Group Enterprises

A Market Leader in
Security, Cash Logistics
& Facility Management

SIS Group

Earnings Update
Q1 – FY19-20
July 24, 2019

Q1FY19-20 Highlights

2008 cr REVENUES	125 cr EBITDA	75 cr PAT	Rs 10.2 EPS
24.6% YoY	67.5% YoY	90% YoY	90% YoY

Notes from the Group Managing Director

Rituraj Sinha
Managing Director

"2000 cr quarter –off to solid start in challenging environment"

Healthy growth despite economic headwinds

Q1 of FY20 continued our strong track record of quarter on quarter growth. Strong client wins, great execution focus and a rigorous eye on costs have helped all the business units deliver good revenue and profitability metrics. Our consolidated revenues increased from Rs1955 cr in Q4 of FY19 to Rs2008 cr in Q1 of FY20. This is a QoQ increase of 2.7% in revenues and a YoY increase of 24.6%.

Similarly, our EBITDA increased from Rs115 cr in Q4 of FY19 to Rs125 cr in Q1 of FY20, which is a QoQ increase of 8.8% and a YoY increase of 67.7%. The EBITDA increase has been the result of operating leverage across segments. SIS International margin has seen a significant uptick due to the margin accretive nature of the recent acquisitions.

Predictability re-inforced

While the broader economy has been seeing headwinds, we are buffeted from the storms by being in service streams where the nature of demand is largely recession resistant.

We ended Q1FY20 with a monthly run rate to Rs.670 cr. Over the last 9 quarters our revenues have grown at a quarterly CAGR of 6.2% and our EBITDA has shown a quarterly CAGR of 8.1% over this period. This pace and consistency of growth is a testament to the predictability that underpins SIS' business model.

Integration of newly acquired entities – on track

In line with our strategy to focus on our core verticals, we completed five acquisitions during FY19, we have spent considerable effort over the past few months in integration and consolidation and we are proud that all the new entrants to the SIS family have become an integral part of the SIS group. All the entities are growing as per plan and contributing to margin improvement. We have also completed the last tranche buyout in DTSS, now owning 100% of the company. The deal has given us an IRR of 32% and helped to establish FM as an independent growth engine in the long term.

Returns and Leverage

Our key metric of Return on Equity, is currently at 21%, despite a large hit on account of non-cash items in interest and amortization due to PPA treatment for acquisitions. Our leverage levels are comfortable at 1.4X Net Debt/ EBITDA with an average cost of capital of 7.5%.

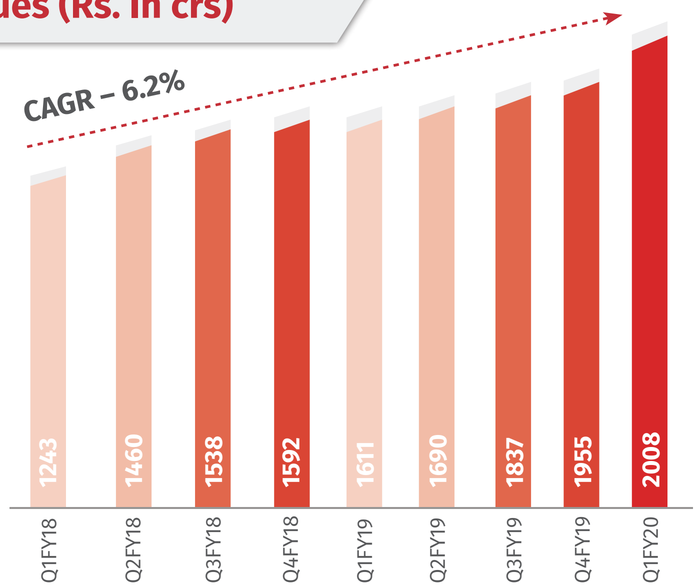
Game changing labour reforms on the anvil

The new government has introduced two important labour legislations in the Parliament – Code on Wages and the other on Occupational Health, Safety and Working Conditions. The Code on Wages combines four existing laws on Payment of Wages, Minimum Wages, Equal Remuneration and Payment of Bonus.

