Date: February 5, 2025

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 – Q3 FY25

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

Please find attached the transcript of the earnings call for Q3 FY25 held on January 29, 2025.

The transcript is also available on the Company's website at https://sisindia.com/wp-content/uploads/2025/02/Earnings-Call-%E2%80%93-Transcript.pdf

Kindly take note of the same.

Thanking you

For **SIS Limited**

PUSHPA LATHA KATKURI
Digitally signed by PUSHPA LATHA KATKURI
Date: 2025.02.05 19:20:29 +05'30'

Pushpalatha K
Company Secretary

"SIS Limited

Q3 FY25 Earnings Conference Call"

January 29, 2025

MANAGEMENT: **MR. VINEET TOSHNIWAL – PRESIDENT – M&A AND INVESTOR RELATIONS – SIS LIMITED**

MR. RITURAJ KISHORE SINHA – GROUP MANAGING DIRECTOR – SIS LIMITED

MR. BRAJESH KUMAR – CHIEF FINANCIAL OFFICER – SIS LIMITED

MR. R S MURALI KRISHNA – PRESIDENT – SIS INTERNATIONAL

Moderator: Ladies and gentlemen, good day and welcome to SIS Limited Q3 FY25 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 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. Good afternoon to everyone and I welcome you to the Q3 FY25 Earnings Call, SIS. I hope you've had a look at the results which were uploaded yesterday, and the earnings note on the stock exchange and the company's website as well.

Now let me start with some highlights. We've had a fantastic quarter. As you can see from the results, we've witnessed growth across all three segments of our business. On a consolidated basis, we have recorded a revenue of INR 3,363 crores which is 9.4% on a year-on-year basis highest ever quarterly revenue. India security has reported a revenue of INR 1,420 crores which is again a 7.7% growth on a year-on-year basis. FM business has recorded a very robust growth, a quarterly revenue of INR 576 crores which is 9.7% growth on a year-on-year basis. International security has also recorded its highest ever quarterly revenue of INR 1,383 crores. It's a growth of 11.1% on a year-on-year basis. So overall, all round growth in all the three segments.

Now let's come to the earnings. It's been our constant endeavour to improve the margin profile across all three business segments as we've been pointing out over the last few quarters. Our focus is on margin improvement, and it is showing results on a gradual basis. We focus on margin, both in terms of customer contracts as well as rationalizing the SG&A costs.

So, on a consolidated basis, the EBITDA grew by 3.6% on a year-on-year basis. Now it's INR 157 crores and that results in EBITDA margin of 4.7% which is up from 4.4% from the previous quarter. India security has shown stable EBITDA margin of 5.5% which has been the case for last couple of quarters. Facility management, we've been continuously guiding that our margins will be gradually improving, and it is showing results. We have an EBITDA of 4.6% now, which is 30 basis points higher on a year-on-year basis, gradually improving. Additionally, the segment has reported highest ever quarterly EBITDA of INR 26.5 crores, which is a 17.9% almost 18% growth on a year-on-year basis. Now coming to international security business, where the last few quarters were of concern. I am happy to report that the EBITDA margin for Q3 FY25 was 3.8%. It has also improved from 3.3% in Q2 FY25, which is driven by a lot of new wins and high seasonal businesses, which has been traditionally the case in the last quarter. EBITDA now is on a path to recovery. From Q3 FY25 it is now at INR 53 crores, 19.5% growth on a quarter-on-quarter basis.

Now coming to operational efficiency, which is the net debt and the DSOs. We're very happy to report that we have significantly reduced our net debt. It's down by INR 225 crores to INR 632 crores net debt, what was INR 857 crores in the previous quarter. This brings the net debt-to-EBITDA ratio down to 1.07 from 1.47, which was in the last quarter. This is the lowest level in the last 3 years, I would like to emphasize. Our OCF to EBITDA conversion remains robust. It's at 163%. Now we've been working on efficient working capital management, bringing down DSOs. DSOs have improved by 4 days down to 69 days from last December, highlighting our efficient working capital management and this has reached INR 150 crores of working capital.

Now let's talk about our bank outsourcing business. We're again very happy to report that the business has achieved highest ever quarterly revenue of INR 182 crores which translates to a growth of 12% on a year-on-year basis. Cash business expanded EBITDA by 15.5%, recording 17.1% as the EBITDA margin. PAT of INR 13 crores. It's a slight dip due to loss of benefits associated with carry forward losses available in Q3 FY '24. Q3 FY25 PAT was also impacted by lower 80JJAA benefits. So overall, cash business momentum is on track. And we've been emphasizing, we are trying to derisk our business from ATMs and the non-ATM business now contributes 84% of our topline which was 80% in the same quarter last year thereby reducing our dependence further on ATMs. Our efforts to unlock shareholder value in cash are underway as we've reported in the last quarters also.

Now with this, I would like to take this opportunity to wish you all a great year. And let me now hand over the call to other participants also with me. There is Rituraj Kishore Sinha, Group Managing Director; Mr. Brajesh Kumar, who is the India Chief Financial Officer and Mr. R S Murali Krishna, he is President, SIS International, and we are open for Q&A now. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Yash Darak from RSPN Ventures. Please go ahead.

Yash Darak: So the first question with regards to other income. The other income is inflated. If you could please provide a clear breakup of the other income line item wise?

Brajesh Kumar: Hello Yash. This is Brajesh. The breakup of other income is basically there are two major components. One is interest from fixed deposit, and another is, in this quarter, we have received a significant amount of IT refund, and we have received interest on IT refund of approx. INR 12.5 crores.

Yash Darak: And there was a line item regarding rupee denominated bond which were sort of given to the Australian subsidiary. If you could give some colour on that?

