

Rating: Neutral

Issue Offer

Fresh Issue of 23,030,000 equity shares up to INR 3,019mn

Issue Summary

Price Band (INR)	129-135
Face Value (INR)	10
Implied Market Cap (INR Mn)	12,117
Market Lot	108
Issue Opens on	Jan, 30, 2024
Issue Close on	Feb, 1, 2024
No. of share pre-issue	6,67,26,485
No. of share post issue	8,97,56,485
Listing	NSE, BSE

Issue Break-up (%)

QIB Portion	75%
NIB Portion	15%
Retail Portion	10%

Book Running Lead Managers

Unistone Capital Pvt Ltd

Registrar

KFin Technologies Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	92.28%	74.35%
Public & Others	7.72%	25.65%

Objects of the issue

- Tech Upgrade and platform consolidation
- Organic growth via BLS store funding
- Inorganic growth through acquisitions
- General Corporate purpose.

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BLS-E Services Limited, established in 2016, is a technology-oriented digital service provider based in India. The company specializes in delivering Business Correspondents services to major banks, as well as offering Assisted E-services and E-Governance Services at the grassroots level. Their primary focus is to provide access points for a diverse range of essential public utility services, social welfare schemes, healthcare, financial, educational, agricultural, and banking services for both governments and businesses. The company's merchants, organized into BLS Touchpoints and BLS Stores, play crucial roles in connecting with consumers and delivering a broad spectrum of services. BLS Stores, in particular, offer a comprehensive suite of offerings, allowing consumers to sample goods before making purchases. As of September 30, 2023, the company boasts 98,034 BLS Touchpoints, which include 1,016 BLS Stores.

Investment Rationale

Operating on the asset-light business model: The company operates an asset-light business model, leveraging merchant-led networks with minimal capital expenditure. Their technology-driven approach facilitates widespread coverage, efficient onboarding, and cross-selling opportunities, enhancing gross margins and operational efficiency for profitability. The primary operational model of the company revolves around franchising, though there are intentions to establish proprietary stores. Capital expenditures for these stores will be strategized going ahead.

Cross-Selling and Up-selling opportunities: The company's adept cross-selling of diverse products across industries reduces marketing expenses, boosting profitability. Utilizing a one-stop solution strategy and advanced data analytics, they anticipate customer behavior, enabling effective cross-selling and up-selling within their network. The BLS Sewa App has shown notable cross-sell success among consumers seeking various products.

Diverse revenue sources and negligible customer acquisition and retention costs: The company employs a multimodal revenue approach, generating income through service fees, transactional commissions, and various portal-related charges. Collaborations with State Governments and PSU Banks enable diverse product offerings, earning service fees or commissions per successful transaction.

Strengthening technology backbone: The company, as a technology-enabled service provider, has the opportunity to expand and establish itself as an implementer of innovative technologies in both government and private sectors. These innovations and the proposed service delivery model could unlock significant economic, societal, and governance value across various sectors like agriculture, health, skill development, e-commerce, and mobility.

Increased focus on acquisitions: The companies aim to strengthen capabilities through strategic investments and acquisitions, leveraging successful past experiences. They plan to selectively offer services globally, drawing on expertise from Indian government projects, and consider acquisitions to enhance existing infrastructure and services. In FY23 61% of the company's revenue came from BC business operated by subsidiaries, ZMPL and Starfin for banking partners. As these partners are regulated by RBI, any policy changes may negatively impact the company's business.

Valuation & Outlook: BLS E-Services has exhibited strong financial performance, with FY23 revenue reaching INR 2,430.6 Mn (CAGR of 56% Over FY21 – FY23) and a PAT of INR 203.3 Mn (CAGR of 86% Over FY21 - FY23). They are involved in various initiatives, including launching a service portal, establishing a data center, and creating BLS stores. To tackle heightened competition, the company intends to invest in research, sales, marketing, and customer support. The company is currently limited to operations in three states and anticipates a gradual expansion into multiple regions due to increased competition. At the upper band of INR 135, the issue is valued at an EV/EBITDA of 26.04x based on FY23 EBITDA of INR 330.6 Mn and P/E of 44.7x based on FY23 EPS of INR 3.02. We have a "Neutral" rating for the issue.

