“Security and Intelligence Services (India) Limited
Q2 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Security and Intelligence Services India Limited Q2 FY2019 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Rituraj Sinha, Group MD. Thank you and over to you Sir!

Rituraj Kishore Sinha: Thank you a very good afternoon to everyone and a warm welcome to the Q2 FY2019 earnings conference call. Along with me today, I have Mr. Dhiraj Singh, CEO, Mr. Devesh Desai, Group CFO, Mr. Vamshidhar Guthikonda, President for M&A and Investor Relations. I hope everyone has had an opportunity to look at our results. The presentation has been uploaded on the stock exchange and company website, which is accessible at www.sisindia.com.

Q2 FY2019 has been an exciting quarter for the group. We have added large client wins, robust organic growth across our segments and two significant acquisitions. Financial highlights for Q2 FY2019 are as follows:

Our consolidated revenues stood at Rs.1,690 Crores, which is a 15.8% increase over the corresponding quarter last year. This also represents a 4.9% increase on sequential quarter basis. EBITDA was Rs.78.2 Crores, which is a 5.5% increase on Y-o-Y basis and 5% increase compared to the previous quarter.

Profit after tax stands at Rs.44 Crores. Now I would like to clarify that Q2 FY2018 included significant one-time adjustments related to Ind-AS, which Devesh will explain subsequently, now these two adjustments amounted to a total of Rs.28 Crores so if you normalize for these adjustments, our profit after tax increased close to 69% on Y-o-Y basis and if you look at it from H1 perspective it is gone up by 110%. So H1 FY2019 versus H1 FY2018 is up 110%. Return ratios continued to be robust, our return on capital employed (ROCE) stands at 21.3%.

Moving onto some commentary around segments, in our India Security Services segment, our Y-o-Y growth is 20%, post annual portfolio rationalizations that we did in Q4 of FY2018 that also had some trailing impact on the Q1 of FY2019, we have rebounded very strongly and as I had indicated earlier we have added major customer additions in Q2. We added one of the largest contracts, which is a IT services major, Cognizant where the impact is almost Rs.8 Crores in monthly billing terms is Rs.8 Crores and we took over 47 sites across 7 different cities, which is an industry record of sorts and as we had indicated in an earlier press release, such large contract transitions do have significant one-time cost related to screening of more than 12,000 people and then training & on boarding cost of 4,500 odd people. This significant cost had impacted our Q2 margins, but likely to normalize over coming quarters.

Moving on, our order book for India Security Services segment is strong.We have won new orders worth Rs.22 Crores in this quarter, which will impact the rest of the year. The comparative number was Rs.17 Crores in Q1 FY2019 so that should give you pretty good visibility on growth forecast for the coming year. Our efforts on Mantech Solutions are bearing fruit -we were able to design and deliver our complex security solutions for HPCLfor their oil tankers security. This is Rs.14 Crores order on opex model, which includes equipment solution designs, software design, AMC, provision of technical manpower and control room ops. This is pretty much how we see the future of the service business moving from commodity service and moving from that service onwards to solution so HPCL is perfect example of Mantech Solutions where we are trying to address the issue of pilferage and tampering with oil tankers for the oil marketing companies. Now mind you the solution I am talking about is only for some 2,000 old trucks or oil tankers as they are called and India has more than 1.5 lakh such tankers. This is first time any security company is involved in designing and implementing a solution of this kind and we believe that this could be a significant growth opportunity in coming years and also a veryattractive margin opportunity.

Moving on to acquisitions, we closed our first acquisition in the Indian Security Services space. We acquired SLV Security. SLV is a leading security services player in NCR particularly in Gurgaon, which is a market that is growing at almost 30% year-on-year basis. The good thing is that 70% of SLV's revenues come from Gurgaon NCR region. With this acquisition SIS and SLV together will become market leader in the NCR space picking up significant market share.As indicated earlier, our M&A program will aim to supplement presence in key geographical markets. Particularly talking about the NCR market, it is among the top seven markets for security services both in terms of size of market and also the growth opportunity. We ended this quarter at Rs.225 Crores monthly runrate, Rs.213 Crores are attributable to SIS organic revenue and Rs.22 Crores added by SLV so that is total of Rs.235 Crores monthly revenue runrate.

Moving on quickly to the Security Services Business in Australia, organic growth is close to 9.2% on year-on-year basis, which is exceptionally good for a market like Australia, which is very different compared to India; however, as you can see Q1 FY2019 which is the last quarter included revenues of Commonwealth Games, which was almost AUD 5 million for that quarter itself and that is the reason why the revenues for Q2 look little flaton sequential basis.

Further wage revisions in Australia start on July 1, 2018 corresponding price revisions take place for the contracts over the period of the full year. These have had bearing on Q2 margins and very evident from the sequential comparison we believe that as the price increases come through this will normalize in the second half of the year. With the acquisition of SXP, we continue to increase our client penetration and as we have stated earlier we continue to maintain a 21% market share in an attractive like Australia.

