Group Enterprises

A Market Leader in Security, Cash Logistics & Facility Management

Earnings Update

FY19-20

April 30, 2020

Earnings Highlights

REVENUES	EBITDA	PAT*	RoE/ RoNW*
Rs8,485 Cr	Rs520 Cr	Rs292 cr	22.1%
↑19.6%	↑42.5%	↑35.9%	↑327 bps
(FY19- Rs7,093 Cr)	(FY19- Rs365 Cr)	(FY19- Rs215 Cr)	(FY19- 18.8%)

*based on pro-forma PAT

Rituraj Sinha
Group Managing Director

"COVID crisis and categorisation of our services as "essential" across India & the world, re-affirms the criticality of these services in our economy and the relative inelasticity of the demand. Our Q4, particularly March 2020 results are testimony to the same"

Notes from the Group Managing Director

Stellar FY2020 result amidst slowdown & a global pandemic – underlines predictability of our business model

The year has been marked by a steep slowdown in the Indian economy, with steady GDP downgrades through the year and Covid crisis in March 2020 . Despite this weak economic backdrop, SIS has continued its strong growth, outpacing industry growth once again, as a market leader. This is a testimony to demand resilience, our unique business model and the execution capabilities of the SIS leadership and management who have demonstrated relentless focus on capability enhancement, solution design and customer experience enhancement.

Our consolidated revenues increased from Rs7093 Cr in FY19 to Rs8485 Cr in FY20, an increase of 19.6%. For the quarter, our revenues were Rs2,210 Cr, which is a 13% growth YoY and 1.4% growth QoQ.

Our consolidated EBITDA increased from Rs365 Cr in FY19 to Rs520 Cr in FY20, an increase of 42.5%. For the quarter, our EBITDA was Rs139 Cr, which is a 3.7% growth QoQ and 20.6% growth YoY. Operating leverage across all our segments has led to an increase in margin from 5.1% in FY19 to 6.1% in FY20.

We ended Q4FY20 with a monthly run rate of Rs728 Cr in March 2020 as against Rs644 cr in March 2019. Over the last 12 quarters, since our IPO, our revenues have grown at a quarterly CAGR of 5.8% and our EBITDA has shown a quarterly CAGR of 6.9% over this period.

Leverage ratios comfortable – return ratios reflect asset light model

Our key metric of Return on Equity, is currently at 22.1% (based on proforma PAT). This is a 327 bps increase over FY19 RoE / RoNW. After an year of acquisitions, the focus on integration and sweating of the acquired assets has led to healthy return ratios.

All our acquired assets are performing in line with the plan. We are estimating IRRs in excess of 35% for SLV and RARE.

Our leverage levels are comfortable with Interest Coverage at over 4.5X and Net Debt/ EBITDA at 1.1X (excluding lease liability) and 1.35X with lease liability. Our average cost of debt is 7.1%. Compared to listed, global peers, SIS continues to maintain best in industry leverage and returns profile.

Our reported PAT was lower primarily on account on one time adjustments pursuant to shift to the new tax regime. These are enumerated in subsequent sections of this note.

Resilience of Demand re-inforced during Covid19 crisis

Private Security, FM (Hygiene & Sanitation) and cash logistics have been classified as essential services by MHA, GOI during the Covid crisis and resultant lockdown. Our phenomenal frontline workers have been acting as the first line of defence for banks, hospitals, govt. offices, ecommerce warehouses, grocery marts that remained operational as also thousands of establishments that remained closed like manufacturing facilities, corporate parks, IT/ITeS, RWAs, Retail amongst others. Not only did we continue to operate at full capacity, we also had a surge in demand, which reflected in our March 2020 invoicing value, which was 2% higher compared to February 2020.

Most of our clients required immediate support in setting up additional medical screening, Covid isolation room procedures, sanitation and disinfection services etc. We have had the benefit of learning from our group companies in Singapore and Australia on the required protocols to ensure that our employees and customers are supported and cared for. The frontline workers had to be equipped with PPE kits, medical screening equipment, Covid Protocols, training, chemicals and supplies so that they can operate safely.

Events of the last few weeks underline the criticality of our services to the society and the economy. As also ability of the SIS management and business model to adapt rapidly.

COVID 19 : An opportunity to reshape and consolidate the industry

To an extent, one could say that SIS is a proxy for Indian economy as our highly diversified customer base represents possibly every industrial segment. It is rather apparent that COVID aftermath will impact society and economy more than anything in recent history. Immediate adverse impact on overall economy could reflect on cashflow, revenue growth and margins across broader industry in coming quarters till overall economy revives.

