

SIS Limited

Investor and Analyst Conference Call to discuss New Labor Codes and its Impact

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**MANAGEMENT: MR. RITURAJ SINHA - GROUP MANAGING DIRECTOR,
SIS LIMITED
MR. BRAJESH KUMAR - CHIEF FINANCIAL OFFICER,
INDIA, 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 discussion on New Labor Codes and its impact hosted by SIS Limited. As a reminder, all participant line 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 ‘*’ then ‘0’ 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: Thank you very much and I welcome all of you. Good evening and thank you for joining today's call. Looks like a full house with a lot of participants.

Therefore, we felt it was essential to organise a focused conversation, as the new Labor Codes, which were notified last Friday, are finally becoming a reality. We have been talking about it in various investor conferences and in one-to-one interactions as well. And post the implementation, there was a lot of noise, rightly so, questions around cost structures, around how the compliance frameworks will change, what will happen to the margins and more than that, what does it all mean for a business like ours. So, let me just put some basic framework in place and then we will get into a very detailed Q&A.

We genuinely believe that this is the GST moment for labor in India. As when the GST came in, it formalized the tax system, and it accelerated the shift from unorganized to organized players. The new Labor Codes are doing something very similar but on the employment side which is pushing India's large workforce into a more formal, more compliant and a fully auditable framework. So, for a Company like ours, increased compliances are actually not a headache. They are, I would say, a growth tailwind. We are India's largest fully compliant security facility management platform. We already run on proper auditable books and transparent accounting. We are fully compliant on PF, ESIC, social security and we have a very transparent wage structure and all our contracts are formally documented. So, as the rules get cleaner and stricter, it does not break our model, it actually validates it. So, in very simple terms, as India formalizes its labor, we are structurally designed to be one of the biggest beneficiaries of this whole shift.

Now, let me come to the second aspect. As you all know, we are not a temp staffing Company and we have been emphasizing on and off in all our interactions. We run mission critical operations, guards at factories, warehouses, data centers, office parks, hospitals and alongside housekeeping and soft services 24x7. So, what the new labor codes really do is raise the bar on how you manage a large distributed workforce across the state, across country. And our clients are telling us very clearly, we do not want the hassle and risk of managing thousands of blue collar workers, guards and the facility staff under the new regime. We want one specialist partner who can take care of everything end-to-end and be fully compliant. That plays straight into our integrated model, manpower, strong management layer and a very robust compliance framework

all under one roof. So, as these codes raise the bar, they do not hurt us, they push more business towards us because we are an organized specialist.

Now, let us come to the cost, margin aspect of it. Briefly, let me touch upon very frequent questions which were coming up. Under the new rules, as you can see, wages are more standardized. The definition of wage has been made very tight. There will be a new national minimum floor wage which will be notified on a pan India basis. Government has indicated this and I believe there is a committee being formed and soon it will be notified. Social security contributions are going to be more visible and more digital. This means less room for playing games with basic versus allowances as the practice of unorganized sector was and less scope for under reporting. So, for us, this is exactly how we operate. Our contracts are built in with full statutory pass through, I repeat full pass through. We earn our margin on top of a fully compliant cost structure. So, when PF, ESIC or any other statutory element moves up, it flows through to the client as a line item, it is not absorbed by us. So, the nature of the client conversation shifts from being who is the cheapest provider to who is the most reliable compliant partner at a scale. That is why we say when the codes are implemented, they may squeeze the non-compliant, unorganized sector, but for us, they reinforce a simple truth, quality, compliance, scale are worth paying for.

Now, touching upon the consolidation opportunity these codes bring ahead of us because we have been talking about consolidation, industry consolidation in various investor conferences. A very large part of India's Security and Facility market is still served by small informal vendors. The enforcement of labor code tighten that model, makes it more harder and riskier, especially for large corporate MNCs, etc. So, they simply cannot afford non-compliance on thousands of frontline workforce. So, with our pan India footprint and a fully digitized payroll and compliance system and a long track record, we are extremely well placed to capture this consolidation that is ahead of us. Every step India takes from informality towards moving a more formal system, we are actually ready.

Now, talking about the softer aspects, this is all about the people at the gate, the guards and thousands of housekeeping workforce. For them, the bigger questions are how predictable are my wages? Now that wages are mandated to be paid on exactly 7th of the month, are the wages credited on time, am I getting my social security, job stability, etc. So, tightening the definition of wages, enforcing minimum wages, strengthening PF, ESIC, moves the system in that direction. So, I would say we have not woken up to these codes overnight. We have been preparing for them for years and investing behind in this direction for a very, very long time with all digitized system, pan India platforms, strengthen integrated security and facility management offering and a sharpened portfolio, which basically helps us capture this whole opportunity.