Coming to the facility management services segment, FM is the standout segment for this quarter. It has crossed Rs.221 Crores in revenues on a quarterly basis that sets up the business very interestingly. When we were doing our IPO, I remember that several investors that we had met at that point did not fully recognize FM as a parallel engine of growth in the long-term. I think that is becoming clearer as we move forward. I would invite Mr. Dhiraj Singh, our CEO to walk us through the FM segments development, Dhiraj!

Dhiraj Singh: Good afternoon everybody. So the facility management division is now the fastest growing segment for the group growing at about 33% year-on-year and on quarter-on-quarter basis gaining about 11%. Both brands, DTSS and SMC, have carved out a unique position for themselves in the respective domains and geography.

As we had mentioned previously a large number of railway bids were under consideration, we had been working on it for the past one year and in line with that we are pleased to announce that we will receive contracts for 8 new stations and couple of more are on the anvil as of now. We shall provide mechanized cleaning services and on board housekeeping services at these stations and more contracts coming for both the segment.

The margin overall has increased from 5.2% in the Q2 FY2018 to 7% in Q2 FY2019 due to increasing benefits of scale and furthermore the share of the FM segment as a percentage of overall group has increased from 11% in Q2 FY2018 to 13% in Q2 FY2019 and overtime this will positively impact the overall blended margins for the group. We have also signed definitive agreements for the acquisitions of Rare Hospitality , which is subject to closure very soon. This is our second acquisition in facility management after Dusters (DTSS) in 2016. Rare is a Rs80 Crores business of which about 60% come from healthcare and it gives us great footprint in the west, which coupled with Duster in the South and Service Master in the North gives us an unmatched pan India footprint.

Post acquisition and our run rate post Q2, we have reached the number 2 position in the FM business in India. The recently launched Ayushman Bharat scheme by the Government of India, we believe, will fundamentally transform the healthcare sector. If you look at it globally healthcare is amongst the largest and core segments for facility management and the government’s ambitious Ayushman Bharat scheme is poised to reshape the overall Indian healthcare industry, targeted to cover population of about 50 Crores with 33% new coverage, which means there will be significant new capacity in terms of hospital beds needed, approximately 1.5 million more beds are needed to reach even half of the WHO standards. SIS provides facility management services and security services at over 300 hospitals, which have

60,000 beds and given that healthcare vertical is the largest vertical for SIS FM business, we believe that the transformational nature of Ayushman Bharat will open up a lot of opportunity for SIS Group in times to come. At this point, I would like to hand over to the call back to Mr. Rituraj.

Rituraj Kishore Sinha: Thanks Dhiraj. Moving on to the Cash Logistics Segment now the cash logistics business has reported a quarter-on-quarter decline of 3% in revenues and it continues to report negative EBITDA. The revenue decline is attributable to continued strategy to exit unviable ATM routes. The margin situation has witnessed further pressure as a result of sharp increase in fuel costs that has significantly impacted margins. Now just to reiterate the cash business is not consolidated in our revenues or our EBITDA, as it is reported under equity accounting due to 49% holding.

Having said that we believe cash logistics segment will continue to see turbulence for the next few quarters,I have advised this specifically in my previous interactions as well. However, RBI guidelines that came through in April and followed up with the MHA model rules under private security agencies regulation act that were announced on August 8, we clearly believe that this service segment is in reset mode. The short-term compliance with RBI and MHA guidelines will result in capex and opex increase; however, in the medium-to-long-term, we believe that there is no option but to overhaul the pricing model and fundamentally change the industry structure.

We believe that we are going to see more direct relationships between cash logistics companies and banks rather than through MSP or Managed Service Providers that have been the case till date. We also see a clear pattern that when it comes to price increase and compliance requirement of RBI and MHA regulation. Banks are keen to address the direct contract first and look at the MSP driven contracts later. This is also because the MSP contracts are far more complicated which are mostly per ATM transaction linked pricing and they have bundled a whole lot of services including CIT so to unbundle that and negotiate that is going to be longer term so ATM contract pricing change will take a while longer. We believe the direct contracts that cash companies have with banks which is for provision of doorstep banking support or cash banks for movement of currency and valuables from currency chest etc., these direct contracts will see price change and aggressive compliance effort. We are very glad that 60% plus of our business is basically the non-ATM part so we are likely to see a positive impact and we are likely to see positive impact from the larger chunk of our business, which is non-ATMs. This is about the different segments now, I shall hand over to Mr. Devesh Desai, our CFO,to sharewhich you the financial highlights of the group.

