A Market Leader in Security, Cash Logistics & Facility Management
Group Enterprises

Date: July 31, 2024

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 – Q1 FY25

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

Please find attached the transcript of the earnings call for Q1 FY25 held on July 25, 2024. The transcript is also available on the Company's website at https://sisindia.com/wp-content/uploads/2024/07/Earnings-Call-Transcript.pdf

Kindly take note of the same.

Thanking you

For **SIS Limited**

PUSHPA LATHA KATKURI Digitally signed by PUSHPA LATHA KATKURI Date: 2024.07.31 14:38:26 +05'30'

Pushpalatha K
Company Secretary

"SIS Limited

Q1 FY '25 Earnings Conference Call"

July 25, 2024

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

Moderator: Ladies and gentlemen, good day, and welcome to SIS Limited Q1 FY '25 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. Good afternoon, everyone and welcome to Q1 FY '25 Earnings Call. I hope you had a chance to look at our results, which were uploaded yesterday on both, the stock exchanges and the company website as well.

Now I'm very happy to report that on a consolidated basis, revenue for SIS Group increased by 5.1% year-on-year basis to INR3,130 crores. While EBITDA took a small hit of 1.2%, again, on a Y-o-Y basis to INR137 crores. This is largely due to issues with our SXP business in Australia.

Now as a Group, we continue to retain our focus on margin improvement. We have focused on margins in terms of cleaning up customer contracts and rationalizing SG&A costs. The International Security business was impacted in this quarter, largely due to leadership changes and loss of some profitable contracts in the SXP business, which is Australia, and the absence of one-off contractual work at P4G and low unemployment in Australia, which resulted in labor shortage in Q1 FY '25.

We would like to highlight that traditionally in the April to June quarter, business in Australia and New Zealand is muted compared to the Jan to March quarter, which represents the festive season and also has major sporting events. Coming to Singapore business, Henderson continues to remain profitable through a combination of cost rationalization, shedding unprofitable contracts and new business growth. As a result, while the top line of the Security Solutions – International business segment grew 2.7% Y-o-Y, EBITDA took a hit and was down 14% Y-o-Y .

Now let's come to the India business, which reported the highest ever revenue of INR1,868 crores in this quarter, translating to 6.8% Y-o-Y growth and an EBITDA of INR94 crores, growing 6.2% Y-o-Y and maintaining a stable margin of 5%. India Security reported a revenue of INR1,338 crores in this quarter, an 8.8% growth Y-o-Y and an EBITDA margin of 5.4% stand-alone.

Facility Management reported a revenue of INR530 crores, 2.2% growth on a Y-o-Y basis and EBITDA margin of 4.2%, which is actually 30 basis points higher than the last quarter. We continue focus on margin improvement initiatives in the FM segment by weeding out less profitable contracts. The demand for integrated Facility Management solutions continues to remain strong in India.

Now coming to our Bank Outsourcing Solutions business, we're very happy to report that the business has achieved its highest-ever quarterly revenue of INR171 crores, which translates to an impressive growth of 12% on a Y-o-Y basis. The Cash business expanded its EBITDA by 130 basis points, at a 17% EBITDA margin, and a PAT of INR14 crores translating to 32% Y-o-Y growth and a PAT margin of 8.1% in this quarter.

So overall, the cash business momentum is on track and efforts to unlock value are underway. We are very happy -- now let's talk about the budget, which was yesterday, we're very happy to report that the key provisions related to benefits for professionals entering for the first time in the job market, PF support being given by government to the employers are very positive initiatives and they are going to have a positive impact on us in the near future.

So with this, I conclude my initial commentary, and I hand it over to you for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Balaji from IIFL. Please go ahead, sir.

Balaji: Good afternoon. Thanks for taking my question. I had a couple of questions. So first is on the International Security business. You did mention in your quarterly report that labor shortages in Australia may continue in the medium term. And in light of that, how do you see the margins panning out for the rest of the year?