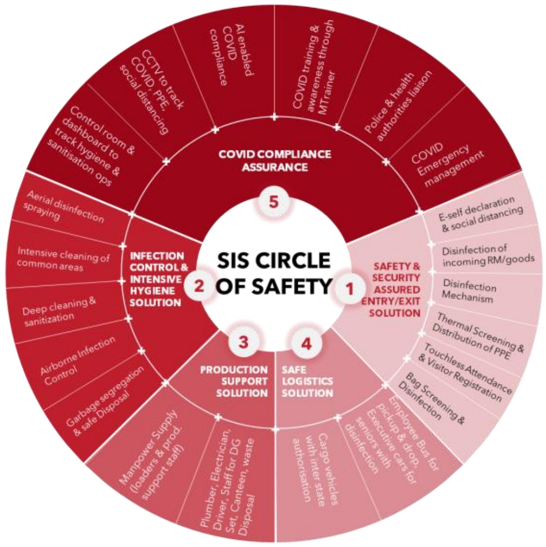
Even as major blue collar employment generating and essential services sectors like ours are priority for government assistance. We have enough evidence in last six weeks to believe that our services segment shall possibly be least and last to be impacted. We continue to maintain a cautiously optimistic outlook in these uncertain times.

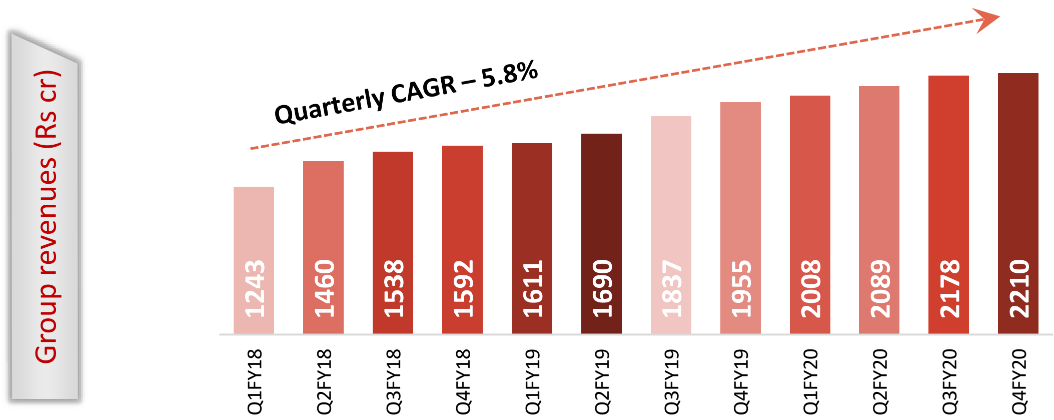
Having said that, SIS Group management has generated unprecedented customer goodwill by supporting businesses through this unprecedented crisis, often going beyond our mandate and contract terms. Our first 30 days COVID Response Plan has been appreciated by all stakeholders and emerged as a benchmark in our industry.

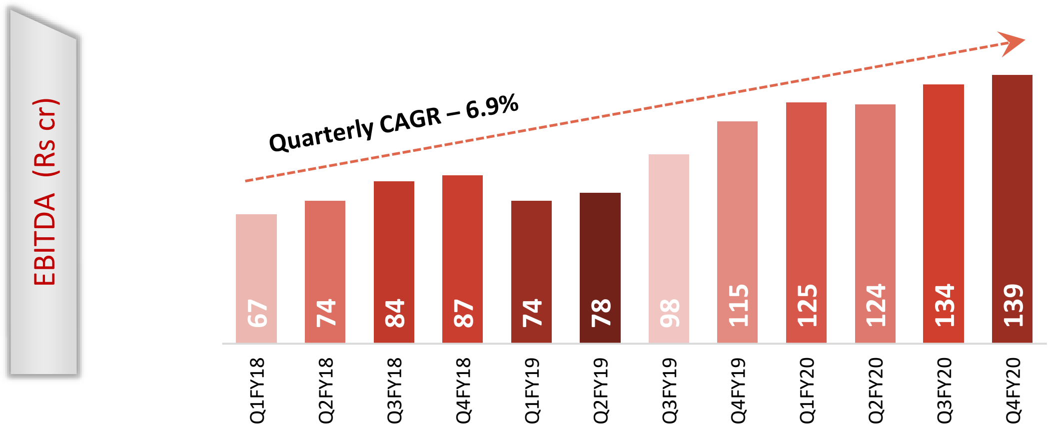
Considering the general economic outlook for FY21, SIS management has also created a 100 Day Plan to organically pivot to the post COVID era. The 6 point agenda focuses on operations continuity prioritising employee health & safety, P&L preservation, cash maximisation (without affecting employee costs). It also encompasses actions to re-position SIS' offerings through our unique ***Circle of Safety*** programme & accelerated Digital Transformation.

While it is still early to say definitively, we see few trends / opportunities emerging in our industry.

