



“SIS Limited
Q3 FY '23 Earnings Conference Call”
February 03, 2023



**MANAGEMENT: MR. RITURAJ SINHA – GROUP MANAGING DIRECTOR –
SIS LIMITED
MR. DEVESH DESAI – GROUP CHIEF FINANCIAL
OFFICER – SIS LIMITED
MR. BHARAT BAKHSHI – PRESIDENT M&A, INVESTOR
RELATIONS AND VENTURES – SIS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the SIS Limited Q3 FY '23 Earnings Conference Call. 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 star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bharat Bakhshi, President M&A, Investor Relations and Ventures from SIS Limited. Thank you, and over to you, sir.

Bharat Bakhshi: Thank you. Good afternoon, everyone, and welcome to our Q3 FY '23 earnings call. Along with me, I have our Group Managing Director, Rituraj Sinha; and our Group CFO, Devesh Desai. I hope everyone has had a chance to look at our results and the earnings note, which has been uploaded on the stock exchanges and the company's website.

We're happy to report that the business continues to show strong revenue growth, with a good improvement in margins also, this quarter. This quarter, we recorded our highest-ever revenue of ₹2,904 crores. The India Security business grew 4.6% quarter-on-quarter and 21% year-on-year. The strong growth continues.

In Facility Management also, especially, the business grew 5% quarter-on-quarter and 35.2% year-on-year. In fact, this is the third quarter in a row that the Facility Management business has grown at 35% or higher year-on-year.

On the International side, with onetime COVID-related contracts falling off, we are seeing a return to pre-COVID growth levels with other business coming in. Our Cash Logistics JV is also seeing extremely strong growth with 11.5% quarter-on-quarter and 51.7% year-on-year growth. So as you can see, we have seen very good business growth now across all segments. And we are also very happy to inform you that margins are up almost 40 basis points this quarter compared to the previous quarter.

Our two largest segments, which is India Security and International business, reported better EBITDA margins, which moved the consolidated margins up. So again, overall, we are very happy with the business momentum. We will now turn it back over for Q&A.

Moderator: The first question is from the line of Swarnish Chaterjee from Asterix

Swarnish Chaterjee: My question is, in the India business, the Security and Facility Management, what is the opportunity to cross-sell? I believe the correlation between your client will be very less. So there should be an opportunity to cross-sell.

Rituraj Sinha: At the moment, 6% of our customers who are in Security use Facility Management services. So you're right that there is significant headroom for cross referencing or cross-selling. And we are working on it. In the top 20 cities in the country, we have created what we call city coordination groups, where a monthly lead exchange program has been formally institutionalized between all SBUs to maximize the cross-sell opportunity. But at the moment, it's only 6%.

Swarnish Chaterjee: Okay, sir. And there was a talk about selling intelligence security system to leading PSUs like SBI, ONGC, and we should have significantly higher margin than current 4%, 5% rate. Anything about that?

Rituraj Sinha: Our VProtect business, which does alarm monitoring, has roughly 13,000-plus connections now. We have secured another 7,000 connections from banks mostly, which is basically a man-less security, where we are leasing equipment, alarm equipment. We are monitoring that 24/7 and providing emergency response service. So, it's alarm monitoring response service or an opex model. And these contracts have come in at EBITDA margins of 20% plus.

Swarnish Chaterjee: And my last question is, there was a talk about wage increases in Australia, that has to be passed on to you via your customers. So...

Rituraj Sinha: So let me remind you that all our contracts across India and other jurisdictions, including Australia, have an automatic price escalation clause on a pro rata basis. Basically, it means that if the minimum wage goes up by 1%, we correspondingly pass through that increase to our customers. And that's not something that we negotiate, it's built into contract. However, there is always a time lag. With the announcement, we start paying first, and then we put up invoices to customers.

Sometimes they need to go for budget revisions, etc., an internal process may take a little bit of time. It is generally a 3-month cycle for this catch-up to happen. So, this is a routine affair for the business in India and Australia, and I'm sure you have seen the impact of this on several occasions in the past 5 years.

Moderator: The next question is from the line of Rohan Bhukne, an individual investor.

