SIS Group Enterprises

A Market Leader in Security, Cash Logistics & Facility Management

Earnings Update

H1 – FY20-21

October 29,2020

Earnings Highlights

H1 REVENUES	H1 EBITDA	H1 PAT*	ROE*
Rs4,325 Cr	Rs251 Cr	Rs166 Cr	23.1%
5.6% YoY	0.9% YoY	43.5% YoY	50 bps YoY

*based on pro-forma PAT

Rituraj Sinha
Group Managing Director

“Our H1 results are a testimony that ‘Essential services’ like ours are least impacted and amongst first to recover.

Our H1 revenues of Rs,4,325 Crs is a 5.6% increase YoY. With September revenues at Rs739 Crs compared to March 2020 revenues of Rs720 Crs, we are already well into recovery phase.

Historically high Operating Cash Flows have led to a Net debt reduction of over Rs210 Crs and Net Debt/ EBITDA declined to less than 1, which has been re-affirmed by our credit rating upgrade from A+ to AA-”

Notes from the Group Managing Director

Amongst least impacted and on track for V shaped recovery

Despite India seeing the sharpest ever GDP contraction in recent decades, SIS continues to hold firm with very little disruption in operations and group revenues.

The H1 results reinforce the continued requirement for our services by clients despite their truncated operations for extended periods. These six months of COVID crisis have reaffirmed that security, facility management and cash logistics services are business continuity imperatives - needed in good times but more in crises.

Our consolidated revenues for the quarter were Rs2,158 Crs which is a 3.3 % increase YoY and flat QoQ. For H1 FY21, the consolidated revenues were Rs4,325 Crs which is a 5.6% increase over H1 FY20.

India security revenues in September 2020 were 94% of March revenue levels while International Security was at 121%. Facility Management (FM) segment was operating at 70% of March 2020 levels. Covid impact on FM was steeper due to Railways being non operational apart from key clients in the hotels and retail sector having lean operations which have resulted in a temporary pull back in service volumes. With segments like multiplexes and malls opening up shortly and the festive season, we expect normalisation of service volumes over next 3-4 months. The FM segment contributes only 12% of the Group revenues and is therefore unlikely to delay the V shaped recovery outlook for H2.

International operations continue to outperform, counter balancing volatility in India

All three countries in SIS International (Aus, SG and NZ) were less impacted and handled crisis well. Adhoc Covid related contracts helped compensate impact on sectors like aviation, retail & entertainment.

Furthermore by augmenting gaps in government machinery, we have demonstrated the enhanced potential for private security as market matures. New tender activity is picking up in Q2 and new wins will adequately help override any loss of adhoc business.

Aus, NZ, Singapore government financial assistance package has been recognised and will reflect in Q3 and Q4 results.

We have bought the balance 49% promoter stake in SXP. The settlement demonstrates benefit of earn out acquisition structure, as we have settled at Rs42 crs lower than the initial payout estimate factored in the Balance Sheet.

Our H1 international markets performance clearly demonstrates the value of having a strong developed market presence which brings immense stability and cash flows to the Group.

Gross Margins and EBITDA margins reflect pricing power and operating leverage capability in adverse market conditions

Our Gross margins are intact which indicates our ability to hold prices even as customers have been on aggressive cost cut mode. We have cut non-salary costs in India by 43% from Rs11 Crs per month in March to Rs 6.53 Crs per month in September. The crisis has given us sharp insights into running our business in a leaner way and significant share of these savings are going to continue in future too.

We decided not to cut employee costs as employees are the backbone of a people intensive business like SIS and our growth fulcrum. We have instead given increments and variable pay to the branch, regional and corporate staff as in the normal course, once we got greater visibility into the underlying recovery.

We have imposed a freeze on all non-IT capex for FY21. We believe that technology adoption and 'solutioning' capability are going to be key to capture the quality and efficiency focus that is going to be top of mind for clients post Covid. Hence, we shall continue to invest in Tech to drive scalability. We are planning to rollout several attendance and back office related transformation projects in 2021– which will drive up productivity over time and get SIS ready, ahead of competition, for labour reforms compliance effective April, 2021.

Rating Upgrade to AA- amidst crisis – historically high OCF generation - reflects balance sheet strength

We are pleased to report that our credit rating has been upgraded from A+ to AA- which is a solid endorsement of our resilience and strong balance sheet. The rating upgrade takes comfort from our strong cash flows and sound leverage ratios.

Being a service company, we pay our employees wages and statutory obligations irrespective of collections. This results in higher working capital usage. The higher the growth, the larger is the working capital usage and conversely, a slow growth year like FY21 will see lower working capital needs and consequently better cash flow generation as is evident from our historically high OCF/ EBITDA in Q2FY21 of 188%.

Our Net Debt declined by over Rs240 Crs from Rs703 Crs at the end of March 2020 to Rs462 Crs in Q2. At the end of September, our Interest Coverage was 4.8 and Net Debt/ EBITDA was 0.9 which is a steep decline from 1.3 at the end of June 2020.

In 5 out of 6 months in H1, we have seen more collections than monthly invoice value. Customers payment priority in the crisis reflects the value associated with our services.

This also reflects the great effort of our finance and operations teams who have brought a laser sharp focus during these troubled times to ensure that balance sheet is strengthened.

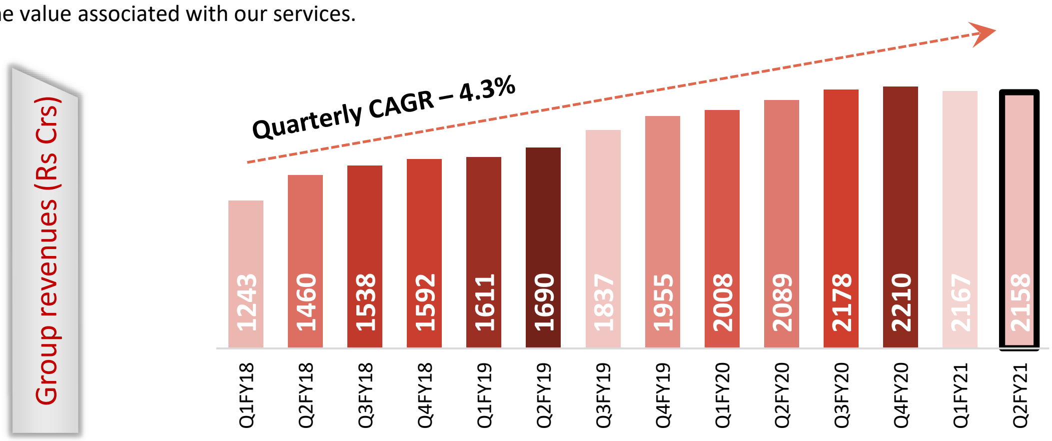
Credit control and risk management protocols have been enhanced in view of the overarching credit and liquidity risks. Basis H1 trends, actual negative impact in FY21 could be lesser than provision taken in Q1, picture to be clearer over next 2 quarters.

