

Fair Value: Rs. 192

Sector: Travel Support Services

17<sup>th</sup> September, 2020

# BLS International Services Ltd. (BLS)

## Earnings revival ahead

BLS is amongst the top three global players in visa application outsourcing, with its presence in visa/ passport/ consular/ citizen services with 62 countries and 36 government clients (~4% market share). The company is also engaged in the tech-enabled services space, with its citizen services offerings from the Punjab government contract and its more recent contract wins from the Canadian government and the Egypt government. Key Catalyst within Government to Citizens (G2C) services to drive revenues and EBITDA growth of 10% and 18% CAGR in FY20-23e. With benefits of the business model being asset-light in nature and free cash generating, valuations could get a further boost.

**Key player in Visa processing; increasing contribution from tech-enabled services segment:** BLS enjoys 4% market share in outsourcing Visa applications; with an exclusive contract from the Spain government (122 centers in 47 countries) and India mission (35 countries visa and consulate services). Also, other than the contract from Punjab government, its recent wins from the Canada & Egypt government should lead to a higher contribution from its tech-enabled services vertical. This is expected to drive revenue at 10% CAGR in FY20-FY23e.

**Superior Technology to provide an edge over competitors:** BLS is a ISO 9001, ISMS 27001, ISO 23026 certified company with a state of art digital infrastructure and capabilities of handling large and complex data. BLS is a preferred customer due to strong financial position, robust technical infrastructure and ability to provide maximum data security through its personal as well as cloud-based platforms. The company has a global presence with 2,325 global offices, 5,000 employees of different nationalities from offices spread across 62 countries gives comfort of smooth execution of projects across countries.

**Debt free company with high free cash model; earnings revival ahead:** BLS is a zero debt company and has generated positive cash flow from Operations, consistently over the last 5 years. It has reported cash balance of Rs. 239 Cr in FY20. Better operating results and working capital improvement should lead to cumulative FCF of Rs 2.6 bn in FY21-FY23e (i.e. ~25% of current market cap). We expect EPS growth CAGR of 36%, in the next three years. This is mainly led by 1) higher contribution from tech-enabled services segment, 2) normalization of business, post COVID and 3) 30% share from consulate services.

**US visa optionality – upside risk to earnings:** US visa processing contract is open for bidding. The existing vendor is in the light of an economic crisis. Hence we believe, with the incumbent player, coming to an end, the three players who may tender for the contract could be 1) BLS 2) VFS and 3) IVS. US visitors contributed ~1.5mn (13.8%) of the 10.6mn visitors to India in 2018. In our view, if BLS win this tender, it could potentially add Rs. 3 bn to their annual revenues and add another Rs 30/share to our target price. This is a positive risk to our earnings as we have not considered this in our forecast.

**Valuation:** We are positive on the long term prospects of the company and believe the stock is currently undervalued. The fair value of Rs.192 implies P/E multiples of 21.7x FY21e (depressed earnings base due to CoVID-19), 11.5x FY22e and 8.3x FY23e EPS vs.5 year average historic multiple of 21.3x.

### Exhibit 1: Financial summary (Rs mn)

Year end: March	FY18	FY19	FY20	FY21e	FY22e	FY23e
Net sales	7,891	8,038	7,861	4,681	7,860	10,414
Growth (%)	24.3%	1.9%	-2.2%	-41.8%	67.9%	32.5%
Operating margin (%)	20.0%	12.8%	10.4%	11.5%	12.4%	12.9%
PAT	965	1052	802	502	951	1309
EPS (Rs)	9.4	10.3	5.1	4.9	9.3	12.8
P/E(x)	11.3	10.4	20.8	21.7	11.5	8.3
ROE (%)	45.3	33.2	20.0	11.1	18.1	20.5
ROCE (%)	40.8	36.3	21.0	12.8	20.5	23.1
Net debt/equity (x)	0.4	0.0	0.0	0.0	0.0	0.0
P/Bv (x)	4.1	2.9	2.5	2.2	1.9	1.5

Source: Company, Our Projections

Price
Rs. 106.50

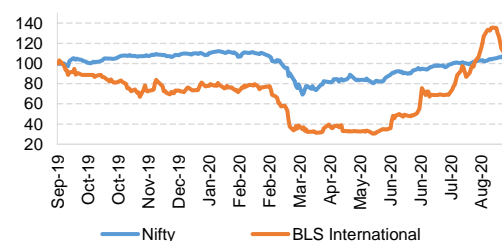
Bloomberg Code	Reuters Code
BLS IN	BLSN.NS

Share Holding (%)	As on June 2020
Promoters	74.2
Public	25.8

Stock Data	
Nifty	11,355
Sensex	38,147
52 week high/low	128.2/27.3
Market Cap (Rs. Bn)	10.7

Price perform	1M	3M	6M	1Y
Absolute	7.5	142.4	206.7	18.7
Relative to Ser	1.0	15.0	13.1	3.9

### Relative Performance



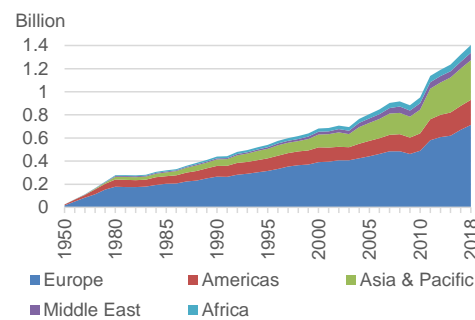
## Industry Outlook

### Global travel and tourism

Travel and tourism is one of the world’s largest economic variable, contributing ~US \$2.9 trillion (~10.3%) to global GDP in 2019. This was driven by 1.5 bn international tourist arrivals globally, growing at 3-4% CAGR over last ten years.

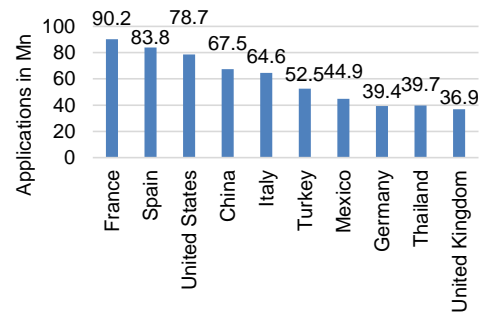
#### Exhibit 2: Travel and tourism one of the largest economic contributor to global GDP

**International tourist arrival trend**



Source: Industry

**Major destination by volume**



The visa outsourcing industry is pegged at ~ US \$ 3.5bn

### Visa outsourcing Industry

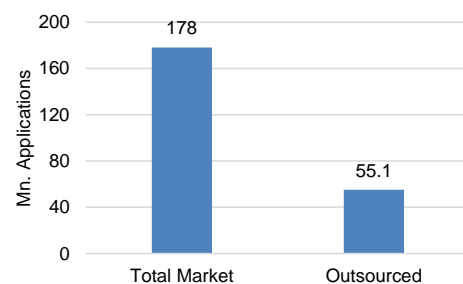
Growing cross-border tourism is anticipated to enhance the need for outsourced consular and visa services, resulting in more opportunities in the segment. The visa outsourcing industry is pegged at ~ US \$ 3.5bn. Of the 178 mn visas being processed annually, only 55.1 mn (31%) visa applications are currently being outsourced to specialized service providers.

Outsourcing of visa processing is increasingly being used by diplomatic missions globally led by (1) increasing travelers, every year, from different countries (2) sizable cost savings on account of outsourcing of staff and huge capex on setting up the offices in different locations (3) investment in technology (4) improved service efficiency in terms of faster turnaround time for travelers.

Further, we estimate Governments outsourced visa processing services gaining further traction (from current 31%), offering huge opportunities for visa outsourcing companies, on account of (1) steady growth in international travel at CAGR 3-4% for last 10 years (except the year 2020 due to COVID-19) (2) provides geographic access (3) increasing trend of value-added services which help to expand the margins of these companies (4) Digital transformation introduces new, innovative solutions which offers cost and time zone advantage with faster & better services.