I mean, you have also mentioned that there has been a 3% increase in the minimum wages in Australia and those would be passed down as and when the contracts come up for renewals. So when should one expect the margins to normalize going forward? That is question number one.

The second question will be on the India FM piece. So there, one can see that your revenue growth is now a little over 2% Y-o-Y. While I appreciate the sequential EBITDA margin expansion despite shedding unprofitable contracts, margins, seems to have shrunk by 20 basis points on a Y-o-Y basis. Well, I do understand that some operating leverage benefits are yet to come through. When should one expect the margins here to normalize? Thank you.

Rituraj Sinha: Thanks, Balaji. This is Rituraj. So on the first question, International Security, I say that the labor shortage situation compounded by the fact that there has been a significant wage increase of 3%, I think has presented a complex situation before us.

And I would say that basis the last management catch-up that I did a few days back, it would take one to two quarters to bed this in, which means to pass through the higher wage cost as and when they come up for renewal, and also for addressing the labor shortage issue with an aggressive recruitment program that we are undertaking at the moment. So yes, I think there is going to be two quarters of turbulence on the International Security, particularly in Australia.

On the India FM margins, I'd just say that India FM reported 3.9% EBITDA margin in the previous quarter and this quarter it is 4.2%. So sequentially, the margin is up. And our actions are underway, as we've said in the past. We are getting out of most of the contracts where we were losing money. There is a bunch of railway contracts, which we are trying to exit. But obviously, being a government tender, there are limitations, and there is only limited flexibility for vendors to step out. So I think that said this is ongoing, but I think the FM margins are going to be pretty much on track and they will be moving towards the 5% mark in the coming quarters.

Balaji: Thank you. That answers my question and all the best.

Moderator: Thank you very much. The next question is from the line of Riya Mehta from Aequitas INV. Please go ahead.

Riya Mehta: Thank you for the opportunity and congratulations on good numbers in India business. My first question pertains to the number of employees added in Security business in India, it is around 2,153. So just I wanted to understand that despite the incremental employees, our revenue has not grown in the similar extent. So what would be the reason for that?

Rituraj Sinha: Sorry, I'm not sure where you're picking up your data from. Would you say that again, please?

Riya Mehta: Yes. So I think what I'm trying to understand is last quarter, we have seen almost decrease in the number of employees. However, this quarter, we are back to around addition of 2,000 employees per quarter, which was -- when do we see ourselves reaching that 5,000, 6,000 mark again? And also the number of branches have reduced significantly, so is this a phenomena we are looking ahead?

Rituraj Sinha: No. So look, we track our revenues by branch and not by head count. So I'm sorry, I don't have the numbers at absolutely so to tell you in terms of the employee headcount. But what I can say is that if you look at our branch count, on 31st March '24, we had 152 branches in SIS Security, which as of June is 156. So we've added four branches. Branches in other businesses like SLV, Uniq, TechSIS, VProtect remain the same. So in our security operations we run 180 branches today.

Riya Mehta: I think last Q4, it was 184 and this quarter, it is 177 as per the presentation.

Rituraj Sinha: Where are you picking that data from? I'm not sure. So if there is a typo error, I'm just looking at the MIS.

Riya Mehta: Q1 FY '21-'25 result updated in the Security Solution India business.

Rituraj Sinha: Right. So I think there is a typo. I think coming back to the question, we have not closed any branches. That's the first fact. The second fact is that -- the second fact is that as far as the manpower head count is concerned, we had very modest growth in the India Security manpower this time. And we believe that the exact reason for this under revenue linkage to manpower to billing, I'll have to check the accrued revenue count for you and come back to you.

Riya Mehta: Okay. No worries. And in terms of the explanation given that we have an annual June revision. So I just wanted to understand the mechanism, how it is passed on and what were conference charges which were there?

Rituraj Sinha: So the annual conference charges are close to INR5 crores, which we incur once a year. So it's a big impact on a single quarter. As regards to the other point you said was --

Riya Mehta: Wage revision.