1. Change in customers perspective for our services - from an unavoidable cost head to be managed by admin / procurement heads to a business continuity imperative that is top agenda for leadership & HR to ensure MHA COVID SOP compliance & EHS
2. Increasing operational expenditure for most businesses on hygiene, sanitisation, infection control, safe and secure access control.
3. Strong shift towards quality providers, subject matter experts and market leading brands.
4. Convergence of hygiene - access control – disinfection to create safe work places and customer environments. Greater focus on outcome based solutions and technology usage. Opportunity to cross sell & bundle to increase share of wallet
5. Significant inorganic consolidation opportunities to emerge in next 12-24 months







Client Feedback for SIS' Covid Response

We really appreciate the support extended to us by your team across all locations to keep our offices safe and sanitized.

pnb MetLife

I congratulate COVID warrior team Vadodara of Service Master clean for its dedicated and motivated staff.

Indian Railways

While the City sleeps, Essential services team works day & night to ensure our office safety.

CenturyLink

Appreciate your support in this national crisis, stay safe, be careful on work site.

Aditya Birla Capital

We are very grateful to the entire team who have been giving such excellent services at all areas of the campus.

TATA MEDICAL CENTER

Good going Team DTSS! In these crucial times, every step taken is extremely helpful

J.P.Morgan

Thanks you for your consistent support and cooperation during this crucial situation.

Deloitte.

Would like to thank for ensuring the work and security at PNB Metlift Ltd. Indore (M.P), excellent work done

pnb MetLife

We appreciate the great efforts in maintaining the hygiene in critical period with all PPE.

FUTURE RETAIL

We appreciate your arrangements for housekeeping in current situation

दैनिक भास्कर

Thanks for the security support received during this unprecedented lockdown situation of managing COVID-19

accenture

Appreciate the support rendered by team in this crisis situation

Renault Nissan

It's heartening to note the proactive approach you as a team are taking to keep in control of the situation

IndusInd Bank

We appreciate the effort taken by SIS to keep the clients safe and ensure the routine goes smooth .

HONDA

We appreciate the efforts and security support that we are getting from SIS

amazon

We salute the dedication of the staff, at such adverse times.

VEDANTA HOSPITALS

Highly appreciate the services provided, to ensure the cleanliness of our workplace.

ITC Limited

In the wake of outbreak of COVID-19, we want to appreciate the uninterrupted services by SIS.

AXIS BANK

Proud that SIS is one of those sentinels who is guarding us by providing the security services

KIA

We would like to praise SIS for there uninterrupted and commendable services

SBI

Appreciate your effort in ensuring the workplace remains clean and sanitized, at all times.

DHL

This is very crucial time for us as healthcare provider and Service Master Clean is doing great in terms of fulfilling manpower in this crucial time.

Apollomedics

and many more.

Group Overview

In INR Cr	Q4		Change	FY		Change
Particulars	**FY 2020**	**FY 2019**	**%age**	**2020**	**2019**	**%age**
Revenue	**2,209.7**	**1,954.9**	*13.0%*	**8,485.2**	**7,093.3**	*19.6%*
EBITDA	**138.5**	**114.8**	*20.6%*	**520.4**	**365.2**	*42.5%*
%age	*6.3%*	*5.9%*		*6.1%*	*5.1%*	
Depreciation	27.8	15.2	*82.8%*	105.8	51.9	*103.8%*
Finance Costs	30.7	14.5	*112.0%*	113.5	61.5	*84.5%*
Other income & share of profit/(loss) in associates	47.9	2.2		48.7	4.2	
Earnings Before Taxes (operating)	**127.9**	**87.3**	*46.5%*	**349.9**	**255.9**	*36.7%*
Less: Acquisition related costs						
- Depreciation & Amortization	5.3	3.9	*35.8%*	22.6	14.0	*60.8%*
- Finance costs	7.9	21.2	*-62.6%*	38.3	32.3	*18.4%*
Earnings Before Taxes	**114.7**	**62.2**	*84.3%*	**289.1**	**209.5**	*38.0%*
%age	*5.2%*	*3.2%*		*3.4%*	*3.0%*	
Tax Expenses	7.3	-10.1		-2.6	-5.2	
Proforma Profit After Taxes	**107.4**	**72.4**	***48.5%***	**291.7**	**214.7**	***35.9%***
%age	*4.9%*	*3.7%*		*3.4%*	*3.0%*	
Less: One-off adjustments	111.3	0.0		66.2	0.0	
Reported Profit After Taxes	**-3.9**	**72.4**	*-105.4%*	**225.5**	**214.7**	*5.0%*
%age	*-0.2%*	*3.7%*		*2.7%*	*3.0%*	
Proforma EPS	**7.3**	**5.0**	***37.2%***	**19.9**	**14.7**	***35.0%***
Net Debt {excl. lease liability}	591.5	416.9		591.5	416.9	
Net Debt to EBITDA	1.14	1.14		1.14	1.14	