Financial Statements

Income statement summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Revenue	645	967	2,431
Operating expenses	419	635	1,616
Gross Profit	225	332	815
Gross Margin (%)	35.0%	34.3%	33.5%
Employee Cost	38	64	232
Other Expenses	140	199	252
EBITDA	47	69	331
EBITDA Margin (%)	7.3%	7.2%	13.6%
Depreciation	(1)	(8)	(28)
Interest expense	(15)	(10)	(39)
Other income	7	17	32
Share of profits associate & JV	-	0.1	-
Profit before tax	39	68	270
Taxes	(8)	(14)	(66)
PAT	31	54	203
PAT Margin (%)	4.9%	5.6%	8.4%
EPS (INR)	0.5	0.9	3.0

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Equity capital	0	0	667
Reserves	14	68	402
Share allotment pending	83	83	-
Net worth	97	151	1,069
Minority Interest	-	-	45
Provisions	2	3	3
Debt	110	143	39
Other non-current liabilities	-	-	-
Total Liabilities	209	296	1,156
Fixed assets	1	2	11
Capital Work In Progress	-	63	49
Other Intangible assets	0	0	0
Goodwill	80	80	815
Investments	83	103	117
Other non current assets	35	42	101
Net working capital	(97)	(152)	(400)
Inventories	-	-	6
Sundry debtors	88	85	182
Loans & Advances	5	-	-
Other current assets	7	25	51
Sundry creditors	(16)	(79)	(25)
Other current liabilities & Prov	(181)	(184)	(614)
Cash	93	136	451
Other Financial Assets	14	21	13
Total Assets	209	296	1,156

Source: Company, Arihant Capital Research

Cashflow summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Profit before tax	39	68	270
Depreciation	1	8	28
Tax paid	(8)	(14)	(66)
Working capital Δ	97	55	248
Change in Goodwill	(80)	-	(735)
Operating cashflow	50	117	(256)
Capital expenditure	(2)	(72)	(22)
Free cash flow	47	45	(278)
Equity raised	(17)	0	843
Investments	(83)	(20)	(14)
Others	(48)	(15)	(50)
Debt financing/disposal	110	33	(104)
Dividends paid	-	-	-
Other items	2	1	0
Net Δ in cash	11	43	397
Opening Cash Flow		11	54
Closing Cash Flow	11	54	451

Source: Company, Arihant Capital Research

Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23
Growth matrix (%)			
Revenue growth		49.9%	151.4%
Op profit growth		46.5%	377.5%
Profitability ratios (%)			
OPM	7.3%	7.2%	13.6%
Net profit margin	4.9%	5.6%	8.4%
RoCE	22.3%	20.6%	27.3%
RoNW	32.5%	35.7%	19.0%
RoA	15.1%	18.2%	17.6%
Per share ratios (INR)			
EPS	0.52	0.89	3.02
Book value per share	1,406.0	6,793.9	16.0
Valuation ratios (x)			
P/E	259.6	151.7	44.7
P/B	0.1	0.0	8.4
EV/EBITDA	247.6	169.1	35.4
Payout (%)			
Tax payout	19.7%	20.6%	24.6%
Liquidity ratios			
Debtor days	50	32	27
Inventory days	-	-	1
Creditor days	(10)	(32)	(4)
WC Days	40	(0)	24

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 1: BLS E-Services revenue grew at a CAGR of over 56% over the period of FY21-FY23.

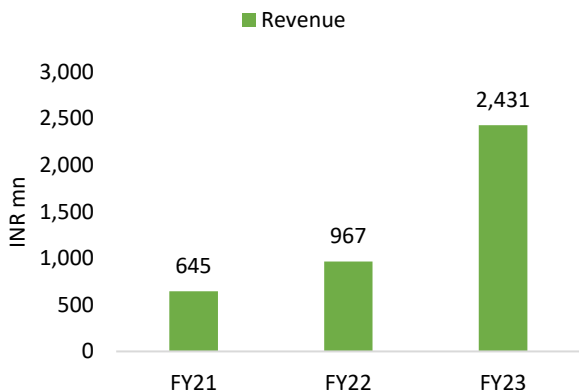


Exhibit 2: The gross margin has decreased in FY23, dropping from 35% in FY21 to 33.5%.

