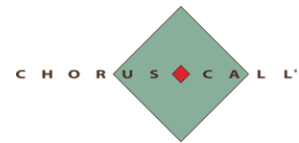




“SIS Limited  
Q2 FY 25 Earnings Conference Call”  
October 29, 2024



**MANAGEMENT: MR. RITURAJ SINHA – GROUP MANAGING DIRECTOR –  
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INDIA – SIS LIMITED  
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**Moderator:** Ladies and gentlemen, good day, and welcome to SIS Limited Q2 FY '25 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 touch-tone phone. Please note that this conference is being recorded.

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

**Vineet Toshniwal** Thank you very much. Good afternoon, everyone, and I welcome you to the Q2 FY '25 earnings call. Yesterday was our results announcement. I hope you've all taken a look at our results and the earnings note which was released to the stock exchanges thereafter. So let me just summarize a few salient points from this quarter's results.

First, let me talk about growth. We are very happy to report that we have witnessed growth across all 3 segments of our business. On a consolidated basis, revenue for SIS Group increased by 6.4% on a year-on-year basis to INR3,269 crores. India Security reported again a 6.3% year-on-year growth to INR1,384 crores for this particular quarter. FM reported 4.8% year-on-year growth, which resulted in the highest-ever quarterly revenue of INR553 crores for the FM segment. International security reported even higher growth, 7.0% on a year-on-year basis, resulting in highest-ever quarterly run rate of INR1,347 crores for Q2.

Now coming to the margins. It's been our constant endeavour to improve the margin profile across all business segments. Our focus on margin improvement initiatives is resulting in gradual improvement. We have focused on margins, both in terms of cleaning up customer contracts as well as focusing on rationalizing the SG&A costs. So on a consol basis, the EBITDA was stable with a very marginal increase of 0.2% to INR145 crores. India Security reported an EBITDA of 5.5%. Facility Management reported an EBITDA of 4.3%, which is 30 basis points higher Y-o-Y.

Additionally, the segment reported its highest ever quarterly EBITDA of INR23.8 crores, which is a 13.6% year-on-year growth. For the International Security business, the EBITDA for Q2 FY '25 was 3.3% compared to 3.4% in Q1 FY '25. EBITDA for Q2 FY '25 was INR44.4 crores a 2.6% Q-o-Q growth. EBITDA was marginally impacted because of 3.75% minimum grade revision by Fair Works, Australia, which has gone effective 1<sup>st</sup> of July. So generally, all price increases are implemented by Q3 with the full quarter effect which will be visible Q4 onwards.

Now coming to the operational efficiency of the business, which is the net debt and the DSO. Overall, we're very happy to report that net debt is down by INR166 crores. Now net debt is INR857 crores, which was at INR1,223 crores at end of the last quarter. This brings the net debt-to-EBITDA ratio down to 1.47, which was 1.76 in the last quarter.

OCF to EBITDA has also increased consequently, which is 167%. We've been focused on better collections, which has resulted in DSOs improving by 4 days. As at the end of Q1-FY25, it was 74 days, now it is down to 70 days, which results in better working capital management.

Now let me come to the Cash Logistics bank outsourcing business. We're very happy to report that the business achieved its highest-ever quarterly revenue of INR 177 crores, which translates to a growth of 13% Y-o-Y. The cash business expanded its EBITDA by 20.6%, recording 17.2% EBITDA margins. PAT was INR 12 crores. It's down Y-o-Y due to a loss of benefit associated with carry-forward losses available in Q2-FY24. Q2-FY25 PAT was also impacted by lower 80JAA benefit. So overall, cash business momentum is on track with our non-ATM business, which now contributes 83% of our top line, which was 80% last year, thereby further reducing our dependence on the ATM business. As you know, we have no Managed Services business. Our efforts to unlock shareholders' value in this business are underway.

With this, I would like to take this opportunity to wish you all a very healthy and happy prosperous Dhanteras and Diwali in advance, I wish you all of you the best of health. On this call today, we have Rituraj Sinha as the Group Managing Director; Mr. Brajesh Kumar, who's the Chief Financial Officer of SIS India; Mr. R. S. Murli Krishna, who's the President of SIS International.

