



SIS Limited

Investor and Analyst Conference Call: M&A Transaction

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**MANAGEMENT: MR. RITURAJ SINHA – GROUP MANAGING DIRECTOR –
SIS LIMITED
MR. BRAJESH KUMAR – CHIEF FINANCIAL OFFICER –
SIS LIMITED
MR. VINEET TOSHNIWAL – PRESIDENT – M&A AND
INVESTOR RELATIONS – SIS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the investor and analyst call announcement of a strategic transaction hosted by SIS Limited. 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 the star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand over 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, gentlemen, and it's a pleasure to host you all. At the outset with me is Mr. Rituraj Sinha, Group Managing Director, SIS; and Mr. Brajesh Kumar, who is the Chief Financial Officer. So, three of us will be hosting this call. Now as the call is titled, you've all seen in the news, we are very pleased to announce a very significant corporate development in SIS. It's been probably over 5 years since we have done any inorganic activity. After a gap of 5 years, we are announcing this significant inorganic development.

As you have seen in the news reports and exchange filings, we have acquired a significant stake, a 51% stake in A P Securitas. A P Securitas is very well established, over 40-year old firm, with a name all over India, which has a pan-India business and significant business across BFSI, which is almost one third of their portfolio, one of the key reasons that we found A P as very attractive apart from various other reasons as well.

They serve marquee clients across various corporate sectors, which include banking, logistics, outsourcing, education. They have close to almost 40,000 people. I'm just using round numbers, just for simplicity. And revenues are roughly over INR 1,000 crore. We are yet to get the final audited numbers of FY '25. So, what we have available is FY '24. So, we are speaking mostly from FY '24 numbers.

The significance of this transaction is that if you put APS, which is predominantly security, there is some element of FM as well, along with SIS security. Our FY '24 run rate on a pro rata basis goes to INR 6,100 crore, which probably makes us 2x the size of our nearest competitor. That's the kind of scale that we are talking about. It will strengthen our presence in all the core sectors, it will bring new client relationships and a high-quality workforce and last but not the least, a very high-quality management also.

There will be obviously significant overlaps, which we will be working with on a complementary basis, synergizing our various operations across the country and hoping that we can extract significant synergies over the next 3 years from this asset.

And as you've seen before in our past acquisitions also, we have always done a creeping style acquisition because we feel that in business services sector, which is predominantly people's business with hardly any assets to actually buy and which is mostly contracts. We have to derisk, and the structure works very well. It's a win-win for both.

What we have acquired now is 51% and the balance will be acquired over a 3 to 4-year period. This will derisk our investment. Our investment target always has been stated previously by the MD. Also, we target a minimum ex IRR of 20%. And happy to say that the business case that we have built internally, we are well above this benchmark.

With this, I think we are off to a good start in FY '26. We've been working on this for almost 1.5 years. And you will see that once the closing happens, which is expected to be in at the minimum 1 month, but the outset, I would say it could take 2 months also, hopefully, 1 month. So, you will see the consolidation happening in Q3 onwards, and then the actual numbers will be available once the consolidation happens.

With this, I will just leave the floor open. I'm sure you guys have lots of questions, so we'll be happy to answer questions.

Moderator: The first question comes from the line of Neha, an Individual Investor.

Neha: Could you please clarify the implied EV for A P Securitas and explain why the first tranche consideration of INR 73.4 crore appears low related to FY'25 revenue of INR 1,000 crore.

Vineet Toshniwal: Okay. I'll take this question. Currently, the transaction that we filed is 51% stake. What we have is an interim consideration. There are significant closing formalities, as I said, to be done and FY '25 audit yet to be closed. So, once we receive the audited balance sheet and we proceed to closing, adjusting for net debt and net working capital the exact EV will be determined.

But somewhere, you can see the FY '24 balance sheet, and you can kind of do an approximate computation, and we'll be in the same ZIP code. I also think it's better not to go by the press reports because mostly they are kind of approximate, a little speculative also. So, we are not speaking from that benchmark. What we are talking is what we have uploaded on the exchanges.

Neha: Okay. And I have one more question. Which key sectors and geographies does A P Securitas primarily serve? Or how does this align with the SIS existing portfolio?

Vineet Toshniwal: Sure. So first, I'll give you the numbers and then maybe qualitatively. So, they are basically a pan-India brand. But however, more concentrated in North. Actually, it looks north of 60%, but the way this Company operates is slightly different from the way we operate. They operate mostly as a centralized company, where they target mostly pan-India contracts. So, their target is to basically go and approach all the corporates for a pan-India type of a mandate rather than regional mandates.

So that's why in the distribution, it shows North as 60% and South and East and West, as 10%-12%. But however, I believe that if you look at it from a ground operation perspective, it will probably be evenly distributed across the country and their significant share comes from BFSI, which is, as I said in my opening comments on the call, which is 34% followed by logistics, followed by IT outsourcing, education and likes.

Moderator: The next question comes from the line of Kinshu Sultania from AKMV.

