



“SIS Limited
Q4 FY '25 Earnings Conference Call”
May 01, 2025



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Moderator: Ladies and gentlemen, good day, and welcome to SIS Limited Q4 and 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 a star then zero on your touchtone 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: Yes. Hello, everyone. Good evening, everyone, and welcome to Q4 '25 earnings call. I hope you had a chance to look at our results and the earnings note, which have been uploaded on the stock exchange and the company website by now.

We would like to take a moment for our fellow citizens, who have been impacted by the recent unfortunate events in Pahalgam. This has led to a higher threat perception across the country, and it has heightened the significance of security, as you all know.

Now, talking about our Q4 and FY '25 results. We are very happy to report that, we have witnessed growth across all three segments. On a consolidated basis, SIS Group reported its highest-ever revenue of INR 3,428 crores, which is an increase of 9.3% on a year-on-year basis. India Security reported its highest ever revenue of INR 1,435 crores in this quarter, which is a 9.6% growth on a year-on-year basis.

FM also reported its highest ever quarterly revenue of INR 587 crores, which is 12.9% growth on a year-on-year basis. And International Security reported its highest ever quarterly revenue at INR 1,424 crores for Q4 '25, which is a growth of 7.7% year-on-year.

Now, talking about our earnings. It's been a constant endeavor to improve the margin profile across all segments. Our focus has been on margin improvement initiatives, and it is now showing, in terms of gradual improvement. We focused on margins, both in terms of customer contracts, as well as rationalization of SG&A costs.

So, on a consolidated level, EBITDA grew by 10.1% year-on-year to INR 165 crores, which is the highest ever reported by SIS and it translates to an EBITDA margin of 4.8%. India Security reported an EBITDA margin of 5.6%, up from 5.5% in Q4 FY '24. FM has reported an EBITDA margin of 4.7%, which is 80 basis points higher on a year-on-year basis. Additionally, the segment also reported its highest-ever quarterly EBITDA of INR 27.4 crores, which is 34% growth on a year-on-year basis.

For the International Security business, the EBITDA margin for Q4 FY '25 was 4% compared to 3.8% in Q3 FY '25. This is driven by new wins of AUD 180 million in FY '25. EBITDA continues on a path to recovery. For Q4 FY '25, the EBITDA is INR 57.6 crores, which is 8.6% growth on a Q-o-Q basis.

Talking about PAT now. Our operating PAT for this quarter is INR 83 crores, resulting in an operating PAT margin of 2.4%, which is 52.9%, almost 53% growth on a year-on-year basis. However, as you have all seen, our reported PAT is minus INR 223 crores. This is because of a

non-cash goodwill impairment charge of INR 306 crores, which we have taken during this quarter for the investments that we had made in Henderson, SLV, Uniq and ADIS. The details of this impairment are available in our earnings note. Now, as a result, after this impairment, our ROCE has now improved to 14.3%, which was 12% in the last quarter.

Now, talking about operational efficiency, which is net debt and DSO. Overall, very happy to report that net debt is now at INR 429 crores, which is down by INR 460 crores from March '24, which was INR 889 crores a year back. So, INR 889 crores is now down to INR 429 crores. This brings the net debt-to-EBITDA ratio to 0.7, which was 1.5 a year back. This is the lowest level seen since June '21.

Now, OCF to EBITDA is also now at 175%. DSOs have improved by 5 days to 65 days from March '24, driven by an improvement in collections.

Update on the Cash JV. As you are all aware, we have filed a DRHP with SEBI in Q4 '25.

Now, today on the call, I have Rituraj Sinha, Group Managing Director; Mr. Brajesh Kumar, Chief Financial Officer of SIS India; and Mr. R. S. Murali Krishna, Chief Executive Officer, SIS International.

We'll now turn over for Q&A. Thank you very much.

Moderator: The first question is from the line of Heet Vora from Guardian Capital Partners.

Heet Vora: So, matching these numbers, just one question that, I have is with the order wins that we've got in Australia, is this a recurring number? Or is it some one-off win which we've received for the quarter?