Brajesh Kumar: Actually, that RDB loan is sitting in the books of Indian company, parent company SIS. This RDB loan has been taken, I think in 2018. So whenever there is a fluctuation in exchange rate, we account for that in the PAT. So that is also resulting some change in the PAT movement. And the amount is approx. INR 6 crores.

Yash Darak: And my next question will be with regards to this. So in an Analyst meet, you had mentioned that you were going to probably sell some international businesses. So are we still looking to sell these international businesses or how is it going?

Vineet Toshniwal: Sorry repeat again. What was the question? Selling the international...

Yash Darak: Selling or demerging the international business in an Analyst meet, I think we are discussing with regards to this that the international businesses were not probably doing so well. So are you going to keep these international businesses or are you planning to sell them?

Vineet Toshniwal: No, I don't think we have made any specific guidance regarding this.

Rituraj Sinha: This is Rituraj. This is just to clarify, the international businesses are an integral part of SIS's future plans. And as you see, the results have also been good. There is no plan to sell any part of the international business.

Yash Darak: Okay, sir. Thank you.

Moderator: Thank you. We have our next question from the line of Narendra from RoboCapital. Please go ahead.

Narendra Khuthia: So, my first question is regarding growth. So, do we expect the same kind of growth, say, 10% on a consolidated level going ahead or do we see any improvement in the coming quarters or years, next couple of years?

Rituraj Sinha: SIS believes that there is opportunity to grow at least 2x GDP in this type of business. And if you see our historical results, we have also, since listing, our CAGR for revenue is more than 15%. So is 10% good enough? As per our estimates, the answer is no. We believe that we can grow faster. How much has SIS been growing in the past? Last 8 years or 7 years since listing reported results will give you good direction. It's also there in the earnings note. Our Q-on-Q revenue growth is roughly 15% and Q-on-Q profit EBITDA growth is roughly 16% since listing. So that's where we want to bring the business back at. If you look at this quarter also compared to Q2, both international business and FM business have reported a 4% growth, which is in that ballpark range in the 15% plus ballpark range.

SIS Security in India has reported 2.5% growth compared to previous quarter. That is largely because some major contracts that were due to start in December got deferred in January. Having said that, you must also bear in mind that in our line of work in India, growth is a function of two variables: volume growth and price growth. Volume growth, we are reasonably satisfied with. Price growth is directly linked to minimum wage increase that the government determines. That is not in our hand. For the last few years, minimum wage growth in India during COVID and post-COVID has been rather subdued. We believe that with the upcoming labour code implementation, which the Government is talking about, there may be change in that approach.

Any change in labour code or minimum wage hike will have a direct corresponding impact on the business overall. Sorry for the long answer, but I tried to give you perspective overall.

Narendra Khuthia: No, no, that was very helpful, sir. So to attain that 15% is the wage hike necessary for attaining that 15% or once the wage hike comes, the growth would be more than a 15% CAGR over the long term?

Rituraj Sinha: Well, historically, pre-COVID, India, on average, we were seeing a minimum wage increase of roughly 8% to 9%. I am talking about 2010 to 2020.

Narendra Khuthia: Yes.

Rituraj Sinha: Post-COVID, let's talk about the most recent year, the 9 months of this financial year. The minimum wage increase is closer to 3%. The remainder comes from volume growth. So, you can do the math yourself. If this goes back anywhere near the pre-COVID levels of wage increase, then obviously, the growth projections will change because every single contract of SIS is minimum wage linked and any increase in minimum wage is pro rata pass-through without negotiation. It's just a matter of changing the invoice and attaching the latest copy of the gazette notification.

Narendra Khuthia: Okay. Understood, sir. And my second question is, do we expect any further write-offs in our receivables or goodwill going ahead? And when should we expect such kind of write-offs if any?

Rituraj Sinha: I think quarter-to-quarter, the audit committee with the auditors reviews the status of all the aspects and takes a view. As of right now, there is no clear view or direction on that matter. Should this discussion come up, should the auditors feel that there is a requirement or the Audit Committee agrees, obviously, we will notify. But as of now, there is nothing.

Narendra Khuthia: Okay. Understood, sir. And the margins, we are at the 4.5%, 5% mark that we wanted to reach, if I am not wrong. So are we happy with these kind of margins or are we expecting further improvement coming up?

Rituraj Sinha: No, I think I have stated this repeatedly over calls and with interactions with investors and analysts. SIS believes that as a market leader, we have the pricing power to get to pre-COVID level of profitability. Pre-COVID, SIS security businesses in India were at and above 6% EBITDA mark. The FM business also was at and above 6% mark. The international business was 4.5%. So, we believe that there is still some headroom before we can say that we are back at that level, and that is what we are striving for.

Narendra Khuthia: Okay, sir. So what would be the levers for that kind of growth and EBITDA margins, if you could explain?

Rituraj Sinha: These businesses are like a bucket of contracts. So, your direct cost, your direct contribution, what we call gross margin, is a function of the quality of contracts we carry in that bucket. In the middle, we had taken on certain contracts, which were actually diluting the overall margin profile of the business. Some of those contracts have exited in security, so you see it at 5.5%. Same thing happened in FM. It took a little bit longer because there were Government contracts, and we could not exit contracts with railways, etc., at the risk of getting blacklisted by the government. So, we have taken time to come out of these contracts. Large number of these contracts are out. We are also more judicious about taking on new contracts, which add incrementally, definitely not dilute the margin profile of the overall bucket. That's one lever that's working.