Kinshu Sultania: I'm just curious about the presence of concentration of the Government customers in APS overall?

Vineet Toshniwal: Government business in APS?

Kinshu Sultania: Correct. You had mentioned that it is primarily private sector client, so just confirming if that is the case or if they serve Governments and how big that is?

Rituraj Sinha: This is Rituraj. APS draws less than 10% of its revenue from Government contracts all put together. So, 90% is non-Government business.

Moderator: The next question comes from the line of Anant Mundra with Mytemple Capital.

Anant Mundra: Sir, could you give some approximate numbers on what is the debt and what's the net worth of the Company?

Vineet Toshniwal: Okay. I will just come to it. Yes. So, the Company is having a net debt of approximately INR 100 crore as of FY '24. As I said, FY '25 numbers are not yet computed.

Anant Mundra: Okay. And what would the net worth be?

Vineet Toshniwal: INR 86 crore.

Anant Mundra: INR 86 crore, all right. Got it. And I was just checking that the company also has one more subsidiary by the name of Vijayant Facility Management Services, which does not appear to be included in the disclosure that you put out. So just wanted to understand on that?

Vineet Toshniwal: As explained, the transaction a few years back, they bought this company and moved over all contracts to the parent company. So practically Vijayant is a defunct company. And as I said in the closing CPs, we have asked the outgoing promoter of APS to basically take out this company in his personal capacity and kind of shut down the operations. So, it won't be part of our takeover.

Anant Mundra: Okay. Got it. And what's the split for the company between facility management and security?

Vineet Toshniwal: Roughly 15% FM.

Anant Mundra: Okay. And what kind of margins are they operating at?

Vineet Toshniwal: FY '24, again, FY '24 is 4.3% EBITDA margins and a reported PAT margin of 2.27%.

Moderator: The next question comes from Kinshu Sultania from AKMV.

Kinshu Sultania: Sorry, I'm back here with another question. I also noticed that APS firmly talk about the security business, both in the traditional man-guarding business as well as the more digital side and e-surveillance. So also, just curious how big the e-surveillance part is? And then just piggybacking off on that question, one of the reasons for our acquisition, I'm just curious how big of a role e-surveillance has to play in that investment decision?

- Vineet Toshniwal:** Okay. So, APS, one of the attractive points to look at this transaction was APS is an integrated model of man guarding and electronic services solutions. In fact, they basically focus on an approach of solution selling. So, we are not really segregating electronic surveillance business from their regular business because it's so integral to almost all the contracts that they are pitching and acquiring. But needless to say, that they are a very solution-focused, solutions-oriented company. So that's what makes it attractive for us apart from the high growth CAGR of almost 18% in the past 3 years that we have done the due diligence for, right? So, it's been a fast-growing and a solutions-focused business approach.
- Moderator:** The next question comes from the line of Neha, an Individual Investor.
- Neha:** Could you provide insight into the client concentration, any large customers which are contributing significantly to the revenue?
- Vineet Toshniwal:** I would say none. I mean it's just single-digit, largest customer would be just single-digits. So, it has a very well spread-out customer base. There is no client concentration risk in this business.
- Neha:** Okay. And one more question. Is the business primarily driven from the manpower-driven guarding the services? Or does it include high-margin solutions such as technology, labour security surveillance or like can you just tell me the revenue mix?
- Vineet Toshniwal:** So just it was answered in the previous question, if you were listening on the call, again, just briefly, I'll repeat. We are not segregating electronic and guarding business because as I said, now the approach is basically an integrated solutions approach, which SIS follows, which APS also follows, in a way it's very similar culture. So, we are not really segregating electronic from standard man guarding.
- Moderator:** The next question comes from the line of Vatsal Shah with Keystone Capital Management.
- Vatsal Shah:** So I wanted to know, will this business be consolidated with the India Securities part?
- Vineet Toshniwal:** Yes, yes. As I said, consolidation will happen in Q3. So, you will see the actual results in the Q3 results.
- Vatsal Shah:** Okay. And the margins for APS are around 4.5%, while our securities margin are around 5.5%. So, will the endeavour be to take this margin like expand it by 100 basis points? Or there will be overhang for some time?
- Vineet Toshniwal:** It will -- I mean.
- Rituraj Sinha:** Let me answer that. I think the key thing is that you cannot fix a percent or margin overnight. So, what you should factor in is that, on the security business in India, the margin overhang because of this transaction might be ballpark range of 0.1%. And at the group level, SIS group consol level, this will be probably a fraction of that. So, it will be maybe 30 bps, 50 bps, or lesser.

