

Q2 FY24 EARNINGS UPDATE



30 October 2023

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Q2 FY24

<p>Revenue</p> <p>₹ 3,073.6 cr.</p> <p>↑</p> <p>11.1% Y-o-Y</p>	<p>EBITDA</p> <p>₹ 144.5 cr.</p> <p>↑</p> <p>31.6% Y-o-Y</p>	<p>PAT</p> <p>₹ 75.3 cr.</p> <p>↑</p> <p>11.6% Y-o-Y</p>	<p>RoE</p> <p>15.5%</p>
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Rituraj Sinha
Group Managing Director

“SIS, an essential services leader, continues its growth momentum crossing the ₹1,000 cr. monthly revenue milestone. Significantly higher margins of the Security Solutions – India segment aided the improving results. Cash Logistics business continues its high-performance trend with a focus on newer solutions with a higher margin profile. With the Cash Logistics business on a high-performance trajectory, we are now evaluating shareholder value unlocking options.”

Q2FY24: Monthly revenue crosses the ₹1,000 cr. milestone.

SIS is forging ahead on its growth trajectory in FY24 and ended Q2-FY24 with consolidated revenue growth of 11.1% y-o-y and consolidated EBITDA growth of 31.6% y-o-y. Q2-FY24 EBITDA Margin is 4.7%, an uptick of ~70 bps y-o-y.

As we have maintained, SIS is an essential services market leader and the demand for our services has been resilient. The COVID era demonstrated that essential services were the least impacted as compared to other businesses and were the first to recover. This resilience has enabled the SIS Group to move up from the ~₹740 cr. monthly revenue run rate pre-COVID to crossing the ₹1,000 cr. monthly revenue milestone for the first time ever in Q2-FY24, thus, reaching an annualized revenue run rate of ₹12,000 cr.

Security Solutions - India: A robust and formidable market leader with a relentless focus on profitability.

Security Solutions - India segment continued to demonstrate strong growth with Q2-FY24 revenue of ₹1,302.0 cr., an increase of 13.2% y-o-y. We reported the highest ever quarterly EBITDA at ₹73.7 cr., a robust growth of 44.2% y-o-y, and the EBITDA Margin improved from 4.4% in Q2 FY23 to 5.7% in Q2-FY24. The improvement in the EBITDA Margin can be attributed to our diligence in securing contracts with minimum margin thresholds, filtering out low margin contracts, increase in technology solutions and a laser sharp focus on SG&A costs.

Security Solutions - International: Strong performance continues.

The Security Solutions - International segment closed Q2 FY24 with revenue of ₹1,259.1 cr., a growth of 8.4% y-o-y on the back of new order wins. EBITDA Margin in Q2-FY24 was at 4.0%, up from 3.3% in Q2-FY23, benefitting from the implementation of margin improvement initiatives and SG&A rationalization. During the quarter, the Australian business witnessed another round of record high annual wage revision and labour shortages persist.

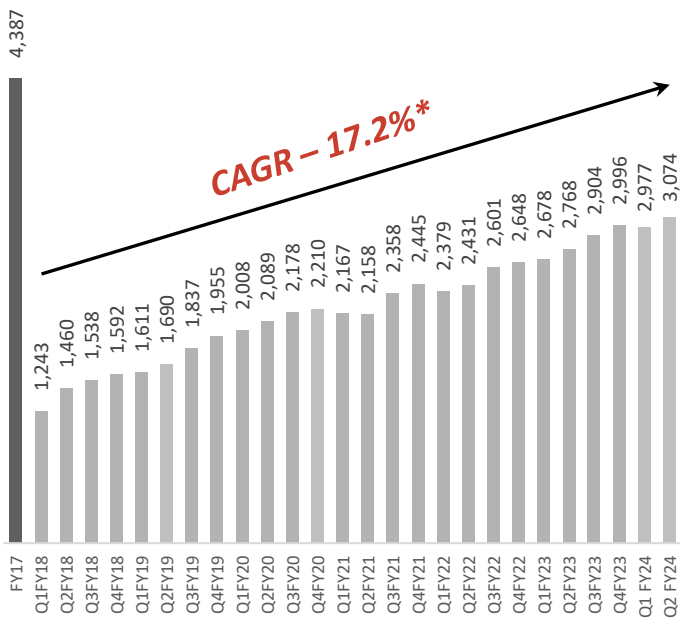
Cash Logistics Solutions: Considering ways to unlocking shareholder value.