Second, as the revenue grows, obviously, the SG&A will throw up operating leverage. And that is rather evident as growth becomes more rapid, you will see that the SG&A cost as a percentage obviously will decline. So that's happening. And the third and more important thing that we doing is that as we prepare for our Vision 2030, we have reset the scale of branches. So the revenue or the number of contracts or the number of employees, we manage through a single branch, we are trying to increase that capacity by 1.3x.

So same branch, let's say, ballpark used to handle 800-odd people, 900 people, will be able to manage 1,200, 1,300 people. A branch which was managing 40, 50 accounts, will be doing 100-plus accounts. The revenue-wise average size of branch, which was sub-INR 2 crores, we are hoping that we can push it towards INR 3 crores plus per branch. So these think are happening through complete overhaul of our IT systems.

So, you know, SIS implemented a complete self-developed home-grown proprietary attendance system, digital attendance system called MySIS which is now rolled out to a major part of the business that cuts a lot of back-office time that increases efficiency hugely. We are already in stage of again implementing a second IT software called SISCore which is a contract management platform, again, built for purpose which will help scaling. We are in the process of rolling out the next version of SalesMAX again, a proprietary platform, which is now synced to the upcoming labor reforms. So there's a lot of things that are happening at the back end over the last almost 4 quarters or more, which are approaching fruition. So that will also add to the operating leverage.

Narendra Khuthia: Okay. Thanks for that answer. So the capex for all this IT infra that you are spending on, is it over or are we looking at significant capex?

Rituraj Sinha: We don't capitalize these IT expenses. These are all developmental expenses and they are all revenue expensed.

Narendra Khuthia: Okay, great sir. Thank you so much and all the best. I will fall back in queue if I have any questions.

Moderator: Thank you. We have our next question from the line of Chirag from Keynote Capital. Please go ahead.

Chirag Maroo: First, I would like to take some questions which were taken from the earlier participants. One was when you have said that the bifurcation of other income was related to interest on fixed deposit, interest on refunds from IT and some interest on IT refunds. Could you bifurcate what was the chunk from IT refund and interest from IT refund?

Brajesh Kumar: So, in India in last quarter, we have received an IT refund of approx. INR 90 crores. In the International segment, we received an IT refund of INR 25 crores. And altogether, the interest amount on these IT refunds for last quarter was INR 12.5 crores, which has been accounted for last quarter, which has improved our PAT.

Chirag Maroo: And second thing, sir, as you have mentioned that generally, our industry grows at 2x of GDP. However, based on my understanding, and correct me if I am wrong, based on a few previous quarters, it was said that the growth of the industry has declined, and it is not 2x of GDP as a current trend. So just wanted to get a clarification?

Rituraj Sinha: Let me help you understanding. I said SIS is satisfied with 2x GDP growth. And I pointed out that for the last many quarters since listing, we have maintained an average revenue growth or a compounded annual revenue growth close to 15%. That is for SIS. That is what we want to achieve unless we grow a clip faster than industry, we don't pick up market share.

Chirag Maroo: Fair point. And sir, as you said that it is a mix of volume and value growth where value growth is exactly as you said, pro data pass on. I wanted some understanding on color on the volume growth. I am able to see in last 8 quarters, average addition on employees in Security in India has been roughly around 8,000 per quarter addition. It can be going low to 4,000, and it can come back to 7,000 again, which was in the recent quarter. Any color on this that how are you planning to increase 8,000 into 10, 15 based on the demand.

Second was related to facility management only. In last 8 quarters, employee count in facility management is around 82,300, 82,400 only. There was a dip. It's rising back again. So could you give some color on the volume side of it because we are employee-driven business, if this grows, I will definitely see growth in my topline. So could you give some color on this?

Rituraj Sinha: I think my friend, you are using the wrong yardstick to compute or forecast growth for SIS. Please note, SIS is not a staffing Company. If you are trying to establish correlation between headcount and revenue, your numbers might not add up. That is because 30% of revenues in FM, for example, are outcome-based contracts, per square foot-based pricing. They are not really headcount linked.

In security as well take, for example, VProtect revenue growth. VProtect now is a I'd say, ballpark INR 100 crores, INR 120 crores business, but it generates close to 15% to 20% EBITDA. Now for that 15%, 20% EBITDA of INR 100 crores, let's say, ballpark INR 20 crores that flows through into our PL every year, INR 5 crores every quarter, there is no headcount addition, zero headcount addition because VProtect does not deal with manpower. It has alarms, monitoring and response services. So my advise to you would be that the right metric to follow SIS's growth is basically revenue per branch that we record. It is not a staffing like situation.

Chirag Maroo: Thank-you so much for this clarification, I'll definitely incorporate that in my understanding. Just wanted, as you have spoken about VProtect, what was the quarterly installations for VProtect in this quarter?

Rituraj Sinha: Quarterly installations for VProtect, this quarter would be, I'd say, 1,000-odd connections.

Chirag Maroo: And it has been the same run rate since last few quarters, if I'm not wrong?

Rituraj Sinha: No. It varies a lot. In the beginning of the year, it was almost 3,000 connections a quarter, then it went down. When they book a new order, they in a single month, they have capacity to install more than 2,000 connections. So that's just VProtect, but that I am not talking about only VProtect. There's a lot of other contracts that SIS does which has an E-SAAS component like there is Caterpillar right now or there is JCB. These contracts have a very large component of ManTech like Vedanta in Udaipur, where we are providing drones, we are providing access control equipment, we are providing vehicles, we are providing a lot of other things, which are not manpower, which also gets booked in revenue. So there is a difference my friend between staffing business, service business, solutioning business and route-based solutioning business.

Just like in a cash logistics Company, you won't use headcount to compute number of revenue growth or whatever in a cash logistics environment, it varies. So, in a staffing Company, headcount is the right metric. In a service Company, it's headcount plus, plus. In a solution Company, it becomes headcount plus solutions sold, equipment sold, you know per square foot outcome-based contracts, etc. And then in a route-based solution Company like cash logistics or pest control, the metrics are stops per route.