Rohan Bhukne: So my questions are, is there any moat in our business? And if we plan to scale a business, so how do we plan it without linear increase manpower? And third is, who are our biggest clients and how do we scale in getting big clients?

Rituraj Sinha: So the biggest moat in the business, I'd say, this industry does not have barriers to entry. It's fairly easy for somebody to set up a security company or a facility management company. But the barrier is to scale. And I'll give you the statistics. There are more than 15,000 licensed private security businesses in India, but only two of them have revenues of more than ₹2,000 crores. Less than 200 of them have revenues of more than ₹200 crores.

So clearly, barriers are to scale. And our moat is basically the fact that we have built a pan-India network of branches. We serve across 650 districts of the country. Number two, we've built a very robust supply chain with 14 residential training academies to supply trained manpower across the country at short notice. Number three, we've built a very robust system platform where there is ARC technology for recruitment, quality control. There is iOPS for operational management in a paperless fashion and on real-time basis. There is MySIS now, which is our automated digital facial recognition-based attendance platform. These are all proprietary

software platforms that help us manage over 250,000 people. So these are the general moats of the business. And that's what has helped SIS scale over the years.

Rohan Bhukne: Okay. I wanted to understand in future how do we scale the business without increasing the manpower?

Rituraj Sinha: Well, this business involves manpower, so increase of revenue will have increase in manpower. They cannot be separated. That's the nature of the industry. But, at the same time, as we start selling more and more technology and more and more solution-based things, like I was just explaining in the last question, we have sold so many connections in alarm monitoring in response to banks, they don't involve manpower, that alarm monitoring and response, which does not have physical component other than the responders.

So that also is a part of our solutions play. So as the share of such contracts goes up, you will have more revenue. So, the correlation is not 1:1. It's not a direct correlation that for every dollar to increase, manpower must increase. But there is a heavy connection, I'd say.

Rohan Bhukne: I was asking this because a large amount of our revenue goes into employee expense, right? So that's why. And our revenues are increasing in an exponential manner, but our profits are a little stagnant, right? So that's why I was asking.

Rituraj Sinha: You're right. For the last few quarters, the profits have been stagnant and that has been explained in previous calls. But I'm very happy to share that our Security Solutions business in India, which is reporting 3.9% all-time low EBITDA three quarters back, is back to almost 4.8%, 4.9% this quarter. It's a 1% plus change in three quarters. So as volume comes back, margins will also come back. And we are very hopeful that the Security business will track towards 6% in quarters to come.

Rohan Bhukne: And sir, I wanted to understand regarding the clients. Like who are the biggest clients that SIS has and how we are planning to get more of the clients?

Rituraj Sinha: One of the reasons that SIS has maintained almost a 1% to 2% month-on-month revenue growth is because our contracts don't come from one, two or three major clients. In fact, out of the ₹3,000 cr. quarterly revenues -- near about ₹3,000 cr. quarterly revenues that we report, no single client contributes more than 1% of revenue. So on a monthly basis, if you do ₹1,000 crores, no client -is worth more than ₹10 crores per month revenue, right?

So, we are not dependent on large clients to come and then give us business. We are a very diversified portfolio. The beauty of Security, Facility Management type service is that everybody needs it, whether it's a shop, it's a mall, it's a factory, it's an office, it's a cinema hall, it's a hospital, it's a hotel, they need guards, cameras, and cleaning staff.

Rohan Bhukne: Okay. And I just wanted to understand one more thing. In future, will there be any rule or anything that will create a moat around this business that no other party would enter? That's what I wanted to understand. In future, not now, but in future?

Rituraj Sinha: No, I don't see this industry becoming a monopoly anytime soon. This will not be a monopoly or duopoly. Globally, there are multiple operators in this sector across the world. But when it comes to market share, generally, there will be one, maximum two operators who are the dominant market share holders. But there will always be hundreds and thousands of security and facility management companies operating.

Rohan Bhukne: And I also wanted to understand what is the impact of recession and other stuff that is happening in the environment to SIS?