Rituraj Sinha: No, this is recurring, permanent and casual revenue. So just to give you context, our international business, particularly MSS, which is the flagship company of the international business, generally has new wins anywhere in the range of AU\$40 million to AU\$50 million recurring revenue new wins per annum. Over the last year, they have booked AU\$150 million of permanent revenue, which will obviously impact not just FY '26, but also the subsequent years.

Heet Vora: Just one more on the low-margin contracts, which we've been shedding. So we are seeing the margin improvement. So is it safe to assume that most of our low-margin contracts are now behind us?

Rituraj Sinha: I think, let me take it part-by-part. I think in Security business in India, I think the contract churning exercise is pretty much done. Therefore, we are reporting 5.5%, 5.6%. And I think gradually, as we gain more operating leverage that will go back to 6% levels, which is the pre-COVID normal level.

In FM, it has taken more time than before, but even FM now is inching towards 5% EBITDA margin. And I think hopefully, in the coming first quarter, you will see that even the FM business is out of the woods as far as the margin is concerned.

As far as international is concerned, on the international side, the pre-COVID EBITDA margin level was roughly 4.5%. International is back at close to 4% already, and you can expect it to operate at that 4%, 4.5% band going forward as well. So I hope that explains.

Heet Vora: And just one last question was with regards to the labour laws. Are we hearing anything new on the labour laws or any wage hike?

Rituraj Sinha: Well, you know, India enacted its 4 labor codes in 2020, 2021 and 2022. The model labour rules are a Central subject under the concurrent list of the Constitution. So, the Central Government can pass an act, but it must be adopted by all the States, which took the last 2, 3 years. We were informally advised by the department functionaries on a casual chat basis that one can expect that this will be implemented somewhere around this month or two here and there. But I think the whole country's focus now is on different and more pressing national security matters. So, it's very hard to say, when the labour laws will get implemented, and the labour laws effectively are the trigger for minimum wage reset for security workers. So as much as we would like this to happen as soon as possible, I believe that the timing is not within our control. But having said that, as and when labour laws get impacted, Security or businesses like us, might be the few that stand to directly gain because of higher wages.

Heet Vora: And just the last question is, would you like to give any guidance for the upcoming year, how do you expect the growth?

Rituraj Sinha: I don't think we give any guidance, but your last 7 years of listed performance will tell you that our quarterly CAGR for revenue is close to 15% and our quarterly CAGR for EBITDA also is close to 15%, 16%. So I think you'll have to take reliance on that.

Moderator: The next question is from the line of Gopinath from PNR Investments.

Gopinath: Congratulations on a good set of results this time and good orders from Australia. My only question is why have we taken a goodwill write-off, this particular quarter? Any specific reason? Or it is just a normal procedure? I don't understand why it has been taken now itself?

Rituraj Sinha: Well, our auditors as per the mandate, as per the regulation as well as good practice, our auditors do an impairment testing of the goodwill every quarter. But I think this time, we had a consensus on the matter that transactions that were acquired just the year before COVID, 2019, and their actual business performance has not been in sync with what was initially projected at the time of acquisition. As a result of which, against a higher goodwill taken in 2019, we ended up paying lesser for the acquisition because the businesses did not perform in sync with their plans due to COVID. It eventually resulted in a mismatch. And if you remember, last year also, we had taken a part impairment for Henderson. And now what we've decided is that we have taken the pending impairment requirements with regards to Henderson and also the two other major acquisitions that happened in 2019, which are SLV and Uniq. So, we have taken all those impairments, and that's the reason why you see this INR 306 crore impairment entry.

But I would like to underline, I mean, everybody would be appreciating that. I just wanted to underline 2, 3 important aspects. Number one, please note that, we have not paid extra for these

businesses, as these were staggered acquisitions and poor performance meant that we've actually paid lesser than initially envisaged for these transactions.

Number two, as far as accounting is concerned, this is a noncash entry. So operating profit after tax remains at INR 318 crores for the year. And free cash for the year stands at INR 602 crores. A detailed note on this particular aspect is on Page 4 of the earnings note. You might like to run through it for greater clarity.

