# SIS Limited

## Q1 FY27 Earnings Conference Call

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**Moderator:** Ladies and gentlemen, good day, and welcome to SIS Limited Q1 FY '27 earnings call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

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:** Good afternoon, everyone, and we welcome you to the Q1 FY '27 earnings call; results were uploaded last evening on the exchanges. Hope you had a good look at it.

So let me start saying we ended FY '26, you saw, on a very strong financial trajectory. In fact, it was a record revenue of close to INR 16,000 crores, which was a 21% year-on-year jump and an EBITDA of over INR 700 crores, which was 18.7% year-on-year. And we exited the year with an EBITDA run rate of INR 207 crore on a quarter, which was also a record.

So further to FY '26, now FY '27, I'm pleased to report, is also off to a very solid start. It's reflecting strong execution across all our business lines and with a continued momentum in both growth and profitability as well.

Now Labour Codes have been the talk of town, for last almost 7, 8 months, and it's building up during this quarter. On May 8-9, the rules were finally notified, which we have been eagerly waiting for. And now the implementation is underway. We have always maintained that Labor Codes is a very strong tailwind for SIS. And we were prepared for years for this and that time has come. Our readiness for the change in regulation has ensured that we are at the forefront to benefit from this. Labor codes, as we have always maintained, will ensure level playing field for all service providers. And you will see the impact over the coming 3, 4 quarters that it will be accretive both at the EBITDA and PAT levels as efforts are underway at multiple fronts in terms of contract negotiations, etc.

Now part 2, as you all know, we are a very strong cash flow generative company, very strong FCF. And over the last 6, 7 years, we have clearly established a track record of returning capital in some form or the other, either it is dividend or buyback or ideally both in some mix. And thus, we established a consistent yield track record for all the investors. So, during this quarter, continuing from our past track record, the Board has approved the fifth buyback this time. Now what's unique about this buyback, as you know, so far, we've been only going through the tender route. But as you all know that SEBI, again, after a very, very long gap, has reopened the open market window. So, SIS is probably one of the first few companies to tap into this opportunity, the window that has opened. We are going ahead with an open market program, and the buyback is approved for INR 106 crore and maximum price that has been sanctioned is INR 478.50, implying a decent premium on the current trading price; Our buyback is scheduled to open sometime next week. So once this program concludes, we would have cumulatively returned over INR 700 crore to the shareholders, thus keeping up with our track record of consistent capital return.

Now coming to the quarter highlights. We recorded a revenue of INR 4,604 crore, which is a robust 29.7% year-on-year growth and 2.5% Q-o-Q growth. EBITDA continues to remain above the INR 200 crore milestone. Although quarter-on-quarter, it is flat, EBITDA is at INR 207 crore, but it is 36.2% jump on a year-on-year basis. This shows our strength, resilience and scalability of our operating model.

Now coming to the details. On a consolidated level, monthly revenue run rate is now INR 1,578 crore across all segments. This quarter's revenue is INR 4,604 crore, increase of 29.7%. India Security has now crossed a quarterly revenue milestone for the first time at INR 2,000 crore with Q1 FY '27 revenue at INR 2,004 crore, a 37.3% growth on a year-on-year basis.

In FM, we have reported a revenue of INR 642 crore, which is a growth of 8% year-on-year.

International Security has seen a very strong bounce back, as you've seen since last year. It has reported the highest ever quarterly revenue run rate of INR 1,982 crore, nearly touching INR 2,000 crore, which is a growth of a whopping 31% year-on-year and 7% on a constant currency basis. Of course, rupee has also contributed into this.

Now coming to the EBITDA. It's a constant endeavour to improve margin profiles across all segments. So, we have focused on margin, both in terms of customer contracts as well as rationalizing SG&A costs. So, on a consol EBITDA level, we grew 36.2% year-on-year to INR 207 crore and a margin of 4.5%. India Security reported a stable margin of 5.1% at INR 103 crore EBITDA. Facility Management reported an EBITDA margin of 5.5%, which is now normalized to a new zone. We have been constantly guiding that FM margins will be on an upward trajectory. And International Security, the EBITDA margin for Q1 was 3.5%. EBITDA improved to INR 69.6 crore, which is a 52% jump year-on-year. The decline from Q4 to Q1 is always on the expected line because for Australia, Q4 has historically been the highest due to high-margin events, et cetera, which fade out during the Q1 year. So it's as per the previous pattern.

