

"SIS Q2 and H1 FY18 Earnings Conference Call"

November 23, 2017





MANAGEMENT: MR. RITURAJ SINHA – GROUP MD, SIS

Mr. Devesh Desai – Chief Financial Officer, SIS Mr. Vamshidhar Guthikonda – President (M&A

& INVESTOR RELATIONS), SIS



Moderator:

Ladies and gentlemen, good day and welcome to the SIS Q2 and H1 FY18 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 the 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rituraj Sinha, Group MD of the company. Thank you and over to you, Mr. Sinha.

Rituraj Sinha:

Good morning everyone. A very warm welcome to our Q2 and H1 FY18 earnings conference call. Along with me, I have Mr. Devesh Desai – Chief Financial Officer and Mr. Vamshidhar Guthikonda – President for M&A and Investor Relations. I hope everyone had an opportunity to look at our results. The presentation has been uploaded on the stock exchange and on the company website. It is readily available at www.sisindia.com.

SIS is one of the largest business service companies in India with presence in 3 main verticals; Security Services, Facility Management and Cash Logistics. Demand for these services is growing at 18%-20% per annum, representing a consolidated addressable market opportunity of US \$25 billion by the year 2020. SIS holds strong market positions across our segments. We are currently the second largest and the fastest growing security services company in India. We are also the largest security services company in Australia. We have further consolidated our market position and market share to over 20% through the recent acquisition of SXP which is Australia's largest security patrols business. Our integrated facility management business in India is now the third largest in the country and also the fastest growing in the segment. Our cash logistics business is the second largest in India. All our businesses are characterized by recurring revenues, enabling a high degree of predictability. These businesses are also quite asset light in nature and this fact is borne out in the high return ratios.

In H1 FY18, we have made impressive strides towards our stated Vision 2020 of achieving market leadership across our three service verticals which is Security, Facility Management and Cash Logistics. Our robust revenue growth in H1 for financial year 17-18 has been coupled with material improvement in operating margins across every single business line. For the first half of FY18, our consolidated revenues have reached 2,703 crores which is a 34% increase over H1 of FY17. Out of this growth, 20% is attributable to organic development of businesses. Our EBITDA was 141 crores which is a 53% increase on year-on-year basis. This signified the strong increase in EBITDA margins as well from 4.6% in H1 FY17 to 5.2% in H1 of FY18. PAT was 81 crores, which is a 171% increase over H1 FY17. PAT margins have also improved significantly to 3% in H1 FY18. This represents a 150 basis points increase over H1 of last year.

Our integrated facility management business has more than doubled over the last 12 months. The facility management businesses now contribute almost 10% of group's EBITDA. Our Indian



operations on a combined basis now contributes 61% of SIS group EBITDA, up from 49% last year. We continue to focus on financial discipline. Our return on capital employed stands at 28.3% and our return on net worth stands at 27.5%.

SIS is one of the top ten private sector employees in the country. Our employee base stands at 1.62 lakhs employees, up from 1.42 lakhs employees in September 2017. This represents a 14.4% increase in employee count. Because of our huge employment generation capability, we stand to gain significantly from tax breaks resulting out of the section 80JJAA regulations. Based on our September run rate, we are nicely poised for the rest of FY18 and are confident of meeting our targets. I shall now ask Mr. Devesh Desai, our CFO, to share with you the financial highlights during the second quarter and for the half year FY18.

Devesh Desai:

Good morning everyone. Thank you, Rituraj. I am pleased to report that consolidated revenue from operations for the Q2 was 1,460 crores, representing a 35.7% growth on the same quarter of the last year. The first half revenues were 2,703 crores which represents a 34.4% increase over the same half last year. Segmental revenues are as follows:

- ➤ India security services 523 crores in Q2 and 1,012 crores in H1.
- Security services Australia, clocked a revenue of 773 crores for Q2 and 1,373 crores for the first half.
- ➤ The facility management business generated revenues of 164 crores for the second quarter and 318 crores for the first half.