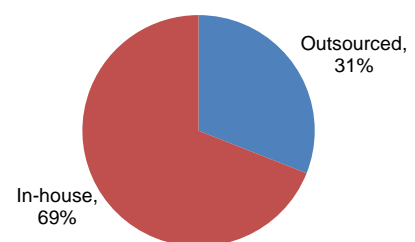
#### Exhibit 3: Visa outsourcing market insight

**Visa application market size by application**



Source: Industry

**Visa processing market Outsourced vs In-house**

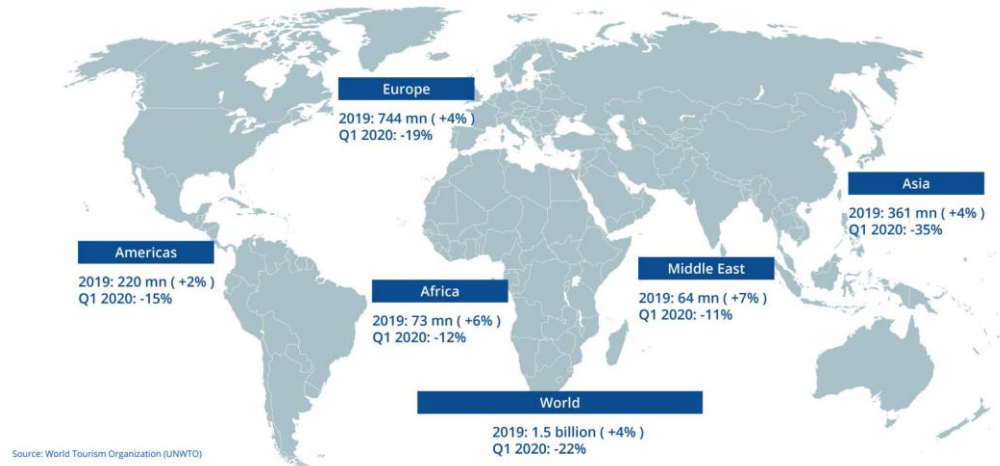


## COVID-19 Impact and future

Travel and tourism industry is among the most affected industry due to the sudden wave of COVID-19 since March 2020. As per the UNWTO report, in March 2020, international tourist arrivals were down by 57%, translating into a loss of 67mn international travellers. The report suggests a decline of 58-78% in international tourists in the year 2020.

*It is estimated that the global revenue for the travel and tourism industry will drop by 34.7% in 2020 from the previous year*

**Exhibit 4: International tourist arrivals by region in Jan-Mar 2020**

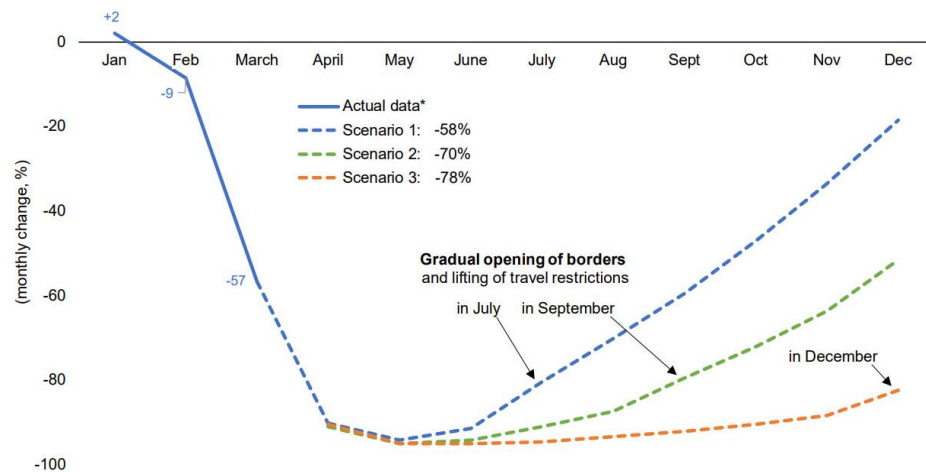


Source: World tourism organisation (UNWTO)

*UNWTO, has predicted a 60-80% decline in international tourist arrivals in comparison to previous year*

UNWTO expects three scenarios, of monthly change in arrivals, from April to December 2020 depending on travel restrictions starting to be lifted and national borders opening up - (Scenario 1) early July (Scenario 2) early September or (Scenario 3) early December.

**Exhibit 5: International tourist arrivals in 2020: three scenarios (YoY monthly change, %)**



Source: World tourism organisation (UNWTO)

96% of all worldwide destinations have introduced travel restrictions, as of 6th April, 2020. Given the wide-spread restrictions on travel globally, the tourism sector as a whole, including travel companies and airlines is likely to experience slowdown in the short to medium term.

## Spain – Demonstrating consistent growth in tourism

Spain continues to be amongst the top countries attracting global tourists, with 83.7mn tourists visiting Spain in 2019. Tourism contributes ~10-11% to its GDP, thereby making tourism the third major contributor to its economy. Spain tourism has grown at 4% CAGR over 2016-19. We see huge opportunity for outsourcing of visa processing companies from countries like Spain.

*Tourism in Spain is the third major contributor to national economic life, contributing about 10–11% of Spain's GDP*

*Spain's foreign tourist industry has grown into the second-biggest in the world*

**Exhibit 6: Tourist arrival in Spain from different countries**

Volumes in (mn)	2016	2017	2018	2019
Germany	11.2	11.9	11.4	11.2
Belgium	2.3	2.5	2.5	2.5
France	11.3	11.3	11.3	11.2
Ireland*	1.8	2.0	2.1	2.2
Italy	4.0	4.2	4.4	4.5
Netherlands	3.4	3.7	3.9	3.7
Nordic countries*	5.1	5.8	5.8	5.5
Portugal	2.0	2.1	2.3	2.4
UK	17.7	18.8	18.5	18.1
Russia*	1.0	1.2	1.2	1.3
Switzerland	1.7	2.1	1.9	1.8
Rest of Europe	5.0	5.5	6.0	6.4
United States of America*	2.0	2.6	3.0	3.3
Rest of America*	2.6	3.2	3.4	3.8
Rest of the world*	4.3	4.9	5.1	5.7
<b>Total</b>	<b>75.3</b>	<b>81.9</b>	<b>82.8</b>	<b>83.7</b>

Source: INe.es

\* Ex- Europe countries – where visa is required

## India mission - gearing up

India offers a diverse portfolio for travel and tourism. The industry is one of the largest service industries across the south Asian country. During 2019, foreign tourist arrivals (FTAs) in India stood at 10.89 mn, achieving a growth rate of 3.20% YoY. Fees from tourism increased 4.8%YoY to \$ 29.96 bn) during the same period. Also, arrivals through e-Tourist Visa increased by 23.6%YoY to 2.9 mn in 2019. Government of India has taken several steps to make India a global tourism hub like inauguration of “Statue of Unity”, increasing the budget allocation for new projects under the Swadesh Darshan, Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD) scheme etc. We believe this would upsurge the foreign tourist arrivals in India.

*Indian tourism increasing at 8% CAGR in the last ten years*

India is amongst the earliest countries to outsource Consular, Passport and Visa related services in Missions/Posts abroad, under Indian mission abroad. The outsourced services are available in 59 countries. This has led to Indian tourism increasing at 8% CAGR in the last ten years.