Coming to PAT, it was INR 101.7 crore for the quarter, which is a margin of 2.2%.

On ROCE front, we've been continuously guiding that we will be consistently pursuing incrementally higher ROCE. So now the ROCE stands at 16.7%, which is actually an improvement of 14% from a year ago. On capital efficiency, the DSO stands at 66 days. These are up by 3 days, but that's not at all surprising because Q4 is always the best in terms of DSO historically and Q1 obviously dips.

So with that, I conclude the opening remarks. On the call, I have Mr. Rituraj Sinha, GMD; and Mr. Brajesh Kumar, he is the India CFO; Mr. Murli Krishna, CEO, SIS International. And we are open now for Q&A.

**Moderator:** The first question is from the line of Abhinav Mandowara from Aequitas Investments.

**Abhinav Mandowara:** My first question was regarding A P Securitas. What is the revenue and EBITDA number for the quarter?

**Brajesh Kumar:** For this quarter the revenue of A P Securitas was INR 332 crore, and EBITDA was INR 12.2 crore.

**Abhinav Mandowara:** My next question was regarding the labor shortage. So we have been reading a lot about labor shortage across. So did we face it? And what is the outlook around that? Did it impact our margin? And going forward, how do we see it?

**Rituraj Sinha:** This is Rituraj, Abhinav. Nothing exceptional. I think every year, April through to June before the monsoon sets in, is a period where you witness shortages. And by about July when the farm labor returns to their blue-collar jobs, this subsides. So there is nothing exceptional to report.

**Abhinav Mandowara:** So, you didn't find labor shortage and anything, any outlook around that?

**Rituraj Sinha:** No. I don't see any exceptional labor shortage and nothing which is unique compared to previous year trends.

**Abhinav Mandowara:** Okay. My next question was regarding the wage hike that has happened across various States we have seen taking minimum wage hike. So how have you been able to guide that? Or has there been some lag?

**Rituraj Sinha:** So important question. I think labor codes model rules were notified finally by the Government on 8th of May, which triggered all State Governments to notify implementation dates for labor codes in their respective States. Across the country, State Governments have already floated draft model rules. Once the drafts are settled, then the new codes become fully operational.

In that background, a few States have also taken this opportunity to pass through minimum wage hikes that had been held back awaiting labor code implementation. States like Haryana, Uttar Pradesh, Karnataka, Telangana, Uttarakhand, some examples which have passed through minimum wage hikes ranging from 20% to 47%.

The average wage hike for the last 10 years, the annual minimum wage hike trend for the last 10 years in India or more recently post-COVID has been sub-5% actually. So, pre-COVID, if you take a 10-year window 2016 to 2026, it will be close to 9% year-on-year. And if you factor in COVID and what's happened since COVID, it will be barely 5%. So the States that I cited have clearly done exceptional minimum wage hikes.

Now let me call out that this is, in essence, great news for SIS. Our contracts are set up such that every and all minimum wage hikes are passed through directly to client. So a minimum wage hike like this means a revenue boost. For the same volume, your price goes up. So you witness a revenue boost.

Number two, because it is a pass-through, mostly it is a non-event on the gross margin line and it is an EBITDA-accretive result. So to bring conclusion to my long-ish answer to a straightforward question, please don't see these minimum wage hikes as exceptions. This should be largely the pattern across most major States in the country. Minimum wages were held back by most States because they were awaiting labor code notifications. Over the course of the next 6 to 9 months, as the labor codes model rules get notified at different States, they will also come through with some meaningful level of minimum wage hikes. It may not be to the extent of 45% or 47%, but it will certainly not be as feeble as the 5% average annual increase that we have witnessed. So this is a story in the making.

But like Vineet called out, overall tailwind for SIS, we are very well prepared to pass these through. Actions are underway. Impact in Q1 is less evident because this whole thing started only on 8th of May. As you see Q2 and Q3, the impact should become more evident.

**Abhinav Mandowara:** Okay. The next question is regarding the Cash business IPO. What is the status of it? And can you share us with the revenue and PAT number?

