

Q1 FY24 EARNINGS UPDATE

26 July 2023



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Q1 FY24

<p>Revenue</p> <p>₹ 2,976.7 cr.</p> <p>↑</p> <p>11.1% Y-o-Y</p>	<p>EBITDA</p> <p>₹ 139.0 cr.</p> <p>↑</p> <p>15.0% Y-o-Y</p>	<p>PAT</p> <p>₹ 89.5 cr.</p> <p>↑</p> <p>8.4% Y-o-Y</p>	<p>ROE</p> <p>15.5%</p>
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“Q1FY24 results signal a solid start to FY24. Trend of last few quarters demonstrates that growth is back across segments. Margin improvement actions are also yielding results. On track to achieve pre-COVID margin levels.”

Rituraj Sinha
Group Managing Director

Q1 FY24: Solid start to FY24

SIS entered FY24 achieving robust financial results. The company ended Q1-FY24 with consolidated revenue growth of 11.1% and consolidated EBITDA growth of 15.2%. Q1-FY24 EBITDA Margin is 4.7%, an uptick of ~70 bps from nine months ago.

Security Solutions - India: Margin focus yielding results

Security Solutions - India segment closed Q1-FY24 on a positive note with revenue of ₹1,229.1 cr., a growth of 16.2% y-o-y. We reported the highest ever quarterly EBITDA at ₹66.2 cr., a robust growth of 57.9% y-o-y and EBITDA Margin improved from 4.0% in Q1 FY23 to 5.4% in Q1-FY24. Relentless focus on profitability by securing contracts which meet the stringent minimum margin requirements led to EBITDA Margin improvement. Tight control on SG&A costs also contributed positively to the margin uptick.

Security Solutions - International: Margins continue to be stable

The Security Solutions - International segment closed Q1 FY24 with revenue of ₹1,242.7 cr., a growth of 3.1% y-o-y. EBITDA Margin in Q1 FY23 benefited from the one-time high margin COVID contracts which ended completely in Q2 FY23. New Zealand is on an upward trajectory for the quarter with an improvement in revenue and EBITDA Margin growth y-o-y.

Cash Logistics Solutions: Outperformance continues

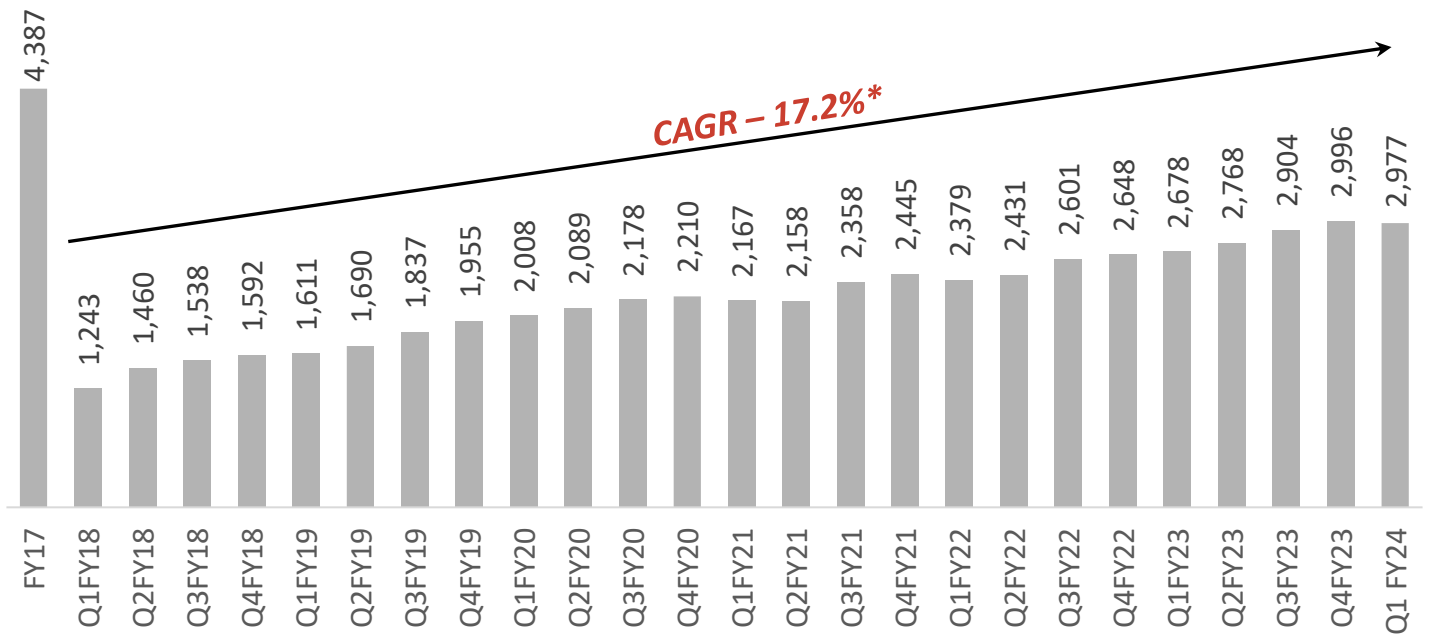
The Cash Logistics Solutions segment continued its consistent growth momentum reporting the highest ever quarterly revenue of ₹152.9 cr. for Q1-FY24, a strong growth of 24.3% YoY, coupled with robust EBITDA Margin of 15.7%. PAT is at a healthy level of ₹10.6 cr., an increase of 1,513% YoY with 6.9% PAT Margin. The segment continues its focus on the newer services including value cargo movement, bullion transportation, door-step banking (DSB) etc. and its journey to becoming a banking outsourcing and support solutions (BOSS) provider. This transformational pivot has been instrumental in achieving the healthy performance demonstrated in the financials.