Rituraj Sinha: I think you should study the quarterly reports pre-COVID to now. It will give you a clear picture. We are a recession-resistant segment. In the first year of COVID, which was FY '21, we grew 7%, when the Indian economy contracted. In the second year of COVID FY '22, we grew 10%, when the Indian economy was just getting back on its feet. And this year, FY '23, as the economy in India picks up to, whatever, 6% plus growth, I'm pretty sure that we will grow 2x of GDP.

Rohan Bhukne: The last question is regarding the net profit. So, are we still in line towards 20% profit growth?

Rituraj Sinha: As a matter of practice, we don't give guidance in that relation. But as you can see, our profit after tax in this quarter is probably the best-ever at ₹103 crores. So we also have a significant advantage of 80JAA. And as the business grows, the 80JAA will kick in more, and I think that will show up on the profit after tax line. I guess there are a few other people in the queue, so if you don't mind, if you can join the queue back. Thank you very much.

Moderator: The next question is from the line of Vidit Shah from IIFL.

Vidit Shah: My first question was on the International business. So you spoke about the wage inflation being passed on, but with like a 3-month lag. But has all of it been passed on as of now in February '23?

Devesh Desai: Yes, at the end of Q3, all of it was passed on. So we will have a full quarter effect, also partly flowing through in Q4. Largely, all of it has been passed on by the end of Q3.

Vidit Shah: Okay. Understood. And could you just elaborate on these profit improvement initiatives that you've taken that you expect to yield results in the coming quarters in the International business?

Devesh Desai: Yes. So as part of a regular exercise, what has been done this time is that every site, every customer contract has been analyzed at a P&L level. So the revenue and the cost of each site, each contract has been picked up and analyzed. Lower margin sites or low-margin contracts have been picked up for special review and action to see whether there have been any cost creeps over there, whether there have been scope creeps overhead, whether we are getting all the revenue and whether there is any leakage.

We're checking each and every contract, each and every site to make sure we maximize whatever we expect to get from each site. So it's a laborious exercise, going through a last few months of P&L, going through every contract, going through every site, creating an action plan going back,

making some actions on the ground, managing the roster more efficiently. So there's hundreds of actions which are going on. And that's our action plan which has been drawn up, so that the operational teams can implement it and then we deliver profit improvement back into the system.

Vidit Shah: So do you have any target margins or something like that below which you pick up contracts to improve... Anything of that sort that you've targeted?

Devesh Desai: So generally, there is an approval matrix, which kicks in for contracts and various margins. Some contracts may be picked up at a lower margin for strategic reasons. There could be high volume contracts. So there's a whole host of reasons why contracts get picked up, as in any business, as you would know.

Rituraj Sinha: But let me just add and supplement there, that apart from the approval system, the more important thing is that the gross margin of SIS Security, for example, has moved up by almost 1% in the last two quarters, and that is reflecting on the bottom-line EBITDA as well.

Vidit Shah: But that would be a result of passing on the wage inflation as well, right?

Rituraj Sinha: It's passing on the wage inflation, securing contracts at better rates. It's a whole host of reasons.

Vidit Shah: And on the FM side, what happened to the margins there? I mean, they've dropped after seeing a couple of quarters of improvement. Are there any one-offs and could you quantify those, specifically?

Devesh Desai: So we've explained the reasons. There have been some one-off costs which have taken place during the quarter. And as you know, we deploy a large amount of equipment...

Vidit Shah: Sir, your voice is breaking. I couldn't hear...

Devesh Desai: Large amount of equipment at the customer sites. And periodically, we have to monitor, manage and maintain those equipment. Now unfortunately, in this quarter, a lot of the equipment came up for regular repair and maintenance cost, which led to an increase in the cost. We have a few fixed price contracts, as Rituraj explained earlier to the question that while we have our price escalations clauses linked to minimum wages. In the case of fixed price contracts, it sometimes takes a bit longer to get that price increase through the system, while the cost increase has already come through the system.

