Date: November 4, 2023

National Stock Exchange of India Limited
Exchange Plaza
C-1, Block G, Bandra Kurla Complex,
Bandra (E), Mumbai-400051

Company Symbol: SIS

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai-400001

Company Code: 540673

Dear Sir/Madam,

Sub: Transcript of the Earnings Call – Q2 FY24

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Please find attached the transcript of the earnings call for Q2 FY24 held on October 31, 2023.

The transcript is also available on the Company's website at https://sisindia.com/financial-results-presentations/.

Kindly take note of the same.

Thanking you

For **SIS Limited**

PUSHPA LATHA KATKURI

Digitally signed by PUSHPA LATHA KATKURI
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"SIS Limited

Q2 FY '24 Earnings Conference Call"

October 31, 2023

MANAGEMENT: **MR. RITURAJ SINHA – GROUP MANAGING DIRECTOR – SIS LIMITED**
MR. DEVESH DESAI – GROUP CHIEF FINANCIAL OFFICER – SIS LIMITED
MR. BHARAT BAKHSHI – PRESIDENT M&A, INVESTOR RELATIONS AND VENTURES – SIS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the SIS Limited Q2 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bharat Bakhshi, President M&A, Investor Relations and Ventures from SIS Limited. Thank you, and over to you, Mr. Bharat Bakhshi.

Bharat Bakhshi: Thank you. Good afternoon everyone, and welcome to our Q2 FY '24 Earnings Call. Along with me, I have our Group Managing Director, Rituraj Sinha and our Group CFO Devesh Desai. I hope everyone has had a chance to look at our results and the earnings note, which has been uploaded on the stock exchanges and the company website.

We are happy to report strong numbers this quarter. Revenue is up 11% year-on-year, and EBITDA is up over 31%. For the first time, we have crossed a milestone of ₹1,000 crores revenue per month. We have had the highest ever quarterly revenue in India Security, in facility management as well as in our Cash business. As you know, as a group, we have been very focused on margins, both in terms of customer contracts as well as SG&A costs.

We're happy to report that consolidated EBITDA margins have improved from 4% in the same quarter last year to 4.7% this quarter, which is a substantial uptick. Leading this improvement in margins was our India Security business where margins have improved substantially from 4.4% in the same quarter last year to 5.7% this quarter, a change of 130 basis points.

In the International Security business, EBITDA margin was 4% this quarter, again, up from 3.3% in the same quarter last year. And this was in spite of a tight labour market and a record wage hike of 5.7%, which became effective this quarter in Australia. As you know, the wage hike gets passed on to customers, and as that happens, it should even further improve margins.

On the facility management side, as you are aware, this year, we became the largest FM company in India. We are continuing to see good tailwind in the sector with a continued focus on building out of assets and infrastructure in the country and the greater focus by customers on quality and the experience. We had our highest ever quarterly revenue of ₹528 crores this quarter in FM hence, comfortably run rating over ₹2,000 crores per annum.

The Cash business had an EBITDA margin of 16.1% this quarter and a PAT margin of 8.5% with profit after tax improving over 200% from the same quarter last year. So overall, we're very happy with the business momentum and also particularly the increase in margins.

We will now turn it over for Q&A. Thank you.

Moderator: Thank you so much, Mr. Bakhshi. The first question is from the line of Mayur Liman from Profitmart Securities. Please go ahead.

Mayur Liman: I just want to understand about the long-term and short-term debt. Is the company planning to reduce the debt.

Rituraj Sinha: This is Rituraj. Thanks for your question. I think the first and most important thing that I wanted to point out is that our leverage situation is very reasonable today. And from any perspective, if you look at our results, you will note that not just now, but throughout 6 years since we got listed, we have been very conscious about leverage in this company. We have indicated in the past that we believe that 1.5x gearing is the right level of gearing for the business because it is a high cash generating business itself.

However, we clearly pointed out that we do not want to exceed 2x of EBITDA gearing. So that's our range, and we are within that range, and we believe that we will maintain that change. And that's been the trend for the last 6 years since we listed.

Mayur Liman: Okay. My second question is on capex. Could you please provide guidance on the company's view on any capex plan?

Rituraj Sinha: You have to understand the nature of business. The real capital involved in the business is only working capital. If you look at our gross debt, you will see that a majority of that, more than 90% is purely working capital related loans which are secured against receivables from our customers, the capital expenditure, capex involved in this business is rather low.

And I wouldn't say that we have capex planned in the upcoming year, which is anything beyond the normal levels. So, if I would put a number on it, I'd say maybe we have capex of ₹50 crores at ballpark range. We generally do not have capex beyond that.