Let me turn over this call for further Q&A from all of you. Thank you very much.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Gopinath Reddy from PNR Investments. Please go ahead.

**Gopinath Reddy:** Sir, this is regarding the Australia business. My question is, if after these 3 quarters that we are going to have this problem of margin compression, would we be comfortably able to retain all our existing customers and improve our margins? Or do you think that we may have to lose some customers? How will it go?

**Rituraj Sinha:** Well, thank you for the question. This is Rituraj. I think if you have been tracking this business for the last 8 years since listing, you will recognize that every year in July month, Fair Work Australia, which is the government body declares the annual wage hike. And immediately, we have to pass through the hike in wages. Subsequently, we go back to the customers for pro-rata increase in our pricing.

This takes anywhere between 3 to 6 months. And mostly by the month of December, all the price changes come through, which is the end of Q3. So this is not an unusual event. This is a routine practice. This has no bearing on long-term profitability or margin profile or continuity of clients. Long story short, we do not expect to lose any customers as a result of this wage increase. And you can expect better margins in Q3 towards the end and definitely Q4.

**Gopinath Reddy:** Okay. The second question is regarding Indian situation, sir. Is there any slowdown that you are noticing in any areas where we are into? Or how is it going? Can you just give colour on it?

**Rituraj Sinha:** So, I think we are very happy with the growth in second quarter in India. If you look at our monthly revenues or monthly billing, in just the security solutions part of India, compared to April to June period in Q2, 3.5% increase. In Facility Management also compared to previous quarter, 4.3% increase in monthly revenue. So I think we are looking at a mid-double-digit type organic growth from the Indian businesses basis this current trajectory.

**Gopinath Reddy:** Okay. Thanks. That's it from my side.

**Moderator:** Thank you very much. The next question is from the line of Gopinath Reddy from PNR Investments. Please go ahead.

**Gopinath Reddy:** Sir, my last question. What is your guidance towards the ROE that we are expecting in the next couple of years or maybe after this Australia issue is gone, where will it normalize, at what levels?

**Rituraj Sinha:** So it's actually a very relevant question and thank you for asking. The return profile of this business model is generally very attractive. Pre-COVID, we were maintaining a 20% return ratio. It has gone down to 11% range -- 11%, 12% range now, largely because of capital employed in business going up on 2 counts. Number one, goodwill charges; and number two, the higher working capital involved in the business in the last few years.

However, this year, we are working on a plan to not only free up working capital to reduce overall capital employed in the business, but also take action on the goodwill charges as you have seen in the past. When we do creeping acquisitions, our goodwill charge is accounted for basis the maximum price that we may need to pay for an acquisition.

However, in most of these cases, what has happened is that we have ended up paying significantly lesser than what we initially envisaged to be paid for Henderson, for even SLV and UNIQ in India. So net summary, we believe that we will be looking to reduce our capital employed.

And our return on equity and return on capital employed will move ahead of 15%, hopefully, at the end of this financial year. Our objective will be to take it back to the pre-COVID level of 20% over the next 2 financial years.

**Gopinath Reddy:** Okay, sir. Sir, when our company is one of the most efficient companies in this sector and is a market leader when we are having such low returns, the other smaller companies must be in stress kind of a situation. Are there any opportunities that we are actively looking at acquiring right now?

**Rituraj Sinha:** Not in the immediate month or so. I think M&A is a part of our growth strategy. If you look at SIS's performance over the last 8 years of listing, you will see that we have always been a very organic growth-oriented company. M&A is limited. And even when it happens, it may be contribute to 10% of the overall growth. So we do not buy for growth. We buy for any strategic

reason. And at this point in time, I don't have any M&A on the table that I would want to discuss, nothing has reached that advanced stage.

So for now, I think we are very focused on the basics. Organic revenue growth, which is happening in Security, Facility Management and International. Margin improvement. India Security margin has improved in Q2. FM margin has improved slightly in Q2. International margin is same as Q1, but it will improve in the coming quarter and better collections, reducing DSO.

So you will see that overall, almost 4 to 5 days of DSO has been reduced and INR165 crores, INR170 crores of debt has been reduced overall. So on growth or profit margin or working capital, on all these 3 parameters, we are focusing and delivering good results, and that will continue to be our focus in the second half of the year.