We also had -- at request of clients, there were certain supplies of products and services made, which the clients wanted us to route through our books. There was no margin on that. It was just a facilitation for the client. Now all of these things, if you look at mathematically and run a formula, then the percentage of EBITDA has come down in this quarter. But yes, we've got a lot of actions in place. We are doing a lot of corrective stuff on the ground in this business also. So hopefully, in the next one or two quarters, we'll start trending back up.

Vidit Shah: Right. So, if I have understood correctly, this quarter was an aberration and the next few quarters you start seeing an improvement from the 4%, 4.5% that we used to do in the first half of the year?

Devesh Desai: Yes, definitely.

Vidit Shah: And just one last question on the tax accounting, maybe quite a basic question, but if you could just take us through how the 80JJAA benefits are accounted. Because since the last 3 quarters, we've been seeing a tax gain on the books. My understanding was that only the tax payable can be offset, so just wondering how the gain arises.

Devesh Desai: No, so the way it works is that because -- I hope you know how the 80JJAA tax benefit works. It's a benefit you get over 3 years. So when you compute the benefit of year 1, based on the additional number of people you employed and the additional wages you paid for those new employees, 30% of that is taken as a tax benefit, as a deduction from the income every year, over three years.

Now what happens is, because of the way the accounting standards work and because there is a certainty of getting the next two years of tax reduction in the respective years, you are required to create a deferred tax asset for those two years' benefit in the first year itself. So every year, you actually account for the benefit of the current year, plus you account for the benefit of the future two years.

And in that second year and third year, that deferred tax asset is then brought down from the balance sheet into the P&L as an expense. So that's how the whole chain works and the whole cycle works. And that is why you see a net gain coming in the tax expense rather than a net expense coming in that line.

Vidit Shah: I mean, sir, has there been a change because like, let's say, we had some good growth in headcount even in FY '19, '20, but we didn't see such a high gain taking place in those years compared to, let's say, '23, where we are still growing very handsomely. But we've seen a big benefit on the deferred tax front as well.

Devesh Desai: So in FY 2021, there was no net increase in the number of employees. So in that year, there was no 80JJAA tax benefit banked and accounted in the books.

Vidit Shah: Also, this is like impact of a very low base of FY '22, which we are seeing right now?

Devesh Desai: So FY '22 I had a benefit, and FY '23, we're continuing the benefit. FY '21 was the first year of COVID, where there was no increase in the net number of employees, and that is why I was not able to bank any benefit in that year.

Rituraj Sinha: It's not low base. It's just that FY '21 we had marginal growth. If you remember, Security business in India had like 1% growth in FY '21. In FY '22 and FY '23, obviously, it's growing much better. We're recruiting more, so we are banking more benefit of 80JJAA.

- Vidit Shah:** So any guidance you could give us for the tax rate that the company could have, given 20% odd growth in the India business with 80JJAA?
- Devesh Desai:** So effectively, the tax rate will, as you will see, continue to be at this level, which is 0. Standalone Company will be 0. Standalone India operations will be 0. There will be a net income or the net positive charge in the tax line and not a negative charge. International, of course, has a tax rate, but on a blended basis, we are close to 0.
- Moderator:** Our next question is from the line of Alok Deshpande from Nuvama Institutional Equities.
- Alok Deshpande:** My first question is on the International business margins. Now going forward, how should we look at those margins for the next maybe 4 to 5 quarters given that the ad hoc contracts have gone out etc...
- Rituraj Sinha:** Well, like I said, Alok, in the past, if you remember, pre-COVID, International business was a 4.5% EBITDA margin business. In the COVID years, we got a lot of temporary contracts, high-margin contracts. So they went up to 6%, which was an aberration. Now what we are witnessing in FY '23 is that all those high-margin, short-term contracts are out. We are only working with regular contracts. And therefore, we are settling down towards the 4%, 4.5% margin. I would say that you should factor that 4.5% in the coming quarters.
- Alok Deshpande:** And Rituraj, when we are annualizing the International business at about -- I'm guessing, about ₹5,000 crores. Now in terms of growth there, what should we look at?
- Rituraj Sinha:** Well, I think in FY '23, our greatest challenge was that as almost 45 million, 50 million worth of temporary contracts exit the system, our revenue should not contract. That whole of 45 million, 50 million of temporary contracts had to be filled by regular new wins. And I'm very happy that in FY '23, it looks like we may not have a revenue dip per se, right? We had like a 5% increase in revenues from Q2, as you can see. And I think on a full year basis, we will be in a single digit, low single-digit growth, which is a pretty good performance given the fact that almost 50 million worth of temp contracts exited the system in April.
- Alok Deshpande:** Sure. Single-digit growth is for FY '23, I believe, what you said now. And then how do we look at this number next year given probably the contracts that are probably in the pipeline - FY '24?
- Rituraj Sinha:** Again, FY '24 should go back to pre-COVID type performance, which is like 7-odd percent, 7%, 6%, 8%, in that ballpark range. That's what we've done for the last 10 years pre-COVID. So I'm hoping that we go back to that.
- Alok Deshpande:** Okay.
- Rituraj Sinha:** Mind you that the base of the International business is pretty significant now with almost AUD 850 million worth of annual business.

