



**BLS International Services Limited Q1 FY23 Earnings  
Conference Call”**

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**MANAGEMENT: MR. SHIKHAR AGGARWAL – JOINT MANAGING DIRECTOR,**

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**Moderator:** Ladies and Gentlemen, Good day and welcome to the BLS International Services Limited Q1 FY23 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the belief, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

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I now hand the conference over to Mr. Shikhar Aggarwal – Joint Managing Director. Thank you and over to you, Sir.

**Shikhar Aggarwal:** Good afternoon everyone. I welcome you all to our Earnings Conference Call for Q1 FY23. I have on call with me today Mr. Nikhil Gupta – our Managing Director and Mr. Amit Sudhakar – Chief Financial Officer of the company. To start with I am happy to say that we have started with new fiscal year on a strong note. Our performance for Quarter 1 has been better than expected surpassing the previous quarter which was already above pre-COVID levels. With travel and tourism recovering rapidly across various regions we are witnessing robust month-on-month growth in business especially in our visa and consular services.

China and Russia comprised approximately 30% of visa and consular business till before COVID. Business in those countries has not recovered fully yet. Despite this, businesses from rest of the regions have already surpassed the combined business including China and Russia during the pre-COVID times. So, as travel resume in full swing in these two countries it should boost our revenues significantly going forward. In our visa and consular business growth would come from multiple fronts, new clients, new geographies, and enhanced services to existing clients. We will also focus on added value services which will help us utilize our existing network and infrastructure thus enhancing efficiency and margins.

This quarter has been particularly eventful for our business correspondence line of business. In line with our strategy to expand inorganically, on 7th June, we acquired a 88.71% stake in Zero Mass Private Limited, a business correspondent for SBI in India. The acquisition has further strengthened our BC business and will reduce our dependence on our existing lines of businesses. This move makes us the biggest BC for SBI across India.

The acquisition was made at an enterprise value of 135 crores of which 15 crore was debt and 120 crore was the net equity valuation. The debt has already been repaid. ZMPL’s contribution to the total top line was approximately Rs. 10 crore during 8th to 30th June alone. Quarter 2 onwards we expect a revenue of 35 crores to 40 crores per quarter from this. The acquisition is also expected to improve our ROCE going forward.

On the other front citizen services continue to grow with several new contracts that we won during the quarter like the contracts of the West Bengal government and the Karnataka government. I would conclude by saying that all our businesses are generating profit. We strongly believe that digitalization is a key in the post COVID world and therefore we will always try to use cutting edge technology in all our services. This is all from my side I now hand over to Mr. Amit Sudhakar for update on the financial performance. Thank you.

**Amit Sudhakar:**

Good afternoon everyone. Let me brief you on the financial performance for the first quarter ended 30th June 2022. During the quarter we reported a revenue of Rs. 272.7 crores a healthy increase of 52.7% YoY and 7.4% QoQ mainly driven by continued recovery in visa and consular business as well as citizen service businesses. Revenue was also supported by a contribution of about Rs. 10 crores from ZMPL during the quarter. We are seeing a good momentum in all our businesses and are optimistic of sustained growth in the coming quarters. Zero Mass Private Limited is a one of the largest business correspondent of SBI in India with about 11,500 active CSPs. It has more than 15% of all SBI business correspondence business.

This move gives our BC business a Pan India presence across all states and union territories. ZMPL also accounts for about 5% to 6% of all the bank accounts, deposit base and aggregated value of transactions of BC systems in India. EBITDA for the quarter stood at 31.5 crores compared to 18.8 crores in the corresponding quarter last year and 35 crore in Q4 FY22. EBITDA margin for the quarter stood at 11.4% which was about 100 basis point higher compared to corresponding quarter of last year. EBITDA margin for the quarter was impacted due to certain one-time expenses incurred mainly on account of around 2.5 crore in relation to acquisition cost and there was an increase in the employee cost due to increments and new hiring for the new upcoming projects.