Devesh Desai: Thank you. Good afternoon everyone. Segmental revenues are as follows:

In Security Services India, we reported Rs.1195 Crores in H1 FY2019 versus Rs.1015 Crores same time half last year. Revenues for the quarter were Rs.630 Crores versus Rs.525 Crores for the same quarter last year. Security Services in Australia revenues were about Rs.1,693 Crores in

H1 FY2019 versus Rs.1,373 Crores in H1 FY2018. The Q2 revenues for Australia were Rs.844 Crores versus Rs.773 Crores for the same quarter last year. In FM business revenues reported was Rs.421 Crores in this half versus Rs.320 Crores in the same half last year and for the quarter it was Rs.221 Crores in Q2 FY2019 versus Rs.166 Crores in the same quarter last year.

As far as segmental EBITDA is concerned, India Security Services reported EBITDA of Rs.60.5 Crores in the first half of this year versus Rs.72.3 Crores in the first half of previous year and Rs.33 Crores in this quarter versus Rs.36 Crores in the same quarter last year. Now this quarter EBITDA was impacted by significant upfront cost for training and on boarding for Cognizant contract as we reported in the press release and also as Rituraj mentioned earlier in the call,annual salary revision becoming effective fully from July 2018 and a significant transaction cost on M&A pipeline which we have to expense in our books.

Security Services Australia reported EBITDA of Rs.65.3 Crores in H1 FY2019 versus Rs.54.3 Crores in the same half last year and Rs.31 Crores in Q2 FY2019 versus Rs.29 Crores in same quarter of previous year. In FM segment EBITDA for the first half of Rs.28.2 Crores versus Rs.14.4 Crores in the same half of last year almost doubling of EBITDA.

EBITDA for the first half was Rs.28.2 Crores versus Rs.14.4 Crores in the same of last year almost doubling of the EBITDA and it was Rs.15.6 Crores in Q2 FY2019 versus Rs.8.6 Crores in the same quarter last year.

As we mentioned earlier the EBITDA margins have improved significantly over the year, on a year-to-year basis from 5.2% to 7%. The consolidated EBITDA for the quarter was 78.2 Crores, which represents a 5.5% growth on a year-on-year basis and a 5% growth on a quarter-on-quarter basis.

The consolidated PAT for the quarter is Rs.43.8 Crores, which is a 5.5% growth on a year-on-year basis and I will explain that a bit later and 11% growth on a sequential quarter on quarter basis. The normalized PAT on a consolidated basis is Rs.46.9 Crores in this quarter as compared to Rs.27.8 Crores in the same quarter last year, which is a growth of almost 69% year-on-year and PAT margins have also improved from 1.9% in Q2 of FY2018 to 2.8% in Q2 FY2019.

Now if you remember last year when we reported a Q2 results in stock exchange reporting and in the analyst call we had mentioned that there were two one time impacts mostly on account of adoption of Ind-AS – one was the Ind-AS fair value accounting for the SXP acquisition and certain tax benefits under Sec. 80JJAA for FY17 that were accounted by Duster in FY18, those two amount to Rs.28 Crores. There were other PPA related adjustments for both these acquisitions, which came in for the first time in that quarter, if you remove those one-off adjustments that where we report that 69% consolidated PAT growth on a year-to-year basis.

With this I would like to now open the floor for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Good afternoon everybody. I had couple of questions. First being if I were to look at the margins, which are obviously down on a YOY basis, could you be able to give a breakup as to what is the margin impact due to the ramp up of the Cognizant contract that we have taken because obviously we have not seen full revenue, but we have seen the ramp up coming in, so wanting to understand what the normalization would look like from here on once the full revenue also starts kicking in that is one? The second would be on the training cost because as a services business I am sure you would be undertaking a lot of training programmes, so is there any incrementally higher training cost that have come in this quarter and what would that impact be and thirdly is there any impact of provisions and what is your thought about provisions over the year given that you are still seeing a corporate environment, which is kind of subdued and there would be ample companies that are actually facing stress and may be going to NCLT, so do you see higher provisioning that is going to accrue in the current year, so what are the thoughts on this and the breakup on the margins due to these three impacts?

Rituraj Kishore Sinha: Kashyap. Thanks for your question. I think you are talking particularly with regard to the India Security Services businesses. One by one I will address all three questions, now first half there is no additional provisioning in this quarter, we have done provisioning in Q1, but not in Q2, however, we continue to keep a very close watch on the situation of customers, which are under distress and should we feel the need we will do provisioning further in Q3 or Q4 as required. You will appreciate that it is better that one takes a conservative view on these matters and if the actual outcome in terms of collection is better, we would look at adding back to Q4, but for now that is the answer on the provisioning.. As regards to Cognizant in fact there is a 0.3% impact on margin.. Moving onto the last bit, which was about training, in the last quarter we have started the role out of the Mtrainer initiative across SIS. Now M-trainer is a massive effort, basically it involves a new software application, which is called M-trainer. It also has resulted in additional training staff. It has also resulted in increased spend on vehicles because we have designed custom made mobile training van vehicles, which are rolling out one by one across the country, 21 of them already on the road., SIS is continuously looking at ways and means to improve our service quality, we recognize that being a manpower intensive service company training in our setup is the equivalent of R&D in pharma or advertising in a consumer durable business, so we have undertaken a significant effort to design M-trainer, which is a concept that will ensure training at the customer site. Now there are more than 12,000 different customer sites across India. We had some limited training means and measures in the past. We want to completely revamp that, we want to ensure that the training on van or training through a tab or training through mobile phone is delivered to all the manpower deployed at these 12,000 sites, this training content is customized, if it is a hotel the content is different, if it is a hospital or a mine the content is different, we have more than 400 hours of training content that has been developed over the last 12 months at a significant cost. Now these are measures that we are undertaking with a view that this will impact customer satisfaction and eventually impact customer retention. As we work our way through becoming India's largest security services enterprise, one of our core areas of focus is not just to Become the largest, but also Remain the largest in the long-term and that is only possible if we are able to take on more contracts than anybody else, while at the same time retaining more than most of the competitors would. So these are some long-term initiatives and this has resulted in some margin compression, but I think this is a right way to go forward for the business.