Consolidated EBITDA for the group was 74 crores in the second quarter, representing a 51% growth over the same quarter last year and India²s security business now accounts for more than 50% of the consolidated EBITDA.

The segmental EBITDA is as follows:

- Security services India 37 crores for the second quarter and 72 crores for the half year.
- Australia's security services 29 crores for the second quarter and 54 crores for the half year.
- ➤ And the facility management services 7.8 crores for the second quarter and 14 crores for the half year.

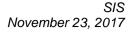
Our consolidated net profit, which is profit after tax, for the quarter stood at 59 crores which represents a 318% increase over the same quarter last year. The PAT margin is now 4% for the quarter for the group. I would now like to open the floor for questions. Thank you.

Moderator:

Sure. Thank you very much. We will now begin with the question and answer session. The first question is from the line of Snigdha Sharma from Axis Capital. Please go ahead.

Snigdha Sharma:

My questions are pertaining to the Australia business, just two quick ones. So one, we have seen a very strong growth in margin expansion in Australia. Can you throw some light on the SXP acquisition and secondly, this business is a high cash generating business. Can we talk about the fungibility of this cash into our investments in India? How should one look at it going forward?





Devesh Desai:

Okay. The SXP business was consolidated in our results effective 01^{st} of July 2017 which is when we increased our shareholding from 10% to 51% effectively. SXP business in FY17 12-months June ending was at a revenue of AU \$86 million and AU \$7.4 million of EBITDA, which was approximately 8.5% EBITDA margin. And we are now consolidating it in our results effective 1^{st} July 2017.

Snigdha Sharma:

Devesh just sticking onto this one, what is the sort of the growth profile in this business and if you can throw some light on the nature of the business as well, I believe it is slightly more value added services than Australia security business?

Rituraj Sinha:

The Southern Cross Protection is Australia's largest mobile patrol company. Mobile patrol is an essential part of the security offering which is actually effectively a time-share service, where a security officer on a patrol vehicle covers multiple customers and therefore resulting in cost effective solutions. I think the integration between MSS, which is Australia's largest security company and SXP which is the largest security patrol company, makes our offering very comprehensive and also allows us the ability to offer blended solutions to make them more cost effective. Both these businesses have been growing at 3x or more of Australian GDP and we believe that, on a combined basis, this represents over 20% market share in Australia for us.

Snigdha Sharma:

Okay.

Devesh Desai:

Just coming to your second question on the fungibility of cash between Australia and India, we have managed to generate and utilize the cash in Australia, in India and for our investments in the past. We have regulatory compliant structures to do that. In the future, we will continue to seek a regulatory compliant and tax efficient structure to do that. And as you know the cash generation from Australia is in excess of \$20 million a year and that does give us a boost in our India operations and growth also.

Moderator:

Thank you. We take the next question from the line of Varun Rao from Maybank. Please go ahead.

Varun Rao:

I had question on the Australia piece. Basically, if you can give us the like to like or the EBITDA for MSS security business only?

Devesh Desai:

Are you looking for the revenue?

Varun Rao:

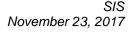
No. Revenue I think I could calculate. SXP would contribute around 125 crores, if I am right, because if I take the 10% organic growth for the MSS Security, I think we will get that. But I am just looking for the EBITDA, what is the breakup at?

Devesh Desai:

Breakup between MSS and SXP?

Varun Rao:

Yes, broadly.





Devesh Desai: Okay. So only MSS, the revenue was 652 crores in the second quarter and 20.6 crores of

EBITDA in the second quarter.

Varun Rao: So the EBITDA actually declined, is it compared to EBITDA of the last Q2 FY17?

Devesh Desai: So what happened is that there was a one off cost in Australia and because of the implementation

of the new accounting standards, costs related to the acquisitions of business have to be expensed to the P&L. If you back that out, there was actually a slight improvement over the previous

quarter.

Varun Rao: So basically, there is no material change?

Devesh Desai: The other factor in the second quarter of the year in Australia and which is what happens every

year is that the statutory wage increases come through in effect from July every year and the pass through to the customers on account of the contractual terms which we have, take place

over the year. So that is why you will see a bit of a lag in Q2 but it catches up in Q3 and Q4.