Profit before tax stood at 32.4 crores in Q1 FY23 as compared to 20.8 crores in previous corresponding quarters and 37.3 crore in Q4 FY22. Our interest income reduced since we utilized some of our cash reserves for the acquisition of ZMPL during the quarter. PBT margin in Q1 FY23 stood at 11.9% compared to 11.6% in Q1 FY22.

Going forward as mentioned earlier ZMPL will help us in our strategy to expand our BC business vertical. Acquisition is EBITDA and EPS accretive from day 1 and is expected to improve the ROCE going forward this is all from my side. We now open the call for Q&A. Thank you.

**Moderator:**

Thank you very much. We will now begin with the question and answer session. We take the first question from the line of Aniket Redkar he is an Individual Investor. Please go ahead.

**Aniket Redkar:**

Good afternoon sir, I have couple of questions sir can you throw some light on our businesses like visa, e-governance and the banking related business we have, so what kind of growth we have seen from last two quarters and what would be our strategy for the couple of quarters?

**Shikhar Aggarwal:** correct, If you see BLS we have three lines of businesses. One is visa and consular business which constitutes more than 80% to 85% of our revenue. The banking correspondent and the e-governance only constitutes 15% to 20% of our revenue. Going forward we are seeing encouraging growth in all the sectors of the company. So, we are aggressively looking at growth in all three sectors. So, revenue mix on a long-term basis should remain the same.

**Aniket Redkar:** And sir any development in our e-governance services?

**Shikhar Aggarwal:** As you know we have recently won two new contracts in India. One is from the West Bengal government where we will be doing 9 registration projects and another is the Karnataka project wherein we will be opening 4,000 offices those are the two contracts that we have won.

**Aniket Redkar:** Sir as we all know there is a pandemic which was hampering our business, so which were the regions most impacted due to the pandemic?

**Shikhar Aggarwal:** As you know even during pandemic when the visa business was almost zero we had still made a profit of more than 50 crores and with more than 450 crores of revenue, you know, situation can only get better from there and has been getting better. Last year we did more than 800 crores of revenue and 111 crores of bottom line and this quarter also only 60% to 70% of our application counted back from 2019 levels, certain geographies within China and Russia are still semi closed and still operating at not negligible volume of 2019 levels not more than 10% to 15%. So, as things open up more in those geographies we will see a jump in our revenue and bottom line from our existing contracts.

**Aniket Redkar:** As we can say in our all businesses we are recovering right now so which are the growth parameters we have seen in our such segments?

**Shikhar Aggarwal:** See we have been seeing aggressive growth in our visa and consular business you know revenue per application has increased from 2019 level with a psyche of customers has changed in terms of demand of services that they want right now and we also got certain increases in our service charges and prices of value-added services. So, I think that is why we are seeing aggressive growth in our visa and consular business and on top of that even if you see we have recently acquired this company Zero Mass which has led to a good growth in our banking correspondence business. Going forward there will be synergies will get kicked in with our existing BC business. So, we will see a further growth in gross profit margin and reduction in expenses in that business. Even in the e-governance business as soon as we set up those opportunities we will see a growth in that business as well.

**Aniket Redkar:** As we said Zero Mass Private company so sir can you throw some light on this acquisition part of this?