Alok Deshpande: Yes, I was just about to ask you that, that now the base is significantly higher. So is like 7%, 8% achievable given that the market share is already high?

Rituraj Sinha: Our goals are always aspirational. So our goal is to maintain that trend. And I think Australian market should come back in line. As of right now also, there is no dearth of contracts. Actually, the problem in Australia is that, like all European markets, Australia is also facing acute labor shortage. So, we are only taking on contracts selectively which are higher rate contracts, where you know we have easy access to manpower, etc.

Alok Deshpande: Rituraj, the other thing was, I remember you had called out that you'd be reaching 5% margin in India business by Q4. I think you've already sort of almost reached there in Q3 itself, which is a good thing. Now can we see this number going to 5.5% or 6%, in that vicinity next year? Or this is where it will sort of stabilize?

Rituraj Sinha: No. I think I've said this repeatedly, and I'm reinforcing the fact, I see no reason why our pre-COVID margin performance for Security in India, which was ballpark 6%; in FM, which was ballpark 6% plus; and in International markets, which was ballpark 4.5%. I see no reason why we should not go back to these levels. It's taking a little bit more time than one would have liked, but fundamentally, the business or the market share or the pricing power, nothing has changed. In fact, SIS is a far stronger market leader today than we were pre-COVID, not because we have actually grown stronger, it's actually because our competition has taken a much bigger hit during COVID.

Alok Deshpande: Right. That was actually something I wanted to ask, that because we don't get numbers of many of these unlisted security companies in India, given the goal that SIS has for 2025 in terms of market share, etc., how has that progressed in the last 4 quarters or so in terms of market share gains, etc., specifically to the Indian Security business?

Rituraj Sinha: Well, I think I'll be able to comment about this as I see the FY '23 numbers of the key competitors. But as of right now, I can say that as the India Security business heads to a high-teens growth, it's definitely more than minimum wage increase plus GDP growth.

So we are picking up market share. If we are growing more than the GDP expansion plus the minimum wage expansion in the country, that basically means that you're picking up market share. So, if GDP is 6% percent and the base inflation is around about 5%, 6% this year, 10%, 11%, and you're growing 15%, 16%, 17%, then you've picked up market share. That's the rule of thumb. But I still wait for FY '23 numbers of our key competitors to be published before I make my comment, which is more specific.

Moderator: The next question is from Dharmavenkatesan K B, an Individual Investor.

Dharmavenkatesan K B: Sir, I just wanted an update on the Henderson. So last quarter, you had mentioned that we might be breaking even in this quarter. So I just wanted to know how the things panning out there and what are the point...

Bharat Bakhshi: Sorry, can you repeat that? We didn't quite catch the question, I'm sorry.

Dharmavenkatesan K B: Sir, I just wanted to know the update regarding Henderson. So last quarter, you had mentioned that there were some issues we were facing and we might be able to possibly breakeven by Q3 or Q4. So I just wanted a color on it, sir. Hello?

Moderator: It looks like the management line has just got disconnected. Ladies and gentlemen, thank you for your patience. We have the line for management connected. And Mr. Dharmavenkatesan, you may go ahead.