Mayur Liman: And my last question is what are your expectation from the next quarter?

Rituraj Sinha: As a matter of policy, we do not provide guidance as such. But if you look at this year's results, the first half result, you will see that the growth is strong. Most importantly, there was a lot of questioning around on the margin profile of our businesses. Margins are consistently improving. Even this quarter, we reported 11% y-o-y revenue growth and 31% y-o-y EBITDA growth.

So, I guess we are very much on track. In second half of the year, the order pipeline looks to be strong. Our margin planning seems to be more or less on track. So, we believe that we are on a good trajectory and FY '24 will be a record performance year for SIS Group.

Moderator: The next question is from the line of Kaushik Mohan from Ashika Stock Broking. Please go ahead.

Kaushik Mohan: Congratulations for the good set of numbers. Sir, what I cannot understand and need highlights is on our service sector, for example, in security service, which is the dominant sector, who is dominating the revenue from this sector? Like which sector is dominating the security service for major revenues?

Rituraj Sinha: If I understand correctly, you're talking about customer segments?

Kaushik Mohan: Yes, customer segments. Specifically, customer segment who is the major sector as customers that will dominate in this revenue stream?

Rituraj Sinha: So, if you look at the security business, our security business in India at the moment is close to doing ₹450-odd crores monthly. If you look at the security business, the major revenue contributors are manufacturing, IT and IT services, including BPOs. And then followed by healthcare and commercial buildings like corporate offices and commercial establishments. But the most important thing that you must notice that no single sector contributes more than 15% of our overall revenue.

We are a highly diversified business from a customer segment perspective. So even manufacturing would be close to 15%, 16% of revenue. IT would be around that mark and followed by other segments. So that's our customer segment revenue profile. Details of this can be obtained from our team, they will be very happy to provide you an exact breakup of customer segment-wise revenue.

Kaushik Mohan: Sir, I recently have also made one-off a private company in the same segment. The attrition rate is very high in this business. So how are we and what is our attrition rate?

Rituraj Sinha: Well. Attrition rate in our security business and our facility management business is more or less in the range of 30% to 40% a year. Industry wide if you see the Security business or FM business has close to 50% attrition rate, ours is marginally better. But then again, even the IT companies maintain attrition rate of 30-odd percent.

What happens in security in SIS or in FM in SIS is that we have invested very heavily in our supply chain. SIS Security, for example, operates 21 residential training establishments spread across 14 states. In a year, we have capacity to recruit, train, certify 25,000-plus people. So, to meet this attrition, we have a replacement supply chain. And this replacement supply chain is what separates us from our competitors and facilitates our growth.

Kaushik Mohan: Got it. Sir, that means that the supply which is coming to us, the attrition is 30%. And that means that if there is 100 employees, 30 people are like exiting the game, and there will be new 30 employees joining our game. So what is the training period? How much is this? How much is the training period?

Rituraj Sinha: Private security agencies Regulation Act mandates training for freshers for those who are entering in private security services line for the first time. Our training is 4x of that. So private security agencies regulation act mandates 7 to 8 days of training. Our training is of 28 days in the residential training academies, where freshers are inducted in the branches, only experienced security guards who have worked for at least 1 year in this segment are recruited. So, our training and supply chain is probably the best in the industry, and that is what gives us an edge over our competitors.

Kaushik Mohan: Got it, sir. Sir, last and final question for my end. I just wanted to understand, we have so many number of employees and even the average salaries will vary and we have so many diverse clients. How are we managing? What's the kind of software or the SOP that we are using in our organization to manage this kind of heavy labour incentive business?

Rituraj Sinha: Well, two things I would like to say. Number one, you must understand that nobody manages 280,000+ people. No single person manages. The business is operated on a profit centre model where our branch is an independent profit centre. It has its own recruitment person, training person, accounting person, salesperson, few people for operations. There's a branch head. So, it's like a small ₹10 crores, ₹20 crores company by itself.

So that profit centre model, a very flat organization, runs 800 to 1200 people business or 40 to 60 customers business in a particular geography, which is generally one to two districts. So that's the way, just like McDonald's plans where to put their store.

We plan where to put our branch and we try and keep the branch territory to be smallest so that there is great concentration on existing customers. And there is proper customer mining in that area so that they are able to approach every single potential customer in the area.

We do not give vast territory to branches. So that's one model of SIS. That's why SIS today maintains more than 300 branches in India. If you add security, FM, all types of companies, we have more than 300 branches in India. If you compare that to Group 4, for example, they would have less than 100 branches. Several of our other competitors have less than 100 branches. This network, micro-geography network spread across every state of India across 660-plus districts of India makes SIS a true national player. That's number one.