Kashyap Pujara: How do I quantify this incrementally, how much would that be in this quarter and on a continuous basis what is the recurring impact of this initiative?

Rituraj Kishore Sinha: I think we will come back, as the roll out is completed over the next two quarters we will be able to quantify for you the impact on account of M-trainer, but as of now right now it is a little bit work in progress. I just want to advise that we continue to see that a normalized level of margins for the security services business should be around 7% mark, we are more than that, but that has not stopped us from continuing to invest in growth and retention of customers, but over a period of time we still maintain our forecast for a 7% normalized margin in the India security business.

Kashyap Pujara: The thing is that just to extend a bit on margins, in the last three, four years we have had a massive branch roll out, so that all fixed cost is already on the ground, incrementally as we deploy more guards and get more orders and contracts, at the relevant location where our branches are ultimately it was driving operating leverage because the setup is already in place and as new business comes in you see operating margins taking bump up, so one is that operating leverage, second is that the Cognizant contract incrementally, the costs are in, so incrementally that 0.3% impact should start normalizing and third would be this training, but given the operating leverage and Mantech initiative and Cognizant win and SLV do you see the case where 7% operating margins has room to be up, where can the operating leverage drive it?

Rituraj Kishore Sinha: While I believe that we are looking to build the business on a sustainable basis can deliver 7% EBITDA margin. I am not going to comment on what it could go up to be, but let us come back to the fundamentals, this is a manpower intensive service industry. This industry globally does not report double-digit EBITDA margins. This industry is a play on growth and on return on capital employed. Those are the two key metrics as stated in the past, SIS will continue to focus on 20% growth and 25% ROCE and if we can get that while maintaining a 50% EBITDA to cash conversion those are three most important parameters and SIS as an organization will continue to be completely focused towards growth. I know that we could see a 1% or 1.5% higher margin by not investing in an M-trainer or slowing down some of the other technology investments or other retention investments that we do, but I will urge everybody to recognize that some of these initiatives as fundamental to a service business as advertising is to FMCG company, so you need to look at it from that perspective.

Kashyap Pujara: Sure. That is encouraging. Thank you and I will get back in the queue for more questions.

Moderator: Thank you. Next question is from the line of Abhijeet Akela from India Infoline. Please go ahead.

Abhijeet Akela: Good afternoon. Thank you so much for taking my questions. Just a few clarifications I wanted to seek. First on the wage hike, which became effective across both India and Australia effective July 1, right, so what was the quantum of the wage hike in each geography please?

Devesh Desai: In Australia the governing body for wage revolution, has announced a 3.5% wage increase across the board and in India the wage hikes was mainly for the indirect and the non-billing employees that was approximately 10%..

Abhijeet Akela: Okay Sir, just to clarify the wage increase effective July in India was not for the billing part is it, only for the non-billing employees?

Devesh Desai: **Yes,** for the indirect employees.

Abhijeet Akela: Okay, understand and if you could also just help us with the number of non-billing employees in India security, you previously used to mention that in the presentations, but this time I guess it was missing and also what the billing to non-billing employee ratio was, that was basically what was getting, if you can?

Devesh Desai: So in the security business in India the non-billing employees around 2,400.

Abhijeet Akela: Okay, got it and then second regarding the one-off items this quarter or the temporary drag on the margin, so Cognizant just to clarify 0.3% is of the India securities segment margins or for the consolidated company?

Devesh Desai: India Security.

Abhijeet Akela: Okay and similarly for the other factors that you had mentioned the M&A pipeline or the salary revisions if it is possible to put in numbers around how much of an impact those had that would be helpful?

Devesh Desai: So the salary revisions and the M&A pipeline had a cumulative impact approximately 0.6% on India Security.

Abhijeet Akela: On India Security again, right and on the Australia business we have been running a little bit short of 4% at the margin level, I remember post SXP the target was probably to move it up to closer to 5%, so how do you see the outlook for that going forward?