Chirag Maroo: Thank-you for this clarification, it was very helpful for me to understand it a little better. My next question is related to in your initial commentary, you have mentioned that international business has some seasonal business in Q3. I would like to understand what is the seasonal effect in Q3. And the current margin levels of 3.8%, is it, I believe if that is seasonal benefit, it would be back to 3.5%. Is it the understanding correct?

Rituraj Sinha: I would like Murali to answer that.

R. S. Murali Krishna: This is Murali Krishna here. Thanks for the question. So, in the Southern Hemisphere in Australia and New Zealand, there are quite a bit of events that do happen around the summer seasons and also around the holiday periods of December and January, like, Christmas and New Year. What really happens is many of the businesses have some one-off things, seasonal things, not one-off, but which keep recurring every year. For instance, we have increased response on our monitoring side. We have increased response runs that we do. We do have security requirements for lot of events like, let's say, right now, we are seeing Melbourne Cup is happening. We had the Australian open that's happening right now. And also in New Zealand, there are a lot of events that happen, including cricket matches and conferences and so on and so forth. So, these are usual businesses for us. We are pretty much into these businesses. And our margins are incorporated with a few losses in a few months and a few profits in a few months and so on and so forth. So we continue to carry these things. So, the revenue increases substantially during this quarter because of these events. But when it comes to margin, these are regular margin events, some of them are high paying events, some of them are not as much. So they even out. So the margin wise, it's a stable margin. Revenue, we usually see an uptick in the quarter 3 usually in every year.

Chirag Maroo: Fair point. Thank you for the clarification. My next question is related to cash logistics business. I was just looking at the P&L that you gave in your earning report. I am able to see over the quarters, our EBITDA run rate has shot up on an absolute basis from INR 23 crores, INR 24 crores to almost INR 30 crores plus now. Just wanted to know, however, our PAT at this moment is still in that same range of INR 12 crores, INR 13 crores. So could you give some color on this?

Rituraj Sinha: You're asking about the cash logistics business?

Chirag Maroo: Yes.

Rituraj Sinha: So there have been some adjustments in the cash logistics business, which are one-off, which is the reason why you see this discrepancy. We are actually in the process of bringing on a limited audit from one of the big five, and they would be coming and taking over the audit for this Company as it moves forward. So, in that process, there have been some catch-up adjustments, etc., which will start showing up this quarter and next quarter. But otherwise, on a growth basis, the outlook for the cash business remains very strong. The margin profile of this business continues to be in the range of 17%, 18% ballpark. And we believe that 8% is the right PAT level that you should work with, going forward, barring these quarterly movements. I think these are the three numbers and obviously the return profile of the business is upwards of 30%.

Brajesh Kumar: Chirag, one point I would like to add about the Q3-FY25 PAT. Earlier we had a carry forward loss, so there was zero tax. Now that has been set off against the profit which we have earned. So there is a tax levy. That's why the PAT has remained the same. So, the benefit of carry forward loss is not there in this quarter, that has been mentioned in the earning note also, if you can refer the section which talks about historical financial trends that information is there.

Chirag Maroo: Thank you for this clarification. Just to stay on cash logistics business. As you have said that the DRHP filing is in progress, is there any timeline for the same that we could keep in our mind that in a year or in a 2-year time frame that it can come?

Rituraj Sinha: Hopefully sooner, but we would not be able to comment on future events.

Chirag Maroo: Just last question from my side. You have mentioned in your earnings report the cash flow conversion of all the segments. However, I am able to see that cash flow conversion in security business, international and domestic has been as per expectation of 100% plus. However, in facility management, it was way below the expectation. So, what is the working capital that is getting stuck? Is it related to receivables, which is leading to lower cash conversion at this moment, which will get converted with time? Is that the case?

Brajesh Kumar: Yes. Compared to Security India and the Security International, the improvement in the working capital is not that much evident in Facility Management because the collection is not as good as in other two segments. But in Q4, we are expecting that there will be improvement, based on the information we have. So, in Q4, you might see a similar kind of OCF to EBITDA percentage for Facility Management also. One more thing is that there was no IT refund in Facility Management in the last quarter. And in Security International and Security India, both cases, there was an IT refund. So that has also impacted this OCF to EBITDA.

Rituraj Sinha: Just to supplement that response, I think, for everybody to know. I think what SIS management is shooting for, is 2x GDP growth, which is round about 15%, a return profile of higher than 15% and a OCF to EBITDA in the range of 60%, 65%. So what you see this quarter is an exceptional OCF to EBITDA in Security in International, where the OCF to EBITDA is higher than 100%. This is not likely every quarter. This is not normal. This is a one-off event.

What we can deliver as a fast-growing Company is 60% to 65%. If you see historically, over the last 7 years, we have always delivered on an average more than 50%. Now as our base gets bigger, our growth is more subdued, we believe that this can move up to 60% plus. I hope that clarifies.

Chirag Maroo: Right. Just to squeeze in last one. You have said that the minimum wage increase for the year was around 3%. And I missed the part where you said that pre-COVID, what was the average minimum wage increase?

Rituraj Sinha: 8% to 9% between 2010 and 2020 pre-COVID.

Chirag Maroo: Thank you for the answers.

Moderator: Thank you. The next question is from the line of Aditya from Share India Securities. Please go ahead.

Aditya Vora: Great set of numbers across the board. I had a couple of questions. One was regard to the international business. So we've done exceptionally well this quarter in terms of revenue growth. Structurally, can you just guide me into how things will pan out in the next two or three quarters in terms of strategically, how do we take EBITDA margins from the current level to, say, 100 or 150 basis points higher, what our long-term target is?