Great Place to Work Institute recognizes SIS as India's Best Workplaces Building a Culture of Innovation by All

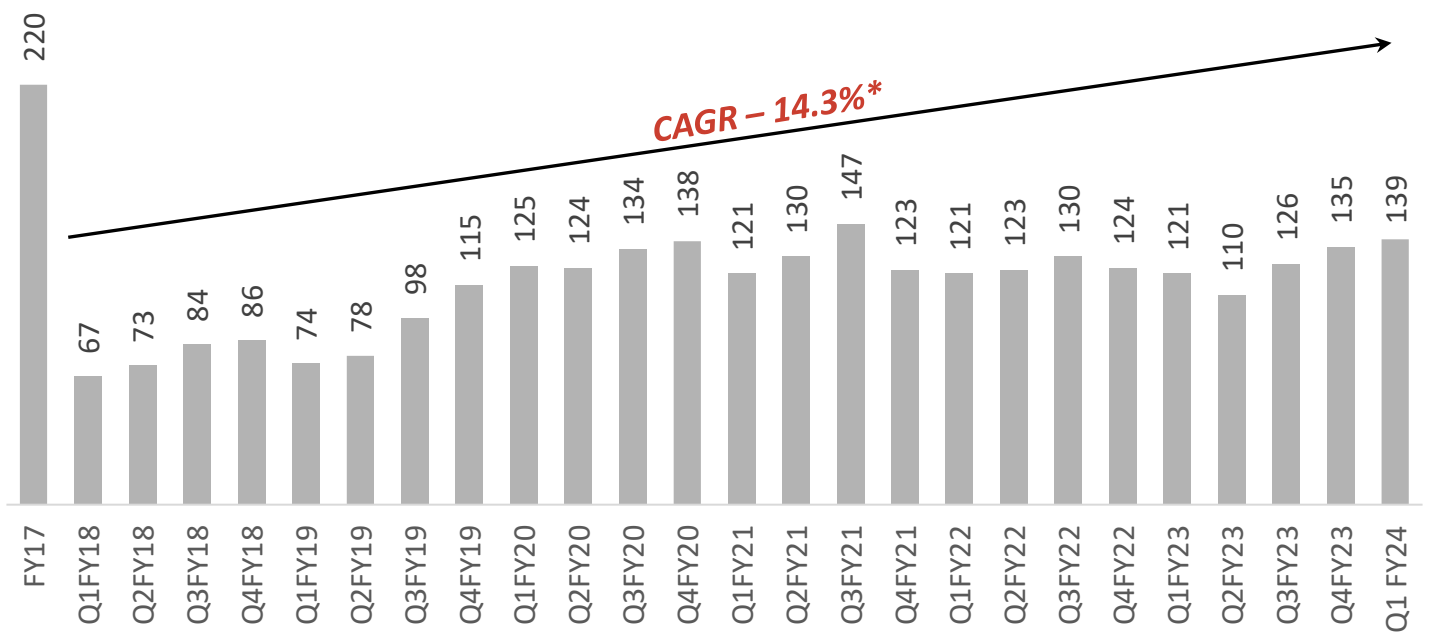
We are humbled to be recognized by the Great Place to Work Institute as among India's top 50 Large Workplaces "Building a Culture of Innovation by All" for '23-'24. We believe in offering equitable people practices for our employees and a consistency in the workplace experience. SIS encourages a culture of participation and drives business excellence through people participation.



Quarterly Revenue Trend (₹ cr.)



Quarterly EBITDA Trend (₹ cr.)