Dharmavenkatesan K B: Sir, I just wanted an update regarding Henderson. So how are the things panning out there? Because last quarter, you had mentioned that we were facing some pressure in terms of EBITDA level breakeven. So I just wanted a color in it.

Rituraj Sinha: I think Henderson is coming back well. Actually, they have picked up a few interesting contracts in the last quarter. The management team has finally started to deliver on new sales nicely. The easing of labor supply from Malaysia is also helping. So overall, it's better than before. But I guess, before I make any specific commitments in this regard, I'd like to watch a few more quarters, at least two quarters before we can say that it's an established trend.

Dharmavenkatesan K B: So are we still losing money out there or we have some at least EBITDA level breakeven?

Rituraj Sinha: No, it is EBITDA negative.

Dharmavenkatesan K B: Okay. And how is the SDS acquisition panning out, like...

Rituraj Sinha: Let me quantify that. The annual EBITDA negative impact out of Singapore would be ballpark ₹5 crores, annual basis. So on a quarterly basis, even if the impact is like ₹1.5 crores of cash drain.

Dharmavenkatesan K B: And how is the SDS acquisition panning out, and some more color on that also will be helpful.

Rituraj Sinha: On what, sorry?

Dharmavenkatesan K B: SDS.

Rituraj Sinha: SDS, it's a smallish deal. We picked it up at a very fairly low price of \$5 million. And I think the business is stable. It hasn't grown since the acquisition, for sure, but it's stable. And the price at which we bought it would be a 15%-plus IRR deal for us, hopefully.

Moderator: The next question is from the line of Vidit Shah from IIFL.

Vidit Shah: Just one question on the cash flows in the International business. They seem to be quite low given that the business is generally quite cash generative. What has happened there that has dented these cash flows? And do we expect a recovery in 4Q and by the end of '23?

Rituraj Sinha: So this was just a one-off thing which happened. Normally, there are two payroll cycles in a month. At this time, there were three payroll cycles in December across both MSS and SSC business. So that caused the OCF to EBITDA to be negative. But on a YTD basis, it has been positive. It will be positive back again in Q4. So it was just a one-off thing which took place in December.

Vidit Shah: And overall, what is the OCF/EBITDA conversion that we are targeting for FY '23 and '24 on a consolidated basis?

Devesh Desai: So we generally have the target, as a group, to have 50% conversion. And we think we'll be close to that in Q4. Q4 is generally very good on cash flows. So by the end of Q4, we think we should be there.

Vidit Shah: But FY '23 will be below that, but '24, you will be able to catch up. Would that be correct?

Devesh Desai: No, I wanted to say that in FY '23, by the end of Q4, we should hit that target. Generally, Q4 is very good for cash flows and collections. So we generally tend to catch up in the last two quarters, and we will do that.

Moderator: Our next question is from the line of Alok Deshpande from Nuvama Institutional Equities.

Alok Deshpande: Rituraj, I had a strategic question. Under India Security as well as Facility Management, we are running multiple brands as in the past as and when we have acquired companies So if we have the DTSS, etc...

Moderator: Alok, sorry to interrupt. If you are on a speaker mode, please switch it to handset, your voice is kind of fluctuating.

Alok Deshpande: Okay. So Rituraj, I was asking that we are currently having so many multiple brands because of all the acquisitions that have happened over the years. So is there any thought process of combining all these brands under One SIS brand? Or what are the merits of keeping these brands separate? So I'm just saying that if probably they all come under one umbrella, maybe from a brand positioning it might have a bigger impact. I know there will be a onetime transitioning, but I just wanted to understand that thought process.

Rituraj Sinha: So for now, our thinking is that we want to build a house of brands, each brand suiting a different category. It's a little bit like your Kellogg's cereal rack, where you have something for people who are on a diet and people who are on a sugar rush. So there's something for everyone at the Kellogg's store. Similarly, at SIS, in Facility Management, we have a specialist FM company which is into health care, which is RARE. We have ServiceMaster, which does large contracts, a lot of government exposure there on railways and large institutional work.