Revenue, EBITDA and PAT Growth Development by Business Segment

Business Segments	Revenue Growth		EBITDA Growth		PAT Growth	
Total Growth - %age	**Q4 FY20 v/s Q4 FY19**	**FY20 vs FY19**	**Q4 FY20 v/s Q4 FY19**	**FY20 vs FY19**	**Q4 FY20 v/s Q4 FY19**	**FY20 vs FY19**
Security Services - India	18.7%	30.1%	0.3%	39.3%	-8.8%	15.6%
Security Services – International	5.2%	7.2%	37.7%	49.3%	26.2%	36.3%
Facilities Management	23.5%	34.8%	20.7%	31.8%	17.6%	33.2%
Total of SIS Group	**13.0%**	**19.6%**	**20.6%**	**42.5%**	**48.5%**	**35.9%**

Q4 FY20: December 2019 – March 2020

Revenue Development

Consolidated revenue for Q4 FY20 was Rs2,209.7 Cr; grew by 13.0% over Q4 FY19. Consolidated revenue for Q4 FY20 had a q-o-q growth of 1.4% over Q3 FY20.

Business segment wise revenue growth for Q4 FY20 over Q4 FY19 are as follows:

- Security Services – India witnessed growth of 18.7%
- Security Services – International had a growth of QoQ 10.1% on a constant currency basis; and
- Facility Management had the strongest growth of 23.5%

Earnings Before Interest, Tax, Depreciation & Amortization

Consolidated EBITDA for Q4 FY20 was Rs138.5 Cr and the EBITDA margin was 6.3%, thus representing a growth of 20.6% over Q4 FY19, which is a result of operating leverage and profit improvement initiatives.

Business segment wise EBITDA growth for Q4 FY20 over Q4 FY19 are as follows:

- Security Services – India had a growth of 0.3% and this was impacted by significant one time year-end expenses for personal hygiene and protective materials for our frontline employees; along with provisions of rations and support expenditure in order to ensure business continuity for client-sites.
- Security Services – International had growth of 29.0% on a constant currency basis; and
- Facility Management – India delivered a growth of 20.7%

The full impact of strategic acquisitions as part of the Security Services – International business has started to show results with an improvement in EBITDA from 5.2% in Q4 FY19 to reach 6.8% in the current quarter

Earnings Before Taxes:

The Group's consolidated Depreciation & Amortization amounted to Rs33.1 Cr for Q4 FY20, representing an increase of 73% YoY, which was primarily driven by amortization of intangible assets which were identified as part of business combination accounting which took place in FY19 and the amortisation of lease assets as part of the adoption of new lease accounting standards.

Finance costs for the Group amounted to Rs38.6 Cr, representing an increase of 8.1% than what the Group had for the same quarter in the year FY19. This is mainly due to the following:

- True up of finance costs relating to future pay-out of the acquired entities
- Borrowings in order to facilitate subsequent tranche pay-outs to the entities acquired during FY 19, for DTSS and to fund acquisitions in New Zealand.
- Increase in working capital borrowings due to general revenue growth across all businesses.

Thus, the Earnings Before Taxes for the Group were at Rs114.7 Cr for Q4 FY20, showing an increase of 84.3 % over Q4 FY19 of Rs62.2 Cr.

Taxes, Net Income and Earnings per Share

During the quarter ended March 31, 2020, the Group has after evaluation, decided to adopt the option (under Section 115BAA of Income Tax Act) of the lower effective corporate tax rate of 25.17% (including surcharge and cess) instead of the earlier rate of 34.94% (including surcharge and cess) for the Financial Year 2019-20. This option has been adopted for those entities in the group which have been incorporated in India. The current tax for the financial year 2019-20 has, therefore, been calculated @ 25.17% and the deferred tax assets / liabilities have been adjusted accordingly. As a result of this option, MAT credit available in the books will not be eligible to be carried forward and has been adjusted through the Profit and Loss Account. However, the group continues to receive 80JJAA tax benefits.

The cumulative effect of these adjustments relating to deferred tax assets / liabilities and MAT credit have been passed through the Profit and Loss Account during the quarter ended March 31, 2020. Without the effect of these cumulative adjustments, the profit after tax for the quarter is Rs107.4 Cr, representing a 48.5% increase when compared to Q4 FY19 of Rs72.4 Cr.

Security Solutions – India

The India Security Solutions business comprises five entities - our flagship SIS security business, SLV, Uniq, Tech SIS and Vprotect. All the group companies showed stellar growth despite a relatively subdued macro market. We consolidated our market share as India's leading security solutions company in FY20.