The Cash Logistics Solutions segment continued its growth trajectory reporting the highest ever quarterly revenue of ₹156.3 cr. for Q2-FY24, a strong growth of 22.0% YoY, coupled with robust EBITDA Margin of 16.1%. PAT is at ₹13.2 cr., an increase of 213% YoY with 8.5% PAT Margin. In another positive development, the segment clocked its lowest ever DSO of 78 Days at the end of Q2-FY24, down from 85 days as at the end of Q2-FY23. The segment continues to focus on the newer services with growth of 67% y-o-y. Improving profitability combined with improvement in cash collection cycle has led to this improvement in financial performance. With the ongoing improvement in this business segment, we are now looking to unlock value for the shareholders of the JV.

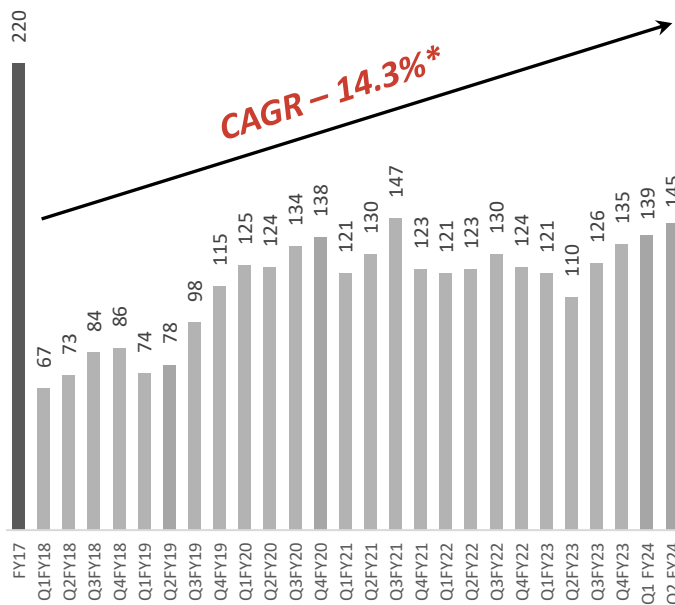


Quarterly Trend (₹ cr.)

Revenue

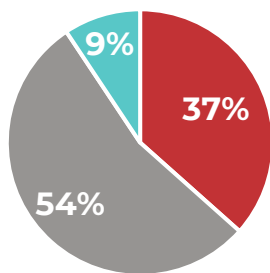


EBITDA

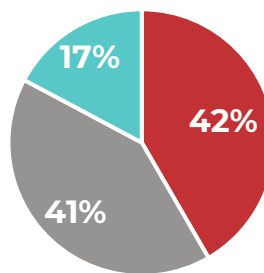


*FY17-23 CAGR%

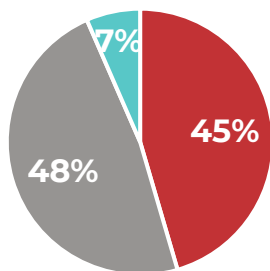
FY17 Revenue Contribution



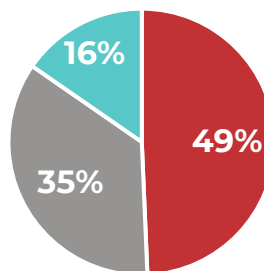
H1 FY24 Revenue Contribution



FY17 EBITDA Contribution



H1 FY24 EBITDA Contribution



■ Security Solutions - India

■ Security Solutions - International

■ Facility Management Solutions



Particulars (In ₹cr.)	Q2 FY24	Q2 FY23	Y-o-Y Change %	H1 FY24	H1 FY23	Y-o-Y Change %
Revenue	3,073.6	2,767.7	11.1%	6,050.4	5,445.8	11.1%
EBITDA	144.5	109.8	31.6%	283.5	230.5	23.0%
EBITDA Margin%	4.7%	4.0%		4.7%	4.2%	
Depreciation	39.5	32.2	22.9%	74.4	59.8	24.4%
Finance Costs	34.7	27.5	26.0%	67.4	52.2	29.2%
Other income ¹	19.1	10.3	85.8%	33.1	17.4	90.2%
Earnings Before Taxes (Incl. Grants)	89.3	60.3	48.0%	174.7	135.8	28.6%
Less: Acquisition-related costs / (income)						
– Depreciation & Amortization	0.9	0.9		1.7	1.9	
Earnings Before Taxes (Reported)	88.4	59.4	48.9%	173.0	134.0	29.1%
EBT Margin%	2.9%	2.1%		2.9%	2.5%	
Tax Expenses	13.2	-8.0		8.2	-16.0	
Profit After Taxes (Reported)	75.3	67.4	11.6%	164.8	150.0	9.9%
Reported PAT Margin%	2.4%	2.4%		2.7%	2.8%	
EPS	5.2	4.6	12.9%	11.3	10.2	10.9%
OCF	3.4	-30.6		-32.9	-25.5	
OCF to EBITDA%	2.3%	-27.8%		-11.6%	-11.1%	
Net Debt	1,050.7	841.5		1,050.7	841.5	
Net Debt to EBITDA	1.9	1.7		1.9	1.7	