R. S. Murali Krishna: This is Murali here. I will answer this question. The last quarter and the quarter before, that is the quarter that has just ended and the quarter before, we have had some phenomenal wins, which we have reported in our reports as well. There was one win, a customer called 'Sydney Trains', which is upwards of AUD 30 million, which is a sizable win for us.

And we have also expanded our presence in defence segment which will start kicking in not immediately, but maybe a few quarters down the line. So revenue-wise, I think we are fairly well positioned. We have done a lot of groundwork with respect to our business developments and reorganizing our approach to the customers and whatnot, which we have done in the last 2 to 3 years, that is starting to pay results, pay dividends right now and we are seeing them coming every quarter on. So, we are positioned very, very well with respect to the revenues.

As Rituraj put up a little while ago, our international business even pre-COVID level, the margins were about 4.5%. And that's the more realistic number that one should consider as a target that should be accomplished. Currently, we are somewhere close to 4% and the change of between here and there is largely due to the labor market conditions, very, very tight labor market conditions that we see in Australia and New Zealand as well, and in Singapore, all three markets together. So, the labor market started to tighten post-COVID. We've been reporting that every quarter. In that, the unemployment rate continues to remain at record low levels, sub 3.5% and that's what is affecting us at this point in time. So we have expanded our efforts on recruitment and retention and so on. So, while we are working towards getting there, again, there is a bit of market thing as well which we need to look out for. As and when the market eases, we will surely kind of see the way of moving back up that number.

Aditya Vora: Right. And just on the international front, how are we doing in Singapore? How is the Henderson business going? If you could substantiate with some numbers?

R. S. Murali Krishna: Right. If you look at the history of Henderson since COVID, COVID had severely affected the business. Our immediate attention was to kind of get it to a self-sustainable level, which I think I am very confident to say that we have achieved those levels at this point in time. So, we are on a self-sustaining level, and from here there will be a new phase of taking the business to its rightful place, which was pre-COVID, the way it was pre-COVID. But again, in Singapore, there are structural shifts that are happening to the labor market. You could look for what is called as a progressive wage model, which is the concept of a minimum wage here in India, which is fairly similar, but slightly different. The Singapore Government publishes those rates fairly in advance. And that there are some structural shifts in those. So we have to manoeuvre those, and we also have to look at how the competition manoeuvres those and so on and so forth. So there is a bit of work to do, to be able to grow from here to its rightful position. But I can confidently say that we have come to a position where we are on a self-sustaining level.

Aditya Vora: And lastly, I wanted to get some sense on the new tech business, the VProtect business and the likes of that. So there are two schools of thought. One is that eventually, when VProtect and the likes of those tech business grow and they become a sizable scale, obviously, VProtect is very small currently, but over a period of, say, 3 to 5 years, it grows higher. Could that be a cannibalization on your existing business? Or is it more of complement rather than a substitute? Because there are two schools of thought that if your VProtect or the likes of that come in, obviously, your manpower goes down. So how do we look at it from a strategic perspective, say, 5 years later, 3 to 5 years later?

Rituraj Sinha: That's a great question. And I think at SIS, we don't see technology as a threat. We see technology as an accelerator. So we are doing two things. One, convert our services into solutions using tech. So greater use of cameras, greater use of apps, greater use of AI, video analytics, all of that is happening at one stage.

The second area, you know this is what you termed as complementary, moving from service to solutions where you're using technology in a complementary fashion. The second situation is where the manpower is being replaced by tech, you called it cannibalizing. I see it as a part of industry evolution. So there is a lot of services that we offer like VProtect, where we are effectively cannibalizing the static guard or evolving the customer demand as we see it.

For example, there was a time, if I take you back 15, 20 years, every telecom tower used to have guards below it. Today, they are none. It's completely done by electronic gadgets. Every ATM in the country had guards. Today, a large number of ATMs don't have guards. So this is market evolution. I believe that security manpower will stay where security is critical to the business operation. In a sugarcane factory where you have to get buggies to line up for 3 kilometres in the peak winter for crushing season, electronics cannot do that for you. You will need manpower.

In front of a cement kiln in a large industry, steel output, mine, definitely. But I am a firm believer that there is no reason why there should be a guard standing outside a restaurant to open the door and close the door. That is not critical to the operation of a restaurant and such use of manpower is and should get eliminated. So if you can do that using tech, if you can instead of a guard sleeping outside the bank branch or the ATM at night, if you can remove the guard and use VProtect to solve that problem or when the restaurant closes down the evening where nobody is supposed to enter or exit, if you can do that with VProtect, why do you put guard in the first place. So, we don't see that as cannibalizing, we see that as evolving with the market. And as a market leader, it's our job to help the customer achieve their goals in the lowest cost fashion and the most effective fashion. So you may see it as cannibalizing. We see it as evolution. And if somebody is going to cannibalize the guard, it better be the market leader itself, which is SIS in this case.

Aditya Vora: Right. That’s very helpful.

Moderator: Thank you. We have our next question from the line of Kaustav Bubna from BMSPL Capital. Please go ahead.

Kaustav Bubna: I have two questions. The first question is, could you give me some data points to explain the market opportunity in the international markets that SIS is operating in for security solutions?

R. S. Murali Krishna: Murali Krishna here. Sorry, could you repeat that question?

Kaustav Bubna: I wanted some data points to explain the market opportunity, the total addressable market and the upcoming market opportunity for the next few years in the international markets that SIS is operating in for security solutions?