- Nikhil Gupta:** Just brief you that the cost of acquisition and what the business company is doing as we said it is a largest banking correspondent in State Bank of India. State Bank of India basically has branches in Tier 1, 2, 3 cities, but when it goes to the rural areas they do not have a great presence. So, what they have done is outsource the work of opening bank accounts and making transfer of money as well as updating passbooks and various things services. All these are being outsourced to banking correspondents like us. We are managing about 11,000 plus centers across all states and Union Territories of India with all of these correspondents.
- Aniket Redkar:** So, can we say we are only focusing on SBI as a business correspondence or any other entity also we are also looking for?
- Nikhil Gupta:** No, we have already got on four other banks with whom we are working already and this is as it is a large number of branches where we can also extend other services through them. So, we are seeing that this is a good area to get into and since we have a strong presence we are looking at big growth.
- Aniket Redkar:** On the bottom line front what would be the benefit of this acquisition?
- Nikhil Gupta:** Yes very much it is from day one it is cash accretive.
- Aniket Redkar:** Sir, can you brief on your pay per use businesses?
- Shikhar Aggarwal:** Sorry I cannot understand the question.
- Aniket Redkar:** The banking sector as you mentioned your segment we have the banking also the banking correspondent, what is our pay per use?
- Shikhar Aggarwal:** See how it works is that as you know from a company perspective we only get into businesses which gives us per application money. So, even in the banking sector we get commission on per transaction. So, it depends on different, different transaction what is the commission that we get.
- Aniket Redkar:** And sir who are the main competitors and what would be the entry barrier for us in our business?
- Nikhil Gupta:** In the banking correspondent business.
- Aniket Redkar:** Yes.
- Nikhil Gupta:** The State Bank of India has got about 20 companies which are doing this work, but as we said Zero Mass is the largest and by far the largest. So, out of 70,000 we got 11,000 odd which is 15% where the others are all much smaller right from 5 crore businesses to the 20 crores in business, ours is nearly 160 crores last year Zero Mass has done.

- Aniket Redkar:** And any new CAPEX plan in near future?
- Nikhil Gupta:** No in banking correspondent you do not need any CAPEX really.
- Aniket Redkar:** No overall I am asking?
- Nikhil Gupta Amit do you have any numbers?
- Amit Sudhakar:** See we have normal operating CAPEX in the range of every year around 15 to 20 crores, but for these e-governance business there's no CAPEX required per say. There is initial investment in getting people on board who generate this business. There is no CAPEX per se has been run on this contract.
- Moderator:** Thank you. We take the next question from the line of Nitin Padmanabhan from Investec. Please go ahead.
- Nitin Padmanabhan:** Good afternoon everyone. I had a couple of questions the first is I think Shikhar you had mentioned the visa volumes roughly in terms of how Russia and China volumes pre-COVID as a percentage was and any sense how is it now if you could give both the numbers and how are the overall volumes versus pre-COVID?
- Shikhar Aggarwal:** So, Nitin as you know if we talk about the first quarter even the last year we are at 60% to 65% of our overall visa number or overall application count reason being that certain geographies have not come back to normality. So, you can say that at least 25% to 30% used to come from those geographies and only 10% or 15% number has started coming from those geographies as of now.
- Nitin Padmanabhan:** And what is the general expectation by when you think this should sort of ease out considering the things happening in those geographies?
- Shikhar Aggarwal:** See we are also relying on the news that we see on the channels, but I think we are hopeful that within this year thing should streamline because as you know people have not travelled for the last two, three years and the countries that have opened up we have seen a huge demand there has been a pent up demand and people are eager to travel even in those countries. Our expectation is that we need to be ready with our infrastructure, with our people on the ground to work on enhanced capacity because we are expecting a surge in demand as soon as those countries open up.
- Nitin Padmanabhan:** And the new contract that we have done right through over the past few years let us say Kuwait for example just as an example are they sort of ramped up to full sort of potential for you or they are also sort of lagging?