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

Revenue, EBITDA, and PAT Growth Development by Business Segment

Business Segments	Revenue Growth		EBITDA Growth		PAT Growth	
	Q2 FY24 v/s Q2 FY23	Q2 FY24 v/s Q1 FY24	Q2 FY24 v/s Q2 FY23	Q2 FY24 v/s Q1 FY24	Q2 FY24 v/s Q2 FY23	Q2 FY24 v/s Q1 FY24
Total Growth - %						
Security Solutions – India	13.2%	5.9%	44.2%	11.4%	62.2%	-15.5%
Security Solutions – International (on a constant currency basis)	9.2%	2.8%	32.2%	0.4%	4.2%	-11.9%
Facility Management Solutions	12.0%	1.7%	0.6%	-7.1%	-43.3%	-25.6%
Total of SIS Group	11.1%	3.3%	31.6%	3.9%	11.6%	-15.9%



Revenue Development

All businesses continued to report strong revenue growth and SIS Group has crossed the monthly revenue run-rate milestone of INR 1,000 cr. during the quarter on the back of new wins across all the businesses.

Consolidated revenue for Q2 FY24 was INR 3,073.6 cr.; grew by 11.1% over Q2 FY23.

Consolidated revenue for Q2 FY24 grew by 3.3% on a q-o-q basis.

Security Solutions – India reported a 13.2% growth y-o-y on the back of new wins during the quarter with major contributions from the Manufacturing, BFSI, Energy, Logistics, and Real Estate sectors.

Facility Management Solutions segment continued its growth momentum during the quarter with a revenue increase of 12.0% y-o-y. This growth was primarily driven by new wins in the Real Estate, Education, Government, Manufacturing, and Health sectors.

Security Solutions – International reported an 8.4% growth y-o-y in revenues. On a constant currency basis, the International Security segment reported revenue growth of 9.2% on a y-o-y basis. This growth was primarily driven by new wins in the Mining, Technology, Retail, and Hospitality sectors.

Earnings Before Interest Tax Depreciation & Amortization (EBITDA)

Consolidated EBITDA for Q2 FY24 at INR 144.5 cr. was a 31.6% increase compared to Q2 FY23.

While there was a continued improvement in the margins of Security Solutions – India from 4.4% in Q2 FY23 to 5.7% in Q2 FY24, the EBITDA margin in Security Solutions - International increased to 4.0% in Q2 FY24 compared to 3.3% in Q2 FY23 driven by the margin improvement initiatives implemented which include SG&A rationalization and contract-level reviews. EBITDA margin of Facility Management Solutions declined to 4.0% in Q2 FY24 compared to Q2 FY23 as the planned shedding of low profit contracts has commenced which has led to an overall decline in the EBITDA margin.

Business segment wise reported EBITDA movement for Q2 FY24 is as follows:

Particulars (in %)	Q2 FY24	Q2 FY23	YoY Change	Q1 FY24	QoQ Change
Security Solutions – India	5.7%	4.4%	130 bps	5.4%	30 bps
Security Solutions – International	4.0%	3.3%	70 bps	4.0%	0 bps
Facility Management Solutions	4.0%	4.4%	-40 bps	4.4%	-40 bps

Earnings Before Taxes (EBT Reported)

The reported Earnings Before Taxes for the Group were at INR 88.4 cr. for Q2 FY24, compared to INR 59.4 cr. for Q2 FY23, an increase of 48.9%.

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

- The effects of unrealized currency translation amounting to INR 2.2 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 INR 40.4 cr. for Q2 FY24 which was higher than INR 33.1 cr. for the same quarter last year as a result of capital expenditure on installations in our VProtect business which were financed by bank borrowings and amortization of capitalized cost in respect of new business application platforms.



Finance costs for the Group amounted to INR 34.7 cr. which was higher compared to the same quarter last year of INR 27.5 cr. driven by increase in the interest rate, caused by rising interest rates during the year and capital expenditure on installations in our VProtect business which were financed by bank borrowings.

On a y-o-y basis our effective interest cost increased by 1.1% which is in line with the bank rate increase of 1.1%.

Taxes & Profit after Tax (PAT)

The reported Profit after Tax for the Group were at INR 75.3 cr. for Q2 FY24, compared to INR 67.4 cr. for Q2 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 of these benefits) grew by 58.6% on y-o-y basis.

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 an increase in the number of employees during the year and eligible employees completing a period of employment of at least 240 days in the year 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 account for the tax benefits under Section 80JJAA of the Income Tax Act for the quarter and year in line with past practice.