Number two, on the IT systems, you're absolutely right. You cannot run this business without very robust IT systems. Over the last many years, SIS has not just developed proprietary software for recruitment, for example, it's called ARK system, Automated Recruitment Kiosk. It was pretty much like what we have in Passport Seva Kendra. It's a 10-step process to recruit and assess quality of a person. There is MTrainer, which is a mobile app-based training platform. There is iOPS to manage operations. There is MySIS to manage attendance and leaves and transfers, etc.

So, there are so many proprietary software that SIS has built through our knowledge base that enable us to be what we are today. And then we combine it on the accounting side, etc. We combine it with the likes of an Oracle Fusion, which are most reputed software platforms, but they do more accounting type work for us, MIS, accounting, that type of work. The principal business operations run on homegrown IT systems that are developed and maintained by SIS.

So, these are the real USPs of SIS. And I'm glad you asked that question because most people do not understand that in this sector, there are no barriers to entry. Anybody can set up a security company. It doesn't take a lot of capital, a lot of R&D. The barriers are not to entry. The barriers are to scale. There are more than 15,000 licensed private security companies in India. There are only two companies which have a revenue of more than ₹2,000 crores.

There are many, many cleaning service facility management service companies in India. There are three companies which are over ₹2,000 crores in revenue. There are many, many, many cash companies in India, there are only two which are above ₹500 crores in revenue. So, barriers are to scale. And for scale, you need Pan-India Network and very robust IT systems. Sorry for a long answer, but I just took the opportunity...

Koushik Mohan: This was the best answer that I can expect from -- because it gives us a clear clarity on the business. Sir, my next question, sir, every time we see in the last 15 quarters or 20 quarters, our tax numbers fluctuate a lot. So, can I understand, do we get any benefits or just because we are a labour-intensive company, and we have a large base of employees with salaries below ₹20,000 or what makes us eligible for this tax benefit each and every quarter?

Rituraj Sinha: Devesh?

Devesh Desai: Okay. So being an employer to generate employment, and the employees increasing in numbers every year, we are eligible for benefits under section 80JJAA of the Income Tax Act, where you are incentivized for a special deduction from your income on net number of employees increased during the year. Of course, you are right, they have to meet some criteria of salaries not more than ₹25,000, that they have to be fresh entrants into the pool, they have to work 240 days for the year. And there are a number of conditions which are to be met.

Now every year, we have a net increase in the number of employees, but the number of employees increasing on a year-to-year basis changes. Based on the growth, based on the pricing and based on a number of other factors. Now in the COVID years, of course, one or two years, we had no growth. So, we were not getting any fresh benefit, but we are only getting benefits from the carry-forward benefit of the previous years.

As you know this section allows you to carry benefits for three years for additional expenditure in a particular year. So, during the COVID year, there was no growth for one year, so we did not get any fresh benefit, but we only got the benefit for the previous two years. And in the next year, there was a smaller growth. Last year, there was a tremendous growth in the revenue and the number of employees. This year, the growth is slower. And because of the way we do the accounting, we take the current benefit and we also create a deferred tax benefit. And then the deferred tax benefit has to be then adjusted in the subsequent two years.

So that gives the impression that the tax expense is fluctuating and the profit after tax is fluctuating. But if you compare the profit after tax and you look at the trend, without considering the deferred benefit creation and bring down inflation and bring down for a number of quarters, then you will see a smoother picture of what's happening.

Now as an example, it should look at Page seven in our earnings note it gives you an explanation of what's happening. And also says that if I do not consider this deferred tax impact, impact bring down and inflation, etc, I only consider the current tax impact. My Tax for the quarter has grown to 58% on a year-on-year basis. And there is a smooth trend which takes place. Have I answered your question?

Koushik Mohan: Yes, you answered it, sir. Sir, another question, how about our digital side, digital security business is growing in a larger scale. When we look at US, they have captured this market in a very large scale. How are we equipped to transform ourselves into digital side?

Rituraj Sinha: SIS -- one of our strategic objectives for the Vision 2025 plan that we are currently operating was to migrate actively from services to solutions. Solutioning means using a lot of technology, whether hardware or software to basically enhance the outcomes or the quality of service for our clients.

As of now, you will see that SIS on the security side is building a lot of technology capability with businesses like VProtect which is our alarm monitoring response business. We have more than 18,000 connections now and another 3,000 connections orders in hand. This did not exist three years back. Similarly, Tech SIS is going to report one of its best results of the last five years in the current financial year basis, the order book. Tech SIS does CCTV camera work and other technologies, both on selling basis and on leasing basis. So, SIS on the security side has done that.