**Exhibit 7: Foreign tourist arrivals in India by source country**

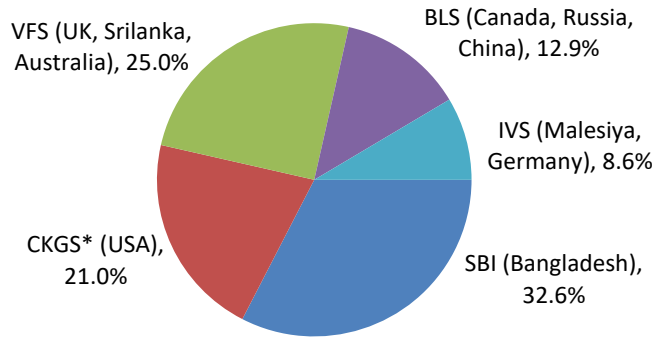
Volume in mn	2016	2017	2018
Bangladesh	1.38	2.15	2.3
United States	1.29	1.37	1.5
United Kingdom	0.94	0.98	1.0
Sri Lanka	0.29	0.30	0.4
Canada	0.31	0.33	0.4
Australia	0.29	0.32	0.3
Malaysia	0.3	0.32	0.3
China	0.25	0.24	0.3
Germany	0.26	0.26	0.3
Russia	0.22	0.27	0.3
<b>Total of top 10</b>	<b>5.56</b>	<b>6.6</b>	<b>6.9</b>
Other countries	3.23	3.43	3.6
<b>Grand total</b>	<b>8.80</b>	<b>10.03</b>	<b>10.6</b>

Source: mea.gov.in

*The government of India has undertaken several initiatives to provide attractive opportunities in increasing tourism*

**Exhibit 8: India Outsourcing visa service providers among top 10 countries by source**

*India's travel and tourism industry has the potential to expand by 2.5% on the back of higher budgetary allocation and low-cost healthcare facility.*



Source: mea.gov.in

\* CKGS India visa in USA; contract undergoing bidding process

**Government-to-Citizen Services (G2C)**

Government-to-citizen services is an emerging opportunity, where outsourcing is expected to increase in those public services in which it not only proves to be cost effective but can be easily integrated into their existing framework, with the support of technology. With the opportunity estimated to be ~\$ 100bn, the current size of revenues hints at the vertical being at a nascent stage. As per industry estimates, there are ~500-1000 potential services, that can be outsourced, in each country, offering a huge potential to existing players.

**Global opportunities for BLS:** Potential countries 150, Outsourceable service in each country 500+, Annual global opportunity \$100bn

**Govt of India standing in G2C services**

The Govt. of India intends to adopt online platform and digitization of services at, both, center as well as at the state level. Initiatives are being undertaken to promote the Digital India model for rendering public services effectively. With several states including Haryana, Delhi and Orissa looking to replicate the Punjab e-governance model we see huge potential in G2C services sector in India.

## Investment rationale

With more than 15 years of presence, BLS ranks amongst the Top three players in global visa, passport and citizen services industry. So far it has processed more than 47mn applications and boasts of over 62 countries and 36+ Governments figuring in their client list. Over the last 5 years BLS has witnessed a 12%/17% CAGR in revenue/earnings. The management expects its revenues to grow in the range of ~15-20% over FY21-FY23.

With ~30% of their applications processed being contributed by consulate services (largely unaffected by the lockdown) and a gradual resumption in global travel, we believe that BLS would be in a position to report improved revenues from 2QFY21 onwards.

We expect revenue/earnings to grow at a CAGR of ~10%/36% over FY20-23e on account of (1) higher contribution from tech-enabled services (2) higher revenue and profitability contribution from the Canada Govt. contract (recent win) (3) emerging green shoots in global tourism (4) emergence of revenge travelling (pent up demand).

Revenue / earnings to grow at a CAGR of ~10%/ 36% over next three years

### Among top three global players in visa processing

BLS claims to be amongst top three global players, with 15 years of experience in visa/ passport/ consular/ citizen services with 62 countries and 36 government clients. On account of agile proprietary process, large and complex data handling capability, ensuring quick turnaround times with the help of Integrated scheduling and processing systems, the company is uniquely positioned among its peers'. Visa outsourcing industry is pegged at \$ 3.5bn of which only 31% is currently outsourced (BLS claims a ~4% market share) providing huge revenue runway for existing players.

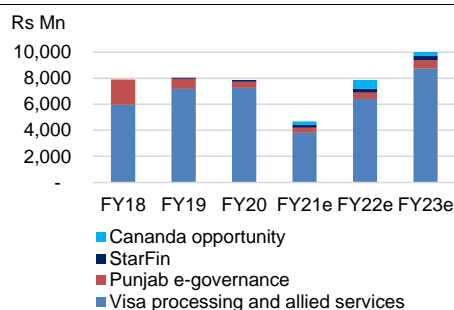
#### Exhibit 9: BLS capabilities

	FY16	FY17	FY18	FY19	FY20
No. of Clients served	7	23	36	36	36+
Applications processed (in Mn)	1.5	4.1	10.7	8.4	8.82
Countries of presence	12	22	62	62	62+
Centers of presence	40	44	2325	2325	2325

Source: Company

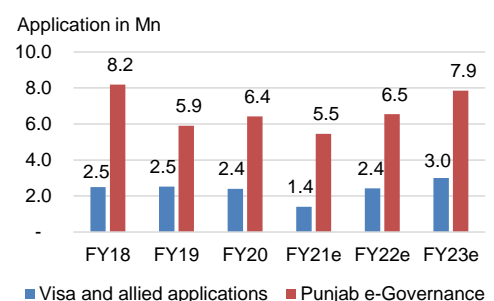
BLS has processed ~47mn applications so far

#### Exhibit 10: Change in Business mix



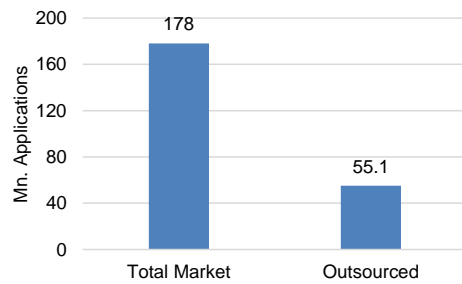
Source: Company, Our Projections

#### Exhibit 11: No of applications processed by BLS

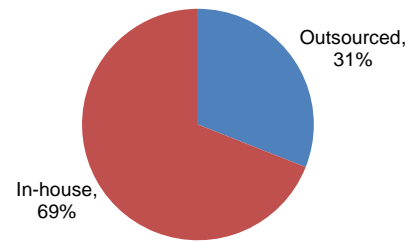


**Exhibit 12: Visa outsourcing market insight**

**Visa application market size by application**



**Visa processing market Outsourced vs In-house**



Source: Industry

*BLS has seen 26% growth in realisations through strategic increase in the contribution from VAS during FY18-20*

**Potential to increase the realisation:**

Visa processing / tech-enabled service contracts have three elements:

- Visa /document fees (which is handed over to the respective governments),
- Visa processing charges (fixed charges per application, retained by BLS) and
- Value added services (VAS) for hassle free visa processing (retained by BLS).

Over the years, BLS has managed to improve its realisations on account of strategically increasing the contribution from VAS. Realisations have improved from Rs 2,394/ application in FY18 to Rs 3,030 in FY20, a growth of over 26%. At the same time, the number of applications processed (volumes) reflect a flat growth, with 2.49 mn applications being processed in FY18 and 2.4 mn applications being processed in FY20. The subdued volumes in FY20 also reflects the post CoVID impact on account of global travel restrictions. Going forward, we expect realisations to improve further on account of increased offerings in its value-added services like document pick up /drop from home, mobile biometrics from the comfort of home etc..

**Exhibit 13: VAS services provided by BLS**

Standard	Premium	Platinum
Photocopy	Premium lounge	Mobile biometric
Courier services	Form filling	Prime time visa appointment
Internet facility	Insurance	Walk-in without appointment
	SMS alert	Home delivery -pickup services
	Translation services	

Source: Company

*BLS enjoys exclusive contract with the government of Spain covers 47 countries of presence and 122 centers managed on behalf of the Spain mission*

**Exclusivity with Spain:**

BLS bagged the global visa contract for Spain in FY17, in which 47 countries of presence and 122 centres were to be managed by BLS on behalf of the Spanish government. Spain ranks as the 2nd most visited nation since the last 5 years (2019: total tourist arrival of 84mn). Based on the last 5 year data available, Spain has witnessed the 2nd fastest growth, of 6% CAGR in Visa applications, after Germany. Extrapolating this, we believe Spain can surpass Germany and Italy to gain 2nd rank by 2023 (post normalisation of COVID-19 impact). Assuming the processing fees + VAS charges at €15/application, we conservatively foresee Rs. 1bn of incremental sales opportunity for BLS by FY23. However, this is dependent on BLS’ ability to renew its contract for the Spain mission and thereby continue the momentum in revenue growth from this contract.