We continue to receive, and account for, the tax benefits under section 80JJAA which have accrued to the Group during FY22 and FY23. In FY24, the Group is also eligible to claim benefits in respect of 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.)	Q2 FY24	Q2 FY23	Q1 FY24
PBT	33.0	17.1	31.4
Less: dividend subject to special tax rates	0.0	0.0	0.0
Current tax	-0.2	0.3	-0.2
Less: tax on dividend at special rates	0.0	0.0	0.0
Deferred tax effect on timing differences	-5.6	-0.6	-5.3
Total tax items	-5.7	-0.2	-5.4
Current tax rate	-0.5%	1.9%	-0.5%
Real Effective tax rate	-17.4%	-1.3%	-17.3%



Cash flows, Leverage (Net Debt) and Return Ratios

- **Net Debt / EBITDA** was 1.93 as of end of Q2 FY24, which was flat compared to as at end of Q1 FY24. The Net Debt / EBITDA remained flat aided by some improvement in working capital management.
- **OCF/EBITDA** on a consolidated basis was 2.3% for the quarter. OCF was negative in the Security Solutions – International segment due to deferred invoicing to clients who have been approached for a supplementary/additional price increase.
- **Return Ratios:**
 - Consolidated Return on Capital Employed (ROCE) is 12.1%.
 - Return on Equity stood at 15.5%.

Q2 FY24 Cash Flow:

Particulars (in ₹cr.)	IND - SEC	INT - SEC	FM	Consolidated
PBT	36.0	34.9	13.1	88.4
Cash Profit	78.7	50.5	22.6	151.8
Changes in working capital	-67.6	-58.3	-11.8	-137.7
Taxes paid	-9.0	-15.0	13.4	-10.7
Net Operating cash flows	2.1	-22.9	24.2	3.4
Capex	-25.4	-9.9	-7.4	-42.7
Investments made/realised	0.0	0.0	0.0	0.0
Other items	0.2	0.2	0.0	0.2
Net Investing cash flows	-25.3	-9.7	-7.4	-42.5
Borrowings, net	6.2	-2.8	-1.5	1.9
Lease liability	-5.5	-6.1	-1.0	-12.6
Interest paid	-18.1	-2.7	-1.7	-22.5
Other items	0.0	-0.1	0.0	0.0
Net financing cash flows	-17.4	-11.8	-4.2	-33.1
Net change in cash flows	-40.6	-44.4	12.6	-72.3
EBITDA	73.7	49.8	21.0	144.5
OCF/EBITDA%	2.8%	-45.9%	115.3%	2.3%

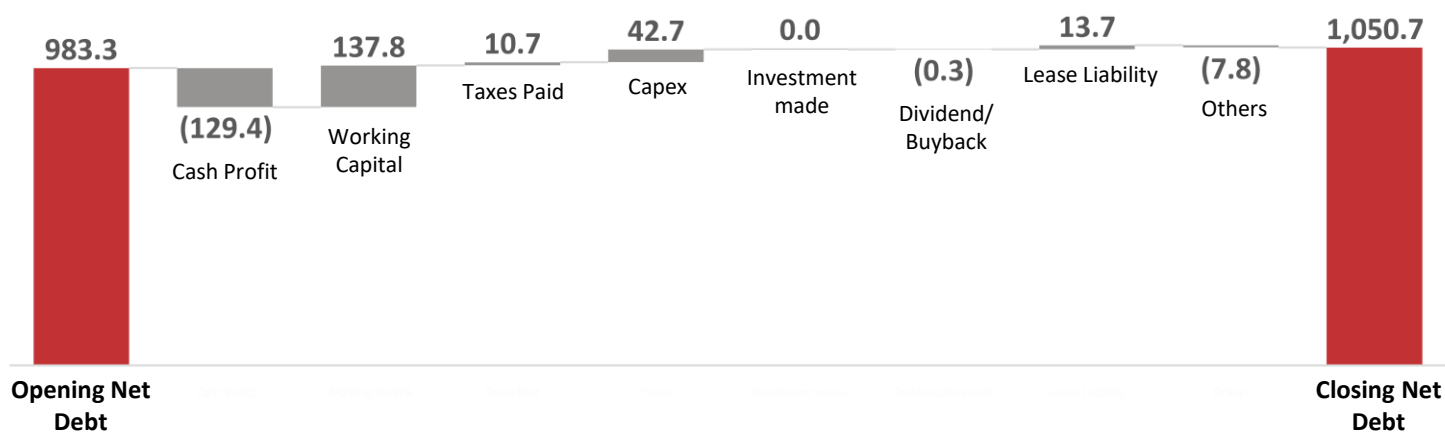


Leverage (Net Debt)

The movement in Net Debt for Q2 FY24 is provided in the table and chart below:

Particulars (in ₹cr.)	September 2023			June 2023		
	India	Intl	Total	India	Intl	Total
Long-term borrowings	231	480	711	257	494	751
Short-term borrowings	855	23	878	754	24	779
Add: Lease liabilities	81	52	132	74	57	131
Gross Debt	1,166	555	1,721	1,086	575	1,661
Less: Cash and Cash Equivalents	345	326	671	303	374	677
Net Debt	822	229	1,051	783	201	983

Q2 FY24 (June '23 – September '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 184 branches and has 1,82,879 employees.
- **Highest ever quarterly revenues:** The segment has reported the highest ever quarterly revenues of INR 1,302 Cr. for Q2 FY24 which was a 13.2% growth over Q2 FY23, thus continuing the growth momentum. Major wins during the quarter came from the Manufacturing, BFSI, Energy, Logistics, and Real Estate sectors.
- **Increasing demand for technological solutions:** In the evolving security landscape, the demand for more advanced technology-based security solutions continues to rise with the advancement of technology and complex customer requirements.

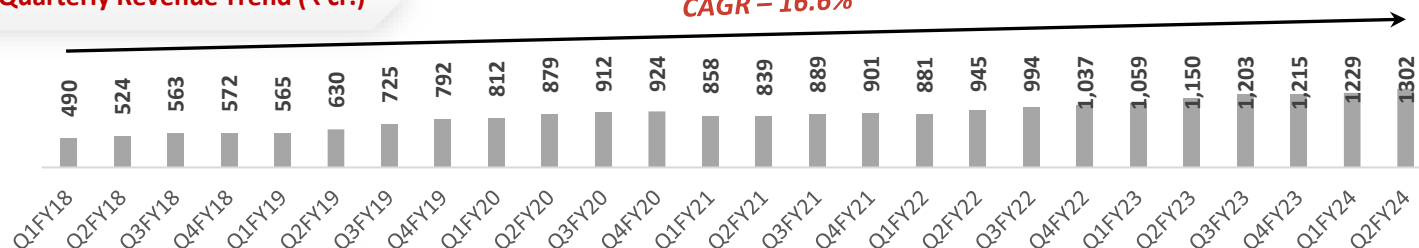
We continue winning new business in our technology-based security solutions businesses both the ManTech business and the Alarm monitoring and response business (VProtect). Our VProtect business continues to grow, with more than 3,200 new installations during the quarter, which now services more than 18,700 customer connections.

- **Highest ever quarterly EBITDA:** The segment has reported the highest ever quarterly EBITDA margin of INR 73.7 Cr. in Q2 FY24 a 44.2% increase over Q2 FY23 and a 5.7% EBITDA margin compared to 4.4% in Q2 FY23. EBITDA margins have been continuously increasing for the past several quarters delivering an improvement of 130 bps over Q2 FY23. This improvement was driven by focused execution of margin management initiatives and a control on SG&A costs as a result of a focus on the margins by the management.
- **Technology ready for 3x the scale:** We commenced the roll-out of our new platform “SiSCORE” in our flagship company, SIS, during the quarter. This platform will be the core operations system built to manage invoicing, payroll and customer contracts and is fully integrated with the financial accounting and reporting platform, Oracle Fusion and other applications like MySiS, iOPS and SalesmaXX, . This rollout now completes the building blocks to enable a rapid scale up of the IT backbone and delivers the capability to handle 3x the current scale of operations and help management with quicker and better access to data for better decision-making.

Particulars (in ₹ cr.)	Q2 FY24	Q2 FY23	Y-o-Y Change %	Q1 FY24	QoQ Change %
Revenue	1,302.0	1,150.4	13.2%	1,229.1	5.9%
EBITDA	73.7	51.1	44.2%	66.2	11.4%
EBITDA%	5.7%	4.4%		5.4%	
Share of group Revenue%	42.4%	41.6%		41.3%	
Share of group EBITDA%	51.0%	46.5%		47.6%	

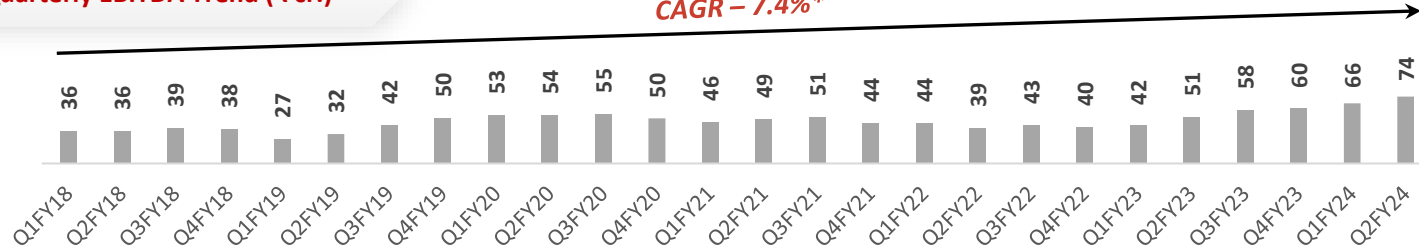
Quarterly Revenue Trend (₹ cr.)