Varun Rao: Okay. And similarly, if you can breakup for the facility management, what was like-to-like

EBITDA?

Rituraj Sinha: There are three businesses in the facility management basket, one is Service Master, the other

one is Dusters and third one is Terminix. The numbers we could share with you offline,

individually for all three companies, we have basketed these numbers together as one segment.

Moderator: Thank you. The next question is from the line of Madhu Babu from Prabhudas Lilladher. Please

go ahead.

Madhu Babu: Sir, post the GST implementation, so are we seeing any shift from the unorganized players. As

of now what is the scenario?

Rituraj Sinha: More than 70% of the security services industry is unorganized, held by small operators. Some

of them blend taxes into the rate that they charge the customers. GST is a significant development for our industry. We believe this will fast track formalization of the sector. And that should play out over the next 6 to 12 months. It is still early days for us to actually see any impact on ground. But from customer feedback and market sources, we know that this is going

to result in rapid formalization.

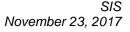
Madhu Babu: And second sir because of this incentive of this section 80JJAA, I think that is a big incentive.

So are any of the large clients asking for any pricing cuts to pass on the benefits to them?

Rituraj Sinha: We have not had any such discussion with any client as of today.

Madhu Babu: The 15% volume growth, and the rest is because of the increase in the minimum wages, right,

in the India security business on a year-on-year basis?





Rituraj Sinha: Right. India security business has reported a 15% volume growth and the remainder is price

change.

Madhu Babu: Because of the central government change in the minimum wages?

Rituraj Sinha: Well, minimum wage change is an ongoing process across all our businesses. As you know,

there is central minimum wage and then there is state minimum wage applicable across different states determined by the state labour department. Different departments review minimum wages, at least twice a year and we have an ongoing rate revision exercise. We have a separate team that engages with customers on rate revisions. Therefore the build out of our contracts actually are linked to minimum wages and we seek pro rata increase in commercial terms depending on minimum wage change. These are standard contractual terms across all contracts that SIS signs across our different business verticals. So this is a pretty much an ongoing phenomenon and not

completely attributable to just the central minimum wage part.

Madhu Babu: Sir, just lastly on the facility management, I think we have scaled up very well through

acquisitions. So I mean what is the strategy out there, would we now consider that the net debt can come down, so are we looking to scale up this very aggressively or how is the strategy over

there?

Rituraj Sinha: Well, let me just first clarify that the facility management business, for example, Service Master,

on a pure organic basis reported over 40% growth purely organically. The Dusters business, DTSS, for the first half of the financial year reported 23% organic growth. So the big change in numbers is not simply due to acquisitions. But coming to your question, we are looking to build out our facility management business aggressively and we see an opportunity there to emerge as

the market leader in the facility management segment over the years to come.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors.

Please go ahead.

Rajesh Kothari: My question is first on your Vision 2020, you said that target is to achieve the market leadership.

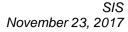
Can you elaborate on this vision in both of your businesses, security guarding as well as facility management? How much of this growth you think will be organic and how much of it will be

through inorganic?

Rituraj Sinha: Without getting into specifics, our goal is to achieve market leadership across our three segments

of security cash and facility management. We believe we are already holding core positions across these three segments with us being the number two & the fastest growing security company, number three & the fastest growing facility company and the number two cash logistics company in the country. However, our thesis is that the development of service businesses has to essentially be organic focused, acquisitions have to be opportunistic and they have to be of significant strategic value either in terms of getting into a new geography or getting

into a new set of customers or getting into a service offering that we currently did not have in





our portfolio. We have acquired three companies in the last 12 to 18 months. We will continue to pursue M&A to further strengthen our market position across these three verticals. But our growth is not dependent on M&A.

Rajesh Kothari:

Okay. So in your first business security services between number 1 and number 2, you are number 2. The gap is huge, so to double this size over 3 years when you of course, I am sure the industry is also growing, if you can little bit give more color on that?