The business currently operates across 170 branches and has 157,590 employees. The segment ended March 2020 with a monthly revenue run rate of Rs 304 Cr, up from Rs274 Cr in March 2019.

Solid Organic Revenue Growth

The segmental revenues for Q4 were Rs 924 Cr which is a 18.7% growth YoY. The organic growth of the flagship SIS Security was 19.7% which, coming on the back of the increasingly large base, is a matter of great pride. The business continues to show rapid growth, with strong client additions and reduction in client attrition. During the year our alarm monitoring business, VProtect showed close to 100% increase in revenues, albeit on a small base and is on the right trajectory to break even in the near term.

Revenues per Branch growing

The revenues per branch per month, on an organic basis, increased from Rs1.48 Cr in Q4 FY19 to Rs 1.71 Cr in Q4 FY20. Including the acquisitions, the revenue per branch increased to Rs 1.81 Cr. Every single branch has shown growth in FY20

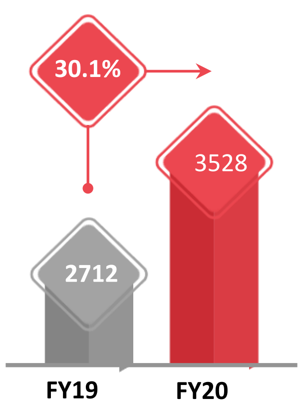
Scale bringing operating leverage

The segmental EBITDA for India security was Rs 49.5 Cr which is a 10% decline QoQ growth and a YoY increase of 0.3%. The EBITDA for the quarter was impacted due to one time expenses of approximately Rs5 Cr that we had to incur in the month of March for PPE kits, medical kits, training and transportation for employees, on account of the Covid lockdown. For the full year FY20, the EBITDA margins registered a healthy increase from 5.6% in FY19 to 6.0% in FY20. This was largely on account of the operating leverage and the larger solution mix in the business - despite the revenues for FY20 being 19% higher than for FY19, the SG&A staff increased by less than 4%.

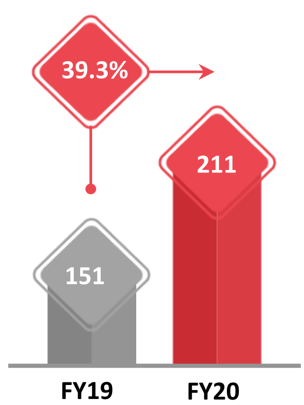
With many blue chip clientele being locked down during the last few weeks of March, we had a shortfall of over Rs50 Cr in collections which impacted cash flows at the year end.

in INR Cr	Q4 FY20	Q3FY20	Change QoQ	Q4FY19	Change YoY	FY20	FY19	Growth
Revenues	**924.3**	**912.4**	**1.3%**	**778.7**	**18.7%**	**3528.0**	**2712.3**	**30.1%**
EBITDA	**49.5**	**55.0**	**-10.0%**	**49.4**	**0.3%**	**210.9**	**151.4**	**39.3%**
EBITDA%	**5.4%**	**6.0%**		**6.3%**		**6.0%**	**5.6%**	
Share of group Revenues	41.8%	41.9%		39.8%		41.6%	38.2%	
Share of group EBITDA	35.8%	41.2%		43.0%		40.5%	41.5%	

Revenues



EBITDA



Security Solutions – International

The International security business comprises four entities - MSS and SXP in Australia, Henderson in Singapore Platform4Group in New Zealand. We are the market leader in Australia and a top 3 player in Singapore and New Zealand. The International security business currently has over 9,500 employees.

The international business has been relatively less disrupted due to the Covid pandemic with Australia not having any national lockdown. New Zealand has declared itself as Covid free. These countries have been also seen strong incentives by the governments to support workers and businesses aiding a steady recovery.

Margin improvement pays off

Revenues for FY20 showed a YoY increase of 7.2% and 11.7% in constant currency. In organic terms, SIS Intl grew 3% (constant currency), despite a broad slowdown in the Australian economy. With strong margin improvement measures we were able to shore up margins significantly.

The International business ended Q4 FY20 with total revenues of Rs 949 Cr which is a QoQ increase of 1.0% and a YoY increase of 5.2%. The EBITDA for the segment increased by over 17.7% QoQ to Rs64 Cr. The margins in SIS International increased from 4.4% in FY19 to 6.1% in FY20. Efficiency gains in labour costs and overheads through structured initiatives in MSS & SXP.

Segment EBITDA crossed Rs200 Cr for the first time.