*FY17-23 CAGR%



Particulars (In ₹cr.)	Q1 FY24	Q1 FY23	Y-o-Y Change %	Q4 FY23	Q-o-Q Change %
Revenue	2,976.7	2,678.2	11.1%	2,995.7	-0.6%
EBITDA	139.0	120.7	15.2%	134.8	3.2%
EBITDA Margin%	4.7%	4.5%		4.5%	
Depreciation	34.9	27.7	26.2%	37.9	-7.8%
Finance Costs	32.7	24.7	32.7%	31.7	3.2%
Other income ¹	14.0	7.1	96.5%	21.2	-34.1%
Earnings Before Taxes (Incl. Grants)	85.4	75.5	13.1%	86.4	-1.2%
Less: Acquisition-related costs / (income)					
– Depreciation & Amortization	0.8	0.9		1.0	
Earnings Before Taxes (Reported)	84.6	74.6	13.4%	85.4	-1.0%
EBT Margin%	2.8%	2.8%		2.9%	
Tax Expenses	-5.0	-8.0		-7.7	
Profit After Taxes (Reported)	89.5	82.5	8.4%	93.1	-3.9%
Reported PAT Margin%	3.0%	3.1%		3.1%	
EPS	6.1	5.6	13.9%	6.4	-4.5%
OCF	-36.2	5.1	-814.3%	194.3	-119.0%
OCF to EBITDA%	-26.1%	4.2%		144.2%	
Net Debt	983.3	737.6		861.6	
Net Debt to EBITDA	1.9	1.5		1.8	

Note 1: Includes share of profit/(loss) in associates.

Revenue, EBITDA, and PAT Growth Development by Business Segment

Business Segments	Revenue Growth		EBITDA Growth		PAT Growth	
	Q1 FY24 v/s Q1 FY23	Q1 FY24 v/s Q4 FY23	Q1 FY24 v/s Q1 FY23	Q1 FY24 v/s Q4 FY23	Q1 FY24 v/s Q1 FY23	Q1 FY24 v/s Q4 FY23
Total Growth - %						
Security Solutions – India	16.2%	1.2%	57.9%	9.4%	48.5%	0.9%
Security Solutions – International (on a constant currency basis)	3.7%	-1.3%	-15.3%	-2.0%	-22.1%	-1.0%
Facility Management Solutions	21.3%	3.0%	17.6%	2.3%	-2.3%	-9.4%
Total of SIS Group	11.1%	-0.6%	15.2%	3.2%	8.4%	-3.9%



Revenue Development

All businesses continued to report strong revenue growth during the quarter on the back of new wins and despite the discontinuation of one-off COVID related contracts in the Security Solutions – International segment since Q2FY23.

Consolidated revenue for Q1 FY24 was ₹2,976.7 cr.; grew by 11.1% over Q1 FY23.

Security Solutions – India reported 16.2% growth y-o-y on the back of new wins of over ₹19 cr. of monthly revenue during the quarter with major contributions from the manufacturing, education, BFSI and real estate sectors.

Facility Management Solutions segment continued its growth momentum during the quarter with a revenue increase of 21.3% y-o-y. This growth was primarily driven by new wins of around ₹15 cr. of monthly revenue in from the real estate, oil & gas, manufacturing and hospitality sectors.

Security Solutions – International reported a 3.1% y-o-y growth in revenues. On a constant currency basis, the Security Solutions - International segment reported revenue growth of 3.7% y-o-y. This growth was achieved despite the discontinuation of one-time COVID related contracts since Q2FY23.

Earnings Before Interest Tax Depreciation & Amortization (EBITDA)

Consolidated EBITDA for Q1 FY24 at ₹139.0 cr. was a 15.2% increase compared to Q1 FY23.

While the margins of Security Solutions – India continued to improve from 4.0% in Q1 FY23 to 5.4% in Q1 FY24, the EBITDA Margin % in Security Solutions - International was 4.0% in Q1 FY24 vs. 4.9% in Q1 FY23, EBITDA margin was higher in Q1 FY23 due to high-margin COVID related contracts last year. EBITDA margin of the Facility Management Solutions segment was relatively stable at 4.4% in Q1 FY24 compared to 4.5% for Q1 FY23.

Business segment wise reported EBITDA movement for Q1 FY24 is as follows:

Particulars (in %)	Q1 FY24	Q1 FY23	YoY Change	Q4 FY23	QoQ Change
Security Solutions – India	5.4%	4.0%	140 bps	5.0%	40 bps
Security Solutions – International	4.0%	4.9%	-90 bps	4.0%	0 bps
Facility Management Solutions	4.4%	4.5%	-10 bps	4.4%	0 bps

Earnings Before Taxes (EBT Reported)

Reported EBT for the Group was at ₹84.6 cr. for Q1 FY24, compared to ₹74.6 cr. for Q1 FY23.

Other income & share of profit/(loss) in associates for the quarter is comprised of:

- The effects of unrealized currency translation amounting to ₹(0.3) cr. in respect of the RDBs issued by the parent to its Australian subsidiary.
- Interest income from bank deposits; and the Group's share of the profit/(loss) in its associates and other gains and losses.

The Group's consolidated **Depreciation & Amortization** amounted to ₹35.8 cr. for Q1 FY24 which was higher than ₹28.6 cr. for Q1 FY23, as a result of the amortization of capitalized cost with respect to new business application platforms and the CAPEX for installations in our VProtect business. This CAPEX was financed by bank borrowings.