R. S. Murali Krishna: Rituraj, would you like to take that?

Rituraj Sinha: Yes, I think you need to get a macro view of the security industry globally. But I think it's a very good question because people don't want to understand the business at that level generally.

So, security globally is a US$ 200 billion plus industry. Out of this US$200 billion plus industry, 60% continues to be manpower-centric services. All electronics, all tech included, 60% is still manpower centric. If you look at this 60%, the manpower-centric business, you will see that the 10 largest players in the world, barring 3, 7 of them don't have any significant presence in Asia-Pacific region. That is so because roughly 65% of the global industry, still in terms of revenue comes from Americas and Western Europe. So 7 of the top 10 players focus on those markets.

Asia-Pacific, which was in 20 years back, the smallest part of the global security market is now the fastest growing and will become the second largest market for security business globally. At SIS, we believe that India is going to be the big growth engine of that market because of the size of the economy itself. If India is to become a US$ 5 trillion, US$ 7 trillion, US$ 8 trillion economy, the security industry in India also will become a very large and significant market. India also has an advantage in this region, historically business-wise, export or manpower wise, various ways. So, we have, therefore, looked at building an international business that is focused on Asia Pacific region.

We operate three markets: Australia, which is the second largest market in Asia-Pacific. New Zealand, which is an adjacent market, it's like an extension of Australia and it made no sense to operate Australia and avoid New Zealand. Other than that, Singapore is a strategic market because we wanted even as it's not very large in revenue size or quantum of opportunity, it is the hub for regional contracts, regional tenders when an Amazon does a regional security contract, the RFPR originates from Singapore. Same for a lot of other manufacturing companies, a lot of other companies when they do their Asia-Pacific contracts because the regional headquarters are in Singapore. Singapore becomes a very important market, so we entered this market.

We believe that 5 years forward, by 2030, two things are extremely likely to happen. Number one, Asia Pac will be a clear No. 2 in terms of size of market, and it will also be the fastest-growing part of the global security industry, in geography terms. The second thing that is going to happen is that this market is also advancing more rapidly towards solutioning because of the nature proximity to China and the nature of technology, the cost effectiveness of technology. So it is not only growing very rapidly in market growth terms, but it's also growing very rapidly in knowledge terms. It's a leapfrogging. So I believe that this market becomes extremely important.

If you look at standalone, Australia is roughly AU$1.8 billion to AU$2.5 billion security market. And our businesses in Australia accounts for almost 20%, 25% of that market. So we have a very strong market position in Australia. We're not just No. 1, we are greater than 20% market share.

Similarly in New Zealand, we are in the Top 5. In Singapore, we are in the Top 5, but obviously, the market opportunities are smaller. So you might get a $50 million to $100 million business in New Zealand and a $50 million to $100 million business in Singapore. But I think there's a lot that we are learning in these markets that gets implemented back home in India.

Like for example, right now, the new Noida international airport that is in news in recent weeks, we have been working on pitching to the Noida Airport Authority about our aviation security experience in Australia and the best practices being imported to India, should we get the opportunity in Noida International Airport. So, there's a lot of transfer of knowledge and technology that happens both ways, with the systems we developed in India, for example, our video analytics platform, the machine learning that we have done for facial recognition and ANPR and a lot of those things, they are being commoditized and being sold in international markets for dollar rates.

So there's a lot of back and forth, but I believe that Asia-Pacific is the future of the security industry globally. SIS is amongst the top 10 players in global security industry today, but it is also the largest player in the global security industry in APAC. So APAC is a market that we can clearly say that with roughly more than AU$1 billion of revenue, we are very well positioned for this key market.

Kaustav Bubna: Excellent. Thank you so much for the detailed answer. Just one last quick question. So, specifically the India market and for security solutions, what is SIS's exposure to the residential space because you have in the MMR region, this is just as an example, obviously, there are opportunities in each state and city, but you have these redevelopment projects coming up and which have already started in the MMR region. So logically, these poor-quality housing societies before redevelopment can become a little more structured and organized. They could opt for better security solutions. So, does SIS participate in that market or that's not an opportunity for a Company like us?

Rituraj Sinha: Residential is not a focus for us. Our focus is to work with corporates. There's a saying in SIS that there's two things that determines the stickiness of our contract. One is how critical it is to the business operation. And I already gave that example, whether it's a guard opening a door at a restaurant or it's somebody working at a sugarcane factory.

And the second thing is who your customer is. If you're working in RWA, where we have 300 apartments and 300 customers there is lack of clarity as to who is the Chairman next year and what his preferences are, and it's a very chaotic situation. The purchasing decision is also not very well organized. It's complicated. There's a lot of other factors that are beyond our control. Vis-a-vis when you work with large corporates, multinationals, there's a proper procurement process. They are picking basis quality, they are picking basis the right factors. So I think the better place to work in that space.

Kaustav Bubna: Okay. And if you could just let me squeeze in one quickly. What are you exactly doing to create value from your cash logistics business. Why is that I mean, it may not, I personally feel like why is that in our portfolio of services anyways?

Moderator: I request you to please rejoin the que as there are several participants waiting.

Rituraj Sinha: I can take that quick question, and you can rejoin the queue if you have any more questions.

Kaustav Bubna: Okay. That's the last question, if you could answer that.

Rituraj Sinha: So, the cash logistics business started off by the banks asking us to provide cash vans. SIS used to be providing security guards to banks. Then the bank said that, okay, we need some cameras, so we got into the cameras business. Then the banks said okay, give us cash vans, then we got into that business. That's how organically business has evolved. You hold the customer's finger, you follow the customers' demand and you learn how to do things. But way early in 2009, 2010, SIS recognized that cash logistics is not a security business, it is a logistics business.