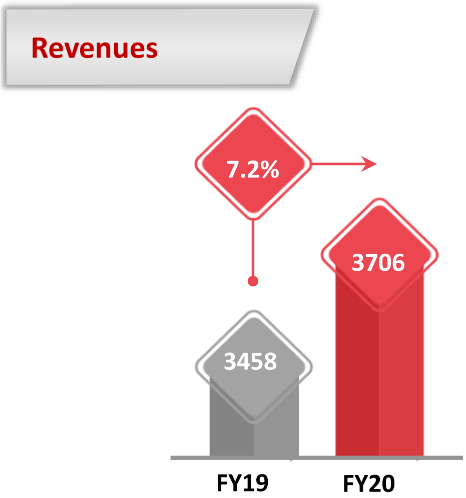
Roll-up acquisitions in NZ

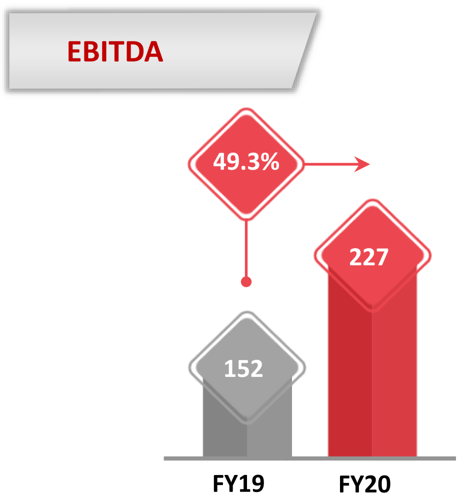
During the year the bolt on acquisitions in New Zealand under P4G helped boost our presence in the alarm monitoring business.

International operations continue to generate robust cashflows

The International segment continued its excellent DSO track record which was at 45 days at the end of March 2020.

in INR Cr	Q4 FY20	Q3FY20	Change QoQ	Q4FY19	Change YoY	FY20	FY19	Growth
Revenues	**949.0**	**939.7**	**1.0%**	**901.9**	**5.2%**	**3705.6**	**3,458.1**	**7.2%**
EBITDA	**64.1**	**54.4**	**17.7%**	**46.5**	**37.7%**	**227.0**	**152.1**	**49.3%**
EBITDA%	**6.8%**	**5.8%**		**5.2%**		**6.1%**	**4.4%**	
Share of group Revenues	42.9%	43.1%		46.1%		43.7%	48.8%	
Share of group EBITDA	46.3%	40.8%		40.5%		43.6%	41.6%	





Facility Management Solutions-India

The facility management business comprises DTSS, SMC, RARE Hospitality and TerminixSIS. We are the second largest and fastest growing FM business in the country. The FM business continued its strong growth as the fastest growing vertical in the group. The FM business currently operates across 77 branches and has close to 64,500 employees.

Strong revenue momentum across BUs

The revenues for the FM vertical were Rs 342.6 Cr which is a QoQ increase of 2.9%, and a YoY increase of 23.5%. For FY20, the segment recorded Rs1280 Cr in revenues, with a 34.8% growth taking us closer to the No.1 position in India. The organic growth for the segment for FY20 stands at 29.6%. Demonstrating this level of growth in a broad economic slowdown is a reflection of our sales and operational excellence. The FM segment ended Q4 with a run rate of Rs114 Cr as against a run rate of Rs97 cr in March 2019. We also had some temporary demand surge in March due to Covid protocols.

Solid EBITDA growth/ stable margins

Growth did not come at the expense of margin and the EBITDA margin was stable at 6.6% in FY20. The segmental EBITDA for FY20 stands at Rs84.3 Cr which represents a YoY growth of 31.8%.

TerminixSIS – persistence paid off

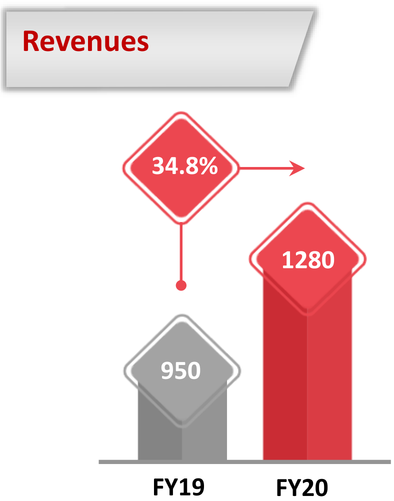
TerminixSIS delivered a strong performance, ending the year at 9% EBITDA in Q4 . With close to 50% revenue growth over FY19 and 48% gross margin, our 8 years of incubation is seeing great results.