- Vineet Toshniwal:** More important is I would like to add to what Rituraj said. At a PAT level, we are actually quite even. In fact, it's insignificantly accretive but yet accretive.
- Vatsal Shah:** And over time, let's say, 2 to 3 years, will this margin converge with our securities business like 5.5% or like do you have any vision on that?
- Rituraj Sinha:** Yes, that's the plan. We believe that our security businesses on a blended basis, security business in India should be delivering close to 6% EBITDA margin. Same for our FM business in India, close to 6% EBITDA margin. So, we are traveling in that direction.
- Vatsal Shah:** Got it. And how does the working capital cycle compared to us? Like is it similar or?
- Rituraj Sinha:** Well, as of right now, the DSO of APS is pretty much close to what SIS security is in the same 65–70 days ballpark range.
- Vineet Toshniwal:** I mean to add this, I think they have an efficient operation with the ROCE of almost 13.6%-13.8%, right, which is close to our current running ROCE of 14.3%. So overall, a pretty tight run and very efficient operations.
- Moderator:** Thank you. The next question is from the line of Anant Mundra with Mytemple Capital. Please go ahead.
- Anant Mundra:** Thank you for the follow-up. Just wanted to understand the rationale for the transaction better because APS is in very similar business as we are. So, what is it that we are really adding in terms of capabilities or clients? Or if you could just elaborate on that? That was the first question. And also, I think I've read in the past that in Vision 2030, we have some kind of a target to reach there. So how does this tie up with that Vision 2030 as well?
- Rituraj Sinha:** Thanks for that. This is Rituraj. I think first question; our M&A strategy is hinged around three basic ideas. Either we acquire for market share consolidation in a geography or market share consolidation in a particular customer segment or adding a service element that might be missing in our portfolio.
- APS is number two. APS is consolidation for market share in key segments like banking, logistics, which are very vital segments of our economy. APS is heavily concentrated in these segments. And that is the principal way we have witnessed it.
- Your second question was around Vision 2030. There are two operating ideas on which our Vision 2030 is built. One is to move from market leadership to market share. We want to build, double our market share in Security and FM in India. And second is to shift from services towards solutions. So, APS meets both those objectives very well. It not only adds to our market share, like Vineet was explaining earlier.
- With this acquisition, SIS Security business in India, on a monthly revenue basis would be run rating around INR 600 crore, which is close to twice the size of G4S, which is our nearest competitor. So, market share wise, it adds and like earlier, it was being answered, APS also is an integrated security service provider, they do a lot of electronic services as well. They are into

solutioning, which adds to our capability set very well. So, it fits our M&A strategy as well as our Vision 2030 strategy quite nicely.

Anant Mundra: Okay, got it. And, I mean, safe to assume that they'll be working as an independent entity with their own branding. How would that work?

Rituraj Sinha: Yes. SIS intends to continue operating APS with its current management and its leadership team for the next 3 years at least, till it is a 100% owned subsidiary of SIS. As of now, they continue to operate. However, as a part of the deal, we have worked out a 3-year business plan, which has performance conditions, their exit multiple is directly linked to EBITDA growth, CAGR and the minimum margin they must maintain.

It's a construct which incentivizes rapid growth and better margins over the next 3 years. After which, once we have 100% ownership and control, we will take a view at that stage how we intend to take it forward.

Anant Mundra: Okay, got it. That's it from me. Thank you.

Moderator: There is a question, it's from the line of Shanti Gawas, an Individual Investor. Please go ahead.

Shanti Gawas: Thank you for the opportunity. I just wanted to know, for 51% of stakeholders, you will be paying INR 73.40 crore. So how much will be later pay?

Vineet Toshniwal: How much will be...?

Shanti Gawas: Later pay for 49%?

Vineet Toshniwal: So, 49%, as I said, it's a tranche-based structure. It's incentivised to the seller to deliver CAGR of EBITDA. And there are slabs like 15% plus or 20% plus, which changes the EBITDA multiple. So very hard to say. Anyways, we don't make forward-looking statements.

Rituraj Sinha: Let me help you. I think the question that you really wanted to figure out is, probably if I understand correctly. As of right now, the first tranche is happening at roughly 8.3x EBITDA multiple. There is a ratchet structure that allows the seller to sell up to 9x if they perform very well. But there is also a flow should they underperform, one could buy those shares at a lower multiple.

Ballpark, I think what the two things that should give you comfort is, that we are acquiring Tranche 1 at 8.3x subject to certain adjustments. And second, that on an ex-IRR basis, in a base case scenario, this deal should be delivering more than 21% IRR for SIS Group. Both in terms of returns and in terms of entry multiples, it is well within the safe zone. And I might add to that, that this deal is funded through internal accruals only.

Our net debt-to-EBITDA continues to remain sub 1x. Net debt to EBITDA remains well within 1x even post paying for this transaction. So, in summary, this is a deal which is accretive. It fits well with our strategy. It is funded internally. It does not put the company's balance sheet under pressure. And I think being one of the faster growing companies in the security industry and the

sixth largest security company in the country, it is a good fit for SIS and it will help us move forward towards our Vision 2030 objectives.

Vineet Toshniwal: All right. Thank you, gentlemen, and I hope we could answer all your questions. If there are any further questions, you can write to the Investor Relations ID of SIS. We'll be happy to engage further. Thank you.

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.