So we went and found a partner in Prosegur. Prosegur is a global leader in this space. We have a joint venture running for 15 years. And now in that joint venture Company, our ownership is minority 49% because that asset does not get captured in our books, it's not consolidated. We had a belief that, that value of that business is not being recognized, simply because it's not rolled into our books. You know, standalone, that business has INR 135 crores of EBITDA but that doesn't get rolled into our EBITDA calculation. So, we had an IPO or a listing put option with our joint venture agreement, and we are exploring whether we can use that to, A - monetize our value of our shareholding in that business and number 2 - maybe even consider bringing back some of the proceeds towards further lowering our debt situation.

Kaustav Bubna: Excellent. Thank you so much for answering all these questions. Really gave some clarity.

Moderator: Thank you. We have our next question from the line of Shiv Saxena from ICICI Bank. Please go ahead.

Shiv Saxena: Any experience in past 7th pay commission wage hikes when it was there. So does that help in your business, now with 8th pay commission and then eventually, the salary hikes were passed on to private sector. So will it help in your business?

Rituraj Sinha: Minimum wage hike always helps our sector. So our pricing is based on minimum wages, statutory components, service charges, administrative charges, profit. So when the base changes, everything is linked to the minimum wage. So, let's say minimum wage is INR 100. So, the PF is charged at the rate of 12.5% of INR 100. ESI is charged as a percentage of that. Bonus is charged as a percentage of that. Our training charges, supervision charges, admin charges are all a percentage of the minimum wage, which is INR 100 in this case. If the Government decides to increase minimum wage from INR 100 to INR 105, everything gets prorata computed on INR 105. So, there is a direct benefit not in margin terms but in absolute value terms to our EBITDA and our PAT. Obviously, our revenue in the first case.

Shiv Saxena: Had it been in the earlier past 7th pay commission was implemented, was there benefit?

Rituraj Sinha: The 7th pay commission is for Government employees, sir. It is not for minimum wage of...

Shiv Saxena: I understand. Actually what happens generally the salary in the private sector also gets revised...

Rituraj Sinha: Under the Central Labor Ministry and under the State Labor Ministries, there is a Wage Board which determines the minimum wages applicable in the State or in the Central circle. That has not been done as yet, whether the pay commission rise triggers that, I'm not sure. I hope you're right, but we have to wait for the gazette notification by Central Government Ministry of Labor and the State Government's Ministry of Labor.

Moderator: We have our next question from line of Amit Mehendale from RoboCapital.

Amit Mehendale: I have a couple of questions. The first question is on the broad M&A strategy. In the past, we have been pretty active and bought some assets on the M&A side. Now going forward, couple of things I just wanted to check, whether we have an active pipeline for acquisition, number one?

And number two, what kind of multiples are we looking to, you know any broad range, I understand that cannot be very specific but is there a broad range that you can mention that this is the multiple at which we will do acquisitions deals. I am asking this specifically because in SIS also, our own multiples have dropped a little bit. So in that context, if you can comment it will be helpful.

Rituraj Sinha: So, SIS's growth is predominantly organic. We don't acquire for growth, so that's the first thing you must understand. In the last 5 years, we haven't acquired anything because we haven't been confident of acquiring anything. The second point is SIS has a track record of successful M&A. We have acquired more than 15 companies in India and overseas, barring one Henderson. Others have played out more or less to plan.

Number three, we acquire for strategic reasons. Maybe a certain geography, like I will give you the example of Singapore. Maybe in India, if you say, Bangalore market is growing very rapidly. So we wanted more footprint there so we acquired something. Maybe a customer segment like Healthcare, we acquired 'RARE' because of that. So we acquire for strategic reasons. We haven't acquired in the last 4 or 5 years because we were waiting for the first full year audited numbers without any COVID impact.

'21 and '22 were impacted by COVID, '23, most sellers were of the view that they are still impacted by COVID. FY'24 was the first year where people had a set of numbers where there was no COVID impact, positive or negative. So we have started looking at opportunities. We believe our balance sheet is in good shape now with our net debt-to-EBITDA at barely 1x.

But, rest assured SIS is in no rush to acquiring. We don't see acquisitions as a way of bringing faster growth. If and when we acquire will be for strategic reasons, we do not acquire basis multiples. We do not believe that 6x is cheap and 12x is too expensive.

Our thesis is very simple. The IRR of that deal in a base case scenario should be greater than 21% and the IRR of the transaction should be better than 15% in a downside case scenario. If there is a transaction that meets that requirement and it is strategically useful, definitely we'll consider buying. Multiples is not the basic or the metric that we are too hinged upon. I hope that answers the question.

Amit Mehendale: Got it. So, my second question on the debtors, just a follow-up on the earlier point. Could you inform what is the size of the debtors that is beyond 6 months? And also, if any of it is disputed or anything at risk of collection, which is beyond 6 months?

Brajesh Kumar: Sorry, can you repeat your question, please?

Amit Mehendale: Yes, I was just looking to understand what is amount of debtors that are beyond 6 months. Debtors due beyond 6 months, 180 days, number one. And out of that amount, what would be the amount that is currently distributed with the client or at the risk of collection etc.?

Brajesh Kumar: Right now, I don't have an available annual figure for this. We will get back to you, will provide you this information separately, our IR team will provide this information separately.

Moderator: We have the last question for today from the line of Amit Sisodia, an Individual Investor.

Amit Sisodia: My question is for Rituraj sir. I am invested in SIS since IPO, and I have a few things to share. We are the No. 1 security and No. 1 facility management Company in India, and we have significant overseas operations also. And since our listing, we have almost tripled our revenues, but we have failed to generate any returns for our shareholders. And I guess, we must introspect why the investment community has ignored us and our share price is still stagnating below IPO price. During my interactions with several investors, I found that, there are a few common reasons for the lack of confidence in SIS as an investment. So do we have the time to listen to those?