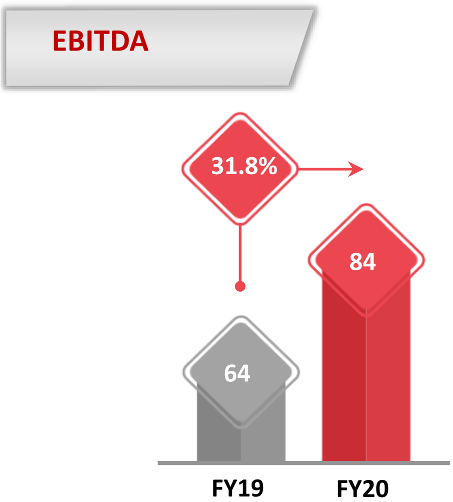
The prospects for the TerminixSIS business look promising with enhanced disinfection and sanitation requirements under the new hygiene protocols that every company is moving to post-Covid. We are also leveraging many group synergies and selling the these services across our client universe.

Specialized solutions bearing fruit

Our focus on specialised verticals like healthcare and pharma is bearing fruit, especially in the post Covid environment as we look to leverage the skill sets across BUs. We added to our healthcare and pharma expertise with the niche acquisition of Adis Enterprise, which brings valuable clients and knowledge base in the field of pharma O&M. We service over 300 hospitals across the group currently.

In INR Cr	Q4 FY20	Q3FY20	Change QoQ	Q4FY19	Change YoY	FY20	FY19	Growth
Revenues	**342.6**	**333.1**	**2.9%**	**277.4**	**23.5%**	**1280.2**	**949.9**	**34.8%**
EBITDA	**23.3**	**22.0**	**5.8%**	**19.3**	**20.7%**	**84.3**	**64.0**	**31.8%**
EBITDA%	**6.8%**	**6.6%**		**7.0%**		**6.6%**	**6.7%**	
Share of group Revenues	15.5%	15.3%		14.2%		15.1%	13.4%	
Share of group EBITDA	16.8%	16.5%		16.8%		16.2%	17.5%	





ServiceMASTER Clean An SIS Group Enterprise · dusterstotalsolutionsservices An SIS Group Enterprise · RARE HOSPITALITY An SIS Group Enterprise · TERMINIX SIS Secured from pest...Assured by world's best

Cash Logistics Solutions

The cash logistics business is a JV with Prosegur of Spain, a world leader in cash solutions. We have a 49% holding in the JV which is the second largest cash logistics business in India. We operate over 2300 cash vans and 54 vaults covering over 300 cities across India.

Focus on non-ATM business helped in FY20

We continue to be pessimistic about the ATM business until there is a clear movement on the pricing. In line with that, we have focussed on weeding out unprofitable ATM contracts. The ATM business now comprises only 27% of the cash logistics segment revenues. We picked up additional volume on Cash in Transit business and Doorstep Banking business where there has been an uptick in pricing. The segment ended the year at Rs327 Cr in revenues, a 13.9% increase YoY.

Steep increase in margins

Our focus on non-ATM business over ATM business has helped us increase margins over FY19. The EBITDA for the segment was Rs22.9 cr for FY20 which is a 7% margin as against 0.6% margin in FY19.

Strategic revenue mix change, aided by productivity improvement measures and cost optimisation have helped the segment improve margins.

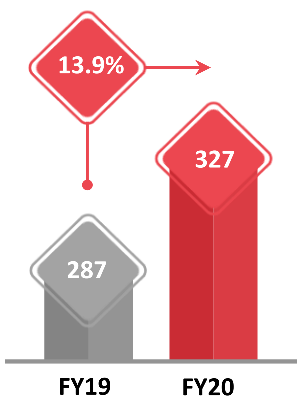
ATM pricing continues to struggle

Though we continue to be cautiously optimistic there has not been any material movement on ATM pricing front though it has been close to two years since the RBI-MHA regulations were passed.

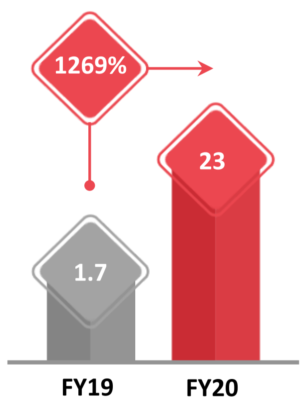
The cassette swap process is especially important for reconciliation and reduction of pilferage risk . Banks being under financial stress is not helping price re-negotiation despite evident benefits to the banking and currency cycle ecosystem.