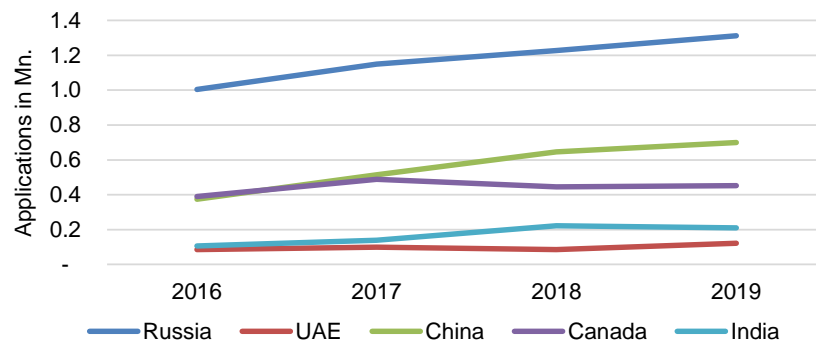
**Exhibit 14: Tourist arrival in Spain from different countries**

Nos. in Mn	2016	2017	2018	2019	CAGR%
<b>Total</b>	<b>75.3</b>	<b>81.9</b>	<b>82.8</b>	<b>83.7</b>	<b>3.6</b>
Germany	11.2	11.9	11.4	11.2	-0.1
Belgium	2.3	2.5	2.5	2.5	3.3
France	11.3	11.3	11.3	11.2	-0.3
Ireland*	1.8	2.0	2.1	2.2	6.4
Italy	4.0	4.2	4.4	4.5	4.6
Netherlands	3.4	3.7	3.9	3.7	3.3
Nordic countries*	5.1	5.8	5.8	5.5	2.7
Portugal	2.0	2.1	2.3	2.4	6.9
UK	17.7	18.8	18.5	18.1	0.8
Russia*	1.0	1.2	1.2	1.3	9.3
Switzerland	1.7	2.1	1.9	1.8	2.3
Rest of Europe	5.0	5.5	6.0	6.4	8.5
USA*	2.0	2.6	3.0	3.3	18.5
Rest of America*	2.6	3.2	3.4	3.8	13.7
ROW*	4.3	4.9	5.1	5.7	9.6

Source: INe

\* Ex- Europe countries – where visa is required

The Company scaled presence in Russia on behalf of the Spanish mission to 28 locations and in China to 15 locations

**Exhibit 15: Top 5 countries for Spain visa processing for BLS**

Source: INe, Company

## Signs of recovery

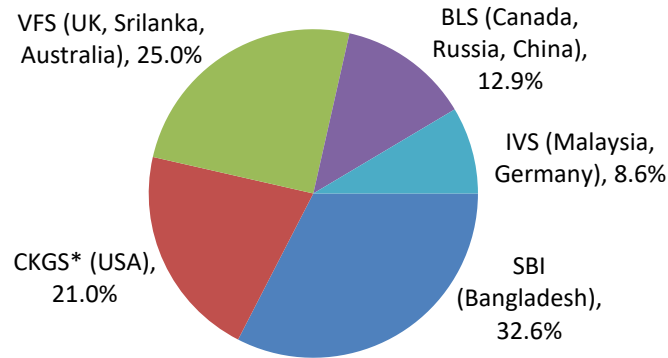
Travel and tourism, all over the world, has been badly hit due to COVID-19. As per UNWTO report, international tourism was down by 22% in Jan- March 2020 and could further decline to 60-80% over 2020. However, few European countries like Spain are opening up its economy for tourism. We expect growth in Spain visa applications to normalise by FY22 on account of (1) expectation of normalcy and a return to pre COVID-19 levels in the next 6-9 months (2) expectation of pent-up demand in the system to boost tourism.

The top 10 countries contributes ~66% to total no of travels in India

## Enjoys ~12.9% market share in India visa amongst the top 10 destination visits

BLS is one of the outsourced visa partner for India mission. India has seen travel and tourism growth of 8 % over last 10 years. The top 10 countries contributes ~66% to total no of travels in India. BLS has ~ 12.9% market share amongst top 10 destination visits. Further, (refer below chart) share of US visitors ~ 13.8% in top 10 destinations visits is undergoing bidding process. We believe, travel will come to normalcy in next 6-9 month.



**Exhibit 16: India Mission visa processing outsourcing companies**

Source: mea.gov.in

\* CKGS India visa in USA; contract undergoing bidding process

**Exhibit 17: Foreign tourist arrivals in India by source country**

(Volume in mn)	2016	2017	2018
Bangladesh	1.4	2.2	2.3
United States	1.3	1.4	1.5
United Kingdom	0.9	1.0	1.0
Sri Lanka	0.3	0.3	0.4
Canada	0.3	0.3	0.4
Australia	0.3	0.3	0.3
Malaysia	0.3	0.3	0.3
China	0.3	0.2	0.3
Germany	0.3	0.3	0.3
Russia	0.2	0.3	0.3
<b>Total of top 10</b>	<b>5.6</b>	<b>6.6</b>	<b>6.9</b>
Other countries	3.2	3.4	3.6
<b>Grand total</b>	<b>8.8</b>	<b>10.0</b>	<b>10.6</b>

Source: mea.gov.in

69% of the in house visa market is untapped

**US visa optionality - upside risk to our estimates**

US visa processing, contributing 1.5 mn (13.8%) of the 10.6 mn visitors to India in 2018, is open for bidding. At present, this contract is with Cox and Kings, and the group is facing financial difficulties. In our view, the three players that may bid for the contract could be (1) BLS (2) VFS and (3) IVS. Based on our assessment, this contract alone is a Rs. 3 bn annual revenue opportunity. Given its technological edge and strong track record, BLS has a bright chance to bag this contract. We have not considered earnings from this opportunity in our forecast (and thereby, a positive risk to our estimates).

**Global presence in niche untapped market**

There is a substantial gap between visa service providers and number of travelers in the world which gives exposure to the companies like BLS. Large scale organized players are very few at global scale hence these companies can get early bird advantage to grab the business opportunities. Thus with strict criteria to qualify as a bidder, the competition is very few and sparse.

BLS is one of the large scale service provider and has global presence with 2,325 global offices, 5,000 employees of different nationalities from offices spread across 62 countries. It customizes the requirements of each country to its local needs as it has its own proprietary software for providing service. It also collaborates with local countries requirement of data storage in their own country servers and protecting privacy of its citizen. It has security clearances of all developed countries and hence is passing all stringent criteria's to bid in top tourist countries – USA, Spain, France, UK, Canada, Russia etc. Given below are the recent contracts won by the company:

Strong presence in a growing and untapped market with high entry barriers for new players

**Exhibit 18: Recent contracts won by BLS**

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- The Spanish mission entitles BLS to manage 122 citizen and consular service centres in 47 countries. BLS also scaled their presence in Russia and China, establishing 28 centres in Russia and 15 in China on behalf of the Spanish mission.
- Visa application centres for Portugal have also been rolled out in Russia
- Started the Vietnam Visa application centre in Turkey
- Started Brazil Visa application centre in Lebanon,
- Started Morocco Visa application centre in India.
- Started Dubai rulers court and is also offering Tawseel services in the UAE.
- Also entered into a contract with the Ministry of Foreign Affairs in Italy.
- Commenced operations for the processing of Italian visa applications in Singapore.
- BLS was awarded another prestigious project to represent France in Jordan, after showcasing their expertise in multilingual service for call centres.
- BLS has been chosen as the only authorized entity for handling 'Attestation and Legalization Services' for the embassy of Vietnam in India.
- The Company is also processing visa applications for people travelling to Vietnam, through 15 centres in India.

## Tech enabled business segment - big opportunities

*BLS is a preferred customer due to strong financial position, robust technical infrastructure and ability to provide maximum data security*

BLS is also present in tech-enabled services, in which it provides Government to Citizen (G2C) and Government to Government (G2G) services. BLS's foray in this vertical was marked by it winning the Punjab state government contract (G2C) in FY17. This was followed, in quick succession, with other G2C contracts wins like (1) Contract from the Embassy of Afghanistan in 2017 (2) UAE Ministry of External Affairs, for which it provides customized solutions for their seven centers. Some of the more recent prestigious contracts BLS has bagged are (1) contract from Ministry of foreign affairs, Government Of Egypt, in which Al Wafi Governmental Services Corporation will work in exclusive strategic alliance with BLS (2) contract from RCMP's Canadian Criminal Real Time Identification Services (CCRTIS).