Finance costs for the Group amounted to ₹32.7 cr. which was higher compared to Q1 FY23 at ₹24.7 cr. driven by the increase in interest rate, caused by rising interest rates during the year and CAPEX on installations in our VProtect business which was financed by bank borrowings.

Our effective interest cost increased by 2.0% y-o-y compared to the bank rate increase of 2.5%.

Taxes & Profit after Tax (PAT)

The reported Profit after Tax for the Group was at ₹89.5 cr. for Q1 FY24, compared to ₹82.5 cr. for Q1 FY23. Given that the deferred tax accounting for benefits under section 80JJAA changes from quarter to quarter due to changes in the PBT and the movement / addition of eligible employees, PAT for the quarter (without considering the deferred tax impact on these benefits) grew by 43.9% y-o-y and 22.0% q-o-q.

Accounting for the benefits under Section 80JJAA of the Income Tax Act, 1961

The key qualifying criterion for availing the tax benefits under section 80JJAA are: (1) an increase in the number of employees during the year and (2) eligible employees completing a period of employment of at least 240 days either in the year of recruitment or in the immediately succeeding financial year.

During the quarter, the number of employees in all businesses continued to increase. As a result, we continue to receive and account for the tax benefits under Section 80JJAA of the Income Tax Act for the quarter in line with past practice.

The tax benefits under section 80JJAA have accrued to the Group during FY22 and FY23. In FY24, the Group is also eligible to claim benefits with respect to those eligible employees employed in FY23 and completing a period of employment of at least 240 days in FY24.

On a standalone basis, the Company's current tax rate is close to NIL because of the benefits accruing under Section 80JJAA of the Income Tax Act, 1961.

The current tax rate reflects the amount of tax the Company is expected to pay when preparing and filing its tax returns. The real effective tax rate reflects the current tax plus the deferred tax effect on timing differences. The current tax rate and real effective tax rate, is computed below:

Particulars (in ₹cr.)	Q1 FY24	Q1 FY23	Q4 FY23
PBT	31.4	14.9	27.7
Less: dividend subject to special tax rates	0.0	0.0	0.0
Current tax	-0.2	0.0	1.3
Less: tax on dividend at special rates	0.0	0.0	0.0
Deferred tax effect on timing differences	-5.3	-2.7	-3.8
Total tax items	-5.4	-2.7	-2.5
Current tax rate	-0.5%	0.0%	4.7%
Real Effective tax rate	-17.3%	-18.1%	-9.1%



Cash flows, Leverage (Net Debt) and Return Ratios

- **Net Debt / EBITDA** was **1.93** as at the end of Q1 FY24 which was higher than 1.48 as at the end of Q1 FY23 and higher than 1.75 as at the end of Q4 FY23. The increase in Net Debt / EBITDA over the last quarter was driven by an expected increase in DSOs during the quarter in line with prior years' trends.
- **OCF/EBITDA** on a consolidated basis was **-26.1%** for the quarter which is a result of the expected increase in DSOs. DSO for Q1 FY24 increased by 6 days.
- **Return Ratios:**
 - Consolidated Return on Capital Employed (ROCE) is 11.7%.
 - Return on Equity stood at 15.5%.

Q1 FY24 Cash Flow:

Particulars (in ₹cr.)	IND - SEC	INT - SEC	FM	Consolidated
PBT	33.8	34.6	14.9	84.6
Cash Profit	70.9	50.9	23.4	145.4
Changes in working capital	-69.2	-50.0	-14.4	-134.7
Taxes paid	-21.6	-14.8	-10.6	-47.0
Net Operating cash flows	-19.8	-13.9	-1.6	-36.2
Capex	-32.5	-8.0	-4.0	-43.6
Investments made/realised	-3.0	0.0	5.0	5.0
Other items	0.1	-2.5	0.0	-2.5
Net Investing cash flows	-35.3	-10.5	1.0	-41.1
Borrowings, net	23.6	-82.7	-1.4	-60.5
Lease liability	-4.4	-6.2	-1.1	-11.7
Interest paid	-19.5	-5.9	-2.1	-27.2
Other items	3.0	-0.2	0.0	-0.1
Net financing cash flows	2.6	-94.9	-4.6	-99.5
Net change in cash flows	-52.5	-119.4	-5.2	-176.8
EBITDA	66.2	50.3	22.6	139.0
OCF/EBITDA%	-30.0%	-27.7%	-7.0%	-26.1%