**Rituraj Sinha:** Well, I cannot share because the DRHP is filed, and we still have an active card. I can't share the financial performance details of the Company. I can only say that as of right now, we are waiting for a good time window. And in the IPO rush that we are witnessing right now, also given the fact that the peer comparables have witnessed significant de-rating, we are waiting on a more opportune time to take this Company to market.

**Moderator:** The next question is from the line of Umang Shah from Banyan Tree Advisors PMS.

**Umang Shah:** Congrats on a good set of results. So, one question I had was on the minimum wage hike announced by the Australian Government of 4.75%. We had signed a lot of contracts in Australia last year from Q2 to Q4. Now we understand that these hikes will not be automatically passed on, but they will be reset when the contracts are renegotiated. So in the meantime, what is the margin impact that you see for SIS for the entire year? Any rough idea?

**Rituraj Sinha:** No. Just one second. I think there's a big misunderstanding. When the minimum wage hike happens, our contracts have in-built rise and fall clauses, which basically means that we contractually have the right to pass through the higher wage cost of employees to the customer immediately. However, this has a time lag. You raise an invoice, the customer studies it, he processes the bill. Sometimes he pays on the current rate till the matter is settled and then he pays in arrears. So, there is a timing mismatch between the date on which the higher wages become effective and when we are able to fully claim and pass through. So, it is not, let me underline, this is not dependent on contract expiry date or contract renewal date. This is a routine operation. It happens every year.

I will request Murali Krishna, who is our CEO, is on the call as well. So Murli, if you would want to add more specifics to what's happening in Australia.

**R. S. Murali Krishna** Okay. So as Rituraj just said, all our contracts have a natural rise and fall clause....

**Moderator:** Sorry to interrupt, sir. There is a disturbance in your voice.

**R. S. Murali Krishna** Is it better now?

**Moderator:** No, sir.

**Rituraj Sinha:** I more or less answered the question. So if there's any follow-up, please email to us. Murali will respond separately.

**Moderator:** The next question is from the line of Parag Jhawar from Knightstone Capital Management.

**Parag Jhawar:** Could you throw some light on the share purchase of Updater Services that you are doing? And please don't say this is a treasury operation.

**Rituraj Sinha:** It is a treasury operation.

**Parag Jhawar:** But that's a single stock that you're buying. Is there any, is there something more to read...

**Rituraj Sinha:** No, that is the single stock we have bought till now. That would be a more correct statement.

**Parag Jhawar:** Fair enough, thank you.

**Moderator:** The next question is from the line of Manoj Reddy Sama from Zen Wealth Management Services Limited.

**Manoj Reddy Sama:** My question is regarding outlay for this metro services business, for example, if we take the Hyderabad business, how many employee there?

**Rituraj Sinha:** I'm sorry, I don't think I have contract level details handy to respond to that question. In any case, SIS handles in India more than 16,000 different contracts. No single contract contributes more than 1% of revenue. So, I don't know what the intent of your question is, but if the question is around the significance of a contract or materiality of a contract, let me assure you that we have a very diversified portfolio of contracts and there is no risk to that count.

**Manoj Reddy Sama:** What I wanted to understand…

**Rituraj Sinha:** Sorry, I couldn't get the question.

**Moderator:** Mr. Manoj, your voice is not audible. Can you please say the question again?

**Moderator:** Since the line of Mr. Manoj is not audible…

**Vineet Toshniwal:** Yes, just promote the others on the question queue as we...

**Moderator:** The next question is from the line of Abhinav Mandowara from Aequitas Investments.

**Riya Mehta:** Hi, this is Riya from Aequitas. Just got a couple of questions. In terms of the India business, since we are expecting the new labor code to be implemented and you said the pass-on would be happening after some time. So there are 2 questions to it; one is, what is the minimum price hike which we would be expecting in terms of Government, etc.? And is there any conversation around it on the policy level? And second is in terms of India business, if you could help me, are these current margins sustainable going forward?

**Rituraj Sinha:** So India business margins, if you just look at the Indian side of the business, the margins are more like 5.1% for Security and 5.5% for FM. So if you do a blended average India business, probably we will be 5.3%, 5.4% ballpark range.

Are these margins sustainable? I would think so. And I have in the past also said that our objective is to move from this range to 5.5%, 6% ballpark range in India. So that's the answer to your second question.