So, let me close my remarks. As India's largest fully compliant security and facility management platform, we are built for this GST moment for labor, turning the new Labor Codes and the shift

from informal to organized into a long term growth tailwind as a quite compounder and an execution arm of Make in India.

Now, let me open the floor for questions. We have with us Mr. Rituraj Sinha, our Group Managing Director and Mr. Brajesh Kumar, who is our India Chief Financial Officer. We will be happy to take your questions and answer them to the best of our ability. I would request given the large number of participants on the call, please make your questions brief and only one question per participant. Thank you very much.

Moderator: Thank you so much, sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question comes from the line of Rushil Selarka from Pinc Wealth. Please go ahead.

Rushil Selarka: My question is that, since now gratuity will be applicable for workers after one year, will the attrition rate reduce, and will we also get a tax benefit under 80JJA?

Rituraj Sinha: As per the Gratuity Act, gratuity was applicable after five years of service, earlier. Now, with the change in Labor Codes, gratuity will apply to fixed-term employees effective the first year of service. This means that those who were not charging clients or had not created a gratuity fund as an employer will need to incur this expense. However, SIS has been funding its gratuity fund for over three decades now. And every contract of ours has a gratuity payment clause, which obligates the customer to pay us the gratuity payable to our employees as and when it is due. Given that the duration has now changed from year five to year one, we have to pass this through to clients. However, the contractual right with us is already preset in all our contracts. In part, you're right, there is a change in the law with respect to gratuity. Part 2: There will be additional costs for employers who were not funding gratuity. Part C and most importantly, the impact on SIS will be negligible or nil.

Rushil Selarka: But sir, like one more thing, are we going to see that, more stickiness in terms of employment, like people will not leave at least for one year because we see attrition rates are very high. So, I think because of all those benefits that psychology will help them to retain for one year and this might help us in bottomline, by paying less taxes under 80JJA. I just wanted to understand that?

Rituraj Sinha: I think to that, I will say that labor mobility is far more complex than just gratuity being applicable or not. However, at a high level, given the code on wages that is likely to push up the minimum wage payable to guards, janitors, cash van crew, given the fact that gratuity and other such things will also be available. Overall, if you were to ask me at a macro level, Is this going to increase retention and reduce attrition for the sector as a whole, I will say yes.

Rushil Selarka: Okay, got it. And so, like, are we going to see consolidation happening in the industry because now there will be less compliance required, whichever state you work earlier, there is a lot of compliance, but now it's been converted into four codes. Are we going to see that organized

market will pick up and they will start taking share from unorganised because of this less compliance and whatever has happened in the industry?

Rituraj Sinha: Yes, you could see this as a trigger for organic consolidation and a shift in preference by the customers from unorganised non-compliant players to more organized larger players for a simple reason. As a customer, as long as you are getting some benefit by operating with a small, unorganized, non-compliant player, you are saving some money, maybe, you are enticed to do so. But now that the labor regulation is going to require a single registration and online filing, the scope of cutting corners has reduced. If the smaller unorganized player is going to ask you for the same rate of pay or the same compliances as the market leader, then common sense says that an average customer would rather have a larger compliant operator than stick with the bottom end of tier operators. So, yes, it should trigger organic consolidation and a shift in favor of more organized, larger players in the market.

Rushil Selarka: Last question, are we going to see any impact in our working capital since the payment has to be made on every 7th of the month to the workers. So, sometimes the billing is when we bill it and then we receive the money. So, are we going to see any working capital issues over there or increasing working capital cycle because of this?

Rituraj Sinha: I think, I don't see any reason why the working capital cycle should increase. I actually see reason for the contrary. Code on wages has a provision where the principal employer, which is also defined as the user of the service, the end user of the service, is now directly responsible for payment of salaries to all direct staff as well as contracted staff by 7th of the month, which effectively means that as principal employer, they have to now look out for their contracted service provider, may it be a security company or a cash logistics Company or a facility management Company, that they are also paying all statutory dues on time, failing which liability would land at their doorstep. So, it's a great question. What will happen, - I don't think this will be an instant reaction. It will take a few quarters, maybe more than a year to settle. But at this stage, I don't see labor reforms as increasing working capital requirements in the business. In fact, I see it doing the contrary, which is encouraging customers to pay earlier because now they are equally liable for payment on time.

Rushil Selarka: Thank you, sir, for answering my questions.

Rituraj Sinha: Thank you for reading up on labor reforms.

Moderator: Thank you, sir. Our next question comes from the line of Siddharth Zabak from IIFL Securities. Please go ahead.

Siddharth Zabak: Hi, thank you for taking my question. I have two questions. Do workers who join for a few months and then return home and later rejoin, will they still receive social security benefits? And the second one is, will clients push to renegotiate contracts once the social security clauses under the Labor Codes come into effect?