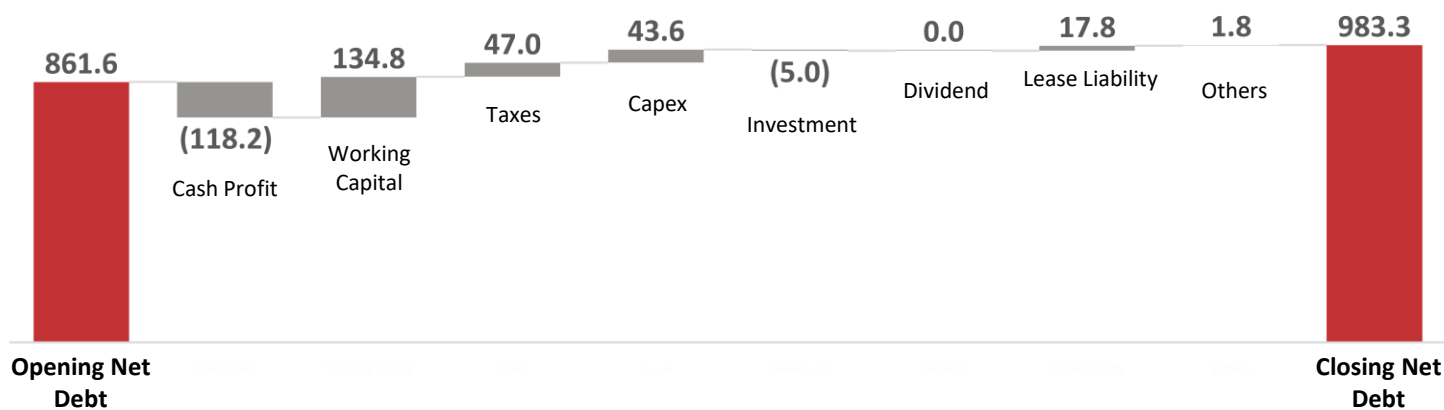
Leverage (Net Debt)

The movement in Net Debt for Q1 FY24 is provided below:

Particulars (in ₹cr.)	June 2023			March 2023		
	India	Intl	Total	India	Intl	Total
Long-term borrowings	257	494	751	223	580	803
Short-term borrowings	754	24	779	695	25	719
Add: Lease liabilities	74	57	131	64	62	125
Gross Debt	1,086	575	1,661	981	667	1,648
Less: Cash and Cash Equivalents	303	374	677	289	497	786
Net Debt	783	201	983	692	170	862

During the quarter, we have paid down A\$15 mn. (₹82.6 cr.) to the debt syndicate led by NAB in Australia and reduced the outstanding amount to A\$88.5 mn (₹487.1 cr.).

Q1 FY24 (March '23 – June '23) Net Debt Bridge (in ₹cr.):





The Security Solutions - India segment comprises of five entities.

We continue our leadership position as the largest security solutions company in India.

- The business currently operates across 176 branches and has 180,948 employees.
- **Strong revenue growth continues:** The segmental revenue for Q1 FY24 was ₹1,229 cr., a 16.2% growth over Q1 FY23, thus continuing the growth momentum. New order wins during the quarter were around ₹19 cr. of monthly revenue. Major wins came from the manufacturing, education, BFSI and the real estate sector.
- **Increasing demand for technological solutions:** Rising labour costs, skilled resource shortages, and the post-COVID era, all are blurring the lines between the physical and virtual worlds, complicating security requirements, and creating demand for more advanced technology-based security solutions.

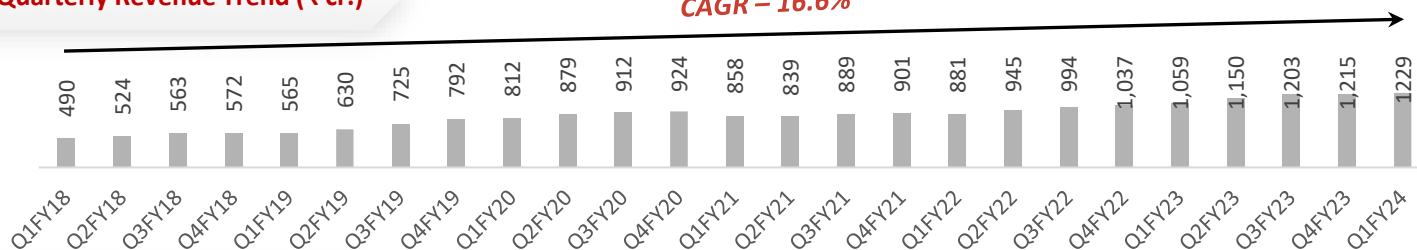
We witnessed good traction in the security solutions businesses with new customer wins in both the ManTech business and the Alarm monitoring and response business (VProtect). VProtect continues to grow, with around 1,500 new installations during the quarter, now servicing over 15,000 cumulative customer connections.

- **Inching up to pre-Covid levels of margin:** EBITDA margin for Q1 FY24 was at 5.4% compared to 4.0% for Q1 FY23. EBITDA margin has increased over the last 5 quarters from its lowest at 3.8% in Q4 FY22 to 5.4% in Q1 FY24, an increase of 160 bps, demonstrating a steady trajectory of margin improvement driven by focused execution of margin accretive initiatives.

