BONANZA WEALTH MANAGEMENT RESEARCH

30th January 2024

BLS E-Services Ltd. – SUBSCRIBE

Investment Thesis

- BLS E-Services Ltd. (BLSE) is set to launch its initial public offering (IPO) on January 30, 2024. The Issue size of the BLSE IPO is Rs. 310.9 crs a complete Fresh Issue. The proceeds from the fresh issue are to be utilized for the
    - Technology transformation (Rs. 97.6 crs)
    - Funding organic growth by setting up of BLS Stores (Rs. 74.8 crs)
    - Inorganic growth through acquisitions (Rs. 28.7 crs)
    - General corporate purpose (Rs. 109.8 crs)
- BLSE is a technology enabled digital service provider of:
    - Business Correspondents services to major banks in India (BC)
    - Assisted E-services. (AeS)
    - E-Governance Services at grass root levels in India. (eGS)
- Through a tech-enabled integrated business model, BLSE provides digital and physical products and services in semi-urban, rural, and remote areas where penetration of internet is low, and citizens need assistance for delivery of essential public utility services, social welfare schemes, healthcare, financial, educational, agricultural, and banking services for governments (G2C), business (B2B) and citizen (B2C).
- As on September 30, 2023, BLSE has 98,034 BLS Touchpoints, which includes 1,016 BLS Stores.

Revenue from business

- BLSE has delivered stellar revenue growth to reach Rs. 246.3 crs from FY21 – FY23. This was driven by the acquisition of Zero Mass Pvt Ltd (ZMPL) and Starfin India Pvt Ltd (SIPL) which are engaged in the BC segment. In H1FY24, BLSE has earned Rs. 158 crs and is on track to beat the FY23 number.

Particulars	FY21	FY22	FY23	H1FY24
Revenue (Rs. in crs)	65.2	98.4	246.3	158.0
Adj. EBITDA (Rs. in crs)	5.5	8.6	36.3	22.5
Adj. EBITDA Margin (%)	8.4	8.8	14.7	14.2
Adj. PAT (Rs. in crs)	3.1	5.4	20.3	14.7
PAT Margin (%)	4.9	5.6	8.4	9.4
RoCE (%)	29.7	28.7	30.6	16.7
RoE (%)	38.9	42.5	33.3	12.9

- Similarly, EBITDA has grown in line with the revenue to reach Rs. 36.3 crs. This led to growth in EBITDA margin which currently stands at 14.7% against 8.4% in FY21.

IPO Details

Issue Open Date	30 January 2024
Issue Close Date	01 February 2024
Price Band (Rs.)	Rs. 129 – Rs. 135
Issue Size*	Rs. 310.9 crs
Issue Size (Shares)	3.5 crs
Market Lot	108 Shares
Listing Exchanges	NSE / BSE
Face Value (Rs.)	Rs. 10/-

* At highest price band

Key Details

Fresh Issue*	Rs. 310.9 crs
Issue Type	Book Building
Book Running Lead Manager	Unistone and Kfintech
Issue structure	QIB: 75% Non-Institutional: 15% Retail: 10%
Credit of Shares to Demat Account	05 February 2024
Issue Listing Date	06 February 2024

* At highest price band

- The asset light model and improved operating margin have enabled to generate healthy Free Cash Flow (FCF). During FY21-23 BLSE generated FCF of Rs. 49 crs. This FCF enabled the acquisition of ZMPL and SIPL.

Key Business Highlights

- **Asset light business model**: Leveraging a capital-efficient merchant-led model for network expansion, BLSE has built a robust technology platform that caters to diverse citizen and merchant needs. Merchant-owned/leased premises, equipped with BLSE's technology and infrastructure, act as "BLS Touchpoints" and "BLS Stores," extending service reach without heavy capex requirements.
- **Data-Powered Customer Engagement:** BLSE's holistic platform strategically merges G2C, B2B, and B2C functionalities, enabling diverse touchpoints and boosts customer engagement. This convergence, empowered by network synergies and comprehensive offerings, unlocks cross-selling and upselling opportunities, optimizing customer acquisition. The one-stop BLS Sewa app, featuring a rich service portfolio, strengthens this strategy. Leveraging sophisticated data analytics, BLSE proactively identifies customer behaviors and profiles, generating valuable insights for personalized cross-selling and upselling across its network, as demonstrated by the significant adoption of the BLS Sewa app.
- **Acquisitions Acumen:** BLSE's strategic acquisitions, like ZMPL & SIPL in Jun 2022 and Aug 2018, propelled them to become of the largest BC having 12,784+ active BCs as of Sep'23. Additionally, the BLS Kendra's acquisition from the promotor in Oct 2022 expands their network in Punjab.
- **Unifying Journeys: Cross-Sell, Embed, Dominate:** BLSE aims to continue growing each of the business segments and with a particular focus on cross-selling strategies and strategic acquisitions, which will further embed the value proposition with consumers. This is in line with the mission to serve the consumer throughout their digital journey in a comprehensive manner by into a single ecosystem. BLSE intends to become the "Go to Market Platform" for various business verticals including fintech and digital platforms.