The first question is around minimum wage hikes. That's a great debate, Riya, what the wage hike will be and when the wage hike will come through. My guess would be as good or as bad as yours.

**Riya Mehta:** Got it.

**Rituraj Sinha:** **In** India, labor is a concurrent subject. Minimum wages are defined by State Governments. There we are talking about more than 30 State Governments, when they decide what level of wage hikes, they will pass through is very hard for anybody to predict with any degree of accuracy.

What I can tell you is that the States that have so far increased their wages, Karnataka has probably witnessed one of the highest percentage hikes in excess of 20-odd percent. Haryana, again, has been exceptional at 40% plus.

U.P. came through at 23%, 24%, if I remember correctly. So these are abnormal. They are not in line with the 5% odd annual minimum wage hikes that have been coming through since COVID. But whether all States will follow similar pattern is very hard for me to say.

**Riya Mehta:** Right. But the State where we have seen this implementation already being done, you mentioned that you were able to pass on even prices which were higher than 10%, 12% and up to almost 20% to 30% also in few States. So how are these contracts laid down? The nature of the contracts involves complete pass-through? Or is it a one-on-one negotiation which we do with the customer?

**Rituraj Sinha:** There is no negotiation. Our contracts are structured on an open book costing where we define the minimum wage basis on which the price of a product category is built. So, let's say, for example, the minimum wages in a State is INR 100 and our price in that State may be INR 140. Now if the Government changes the minimum wages from INR 100 to INR 110, we simply reprice the contract basis that change.

**Vineet Toshniwal:** Also, Riya, when you asked about the margin, see, ever since we've been interacting, the SIS flagship Security business, that operates at a consistent 5.5% type of margins. If what you're seeing change is post-acquisition, and the acquired asset had lower margin given the lower scale, they are 20% of our size. And then there is a clear path to integration and upping their margin profile also as a result of the synergies and the cost savings that will come. So, you will see on a blended basis, coming to the original margins that we used to operate over a period of the next 4 to 8 quarters. So that's why they are sustainable. It's only because of the acquisition effect you are seeing lower margins.

And then FM, we have always been guiding that margins improvement started from 4% and it's as high as 5.5%. As I've always said, aspirationaly, we should be operating near 6%, but it will happen when it will happen, but we are at 5.5% consistently. So there is no margin threat as of now.

**Riya Mehta:** Got it. And in terms of the entire payment for acquisition has been done...

**Vineet Toshniwal:** No, we only have acquired 51% stake in the Company, and we still have to acquire 49% subsequently over the next couple of years. The anniversary for that '28.

**Moderator:** The next question is from the line of Umang Shah from Banyan Tree Advisors PMS.

**Umang Shah:** I wanted to ask the question with labor codes getting implemented, there will be a level playing field between us and the smaller players who are not very organized. Can you tell us roughly what is the cost discount at which they were operating at because of not applying or not following the rules properly and with the labor code implementation, how much will that delta increase? Any rough idea would be great.

**Rituraj Sinha:** Well, it's impossible for me to say what is the degree of non-compliance a smaller operator might be opting to. So it can be anything. I mean, you could be non-compliant to PF, you could be non-compliant to PF, ESI and bonus. You could be non-compliant to minimum wage as well. You could be non-compliant to almost everything and reduce your cost.

I think the important thing I would like to register for everybody who's following SIS in particular and labor code impact in general, if somebody was to ask me what is one of the most significant changes in labor codes, I would point to the definition of the term employer.

The definition of the term employer in the 4 labor codes clearly states, and if I can quote for you, that an employer is a person on whose payroll an individual works, but is also the person on whose premises or whose establishment the individual works.

Why this matters is because in the past, a customer who wanted to circumvent the laws to cut cost could have easily given a contract to a noncompliant vendor and assumed that the onus of all compliances has now shifted from the customer on whose site the guard may be working to the contractor who has given non-compliant rates.

So outsourcing had become a method to circumvent compliance costs. The Government has now plugged that gap. The Government's new definition says that if I have a guard working on my premises and he is not getting PF or he is not getting the applicable minimum wages or he's not getting bonus or all 3, I am under obligation as the principal employer to ensure that all his dues are paid whether or not the contractor is able to fulfil compliances. This is a tectonic shift. This basically means that the arbitrage discussion, which was always there in this industry, there's a cost arbitrage operating with the non or the lesser compliant players. That conversation has completely shifted now to the customer's doorstep.