Particulars (in ₹cr.)	Q1 FY24	Q1 FY23	Y-o-Y Change %	Q4 FY23	QoQ Change %
Revenue	1,229.1	1,057.6	16.2%	1,214.9	1.2%
EBITDA	66.2	41.9	57.9%	60.5	9.4%
EBITDA%	5.4%	4.0%		5.0%	
Share of group Revenue%	41.3%	39.5%		40.6%	
Share of group EBITDA%	47.6%	34.7%		44.9%	

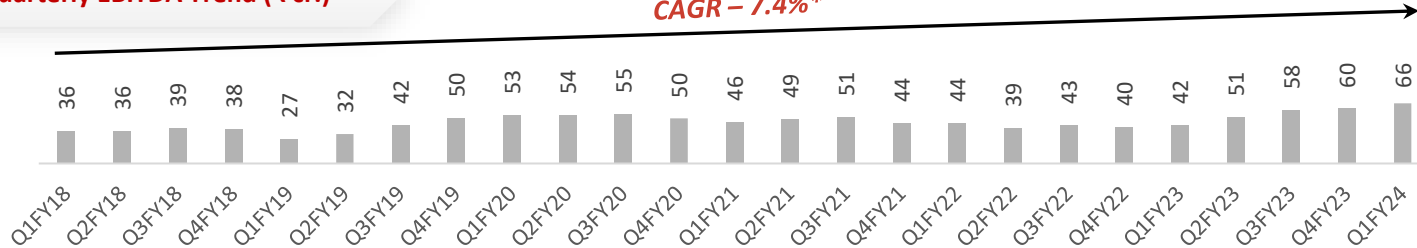
Quarterly Revenue Trend (₹ cr.)

CAGR – 16.6%*



Quarterly EBITDA Trend (₹ cr.)

CAGR – 7.4%*



*FY17-23 CAGR%





The Security Solutions - International segment comprises of four entities.

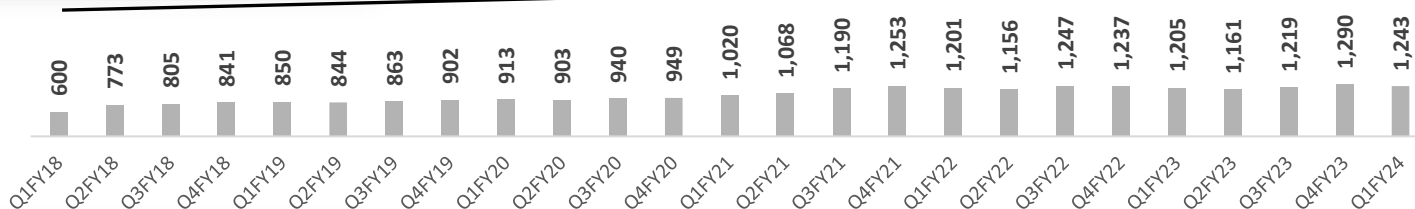
We continue to be the market leader in Australia and a top 3 player in New Zealand.

- The International security business currently has 9,022 employees.
- **Strong revenue growth continues:** The segmental revenue for Q1 FY24 was ₹1,242.7 cr., a 3.1% growth over Q1 FY23 (3.7% on a constant currency basis), thus continuing the growth momentum on the back of new wins and despite the discontinuation of one-time COVID related contracts in Q2 FY23. New order wins during the quarter were around AUD 6 Mn. of monthly revenue. Major wins during the quarter came from the mining, technology, FMCG and retail sectors.
- **Stable margins and potential for upside:** EBITDA margin for Q1 FY24 was 4.0% compared to 4.9% in Q1 FY23. EBITDA margin was higher in Q1 FY23 due to one-time high margin COVID contracts. Margin improvement remains the key focus of management and the team is focused on implementing margin improvement initiatives to enhance profitability through FY24.
- **Repayment of Debt:** Due to increasing interest rates and the strong cash flow generation in FY23, we paid down AUD15 Mn. (₹82.6 cr.), in April, to the debt syndicate led by National Australia Bank (NAB) in Australia and reduced the outstanding debt amount to A\$88.5 Mn (₹487.1 cr.).
- **Another round of record high annual wage revision:** Following the significant wage increase last year, Fair Works Australia (Minimum wage equivalent in Australia) announced a hike of 5.75% in Australia effective 1st July, '23, a record high revision in line with the current inflation. This wage revision is expected to further boost FY24 revenue growth.