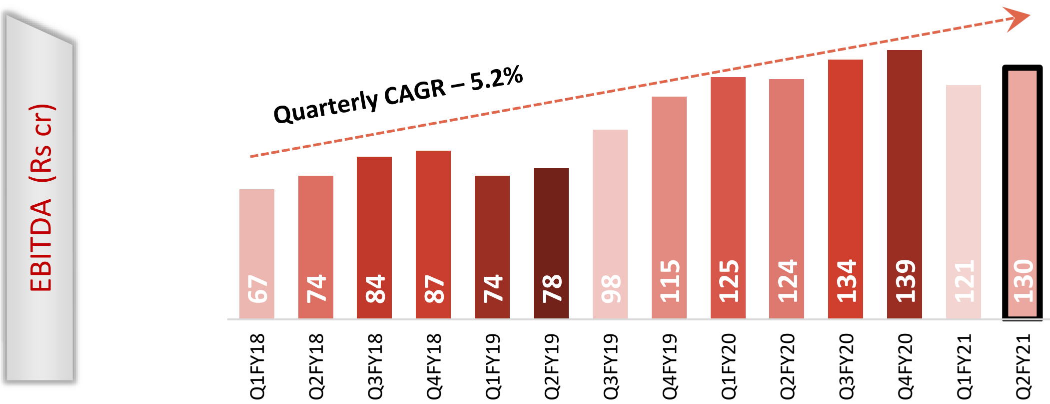
Preparing for Market Share Thrust to capitalise on post-COVID economic recovery and Labour Reforms driven consolidation

The Labour Reforms recently cleared in Parliament are amongst the biggest legislative reforms for labour intensive service businesses like ours. A more regulated labour market has always preceded market share consolidation in our industry globally. The COVID impact coupled with the Labour Reforms are going to impact customer behaviour and especially, smaller competitors. Developed markets like US, UK and Australia have been down this path and the industry leaders have market shares in the 15-20% range.

The Labour Reforms will nudge the industry towards a higher wage structure and social security base, minimise compliance evasion and shift compliance omission liability onto principal employers (users of services). We believe that these Labour Reforms are going to be hugely impactful for the process of formalisation.

A Detailed note on this has been circulated on this topic - dated October 20th.





Consolidated Financial Results

Amt. in Rs Crs.	Q2 FY21	Q2 FY20	%age	H1 FY21	H1 FY20	%age
Revenue	**2,157.9**	**2,088.8**	*3.3%*	**4,324.6**	**4,097.1**	*5.6%*
EBITDA	**129.7**	**123.6**	*4.9%*	**250.6**	**248.3**	*0.9%*
%	*6.0%*	*5.9%*		*5.8%*	*6.1%*	
Depreciation	25.3	26.5	*-4.5%*	49.0	50.2	*-2.5%*
Finance Costs	26.8	28.4	*-5.8%*	57.2	53.7	*6.4%*
Other income & share of profit/(loss) in associates –*see section titled "Special items"*	66.8	-1.9	*3,640.9%*	89.6	-4.0	*2,321.4%*
Earnings Before Taxes (Operating)	**144.3**	**66.7**	*116.3%*	**234.0**	**140.4**	*66.7%*
Less: Business combination related accounting charge						
- Depreciation & Amortization	3.0	6.0	*-50.6%*	7.9	11.8	*-33.0%*
- Finance costs	6.5	9.4	*-31.3%*	13.4	21.2	*-37.1%*
Earnings Before Taxes (Reported)	**134.9**	**51.3**	*163.1%*	**212.7**	**107.3**	*98.2%*
EBT (Reported) %	*6.3%*	*2.5%*		*4.9%*	*2.6%*	
Tax Expenses	26.8	-1.7		46.8	-8.3	
Profit After Taxes (Pro Forma)	**108.1**	**52.9**	*104.2%*	**166.0**	**115.6**	*43.5%*
PAT (Proforma) %	*5.0%*	*2.5%*		*3.8%*	*2.8%*	
Add / (Less): One-off adjustments*	-	-23.2		-	-35.4	
Profit After Taxes (Reported)	**108.1**	**76.2**	*41.9%*	**166.0**	**151.1**	*9.8%*
PAT (Reported) %	*5.0%*	*3.6%*		*3.8%*	*3.7%*	
EPS	7.3	5.2	*41.1%*	11.2	10.3	*8.8%*
OCF	244.2	*92.7*	*163.4%*	342.0	*-15.1*	*2376.1%*
OCF to EBITDA	*188.3%*	*75.0%*		*136.5%*	*-6.1%*	
Net Debt (with lease liabilities)	461.8	764.9		461.8	764.9	
Net Debt to EBITDA (LTM EBITDA)	*0.88*	*1.66*		*0.88*	*1.66*	
Net Debt (without lease liabilities)	345.4	657.6		345.4	657.6	

****For an explanation of special items affecting the EBITDA and EBIT, please refer the section titled "Special items"***

Revenue, EBITDA and PAT Growth Development by Business Segment

Business Segments	Revenue Growth		EBITDA Growth		PAT Growth (proforma)	
Total Growth - %age	**Q2 FY21 v/s Q2 FY20**	**H1 FY21 v/s H1 FY20**	**Q2 FY21 v/s Q2 FY20**	**H1 FY21 v/s H1 FY20**	**Q2 FY21 v/s Q2 FY20**	**H1 FY21 v/s H1 FY20**
Security Services - India	-4.5%	0.4%	-8.6%	-10.8%	-56.3%	-58.2%
Security Services – International (on a constant currency basis)	6.0%	7.9%	36.7%	24.8%	314.9%	216.8%
Facilities Management	-18.6%	-9.3%	-68.7%	-44.7%	-108.0%	-83.6%
Total of SIS Group	**3.3%**	**5.6%**	**4.9%**	**0.9%**	**104.2%**	**43.5%**