Rituraj Sinha: The wage revision is basically is our pay review system for the non-billing staff.

Riya Mehta: Okay. And we were talking about -- hello-- incremental increase in wages for the workers, which will in turn become pass-through. So when do we expect that kind of wage hike coming in?

Rituraj Sinha: Wage hike by the central government or state government?

Riya Mehta: Yes.

Rituraj Sinha: Well, that's impossible for me to forecast. I think what you have seen in the recent budget is that the government seems to be preferring more jobs versus higher paying jobs or better paid jobs. So there's a push for creating more jobs and incentivizing that. I'm not sure what that does for labor reforms and also to minimum wage increments that generally are passed through. While some of the states in the South have passed it through, the central government hasn't really come up with anything material.

Riya Mehta: Got it. And in terms of -- just like Australia, if there is a wage hike in India, we will take one or two quarters to pass it on?

Rituraj Sinha: No. I think there's a big difference. The Australian contracts are such that -- there is a defined date in the contract when the pass-throughs can happen.With regards to India, the mechanism is straightforward from the date that the pay hike is effective, the minimum wage hike is effective. Even if it is retrospective, we instantly pass through. There is no negotiation. There is no timeline. There is no waiting for a time table.

Riya Mehta: Got it. And in terms of the Singapore business, how is it doing?

Rituraj Sinha: Singapore business, like I said, is back on feet, the business is now clocking close to $40 million in annualized revenue. It's winning new contracts, and I think it is on the angle of turning profitable, reasonably profitable if things go to plan.

Riya Mehta: So we are not anticipating any further write-off in this business, right?

Rituraj Sinha: Write-off is a function of the price paid and not really the current performance of business. Write-off happened and let me explain that again. The write-off happened because in 2019, we entered into a transaction where we bought 55%, 60% of a business. And we hope to build that business into a $120 million business and then buy out the remaining shares. So the auditors got us to work out what we would have to pay at the end of the four, five years when the business is worth $120 million as price for the remaining 40% acquisition. Obviously, that was far inflated from what really happened, which is COVID and then subsequent. So there is a gap between the initial goodwill charge that was taken in 2019 and the current performance of the business as it stands today. And that is what the impairment was done for.

Riya Mehta: Got it. Got it. And in terms of further strategy in terms of VProtect business?

Rituraj Sinha: Well, like I said, VProtect business is tracking very well. It has a good pipeline of contracts. It's run rating close to INR10 crores for monthly billing, monthly invoices INR10 crores, close to 20% EBITDA margin. So it's a very small business – in SIS Group, we invoiced roughly close to INR1,100 crores per month. So in that scheme of things, it's a very small business, but it's a business of the future.

Riya Mehta: Got it. And where are we in terms of timeline for demerging a cash management business?

Rituraj Sinha: Well, DAM Capital has just been appointed to run the process and documentation is more or less ready. Hopefully, in the next quarter, we'll have good clarity around that.

Riya Mehta: Okay. Got it. And any further acquisitions are we looking at

Rituraj Sinha: Well, I think at this point in time, there is nothing on the acquisition front that I can disclose to you.

Riya Mehta: Okay. Thank you so much. I'll get back in queue for further question.

Moderator: Thank you. The next question is from the line of Gunit Singh from Counter Cyclical PMS. Please go ahead, sir.

Gunit Singh: Hi, sir. Thank you for the opportunity. So sir, are revenues - are revenues in FY '20 have gone up from about INR8,500 crores to about INR12,000 crores currently. But our EBITDA has remained flat from INR516 crores in FY '20 towards INR519 crores right now. What's even worse is that conversion to PAT has even worsened.

The PAT as per 2020 was INR225 crores versus INR190 crores right now. And so year-on-year, we see that the depreciation is going up from INR135 crores to INR166 crores. The interest payments have also gone up from INR115 crores to about INR150 crores. But I mean, all this is not translating to a significant rise in the Revenue or profitability and it's only worsening in the profitability.