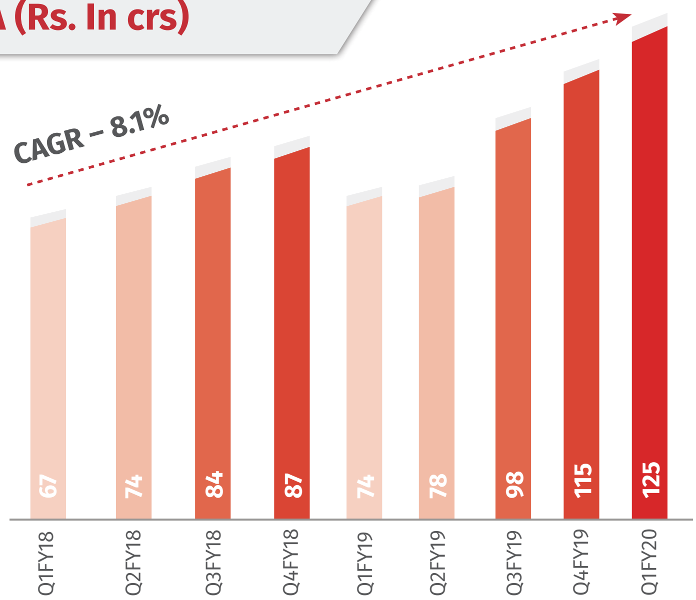
Primarily, at its core, the Code on Wages aims to establish a minimum national wage that is going to establish a nationwide floor. This is going to significantly enhance both the wage scales and also attract more quality manpower to the industry. Further by bringing many wage bills under one code, the code on wages will minimize leakages between eligibility of employees. Thus negating the cost advantages of unorganized players, these changes will pave the way for further formalization in the space.

We believe that with more labour reforms being considered, the shift from unorganized to organized players will be expedited. The addressable market for organised players will increase leading to higher market share. This is expected to lead to greater pricing power as we can see in developed markets. As our Vision 2025 planning gets underway, market share is going to be a cornerstone of our strategy. We will continue to make investments in systems and culture to support our vision and make our business model more robust for scalability.

Group Revenues (Rs. In crs)



Group EBITDA (Rs. In crs)



Security Solutions – India

The India security business comprises our flagship SIS security business and the two acquired entities of SLV and Uniq, that came under our fold in FY19. The India security business currently operates across 170 branches and has 149,200 employees. We became the largest security company in India in FY19 displacing the incumbent. During this quarter we also completed the buyout of the 50% stake in vProtect from our JV Partner Prosegur.

Solid Revenue Growth

The India security business had a strong beginning to the year, with total revenues of Rs 808 cr as against Rs779 cr for Q4 of 2019. This is a QoQ increase of 3.8% and a YoY increase of 43.1%. This quarter has seen impressive client wins and quarterly growth despite this being a quarter where we do some portfolio rationalization every year.

Revenues per Branch growing

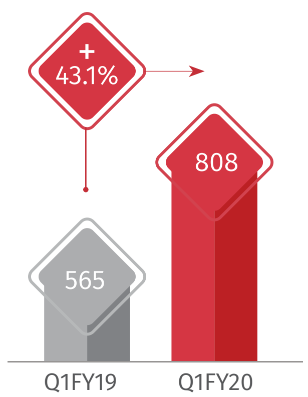
The revenues per branch, on an organic basis, increased from Rs 3.74 cr in Q1 of FY19 to Rs 4.44 cr in Q1 of FY20. Including the acquisitions, the revenue per branch increased to Rs4.78 cr in Q1FY20. The segment ended June with a run rate of Rs 272 Cr in revenues establishing a solid base for the rest of the year.

Margins stable

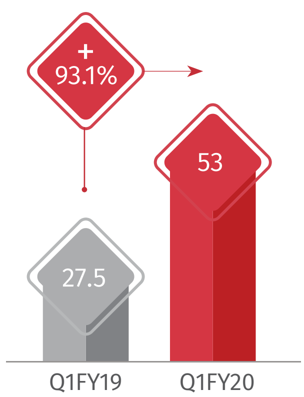
The segmental EBITDA for India security was Rs53 cr which is a 7.5% QoQ growth and a YoY increase of 93.1%. The EBITDA margin increased from 6.3% in Q4FY19 to 6.6% in Q1FY20.

Rs in Cr	Q1FY20	Q4FY19	Change	Q1FY19	Change
Revenues	808.4	778.7	3.8%	565.0	43.1%
EBITDA	53.0	49.4	7.5%	27.5	93.1%
EBITDA%	6.6%	6.3%		4.9%	
Share of group Revenues	40.2%	39.8%		35.1%	
Share of group EBITDA	42.5%	43.0%		36.9%	

Revenues



EBITDA



Security Solutions – International

The International security business comprises our entities in Australia (MSS and SXP) and the recently acquired businesses in Singapore (Henderson) and New Zealand (Platform4Group). The International security business currently has over 10,500 employees.