Valuation

At the upper price band, the IPO is priced at 59.6x FY23 EPS. There are no listed comparable peers of BLSE, therefore we would have based our rationale on the performance and growth prospect. According to our understanding, the funds raised would further the technological edge and deepen its network. The product and service portfolio, strong and experienced promotor make a compelling case for BLSE.

Considering the above we are assigning a "**SUBSCRIBE**" rating to the IPO of BLSE. Investors with a long-term horizon can apply for the IPO.

Risk & Concern

- BLSE predominantly undertakes fee and commission-based activities, and their financial performance may be adversely affected by their inability to generate income from such activities.
- None of the e-governance projects are awarded to BLSE directly. These are contracts with respect to E-Governance projects are awarded to the Corporate Promoter, BLS International Services Limited by governmental agencies for providing G2C services to the citizens and to BLS Kendra's, for providing E-Governance.
- A substantial portion of the revenue is generated by BC business operated by, ZMPL and SIPL. The businesses of the banking partners are regulated by the RBI and any change in the RBI's policies, decisions and regulatory framework could adversely affect the operations and financial condition.

Graphs & Charts
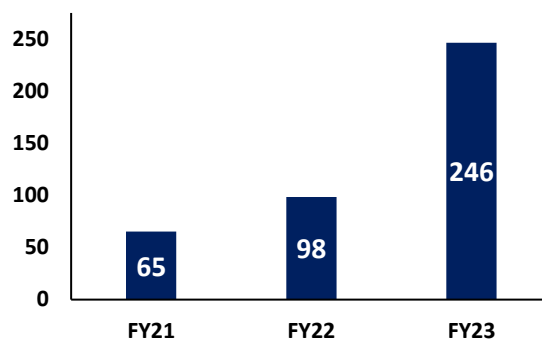
Figure 1: Revenue (Rs. in Crs)
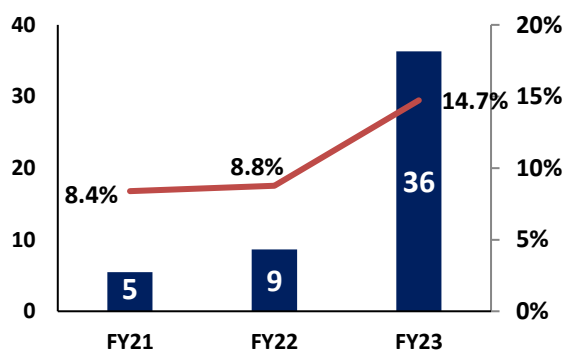

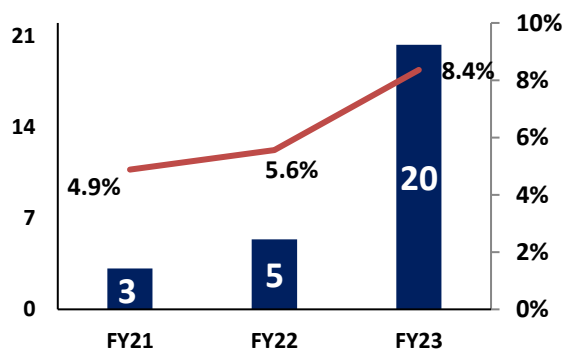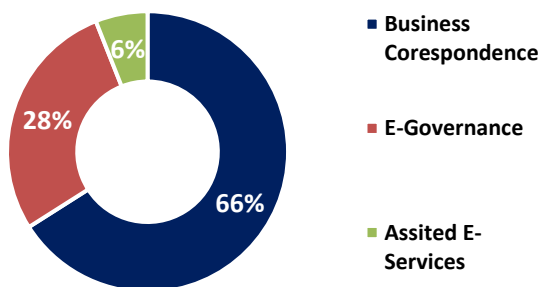## Figure 2: EBITDA & EBITDA Margin (Rs. in crs)

Figure 3: PAT & PAT Margin

Figure 4: Region-wise Revenue Distribution (FY23)

Business Corespondence
E-Governance
Assited E-Services

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