Rituraj Kishore Sinha: I think Australia outlook on growth in margins continues to be robust, you need to take into account the fact that Australian market is growing at 3% - 4% and this business continues to report 9% plus growth over a five-year period, so obviously they have demonstrated their ability to continue to grow. SXP has added a lot of capability to us in terms of offering beyond manpower security solutions, more electronic security, more mobile patrols, they have not yet started to fix up on the margins significantly, but there are significant labor cost ratio initiatives, LCR initiatives as we call them to improve the margin performance that are underway. We are currently working on what we call a software for rostering optimization, it is basically a AI backed platform that will help us sort of man contracts in a way that the margin is significantly better, we are basically trying to move from a site level profitability to a per person, per shift level profitability calculation now that will completely change the economic engine, but still these are initial days, we are still scoping the project and this will take a little bit of time to implement, but as we see it Australia has to deliver in the range of the global peers, the global peers are all between 5% and 5.5% EBITDA margin, our Australian business has headroom to at least pull their socks for a percent and that is what the effort is going to be in the coming quarters.

Abhijeet Akela: Got it. That is useful and is there a quarter-on-quarter dip in the Australia head count, so from 7,700 people in Q2 I think about 7,083 this quarter and if that is correct, is that largely because of the common wealth games having ended?

Rituraj Kishore Sinha: You have answered your question.

Abhijeet Akela: Lastly on the SLV acquisition you broke out the employee headcount that we added 11,500 people, how much was the revenue and the EBITDA that was contributed this quarter from there?

Rituraj Kishore Sinha: I will just pull up the number, but they have not impacted the full quarter I think the impact is for one month, but Rs.22 Crores is the revenue impact.

Abhijeet Akela: And pretty much 0 on EBITDA right?

Rituraj Kishore Sinha: **Rs. 1** Crore approximately.

Rituraj Kishore Sinha: Let me just point out that SLV is an asset that we have acquired now obviously they do not have the benefit of the systems that SIS has build for manpower accounting and optimizing of margins and all the IOPS, Salesmax and all the other platforms that we use, we believe that there is significant scope for correcting SLV margins. There is also some low hanging fruit on SLV, which is predominantly the fact that SLV gets 30% of its revenues across the country, they are spending money in branches and staffs to run operation in Guwahati, Mumbai, part to south India, which I think could be taken off quite easy, but integration is an ongoing task and it will take 6 to 12 months for us to get there.

Abhijeet Akela: Great. Thanks a lot. One just last quick thing and I will get back in the queue. The tax rate for the quarter seems to have dipped quite significantly, if you could comment on that and what your outlook for the full year tax rate. Thanks a lot.

Devesh Desai: Yes we continue to gain the benefits of 80JJAA and I think that is the main reason for the tax rate in the quarter, but we continue to hold on to our earlier guidance of around 15%.

Abhijeet Akela: Thanks a lot and wish you all the best.

Moderator: Thank you. Next question is from the line of Shaleen Kumar from UBS. Please go ahead.

Shaleen Kumar: Thanks for the opportunity. This is Shaleen from UBS. Sir I have a series of question on the facility management business and I joined the call a little late, so I am sorry if you have already answered any.I wanted to understand in terms of market share where are you positioned, what kind of a organic growth opportunity you are seeing in mid-to-long term over here, you are at 7% margin, it is sustainable or there is an upside to it, how much, what are the industry margin over here, so broadly these I want to understand your view?

Rituraj Kishore Sinha: I think Dhiraj is the right guy to address those questions, so I hand it over to Dhiraj.

Dhiraj Singh: In terms of the market leadership, the Facilities management a lot of other services, which people include sometimes project and base management, catering and hospital emergency services, etc., but if you look at the pure facility management services, which are the soft services and hard services, which is the housekeeping services and your horticulture and front office management and all the unique services of managing your DG Sets, HVAC etc etc., we would probably be number one or two, we conservatively like to say we are number two, but on a run rate basis now we are crossing Rs.1,000 Crores, so a 1,000 Crores with more than 53,000 people and I do not think there are pure FM players who are more than 50,000 people on their rolls, so that is in brief about the market leadership position. Sorry does that answer your question fully or were there more?

Shaleen Kumar: Any sense of the market share you have?

Rituraj Kishore Sinha: There is not a third party estimate on market share, so it is very hard for us to comment on market share for security or for FM as such. We believe that in the FM services space there is opportunity for exponential growth organically as Dhiraj mentioned earlier. We have been growing at almost 30% plus year-on-year basis. We see enough order book to continue to maintain that type of trend going forward. With our second acquisition in FM we believe that there is a lot of opportunity to create a pan India and multiservice expert company in FM. DTSS has always been South India focused, UDS has been South India focused, SMC has been North India and East India focused, so I think there is immense scope to build a pan India footprint and also a multicustomer segment expertise like healthcare Dhiraj spoke about earlier. Let me not forget the fact that the FM segment is going to have the biggest impact from B2G because of all the Swachh Bharat campaign and all the changes that have been brought about. In the last year, year-and-a-half we have been talking about outsourcing of railways, cleaning services to larger organized operators and a large part of that benefit has accrued to FM companies like us. In the last three months we have taken over eight large railways stations across India for mechanized cleaning services, so I think this is clearly going to be a parallel growth engine. On a consolidated level the India security services business may have an annualized revenue run rate of upwards of Rs.2,500 Crores, but we see FM services also getting pretty close to half of that by the year end and therefore a completely independent and long-term sustainable growth engine.