So sir, I just wanted to understand why is this happening? I mean -- and why is it not translating into better profitability? And by when do we expect to move out of this lower translation, I mean, low margin project trajectory?

Devesh Desai: I don't know whether you've been following us for the last few years, several quarters. We've given a flavor of how the Facility Management business is moving, how the International business is moving, what challenges we're facing over there, how the tax treatment works, the investments we are making in the VProtect business, which is actually driving the depreciation and interest. And compared to 2020, the interest rates are much higher today than they were. We see no signs of going down.

So we -- actually, every quarter, we've been giving a flavor of what's going on. So it's very difficult for me suddenly to give you a snapshot of what happened between 2020 and 2024. On this kind of a call. So if you have a specific question, I'm happy to take that. But to take you through a journey of four years in this short call is going to be very difficult.

Gunit Singh: So just a brief -- I mean, in 2020, interest payments were even higher than today, but profitability -- but anyway. So to put the question brief, I want to understand, I mean, how -- what kind of margin improvement or steady set margins do we expect going forward?

And by when do we expect to, I mean, move out of this EBITDA range of INR520 crores according to you? What all steps the company is taking? And when will the -- I mean, the investments that you have been making and further initiatives taken by the company, when will they fructify into actual profitability growth for the company? So this is the main question.

Devesh Desai: Okay. Let me take three questions in a different order. So I think last year, we broke out of the 520 EBITDA scenario. EBITDA was close to 600 last year. So that's one thing. I think we've broken out of that for good. So I agree, for three years, it was flat in the 500-520 range. On profit improvement, just a few minutes back, Rituraj recounted the challenges which we are having in the International business on the labor front, on certain challenges we're facing in the Southern Cross Protection business. So as he said, it's going to take two, three quarters for us to break out of that.

On FM also, we just mentioned that we hope to reach the 5% range by the end of the year in around two quarters. So there are several actions underway. And I think in Q3 or so, we should have -- you should start seeing us breaking out of this particular range. And as far as the VProtect investments are concerned, yes, these are long gestation businesses, they require investment. But returns are in high double-digit range, which is much better than the rest of the business. And today, we are going to have over 25,000 installations and rapidly growing there. So the investment over there is required for us to gain the business and install the customer's equipment, and that's the return we get over a period of time.

Gunit Singh: All right, sir. Sir, by when does the company expect I mean to reach historical margins of about 6%?

Rituraj Sinha: Well, like I said, we are committed to the 6% margin range that we have demonstrated in the past. But unfortunately, it's taking more time than we had initially envisaged. If you see the security business, it's far closer to the 6% performance range that we had maintained pre-COVID. The FM business has just broken up from the 4% barrier, and I think it should trade well, again, towards its pre-COVID normal. As far as the international business is concerned, pre-COVID international business was operating between 4%, 4.5%. It has been in that broad range for the last few quarters. And I think it will remain there. As far as the cash business is concerned, it is roughly operating at 18% EBITDA margin.

Gunit Singh: All right sir. That's all from me. Wish you all the best. Thank you.

Moderator: Thank you very much. Next question is from the line of Chirag Fialoke RatnaTraya Capital. Please go ahead, sir.

Sanjana: This is Sanjana, I'm his colleague. Thank you for taking my question. So I have three questions. One is on the International business. You mentioned three factors that had led to a lower margin in this quarter. So one is the loss on -- loss of some profitable contracts in Australia and some leadership changes and then some job work, which was there in the last quarter. So would it be possible to quantify these three factors for us? Like if you can give some sense what impact did it have on the margins?

Rituraj Sinha: I think I don't have it handy immediately to give you the micro details, but we try to cite a general blend of reasons why we are facing the situation we are facing. But I'd say, if you were to see what is the mother of all issues. It's actually the short staffing because of the labor market situation in Australia. Everything else is momentary. This is a continued trend, which over the past many quarters has been affecting us.

Sanjana: Understood. And on a steady-state basis, at least for this year for the International business, what do we foresee in terms of margins?