- Shikhar Aggarwal:** See definitely certain geographies are still lacking we started working for Indian Embassy in Kuwait I think couple of months back. So, that has started becoming we are getting the revenue from that contract that has already started streamlining for us as a company, but certain other contract which we are yet to deploy like the German contract will be starting only in the next few months revenue will start coming in then. So, certain contracts definitely we have seen certain revenues, but contracts that will be deployed soon the revenue will only start coming in from then.
- Nitin Padmanabhan:** And any updates on these renewal opportunity whether I think UK has given October or maybe I think there were some sub-contracting opportunities as well maybe Saudi or US and things like that, any updates broadly on these?
- Shikhar Aggarwal:** As you know I think everyone know this industry has a long gestation period. It takes us two or three years from an initiation to a conversion of contract there is a big opportunity of \$1.5 to \$2 billion in the market of different countries that you have mentioned and so we are actively working in all these opportunities as and when the results are announced we will definitely let you know.
- Nitin Padmanabhan:** And just one last one from my end does the Karnataka and the West Bengal contracts will they be able to leverage the ZMPL correspondence presence in those areas or you will need separate centers altogether?
- Shikhar Aggarwal:** So, see I think what our objective initially was to obviously cross utilize people on the ground. So, definitely people that we have as district managers or regional managers in those geographies can work on even deploying the offices for other contracts. So, definitely there is a cross utilization and that was the main aim of getting into similar lines of businesses so that it will lead to increase in bottom line straightaway for us.
- Moderator:** Thank you very much. We take the next question from the line of Neha Jain Individual Investor. Please go ahead.
- Neha Jain:** Good afternoon sir. My first question is about Zero Mass Private Limited so do we fully plan to acquire it and then what will be the cost at which we acquire in case we plan to?
- Nikhil Gupta:** The shareholders in this company besides the promoters or besides the promoter companies is State Bank of India itself. So, there is no benefit in taking over their shareholding and they have also expressed an interest in continuing with the company. So, there is no plan to takeover so question of pricing does not apply.
- Neha Jain:** There was the source of repaying 15 crores debt which was taken for the acquisition, so what is the source for that?

**Amit Sudhakar:** They were internal accruals because we have done all the acquisition and the repayment from the internal accrual.

**Neha Jain:** So, full 15 crores from internal accrual this side?

**Amit Sudhakar:** That is right.

**Neha Jain:** Sir what is the management strategy to identify government that is not currently in business of outsourcing visa or consular services?

**Shikhar Aggarwal:** So, Neha what has happened is that as we know this market is outsourced only up to a level of 50% globally so only 50% governments have outsourced conventionally. Now post COVID what has happened is lot of governments which are kind of hesitant to outsource for the first time have started to fast track the outsourcing as we know we have recently won contracts for the Brazil government in two countries which was outsourced for the first time, the Philippine government in three countries were outsourced for the first time. So, a lot of these governments be in Latin American or South East Asian market lot of countries which never outsourced are thinking of outsourcing for the first time we have started pilot, we have started working for the Estonia Government which was outsourced to us for the first time. So, I feel that in the next few years the market definitely will change, it will expand at very fast pace and a bigger scale. So, we expect to win lot of these new contracts also on addition to the existing markets which is growing for us.

**Neha Jain:** So, then apart from growing in that segment are we also looking for any other merger or acquisition opportunities?

**Shikhar Aggarwal:** We have good amount of cash on the books as you know we have announced dividend for our shareholders bonus. So, we are doing all the things that can add value to the company on that only we did this acquisition in which we are getting 15% return. So, we are actively looking at acquisition both in all the three segments of the company and going forward also we expect the revenue split from all these segments to remain the same so because we expect good growth in the coming quarters.

**Neha Jain:** So, do we have anything in pipeline for acquisition right now or we are searching for?

**Shikhar Aggarwal:** We are looking at opportunities as you know Zero Mass also we had been looking for quite some time, we are conducting proper due diligence. So, we are actively looking at different opportunities at this particular point in time.

**Neha Jain:** Now coming to the financials part of it, can you help me to understand what will be revenue and profit margins for the full year FY23?



**Shikhar Aggarwal:** So, see for the full year right now you can see whatever numbers we have done in the first quarter itself definitely there will be further growth because for us normally the business from the first quarter is little less than the other quarters. So, definitely the next few quarters the business and the revenue for the company will grow further and on top of that if as we expect the countries which are currently closed if they open up to a large extent then definitely there will be a further growth. So, in the coming few quarters there will be definitely further growth.