In our view such opportunities can help BLS scale up its G2C segment, thereby helping de-risk their business from a catastrophe. (e.g. COVID 19 where the whole tourism sector faced sharp headwinds)

## Renewed Punjab government project - better revenue predictability

BLS has successfully re-negotiated its Punjab state e-governance contract in August 2018. As per the new contract, while the Punjab government will provide all the establishment and fixed assets, BLS has to only incur operational expenses. Also, it has been mandated to collect the fees, from citizens availing its services, upfront. This is in stark contrast to the earlier contract in which BLS had to invest in the infrastructure needed and also deposit the fees collected, from the citizens, with the Government. The company would only be subsequently reimbursed its share of revenues (as per contractual terms), which resulted in its working capital cycle bloating to 98-100 days in FY19 (34 days in FY17).

*BLS delivers 353 services under Punjab e-governance contract*

In the Punjab e-governance contract, BLS delivers 353 services (such as death, birth, and marriage certificates etc.) across +2,000 citizen service centres facilitated by the government. The range of citizen supports being offered by BLS has increased from 168 to 353.

With a population of +30mn, we see the Punjab G2C contract as a huge opportunity for BLS. With the new model addressing the working capital issues BLS had to face (under the old contract), this makes it a more profitable proposition for BLS. We acknowledge the CoVID-related volumes impact that this vertical may face in Q4FY20 and Q1FY21. We conservatively estimate a 6% CAGR in volumes over FY21-23 in this contract, assuming the environment to normalize over the next 6-9 months.

## StarFin – a 100% subsidiary in the Banking Correspondent business

StarFin is a 100% subsidiary of BLS. With a robust network of 1,593 centres, across 11 North Indian states, StarFin acts as a business facilitator to traditional financial service providers lacking the last mile connectivity. StarFin thereby facilitates the financial inclusion of the underbanked population of the country. Presently StarFin has procured the National BC license from India's largest bank, State Bank of India (SBI), for whom they handle an average of Rs. 3.5 bn worth transactions on an annual basis.

*StarFin currently manages ~1400 customer service points (CSPs) for SBI, & have recently been approved to open another 400 CSPs by end of FY21*

### Exhibit 19: Services offered by StarFin under National BC License

1) Money Transfer	2) Cash Deposits, Cash Withdrawal, AePS Withdrawal	3) Savings Account, Recurring Deposits
4) Social Security Scheme / Jan Dhan & PMY Schemes	5) Identification of Borrowers	6) Preliminary processing of Loan Applications
7) Promotion and Nurturing of SHGs	8) Follow up for Recoveries	9) Recovery for Principle and Interest
10) Sale of Microcredit products, Mutual Funds, Insurance, etc		

Source: Company

While StarFin currently manages a total of 1400 customer service points (CSPs) for SBI, they have recently been approved to open another 400 CSPs by this year end (FY21). Parallely, StarFin is also in discussions with other large banks to offer similar services to them and is also in the process of acquiring IRDA License that permits it to function as a corporate agent for Insurance Products.

With regulatory tailwinds (Pradhan Mantri Jan Dhan Yojana) and financial inclusion ambitions of the Indian government, this business line has a huge opportunity for BLS. We expect StarFin to report revenues of Rs. 380 mn by FY23 (Rs. 138.7 in FY20), a 61% CAGR, on account of (1) deeper reach (2) adding other financial products like insurance which, incidentally, enjoy higher EBITDA margins (20-22%).

*BLS won big Canadian contract in FY21 with higher EBITDA margin*

## Canada big opportunity ahead

Very recently, BLS was awarded a contract from RCMP's (Royal Canadian Mounted Police), Canadian Criminal Real Time Identification Services (CCRTIS,) for Real time Finger Printing Capture predominantly within Canada. Under CCRTIS, every visitor entering Canada with a long duration visa (including new immigrants as Students, Permanent Residents, Citizenship, Job seekers, Canadian Government Employees and others categories) needs to get their biometric (fingerprint) assessment done from one of the 4 registered vendors, which is eventually stored in the Canadian Police records. BLS is one of the 4 other vendors approved to provide these services in Canada. This service itself witnessed annual volumes of ~5mn fingerprint assessment, in the pre-CoVID era.

*RCMP Fingerprints counts expected to have a yearly volume of ~5 mn applications including outside Canada.*

It may be noted that BLS already has an established presence in Canada, by virtue of its 9 offices across the country from where it offers visa processing and other allied services. BLS intends offering its new service (fingerprint recording) in the Canadian contract through these centres itself, which would imply higher profitability for the business. We believe incremental revenues of Rs 268 mn /536 mn/ 670 mn in FY21/FY22 /FY23, from this contract alone, driven by our assumptions of (1) No of annual fingerprint assessments would decline to 1 mn in FY21 (vs the 5 mn witnessed in prior years) (2) BLS manages to gain only a 20% wallet share in these applications. Given that no incremental expenses are needed to be incurred by BLS, for offering this service, also implies much higher EBITDA margins of ~30-40% from the contract.

## Superior Technology to provide an edge over competitors

BLS International is a ISO 9001, ISMS 27001, ISO 23026 certified company. It has a state of art digital infrastructure with capabilities of handling large and complex data. It ensures data security through its personal as well as cloud-based platforms. BLS has demonstrated ability to deploy a robust technology platform, engage agile proprietary processes and utilize the expertise of trained staff that enables them to seamlessly execute projects.

*BLS was one of the first to introduce innovative and new technologies such as mobile biometrics*

A faster and smoother data transfer to the government, reduces the scope of data tampering and helps bring down the cost to the government. While countries globally have demonstrated their intent to outsource such specialised offerings, several Indian states like Haryana, Delhi, Odhissa are also doing so and are reported to be looking at replicating the Punjab state model in their respective states.

BLS has launched a Mobile Biometric system, Prime Time visa appointment facilities and other allied services to seamlessly conduct complex tasks and thereby, contribute towards greater operational eloquence. Recently, it has upgraded appointment systems in Morocco to check no-shows against available slots. After making an appointment from the BLS site, applicants need to make prepayments through banks to confirm the appointment within 3 days. Similarly, in Algeria, BLS has implemented a 2-way authentication system for online bookings to ensure maximum data security. For the Portugal govt, The Company boasts of a unique solution that transfers biometric data and other personal information of applicants directly to the Portuguese ministry's servers in real time without human intervention. It allows the local mission to process applications faster and significantly reduces turnaround time.

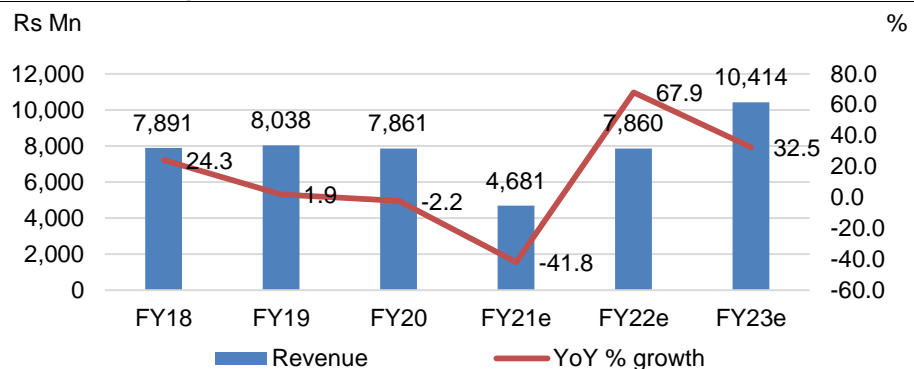
BLS is National Security Framework Scheme (ENS) Certified. The National Security Framework (ENS) provides the Public Sector in Spain with a common security approach for the protection of the information it handles and the services it provides; it promotes the continuous security management, which is key for the digital transformation in a context of cyber threats; at the same time it facilitates cooperation and provides an uniform set of requirements to the Industry, constituting as well a reference of good practices.