Rituraj Sinha: I think you should work with the 4%-4.5% range. That's the reason which International business is being performing generally. And I think broadly that's where I see it.

Sanjana: Understood. Second question is on the India security business. So we define the market price to be of about INR150,000 crores if I'm right. And we also mentioned that we are not particularly targeting the stand-alone building security services. So ex of that, what could be the size of the market and what is that market growing at?

Rituraj Sinha: Well, it's very hard for me to answer that question for you because there is no third-party independent reliable source which I can quote here. So it's basically guess work. The way we see it is that the Security industry in India is today roughly 40% organized, basis what the industry estimates are.

And in that 40%, we basically count fully compliant operators who are basically paying all social security and most of the large corporates, most of the listed corporates tend to work with these compliant companies itself. We have also seen in the past, I think these are just generic rules of thumb. In the last 20 years that I have been in this industry, I have always seen this industry to be growing at 1.5 to 2 times GDP development in India. So these are the two rules of thumb we use in this industry, there isn't any data source that I find reliable enough to comment on the addressable market itself.

Sanjana: Understood. Understood. Just one last bookkeeping question. Our depreciation sequentially has come down. So what was the reason because -- like what was the reason for that? If you can highlight. I'm comparing ex of the impairment, which is there in the last quarter. So 48 was the number last quarter, I think, 48, 49. This quarter is 42, marginal reduction. But if you can help us...

Devesh Desai: Okay. So generally, we have a policy of doing depreciation on a WDV basis, not on a straight line basis. So this could be the effect of that.

Sanjana: Okay. Okay. Understood. Thank you. Thank you for taking my question.

Moderator: Thank you very much. The next question is from the line of Shiv, who is an individual investor. Please go ahead sir.

Shiv: Good afternoon, everyone. So my question is around -- can you give some kind of a quantification around how many -- I'm would not say bad contracts or I will say, contracts which are not optimal, which have not been converted into -- or they are pending, like as you said, railway is one.

As you said, I don't know -- are there any like top three contracts, the bigger ones, which we intend to close and -- close or convert them into good contracts and which kind of quantification we can have. Can we have some kind of a percentage? Because I think the sort of what I see is that SIS is trying to convert these so-called as bad contracts into at least good contract percentage, right? And that's what I see one of the major things in SIS. So is there any kind of quantification you can get in terms of percentage or numbers?

Rituraj Sinha: Well, I think contract level commentary is very hard for me to provide. What I can tell you is that we do something called the ABCD analysis of our contract portfolio. A category contracts, B, category contracts, C and D category contracts, which are haemorrhaging, either loss-making, or they are bad paymasters or operationally and viable to execute, etc, etc. So this is an ongoing process. At no point in time, D category contracts constitute more than 10%, 12% of the entire portfolio. But even 10%, 12% of the entire portfolio not doing well is actually a big drag in a business like ours.

I told you, like, for example, railways, three years back or pre-COVID, it was one of the biggest segments we were actually going gun ho about. They were spending a hell lot of money on their cleaning efforts. They were trying to -- the big mantras clean railways, better railways. And then suddenly during COVID, when the Railways stopped to operate, railways incurred huge losses in that period. They have simply flipped back, changed contracts unilaterally, changed payment and bill approval systems in a way that we -- what seemed to be paradise pre-COVID became complete nightmare. These are three year, four-year contracts. These are not contracts you can step out of. These are a lot of contracts that we bid pre-COVID, but were awarded post. So that's why I called Railways out.

Now in business, as in life, things like this happen. I'm not saying that railways overall is a bucket of bad contracts, for example, IT is or this and that is. There are some contracts, which are sticky and not delivering for us. We have moved out from a large number of these contracts in Security. That's why even if the growth has been slow, the margin has gone from 4% a few quarters back to 5.5% range.

Similarly, in Facility Management, we were at 3.9% last quarter, we are at 4.2%, and had it not been for the pay reviews that happened in June, this would have been a tad higher. So I think we are doing what it takes to fix it. It's taking longer than most would like, and I completely understand that, but there are no shortcuts. We can only get out of contracts when we can get out of contracts without getting blacklisted forever or without losing favor with a particular client or in the industry for long-term.