In INR Cr	Q4 FY20	Q3FY20	Change QoQ	Q4FY19	Change YoY	FY20	FY19	Growth
Revenues	**82.2**	**81.4**	**1.0%**	**76.8**	**7.0%**	**327.2**	**287.3**	**13.9%**
EBITDA	**5.2**	**5.1**	**1.8%**	**9.4**	**-155.2%**	**22.9**	**1.7**	**1269.4%**
EBITDA%	**6.3%**	**6.3%**		**12.3%**		**7.0%**	**0.6%**	

Revenues



EBITDA



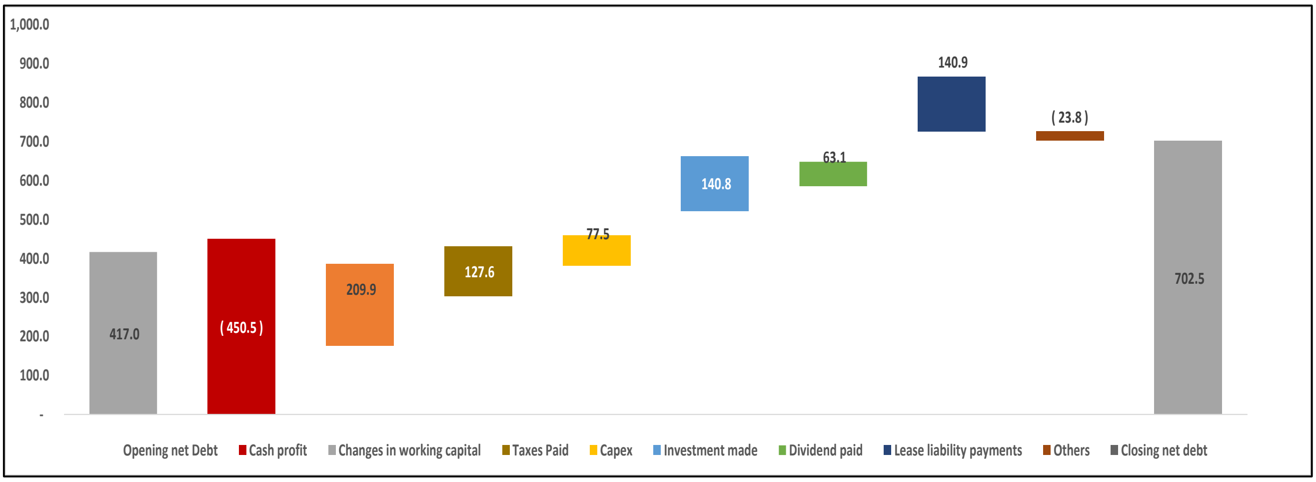
SIS PROSEGUR
LEADER IN CASH LOGISTICS

SISCO
LEADER IN CASH LOGISTICS

Capital Employed and Leverage

In INR Cr	FY 2020			FY2019		
	India	Intl	Total	India	Intl	Total
Gross Debt						
Long-term borrowings	197	433	630	201	413	614
Short-term borrowings	537	5	542	320	16	336
Current Portion of LT Liability	28	14	42	24	1	25
Gross Debt	**763**	**452**	**1,214**	**545**	**430**	**975**
Less: Cash and Cash Equivalents	197	426	623	189	369	558
Net Debt (pre-lease liabilities)	**565**	**26**	**592**	**356**	**61**	**417**
Add: Lease liabilities	60	51	111			
Net Debt (with lease liabilities)	**625**	**77**	**702**	**356**	**61**	**417**

Net Debt movement from FY19 to FY20



*Opening net debt did not include lease liability, which under IND-AS 116, is now being captured as part of closing net debt

Leverage comfortable

Our interest coverage ratio (ICR calculated as EBITDA/ Interest expense) was 4.5 at the end of FY20. Our interest coverage ratio of 4.5 is significantly higher than the ICR of 3.8 for the companies in BSE500 (excluding banks, financials, and oil and gas companies).

Similarly our Net Debt/ EBITDA was 1.1 excluding lease liabilities, which is similar to March 2019. We feel that our balance sheet is quite robustly placed to capitalise on further growth.

Net Debt impacted by lower year end collections resulting from COVID lockdown

The last few weeks of disruption in March 2020 hurt our collections and cash flows. Nearly Rs80 Cr cash flows got thus delayed till April thereby resulting in our OCF/ EBITDA for FY20 coming at 38%, which in ideal circumstances would have been between 55-60%. March is usually the best month for collections and this resulted in pushing the Net Debt higher. While we have picked up some of these collections post 31 March, it is reflecting on our Net Debt & OCF / EBITDA numbers for FY20.

Debt – largely working capital

A large part of our debt is working capital debt which tends to increase with the rapid business growth that we are seeing for the past few years. When the business growth moderates, the cash generation improves resulting in lower Net Debt. Our international business is case in point where we consistently generate strong cash flows. SIS is uniquely positioned as 43% of our revenue are in International markets generating robust FCF which helps balance aggressive growth capital requirements in India.

Access to Attractive Financing

SIS has the unique advantage of being able to tap international sources of funds because of its Australia balance sheet. Our blended cost of borrowing across India and International is around 7.1% which has also seen a decline over the past couple of years. Post the recent rate cuts by the RBI and the Reserve Bank of Australia, we are hopeful of a further reduction in the financing costs. Borrowing on the Australia balance sheet also helps immensely in tax planning by reducing the tax burden in Australia.