, Thomson Reuters

A visa application outsourcing player, with recent presence in e-governance

BLS claims to be one of the top three global players in visa/passport/consular/citizen services. With presence in 58 countries and 29 government clients, it offers consular services (such as visa application processing, biometric identity management, and attestation). It has also entered into e-governance (citizen services) recently with a large project from the Punjab government (Rs15 bn over five years) and a citizen service contract from the Embassy of Afghanistan. In FY17, the consular business formed >80% of its revenue (the Punjab government project had only contributed for part of the year).

BLS operates visa application centres (about 1.8 mn applications processed in FY17) and takes care of the administrative work related to visa processing. These contracts usually have five-year duration and BLS gets paid for each application processed. Additionally, the company charges fee for certain value-added services such as premium lounge, translation, and mobile biometrics.

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Companies Mentioned (Price as of 10-Oct-2017)

BLS Intl (BLSN.NS, Rs259.45)

Disclosure Appendix

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