Whether a customer hires a fully compliant agency or he hires a less compliant agency, the onus of all compliances rest with the customer as well, number one. And number two, not just in theory, the customer has to disclose under his LIN number, there is an equivalent of a GST number now called LIN number, labor identification number. And all filings have to happen on Shram Suvidha portal, just like you file for GST on GST network.

So as a customer has to, under his LIN number, show that he has outsourced security to SIS and facility management to DTSS and what he is paying these agencies and what these agencies are paying to their respective employees. If there is a default by SIS or DTSS, the principal employer still remains under obligation to discharge all such dues to employees because they are working at his establishment, on his premises, so he is ultimately the principal employer.

This is a tectonic shift. It has not happened before in this industry. I am pretty confident that once this is fully implemented in letter and spirit across the country, this will result in a fundamental shift in the organized versus unorganized share of the market.

This is the reason why in Australia, 90% of customers use only compliant providers. In India, maybe 30% or 40% of the customers use compliant operators. It is just the difference in regulation between Australia and India. So that clarity that the labor code has brought in will certainly create a more level playing field in the times to come.

**Moderator:** The next question is from the line of Anant Mundra from Mytemple Capital.

**Anant Mundra:** Sir, just had one question. What is the latest update on the ELI scheme? Is it active? Or is there some implementation issues still with?

**Rituraj Sinha:** No, it is active. The scheme is implemented. Anything in particular you want to know? The scheme is active...

**Anant Mundra:** Okay. So, have we worked out any benefits that could accrue to us?

**Rituraj Sinha:** Well, a large chunk of the benefits actually go to the employee himself, right. So, the scheme is designed such that if anybody joins a company and he continues to work for 12 months, then the Government will pay him INR 15,000 directly to his personal account. And then there is a small frugal benefit that the job creator gets. But the employment-linked incentive is predominantly aimed at benefiting the individual employee more than the employer per se.

**Moderator:** As there are no further questions from the participants, I now hand the conference over to Mr. Rituraj Sinha for closing comments.

**Rituraj Sinha:** Thank you, everyone, for joining the call. It's been a pleasure talking to you and very happy to report that SIS has got off to a solid start in the first quarter.

Number two, that finally, labor code implementation has started, and we see it as a tailwind.

Number three, we are very happy to be one of the first few to use the open market route to buy back and our buyback should be opening next week. So, it is completely designed for our minority shareholders. Promoters are not participating. I would encourage everybody to take the maximum benefit. We have left a handsome premium on the table up to INR 478.5. And I hope that we are able to allocate capital back.

Like Vineet mentioned, this is our ninth action to return capital to employees, 5 buybacks and 4 dividends. So shareholders, this is the ninth occasion where we are returning capital back. We are very happy that as a profitable cash-generating business, we have given back INR 700-odd crore to our shareholders since IPO.

I would draw your attention to the last but probably a very important aspect, which is that our return ratios, they bottomed out at 11.8% ROCE in Q1 of FY '25. And in Q1 FY '25, our return on equity was down to only 9.4%. Today, 2 years later, our ROCE is at 16.7% and our return on equity is at 15.8%.

We hope to execute with discipline. Our objectives are very clear. India has roughly 5,000 listed companies. If you filter with significant businesses, let's say, INR 500 crore in PAT, that would leave less than 500-odd companies, maybe 10%. Amongst those 500 companies, if you filter how many deliver a 15% annualized growth consistently with a 15% plus return profile consistently, that brings the count to less than 100 companies. We want to drive SIS into that box of 100 companies in this country which deliver INR 500 crore plus in PAT and our material businesses with consistent year-after-year 15% growth in profits and 15% or greater return profile. So that's what we are shooting for.

FY '26 was a year of rebound. We delivered 15 and 15, and FY '27, I hope will be an inflection year or the second year where we'll be in that zone, hopefully. So, thank you very much for your support, your conviction in SIS through the thick and thin. I wish you all the very best. I hope to see you next quarter. Bye-bye.

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

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