Q2 and H1 FY21: Financial Commentary

Revenue Development

Consolidated revenue for Q2 FY21 was Rs 2,157.9 Crs; grew by 3.3% over Q2 FY20. Consolidated revenue for Q2 FY21 had a q-o-q change of (0.4%)

Business segment wise revenue growth for Q2 FY21 are as follows:

- Security Services – India decreased by (4.5%) over Q2 FY20 and a QoQ decline of of (2.2%)
- Security Services – International grew by 18.2% over Q2 FY20 and had a q-o-q change of 4.7% (6.0% and -2.6% respectively on a constant currency basis); and
- Facility Management decreased by (18.6%) over Q2 FY20 and had a q-o-q decline of (12.7%)

Earnings Before Interest, Tax, Depreciation & Amortization

Consolidated EBITDA for Q2 FY21 was Rs 129.7 Crs and the EBITDA margin was 6.0%, thus representing a change of 4.9% over Q2 FY20.

Business segment wise EBITDA change for Q2 FY21 on y-o-y basis are as follows:

- Security Services – India declined by (8.6%)
- Security Services – International, had a growth of 50.6% (36.7% on a constant currency basis); and
- Facility Management – India, had a decline of (68.7%)

During the first quarter of the current financial year, in order to prepare ourselves for a subdued macro environment and to mitigate the downsides of the prevailing business environment, the Group implemented a series of cost management measures. The Group's cost management measures yielded savings to the tune of Rs 11.1 Crs during the quarter Q2 FY21, in addition to the Rs19.2 Crs of savings in Q1 FY21 for a cumulative saving of Rs30.3 Crs compared to H1FY20. Some of these cost savings are expected to continue into H2 and also into FY22 as we look to leverage the productivity and efficiency tools that we have learnt over the past 6 months.
A detailed explanation is available in the section titled "Special Items"

Earnings Before Taxes

The Earnings Before Taxes for the Group were at Rs134.9 Crs for Q2 FY21, compared to Rs 51.3 Crs for Q2 FY20, thus showing an increase of 163.1%.

Other income & share of profit/(loss) in associates is largely comprised of:

a. The effects of unrealised currency translation amounting to Rs16.6 Crs for the future tranche liabilities for Henderson and Platform 4 Group in Singapore and New Zealand respectively which was offset by a negative unrealised currency translation amounting to Rs0.9 Crs in respect of the RDBs issued by the parent to its Australian subsidiary.
b. A gain of Rs42.4 Crs as a result of a write down of the liability created for the acquisition of the balance 49% shares of Southern Cross Protection Pty Ltd as the final price paid for those shares was less than the estimated liability created for those shares in 2017 ***(see section titled "Special items")***
c. Interest income from bank deposits
d. The Group's share of the profit profit/(loss) in its associates amounting to Rs (0.3) Crs (compared to Rs (2.3) Crs in the same quarter last year) driven by a significant improvement in the results of its joint venture for the Cash Logistics business

The Group's consolidated Depreciation & Amortization amounted to Rs28.3 Crs for Q2 FY21 which was lower than the Rs32.6 Crs for the same quarter last year driven by:

a. Winding down of amortisation of the intangibles in connection with acquisitions over a period of time
b. Freeze on discretionary capital expenditure during FY21

Finance costs for the Group amounted to INR 33.3 Crs, representing a decrease of (12.1%) over the same quarter in the year FY20. This is mainly due to the following

a. Reduction in the true up of finance costs relating to future pay-out of the acquired entities consequent to the completed settlements for DTSS and SLV;
b. Lower average utilisation of working capital debt facility aided by strong debtors management; and offset by
c. Increase due to borrowings to facilitate subsequent tranche pay-outs to the entities acquired during FY 20, for DTSS and to fund acquisitions in New Zealand – these events took place in Q2FY20

Special items

During the quarter, the Group's subsidiary in Australia completed the acquisition of the balance 49% shares in Southern Cross Protection Pty Ltd (SXP) pursuant to share purchase and option agreements entered into in 2017 when it increased its shareholding in SXP to 51%. At that time, in 2017, under the relevant accounting policies and standards, the Group also estimated and accounted for a liability to reflect the price which it expected to pay for the remaining 49% shares held by the erstwhile shareholders.

Q2 and H1FY21: Financial Commentary (Cont'd.)

Under the terms of these agreements, and based on the formula contained therein, a purchase price for these 49% shares was computed and final agreements were signed with the shareholders on September 30, 2020. As a result of this computation, which has been confirmed and agreed by the shareholders, the final price payable for those shares is less than the estimated liability created for those shares in 2017. Therefore, a gain of Rs42.4 Crs has been recorded and accounted under "Other gains/losses" as a result of a write down of the liability created for the acquisition of the balance 49% shares of SXP

Taxes, Net Income and Earnings per Share

The key qualifying criterion for availing the tax benefits under section 80JJAA are an increase in the number of employees during the year and eligible employees completing a period of employment of at least 240 days in the year, either in the year of recruitment or in the immediately succeeding financial year.

Under IndAS, where there are transactions during the reporting period that affect taxable profits of future periods, then a deferred tax asset needs to be created for those future tax benefits. So, on account of 80JJAA, since we get a benefit for three years for an expenditure incurred in Year 1, we record the entire tax benefit available, across the three years, in Year 1 itself by creating a deferred tax asset in the books of accounts to the extent of the amount of tax benefit available in the subsequent two financial years. Hence, the accounting entry is passed for crediting the Current Tax line in the PL for the Year 1 benefits and creation of a deferred tax asset in Year 1, through the PL, on the tax benefits accrued for the 2nd and 3rd years.