Rituraj Sinha:

Let me give you some perspective. There are more than 15,000 registered licensed private security agencies in India, out of which only two agencies or two security businesses are over 1,000 crores in revenue. By the end of this fiscal, we believe that our gap with the market leader will become less than a few hundred crores. So I don't see that as a very significant gap. The important point here being that our 5-year CAGR on security services is 30% plus which is purely organic in a market that grows at 20% and in an environment when the market leader has been reporting 10%-12% growth year-on-year. So I think we are closing the gap and it is only a matter of time.

Rajesh Kothari:

On general staffing segment which is also a huge segment where right now we don't have much strong presence, where the return on capital employed is inherently higher, do you have any plans to enter even into that segment?

Rituraj Sinha:

Well, I think staffing and service are two completely different businesses. The nature of business is different. In a service business, you are responsible for outcomes and you sign service level agreements whereas staffing is more linked to headcount provisioning. As a result of this, the margin profile of these businesses is materially different. I believe that we will continue to focus on service and not staffing. And we are reporting a 28% plus return on capital employed and a 27% return on net worth, which I don't think is bad given the growth numbers we report organically.

Rajesh Kothari:

Of course, I am just saying is a comprehensive package for example like TeamLease, what they are doing definitely has a higher ROI. So for you, it is just extension kind of thing or is it a completely different ball game?

Rituraj Sinha:

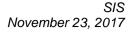
Staffing is not a part of our play.

Moderator:

Thank you. The next question is from the line of Harit Shah from Reliance Securities. Please go ahead.

Harit Shah:

Sir I have a question about someone asked a question about fungibility earlier between Australia and India, any kind of perspective on taxability angle of this, you know when you do eventually do that process. If you will just give a perspective on this, it would be quite helpful.





Devesh Desai:

As far as the taxability is concerned, so there are various ways in which generally you can transfer money. So if you get it as dividend, of course, it is taxable. But there are other means of transferring the money which are regulatory compliant and also tax efficient. Those are the methods which we generally explore and have used in the past and we will continue using more such structures in the future.

Harit Shah:

Sure sir. As far as when you talk about tax efficiency, does it mean you don't have to pay any tax for that or will there be a certain amount and if yes, then any range if you could give that, that will be quite helpful.

Devesh Desai:

Earnings and profits which are generated in Australia will be subject to the normal tax in Australia. So while we are using the Australia balance sheet to raise funds and leverage the balance sheet to raise some debt over there, to that extent of course there is a tax saving, but otherwise we pay the normal rate and the full rate of tax in Australia on the earnings. What remains is what is available to be used and utilized for other purposes in India for growth.

Harit Shah:

Yes. So my question is that when you transfer that money to India let us say, is there any kind of tax that you want to pay on that, in whichever way, using any tax efficient mechanism essentially that is my query.

Devesh Desai:

So if I transfer the money as dividend, then yes, certainly I have to pay tax, but if I get them across as some kind of investments and borrowings, then I would not have to pay tax.

Harit Shah:

Okay. I received a clarification on that. And just one more question, I think Rituraj was saying about the facility management business, one part of your business reported 40% organic growth, so that is just to clarify that is Service Master?

Rituraj Sinha:

Yes, service master reported a 40% growth, but DTSS which is operating on a larger base also reported a significant growth. So, I was commenting on Service Master's annualized growth for the preceding year, for the full year basis they grew at more than 40%. But I must also say that DTSS itself, which we acquired last year, has reported a 23% growth just for the first half of the year.

Moderator:

Thank you. The next question is from the line of Abhijeet Akella from India Infoline. Please go ahead.

Abhijeet Akella:

Just a few clarifications. You mentioned that the organic growth in revenue for 1H was 20%. Would it be possible to share the organic growth in EBITDA similarly?

Devesh Desai:

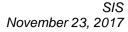
EBITDA is 31.7%.

Abhijeet Akella:

In organic terms H-on-H, half-on-half?