**Gopinath Reddy:** Okay. Can you talk about the Singapore acquisition that we have done, sir? How is it going? Any comments on it?

**Rituraj Sinha:** Singapore acquisition is performing better than ever before. The business is growing. The annualized revenue is moving from \$30 million a year range to close to \$50 million a year range over the last year. Profitability also is stable now. It's a breakeven business. In terms of cash in the bank, it has more than \$20 million of cash reserves in the bank, so it is self-sufficient.

But mind you, a \$30 million or a \$50 million business on a \$1.5 billion business is not going to move the needle either way. So it's a very small part of our ecosystem, and I just wanted you to be mindful of that.

**Gopinath Reddy:** Thank you, sir. That's it from my side.

**Moderator:** Thank you very much. As there are no further questions, I would now like to hand the conference over to Mr. Rituraj Sinha for closing comments. Thank you, and over to you, sir.

**Rituraj Sinha:** I think there's 1 or 2 more questions. Let's take them on. And I know it's Dhanteras day and there are 50 more analyst calls happening on the same day, so I can understand both pressures. But let's take the questions that are in queue and then I will do a few closing comments, and we'll wrap this up.

**Moderator:** The next question is from the line of Yash Darak from RSPN Ventures. Please go ahead.

**Yash Darak:** Yes. So as far as FM business is concerned, do we get the 80JJAA benefits on the FM business as well?

**Rituraj Sinha:** Yes, absolutely. We get 80JJAA benefits on all Indian SBUs.

**Yash Darak:** Understood. And secondly, if you could guide on to the FY '25 estimated revenue on FY '24 revenue, any growth trajectory if you could guide on?

- Rituraj Sinha:** I think SIS has never done guidance. We don't do that as a matter of policy. But I'll tell you what, if you look at the earnings note, since our listing, we do a revenue CAGR report and EBITDA CAGR report. So since our listing in Q2 of FY '18, we have maintained a 15.8% revenue CAGR and EBITDA growth CAGR of the last 8 years, quarter-on-quarter is 15%. And even this year, it seems that we are moving towards a similar line. So I think the predictability of the SIS business model is tested, and you have records of the last 30-odd quarters to take reliance on.
- Yash Darak:** Okay, sir. Moving to the last question with regards to effective tax rate, if you could guide on the full year effective tax rate in this, including all the businesses?
- Rituraj Sinha:** So the effective tax rate for Indian business is zero.
- Yash Darak:** And for international businesses including Australia, Singapore, New Zealand?
- Rituraj Sinha:** So the effective tax rate for Australia is the Aussie tax rate.
- Yash Darak:** Sorry?
- Rituraj Sinha:** 30% that's the Australian tax rate. There is no equivalent of 80JAA provision in Australian taxation. So the Australian business pays taxes at 30%. Indian business, which is now 60%, 65% of profits and revenues, pays zero effective tax.
- Yash Darak:** Okay, sir. Understood. Thank you sir.
- Moderator:** Thank you very much. The next question is from the line of Amit Kumar from Determined Investments. Please go ahead.
- Amit Kumar:** Yes. Thank you so much for the opportunity sir. My first question relates to industry growth. So relative to specifically the India Security growth of 6% and the Facility Management growth that it is. I mean, how is the industry growth sort of shaping up? Because this seems to be significantly below. I mean, if you look at nominal GDP itself, right? And we have -- as an industry, we have a lot of unorganized to organized shift opportunity available.
- So I presume that is also sort of playing out in the background. But the nominal GDP growth of 7% plus 5%, just about 11%-odd, 12%-odd. So relative to that 6%, 7% kind of India growth seems fairly muted. And if this is an industry sort of issue, can you just highlight, I mean any sort of specific pressure points that the industry is going through presently?
- Rituraj Sinha:** I think, firstly, I'd like to correct you. I'm not sure how you got your 6% annualized growth number from. What are you referring?
- Amit Kumar:** For the quarter, the India Security has grown by 6%, right? 6.4% -- 6.3%, sorry.
- Rituraj Sinha:** So let me answer that for you. I think the Indian Security industry is growing at ballpark 1.5x GDP. Obviously, GDP growth plus some price change. Over the last two years, especially since COVID, the price growth has been a little muted because the minimum wage revisions have

been muted. So what is revenue growth a function of? Revenue growth is basically a function of volume multiplied by price.