Shaleen Kumar: The kind of revenue growth you are talking about for FM business is definitely very, very impressive and it is may be two or more than 2x of the industry growth or may be more than that, why do you think it will be sustainable and what are you bringing on the table that you are gaining such a huge market share over here?

Dhiraj Singh: If you look at Dusters, prior acquisition they were growing at about 12%-13% year after for the past three - four years prior to that and since the acquisition for the past three years on an average they have grown at about 26%-27%. So obviously we do a few things that help in the growth, right from the way we setup our SBU branch structure, the way we setup our target and review mechanism, performance mechanism incentives that we bring it into all the companies that we acquired and partner with. Besides that, we have gone into specialization in verticals as Rituraj mentioned. In healthcare now we are the largest which is one of the largest segments globally also. The whole government infrastructure, airports and railways again we are very strong and the other large segment is the whole IT/ITES, where Duster is extremely strong. We are focusing on pan India footprint together with vertical specialization and at the same time horizonally we are moving into more integrated facility management services for this will allow us to offer more services on a bundled basis and that offers more value to the client.

Rituraj Kishore Sinha: Just to add a quick point there, I repeatedly say that service business are about building your unique but repeatable and scalable business model. It is about a lot of small things, it is about building of systems and culture. I have spoken about Macdonalisation as we call it internally, it is about building how branch will run, how we will recruit, train, run operations, do sales, do accounting, do business reviews, do customer satisfaction index, these are small systems and then you need to build a very robust culture and a strong pipeline of branch managers. So there is no barrier to entry in this line of business, anybody can put up FM Company tomorrow. The challenge is that out of the thousands of FM companies that exists in the country there are two of 1,000 Crores of revenue, so the clear challenges to scale and scale can only be addressed through repeatable business model, which is all about building robust systems and the culture and that is how we built our security business, that is how we are building our own FM business right now, that is how we actually approach all our new businesses that we share of.

Shaleen Kumar: If I can squeeze in one more question over here. If you can share your gross margin in India security business and India facility business and how have they moved over a year?

Rituraj Kishore Sinha: We are not going to introduce a new reporting line. We talk about EBITDA across all businesses, so I am sorry I would not be able to help you with segment wise gross margin.

Shaleen Kumar: No worry Sir. Thank you.

Unknown Speaker: I wanted to understand for your security business, do you need to take insurance and if yes how much is your insurance cost per annum?

Rituraj Kishore Sinha: Insurance cost in the security services business is not significant at all. Our contracts on security are around service deliverables and we do not undertake liability for consequential losses, so just to put it in simple terms, our contract with the hotel or a hospital or a factory is for delivering the manpower, the training and access control, materials, management, etc.. We do not undertake responsibility for a terror attack or any large untoward incident that could occur which clearly is not attributable to our service.

Unknown Speaker: Right and in situations where something happens in conjunction with your employees what happens in those situations?

Rituraj Kishore Sinha: Well, we have professional liability for incidents that may involve our employees and we are adequately covered for that, but that would not even amount to a fraction of our overall annual revenues.

Unknown Speaker: Thank you.

Moderator: Thank you. We will take the next question from the line of Garima Mishra from Kotak Securities. Please go ahead.

Garima Mishra: Thank you so much for taking my question. Couple of questions on the India security business. One what proportion of your overall manpower in this business is attributable to financial institutions like banks, NBFCs etc., and second Cognizant contract when exactly does it start essentially when do you start earning revenues from it and how would you say if the pricing in this one, is it in line with what you would have normally seen in the past or is it higher or lower?

Rituraj Kishore Sinha: BFSIs are single largest customer segment, our revenues from BFSI in India security would be somewhere in the range of 10% to 12%. As our presence in other segments are growing, BFSI dependence is reducing very aggressively, it used to be 15%-16% it is down to 10% -12% range and overtime we see that to be the trend. Coming to Cognizant, Cognizant is priced in line with most of other contracts and we expect to make the same level of EBITDA on that contract. You would be happy to know that we have already started invoicing for Cognizant, which will be reflecting in our October month results, but like I said before for competitive reasons, we are the only listed company in the space who is required to disclose information, we have to be extremely cautious about contract level pricing and contract level margins and segment wise gross margin and this type of competitor sensitive info, so I would not be able to comment on Cognizant GM or EBITDA as one single contract.