Devesh Desai:

 $Half-on\hbox{-}half.$





Abhijeet Akella:

Right. Just to clarify the way you calculate this is, I believe there are two inorganic components here, right? One is SXP has been consolidated for Q2 and number two, Dusters was there for the entire first half this year versus only two months last year. So you knock off Dusters from both periods and calculate it, is that how you do it?

Devesh Desai:

Yes, that is what we did. And same for SXP, of course we eliminated SXP for the 3 months to arrive at the organic growth without it.

Abhijeet Akella:

Understand. Thank you. Second, just a question on the seasonality now. First half, obviously we have shown a strong Y-o-Y growth in both revenues and EBITDA, but I understand that 2H is seasonally the big period for us, perhaps more so in Australia. So if you could comment a little bit about how you expect the seasonal pattern to shape us\p, 1H versus 2H and what we could expect in the second half?

Rituraj Sinha:

Well, I won't get into specifics but, Abhijeet, I could tell you that historically you would be able to see from our numbers that the second half is a generally a stronger period for us versus H1. We are a run rate business. Our exit run rates for September end or the October monthly run rate for all businesses are on track and a strong H1 gives us traction for H2, naturally in a recurring revenue business like ours. So I think we are fairly well positioned for H2 as well. But that is about all I can say for now.

Abhijeet Akella:

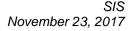
Okay. Understand. And just on the India security business, we had the strong expansion in margins this year to north of 7% on the EBITDA line. Do you see any risk that clients might possibly say that, because there was such a big increase in minimum wage in the year gone by that there could be a bit more of haggling on the wage rates for next year or do you think that this margin is here to stay in India?

Rituraj Sinha:

Well, I think you know that is the fundamental difference between a staffing and a service business. Our margins are a function of multiple things. Rate is one of them, but for example the big correction that you see in the India security services margin, of almost 0.7 odd percent is attributable to essentially operating leverage. We have done a lot of technology investments in the last two years, iOPS for operations productivity, SalesMaxx for sales force productivity. Essentially all these different functions are helping us reap benefits of scale. The number of billing staff per branch also goes up on a month-to-month basis. That is also resulting in higher EBITDA contribution. So I believe that we are on track as far as margin improvement is concerned and I think we have adequate headroom because if you see the market leader in India, they report significantly better EBITDA margin than what SIS security services is reporting in India for the time being.

Abhijeet Akella:

Got it. Just one last quick clarification. On the tax rate, obviously we have these tax benefits kind of coming through, could you guide us a bit towards what we might expect from a full year perspective and I assume that Australia will continue to pay full tax, right? So is the right number somewhere around 15% on a consolidated basis for SIS?





Devesh Desai: Yes, you are right, 15% to 18% is what we expect to be for the full year.

Rituraj Sinha: But I would just supplement that. You mentioned about Australia paying a full tax rate and it

will do that, but I think an important point to note there would be that the Australian balance sheet has been leveraged with significant amount of acquisition finance and that is factored into

this.

Abhijeet Akella: Understand. Then as we go forward and India becomes a larger and larger piece of the overall

company, the tax rate should probably keep trending down by 1% to 2% percentage points per

year. Would that be a fair assessment?

Devesh Desai: Hopefully yes, if all the benefits which are being offered by the government continue to hold up.

Moderator: Thank you. The next question is from the line of Garima Mishra from Kotak Securities. Please

go ahead.

Garima Mishra: First question, I just wanted to follow up on the previous discussion on taxation. If I see your 1Q

and 2Q tax rates, they are very different, so could you just help me understand why such a

difference between the two quarters?

Devesh Desai: So what happened is that, in fact, in the last year we had accounted for the 80JJAA benefits for

the SIS security company and at that time we were still evaluating the benefits and the computation for the facility management business. So, in the last quarter, which is the current quarter, we have finally been able to complete the computation and so, we have a bit of a catchup of the tax benefit of the facility management business in the current quarter. We have disclosed that by way of a note in the financial results. That is around 6.7 crores of earlier period benefit in that. That is all there is between the two set of numbers. That is number one. The second thing what happens is when we account for the tax benefits of 80JJAA, over the quarters it will go on increasing as and when the expenditure on the additional employees goes on increasing. So the first quarter will be low, the second quarter will be slightly higher and as and

over the quarters.