Shiv: Got it sir. So this, coming to the D level contracts, so the D category contracts, you are seeing as like approximately 10%? I'm sorry, I -- that number?

Rituraj Sinha: There is no consolidated number like that for all INR1100 crores of monthly invoice value that it generates. And I was talking particularly with reference to the Facility Management business.

Shiv: Okay. Got it sir. Got it.

Rituraj Sinha: And SBU by SBU, there is analysis of ABCD contracts. Unfortunately, that's not public information. That's not something I can disclose to you.

Shiv: So just last question of mine. So this like one of -- in the public domain, one of the things was that like the Ram Mandir contract is also given to SIS. I'm sorry if I'm -- with that public note -- how true it was. So those kind of contracts, those kind of -- so that contract, I don't know how big it is. But is that contract by anyway coming into such kind of railway category where probably it can go -- it's not having good margin? How it is? Because with the change of government, I don't know how it goes on?

Rituraj Sinha: Well, Ram Mandir contract, we made a clear disclosure about it because we were inundated with calls about our role in the Ram Mandir contract after some TV news channels covered it. Ram Mandir contract is a profitable contract. It is still with us. It is probably a 0.01% type in terms of revenue contribution. Not just the Ram Mandir contract, various other such temple trusts ranging from the Kashi Vishwanath trust to the Vrindavan trust to -- so many other temples and trusts in the country, which are big buyers for security because they witness a large number of footfall. They are all important contracts for visibility standpoint, from a contract value standpoint, they are not that material. As far as profitability is concerned, none of these contracts are loss making. They are not in D-category.

Shiv: Yes. Thank you, sir. Thanks a lot. Thank you very much. That's it from my side.

Moderator: Thank you very much. Next question is from the line of Heet Vora from Guardian Capital Partners. Please go ahead, sir.

Heet Vora: Yes. Hi, good afternoon. So my question was actually on the impairment, which we took in the last quarter. So as you said that there was a change in the valuation and given you guys had provided for a higher number earlier, you've taken an impairment. So is that the end of the impairment? Or do we expect further impairment given the fall in the valuation?

Rituraj Sinha: Well, I think it's something that we will have to go by the auditor's advice. But the gap between what we estimated as Henderson's value in 2019 and what we actually paid during COVID for the 100% acquisition. The gap is very wide. Not all of it has been impaired.

So you have to understand that -- I mean, I will take the exact numbers and I will send you -- I'll ask Vineet to send you an FAQ to explain this. And anybody else who wants to add clarity on it, I'm happy for you to actually go through a separate FAQ that we presented to our Board. What you need to understand is that initially, when the deal happened in 2019, we estimated that we'll have to pay over SGD120 million for the entire enterprise. If it had built out the way, we had to pay.

Interestingly, we bought the remaining 40% for a significantly lesser price because the promoter wanted to tap out. So I think the cost of 100% acquisition against $100 million-plus was barely $65 million, somewhere there. And I'll give you exact numbers. This is just top of my mind. So obviously, the goodwill charge is, basis $120 million.

The actual payment is basis $65 million. Actual performance of the business. The business today is a $40 million business, which makes little to no profit. So there are three metrics operating here. What we envisaged, what we paid and where the business lies today. So basis these three numbers, the auditors last year advised us that we should impair, we took the impairment. I believe -- what's the important thing in this? I mean, one is that I'm happy to share any data you want for you to understand this impairment charge better.

But the two things I want everybody to understand in this call, is number one, Henderson went from a $50-some million business when we bought it during pre-COVID to what, $20-some million business during COVID because of what prevailed. Completely unanticipated. Today, the business is fixed up and is back run rating at $40 million plus on an annualized basis. At its worst point, it was losing close to $5 million in terms of annual losses. Today, annual losses are zero. So it's a business that's in decent shape, much better than it was in the past.