- Rituraj Sinha:** Let's understand what it means to join the formal workforce. Formal workforce is defined as any individual who is getting minimum wages as per statute, who has a provident fund number, who has an ESIC number for healthcare, and is generally considered to be a part of the formal workforce. So, if such an individual were to work for six months, nine months and then go back, take a break and come back after staying at home for six months in his village, his provident fund number will still be active. His ESI number will still be active. So, as long as he goes to the previous employer or a fresh employer and shares details of those numbers, his account remains active. This is what the Government is defining as social security portability. Whether you work for employer A, B or C, you could carry your social security across employers, which is the concept of universalisation of social security coverage for the average Indian worker. The second question you asked, could you repeat that and clarify a little bit please?
- Siddharth Zabak:** Sure. I just want to know whether clients will push to renegotiate the contracts once all the social security clauses kick in as it will potentially increase costs for them?
- Rituraj Sinha:** Well, I think every client will look to reduce their cost. That is only natural. That doesn't my confirmation. So, at any point in time when there is an increase in cost, people will chase avenues to reduce cost. Having said that, I think the impact of such pressure will depend on which entity you're talking about. Like for example, if you're a staffing Company where your service charges is a fixed rupee value, per head per month, there is no impact because if the cost increases, the customer is going to say, "I used to pay you Rs. 1,000, I want to pay you 1000 or lesser". Looking at service providers like us, which are percentage service fee-based, are well-tuned to this because social security might be the discussion of the country today, but the fact is the industry that we work in, our pricing is linked to minimum wages. Minimum wages is a State subject. So, 30+ states in the country regularly revise their minimum wages. And that too, they do it twice a year, once in April, once in October. So, we undergo 60 or more price resets each year. For us, this is fairly routine. Therefore, our contracts are built for it. Our contracts clearly underline that any statutory change will be a pass-through on a pro rata basis. So, long story short, I don't see any negative impact on SIS, because we go through the drill 60 times a year, and that is pretty much as routine as it can get. Hope that answers your question.
- Siddharth Zabak:** That does. Thank you so much.
- Moderator:** Thank you. Our next question comes from the line of Riya Mehta from Aequitas Investment. Please go ahead.
- Riya Mehta:** Thank you for taking my question. My first question is that the minimum wage, which we were discussing since a long time, but it has not been corrected. So, with this new labor law do we get any sense of when the amount or the number would come by?
- Rituraj Sinha:** Well, I think let's spend a moment to understand the Minimum Wages Act itself. The Minimum Wages Act, as it were, pre-labor reforms, spoke about setting the minimum rate of pay for scheduled employment. Now, scheduled employment only covers 30% of all job roles. So, 70%

of workers were not even covered under minimum wages. What the Government has now done, that first big change is, and I think you guys should, anybody who's interested in labor laws must sort of really make a note of this because minimum wage is very fundamental to the cost structure of any industry, forget security or staffing. The first big change that the Government has made, they have universalized minimum wage. So, no matter what type of job you do, you could be a beedi maker, you could be a rag picker, or you could be, whatever else job you can think of, the Minimum Wage Act applies to everyone. That's number one.

Number two, there is a basis now for the fixation of a minimum wage. What job role will get what minimum wage? There is a logical basis for setting that minimum rate of pay. And that criterion is, number one - skill level, what skill does the job require? Number two - location of the job, whether it is in Himachal Pradesh, or in Bangalore city. And third, the working conditions. Does this job require you to work in a mine, in extremely hard conditions, or it is a job that requires you to sit in a pretty comfortable place? So, these three parameters put together determine the criteria on which the wages will be determined. And number three, mega changes, that the Government has prescribed a national floor minimum wage, which says that now the States cannot arbitrarily keep their minimum wage low, so as to keep the cost of production lower. For example, a lot of you will be surprised that the minimum wage of an industrialized State like Gujarat is literally 60% lower than the minimum wage in an industrialised state like Tamil Nadu, or even 40% lower than in Maharashtra. If I put numbers to it, in Gujarat, minimum wage is Rs. 12,000-Rs. 13,000-Rs. 14,000. In Maharashtra, for the same job role, you could be earning Rs. 23,000-Rs. 24,000-Rs. 25,000. It's that much of a disparity, for the same job. You could be a driver in Gujarat, you could be a driver in Maharashtra, and your pay will vary by Rs. 10,000 per month. Now, this disparity was a historical anomaly in the labor markets of this country, which are now being rationalized. So, when you talk about quote-on-wages and the minimum wage, you must understand these three things. Number one, that minimum wages now is universal. So, no shortcuts. Number two, that the definition of minimum wage is now crystal clear. And number three, that there is a rule for national floor minimum wage. No State can set minimum wages which are lower than the national floor. Now, the golden question, what is it and when is it going to lead? My answer to that is, I don't know. I don't know when the Government is going to formally announce the national floor minimum wage. And I don't know whether that will trigger a 5% increase in wages for security, for janitorial staff, for cash crew members, or that is going to result in a higher increase. In 2017, a similar change happened, not labor law change, but a re-categorization of security staff. In 2018 January, if my memory serves me right, at which point in time, there was a one-time catch-up of 54% in certain regions. So, my guess would be as good or as bad as yours. But directionally, I am sure that the Government cannot reduce minimum wages. And as long as it increases minimum wages, whether it is 5% or 50%, that will have a direct bearing on higher revenues and correspondingly higher margins for SIS group. Sorry for the longish answer, but I hope it clarifies.