CAGR – 16.6%*



Quarterly EBITDA Trend (₹ cr.)

CAGR – 7.4%*



*FY17-23 CAGR%





The Security Solutions - International segment comprises of four entities.

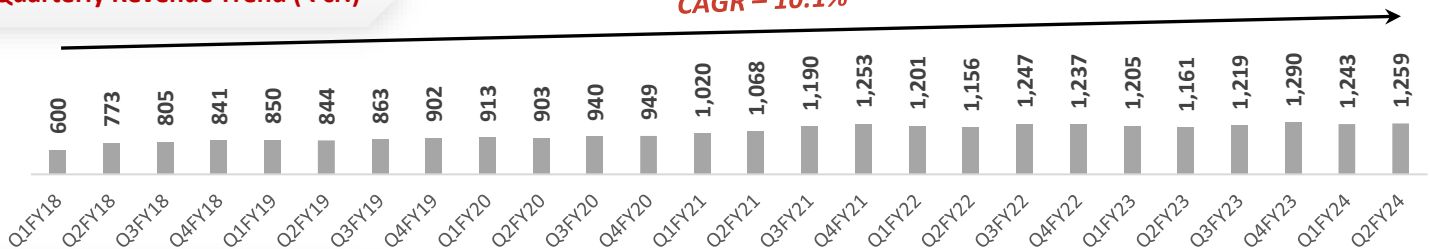
We continue to be the market leader in Australia and a top 3 player in New Zealand.

- The International security business currently has 9,346 employees.
- **Strong revenue growth continues:** Segmental revenue for Q2 FY24 was INR 1,259 Cr. which was an 8.4% growth over Q2 FY23 (9.2% on a constant currency basis), thus continuing the growth momentum on the back of new wins mainly in the Mining, Technology, Retail, and Hospitality sectors. This growth is driven by all entities across geographies and a high growth in New Zealand driven by the FIFA Women’s World Cup event held during the quarter.
- **Strong growth in margins:** The EBITDA margin for Q2 FY24 was 4.0% compared to 3.3% in Q2 FY23. EBITDA margins improved by around 70 bps compared to the same quarter the previous year primarily driven by the margin improvement initiatives implemented which include SG&A rationalization and contract-level reviews. Fair Work Australia (Minimum wage equivalent in Australia) announced another record wage hike of 5.75% in Australia effective 1st July. While we are required to implement these increases effective 1st July, some of our client contracts stipulate commensurate price increases on the anniversary of such contracts. Generally, all price increases get implemented by Q3 with the full quarter effect being visible in Q4. Margin improvement continues to be the key focus of management.

Particulars (in ₹cr.)	Q2 FY24	Q2 FY23	Y-o-Y Change %	Q1 FY24	QoQ Change %
Revenue	1,259.1	1,161.3	8.4%	1,242.7	1.3%
EBITDA	49.8	37.9	31.5%	50.3	-1.0%
EBITDA%	4.0%	3.3%		4.0%	
Share of group Revenue%	41.0%	42.0%		41.7%	
Share of group EBITDA%	34.5%	34.5%		36.2%	

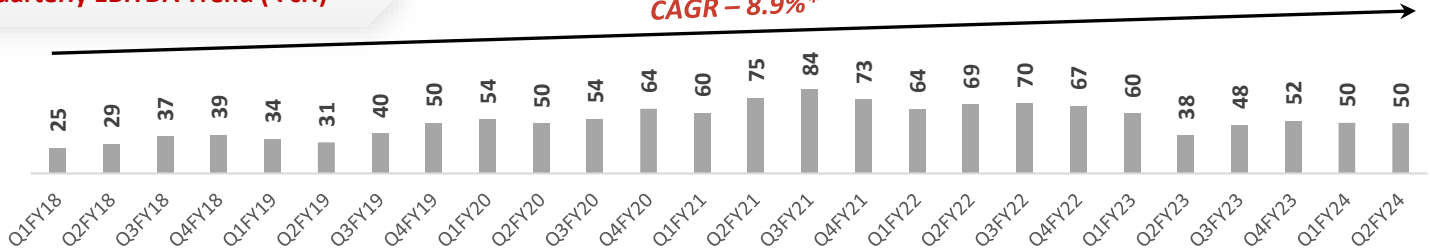
Quarterly Revenue Trend (₹ cr.)

CAGR – 10.1%*



Quarterly EBITDA Trend (₹ cr.)

CAGR – 8.9%*



*FY17-23 CAGR%





The facility management solutions segment comprises of five entities.