## Financial Summary

### Revenue to grow at 10% CAGR

The impact of COVID-19 has been felt across the globe, with subdued revenues being reported by companies across sectors. Although travel and tourism (main stay of BLS) is amongst the most impacted sectors in the last 6 months, BLS has managed to report much better numbers, ~30% of its revenues being contributed by consular services which remained un-impacted, relatively. We expect 48% de-growth in revenues in FY21, which will normalize from FY22 onwards. On a conservative basis, we expect revenues to grow at a CAGR of 10% over FY20-23e vs 12% CAGR for last five years.

#### Exhibit 20: Revenue growth at 10% CAGR

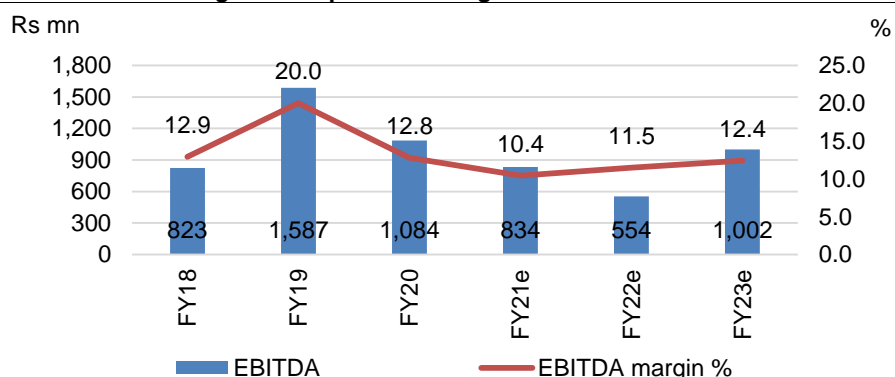


Source: Company, Our Projections

### EBITDA margins to revive from FY21:

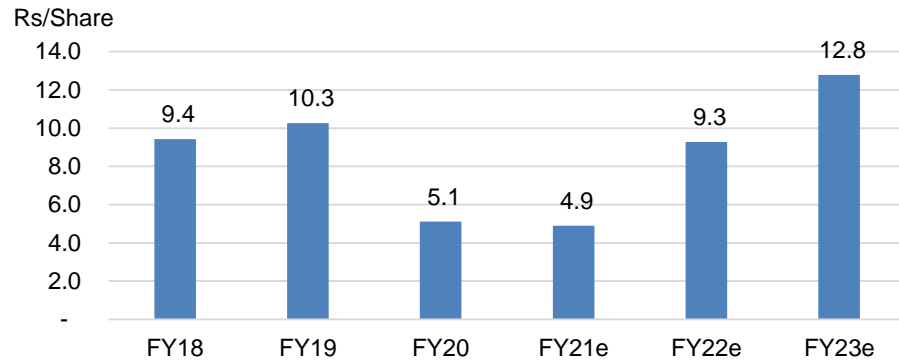
During the last two years the EBITDA margins of BLS was impacted by (1) closure of UK subsidiary (UKIV) and (2) renegotiating of Punjab e-governance contract. We believe the headwinds are behind, and BLS to post a 250 bps improvement in EBITDA margins, with a 20% CAGR in EBITDA over FY20-FY23 largely driven by (1) increasing share of value added services (VAS) with citizens assumed to prefer being served in the comfort of their homes (2) improving business mix, with increased contribution from tech-enabled services (3) StarFin and Canada contract to contribute to higher margins.

#### Exhibit 21: EBITDA margins to improve with higher contribution



Source: Company, Our Projections

**Exhibit 22: EPS growth to improve**

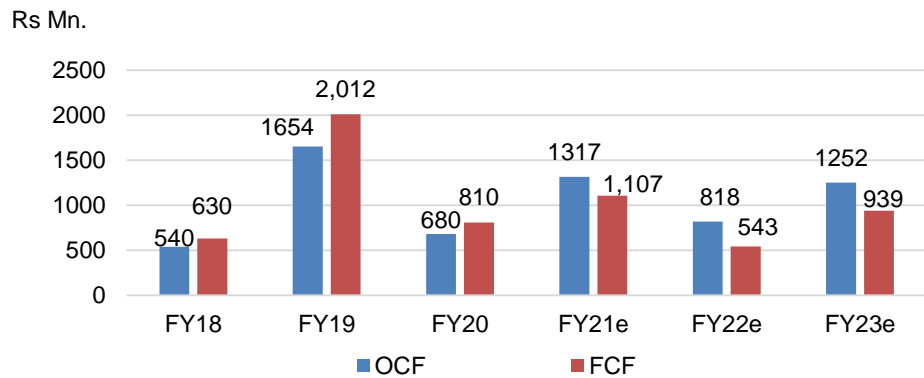


Source: Company, Our Projections

**High free cash generating model**

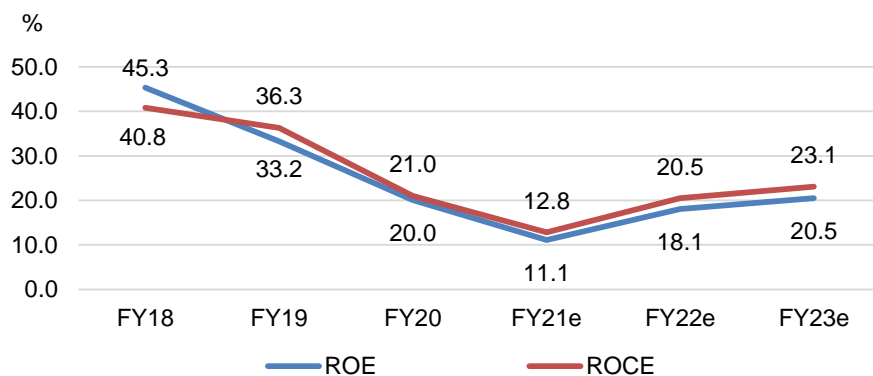
BLS presently operates a high free-cash generating model, in which it collects the service fees upfront (in its Visa processing as well as tech-enabled business). Furthermore, it follows a lease model, for most of the centers it operates from, leading to lower capex requirements. BLS is a zero debt company and has generated positive cash flow from Operations, consistently over the last 5 years. It has reported cash balance of Rs. 239 Cr in FY20. The company has generated Rs.3.4bn FCF from FY18 to FY20 and we expect it to generate Rs 2.6bn of FCF in FY21-23.

**Exhibit 23: FCF to improve in next three years**



Source: Company, Our Projections

**Exhibit 24: Return ratios to improve**



Source: Company, Our Projections



## Key risk

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**Delay in revival in international travel:** While we expect a normalcy in international travel gradually by Q4FY21, any delay in this due to the extended impact of the COVID-19 pandemic can pose a risk.

**Concentration risk:** Revenues from the Spain contract contributes a meaningful share in BLS' overall revenues. With this contract scheduled for renewal in December 2021, it poses a revenue risk for BLS. The management remains optimistic for an extension, beyond the contracted time period, citing CoVID as the reason for the extension. As also, the company intends increasing the contribution from tech-enabled services business to derisk its business model.

**e - Visas & visa on arrival:** In order to promote tourism, a lot of countries have been offering e-Visas for tourists. Any increase in such offerings would reduce the need for outsourcing visa applications.

**Currency Risk:** With most of BLS's revenues billed in international currencies, BLS remains exposed to foreign exchange volatilities. Any adverse fluctuation in foreign currency can have major implications on the profitability of business.