Riya Mehta:

Yes, I think that helps a lot. Thank you. I will join the questions queue for further questions.

Moderator: Thank you. Our next question comes from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Hi, and thanks for the opportunity. So, my question is, on the minimum wage that has been set across the country, you said that there will be a minimum wage floor. So, we will see the cost for a lot of industries or a lot of States going up. So, is there a risk that some of these increased costs for clients of yours will be passed on to some of the staffing companies and the kind of margins that we are enjoying right now, there could be a risk to them and they could offer some discounts or ask for some discounts, maybe because of the increased cost. So, is that a possibility? And because our understanding was that with these new Labor Codes coming in the industry, which was seeing a lot of margin pressures over the last many years, maybe we can see some easing in terms of the margins and the gross margins can go up across the industry?

Rituraj Sinha: I think there is a fundamental difference that this labor law change will underline, which is the difference between staffing and service. The difference between a business model that generates 1% to 2% EBITDA margin and a business model with 5% to 6% EBITDA margin. Honestly speaking, I have said this earlier, customers will look to reduce costs in every way they can. But the fact is, minimum wages go up every year across every single contract of ours, at least once, mostly twice a year in April and in October. We pass through these costs to clients without any impact on our service fee, which is a percentage of the cost. So, I have no reason to believe that we will not be able to pass through this change. But then again, that time will tell. I think our business model, our contracts and our experience give me reasonable confidence that higher minimum wages should be both a revenue and a margin kicker for SIS.

Amit Chandra: If you are able to maintain your service fees, then apart from that, more from an industry tailwind, what other things that you think will drive your gross margins? If the client is able to pass on whatever the hike is there any minimum wages? What all things that you believe is more positive from a long-term perspective for the industry? And also in terms of timelines, how do you see the timelines in terms of implementation of these Labor Codes? Maybe it will take a quarter, six months, a year in terms of the implementation, full-scale implementation, because it's a big reform. Maybe it can take much longer versus what we have anticipated?

Rituraj Sinha: Let me give you a broader answer. I think it's important for everybody to understand the scale of this change. In India, we have 1.3 billion people, 95 crore voters who are above 18, 55 crore labor force, people who are actually in that age and are working. That is an estimate from the labor organisations. Out of the 55 crore, only 25 crore work in the farm sector. The remaining 30 crore people are either self-employed, Government-employed, private sector-employed. As of now, roughly 8 odd crore people were Provident Fund registered. So, out of 30, only 8 crore people were getting some kind of social security in the form of Provident Fund. This initiative of the Government is likely to increase social security coverage from 8 crore towards 30 crore. I don't know where exactly they will end up, but it is going to increase the social security net. Universalizing social security is one of the key objectives of the Government. Why I am telling you this is that when you absorb that scale of change, like Vineet was saying, this is as big as

GST. So, now when they are saying that every employer will have to get a single registration, single online filing, single license, getting this done, getting the IT system to work, it will take a while. Even GST took a while. It didn't happen in a quarter if you remember. Even this will take some time. There will be sets and resets and setbacks. But I am not in a position to give you a timeline on this, my friend, because the Code on Wages was enacted in 2019. It has been implemented in 2025. So, what I can tell you today is the impact is going to be massive. Impact is going to be across sectors. Impact will take time, at least a year, if not a little longer. But overall, this is good for India. This is definitely good for SIS.

Amit Chandra: Thank you and all the best.

Moderator: Thank you. Our next question come from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: Yes, thanks for the opportunity. Just to understand it better, can you help us understand what will be the cost difference between organized player and unorganized player today in security services as well as facility and cash management, if you can help us understand that part. And do you expect now cost will start converging and scale player rather have some advantage in core structure compared to unorganized player? If the answer is yes, for the second part of the question, do you think it can be, I think, partly valued about consolidation in your one of the answer earlier, but whether it can have a significant implication on the number of players operating in the space going forward because of the scale advantage in business? Thank you.