DTSS is more into corporates. Some of them focus more up North, some of them focus more down South. And each of these businesses grows aggressively. The FM business, for example, has reported almost 40% growth for two years back-to-back post-COVID. So like we said, that

it's the biggest winner out of COVID. Even if you're seeing Security, we have a multi-brand strategy. There is Tech SIS, which does electronic security.

There's Vprotect that does alarm monitoring response type work. Then there is SIS, SLV, Uniq. SLV focuses on North India market, Uniq focuses on Bangalore and South India market. SIS is a national player. So that's the way we position our brands. And so far, it's working well for us. Yes, in theory, if you merge all these brands, you might have a bigger impact, like you said.

But as of right now, we see no reason to make that change. Because mind you, all these businesses work on a common back-end shared service platform. So they are not duplicating legal and taxation and secretarial and so many other functions. So these are synergized brands, as I call them. They operate independently, but they also operate as a group.

Alok Deshpande: So where I was coming from, Rituraj, was like -- for example, let's say, DTSS, whether people in the ecosystem are generally aware that SIS owns DTSS. So I'm just saying from a brand visibility perspective, if I...

Rituraj Sinha: There is no confusion there, Alok. I don't know how you picked it up. There is no confusion at all. I think everybody knows. In fact, all these logos very clearly have an underline statements like SIS Group Enterprise.

Alok Deshpande: Okay. Understood.

Rituraj Sinha: It's abundantly clear, there's no confusion there.

Alok Deshpande: And Rituraj, just one last question on International -- sorry, Indian Security. We are at about, what, 182 branches now. Will there be more investment in branch expansion if you're targeting this 15% to 20% growth there? Or you think that, from a branch network perspective, it's sort of well penetrated? What's the strategy there?

Rituraj Sinha: I think we are very well-penetrated branch presence wise. Now the focus is growing the monthly revenue per branch. So ballpark, from give or take, ₹2 crores range to ₹4 crores range.

Alok Deshpande: So that means that the incremental revenue actually should come at much higher margins because you may already have the...

Rituraj Sinha: Yes, there will be operating leverage there.

Moderator: Our next question is from the line of Garima from Kotak.

Garima: So Rituraj, my question basically is, if I look up your performance versus Q2 FY '20, right? So with this, your revenues for both India Security as well as Facility Management are a good, let's say, 35% to 40%, 45% higher, whereas your margins are still not back up to those levels. And if I put this into context since you're also saying that competitive intensity has gone down post COVID. What is it really that is ailing margin? Is it simply because your clients have become

more cost conscious and are pushing back on escalation of prices, or -- I'm just trying to understand the dichotomy, sir.

Rituraj Sinha: So Garima, firstly, it's good to hear from you. Long time. So specifically, if I get the gist of your question, as regards to the margins, the gross margin of SIS has remained pretty stable through the entire COVID years. In the last 10, 12 quarters, the gross margin did not take a beating. It was our SG&A, which is all over the place.

There were a lot of COVID-related expenses initially, then they went down. Then there was post-COVID increase in travel and conferences and meetings and client interactions and hiring, which bumped up the SG&A. So, the turbulence was in the SG&A segment, not in gross margin. Now as SG&A is settling down and growth is picking up, we are going back towards the margin profile that we had pre-COVID, which is 6% for Security. So I don't see that we are getting better terms from clients or we are having less or more competition from the other players in the industry, it's none of the two. It's actually just us settling back.

Garima: I have looked into the call and basically, you were indicating that some time in FY 2024, we should see these margins, especially for the India businesses, at least reverting back to pre-COVID level?

Rituraj Sinha: Yes. Like I said, I have been repeatedly saying, gross margin is at 12% plus. We believe that SG&A will settle, and we will hopefully move back towards our pre-COVID normal levels.

Moderator: Our next question is a follow-up from the line of Dharmavenkatesan K B, Individual Investor.

Dharmavenkatesan K B: So I just wanted to understand the growth that we are seeing in our Cash business. That is a very good growth compared to Q-on-Q or Y-on-Y. So I just wanted to know what is enabling us to grow this much, and like how sustainable is it going forward is what I want to know.