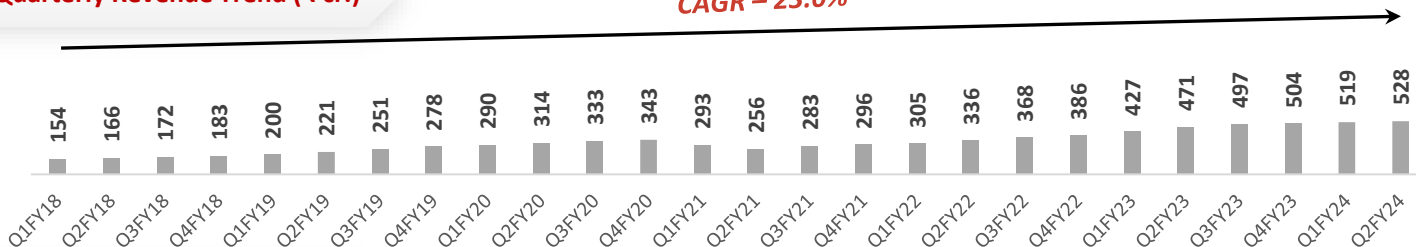
The Group operates the largest FM business in India.

- The FM business currently operates across 109 branches and has 82,539 employees.
- **Highest ever quarterly revenue:** The segment reported the highest ever quarterly revenue of INR 528 Cr. which was a 12.0% growth over Q2 FY23, thus demonstrating the strong growth potential of the business and continues to be the # 1 FM player in India. Major wins during the quarter came from the Healthcare, Manufacturing, Education, IT/ITes, and Pharma sectors.
- **Increasing demand for Technological solutions:** Technology is constantly advancing and there's been an increasing consciousness among customers on ESG today. As a leader of the segment, we are continuously working to deliver better value to our customers and there's been an increasing focus on eco-friendly operations, adoption of renewable energy, and reduction of carbon footprint in facilities in our solutions. We are also leveraging technologies like IoT, AI, data analytics for smart building management, predictive maintenance, energy optimization, and optimizing manpower through time and motion study. Additionally, a small proportion of client contracts are moving from services to SLA-based solution contracts.
- **Margin improvement initiatives:** The EBITDA margin for Q2 FY24 was 4.0% compared to 4.4% in Q2 FY23. EBITDA margins were impacted as the planned shedding of low profit contracts has commenced which has led to an overall decline in the EBITDA margin. This exercise is part of the overall margin improvement project which is the key focus of management, and a series of measures are being rolled out with a view to delivering a significant improvement in the margin profile.

Particulars (in ₹cr.)	Q2 FY24	Q2 FY23	Y-o-Y Change %	Q1 FY24	QoQ Change %
Revenue	527.9	471.1	12.0%	519.0	1.7%
EBITDA	21.0	20.8	0.6%	22.6	-7.1%
EBITDA%	4.0%	4.4%		4.4%	
Share of group Revenue%	17.2%	17.0%		17.4%	
Share of group EBITDA%	14.5%	19.0%		16.2%	

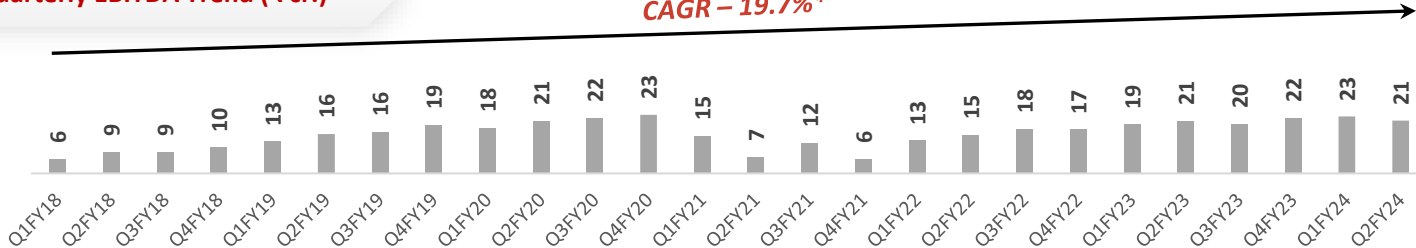
Quarterly Revenue Trend (₹ cr.)

CAGR – 23.0%*



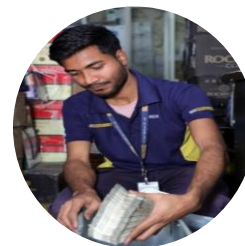
Quarterly EBITDA Trend (₹ cr.)

CAGR – 19.7%*



*FY17-23 CAGR%





The Cash Logistics Solutions segment comprises of two entities

The Cash Logistics Solutions business is a JV with Prosegur of Spain, a world leader in cash solutions. We have a 49% holding in the JV which is the second largest cash logistics business in India.