In each of the 2nd and 3rd years, this deferred tax asset is brought into the PL and a corresponding amount is credited to the Current Tax line in the PL which results in a neutralizing benefit in the PL on account of prior years' benefits on account of 80JJAA. However, the prevailing uncertain business situation arising out of COVID has made it difficult to predict or estimate with a high degree of certainty the increase in the number of employees which the Group is expected to achieve during the whole of FY21 as compared to the number of employees at the end of FY20.

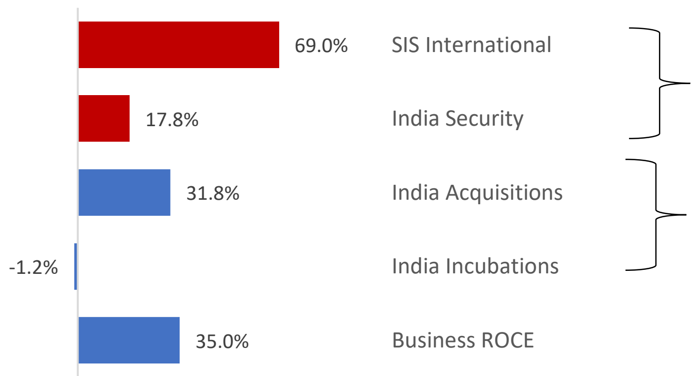
The revenue decline for SIS Group in Q1 and the early part of Q2 has largely been reversed and revenues are already showing an upward trajectory in the later part of Q2. The SIS Group, while optimistic on a rapid demand and revenue recovery, has decided to continue its conservative approach and has not accounted for any additional benefit under section 80JJAA pertaining to FY21 during the quarter and half year. However, the Group continues to receive, and account for, the tax benefits under section 80JJAA which have accrued to the Group during FY20 and FY19 and which the eligible entities of the Group will claim in FY21 and FY22.

On a standalone basis, the Company's current tax rate continues to be NIL as a result of the benefits accruing under Section 80JJAA of the Income Tax Act, 1961. The current tax rate reflects the amount of tax the Company is expected to pay when preparing and filing its tax returns. The real effective tax rate reflects the current tax plus the deferred tax effect on timing differences. The current tax rate and real effective tax rate, is computed below:

In Rs Crs	Q1FY21	Q2FY21	H1FY21
PBT	20.8	24.4	45.3
Current tax	0.1	(0.0)	0.1
Deferred tax effect on timing differences	(1.0)	(2.0)	(3.0)
Total tax items	(0.9)	(2.0)	(2.9)
Current tax rate	*0.5%*	*-0.1%*	*0.2%*
Real Effective tax rate	*-4.4%*	*-8.3%*	*-6.5%*

Business ROCE

SIS' asset light business model is reflected in the strong ROCE at the business level which tends to be reduced by the goodwill on acquisitions. The Business ROCE is the right indicator of the operating strength of a business. The following chart depicts the business ROCE across segments:



75% of our revenues generate ROCE >35%

All our acquisitions have strong operating ROCEs
As businesses turn EBIT positive (like Tx SIS and Vprotect this year) they will provide a strong fillip to the ROCE

Business ROCE at 35% is undermined by Goodwill on acquisitions which lowers Group ROCE to 19%

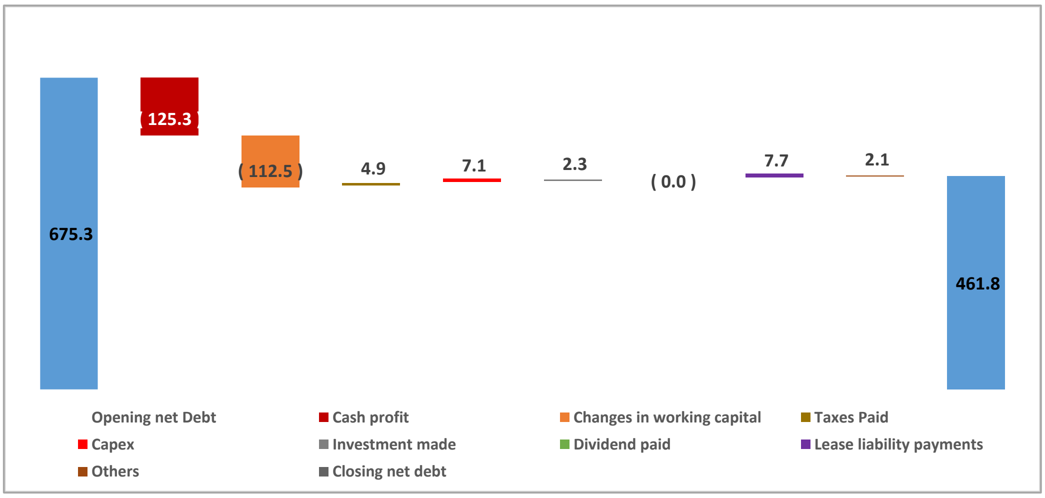
**India Acquisitions include – DTSS, SLV, Uniq and Rare; India Incubations include Tech SIS/ vProtect/SMC/ Tx SIS*
***Individual acquired entity wise ROCEs are presented on page 12*

SIS Group has significant goodwill on its books of around Rs1355 Crs (arising out of acquisitions) which compresses Group ROCE. As all our businesses are performing in line with expectations, we have not been required to do any impairment. SIS Group is an ideal blend of High ROCE segments + High growth emerging segments.

Leverage and Financing

In Rs Crs.	September 2020			June 2020			March 2020		
	India	Intl	Total	India	Intl	Total	India	Intl	Total
Gross Debt									
LT Borrowings	44	30	74	49	32	81	197	433	630
ST Borrowings	500	5	504	547	458	1,004	537	5	542
Current Portion of LT Liability	178	472	650	181	14	195	28	14	42
Lease liabilities	59	57	116	59	58	117	60	51	111
Gross Debt	**781**	**564**	**1345**	**836**	**560**	**1397**	**822**	**503**	**1,325**
Less: Cash/Cash Equivalents	338	546	884	202	520	722	197	426	623
Net Debt	**443**	**19**	**462**	**635**	**41**	**675**	**625**	**77**	**703**

Net Debt Bridge (In Rs Crs.)



The Group's continued and relentless focus on working capital management is reflected in all round improvement of key metrics of leverage, interest coverage, OCF/EBITDA.