Solid Revenue Growth

The International security services ended Q1 with total revenues of Rs 913 cr as against Rs902 cr for Q4 of 2019. This is a QoQ increase of 1.3% and a YoY increase of 7.5%. The segment ended June with a monthly run rate of Rs300 cr in revenues establishing a solid base for the rest of the year.

Integration underway

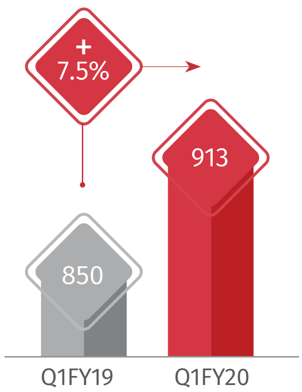
We have set in place an integration plan for the acquired entities to align policies and best practices and to optimize synergies. The Henderson business in Singapore generated revenues of 73 cr in the first full quarter under SIS with an EBITDA margin of 9.6%. We are confident that our integration measures will lead to the acquired entities contributing meaningfully to margin improvement and cash flow generation.

Margins stable

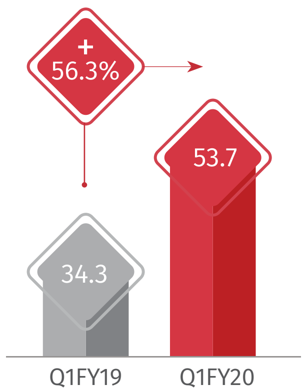
The EBITDA for the International business was Rs53.7 cr which is a QoQ increase of 15.3% and a YoY increase of 56.3%. The EBITDA margins increased from 5.2% in in Q4FY19 to 5.9% in Q1FY20, establishing the margin accretive nature of our recent acquisitions.

Rs in Cr	Q1FY20	Q4FY19	Change	Q1FY19	Change
Revenues	913.4	901.9	1.3%	849.7	7.5%
EBITDA	53.7	46.5	15.3%	34.3	56.3%
EBITDA%	5.9%	5.2%		4.0%	
Share of group Revenues	45.5%	46.1%		52.7%	
Share of group EBITDA	43%	40.5%		46.1%	

Revenues



EBITDA



Facility Management Solutions

The facility management business comprises DTSS, SMC, Rare Hospitality and Terminix SIS. 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 59 branches and has [58,300] employees.

Continued Revenue Momentum

The revenues for the FM vertical were Rs290 cr as against Rs277 cr for Q4 of 2019. This is a QoQ increase of 4.4% which is complete organic and a YoY increase of 45%. The FM segment ended June with a monthly run rate of Rs 100.8 cr in revenues, marking a key milestone in the evolution of our FM business.

All segments driving growth

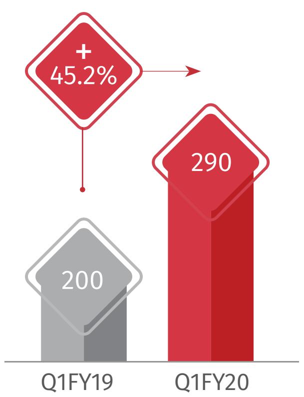
SMC business continues to show strong growth in operating margins on the back of better operating leverage. The Terminix SIS business, after breaking even in Q4FY19, is poised to show strong operating margin in FY20 and has ended Q1FY20 with an EBITDA margin of 1.8%. We continue to show traction on our solutions business which now accounts for 24% of the segment revenues.

Margins at a more sustainable level

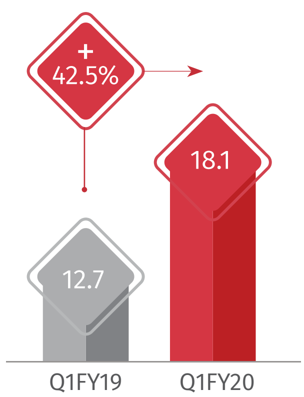
After a steep increase in EBITDA margin in FY19 in the DTSS business, on account on a large Minimum Wage increase in Karnataka, the margins have reverted to a more sustainable level. The EBITDA for the FM business was Rs18.1 cr which is a QoQ decline of -6.4% and a YoY increase of 42.9%. The EBITDA margin declined from 7.0% in Q4FY19 to 6.2% in Q1FY20.