- We operate over 3,000 cash vans and 60 vaults covering over 300 cities across India.
- **Bank Outsourcing and Support Solutions (BOSS) provider:** Our Cash Logistics Solutions business has now evolved into a Bank Outsourcing and Support Solutions (BOSS) provider and not a mere cash logistics provider. Today more than 70% of our contracts are directly with the Banks.

We are the leaders in Innovative solutions in the industry and only around 20% of our business is from traditional ATM business. Our New innovative solutions include bullion management, Man behind the counter, value cargo, Cash today and Cash Process Outsourcing (CPO), etc., and have demonstrated a promising revenue growth of 67% in Q2 FY24 over Q2 FY23.

- **Highest ever quarterly Revenues - Strong growth momentum continues:** The segment reported the highest ever quarterly revenue of INR 156.3 Cr. which was a 22.0% growth y-o-y, thus continuing the growth momentum. The revenue growth during the quarter was primarily driven by growth in the Cash in transit (CIT) business line.

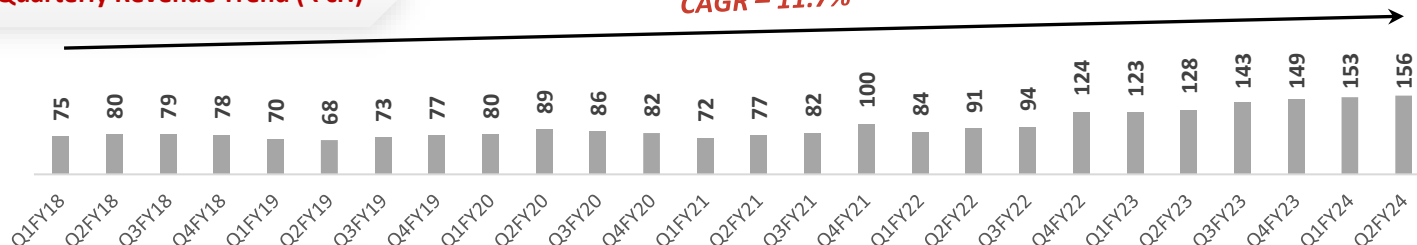
We are continuing to make steady progress in converting the ATM routes to compliance with the RBI/MHA guidelines with almost 90% of the ATMs we service having been converted. In addition, 17% of the ATMs serviced by us have been converted to the cassette swap mechanism which enhances security of the cash.

- **Highest ever quarterly EBITDA:** The segment reported the highest ever quarterly EBITDA of INR 25.2 Cr. a 14.4% increase over Q2 FY23 and an EBITDA margin of 16.1% which was a decline of 108 bps over Q2 FY23. The Q2 FY23 EBITDA margin was higher due to a one-off rationalization of provisions exercise done last year. The business recorded a PAT of INR 13.2 Cr., a 213.0% growth over the same quarter previous year.

Particulars (in ₹ cr.)	Q2 FY24	Q2 FY23	Y-o-Y Change %	Q1 FY24	QoQ Change %
Revenue	156.3	128.1	22.0%	152.9	2.3%
EBITDA	25.2	22.0	14.4%	24.0	5.2%
EBITDA%	16.1%	17.2%		15.7%	
PAT	13.2	4.2	213.0%	10.6	25.3%
PAT%	8.5%	3.3%		6.9%	

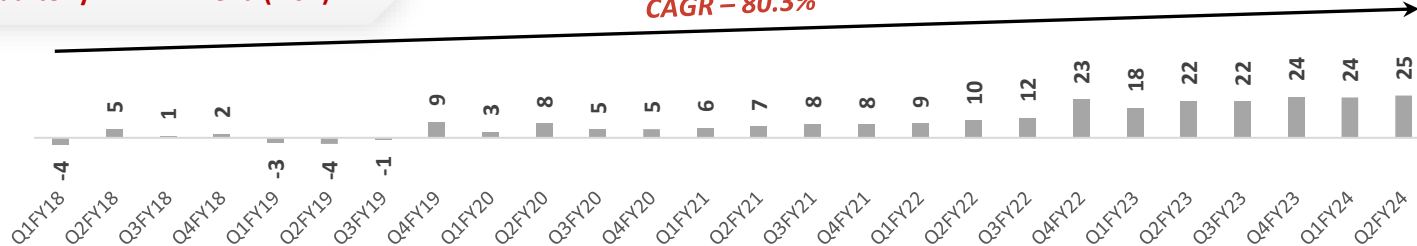
Quarterly Revenue Trend (₹ cr.)

CAGR – 11.7%*



Quarterly EBITDA Trend (₹ cr.)

CAGR – 80.3%*



*FY17-23 CAGR%