OCF/EBITDA on a consolidated basis was **188%.** This is the highest ever OCF %age in the history of the company and is a re-iteration of the business model and hypothesis that slower growth leads to high cash accumulation. The strong collections despite the stress in the macro-economy is a direct result of the relentless focus on aggressive management of receivables and strong credit controls put in place to assess, review and monitor collections. The OCF/ EBITDA performance has been led by the India businesses which can be seen in the cash accumulation in the India business. The International business was always a strong cash flow generation engine and it repeated its performance in H1 too.

Interest coverage ratio improved to 4.8 times at the end of Q2'FY21 which continues to be higher than the ICR of companies in BSE500. (excluding banks, financials, and oil and gas companies). *(ICR calculated as EBITDA/ Real Interest expense)*

Net Debt/ EBITDA reduced and was 0.9 as on September 2020, which is a steep improvement from the 1.3 at the end of June 2020. Our focus on achieving optimum financing strategies and cash flows keeps our leverage comfortable and places us in a strong position to achieve further growth with the headroom that we have.

Gross Debt and Net Debt showed a decline in the quarter by Rs 51 Crs and Rs213 Crs respectively demonstrating the Group's ability to manage debt and working capital cycles even during a downturn.

During Q1 FY21, the Group had arranged additional lines from its bankers to cover any short term or temporary liquidity constraints it may face. However, because of the strong cash flow generation and steady business that remained largely stable over the past two quarters, we have not had to resort to utilising those additional lines even in Q2.

Security Solutions – India

The India Security Solutions business comprises five entities - our flagship SIS security business, SLV, Uniq, Tech SIS and Vprotect. We are the largest security solutions company in India. All the group companies showed remarkable fortitude in the toughest half year for the Group since inception.

The business currently operates across 170 branches and has 146, 617 employees.

Essential services leading to revenue stability

The segmental revenues for H1 were Rs 1697 Crs which is a 0.4% increase over H1FY20. The revenues have stabilised in Q2 with many cities and states opening up steadily. At end of September the revenues for the segment at Rs285 Crs were 94% of the revenues in March 2020 at Rs304 Crs.

The security vertical has had strong exposure to segments like manufacturing, banking, healthcare etc which have been largely unaffected by the crisis and even in some other segments that saw lean operations, security services were still operational at close to full capacity because of the vital nature of our services. Our diversified presence across Tier 1/2/3 cities also helped us avoid severity of impact.

Gross margins intact – EBITDA inching up

Gross margins continue to be stable and EBITDA has inched up from 5.4% in Q1 to 5.8% in Q2, despite announcement of annual bonuses and increments this year. We continue to spend significant amounts on Covid EHS aspects especially around PPE, welfare spend and training.

As volumes pick up in festive season, it will drive back EBITDA margins quickly to earlier levels on the back of operating leverage.

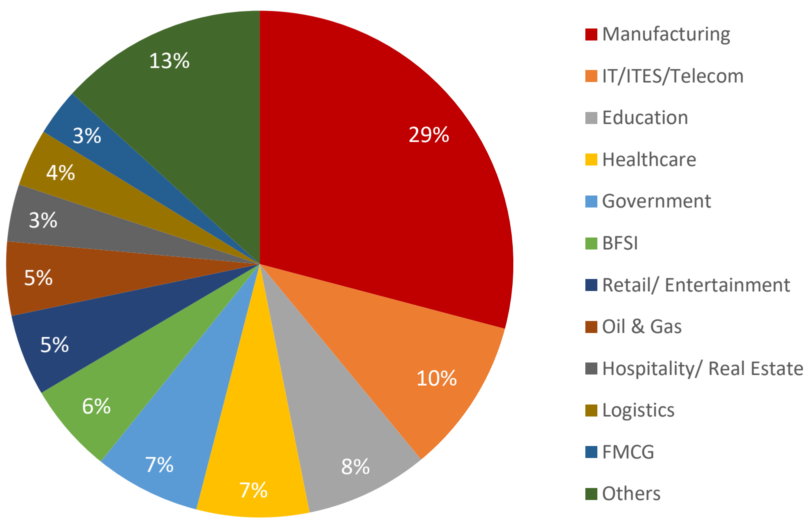
COVID and Labour Reforms – major trigger for Consolidation

The next 12-24 months are going to present many opportunities for organic consolidation as customers prefer market leader brands & reliable service partners. Government labour reforms shall spur formalisation. Our balance sheet gives us the comfort to launch new solutions, build M&A pipeline and hire best talent to capture the eventual demand recovery.

The inherent in-elastic nature of the essential services demand has come forth during these past few months. With the strong balance sheet and opportunities presented by the labour reforms and Covid impact on smaller firms, we remain optimistic of reaching our earlier levels of growth in the near term.

in Rs. Crs	Q2 FY21	Q2 FY20	*Change YoY*	Q1 FY21	*Change QoQ*	*H1FY21*	*H1FY20*	*Growth*
Revenues	839.2	878.9	*-4.5%*	858.1	*-2.2%*	1697.2	1691.2	0.4%
EBITDA	49.1	53.7	*-8.6%*	46.2	*6.3%*	95.2	106.8	-10.8%
EBITDA%	*5.8%*	*6.1%*		*5.4%*		5.6%	6.3%	
Share of group revenues	*38.9%*	*39.6%*		*42.1%*		39.2%	41.3%	
Share of group EBITDA	*37.8%*	*38.2%*		*43.5%*		38.0%	43.0%	

Revenue breakdown by customer segment



Retail & Entertainment, Hospitality are the primary contributors to the service reductions. They contribute only 8% of the segment revenues.

Security Solutions – International

The International security business comprises four entities - MSS and SXP in Australia, Henderson in Singapore and 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 8,800 employees.

Robust performance across all the markets

The International business has continued its robust performance during H1 with revenues of Rs 2,088 Crs which is an increase of 14.9% over H1FY20.

Australia has seen strong ad-hoc contracts for securing quarantine facilities that continued into Q2. These have offset some decrease in businesses like aviation/ retail etc. Singapore showed a 3% QoQ increase in revenues while NZ business saw a great uptick due to events business picking up.