Rituraj Sinha: Absolutely.

Amit Sisodia: Sir, the first doubt the investors have is why are we having such a huge debt when ours is an asset-light and high cash generating business? The investors say that if the business would have been generating so much of cash, then we would not be carrying this much of debt. This is the first doubt, that I commonly encounter.

The second is, we are having INR 1,000 crores of cash out of which INR 500 crores is in India and INR 500 crore is outside India. And they want to know in which entity is this cash lying and why are we not using this cash to reduce our debt.

The third common doubt that investors have is, we are an asset-light Company and still we have charged about INR 160 crores in depreciation in the last 12 months, and this figure has been continuously rising over the last few years. This depreciation charge confuses the investors. Can you please explain the calculation of this depreciation in the simplest terms so that even a layman can understand what we exactly, how we are charging this depreciation?

And the last one is, we would be generating around INR 600 crores of EBITDA, but INR 160 crores will go in interest payments, INR 160 crores in depreciation, and the resulting PAT would not be that significant and which will again make our return ratios look poor. And PE will optically look high, again discouraging the new investors. So, these are the broadly four doubts that I can find among the investors. So, I want Rituraj sir's comment on these pointers.

Rituraj Sinha: So, my dear sir, firstly, I would like to thank you for being so patient with SIS since you are an IPO investor. Second, my sincere apologies that SIS has not been able to generate the returns that you and I both had hoped for. Despite the fact that since IPO, our revenue has more than doubled its more 2.5x. And our profit, our EBITDA, which was INR 200 crores is now INR 600 crores. But the share price remains below the listing price. So I can understand your pain, and I completely empathize with that.

Now coming to the points that you raised, as far as the debt situation is concerned, I am aware that a lot of people have this concern, they are constantly comparing SIS to staffing companies. And their view is that why does SIS have working capital in the business. It's an asset-light business. Our belief in this industry is that 300,000 people working for SIS are our employees. Whether or not customer pays should not affect their pay date. They should, they have to run families and homes. So, working for SIS, SIS is accountable to pay their salaries. Staffing industry does not work like this. Their approach is different, their approach is, when I collect from customers, then I will pay you, if the customer does not pay me for 2 months, I will not say you for 2 months. So that is why that capital employed in the business, all the debt that you see, barring maybe INR 50- INR 100 crores is working capital debt. If you see the earnings document, the earnings note that we released, we are probably the only Company that spends writing 15 pages to explain all this in detail. There is a table that gives you a breakdown of debt and cash entity-wise. If you need any further clarification, I'll give you. But more important, I want to assure you that I also want to see what happens if we are able to pay down the debt majorly. Does that resolve the perception in the market that we have too much debt, but what we cannot do and what I would not want to do is to change the way we operate business. We cannot collect and then pay, we have to pay first our employees and then collect them, that's one debt piece. But I am with you, we will try and reduce the debt exposure in the business, allow us some time we are working on it.

The second thing is the return profile of the Company. Now that is again because of the capital employed in the business because the working capital employed in the business is high, the return ratios look subdued, once we address the debt component, hopefully, the return ratios of this asset-light business should be and have been in the past in the range of 15% plus, 20% plus in fact we will try and bring the business back to that stage.

Number three, the depreciation breakdown, what exactly is the depreciation charge for that breakdown, I will ask Brajesh to make, and now that you've pointed out, every quarter Vineet and Shweta, the Investor Relations team will put the depreciation calculation in the earnings report for you to see transparently.

Ours is an asset-light business. We are an asset-light business, the only assets that we buy are either making offices or buying equipment that customers want, cleaning machines, vehicles for patrolling, drones, alarm monitoring equipment, things like that we buy. Whatever depreciation we have, we will put the list for you to see where the depreciation charge is coming from.

But in summary, I owe you an apology. I hope that you will bear with SIS a little bit longer. Hopefully, we will, I am not sure about stock price, that's not in my control. But the points you have raised are very valid, perception issues around debt, around return ratio, around depreciation. I will answer all these three through actions, and let's see what the stock market thinks.

Amit Sisodia: Right, right. So, I am invested and continue to invest regularly in SIS just because of your passion for the business and the way you answer, and you have every single minute detail of the operations that is commendable, and I really respect you for that. Thank you, Sir.

Rituraj Sinha: Well, I am also very, I am sorry, we are having this personal chat over a conference call, but you know, I did my first round of private equity investment from D.E. Shaw in 2007, and we gave them 7x return. My second line of private equity was CX Partners in 2012, we gave them 3x return. But I am very sorry that my IPO investors, I have not been able to generate returns, and it disappoints me greatly as well. And you will see that this is not directly linked to the performance of the business. SIS revenue and profit say a different story, but let's see, we can only keep trying.

Amit Sisodia: Sir, once this EBITDA translates into PAT, you'll see magic happening with the stock price.

Rituraj Sinha: We’ll see, my friend.

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

Rituraj Sinha: Thank you, everyone, for joining this call. I think this has been an exhaustive conversation. I appreciate all the questions that came through. As you can see, Q3 has been a good quarter with all engines firing, security business in India, FM business in India, Cash business in India and International business. All four segments have delivered. This demonstrates what can happen when all engines fire.

I know that for the past few quarters, we had one or the other engine pulling us down. But I think as we proceed forward, we will try and see that we keep all businesses moving on track. Q4 looks like a good quarter. And I hope that we will also be able to address some of your major concerns in FY25 and FY26 about debt, return ratios and the depreciation aspect. Thank you very much. All the best.

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