Rituraj Sinha: Well, that's many questions rolled into one. Let me try and answer one by one. I think labor reforms is a trigger for organic consolidation of the industry. There is no denying that. And I will give you evidence. I have been operating extensively in Australia for the last 15 years. Our subsidiary Company in Australia has an 18% market share. And that is largely because the labor laws are extremely explicit. I can give you a similar example for the UK. I can give you a similar example for many other countries where labor reforms have occurred in the last two decades. So, is labour reforms going to trigger organic consolidation? Is it going to trigger shift away from unorganized, non-compliant towards organized? The answer is a clear yes. As regards to cost comparison between unorganized and organized players, I mean, I am assuming you live in Mumbai. So, let me give you a Mumbai example. The minimum wages in Mumbai is such that an SIS security guard in Mumbai would cost you close to Rs 50,000 per head per month for an eight-hour shift. Technically, if you go to one of the old construction buildings, RWAs, which have been there for 100 years or 70 years, you will find a Johnny sitting inside the lift, generally wearing chappals, sitting on a stool. If you ask him his salary, he'd probably be getting maybe Rs 20,000-25,000 in hand and no PF, no ESI, no bonus, no gratuity, no nothing. He's just getting salary and his owner is taking Rs. 2,000 on top. Both of this could be happening at a stone's throw distance. Same RWA will have an ICICI Bank branch or ICICI Bank ATM or Axis Bank ATM. There, ICICI will be paying full compliance. They will be paying Rs. 50,000 for a guard. And 10-feet far, in the same building a lift man is working at half rate. This is the condition of labor law implementation in this country today. So, I don't think our addressable market is the

RWA. It has never been. SIS is primarily industrial-focused. So, we don't work for individuals, we don't work for households, we don't work for such RWAs. In our existing customer base or our addressable market as we call it, I don't think there is anybody who is looking for a Rs. 25,000 service in Bombay. They all understand that when labor reforms will come, maybe the cost of the same guard, which is Rs 50,000 thereabouts, might go up 15%-20%. It might be now Rs 60,000. But then the same Bank or the same corporate client used to have a guard or security manpower 20 years back in his building. And at that point in time, the minimum wage was lower. So, he may be only paying Rs. 20,000 for that job role. Today he's paying Rs. 50,000. Tomorrow he might end up paying Rs. 60,000. But because the value addition is reasonable and justified, the industry rolls on. I hope that helps.

Dipesh Mehta:

It helps. The only follow-up is, broadly what you are indicating is, because we are operating in, so our addressable market is not including situations like RWA building, then our target market, we don't see much change in terms of cost difference between us versus our similarly organized players.

Rituraj Sinha:

Let me clarify. Let me put it in numbers, maybe you will understand it better. The GST code for private security indicates that ~Rs. 8,000 crore+ of private security services are rendered each month, and GST for Rs. 8,000 crore worth of services is deposited with the Government of India. SIS's revenue from security is approximately Rs. 600 crores in a month. So, technically, our market share is somewhere between 5% to 10%. Now, I clearly state that every single buyer of security is not in my addressable market. There are a lot of people who we will not serve simply because they are not corporates, they don't believe in compliance, there is no managing director, there is no Board, there is no listed Company. So, they are more casual about their compliance. So, everyone who's buying security is not my client; everybody who's buying cleaning service is not my client. But even if you exclude 30%-40% like that, our headroom is still from maybe Rs. 600 crore to Rs. 6,000 crore, till I reach a point that I am getting into non-addressable market. So, I don't think we are at all worried about that aspect. We have enough headroom to grow. In the US, the largest security Company Allied Universal has 15% market share. In the UK, the largest security Company has more than 15% market share, which is Group 4. In the Scandinavian countries, Securitas has more than 25% market share. In Australia, our own subsidiary has 18% market share. We have maybe 5%. So, I don't think we are worried about the size of the market at all.

Dipesh Mehta:

Understood. Maybe I can come for follow-up. Thanks.

Moderator:

Thank you. Our next question comes from the line of Anant Mundra from Mytemple Capital. Please go ahead.

Anant Mundra:

Hello. Thank you for the opportunity. So, just wanted to understand the impact of this 48-hour per week cap that is there, because I understand security is a 12-hour shift business; so, I mean, how would this impact the Company and the industry overall? And because there's going to be like a, I mean, if you just divide it by six, there's an eight-hour cap. And beyond that, everything

has to be, I think, double the regular wage. So, how could this impact the Company and the industry overall?

Rituraj Sinha:

Firstly, who told you that security is a 12-hour work shift industry? I think this is completely false and wrong information. Please correct for everyone involved. Security, like any other industry, complies with the same set of labor laws as everybody else. So, if a 12-hour shift is not common to every industry, it is not common to security. A 12-hour shift is more likely in a bank or at a call center. It is more likely in the textile/garment industry than in private security. So, I think that's the first point in correction.