The strong performance in these markets is a result of underlying health situation coupled with progressive incentives announced by the governments to support businesses and workers.

The overall economy has seen less disruption due to Covid in these markets.

Government business bulwark against volatility

In most developed markets, govt. is a large customer for outsourced security to augment their security needs - public transport and other utilities, immigration and even non-core roles at police stations. In Australia too, the government is a large customer for us and accounts for 46% of the revenues (including defence). While this number has increased in H1 on account of Covid related ad-hoc demand, the strong government demand has historically been a strong support in headwind conditions.

Historically high EBITDA margins

Maintained pricing and gross margins despite tough environment and customer pressures. That coupled with good margins on the ad-hoc business aided in the overall margin being at 7% across the region.

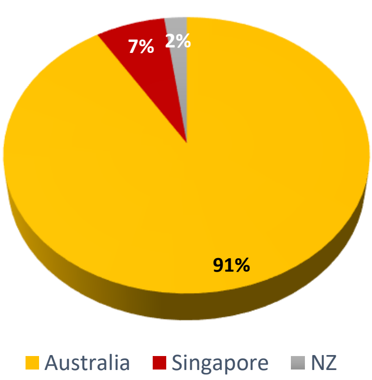
International operations continue to generate robust cashflows

The International segment continued its excellent DSO track record which remains at 47 days which in comparison was 53 days in Q2FY20. The strong collections show the continued efforts of our operating teams ably supported by the customers who recognise the vital nature of our services in this juncture.

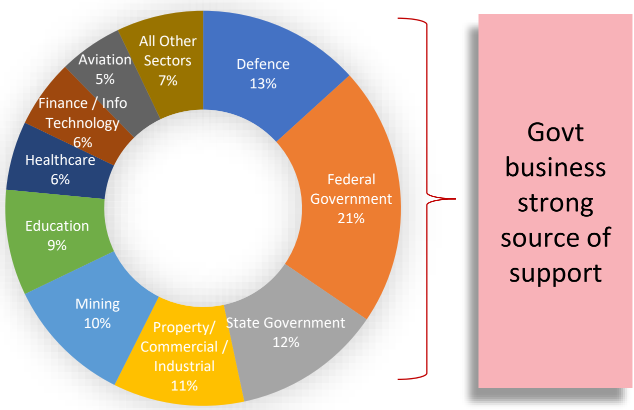
H1FY21 demonstrates the integral and crucial role that the international business plays in the SIS Group. Even in an otherwise demand in-elastic industry, it adds in a further amount of stability due to the strong underlying macro situation in these economies. The division has always been high on cash flows and return ratios, which has been aided this year by strong revenue growth too.

in Rs. Crs	Q2 FY21	Q2 FY20	*Change YoY*	Q1 FY21	*Change QoQ*	*H1FY21*	*H1FY20*	*Growth*
Revenues	1067.7	903.4	*18.2%*	1019.9	*4.7%*	2087.6	1816.8	14.9%
EBITDA	74.7	49.6	*50.6%*	60.0	*24.5%*	134.7	103.2	30.5%
EBITDA%	*7.0%*	*5.5%*		*5.9%*		6.5%	5.7%	
Share of group revenues	*49.5%*	*43.2%*		*47.1%*		48.3%	44.3%	
Share of group EBITDA	*57.6%*	*40.1%*		*49.6%*		53.8%	41.6%	

Revenue breakdown by region



Revenue breakdown by customer segment



Facility Management Solutions

The facility management business comprises DTSS, SMC, RARE Hospitality and TerminixSIS. We are the second largest FM business in the country. The FM business currently operates across 92 branches and has close to 50,700 employees.

Revenue decline on a few high impact segments

The revenues for the FM vertical for H1 were Rs548 Crs which is a Rs56 Crs decline over H1 of last year (9.3%). Out of this Railways accounted for close to 50% of the decline – accounting for only Rs33 Crs revenues in H1FY21 while it was over Rs60 Crs in H1FY20. Railways used to contribute close to 10% of our revenues and was shut for a large part of Q1 and Q2. The other big segments that have been impacted are hotels, retail and airports. Many of these segments will see greater unlocking in Q3 leading to substantial service volume uptick.

Order flows provide clear roadmap towards recovery

With most major customer segments steadily recovering, there is a steady revival of service volumes. DTSS and SMC are inching back to normality with new orders of over Rs2.5 Crs per month which would help us reach March 2020 levels in Q4.

Rare Hospitality, our specialty healthcare FM company has been showing strong YoY growth on the back of continued wins in the healthcare segment.

Terminix SIS is also showing a robust YoY growth on the back of strong wins in the area of disinfection and sanitization. We are attempting to convert one time disinfection orders into recurring revenues. At 28% EBITDA margins, the business is poised to have its best year ever.

EBITDA hit on account of operating leverage impact

While gross margins have been intact, EBITDA was impacted on account of the operative leverage, thus declining from 5.1% in Q1 to 2.6% in Q2FY21. As sales start recovering, the operating leverage should provide an equally strong upturn to EBITDA margins, back to historical trends.

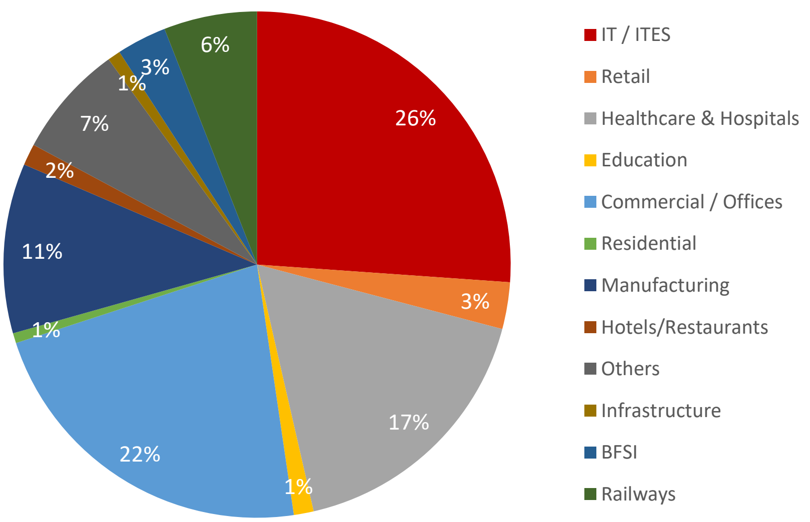
From FM to Hygiene and Safety Assurance

We estimate that monthly operating expenditure on hygiene management will witness a sharp uptick across customer segments as a fallout of the Covid crisis. To capture the potential increase in client spends on hygiene and cleaning, we have launched new solutions to pivot to smart surface disinfection and anti-microbial treatments.