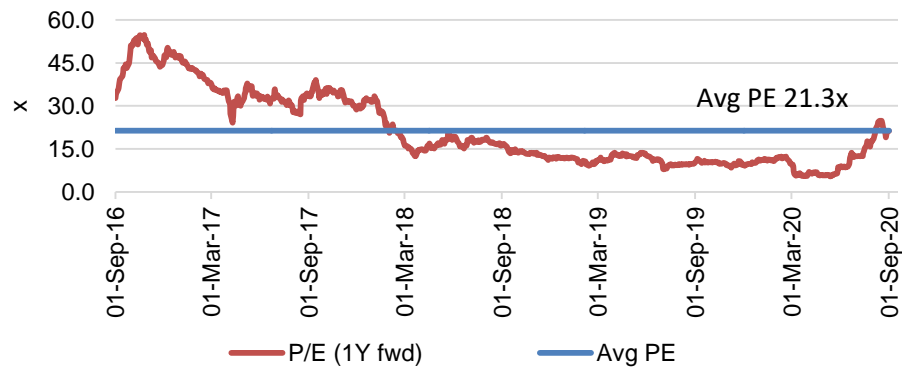
**Lower Tax rate on subsidiaries:** BLS' international business gets consolidated in its Dubai subsidiary, where the effective tax rate was only 3% in FY20. Any change in this tax rate by downstream countries or introduction of new taxes by UAE could have a negative impact on the company.

## Valuation:

We believe BLS to post revenue/ EBITDA/ PAT CAGR of 10%/ 18%/ 36% over FY20-23e. Low capex requirement, coupled with lower working capital, helps the company generate high OCF and FCF to Rs 3.41bn / 2.6bn over FY21-FY23 respectively. We are positive on the long term prospects of the company and believe the stock is currently undervalued. The fair value of Rs.192 implies P/E multiples of 21.7x FY21e (depressed earnings base due to CoVID-19), 11.5x FY22e and 8.3x FY23e EPS vs.5 year average historic multiple of 21.3x.

*With benefits of the business model being asset-light in nature and free cash generating, valuations could get a boost.*

**Exhibit 25: Relative Stock Performance (One-Year Forward)**



Source: NSE, Our Research

## Company Profile

BLS is one of the top three global players, with a total experience of 15 years in visa/ passport/ consular/ citizen services. In the year 2005, it won the first contract for providing visa processing services to the Portuguese Embassy in New Delhi. Within the last 15 years, BLS has managed to expand its presence in 62 countries and 36 government clients, to whom they offer consular services (such as visa application processing, biometric identity management, and attestation). BLS also has a presence in tech-enabled services (G2C - Government to citizen) business.

### Complexity of the business:

47 mn applications processed till date,

Presence in 62+ countries,

2,325 centres across the globe,

5,000 onroll employees and associates from 60+ nationalities,

5-10% attrition rate

Exhibit 26: BLS Business Model

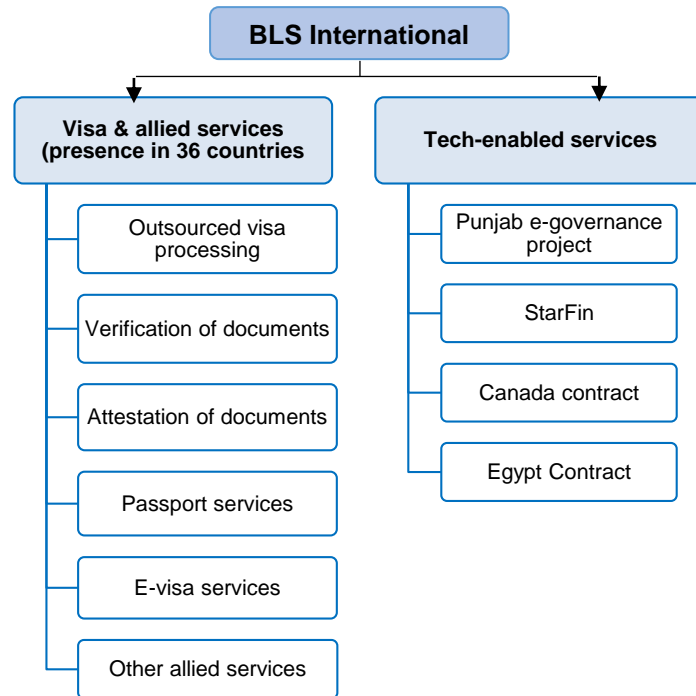
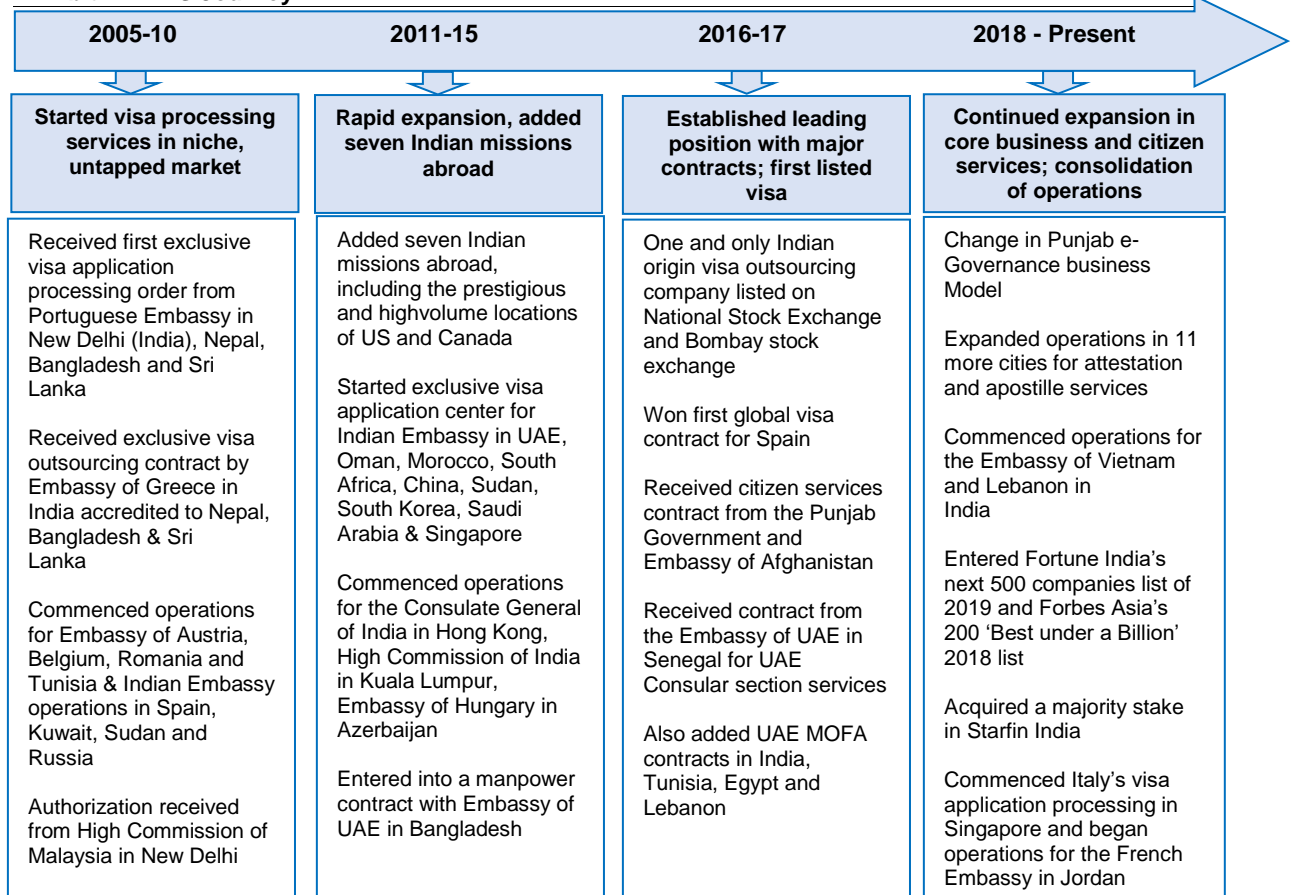


Exhibit 27: BLS Journey



**Exhibit 28: Management details**

Mr. Nikhil Gupta	Managing Director	Mr. Nikhil Gupta is a Chartered Accountant by profession, with over 37 years of experience in consulting, finance and leadership roles in both MNCs and Indian conglomerates. He has also been formerly associated with Price Waterhouse Coopers, Novartis India, Raychem RPG and RPG Cables. Holds Economics (Hons) from Delhi University and is an Associate Member of the Institute of Chartered Accountants of India (Merit List)
Mr. Shikhar Aggarwal	Joint Managing Director	Mr. Shikhar Aggarwal has been associated with the company since 2014 and looks after various verticals of the company. A young, vibrant and dynamic professional, he holds a Bachelor's degree from Delhi University. In a very short span of time, his proactive initiative-taking strategy has helped take the business operations to a new level.
Mr. Karan Aggarwal	Executive Director	A graduate in Finance & Management from University of Bradford, UK, and has completed the specialisation course in Finance from Harvard University. He has a decade-long experience across diversified fields and has also been involved in leading multiple organisations, such as, BLS Polymers, BLS Ecotech and BLS International. He is instrumental in setting up new subsidiaries and all their finances.