The second is that it is true that our guards voluntarily opt to do extra shifts. That is because they are mostly migrant labor and they look to maximize their monthly earnings. They'd rather do an extra shift that is available than not do it. As of right now, through our proprietary technology, which is the MySIS app, we have restrictions on who can do OT, where he can do OT, how much OT he can do. For us, it is as simple as changing one rule in the code to say that 40 hours and no more. The person will not be able to log in attendance. He will not be able to punch attendance. So, non-compliance at the trigger point is being addressed by SIS as we speak. So, effective the first full month, which is 1 December, we are hard-coding a 40-hour OT cap for all our employees. I hope that's clarified.

Anant Mundra:

Yes, thank you so much. And just one more question. So, do we expect the take-home pay of our employees to go down because the base on which PF calculations is done is going to get revised? So, do we expect the take-home to go lower for our employees?

Rituraj Sinha:

No, as of now, no. Why is the take-home going down? - please understand this also. This is one of the biggest misnomers. So, let's say, your salary is Rs. 1 lakh or my salary is Rs. 1 lakh. And for the purpose of provident fund, my HR department had defined my basic pay as Rs. 10,000. And they were paying 13% provident fund on Rs. 10,000. So, the new law says that at least 50% of your take-home pay will be considered as base for PF deductions. So, now, my HR department in this case would have to rebase my PF computation at Rs. 50,000. So, which basically means that the Company will have to cough up more. But it also means that there will be a greater deduction from my take-home pay as a result of which my in-hand salary will reduce.

In SIS, pre-Corona, I think maybe 2017 or something, we rebased our PF calculation in our pricing with customers and in our calculation for payment to PF department at 50% of gross take-home pay. And that was because there was litigation in this regard, where such matters were taken to court. And the court had already ruled that PF should be deductible on 50% of gross pay. Now, because that was not enacted, some people opted to be extra cautious, others decided to take advantage till it became clear enough. We were cautious. We have no extra cost. Our guards are not going to have lesser take-home pay.

Anant Mundra:

Wonderful. Thank you, that was it from my end. Thank you for the clarification.

Moderator: Thank you. Our next question comes from the line of Riya Mehta from Aequitas Investment. Please go ahead.

Riya Mehta: Thank you so much for the opportunity. I understand the kind of impact would be neutral to positive for our security business. So, I understand for our securities business, I think this has been something which we have been waiting since long. For a facility management where we don't charge a percentage and an absolute amount, how does it impact that business for us? If you could just help me understand.

Rituraj Sinha: Again, I am glad that you guys are asking all these questions. Again, who told you that facility management does not work on percentage service fee? Please do not confuse us with a staffing Company. I don't know how staffing companies who have also entered into facility management price their contracts. But we have been in this industry since 1974. We have gone through many such waves. Our pricing model is exactly the same across security and facility management. Let me give you a very detailed example. If minimum wages in Bangalore is Rs. 20,000, then on Rs. 20,000, the janitor gets his PF, ESI, bonus, gratuity, leave, everything calculated. On top of it, we put Rs. 200-Rs. 500 for his uniform and training and other such charges, supervision charges. And then we charge our service fee as a percentage of that overall cost. So, if that adds up to Rs. 35,000 already with all these wage plus, statutory plus training and uniform put together, we charge, let's say, 10% on that. So, our service fee is Rs. 3,500 on a cost base of Rs. 35,000. And the net cost to customer is Rs. 38,500 plus GST. Now, for example, Government decides tomorrow that the GST on facility management services is reduced to 5%. So, nothing happens in our pricing. Simply, instead of invoicing out at Rs. 38,000 plus 18% GST, we invoice out Rs. 38,500 plus 5% more GST. If the Government says that no, minimum wage is effective next month is going to be Rs. 21,000, then we simply reprice our contract. Rs. 20,000 minimum wage becomes Rs. 21,000 and PF, ESI, bonus, gratuity, everything else gets computed. We were getting 10%. We continue to get 10%. Because the cost has now moved from Rs. 35,000 a month to, let's say, Rs. 36,000 a month, for simple understanding, we get 10% of Rs. 36,000. So, we start to get Rs. 3,600 for that individual per month. That's how the margin of this industry operates. Now, many would say, oh my god, labor reforms have happened. So, this practice may not hold. What they are missing is that minimum wage hikes have been happening twice a year for the same contract for the past 10 years. There is nothing new about it. What is the Government going to do? Worst case, the Government is going to say minimum wage goes up by Rs. 5,000. Instead of Rs. 1,000, they will say Rs. 5,000. Should that happen, we have to go back and talk to the customer. But the contractual right to pass through remains. The customer will call us and say, boss, my budget has blown up. What should I do? Better than that, sir. You do this. Reduce the headcount a little or you have to give this much or you increase automation or you do this. That is what solutioning is all about. I think it will either boost revenue through higher cost, or it will boost revenue through higher use of mechanisation and automation. Both ways, it's a booster on margin.