Similarly, we have also initiated production support services to assist companies in their operations and maintenance. The newly passed labour reforms provide further impetus to the outsourcing of production support service and the SIS' group penetration in the manufacturing sector will help us exploit this opportunity.

in Rs. Crs	Q2 FY21	Q2 FY20	*Change YoY*	Q1 FY21	*Change QoQ*	*H1FY21*	*H1FY20*	*Growth*
Revenues	**255.7**	**314.3**	***-18.6%***	**292.7**	***-12.7%***	**548.4**	**604.4**	**-9.3%**
EBITDA	**6.5**	**20.9**	***-68.7%***	**15.0**	***-56.5%***	**21.5**	**39.0**	**-44.7%**
EBITDA%	***2.6%***	***6.6%***		***5.1%***		**3.9%**	**6.4%**	
Share of group revenues	***11.8%***	***15.0%***		***13.5%***		**12.7%**	**14.8%**	
Share of group EBITDA	***5.0%***	***16.9%***		***12.4%***		**8.6%**	**15.7%**	

Revenue breakdown by customer segment



Segments that have seen the largest service volume reduction compared to March 2020 are – Railways, Hotels and Restaurants, Retail & Entertainment. Segments like Banking, Commercial, Manufacturing have held up well.

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 2,300 cash vans and 54 vaults covering over 300 cities across India.

Cash in circulation increasing steeply

Despite the crisis hindering overall business activity and the steep hit to the GDP, the Cash in circulation in the economy has seen a steep increase – growing at 13% from March 2020 to September 2020. The growth over the last 12 months is 23%. The cash in circulation/ GDP has reached a high 14% currently.

During the time of crisis, people have been resorting to keeping more cash with them as a matter of caution to be used in times of emergency. Direct benefits transfer (DBT) in rural areas has driven cash use further.

Revenues stable across segments

Revenues increased 7% over the previous quarter with ATM and Cash in Transit business being quite stable. The business is now operating at 98% of March 2020 levels.

We won cash processing business (a new business line) from SBI for managing currency chests. The segment also entered the valuable cargo business. Entering new business segments will provide a diversified revenue stream that will help us move beyond the traditional cash logistics businesses.

Margin increase – streamlining routes

The segment continued its strong EBITDA margin trend with margins at 8.6%, up from 8.1% in the previous quarter.

Despite increase in fuel prices by 18%, gross margins improved by 4% through dynamic management of on-ground routes, proactive cost control and productivity improvement measures.

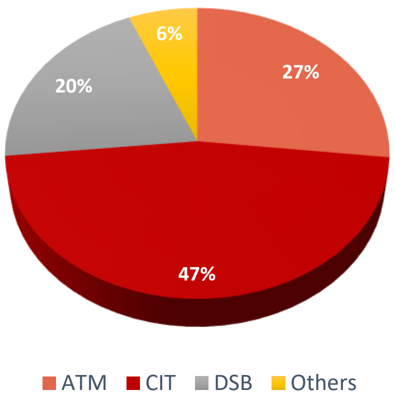
Operating leverage has further positively impacted overall EBITDA margins.

Organic consolidation

Historically the industry has been beset with players who were operating sub-optimally and created pricing stress. The delayed reset of ATM pricing coupled with Covid related working capital issues have put weaker players under stress. We see some of these players slowly losing business and organic consolidation helping stronger players.

in Rs. Crs	Q2 FY21	Q2 FY20	*Change YoY*	Q1 FY21	*Change QoQ*	*H1FY21*	*H1FY20*	*Growth*
Revenues	77.0	88.8	*-13.3%*	71.8	*7.2%*	148.7	168.4	-11.7%
EBITDA	6.6	8.4	*-21.7%*	5.8	*13.9%*	12.4	11.9	4.4%
EBITDA%	*8.6%*	*9.5%*		*8.1%*		8.3%	7.1%	

Revenue breakdown by solution



Our ATM revenue dependence has declined from 53% in Q1FY18 to 27% in Q2FY21, thus transforming the financial performance of the segment

SIS PROSEGUR LEADER IN CASH LOGISTICS

SISCO LEADER IN CASH LOGISTICS

Note on M&A Structure and Payouts

While organic growth lies at the core of SIS strategy, bolt-on acquisitions have helped us over the years in a) consolidating market share in key growth territories b) augmenting service portfolio gaps and c) build market share and credentials in promising customer segments. Our M&A track record has been built around three key levers that have ensured continued success on all our transactions:

- Strong internal discipline in evaluating deals based on decades of business experience and operational knowhow
- Valuing and structuring deals to ensure that our financial returns are optimised in both upside and downside scenarios
- A sound integration plan that is built around seamlessly bringing together systems, processes and cultures

All our acquired entities are performing in accordance with the initial plan.

Strategy

Market share consolidating in lucrative geographies

The Security and Facility Management industry has many regionally strong players with a strong client profile, compliance record and good brand recognition, but have become fatigued and stagnant in their evolution that we term Tired Market Leaders. SIS' strategy has been to acquire these regionally strong players to increase market share and leadership in key geographical verticals, especially the regions with strong economic and industrial activity. Our acquisitions of SLV and Uniq in FY19 were a step in this direction, as we increased our market share in Delhi-NCR and Banaglore respectively.

Augmenting service portfolio and penetrating key customer segments

Customers are looking at specialised skill sets from their service providers. We are keen to acquire niche skills that boost our expertise in a few select areas. These segments, like healthcare for instance, offer immense scale potential and high margins. A case in point was our acquisition of Rare Hospitality in FY19 which offered strong capabilities in the healthcare field. These skill sets have now acquired greater significance as we look to provide more solutions to the healthcare field, post-Covid.