**Neha Jain:** And what is our target ROCE for FY23?

**Amit Sudhakar:** That will improve going forward because of this acquisition and as far as we can use our cash for acquiring or for new projects the ROCE will continue going up and I will see them going at a higher pace on a quarter-to-quarter basis now.

**Neha Jain:** And what is the cash balance and debt as on book as of now?

**Amit Sudhakar:** So, there is no debt on the book we are zero debt company and we have a balance of 330 crores as on 30th June.

**Neha Jain:** And sir my last question it is regarding the lower tax rate so is this because of the subsidiary in UAE that is helping us with the tax saving?

**Amit Sudhakar:** Yes that is right because UAE is our major profit center and under there the tax slabs are much lower.

**Moderator:** Thank you very much. We take the next question from the line of Rajiv Venkatesh Individual Investor. Please go ahead.

**Rajiv Venkatesh:** Couple of questions is there any shift in the business dynamics are we getting more asset heavy in terms of adding more employees for the projects of Bengal and Karnataka, can you throw some light on this and how it is different from Punjab and UP?

**Shikhar Aggarwal:** As whenever we get new contracts we need to have people who will deliver those contracts on the ground, people who are this submission officer level. So, definitely we have to add on people in West Bengal and Karnataka, model is different in all the different geography. So, it is not like all the people will come on our books because in Karnataka we have a model wherein we will partner with people we will provide them per transaction commission whereas in West Bengal we will appoint people on our rolls on our partner HR company rolls from a compliance point of view. So, if you talk about people at a senior level I do not think we have to change lot of things because we already have certain people in those geographies. So, it will not lead to an incremental. It will be incremental with benefit for us.

**Rajiv Venkatesh:** And how are we different from Punjab and UP on this perspective?

**Shikhar Aggarwal:** 100% every contract is not the same it is a little different. In West Bengal, we are doing land registration/acquisition. It is kind of a similar concept wherein people will come and apply for the services we will collect per application money. So, in that sense Punjab model is completely same, but services are quite limited in West Bengal wherein you know we are not offering all the services that we are offering in Punjab. Same way in Karnataka the services that we are offering are different, but the model is kind of similar people will come to our centers to apply for government services, but in neither of the contracts we have to establish our own offices, in West Bengal the offices will be provided by the government to us and in Karnataka we will be tying up with franchisee partner who will be opening the offices.

**Rajiv Venkatesh:** We do not get the fee from government it is from the customer from the person who want the services?

**Shikhar Aggarwal:** Correct.

**Rajiv Venkatesh:** One more is on I think a couple of concalls before you said like on the software upgrade so where are we on that and what is the progress on that?

**Shikhar Aggarwal:** So, definitely as you see the software upgrades that we have done are leading to actual good wins of contracts for us also even if you see from a e-governance point of view the contracts that we have won for Karnataka and West Bengal there will be not a major incremental expenditure for us since, you already have the software that you have upgraded and we will be using the same software for deployment of services. So, I think at 60%, 70% of the software upgrade has happened on the new contracts that we have won even for Germany and other countries and Italy that is on new government that are going to come up we are planning to utilize those software for deployment.

**Rajiv Venkatesh:** One more question is like I have been the investor with BLS for almost like four, five years so we started with Punjab then move to UP, then West Bengal and now Karnataka. So, we are getting some tractions, so how do you see this panning out from two to three years perspective with multiple states still yet to be say like we can still provide the same services?

**Shikhar Aggarwal:** If you see it took us a lot of time even after Punjab to get into different states because we want to stick to one model which is a return on our investment with a minimum profit margin that we expect. So, we are analyzing different states. Right now we do not want to take more contracts and have a problem of deployment. So, we want to take contract deploy them properly, provide good quality of services only then look at other states. So, we are right now in the process of deploying more contracts we have got and primarily talking to other states also. So, I think there will be a growth in the sector, but at the same time we are heavily focused on growth on visa and consular service business which is happening globally. So, I feel that there will be growth in both the lines of business.