Particulars (in ₹cr.)	Q1 FY24	Q1 FY23	Y-o-Y Change %	Q4 FY23	QoQ Change %
Revenue	1,242.7	1,205.1	3.1%	1,290.4	-3.7%
EBITDA	50.3	59.6	-15.6%	52.2	-3.7%
EBITDA%	4.0%	4.9%		4.0%	
Share of group Revenue%	41.7%	45.0%		43.1%	
Share of group EBITDA%	36.2%	49.4%		38.8%	

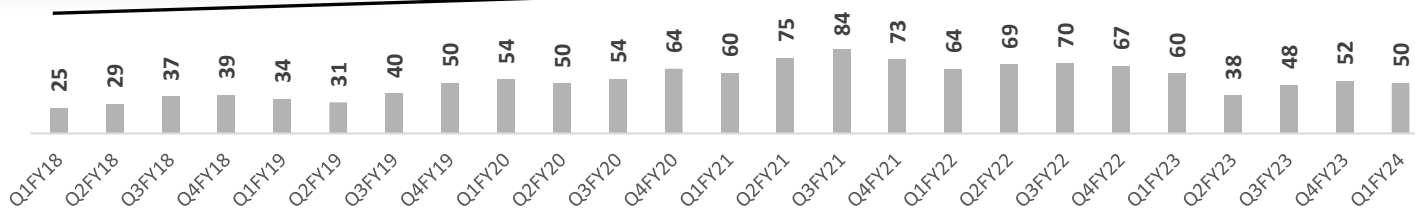
Quarterly Revenue Trend (₹ cr.)

CAGR – 10.1%*



Quarterly EBITDA Trend (₹ cr.)

CAGR – 8.9%*



*FY17-23 CAGR%





The facility management solutions segment comprises of five entities.

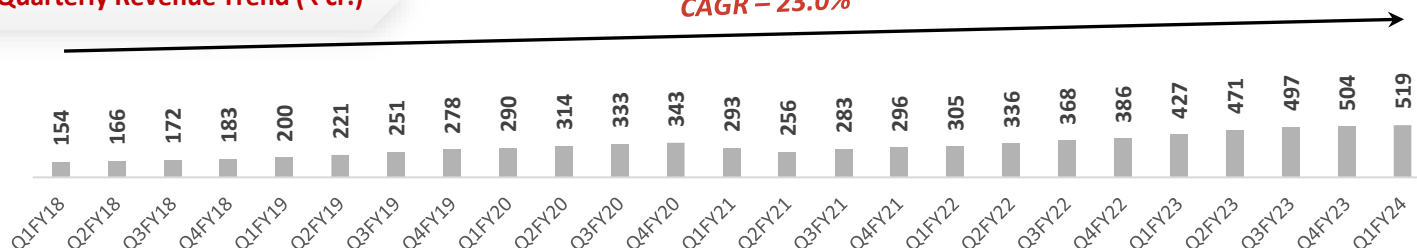
The Group operates the largest FM business in India.

- The FM business currently operates across 102 branches and has 83,513 employees, an increase of 1,205 over the previous quarter
- **Highest quarterly revenue:** The segmental revenue for the quarter was at ₹519.0 cr., a 21.3% growth over Q1 FY23, thus continuing the growth momentum. The quarterly revenue has more than doubled since its lowest point of ₹255.7 cr. during COVID in Q2 FY21, showcasing the phenomenal growth achieved by the business. Our new order wins during the quarter were around ₹14 cr. of monthly revenue. Major wins during the quarter came from the real estate, oil & gas, manufacturing and hospitality sectors.
- **Leading innovation:** As the #1 player in the Facility Management segment in India, we lead innovation in the industry by constantly testing and launching new products and service lines using the latest technologies to provide enhanced solutions to our customers. Our Pest control business Terminix SIS started providing many new solutions on a pilot basis like Industrial High Reach Cleaning, Entomological Audits, Mosquito misting systems, and T-Rat rodent control system. These solutions have been well received by clients. In some of our businesses, we launched web-based portals for customers to view reports, test automation using IoT based solutions and advanced mechanized cleaning solutions.
- **Rebranding of SMC:** The Service Master Clean Company expressed its intention to terminate the brand license agreement as a result of the change in ownership and a global re-structuring of the business. Consequently “Service Master Clean Limited” has been rebranded to “SMC Integrated Facility Management Solutions Limited”. The renewed branding reflects the evolution of the company from contracting to servicing, and now to a full-fledged technology based IFM solutions provider. Strong leadership in key sectors coupled with a sharp focus on ESG compliance, to ensure sustainable FM, are likely to lead the company’s next growth phase.

Particulars (in ₹cr.)	Q1 FY24	Q1 FY23	Y-o-Y Change %	Q4 FY23	QoQ Change %
Revenue	519.0	427.7	21.3%	503.7	3.0%
EBITDA	22.6	19.2	17.6%	22.1	2.3%
EBITDA%	4.4%	4.5%		4.4%	
Share of group Revenue%	17.4%	16.0%		16.8%	
Share of group EBITDA%	16.2%	15.9%		16.4%	

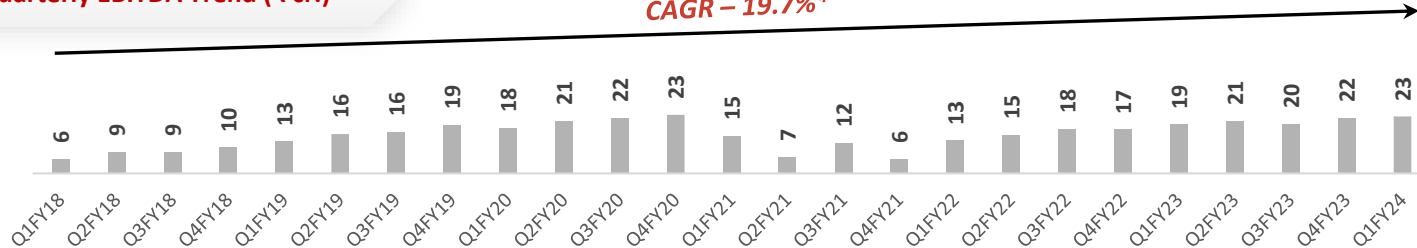
Quarterly Revenue Trend (₹ cr.)