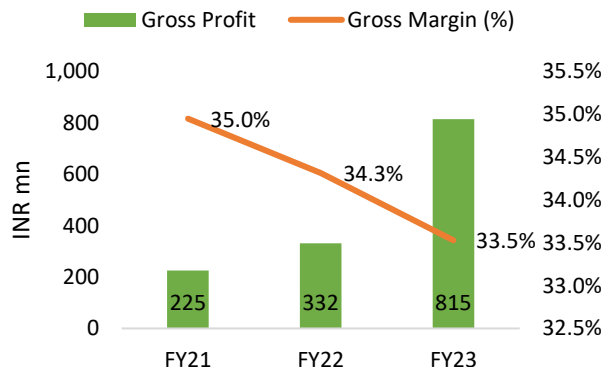


Exhibit 3: EBITDA and EBITDA Margins had robust growth in FY23.

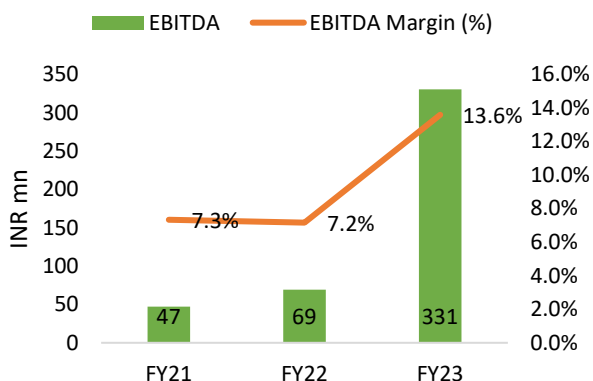


Exhibit 4: PAT grew from INR 54 Mn in FY22 to INR 203 Mn in FY23 and PAT Margin also increased from 5.6% to 8.6%.

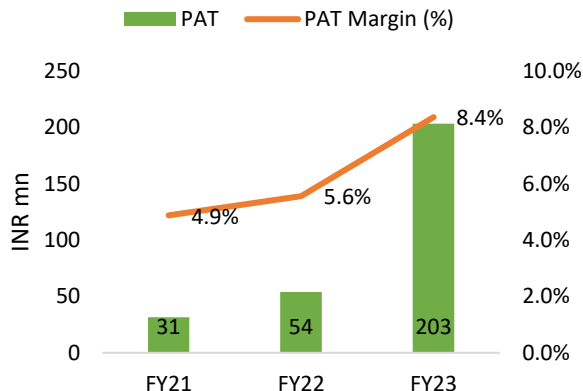
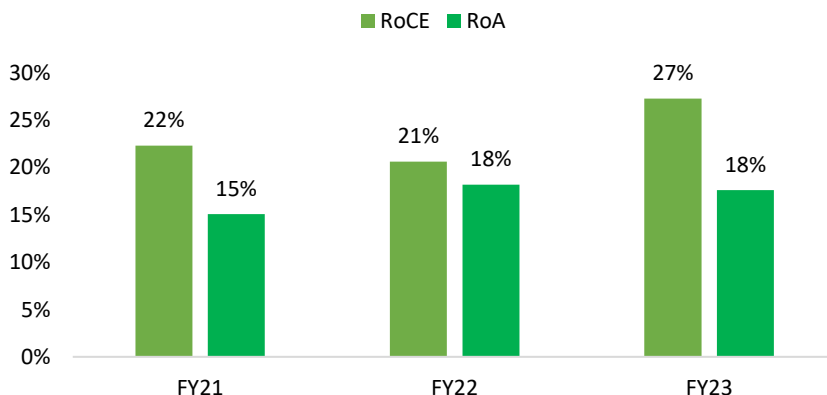


Exhibit 5: Return on Capital Employed and Return on Assets have not seen much improvement given the boost in revenue.



Source: RHP, Company Reports, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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