Riya Mehta: Got it. Also, in terms of incremental cost with all these things like maybe health checkups, gratuity in one year, etc. Can you help me with an example? For a person who is earning Rs.

10,000 or Rs. 20,000, how much as a percentage that cost will increase? Or how much is the actual cost to the Company going to increase with all these incremental statutory obligations?

Rituraj Sinha:

Every individual that works for SIS today is already covered under ESIC, Employee State Insurance. That basically has a network of hospitals across India. So, you get a card. See it as the predecessor of Ayushman Bharat. So, as an employee enrolled in ESIC, you get a card which has a picture of your family. Husband, wife, children. And now the Government has added in-laws and parents. So, all of these people will become eligible to free healthcare from ESIC hospitals. So, for us, is this a cost increase? The answer is no. We were anyway charging our clients and paying. What is new is the Government has said that employees above 40 years of age will also be entitled to a preventive annual health checkup. Now, we don't have that provision currently in ESIC. Now for the Government to effect that for 10 crore people, they will have to extend this service to ESIC enrolled members also. Otherwise, how is the Government going to say that this is a new rulebook? Everybody gets preventive and curative healthcare, but ESIC will only do curative and preventive, you go find for yourself. It will need infrastructure also. So, the Government ESIC will now have to catch up and offer preventive healthcare also. Luckily for us, this provision clearly underlines that this is an obligation of the principal employer. As per law, principal employer is defined as the end user of service. So, there might be some confusion for a Zomato delivery boy, whether you as a person who orders Zomato is the principal employer or not. There the buck might stop at Zomato itself. But for us, our employee is either working in Max Hospital or Lilavati Hospital. He is either working in Tata Motors or ICICI Bank. He is either working at American Express Corporation or at Boeing Corporation. So, the principal employer is crystal clear. There is no ambiguity about that.

Riya Mehta:

Okay. But in terms of like say, gratuity, its tenure has been reduced or other incremental legal costs. Could you give me a ballpark number which or just a sense of how much cost for a non-compliant Company would increase?

Rituraj Sinha:

Company that is non-compliant for gratuity?

Riya Mehta:

No, for all the incremental compliances, which let's say I understand that SIS has been among the organized player. So, I want to understand how much is the delta between unorganized to organized? How much will the cost increase for the unorganized?

Rituraj Sinha:

I don't know the level of non-compliance you're talking about. That could be somebody who's not even paying minimum wages.

Riya Mehta:

Let's say zero.

Rituraj Sinha:

Yes. So, in Bombay, you could have somebody who's paying a guard Rs. 10,000 salary. So, to catch up with minimum wage, he has to first increase salary by Rs. 15,000 to be equal to the rate of pay in Mumbai. Then if he's not paying minimum wage, he has to; he most certainly is not

paying PF, ESI, bonus and gratuity. So, he has to pay 13% PF, 3.75% ESI, 8.33% bonus, 4.81% gratuity. I'd say weekly off and leave 16.66%. So, depends how non-compliant you are.

Riya Mehta: Okay. Got it. And with the current implementation, we had read reports that it would take around 45 days to 50 days for the final draft to come. Are we expecting similar timelines?

Rituraj Sinha: This act was legislated in 2019, '20 and '21. It became effective in November 2025. Only God knows when the portal will be ready for single registration, single license, single online filing or the draft rules to be out. I would not venture a guess. But I know for sure, there is no stepping back. In the farm laws, the Government had to step back. In land reform, Government had to step back. Luckily, in tax reform, they were able to implement. I think labor reform is going to go the tax reform way, simply because I haven't read anything. There's no trade unions on the street. There is nothing that sort of says that there's going to be another farm law type situation.

Riya Mehta: Right. I think good times for the Company. Congratulations. Thank you. This is the last question from my end.

Moderator: Thank you. Next question comes from the line of Girish from G J Capital Partners. Please go ahead.

Girish Tekchandani: Hey, Rituraj. So, my question is on working capital, which is already addressed by you. But just to clarify on one fact, if you look at the Code of Wages central rules, there's Rule 55, which requires principal employer to pay to the contractor before contractor pays salaries to the contract labor. And as per the Wages Act, it is within seven days of the month closure. So, there's a clear case for SIS to reduce the receivable days in India business. And logically, it should come down to close to seven days from probably 70 plus days currently and release lot of working capital. So, how do you see this building up in SIS? That's my question.