Rituraj Sinha: Our Cash business is the second largest Cash business in the country. And it has outgrown the largest Cash company by far this year. The largest Cash company is a listed company. You can look at their growth numbers and compare that to our Cash segment. You will see that we are not only growing twice the pace, we have also maintained almost a 14%, 15% EBITDA margin in FY '23. As of right now, because it's a minority position for us, it's not fully reflecting in the results. I'm glad that you took time to understand and discuss the Cash business. I believe that in years to come, there could be an opportunity for us to spin off the Cash business and create value for our shareholders.

Dharmavenkatesan K B: Sir, I just wanted to understand that -- I did compare the numbers with the largest player and we are beating them hands down. So I just wanted to understand that what we might be doing differently? Or what is enabling us to show this kind of growth is what I'm trying to ask.

Rituraj Sinha: We just have better execution, my friend.

Dharmavenkatesan K B.: And in our International business, there's a decline Y-o-Y. That is mainly due to that we had COVID contracts last year and that is not present this year, that's all right, sir?

Rituraj Sinha: Absolutely correct answer.

Moderator: Our next question is from the line of Dhaval, an Individual Investor.

Dhaval: So my question is there has been some decline in the margins, and yes, you have already guided to improvement. But specific to the Cash business that sir was just talking about, what has been the reason for some sort of decline in margin -- some fluctuation in margins, right, that we see over the last 3, 4 quarters?

Devesh Desai: Yes. So actually, the steady state is -- around 15% to 16% of EBITDA margin. So sometimes what happens that we may have made a provision for some doubtful debts at some point, and we would have got the money back. And so we would have reversed the provision. So that's the only thing which has caused the fluctuation in the last two or three quarters. Otherwise, steady state is between 15% to 16%.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the conference back to Mr. Rituraj Sinha for closing comments. Over to you, sir.

Rituraj Sinha: Thank you, everyone, for joining the call. If I look at the numbers of this quarter, I see that what we have given in terms of discussion in the past, which is that we are focusing on revenue growth and margin improvement, both at the same time, it's clearly playing out.

We have demonstrated margin improvement and India Security which seem to be the biggest area of concern for everyone. Like Devesh pointed out, the Facility Management margin is a blip and it will start coming back on track. So the margin story is coming back strongly. As regards to the revenue growth, we have demonstrated the recession-resistant nature of our revenues, the predictability of our revenues.

Mind you, the growth that we are reporting in the 9 months in Security and FM and Cash is not on the back of a large minimum wage bump-up. This is purely volume growth-led change. And as -- like for example, today, I was reading that Gujarat has increased minimum wages by 30% after an 8-year gap. Gujarat state has not increased minimum wage materially for 8 years, and then they have pushed through with a 30% hike.

Now this has a direct corresponding impact on all my contracts in Gujarat. And because there's a rate increase clause on a pro rata basis, it has a flow-through impact on the EBITDA as well. So growth is coming back right now without big price revision or minimum wage revision, and when volume growth is combined with higher wage revision in the coming years, in the run-up to elections, I think this could be very interesting in terms of growth.

Lastly, I'd like to underline something that wasn't discussed on the call today, is the fact that we reported one of our best DSO performances. The fact that we have grown so much without

increasing our working capital employed in the business, our days of sales outstanding have been flat, we've kept a tight control on that, shows our grip on both customers, new and old, for timely payments. And obviously, that's translating to a key number, which is return on equity. We have, again, maintained a 16% plus return on equity.

Again, I would like to remind everybody that through the last 3 years or 12-odd quarters, pre-COVID to now, our return on equity has been maintained between the 15% to 20% level, which underlines the nature of the business. This is an annuity revenue business. It is a low-capex business. It has little to no gestation period. And it is highly cash generative.

We have given out more than ₹200 crores in terms of buybacks in the last two years, and also delivered a return on equity of 16% now and between 15% and 20% in the last three years. This is demonstrative of the power of this platform. And I believe that some of the concerns that people have had, in the coming quarters, they will be largely addressed, as we move back to pre-COVID levels of performance.

Thank you very much for your patience. Look forward to speaking to you some time soon.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of SIS Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.