Number two, Henderson, we paid $65-odd million, but the government of Singapore during COVID gave us $30 million in terms of grants. So the actual cash out from a SIS standpoint for this transaction is $35 million. At this point in time, a very handsome amount of money is kept parked in Singapore to fund this business' organic and inorganic development. This business in no way is consuming any capital from the parent company. So goodwill impairment is accounting, please understand it. Business is fine, it's not sucking cash.

Heet Vora: Understood. Just a follow-up on that. If we concluded it at a low valuation, why did we not take the entire impairment at the time of acquisition? As it would help with our capital employed, given it would reduce our balance sheet sales. I just wanted some understanding there.

Rituraj Sinha: No, obviously, because in 2019, when we bought it, we didn't see COVID coming. We thought we would build this business organically and inorganically with our partner. And then we'll have to buy out the remainder 40% of the company. And we had to estimate what would be the amount that we will be required to pay to acquire that 40%, and basis that the goodwill charge was made at the time of acquisition.

Heet Vora: No, I get it. I'm actually saying the second installment. When we made the second installment, which is a much lower sum which we paid than normal. Why did we not take the entire write down as impairment?

Rituraj Sinha: In 2021 also, we took an impairment charge. When we acquired the 40% at a lower value, we took an impairment charge. We have taken a second impairment charge. And honestly speaking, I believe from a macro perspective, and again, underlining the Henderson business, we've acquired 15 companies at SIS.

The only business that's gone wobbly post-acquisition probably is Henderson, okay? However, having said that, I believe that the goodwill sitting on our books overvalues the acquisitions we charge because in the case of SLV, in the case of Uniq, in the case of most assets, they were all ratchet based creeping acquisitions where the outgoing promoter had to perform something and then we had to pay our value. In most cases, they underperformed. They went out with lower payments, right?

Now, because of this, we are sitting with a large, inflated goodwill charge, which artificially compresses the real return profile of this business. So honestly speaking, I know an impairment charge sort of ring alarm bells. And I completely understand that but it's completely non-cash. In our case, it does not represent the actual health of the acquired asset, as I explained in the case of Henderson. And I believe that getting rid of some of the goodwill progressively will only do the SIS's balance sheet good.

Heet Vora: And do we have any plan how we want to do that? Or is it the, again, based on the auditors?

Rituraj Sinha: Well, it's not a decision that we can take unilaterally. It's based on auditor's advice and also consultation with other key stakeholders. But I think my thinking has been articulated adequately.

Heet Vora: Got it. And just one more thing on the International operations. You mentioned that there's a leadership change you. Could you just sort of give something on what was the leadership change? Why is the impact? Because I think the last quarter, the International businesses was performing, it has been on the strongest quarter for the International business. So if you could just give some sort of explanation as to what that leadership change is regarding?

Rituraj Sinha: Well, it's -- we are -- so how do I say this. The guy who is running SXP for us, which is a $150 million business, he unfortunately came down with serious health issues. He suddenly stepped back, led to a chaos. We didn't have leadership in place for succession. We inducted a CEO and a COO as a replacement, which lost us three to four months.

Once both of them came on Board, the COO got a better offer, so decided to step out. So that's the leadership mess that has been suggested. However, now the business is in stable hands and all the organisational rejigs are being made. SXP reported 1% EBITDA this quarter. They also had some issues on their invoicing and collections. So, I think -- this is particularly a bad quarter for them, but it's not a bad business. Once it gets fixed up in the next one to two quarters, it should be fine.

Heet Vora: Got it. Thank you so much. Excellent.

Moderator: Thank you very much. Next question is from the line of Rhea Mishra from SKS Capital and Research. Please go ahead.

Rhea Mishra: Yes. So my question is very qualitative in nature. Given my understanding, the last quarter is strong growth, we are trying to de-link revenue growth from our head count growth. Is that right?

Rituraj Sinha: In revenue growth.

Rituraj Sinha: It's always been delinked.

Rhea Mishra: Hello.