On the facility management side, there is a lot of trust on outcome-based contracts where we use machines and other software like IPorter and so much other type of technology to enhance the outcomes for clients, including energy efficiency of buildings, and various other things like how to ensure that the lighting systems, the HVAC systems, etc, are utilized in a way that the customers run more efficient buildings, and not just save money.

So Solutioning is the big part of SIS strategy. Roughly, round about 8% to 10% of our security revenues are now coming from solutions-related businesses. Roughly, 30-odd percent of our facility management revenues comes from solution type services. In the last five years, this has grown considerably, but I believe that in the coming years, the capability that we are building will differentiate SIS from our competitors. And I see that the share of solutioning in overall revenue will grow at a fast clip, as the customers mature and the market becomes more amenable and willing to move away from manpower and move towards technology.

Moderator: Thank you so much. The next question is from the line of Alok Deshpande from Nuvama Institutional Equities. Please go ahead.

Alok Deshpande: Just one question on facility management. So, I think last time, you had mentioned that due to some low-margin contracts, there is some impact on the margins. Now how should we look at the way ahead here in terms of growth of facility management and how do you balance that with the margin improvement from where you are currently?

Rituraj Sinha: So Alok, I have said this before that in the India business, we have bounced from like 4% types margin to 5.7% margin. And I think that they are on track to go above 6% in the coming quarters.

As far as facility management is concerned, it will follow a similar trail. If you remember, facility management was a 6%-plus EBITDA margin business pre-COVID. During COVID, they had the biggest impact in terms of revenue because a lot of office premises closed down retail establishments were not working. And to make good those loss of contracts or loss of revenue, they did take on certain contracts on fixed margins or lower margins that were not the best decisions.

However, that said, the FM business is currently on a contract portfolio review exercise similar to what security did. They are churning out suboptimal contracts and replacing them with better margin contracts or even in some cases, we are negotiating with customers to reprice our contracts because they are not generating reasonable margin for us.

So, these exercises are time-taking. They have to be done contract per contract. And as you know, in our business, there are 1,000 and 1,000s of contracts. So, I believe that the facility management business in short will take a little bit of time to get its margin fixed. It could be two quarters, it could be three. Having said that, I will also reaffirm that the facility management business has in the past, demonstrated its ability to generate 6%-plus EBITDA margins. And I do not see any reason why they cannot go back to the similar level of EBITDA margin in the near term. But this will take a little bit of time and it will follow a similar trajectory to what SIS Security in India has done.

Alok Deshpande: And Rituraj, while this transition or while this improvement happens, it generally happens from 4% to the 6% that you have seen historically. How should we look at the growth in facility management in this process? Will this be at some lower growth than we have seen historically facility management has been a fast-growing area. I just wanted to understand the growth part here.

Rituraj Sinha: So, I think it's all relative because the facility management business reported, I think, close to 35%, 40% growth last year. So as against that, they might be 15% to 20% growth this year. Now that is not an independent assessment, this is not small growth because it's faster growth than what recently listed companies like UDS will report. But in comparison to 40%, it will be much lower. And the reason for that is that as they bring on new contracts, they are also filtering out the lower margin ones. So, the net impact is that they will maintain 15%, 20% in that ballpark range.

Alok Deshpande: Congratulations on a very good performance.

Moderator: Thank you so much. The next question is from the line of Mohit from Guardian Capital. Please go ahead.

Mohit: So just coming back to the question of a previous participant Alok, asked. Is there letting go of the lower margin contract in shouldn't there has been an uptick in the margin, but margins are actually down Q-o-Q. So, I'm not able to reconcile these?

Rituraj Sinha: See, when you let go of bad contracts, lower-margin contracts, your revenue of a branch also shrinks. So, your SG&A cost has not shrunk, but your revenue has shrunk. So, in the short term, in the immediate term, losing contracts means that your SG&A as a percentage goes up and your overall EBITDA margin will come down. But as you rebuild the volume, as you rebuild the revenue and SG&A remains the same, then it will start to trickle down directly to enhanced EBITDA margins.

Mohit: And the revenues was actually up right both quarter-on-quarter as well as year-on-year?

Rituraj Sinha: Our revenue is up, but you have to also see that at the branch level, it’s a different picture. What we see is the consolidated profile, there are certain branches that have taken a severe beating. There are branches that are let go of 40% of their revenues and slid into lower margin trajectory plus there is a SG&A increase coming through because we do our pay reviews in the second quarter.