Rituraj Sinha: Firstly, my compliments. And I am glad to know that you've actually taken the pain to read the Act. It's a great question. I think, theoretically, this gives us very solid grounds to contest payment terms with our clients. If the law is implemented in letter and in spirit, you're right. We are supposed to give the bill by 1st of the month. They are supposed to pay before 5th or 6th of the month. And we are supposed to pay our employees on the 7th of the month, just like they will pay their direct employees who are sitting in their factories. So, 7th, everybody gets paid. That's the ideal condition. Should that happen, SIS maintains probably one of the better DSOs in this industry. Our DSO still sits at 70 days. Now, if this theoretical situation were to prevail, there should be a very significant reduction in our working capital intensity. Having said that, it is too early to make a forecast, prediction or claim about this. I think we have very solid grounds to reduce our working capital. We have legislation to back us. But how this will actually play out is to be seen.

Girish Tekchandani: So, Rituraj, if I am not wrong, your receivables, trade receivables are Rs. 2,200 crore. Even if I assume half of it is in India, which is Rs. 1,100 crore. And even if we are able to achieve 50%

compliant principal employers, there's a potential of release of Rs. 500 crore to Rs. 600 crore of cash, which makes you a net debt-free Company. So, I am sure you will be making full efforts towards that.

Rituraj Sinha: I think we are anyway sub 1x net debt to EBITDA. And even without that working capital release, we will work towards a negative net debt Company that you can take regardless of what happens here. But you are right. I think if your math is correct, the first thing that will happen, net debt is the side show. The main thing that will happen is, the return ratio of SIS will go beyond 30%.

Girish Tekchandani: Thanks, Rituraj for answering this. That's all from my side. Thank you.

Moderator: Thank you. Our next question comes from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: Thanks for the opportunity. I think broadly you answered on working capital side. But do you think any changes in the facility side also? So, let's say between security and facility management, are there any terms different in working capital between these two businesses with the customers? And second question, contracting...

Rituraj Sinha: So, just to be clear, please do not try to dissect Security and FM. Our operating model, our pricing model, our payment terms and contracting model with customers are pretty much the same for Security and for FM.

Dipesh Mehta: So, that answers my question. Thank you.

Moderator: Thank you. Ladies and gentlemen, in the interest of the time, that was the last question for today. I would like to hand the conference over to Mr. Rituraj Sinha for closing comments. Thank you and over to you, sir.

Rituraj Sinha: Thank you very much for all those who have joined the call. Anyone whose questions were not addressed today, kindly feel free to write to Investor Relations, and we will get back to you with answers. In summary, I would like to say that this is a mega trend. The scale of change in the labour environment in the country is a mega trend; it is a mega change. It will take time to get implemented, just like GST did. This is even more complicated because this is literally covering every single employer in the country and potentially every single non-farm employee in the country. So, this will take time. It will go back and forth. The key thing to remember is that this has happened. And as and when it gets fully implemented, it will transform the labor market environment for India. I have about 23 years of experience in this sector. I started out in 2002 when the minimum rate of pay or the minimum wage in Delhi was Rs. 2,800 per head per month. There was nothing like service tax. And I still remember going to customers where they asked me, if I have to pay PF, if I have to pay ESIC, then why do we need you? Can't we keep it direct? So, I have seen this industry evolve in the last 23 years from that where we stand today, where

nobody is challenging the fact that minimum wages have to be paid or GST has to be paid. There were some shortcuts that people were making around things like bonuses and leave. I think even minimum wages, in certain cases, I think will all be addressed over time. This is not just good for India; this is particularly good for businesses like SIS because our revenue is basically volume multiplied by price. And price is a function of wage. So, if the wage goes up, the statutory compliance goes up, then the price will increase. And if the price increases, the revenue will increase. Please understand, we have 3 lakh plus people. If minimum wages were to go up by Rs. 1,000 starting tomorrow morning, each of these individuals will have to get Rs. 1,000 extra every month, and we will have to claim that from our customers. That will reflect on our revenues, reflect on our profit line. It's as simple as that. So, please do not be overly concerned about our capability to pass through.

I think this is also a moment of time which will clearly underline the difference between the staffing industry, as a 1%-2% EBITDA margin business and a flat fee model, vis-à-vis security and facility management, which are a service at 5%-6% EBITDA margin on a percentage service charge basis. So, I think these are interesting times. I am sure we will learn as we go ahead. But let me assure you that SIS has been preparing for labor reforms since the Code on Wages was enacted. We have worked in very close coordination with all Government agencies. We are glad to see that the Government has been extremely receptive, listening to the feedback of large blue-collar employers like SIS. By virtue of having 3 lakh plus employees, we are also one of the top 10 private employees in the country. And among the blue-collar workforce, we are probably the top 5 private employees in the country. So, we are very happy that this has happened. We welcome it. There will be teething trouble. We are prepared for it. Overall, I see this as an inflection point for our industry. Thank you very much.

Moderator: Thank you so much, sir. Ladies and gentlemen, on behalf of SIS Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