Gopinath: Yes, sir. I understood it. Sir, my doubt was like last year, we have taken the goodwill write-off, so I thought that was it and again, it came. So, I wanted to know why particularly this quarter, is there any slowdown in those business, which we have taken in this particular year again, that kind of a doubt it is, not on the total overall situation. I mean, we have taken last year, we are taking, yes, sir.

Rituraj Sinha: So if you go back and you look at our transcripts and reports of the previous years, you will see that even last year, we had clearly stated that we are taking part of the Henderson impairment this year and the remaining will happen next year. So we had announced it 1 year in advance. So basically, impairment was taken in steps. But now that all is done and behind us, so you can be rest assured that this is not an annual fixture.

Gopinath: Okay. Are there any other businesses or acquisitions where we need to take further or everything is done, sir? Is it a clean slate now?

Rituraj Sinha: Well, the auditors are better placed to comment on that. But as far as my understanding is that even as goodwill is tested every quarter, having gone through that entire exercise just now, I don't see any residual impairment requirement that we have not taken. So Henderson impairment is complete. SLV impairment is complete, almost. So basically, I don't think that there is any significant concern on this count.

Moderator: The next question is from the line of Chirag from Keynote Capital.

Chirag Maroo: I just have a follow-up question on the earlier participant. As you said that, majority of impairment as per you has been done for now and for foreseeable time you are not seeing. I'm able to see that there is INR 700 crores goodwill still on books. Could you just elaborate this goodwill is for which particular entity? And is there a possibility for an impairment for any other entity to come into picture in the future?

Brajesh Kumar: This is Brajesh this side. The remaining INR 700 crores goodwill which is appearing in the books is mainly related to the past acquisition like MSS, DTSS, RHPL. And during the process of account finalization, the auditor has done the impairment testing of all the entities. And other than these three entities for which we have taken the impairment, there is no indication, there's enough headroom available as per the impairment model. So, we have the confidence that we don't need to take any further impairment on account of any of these entities going forward as of now, as per the result till now.

Moderator: The next question is from the line of Subir Sen from Aditya Birla Sun Life.

- Subir Sen:** Just two points I have. What would be the management priorities in this financial year? And any comments on 80JJAA, whether that will continue or any views on that?
- Rituraj Sinha:** For now, I don't see any change in the budget announcements as well with regard to 80JJAA. So, I think the 80JJAA provision continues as is with no change. As regards to the management priorities, I think management priorities always are on four metrics for us like any other business, revenue growth, margin improvement, better free cash generation, which is OCF to EBITDA and higher return ratios. So we continue to work on all four metrics. We are growing at roughly 8%, 10%. We want to grow faster.
- Our EBITDA margin has improved, but we are keen that it should improve further in the coming year. Our DSOs are fixed in the security business, but I think there is headroom for improvement in the international side and the FM side.
- And as far as return ratios is concerned, Vineet already explained that our return ratios are back to 15%. And I think with a little bit faster growth and margin improvement, we'd like to see this moving upwards from 15%. So I think that's the key 4 metrics that we track our business on and also set KPIs basis.
- Subir Sen:** Would there be any further equity dilution in the company?
- Rituraj Sinha:** We don't need equity dilution at this point in time to the best of my understanding. We are operating at 0.7x net debt to EBITDA. There is enough headroom for debt, and there is no pressure on us. In fact, even the debt that we have, the gross debt that we have, the average cost of that debt is barely 7%, 7.5%, and we are negotiating our interest rates down with Banks already. So I don't think that at this point in time, equity fundraising is a priority per se.
- Subir Sen:** And would you be also looking at any new or adjacent line of business in this financial year?
- Rituraj Sinha:** We are a security, cash logistics, and facility management company. That's how we define ourselves. And that's the niche in which we intend to operate and strengthen our market share and service content.
- Subir Sen:** Just one point of repetition, I think that goodwill of INR 700 crores, you mentioned that mostly the impairment testing has been done and there would not be any further requirement of any impairment now. That is the right understanding based on the performance of the companies which were acquired?
- Rituraj Sinha:** That is correct.
- Moderator:** The next question is a follow-up question. It's from the line of Gopinath from PNR Investments.
- Gopinath:** Sir, in Australia, we got a big leap in orders. Is there any change that we have done? Or my question is in terms of will this kind of level of orders will keep coming every year? Or is there a possibility of improvement or how is it we got this time? And how is it, sir? Can you please elaborate on that?

