

Company Overview

Incorporated in 2016, BLS E-Services Ltd. (BLSe) is a technology-enabled digital service provider, providing (i) Business correspondent services to major banks in India, (ii) Assisted E-services; and (iii) E-Governance Services at grassroots levels in India. Through its tech-enabled integrated business model, it provides digital and physical products and services in the G2C, B2C, and B2B categories in semi-urban, rural, and remote areas where penetration of the internet is low and citizens need assistance in availing basic technology-enabled services. The company utilizes a “phygital” strategy (i.e., physical and digital) that integrates technologically over 98,000 merchant distribution outlets (comprising of BLS Touchpoints and BLS Stores) for assisted payment solutions, remittance, travel, education, and insurance products, with a one-stop digital online platform for all of its offerings. This results in a business model that is difficult to replicate, and which is intended to provide a smooth customer experience regardless of the product, service, or location. BLS Stores are BLS branded stores that offer its entire suite of offerings to consumers including the availability of select goods on a sample basis supplied by e-commerce players which can be ordered and procured by its consumers after having a touch and feel experience of such goods. As on September 30, 2023, the company has 98,034 BLS Touchpoints, which includes 1,016 BLS Stores. Further, the company also provides a variety of Assisted E-Services through retailers and digital stores also known as BLS Touchpoints, including PoS services, ticketing services, assisted e-commerce services, etc. The revenue generated under this business segment is through registration fees; transaction-based commissions on goods and services supplied; and support service charges. It also provides a variety of assisted e-services through retailers and digital stores also known as BLS Touchpoints, including PoS services, ticketing services, assisted e-commerce services, etc. Their diversified platform allows it to harness deep synergies and provides cross-selling and upselling opportunities to both consumers and businesses.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Strengthening the company's technology infrastructure to develop new capabilities and consolidate its existing platforms;
- ⇒ Funding initiatives for organic growth by setting up of BLS Stores;
- ⇒ Achieving inorganic growth through acquisitions; and
- ⇒ General corporate purposes.

Investment Rationale

Asset light business model

BLSe's merchant-led models are a capital-light business strategy for network expansion. The company has developed its technology platform and continues to invest in it for further improvements, which allows it to service a wide pool of citizens and merchants and cater to their diversified requirements. The premises from which BLS Touchpoints and the BLS Stores operate are owned/leased by their merchants and it provides them with the necessary technology and other infrastructure (as applicable) enabling them to extend their services to the end consumers. The company incurs minimal capital expenditure in connection with onboarding the merchants because the onboarding and setting up capital expenditure costs are borne by the merchants themselves, such as any existing physical premises, laptop, mobile phone, internet connectivity, micro ATM, and AePS devices and fingerprint and/or IRIS scanners, and our technology significantly simplifies our merchant onboarding and training process, making it cost-effective for the merchant and efficient for both parties. In addition to their merchant network which, as of September 30, 2023, was over 98,000, to reach the underserved and unserved populations in hard-to-reach locations (referred to as the “last mile” of delivery). The company's focus on operational execution in connection with the merchants, the drive to offer a broad range of products through each of these distribution channels, and the capital invested into its technology infrastructure, have resulted to be one of the most effective business models.

Multiple cross-selling and up-selling opportunities, network effect, and wide reach for customer acquisition

BLSe can bring together the advantages of G2C, B2B, and B2C models within a single platform, and provide many touch points for the consumer and back-end entities, thereby enhancing the customer footfall by 4,04,153 consumers at its BLS Touchpoints and BLS Stores and to increase scalability.

Issue Details

Offer Period	30 th Jan 2024 - 01 st Feb 2024
Price Band	Rs. 129 to Rs. 135
Bid Lot	108
Listing	BSE & NSE
Issue Size (no. of shares in mn)	23.03
Issue Size (Rs. in bn)	3.11
Face Value (Rs.)	10

Issue Structure

QIB	75%
NIB	15%
Retail	10%

BRLM	Unistone Capital Private Ltd .
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Registrar	KFin Technologies Ltd .
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Particulars	Pre Issue %	Post Issue %
Promoter & Promoters Group	93.80	69.73
Public	6.20	30.27
Total	100.00	100.00

(Assuming issue subscribed at higher band)

BLS E-Services Ltd.

This, coupled with the wide range of products and services that complement each other, results in multiple cross-selling and upselling opportunities, network effects, and wide reach for customer acquisition. Due to the company's ability to cross-sell various complementary products and services, in addition to its presence in multiple industries, it typically has low marketing and business promotion expenses and thus, improved opportunities for profitability and unit economics metrics. Accordingly, it has a high operating leverage business model, allowing it to reduce customer onboarding costs over time. Furthermore, BLSe's newly launched, BLS Sewa app is a one-stop solution for all its products and services such as edutech services, domestic money transfer, PAN card application, bus and air ticketing services, railway ticketing services, banking services, AePS-enabled cash services, re-charges, demat account opening, bill payments, etc.