**Rajiv Venkatesh:** So, I have question on the visa consular services so this post the blackstone acquisition of VFS global, are we getting any traction from the institutional investors to invest in BLS, what is your thought process on that?

**Shikhar Aggarwal:** I think definitely if we talk about the acquisition that the competition has done there has been a big traction in the company I do not know Amit can also offline tell you that we have had big number of FII's also entering the company. So, there has been a big traction. So, definitely there has been a good attention on this industry even governments are paying attention. So, this will lead to expansion of the industry in terms of more avenues of outsourcing for us. So, we are quite encouraged and energized when big companies also provide their commitment to this industry.

**Rajiv Venkatesh:** On the EBITDA margins can we assume that the current EBITDA margins are say the base is made or can we still assume going forward we may see some compression in the EBITDA margins?

**Amit Sudhakar:** I feel current EBITDA margins are the base and then you will see them improving going forward every quarter-to-quarter because there is a fixed cost which is very much there and revenues are picking up on a month-to-month basis. So, EBITDA will go on improving from here onwards.

**Moderator:** Thank you. We take the next question from the line of Shikha Independent Investor. Please go ahead.

**Shikha:** One book keeping question I would like to know about your onetime cost on employees I think this quarter you mentioned about 27 crores and there is one off staff cost for increments, can I have that number like apart from other expenses you have 2.5 crores just a breakup of onetime cost this quarter?

**Amit Sudhakar:** One is that employee cost also includes the employee cost of Zero Mass which we have acquired during the quarter as well as there is a new increments which company has done for the year was effective from 1st January onwards. So, there is a cost related to that which has added in this time which will not come going forward so that will be approximately around 2 crores of onetime cost which will not come going forward.

**Shikha:** So, this 2 crores was for the previous quarter which is Quarter 4 of last year?

**Amit Sudhakar:** That is right otherwise we should not because of the acquisition which we did.

**Shikha:** So, 2 crores and 2.5 crores of acquisition 4.5 crores is onetime cost which has been shown on this operating expense?

**Amit Sudhakar:** Yes, but then acquisition cost will continue because it is also adding to the EBITDA.

**Shikha:** No that will not be carry forward for the next quarter that was this quarter is my understanding right Amit if you can just clarify a bit?

**Nikhil Gupta :** You are right it would be onetime cost.

**Shikha:** One more thing more this cash which you have mentioned 330 crores should we expect some kind of acquisition in BC front or we are looking for opportunity in visa and consular business?

**Shikhar Aggarwal:** We are definitely right now looking at acquisition opportunities more in visa consular service business and you know as and when we get a good opportunity in BC business which will add to more synergies or increase in our effective utilization of cash then we will be looking at that also.

**Moderator:** Thank you. We take the next question from the line of Aniket Redkar. Please go ahead.

**Aniket Redkar:** Sir again I have some questions based on our financial quarterly financial sir I just want to know have we added new assets during this period as the depreciation which has increased so just wanted to know that?

**Amit Sudhakar:** So, there is no new major assets being added in this quarter.

**Aniket Redkar:** In Q4 FY22 we can see that there is a 5 crore for other income, so is that one time increase?

**Amit Sudhakar:** In that there was a write back of around 1.25 crore and the balance was mainly it is related to the interest cost.

**Moderator:** Thank you very much sir. Ladies and gentlemen that was the last question for the day. I now hand the conference over to Mr. Aggarwal for his closing comments. Thank you and over to you, Sir.

**Shikhar Aggarwal:** Thank you everyone for your participation in our Q1 FY23 Earnings Call. In case of any further queries you may get in touch with Bridge IR or feel free to get in touch with us. We will look forward to interacting with you next quarter. Thank you.

**Moderator:** On behalf of BLS International Services Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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