Source: Company

**Exhibit 29: Income statement**

Y/E Mar (Rsmn)	FY18	FY19	FY20	FY21e	FY22e	FY23e
<b>Net sales</b>	<b>7,891</b>	<b>8,038</b>	<b>7,861</b>	<b>4,681</b>	<b>7,860</b>	<b>10,414</b>
Cost of services	4,944	5,381	5,498	3,230	5,384	7,123
Employee cost	527	668	675	392	643	831
Other expenses	833	905	855	504	831	1,081
<b>Expenditure</b>	<b>6,303</b>	<b>6,954</b>	<b>7,027</b>	<b>4,127</b>	<b>6,859</b>	<b>9,035</b>
<b>EBITDA</b>	<b>1,587</b>	<b>1,084</b>	<b>834</b>	<b>554</b>	<b>1,002</b>	<b>1,379</b>
<i>EBITDA margin (R)</i>	<i>20.1</i>	<i>13.5</i>	<i>10.6</i>	<i>11.8</i>	<i>12.7</i>	<i>13.2</i>
Depreciation	396	190	122	118	140	162
<b>EBIT</b>	<b>1,191</b>	<b>894</b>	<b>713</b>	<b>436</b>	<b>862</b>	<b>1,217</b>
Interest & finance charges	124	103	16	22*	22*	22*
Other income	41	426	130	144	217	260
<b>PBT</b>	<b>1,108</b>	<b>1,217</b>	<b>826</b>	<b>558</b>	<b>1,056</b>	<b>1,455</b>
Tax	143	165	24	56	106	145
<i>Effective rate (%)</i>	<i>12.9</i>	<i>13.6</i>	<i>3.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>
<b>PAT</b>	<b>965</b>	<b>1,052</b>	<b>802</b>	<b>502</b>	<b>951</b>	<b>1,309</b>
<b>Adjusted PAT</b>	<b>965</b>	<b>1,052</b>	<b>524</b>	<b>502</b>	<b>951</b>	<b>1,309</b>
<i>PAT margin (R)</i>	<i>12.2</i>	<i>13.1</i>	<i>6.7</i>	<i>10.7</i>	<i>12.1</i>	<i>12.6</i>

\*Bank guarantee charges booked under interest

**Exhibit 30: Balance sheet**

Y/E Mar (Rsmn)	FY18	FY19	FY20	FY21e	FY22e	FY23e
Equity capital	102	102	102	102	102	102
Reserves	2,504	3,623	4,181	4,684	5,634	6,944
<b>Net worth</b>	<b>2,606</b>	<b>3,725</b>	<b>4,284</b>	<b>4,786</b>	<b>5,737</b>	<b>7,046</b>
<b>Loans</b>	<b>930</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Long term borrowings	930	9	-	-	-	-
Short term borrowings	-	-	-	-	-	-
	<b>3,536</b>	<b>3,734</b>	<b>4,284</b>	<b>4,786</b>	<b>5,737</b>	<b>7,046</b>
<b>Net block</b>	<b>405</b>	<b>329</b>	<b>310</b>	<b>292</b>	<b>252</b>	<b>190</b>
Intangibles	90	208	102	102	102	102
<b>NFA</b>	<b>495</b>	<b>537</b>	<b>412</b>	<b>394</b>	<b>354</b>	<b>292</b>
Non current Investments & assets	278	284	285	285	285	285
<b>Curr.Assets, L &amp; adv.</b>	<b>3,925</b>	<b>3,933</b>	<b>3,995</b>	<b>4,328</b>	<b>5,449</b>	<b>6,925</b>
Inventory	-	-	-	-	-	-
Sundry Debtors	2,123	1,762	1,127	385	646	856
Cash & Bank Balances	1,189	1,741	2,393	3,610	4,328	5,480
Loans & advances	-	-	-	-	-	-
Other current assets & current invest.	613	430	475	334	475	588
<b>Current Liab. &amp; Prov.</b>	<b>1,162</b>	<b>1,020</b>	<b>408</b>	<b>221</b>	<b>351</b>	<b>456</b>
Current liabilities	758	759	215	128	214	284
Sundry Creditors	388	238	165	64	108	143
Other current Liabilities	-	-	-	-	-	-
Provisions	16	23	29	29	29	29
<b>Net Current Assets</b>	<b>2,763</b>	<b>2,913</b>	<b>3,587</b>	<b>4,107</b>	<b>5,098</b>	<b>6,469</b>
<b>Application of Funds</b>	<b>3,536</b>	<b>3,734</b>	<b>4,284</b>	<b>4,786</b>	<b>5,737</b>	<b>7,046</b>

Source: Company, Our Projections

**Exhibit 31: Ratios**

Y/E Mar	FY18	FY19	FY20	FY21e	FY22e	FY23e
<b>Valuation (x)</b>						
P/E	11.3	10.4	20.8	21.7	11.5	8.3
P/BV	4.2	2.9	2.5	2.3	1.9	1.5
EV/EBITDA	7.3	7.2	11.3	15.6	9.0	6.7
EV/Sales	1.5	1.4	1.4	2.3	1.4	1.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financial Ratios</b>						
RoE (%)	45.3	33.2	20.0	11.1	18.1	20.5
RoCE (%)	40.8	36.3	21.0	12.8	20.5	23.1
Asset/T.O (x)	2.5	2.6	2.2	2.0	1.0	1.5
Debt/Equity (x)	0.4	0.0	-	-	-	-
EBIT/Interest (x)	9.6	8.7	44.5	19.8	39.2	55.3
<b>Margins (%)</b>						
EBITDA Margin (%)	20.1	13.5	10.6	11.8	12.7	13.2
EBIT Margin (%)	15.1	11.1	9.1	9.3	11.0	11.7
PAT Margin (%)	12.2	13.1	6.7	10.7	12.1	12.6

**Exhibit 32: Cash flow statement**

Y/E Mar (Rsmn)	FY18	FY19	FY20	FY21e	FY22e	FY23e
Reported Net Income	965	1052	524	502	951	1309
Depreciation & amort.	396	190	122	118	140	162
(Inc)/dec in wkg. capital	-821	412	35	697	-272	-219
Other items	0	0	0	0	0	0
<b>CF from op. activity</b>	<b>540</b>	<b>1654</b>	<b>680</b>	<b>1317</b>	<b>818</b>	<b>1252</b>
(Inc)/dec in FA+CWIP	17	637	-38	-100	-100	-100
(Pur)/sale of invest.	42	-6	-1	0	0	0
<b>CF from inv. activity</b>	<b>59</b>	<b>631</b>	<b>-39</b>	<b>-100</b>	<b>-100</b>	<b>-100</b>
Inc./(dec) in networth	0	0	0	0	0	0
Inc/(dec) in debt	91	-921	-9	0	0	0
Dividends paid	-37	-52	-154	-102	-154	-205
Other items	-163	-759	173	102	154	205
<b>CF from fin. activity</b>	<b>-108</b>	<b>-1732</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Inc/(dec) in cash</b>	<b>491</b>	<b>553</b>	<b>652</b>	<b>1217</b>	<b>718</b>	<b>1152</b>
Add: beginning balance	697	1189	1741	2393	3610	4328
<b>Closing balance</b>	<b>1189</b>	<b>1741</b>	<b>2393</b>	<b>3610</b>	<b>4328</b>	<b>5480</b>

Source: Company, Our Projections

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**Disclaimer:**

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