Valuation

India's digitization efforts have evolved the digital and financial services landscape at a rapid pace. Several existing players are working on delivering these digital services across India. The business of digital service providers can be classified into three broad categories. Department of Administrative Reforms & Public Grievances (DARPG) formulated the National e-Governance Service Delivery Assessment (NeSDA) in 2019 to boost governance endeavors and drive digital government excellence. With the increase in digital adaptation, the demand for various other services has also increased. The increasing digitalization is boosting the market for insurance services, online ticketing, assisted e-commerce, bill payments, tele-medicine, tele-agriculture, digital learning, etc. in urban, semi-urban, and rural areas. With huge touch points of the business correspondent companies, they can provide these services to even the remotest areas. Additionally, even retail/wholesale stores can distribute and/or sell their products through these companies' touch points. It will pave the way for additional income for business correspondent companies. We believe BLSe's top and bottom lines are attributed to its recent acquisitions, and the trends will continue with more acquisitions planned. BLS E-Services witnessed the highest revenue growth of 50.8%, with the highest EBITDA and PAT margins at an average of 33.8% and 18.2% respectively in H1FY24. **Turning to valuations, the PE ratio stands at 33.1x based on the annualized FY24E EPS which appears reasonable compared to peers in the industry. Based on the positives discussed, we give the issue a "SUBSCRIBE" rating.**

Key Risks

- ⇒ BLSe is dependent on and derives a substantial portion of our revenue from, a single customer, one of the largest PSU Bank. Cancellation of the agreement with its top customer could have a material adverse effect on the business, results of operations, and financial condition.
- ⇒ The company provides E-Governance Services only in the states of Punjab, Uttar Pradesh, and West Bengal, and accordingly any adverse changes in the conditions affecting these regions can adversely affect the business, financial condition, and results of operations.
- ⇒ The confidential information or data of its clients, customers, and users of the services may be misappropriated by its merchants or employees and as a result, cause the company to breach the contractual obligations about such confidential information.

**BLS E-Services Ltd.****Income Statement (Rs. in millions)**

Particulars	FY21	FY22	FY23	H1FY24
Revenue				
Revenue from Operations	645	967	2,431	1,562
Total Revenue	645	967	2,431	1,562
Expenses				
Cost of raw material and components consumed	419	635	1,616	1,052
Changes in inventories of finished goods				
Employee benefit expenses	38	64	232	142
Other expenses	140	199	252	162
Total Operating Expenses	598	898	2,100	1,355
EBITDA	47	69	331	206
Depreciation and Amortization expenses	1	8	28	14
Other income	7	17	32	19
EBIT	54	78	335	211
Finance costs	15	10	39	3
Exceptional Item	0	0	26	0
PBT	39	68	270	208
Total tax	8	14	66	61
PAT	31	54	203	147
Diluted EPS	0.5	0.9	3.0	2.0

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Cash Flow from operating activities	86	197	289	204
Cash flow from investing activities	-6	-136	-656	-133
Cash flow from financing activities	-48	-76	464	-14
Net increase/(decrease) in cash and cash equivalents	33	-15	97	56
Cash and cash equivalents at the beginning of the period	42	75	60	157
Cash and cash equivalents at the end of the period	75	60	157	214

Source: RHP, BP Equities Research

**BLS E-Services Ltd.****Balance Sheet (Rs. in millions)**

Particulars	FY21	FY22	FY23	H1FY24
Equity and Liabilities				
Equity Share Capital	0	0	667	667
Other equity-attributable to the owners of the company	97	151	447	592
Total Equity	97	151	1,115	1,259
Non-Current Liabilities				
Borrowings	0	73	0	0
Other financial liabilities	0	55	39	60
Provisions	2	2	3	4
Total Non Current Liabilities	2	130	42	64
Current Liabilities				
Borrowings	110	15	0	0
Trade Payables	16	79	25	15
Other financial liabilities	168	152	534	647
Provisions	0	0	0	5
Current tax liabilities (net)	13	22	67	104
Total Current Liabilities	308	278	639	790
Total liabilities	309	409	680	879
Total Equity and Liabilities	406	559	1,795	2,138
Assets				
Non-Current Assets				
Property, plant and equipment	1	2	11	10
Right of Use assets	0	63	49	75
Intangible assets	80	80	815	815
Other intangible assets	0	0	0	0
Other non current assets	10	14	74	87
Other financial assets	83	103	117	103
Deferred tax assets (net)	25	28	27	17
Total Non current assets	199	291	1,092	1,108
Current Assets				
Inventories	0	0	6	26
Investments	0	0	0	36
Trade Receivables	88	85	182	238
Cash and Cash Equivalents	75	60	157	214
Bank balances other than cash and cash equivalents above	18	76	294	410
Other Current Financial Assets	14	21	13	48
Other current assets	11	25	51	58
Total Current Assets	207	268	702	1,030
Total Assets	406	559	1,795	2,138

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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