- R. S. Murali Krishna:** Thanks for the question, Mr. Gopinath. This is Murali Krishna. So, we have been investing on our business development efforts ever since COVID recovery time. So what you're seeing this year is a result of 2 to 3 years of investment that we have done. And we have landed on some meaty contracts, one being defence and another being Sydney trains locally. So, these kinds of events don't happen every year. It's a mature market, but we are happy that we have been able to gain market share in this business in such a significant manner. So while we are very happy about the wins, and we would like to continue to keep winning in the market, this is certainly a great year that might not repeat as much going forward.
- Gopinath:** Sir, these EBITDA margins there were compressed because of their labour charges increase by the Government there. That pressure is not there on these orders, right? It's all at our comfort levels?
- R. S. Murali Krishna:** Okay. So, primarily in the Australian market, there is what is called a fair work wages, which is pretty much similar to the minimum wages out here in India. And these keep changing every year after year, and these are different in different states and different awards and enterprise agreements as well. So, what we do is in our business, there is a pressure in the labour cost, largely not because of these minimum wage increases, but it's because of non-availability of labour in the market. And that situation, as and when it eases, we are seeing early signs of that easing. But as and when it eases, will reduce our pressure on the cost of labour as we move forward. So it has got nothing to do with the minimum wage side. It is more the availability of manpower.
- Gopinath:** And last question, sir, we were looking into a few acquisition opportunities. Are there anything to be, you have anything to tell?
- Vineet Toshniwal:** This is Vineet. See, we are constantly on the lookout, but we won't be making any forward-looking statements for acquisition. As and when we tie up something, definitely, we'll get to know. But we are looking out in all security, FM, cash logistics, all 3 segments.
- Gopinath:** Okay. The thing is there was a pressure in the market, and there were many people direly looking for somebody to acquire. Is the situation the same? Or is there any improvement in competitive situation also? You can tell in those terms also, it's okay. You don't need to name any companies, sir.
- Rituraj Sinha:** Well, there is always a dearth of good assets for sale and even more so at the right price. So I think one can only comment about acquisitions when a definitive agreement is signed. What I want you to note is two things.
- First, that SIS has acquired more than 15 companies in the past. Since listing, we would have acquired close to at least five or seven companies. So we have wide experience of M&A and successful M&A.
- The second point that, SIS growth is not M&A dependent. We are primarily an organic growth entity. And we are very comfortable not doing any M&A. We don't do M&A for the sake of growth at all. So both those things are facts. As and when we have something tied up, we will let you know. As of now, there is no definitive agreement signed with anybody.