Garima Mishra: Understood. Got it. Second question, could you clarify essentially who are these employees or

security guards who are essentially covered by the central government minimum wage? I mean

when the employees go towards completing the 240 days, that number goes on getting higher

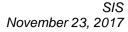
just if you could explain by way of an example or something?

Rituraj Sinha: I didn't follow, who as in?

Garima Mishra: Who as in, which industry? So, if it is a bank based out of Maharashtra, I am assuming there

would be....?

Rituraj Sinha: So you are talking about central minimum wages?





Garima Mishra:

Yes. So this is 50%-55% increase has happened for which category, I mean how should I look at it?

Rituraj Sinha:

Obviously every business that we operate, every service business has a direct linkage to minimum wages act. Now pricing is linked to minimum wages and as I have explained in the past that when we quote a commercial to a customer, we indicate the applicable minimum wage at that point in time and we insert a clause for pro rata change in the commercial, should the minimum wage change. Just to give a background, now the minimum wage gets divided into two components, central minimum wage and state minimum wage. Central minimum wage is applicable to central government undertakings, public sector undertakings, oil and gas, banking sector, telecom and few other sectors. Similarly, there is state minimum wages and then there are some other hybrid versions called the cement workers wage or the mine worker wage which are all pretty much same as minimum wage. So there are a few of these things and central minimum wages, in our security business I know that almost 23% of our revenue was linked to central minimum wages and that is the impact that you see in the numbers. But the state minimum wages also keep getting revised twice every year across different states and that is why I said earlier that is an ongoing process to achieve rate revision as and when that happens.

Garima Mishra:

Now that there is a sizeable gap between, say, most state government wages and the central government wage, how flexible would an employer be to actually change the way they price their employees on central and state. So you mentioned there are some hybrid versions. So assuming there was somebody who was paying their employees on a central government wage, is there any flexibility with them to actually start moving towards the state thing, or is it just completely fixed and they cannot move at all?

Rituraj Sinha:

I think two points. First, the difference between state minimum wage and central minimum wage is not as significant as you are assuming. For example, Delhi state minimum wage and central government wages are identical. Karnataka minimum wages, Mumbai minimum wages, Maharashtra minimum wages are pretty much at par.

Garima Mishra:

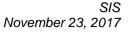
Yes. North East or East would probably be lagging or maybe Rajasthan, somewhere around that. There would be acute gap.

Rituraj Sinha:

Yes. There will be a more acute gap in states like Bihar or in North Eastern states. However, the flexibility actually is only limited because the regulation specifies that a bank must pay as per central minimum wage. That is not something that is subject to a bank's review. So that is a compliance standard which is pretty much fixed and extremely effectively regulated by the central labour department.

Garima Mishra:

Okay. Sure got it. Last question if I look at your security solutions business and you do have an electronic security component to it, are there any signs or anything that your at least top end kind of customers may be looking at more hybrid solutions than they have looked in the past and in





that sense, what future do you envisage for this business because it is still a small business for you in the overall scheme of things?

Rituraj Sinha:

Well, in fact we see the use of electronic security as something that the customer need not push. It is something that we are pushing effectively in the market. We have pioneered this concept of MANTECH. Our solutions or our business is basically about assessing threat, designing security solutions using manpower and technology and then integrating that solution on ground and managing the solution on an ongoing basis against certain service level conditions. That is the business what we undertake within the security services segment. We have effectively started pushing our customers towards MANTECH because we believe that gives them a better solution, a more comprehensive security solution, number one. Number two, it gives us the opportunity to differentiate our service versus the thousands of small and medium operators that operate across the country. And most importantly, in our experience, this is margin accretive in most contracts. So, overall we are pushing MANTECH very aggressively. We have 151 branches in the security services business across India. All of them are being enabled to design MANTECH Solutions. Now, we have significant investment planned in the Tech SIS arm to facilitate that and we believe that, over time, not only is the market going to shift, I think we are going to push the market to shift towards MANTECH.