Garima Mishra: I think the general trend is what I was looking for, so that is very helpful. Last question on the FM side and this new acquisition that you have announced in hospitality segment, I am guessing the margins of this particular acquired entity would also be in line with what you have or there is going to be some ramp up before it moves to the 7% odd that you have been reporting?

Dhiraj Singh: It enjoys healthy margins primarily because of the segment that it operates in, which is healthcare which offers better margin and so it is running at 7% EBITDA. If you look at the rest of the FM business also, it is about the same and going forward we expect this 7% margin for Rare to improve primarily on account of the scale benefit.

Garima Mishra: That is it from me. Thank you so much.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir. Please go ahead.

Dipan Mehta: Just wanted to reconfirm what the previous participant asked that the Cognizant contract and the FM acquisition and the acquisition which we have done in the security business, none of these would be after may be couple of quarters or so margin dilutive? I just want a confirmation.

Devesh Desai: There will not be margin dilutive and that is we take care in whatever we acquire that the try and ensure that it is not margin dilutive.

Dipan Mehta: Next question, regarding we have this entire theme that with GST and more and more clear coming to organized security companies such as yours. Have you seen that particular trend play out, are you seeing lower intensity of competition from the unorganized peers?

Rituraj Kishore Sinha: I think security as a sector is rather fragmented, but there are several triggers including GST and central minimum wages, recategorization of security guards, skilled labour, pressure of PF compliance. There are various triggers that have happened in the last two to three years, which have sort of increased the rate of formalization of the sector. Having said that we still believe that 60% of the Indian security market is with unorganized operators by unorganized I mean people who are largely limited in scale and mostly noncompliant in parts and pieces, so we believe that when we compare this to when I joined the industry in 2002, we thought that it was more like 10% organized to 90% unorganized mix, so it is moving in the right direction and then when we look at Australia, we also see that Australia is 80% organized with us holding as a single operator a 20% market share. So, that is why I was saying earlier that we are wired for growth because we believe that in India the five-year opportunity is to benefit from this formalization and garner may be 10% - 15% of the Indian security market, 10% - 15% of the Indian facility management market over the next five years plus. So that is how we look at developing our business.

Dipan Mehta: Next question is regarding the tax rate. I heard you mention that your tax rate would be 15% on a consolidated basis, because at least last year if you go from the PBT to PAT it was 187 to 163, so the year before that FY2017 was 110 to 109, so what exactly should be the PBT, the tax to PBT ratio?

Devesh Desai: Last year also it was close to 15%. We think it will be close to 15% this year also.

Dipan Mehta: Last year was 187 and then you had Rs.59 Crores of tax and 35 Crores of deferred tax, so was there some one-off element in that?

Devesh Desai: No, only one-off element last year was relating to some one off benefit which was accounted to in the previous year but on a consolidated basis I think it was 15%.

Dipan Mehta: And in the current first half also basically again the PBT is Rs.90 Crores first half and then reported as Rs.83 Crores so that is just about Rs.7 Crores of tax if you account for deferred tax, so when you talk of 15% you are talking of the tax excluding the deferred tax benefit, I am not getting the standalone of 15% tax?

Devesh Desai: The tax that we talk of is consolidated tax including current tax and deferred tax that is when we pay to 15%.

Dipan Mehta: But as I see it is right now, in fact, correct me if I am wrong, the PBT for the first half is 90.02 and the PAT is 83.27, so that if 90.02 was a PBT into 15% would have been Rs.13 Crores tax and that gone to Rs.76 Crores as the PAT whereas Rs.83 Crores, should we expect that there will be huge tax provision in the second half?

Devesh Desai: There would not be huge tax. When we do a quarter-to-quarter, we are expected to also project what happens during the rest of the year because we have to do something called an effective tax rate, now that is something which we have started this year and it is going to normalize out in the next two quarters. We think it will still be around 15% market.

Dipan Mehta: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Yatin Mata from Reliance Mutual Fund. Please go ahead.

Yatin Mata: Thank you for taking my question and congratulation on a strong quarter. I know lot of questions have been answered on margins. Just to understand the India security business margins. Rituraj, can you help us understand what was the journey to the 7% kind of margin that was steady rate and I think you answered this question to Kashyap earlier that any incremental margins will be kind of reinvesting the business, so one of the reinvestment mode is training. Can you also help us understand what are these two, three other revenues of re-investment and how they can benefit in growth? Thank you.