CAGR – 23.0%*



Quarterly EBITDA Trend (₹ cr.)

CAGR – 19.7%*



*FY17-23 CAGR%





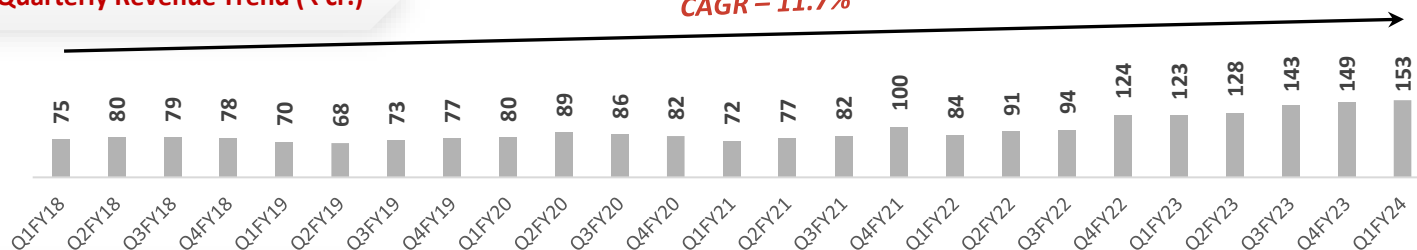
The Cash Logistics Solutions segment comprises of two entities

- We operate over 3,000 cash vans and 60 vaults covering over 300 cities across India.
- **Strong growth momentum continues - Highest quarterly revenue:** The segmental revenue for the quarter was at ₹152.9 cr., a 24.3% growth over Q1 FY23, thus continuing the growth momentum. Revenue growth was driven by the Doorstep Banking (DSB) and Cash in Transit (CIT) segments and the ongoing implementation of RBI/MHA norms.
- **Strong growth momentum in margins:** Segmental EBITDA for the quarter was at ₹24.0 cr. and an EBITDA margin of 15.7%, a growth of 130 bps over Q1 FY23. PAT for the quarter was at ₹10.6 cr., a growth of 1,513.3% over Q1 FY23.
- **Bank Outsourcing and Support Solutions provider:** The business has transformed itself over the years to position itself as a Bank Outsourcing and Support Solutions provider and not merely a provider of cash logistics solutions. The business has increased and widened the depth of its engagement with customers, offering more and new innovative technology solutions. The business started a QR-code based DSB pickup, along with Green DSB highlighting our investments in key growth verticals.

Particulars (in ₹cr.)	Q1 FY24	Q1 FY23	Y-o-Y Change %	Q4 FY23	QoQ Change %
Revenue	152.9	123.6	24.3%	149.1	2.5%
EBITDA	24.0	17.7	35.6%	24.3	-1.3%
EBITDA%	15.7%	14.4%		16.3%	
PAT	10.6	0.7	1513.3%	12.8	-17.5%
PAT%	6.9%	0.5%		8.6%	

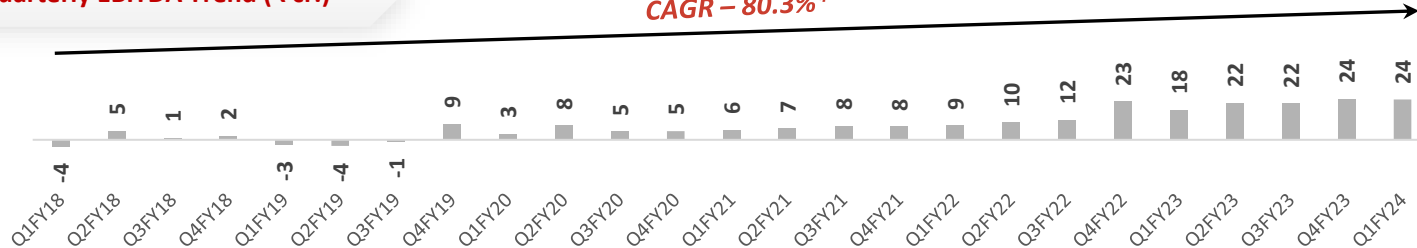
Quarterly Revenue Trend (₹ cr.)

CAGR – 11.7%*



Quarterly EBITDA Trend (₹ cr.)

CAGR – 80.3%*



*FY17-23 CAGR%