Moderator:

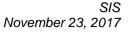
Thank you. The next question is from the line of Jigar Mistry from Buoyant Capital. Please go ahead.

Jigar Mistry:

I have 3 of them. Firstly, can you elaborate a little more on the operating leverage? I understand over the last 2 or 3 years, you have set up the branch infrastructure quite widely and have added a lot of people on the guard side, but not so many on the admin side. So if there is still room left for the operating leverage to come through. Second question, as I go through the presentation, I see that the PAT in Australia is higher than the reported EBITDA. So is there something one needs to take into account? And lastly, on the 80JJAA benefit, I understand that the way you account for it and one of the other people availing the tax benefit account for it is different. So, can you elaborate a little more on how one should look at that? Thank you.

Rituraj Sinha:

So I will try and address the first question and then Devesh will take on the question related to Australian EBITDA and PAT. So coming to the first question of operating leverage. While SIS operates 151 security services branches in India like I stated earlier, the market leader in India, currently they operate less than 100 branches. So we built out our branch network over the last 5 years. We now are equipped to cover or provide services at 24 hours' notice across 630 districts in the country, which is an unmatched capability. While we did this, we also have invested significantly in the technology infrastructure. We have proprietary software for recruitment, for training, for operations management, for salesforce productivity and management, and then what is happening, with increased use of technology, we are able to manage a larger workforce in every branch and secure larger number of sales and orders in every branch and manage more leads in every branch, using the same headcount. So that is the principal reason for operating leverage to kick in. The billing to non-billing employee ratio and, number two, I think significant





change is that as the newer branches, that we set up few years back as they scale up, the average headcount per branch in SIS also moves up, which further adds to the EBITDA contribution. So that is how, the two components how the operating leverage is kicking in, in the security services segment. I will hand over Devesh to talk to you about the Australian question.

Devesh Desai:

As far as the Australian PAT vs EBITDA is concerned, if you will look at the financial statements, note number 9, I believe, what has happened is because of the implementation of the IndAS, which is the Indian Accounting Standards and as a result of increasing our shareholding in Southern Cross Protection from 10% to 51%, we have had to revalue the existing 10% shareholding and recognize a one-time gain on the value through the profit & loss account. That is sitting in the other income. That is around 20 crores of true value, true up of the fair value which we have recognized in the books and that has resulted in the PAT being over the EBITDA. The second point you mentioned about was I think it was the accounting of the tax benefit under 80JJAA, right? Under Indian GAAP which we were following till last year and now we obviously migrated to IndAS, you would account for one year's tax benefit at a time. Under IndAS, you need to create a deferred tax asset and we had opinion from couple of external consultants where they have opined that the IndAS has a clause which says that where there are transactions during the reporting period affect taxable profits of future period, then a deferred tax asset needs to be created for those future tax benefits. So a transaction in the current year, for example, on account of 80JJAA to a 3-year tax benefit of 30% each. So 30% x 3, 90% is the benefit you create, and account for, in the year of the additional employment generation itself.

Jigar Mistry:

And we essentially account for that in the first year itself is what you are saying or...?

Devesh Desai:

Yes, in the first year you account for 30% under current tax and the balance 60% on the deferred tax, create a deferred tax asset and then do an adjustment every year, unwind that deferred tax asset into the P&L and create the current tax benefit for that year again. So there is a neutralizing benefit in future years for the current year. It is the balance sheet approach being followed for deferred tax now rather than the P&L approach.

Jigar Mistry:

And this is essentially what everyone else I don't imagine you would know this, but let us say somebody else availing of this benefit, this is a pretty standard and settled system of accounting for this benefit?

Devesh Desai:

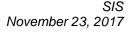
We have been given advice that this is the method to be followed under IndAS and that is what we are following.

Moderator:

Thank you. The next question is from the line of Paras from Enam Holdings. Please go ahead.

Paras:

Rituraj, I had two questions. One is on the attrition rate, both in the India security business as well as the facility management business because I understand that impacts the gratuity provisions. So what was the attrition rate for the first half?