So that there, there is bonuses that are paid out in the June to July period. So, because of all those reasons, you see what you see. But again, I'm saying in this line of business, my suggestion to anybody who's tracking this sector is don't look at quarter-to-quarter look at the trend line. If you look at quarter-to-quarter, you will have to actually understand the business deep down at the contract level, at the branch level.

Mohit: So, are you saying that there was some asymmetry like there were some branches that did exceptionally well from where the revenue growth was coming and there were some that had revenue de-growth and this imbalance in SG&A is what kept the EBITDA margin low? Is my understanding, correct?

Rituraj Sinha: Yes, plus the increment cycle and the payment of bonuses, etc, which are absorbed in this quarter.

Moderator: Thank you so much. The next question is from the line of from Rushil Dedhia from Antique Stockbroking. Please go ahead.

Rushil Dedhia: Sir, I had a question. So, 5% of our revenues is the Cash business right? I mean it is around 17% of the PAT. So, I just wanted to know, are we planning to grow this business further?

Rituraj Sinha: Absolutely.

Rushil Dedhia: What would be leading -- what will be the driver for that?

Rituraj Sinha: Well, last year, the business reported a very handsome growth of 35%. Even this year, they have a strong pipeline, they are growing well.

Rushil Dedhia: Okay. And what would be the breakup of the Cash business? I mean, what will be ATM, what will be retail cash management and what could be the CIT business? And how are we seeing the growth in all three?

Rituraj Sinha: Well, the exact numbers you can take from the Investor Relations team. But generally speaking, the ATM to non-ATM which is what we generally track. The ATM business would be below 20% of our overall revenue profile, I think it will be closer to 15%. Many years back in 2017-'18 post demonetization, SIS took a clear view that the first impact of post-demonetization and growth of fintech and digital and payment wallet and all of that. The first impact of that is going to be on ATMs. So, ATMs will slow down the -- ATM growth will slow down. The transactions per ATM will slow down. The amount of money drawn from ATM will slow down.

And therefore, 2017 onwards, we started to reposition our business as a bank outsourcing services partner. Reducing our focus on ATMs and that has actually worked out quite favourably for us. Not only is our ATM portfolio, the smallest compared to AGS, compared to CMS, that's a complete contrast.

Our dependence on ATM is the least. Our deduction and losses and penalties because of that reason are relatively lower. And our business is also fast growing because currency in circulation is growing. But currency in ATMs or ATM transaction is on the decline. So, I think we are very well positioned for the future. And I see that Cash will deliver its best-ever results this year. and their profit after tax margin will be close to 10%. We are reporting a 16% EBITDA margin. And we believe that, we are poised to see significant growth. And therefore, we will at the right time consider unlocking value for our shareholders in this segment.

Rushil Dedhia: Okay, sir. And how are we seeing growth? I mean, are we doing something? Are we trying to get further more contracts in the retail cash management?

Rituraj Sinha: That's an ongoing cycle. You are always trying to beat your numbers. So, in all segments, SIS is trying to sell more, grow more, that's our DNA, and that's why we've remained the fastest-growing business, not just in the cash segment. We are also the fastest growing in security versus the G4S. We are also the fastest growing in facility management versus Quess and BVG and UDS. So that, I think you pick up last 10 years data of all these businesses and you will see for yourself.

Rushil Dedhia: All right. Thank you.

Moderator: Thank you. As there are no further questions from the participants. I now hand the conference over to Mr. Rituraj Sinha for the closing remarks. Over to you, sir.

Rituraj Sinha: Thank you so much, everyone, for taking the time to join this call. It's been a pleasure talking to you as always. As I said earlier, this is a very solid result, a strong performance by SIS in not just Q2, but in the first half of FY'24. This is pretty much what we had spoken about in our previous calls. I believe that even for the second half, the business is well set not only to grow across security, facility management and cash segments. We also believe that, we are on track to improve margins. And most importantly, I'd like to call out something that's not been asked today, but just volunteering an important point.

Our days of sales outstanding has increased this quarter. Our focus will be to bring that back by 31st December, we maintain the best days of sales outstanding. Working capital management in SIS is generally tight. This is not the best quarter from that perspective, but we have that in our mind and we are working on it.

Lastly, you can be rest assured that as far as debt is concern. We have a very conservative approach, and our guidance has been very clearly stated on the debt aspect gearing-wise, net debt-to-EBITDA 1.5x is the comfortable range. I think below 1x, you are underutilizing your balance sheet. And if you increase beyond 2x net debt-to-EBITDA, then the gearing is getting into a zone of concern. So, you will see SIS fluctuating between that 1.5x range, more or less, and that has been the trend since we listed, and we hope to maintain that trend going forward as well. Thank you very much once again. And I hope to see you sometime soon. All the best. Happy Diwali.

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