Earn-out based Staggered acquisition structure

Our structure for all our deals is strongly focussed on alignment of interests between SIS and the Sellers. We aim to build partnerships with the sellers so that any transition to SIS is seamless while also ensuring continued participation of the sellers in the economic upside.

Our acquisition of DTSS is a perfect demonstration of this. We completed the last tranche buyout from the sellers in July 2019. Similarly we got 16.35% additional equity in SLV as an adjustment of the initial tranche payment. Both deals, outperforming and underperforming, resulted in over 30% IRR, (with no multiple arbitrage).

Integration

A well-thought out integration plan is important to the success of any acquisition and at SIS, we have institutionalised a integration plan that enables a smooth transition of people/ processes/ culture and systems. Our integration plan combines the following key elements

- Systems and Processes
- Target Orientation
- Earnings Optimisation
- Policies and best practices

A detailed 100 days and six month plan, with appropriate prioritisation, is prepared involving various functional leaders with the aim of bringing the acquired company into the SIS way as early as possible.

After having successfully acquired and integrated many companies over the past few years, we believe that we have a strong and scalable home-grown recipe for cultural, operational and financial integration.

Performance of material acquisitions over the years

Acquired company	Date	Country	Remarks	Business ROCE
MSS Security	Aug-08	Australia	Entry into the Australian market. Largest security services provider	60%
Dusters Total Solutions Services	Aug-16	India	Leapfroggged from top 10 to top 4 players in the FM segment	27%
Southern Cross Protection	Jul-17	Australia	Added solutions business of mobile patrolling to the traditional business	38%
SLV Security	Sep-18	India	Consolidate market share in the key Delhi - NCR market	23%
Rare Hospitality	Nov-18	India	Increase presence in promising healthcare segment	111%
Henderson Security Services	Feb-19	Singapore	Entry into Singapore market (3rd largest player)	113%
Uniq Detective & Security Service	Feb-19	India	Consolidate market share in the prime Bangalore region	79%

**Business ROCE is the operating ROCE of the entity, not considering the amount that was paid for the acquisition*
*** Based on Normalised EBIT calculations*

Note on M&A Structure and Payouts

Accounting for future liability and goodwill

Our earnout structure results in future liabilities being recorded in the books as per Ind-As PPA guidelines. As at the end of March 2020 the liability on the book towards these acquired assets was recorded at Rs676 Crs

However this is based on conservative assumptions providing for maximum possible payout scenarios. The final payout is likely to be significantly lower than the liability on the books. This would result in a write back to the P&L (under the head "other gains") and also a considerable reduction in the goodwill on the balance sheet.

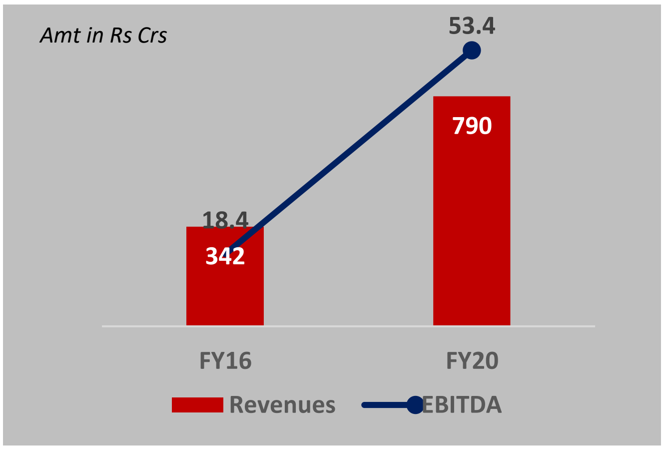
This can also be seen in the significantly lower payouts in the case of SLV and SXP as against the recorded liabilities in the "Non-current financial liabilities" in the Balance Sheet. The implication of the earn-out structure and more realistic goodwill estimates need to be factored in appropriately while computing the return ratios for SIS.

in Rs Crs	Liability recorded in the Balance Sheet	Actual payout	Goodwill reduction
SLV	81.6	36.6	50
SXP	202.8	161	42

DTSS

We acquired 78.72% in DTSS in August 2016 for a purchase price of Rs117 Crs and balance in July 2019 with total purchase price of Rs193 Crs. The founders of the company and key employees were incentivised through an earnout mechanism linked to EBITDA growth for the final tranche.

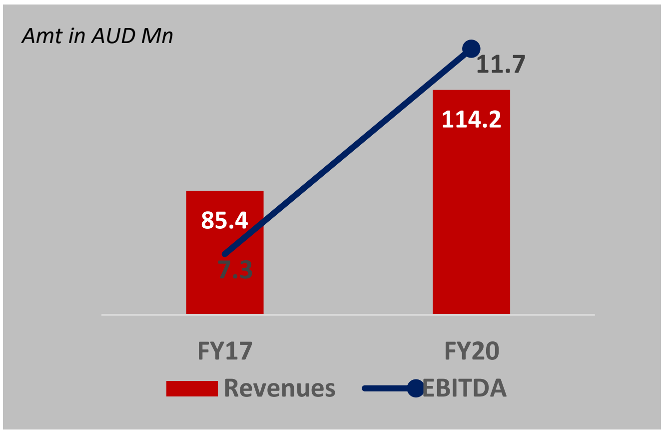
The post-acquisition period of DTSS has seen a significant growth in revenues and margins. This has been directly a result of the inculcation of many best practices of SIS into DTSS.



SXP

Initial investment of AUD 1.7 Mn made in 2012 for 10% stake in SXP. Additional stake of 41% acquired in 2017, taking stake to 51%. 49% continued to be held by the seller under an earnout structure. Total payout for SXP across all tranches amounted to AUD 56.3 Mn. SXP is the largest mobile patrolling company in Australia added a new solution mix to our portfolio.

The company has shown a steady increase in revenues (CAGR of 10%) and EBITDA (CAGR of 17%).



SLV

We acquired 51% in September 2018 and acquired 100% April and June 2020. The company was stagnant in revenue and EBITDA prior to acquisition for the preceding three years.

Since acquisition the company has shown strong financial performance with revenues growing at CAGR of 12% over the past 2 years.