Rituraj Sinha:

We have to take that question offline regarding attrition rates. But for last 3 years as you have seen from our numbers, the attrition rate is declining. But I think there will always be a certain essential level of attrition in this line of work which is evidenced across the world security market as well.

Paras:

Surely. Sir, my second question is on the cash logistics business. Rituraj, if you could explain me, what is the breakeven level of this business and when do we think we will be there?

Rituraj Sinha:

The H1 FY18 numbers indicate an EBITDA positive result and this is despite the short term negative impact resulting from demonetization. I think the cash environment is back on track for recovery. India continues to be amongst the developing and large economies, probably having the highest cash to GDP ratio. The currency in circulation, ATM replenishments, amount of ATM transaction, amount taken out for transaction, all these numbers seem to be going back pretty much to pre-demonetization levels. And we have also undertaken in the same time efforts to rationalize our ATM portfolio and also focus on the non-ATM revenue streams. So I think there is a lot of work underway in the cash business. There is no denying that the business environment is affected by the recent developments in the last 12 months. But I guess we are on track as EBITDA positive segment and we hope to further consolidate that.

Paras:

What will be our market share currently in the cash logistics business sir?

Rituraj Sinha:

Well, I will have to divide the cash business into two segments; which is the dedicated cash management business where we are the market leader. In the ATM business, we have roughly (+20,000) ATMs which is probably half of the market leader at the moment and we are building scale there. So overall, I think we have roughly (+20%) market share.

Moderator:

Thank you. The next question is from the line of Mehul Mehta from Sharekhan. Please go ahead.

Mehul Mehta:

I have a question on the cash logistics business. Have we seen fall in terms of number of employees because we are consolidating, is it that?

Rituraj Sinha:

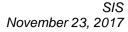
As our ATM portfolio is being reviewed and churned, we are adding certain routes and removing certain routes. So yes, we believe that the absolute employee headcount number will drop, but that will be only a marginal drop. It won't be anything very material, maybe a 2%-3% employee headcount drop

Mehul Mehta:

But how do you see going forward in the sense like if we have to get some sort of guidance for the current year, like maybe going ahead, like how are you seeing that business cash logistics business?

Rituraj Sinha:

Well, let me first say that the cash logistics business is 3% of our revenues and pretty much a fraction of our profit numbers, but obviously we believe in the story, in the cash segment, I believe, that it is a great opportunity in itself. Between the top 5 operators, almost 75%-80% of





the market is controlled. There are more buyers of cash services than suppliers of cash services. So I think, industry structure wise, it is fairly well organized. The challenge is that the industry needs to consolidate. There are too many players holding 20%, 10% or 30% share. Once we have the number one and number two player contributing 70%-75% market share, as it is in every other large global market from US to Canada to Australia, the efficiencies at route level and also pricing power will significantly be more realizable than it is today and the business has good long term prospects, I believe.

Mehul Mehta: Sir, I have one more question in terms of financials, can you share how do you calculate your

RoNW and RoCE numbers because I am not able to match it, so if you can?

Devesh Desai: If you can get in touch with Vamshi, he will be able to provide you the detailed calculations.

Moderator: Thank you very much. Due to time constraints, we will take that as the last question. I would

now like to hand the conference back to Mr. Rituraj Kishore Sinha for any closing comments.

Rituraj Sinha: This is our first results presentation and call after our IPO. I would like to thank everyone for

remains unanswered, please get in touch with SGA, our IR Advisors or Mr. Vamshidhar, President for Investor Relations. In conclusion, we believe that we are on a very exciting growth path. All our four business lines have reported strong results and there is a very vast market

joining the call. I hope we have been able to respond to your queries adequately. Anything that

opportunity ahead of us. We are holding strong market positions and we are poised to tap that exponential growth opportunity. We look forward to your support and thank you once again for

joining this call.

Moderator: Thank you very much. On behalf of SIS, we conclude this conference. Thank you for joining us

ladies and gentlemen. You may now disconnect your lines.