Rs in Cr	Q1FY20	Q4FY19	Change	Q1FY19	Change
Revenues	289.7	277.8	4.4%	199.8	45.0%
EBITDA	18.1	19.3	-6.4%	12.7	42.9%
EBITDA%	6.2%	7.0%		6.3%	
Share of group Revenues	14.4%	14.2%		12.4%	
Share of group EBITDA	14.5%	16.8%		17.0%	

Revenues



EBITDA



Cash Logistics Solutions

Pricing Revisions Taking Time

The pricing revisions that the industry were hoping have not yet materialised because of the protracted negotiations with the banks and regulators. While we continue to be sanguine, in the absence of a near term price revision, financial pressures in the industry will intensify. Regulatory uncertainty continues with the RBI interchange fee committee and new ATM security guidelines.

Revenue growth returning

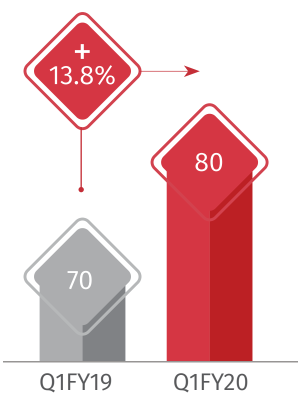
We have had a few quarters of weak revenue growth as we exited unviable contracts. However in Q1FY20 our revenues rebounded to end at Rs80 cr, a 13.8% YoY growth and 3.6% QoQ growth. We continue to prioritise non-ATM business over ATM business as we steadily reduce the share of the ATM business in our overall mix, given the pricing and penalty terms.

Margins stable

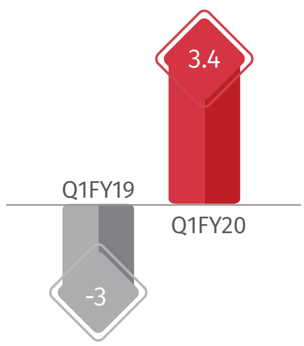
Focus on non-ATM business and exiting unprofitable contracts has helped us steadily improve profitability. The EBITDA for the segment was Rs3.4 cr. The EBITDA margin for the segment is 4.3% as against -4.3% in Q1FY19 and 12.3% in Q4FY19. Continuous productivity improvement measures and better route synergies helped the segment improve margins.

Rs in Cr	Q1FY20	Q4FY19	Change	Q1FY19	Change
Revenues	79.6	76.8	3.6%	69.9	13.8%
EBITDA	3.4	9.4	-63.8%	3.0	-215%
EBITDA%	4.3%	12.3%		-4.3%	

Revenues



EBITDA



Dusters Final Tranche Acquisition – Deal Evaluation

The transaction

We acquired 78.72% in DTSS in August 2016 for a purchase price of Rs117 cr. The founders of the company and key employees had an exit for their balance stake through an earnout mechanism linked to EBITDA growth.

The strategy

- Building a second growth engine to supplement security
- Complementary geographies - SMC was predominantly North & East and DTSS added South & West presence to our offerings
- Add strong leadership bandwidth for scaling FM business

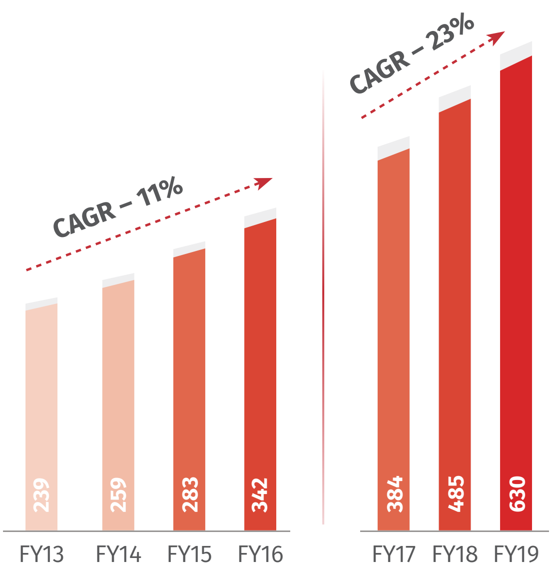
Integration

Integration is key to the success of any acquisition and at SIS we devote significant resources to make integration work with minimal disruption to ongoing business operations. The integration spanned processes and policies across financial, HR, technology apart from cultural integration. For SIS, integration is a two way street and there was sound knowledge sharing from DTSS too that has aided our FM segment as a whole.