So volume is growing with GDP, but the price is not growing as it was pre-COVID. So the industry that used to grow 2x GDP is now down to maybe below 1.5x GDP growth levels. As regards to India, like I said, if you take the CAGR for the Indian Security business or the Indian FM business, you will see that our Indian Security business last financial year grew at close to 12%.

And our FM business grew at more than 12%. Was it in line with our expectations? Answer is no. We would have liked to grow more than 15%. But you also have to be mindful that 11% growth in SIS Security means that we added more than INR550 crores in absolute value, which is the size of the Number 8 security company in the country.

In Facility Management, we added 12%, 13%, which is another INR200 crores, INR250 crores. Again, it is not very good, but it is moderate. This year, definitely, we believe that our growth numbers will be better than previous years. And you will see a mid-teens type growth on the India side.

So as you think about SIS, think about mid-teens growth on an organic basis, factoring the base effect because if you look at the other listed peers that we have in revenue terms versus a CMS or a UDS or a Krystal or any other listed company, we are more like 3x their size in revenue terms or maybe 5x. So there is a little bit of base effect that comes into play.

**Amit Kumar:**

Okay. And the second question is that the growth being as it is -- I think if you were to get back to mid-teens revenue growth, I think this point would be taken care of automatically. But I mean, to the extent that -- if the existing sort of growth in the business continues, I guess it's a pointless question at this point of time. Let's discuss this at the end of the year once we have a full year growth number in front of us.

So my only point was that as your growth is slowing to the extent that you're growing at 10%, 12%, 15%, you would also be adding manpower to basically support that growth and that would also mean that your 80JJAA benefits will sort of remain intact. Now if the growth basically tapers down to what we are seeing right now in this quarter specifically.

Which is why I was sort of asking are there any sort of pressure points or if there is any temporary dislocation in this particular quarter. But if your growth basically stalls to these levels, then there is a risk that we might -- if not fully, at least, partially lose our 80JJAA benefits basically, also. And that sort of has been an impact on your profitability.

**Rituraj Sinha:**

I think that's a matter.

**Amit Kumar:**

I think it's probably a pointless question right now, but I mean this is theoretical exercise, if at all, that I mean, how do you sort of manage growth and...

- Rituraj Sinha:** If it gives you any comfort, since 80JJAA has kicked-in through the COVID period, when the growth of the whole economy was very muted, SIS has never lost out on the tax break. Our effective tax rate has been 0% for the Indian operations.
- Amit Kumar:** Okay. Understood. Thank you. That's it from my end. I'll come back if more...
- Moderator:** The next question is from the line of Yash Darak from RSPN Ventures. Please go ahead.
- Yash Darak:** Sorry, with regards to the Australian wage revision, I missed out that part. If you could explain when does the wage revision happened? And when it reflects on to our International businesses' revenue?
- Rituraj Sinha:** Yes. I just explained that. I'll ask Murli, our Head of the International side of the business to explain this to you in detail. Murli, please?
- R. S. Murali Krishna:** Thank you, Rituraj. So what happens is in the Australia business, Fair Work announces a wage hike, which comes into effect on the 1st of July of every year, which we have to pass on as a cost and pay the wages effective 1st of July. We catch up on the revenue side. We increase our rates as per the contractual terms on the anniversary of those contracts, which spread through the year, but most of them come within the next couple of quarters. So some of them come within Q2, some of them come in Q3. And by Q4, we are fully covered effectively. So what really happens is there is a catch-up that happens and the margin in the Q2 for the International business is usually the lowest vis-à-vis all the other quarters. And because of this gap and the gap getting closed every quarter after quarter, we get better in Q3 and then much better in Q4 as well.
- Yash Darak:** Okay, sir. Thank you.
- R. S. Murali Krishna:** Thank you.
- Moderator:** Thank you very much. The next is from the line of Aasim from DAM Capital. Please go ahead.
- Aasim:** Hi Rituraj and team, I had a question on the Facility business margins. Now that we are trending in the 4.2%, 4.3% EBITDA range, I want to understand if this is the best-case scenario now? Or can it still trend higher closer to the pre-COVID level of 6% to 7%?
- Rituraj Sinha:** That is our plan. And I think I have reiterated that on multiple counts. See, the India Security business, for example, used to be 6% plus EBITDA margin pre-COVID, and it fell all the way down to 3.8%. Now the India Security business margin is back up to 5.8% on a stand-alone basis. On a combined basis, the entire portfolio is 5.4%, 5.5%. So it is very much on track to be at 6% plus.
- Similarly, for FM, it was a 6% plus EBITDA margin business, went all the way down to sub-4%, it's coming back towards 4.5%. And I'm pretty confident that by the end of the year, it will be close to 5% or thereabouts. But in terms of intent and purpose, the gross margin remains pretty similar to what it was pre-COVID.