Rituraj Kishore Sinha: We are forecasting a 7% broad guidance for normalized level of EBITDA from the India security business and I think we have wins, which are pushing us in the direction. As per branch revenue goes up, there is operating leverage there, another favorable impacting aspect is the Mantech sales like the HPCL type contracts or IGL type contracts where margins can be close to 20% Now where are we investing in? We are investing in training, we believe the biggest lever for customer retention is training, so we are investing in training and I explained the M trainer in detail. M trainer has an envisaged capacity of delivering 1,40,000 hours of training per annum at customer site. Most of my competitors do not have a comparable, so I think that could potentially impact our customer retention significantly and customer satisfaction significantly in the coming years. Another area that we are investing in is we are running currently a BPR projects where we are actually in the process of reengineering our ERP platform, payroll platform, HR platform. In a way we are basically trying to recast the group wide backend platform. The platform that the group currently operates on was designed for SIS security, was designed for a company, which was handling 30,000 to 50,000 manpower. Now we are using the same platform now to run multiple businesses across security, cash and FM segment and also the acquired entities. We are handling volumes which are 3x of what the platform was initially designed for. We are investing significantly in the coming year or two into the re-engineering of these IT platforms. We believe that we need to create platforms which can deliver what we called mission 3x, which is to say that platforms that are capable of handling volume which is 3x volume which means may be 5 lakh employees at some point and 50,000 customers across the group and not 10, 12 SBUs but may be 30, 40 SBUs, so 3x scale at 3x speed we want to increase productivity, we want to cut the time that our people spent in generating invoices in doing accounting for their man hours. These are basic things but if you multiply it by the number of sites and number of people it costs us thousands and thousands of hours every month for people across India to do these basic functions. We want to revamp that and that would require significant IT investments. We have IBM working on this project for us at this point in time to scope out the ideal solution for our backend platform, but this is still early days we will require to invest this area, but we believe that this will create a completely new platform, which could help SIS reach the scale we intend to build over the next five years.

Yatin Mata: Thanks for that. The reason I was asking this question and I was thinking more from three to five year point of view is that we have significant run rate growth right and as an organization you continue to mention that the focus is on return on capital employed. So do you think the focus should be more on ROCE and you want to use this opportunity to growth run rate to significantly leverage these benefits and invest them back so that the growth rates of 20% plus can sustain?

Rituraj Kishore Sinha: I know that this is not going to be popular answer, but 10 out of 10 times I will pick growth and ROCE over margins. It is very simple now. I have been in this business for 17 years now. I completely understand that this business cannot be a 15% - 20% - 25% EBITDA gain, it will never be, that is not globally. You should look at G4S, Securitas, Prosegur and satisfy yourselves. This business is not a double-digit EBITDA margin game. This business is a ROCE game. This is a business where you could actually get 2% month-on-month growth in security. You could get 2% month-on-month growth in facility management that is what I am chasing, what I am chasing is the fact that in Australia, if you look at my MSS investment in Australia, on a standalone basis, MSS ROCE is close to 70%, if I carve out just my security businesses, which is MSS Australia and India security. If I take these two businesses, which are old, and mature businesses now in my group, if I take these two particular businesses aside these two businesses would have return on capital employed in access of 40% that is what the business is about. This industry, the service industry, security, cash and FM is about those numbers, it is about 2% month-on-month growth, it is about maturing businesses, scaling businesses to a level where they could make like 40% type ROCE. So what we continue to do is every time we see that our ROCE is sharp I take some money and invested in a new business. India security ROCE is very good that is the reason why we are building Vprotect, which is OUR home alarm business that is why we are spending money in Mantech, because those are subscale new concepts, which are being designed for 2022 and beyond. I would rather have a 25% ROCE and 20% growth. I do not want exponential 40% ROCE for few years and then be out of market at the end of five years that is not the way we look at business.

Dhiraj Singh: The same is for the Facility Management, stable business like Dusters is running on a ROCE of about 40%, which are the largest businesses.

Yatin Mata: Sorry just to conclude it is better for us to look at the core ROCE of the business rather than worrying about whether the margins 7%, 8% or 6% right, is that the fair way to understand?

Rituraj Kishore Sinha: I cannot determine how other people look at this business, I look at only three parameters and I own 75% of SIS as a family, I look at growth, I look at ROCE, I look at OCF to EBITDA.

Yatin Mata: Okay and you have well defined matrices around it and that is what internally you would be tracking and that is what is the next three to five year kind of a growth strategy?

Rituraj Kishore Sinha: This is not my KPI. This KPI is down to the KPIs of the branch managers, 280+ branch managers in SIS, their variable pay is linked to growth and these other parameters

Yatin Mata: Thank you very much.

Moderator: That seems to be the last question for today. I would now like to hand the conference over to the management for their closing comments.

Rituraj Kishore Sinha: Thank you very much. As I said earlier we have a strong order pipeline and a strong M&A pipeline going into H2. We believe we are well placed both on the organic and inorganic fronts. We are continuously making step by step progress towards our vision 2020 goal of being India's number one security company, India's number one facility management company and hopefully India's number one cash company sometime soon. I would like to thank everyone for joining the call. I hope we have been able to respond your queries adequately. Should you need any further information or clarification I would request to get in touch with Mr. Vamshidhar and IR investor relations team. Thank you once again and I wish you a very happy Diwali.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Security & Intelligence Services India Limited we concluded today's conference. Thank you all for joining us. You may disconnect your lines now.