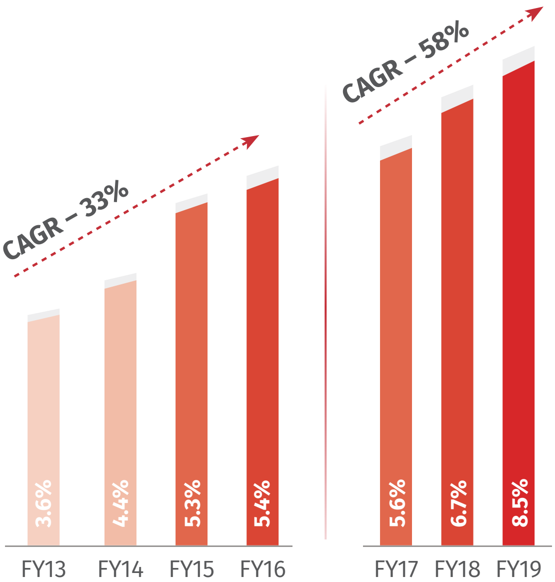
The performance

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.

Revenues – Pre and Post Acquisition



EBITDA – Pre and Post Acquisition



The acquisition of DTSS has yielded an IRR of 32% and is a testament to the transaction and integration structure that we have put in place that incentivises growth, aligns interests and paves the path to greater cultural and process integration. The standalone ROCE for DTSS is over 35%. The company has also become debt free and with the total acquisition price of Rs192 crores on an EBITDA of Rs52.6 cr in FY19, the deal has been a very successful acquisition for SIS.

Consolidated Financials

	Q1FY20	Q1FY19	Y-o-Y	Q4FY19	Q-o-Q
Revenue from operations	2008.4	1611.4	24.6%	1954.8	2.7%
EBITDA	124.9	74.5	67.5%	114.8	8.7%
EBITDA%	6.2%	4.6%		5.9%	
Profit after taxes	74.9	39.5	89.7%	72.4	3.5%
Profit after taxes%	3.7%	2.5%		3.7%	
EPS (Rs)	10.2	5.4	89.7%	10.0%	2.0%
Diluted EPS (Rs)	10.1	5.3	90.0%	9.9	2.0%

Revenues

Revenue from operations has increased by 24.6% YoY to Rs2008 cr in Q1FY20 from Rs1611 cr in Q1FY19. All the businesses have shown good revenue growth. Quarterly revenue has increased by 2.7% in Q1FY20 over Q4FY19.

EBITDA

Strong focus on costs and operating leverage across segments has resulted in a 67.5% YoY increase in EBITDA to Rs125 cr in Q1FY20. This is a 8.7% QoQ increase

PAT

Profit after tax has increased by 89.7% in Q1FY20 as compared to Q1FY19. The rise in PAT is commendable despite a large hit due to the PPA related adjustments for finance costs and depreciation.

IND-AS Lease Accounting Standard

As per the new standard, right-of-use assets have to be recognized and a corresponding lease liability has be created at commencement date of lease period and payments are discounted using the incremental borrowing rate as of the date of initial application. Impact of new lease accounting on EBITDA is Rs6.97 cr and Rs(1.55) cr on PAT in Q1FY20.

PPA related adjustments

Finance cost with respect tounwinding of PV of PPA related future consideration (non-cash) is Rs11.8 Cr and Amortization for identified assets is amounting to Rs5.8 Cr in Q1 FY20. These amounts have seen a large increase this quarter, especially on account of the acquisition of Henderson in Q4FY19.

RONW

Our RONW is at 21% in Q1FY21 on par with the RONW of 21.7% in Q1FY19. We have achieved strong returns despite doing 5 acquisitions over this period, demonstrating our capital efficiency and making optimal usage of our balance sheet capacity.

Capital Employed and Leverage

	June 30th 2019			March 31st 2019		
	India	Intl	Total	India	Intl	Total
Gross debt						
Long - term borrowings	197	452	648	201	413	614
Short - term borrowings	454	12	467	320	16	336
Current portion of long term borrowings	26	1	27	24	1	25
Gross Debt	677	465	1,142	545	430	975
Add : Lease Liability	58	48	106			
Less: Cash and Cash Equivalents	223	334	557	189	369	558
Net Debt	512	180	691	356	61	417

- Total Net Debt went up 274 crores
- New Ind-AS standards on leases led to Rs106 cr increase in lease liability and consequently net debt
- Increase in long term borrowings in Australia on account of acquisitions of in New Zealand, which were acquired effective July 1, 2019
- Q1 and Q2 have historically been poor quarters for collections which has resulted in utilisation of additional working capital line of Rs130 crores in India across all our businesses.
- Our Net Debt to EBITDA is 1.4X (based on trailing 12 months EBITDA) which we are quite comfortable with as our average cost of debt is only 7.5%. Including the impact of the new lease accounting norms under IND-AS, our Net Debt to EBITDA is 1.7.