We are working on building revenue growth, letting go off bad contracts and restructuring some of our branch network cost issues. And we are very confident that we can get back to that 6% pre-COVID level for Security and FM in India. It has taken a little bit more time than one would have liked. But fundamentally, there is nothing that has changed the margin profile of the business overall.

**Aasim:** When you say gross margins are still intact, does that mean that whatever changes that you are doing in terms of low-value customers being removed, is that already done and dusted and now everything that can be done is on the SG&A level?

**Rituraj Sinha:** No, it's actually the flip side. The SG&A level cuts were easier because that is entirely dependent on us. But on the contract level...

**Aasim:** I would assume then how does the gross margin intact?

**Rituraj Sinha:** No. The gross margin is intact because the blended average gross margin is in the same range of around 12% for Security, 12% to 13% for Security and for FM around 10% plus as it was before. SG&A cuts have happened. Now some of the contracts which are actually yielding lower than average margin, which are actually a drag on the gross margin line, those we haven't been able to step out of because the contracts are built such.

There are 3-year contracts, there are penalty clauses for exiting, pre-closing the contract, et cetera. So we have to just suffer through the term of contract. Once those contracts drop off, obviously, there'll be a natural uptick in the gross margin level, which will further pull up and flow through directly to the EBITDA margin line.

**Aasim:** And this customer rationalization is another one year down the line is when most of it will be done, is it?

**Rituraj Sinha:** Well, it's happening. Some of it has happened. Some of it is lined up for 31st March.

**Aasim:** Okay. And second question was basically on VProtect. How much does it contribute to your India security revenue and EBITDA?

**Rituraj Sinha:** So the India Security business consolidated revenue would be close to INR450 crores or thereabouts. And the VProtect business contributes INR10 crores out of the INR450 crores. In terms of EBITDA margin, the EBITDA margin of the INR10 crores is 19%. So as the share of VProtect grows, hopefully, in the overall pie, it will start to impact our overall margin profile. But as of now, it is just too small to move the needle.

**Aasim:** Fair point. And just to understand this particular business, I think EBITDA margins are higher, but since it would be a capex-intensive one, our PBT margins similar to the Security business in this case?

**Rituraj Sinha:** Slightly better.

**Aasim:** Okay. Thank you very much everyone.

**Moderator:** As there are no further questions, I would now like to hand the conference over to Mr. Rituraj Sinha for closing comments. Thank you, and over to you, sir.

**Rituraj Sinha:** Well, I'd like to thank all of you for taking the time to join this call despite the fact that this is Dhanteras. As I've said, Q2 has been a better set of numbers for SIS than Q1. Our revenue is coming back strongly. Our EBITDA margins are going up. And as you can see, our debt has reduced because of better collections across Indian businesses and overseas businesses.

So I think it's a good end to the first half of the year. As we enter the second half of the year, we have a good order book, both in Australia and in India. Our international operations have in hand close to \$100 million worth of work orders to be executed in Q4 mostly.

Our Indian business also has a very good line-up of orders for Q3. So hopefully, we make a good start to the second half of the year and close the year on a strong set of numbers. I'd like to once again thank all of you for joining this call. And I wish you all a happy Dhanteras and a very happy and prosperous Diwali. Thank you very much. Bye-bye.

**Moderator:** Thank you. On behalf of SIS Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.