- Moderator:** The next question is from the line of Amit Kumar from Determined Investments.
- Amit Kumar:** Sir, just a book-keeping question really. Could you just talk about during FY '25, I mean, the progress that you have made in terms of the solutions business with respect to India Security and FMS, what is the share of solutions presently versus last year?
- Rituraj Sinha:** Well, the improvement is not as much as we would like. In security business, it is still sub 10%. And in FM business, it is closer to 30%. When I say solution, you must understand there is man and machine. Now that could be machine learning, or it could be equipment of different types from cleaning equipment to various others. So, when we use more than manpower, and we work on outcome basis, not on input basis. So outcome basis means when we sign up contracts towards outcomes and not just the headcount, we bundle all of that under solutions. So in FM, that stacks up to close to 30% and in security is still under 10%. In fact, it's closer to 5%, 6% single digit.
- Amit Kumar:** Sir, on the FMS side, I mean, given the fact you've discussed this in the previous conference calls, and we are sort of relatively new to the company. So solutions are supposed to have a relatively higher margin vis-a-vis services. And as you are saying that in FMS, almost 30% of share of revenue is coming from solutions, but margins are on the lower side. So could you just sort of explain that dichotomy a little bit? Is it because of lower scale in some sense? And at what sort of level of scale will this solutions piece start to contribute more robustly to margins?
- Rituraj Sinha:** So, I think this operates at multiple levels. At a gross margin line, what you're saying is correct. Higher solutioning means higher gross margin. That is a correct statement. However, when you talk in terms of EBITDA, there is operating leverage that has to play through. So, if you're growing single digit, if you're growing 9%, 10% and the wage cost of your non-billing staff is growing higher, your unit operating costs are growing higher, it doesn't sort of percolate down to EBITDA level as apparently as one would assume. So, in summary, what I'm saying is that, yes, higher solutions mean higher margins, but higher solutions with higher growth percentage will yield higher operating leverage, higher EBITDA. So that is something we need to get right.
- The FM business in the past, as you have seen, when it was growing, when it was maintaining 6% EBITDA margin, the FM business in those years was growing more than 20%, 25%, even 30% in certain years. So that has really tapered down because we have been far more conscious about taking on contracts. We are refusing low-margin contracts. We are foregoing existing contracts if the margins are not reasonable enough. So for all those reasons in FM, you see the EBITDA is still below 5%.
- Amit Kumar:** No, I understand that part. But I mean my question was like more structural, right, that given that you have a significantly higher share of business coming from solutions within the FMS sort of segment, structurally, margins there should be higher, right? But we don't sort of see that. I mean one is the trajectory of margins, I understand that. So that I just wanted to get a little better sense on.
- Rituraj Sinha:** The pricing points for FM and the unit margin on FM is lower than security.
- Amit Kumar:** Sorry, I'm sorry. I missed the last one. Can you please repeat that? Price point and?

- Rituraj Sinha:** The price point for an FM manpower, for example. Per unit is lower for cleaning services or FM services than it is for security. That's the way the industry is structured.
- Amit Kumar:** That's fine, right, because at the end of the day, as far as solution business is concerned, in which way, you're not pricing on a manpower basis. It is on an outcome basis essentially. So that should not matter, I mean, from an absolute EBITDA per person or per manpower perspective, it might matter, but not from a margin delta perspective. Should it?
- Rituraj Sinha:** It does. The gross margin of my FM businesses are lower than the gross margin on my security business. And when a lower gross margin business grows slower, then the percentage SG&A compared to percentage of revenue SG&A goes up, you lose operating leverage and that shows up on your EBITDA.
- Amit Kumar:** All right. Understood.
- Rituraj Sinha:** Okay. Gentlemen, thank you so much. I know it's a holiday today. But for all of you who have been kind enough to take time to join this call, I'm very grateful. Q4 FY '25 is a good quarter for SIS. I think for the last 2 quarters, our numbers are more in line, INR 165 crore EBITDA run rate, quarterly EBITDA run rate. This is the first time we have gotten to that level. We are bullish about the growth prospects in the first quarter organically. And with our return ratios improving as a result of recent actions, I think the business is in better shape with our DSOs reducing and our net debt being the best it has been in the last 5 years, I think we are in better shape to support that growth. I think what also is very interesting is that the international business is sitting on a large bag of contracts to execute, which should give them good tailwinds. The cash business, DRHP, we received first comments or first feedback from SEBI just yesterday. So, I think that project is coming along well. That listing exercise also aims to bring back capital into SIS to further reduce our net debt situation. So overall, I think the company is poised for strong numbers, and we hope that we will continue to execute and try our best to meet your expectations.
- Thank you very much once again. I wish you all the best. And I would once again request everybody to kindly look at the earnings note, take note of Page number 4 for the goodwill impairment aspect, which is the big development this quarter, just to have clarity as to what is happening. Thank you very much.
- Moderator:** Thank you. On behalf of SIS Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.
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