Rituraj Sinha: It has always been delinked. We are not a staffing company. We do not charge per head, per month, flat INR500, INR700. That's not how we operate.

Rhea Mishra: Yes. So my question was that the VProtect business and the cash logistic business are looking very good. So what are we looking forward given next five to six years what is your target revenue contribution or margin contribution? If you can give some guidance on that?

Rituraj Sinha: I don't think we can give you a SBU level guidance on revenue growth.

Rhea Mishra: Not even the - contribution growth the total consolidated growth, if you can?

Rituraj Sinha: SIS has never done that, I'm so sorry, I cannot give you revenue guidance like that.

Rhea Mishra: Or even the qualitative metrics as to how you are looking to expand the business or because the margins are very good.

Rituraj Sinha: Can you repeat that please?

Rhea Mishra: Yes, I was just trying to understand how the company is planning on expanding its VProtect business and cash logistics business given its profit margin so far was announced. So I was just looking on a qualitative guidance on that, as it's not very competitive in nature.

Rituraj Sinha: Well, SIS Cash Logistics business has -- if you look at the last five years during COVID also the business continued to grow. If you look at the last few years, in particular, the business has maintained. If you see this quarter onwards, we've started doing a very detailed note on the cash logistics segment in our earnings note.

So if you refer to those pages, you will see that it has since Q1 of FY 2020 till Q1 of FY 2025, our Cash business has maintained a 17% CAGR on revenue growth and a 48% CAGR on EBITDA growth. So the business is in good shape. They know how to grow, which has been demonstrated in the past through COVID and after COVID. And I'm very confident that the outlook is going to be pretty similar in terms of organic growth of the business.

Rhea Mishra: Okay. Thank you.

Moderator: Thank you very much. The next question is from the line of Riya Mehta from Aequitas Investment. Please go ahead, ma'am.

Riya Mehta: Thank you for giving me an opportunity. I just wanted to know when was the last wage revision, which happened at the central government level?

Rituraj Sinha: Central government level wage revision would have happened -- I'd say it happens every year. Unfortunately, the last revision that happened was barely like INR100, INR150. So it was inconsequential.

Riya Mehta: But when was the last -- when did this happen?

Rituraj Sinha: Central minimum wage revision, let me just check for you. I think the central minimum wage revision would have happened somewhere pre-elections. I'll give you the exact date. I'll have to check.

Riya Mehta: Okay. So we have -- it's still a year for us to see further wage hikes, right?

Rituraj Sinha: No. But there's two types of wages. One is the central government wages. Central wage was what was called and then there are state minimum wages. So state revise minimum wages of their own accord. And every month, one or two states revise. So latest central minimum wages dearness allowance revision happened on 6th of April. So actually this happened in midst of election. And minimum wage hikes of states keep happening, like Odisha has just done last month. So every month, one or the other state will do a minimum wage revision.

Riya Mehta: Do we have any particular geographical concentration where we can keep on -- would help us better to keep a track of those states?

Rituraj Sinha: Well, SIS is a highly diversified business. We get roughly INR600-plus crores of monthly revenue in India. And revenue in a state, our largest state operation would probably be Andhra Pradesh or Karnataka, and even Andhra Pradesh or Karnataka would not be contributing more than INR50 crores out of the INR600 crores. So there isn't -- it's very hard to say. It's very spread-out.

Riya Mehta: And in terms of incremental manufacturing which is happening, infrastructure led growth. So what is the growth you're seeing in that sector? I understand we are diversified, but what kind of growth are we seeing there?

Rituraj Sinha: Well, as you know, SIS works -- one is the geographical diversification of SIS. The second is the customer segment diversification. So when India grow at 6%, 7%, 8% GDP and spends INR 10 - INR11 lakh crores in infrastructure. So whether it's a steel company -- if you take the top 10 steel companies, we work probably with more than five of them. Cement, we will be working with all the major cement groups.

Logistics, people will carry this. We work with them. Construction agency companies, we work with them. So you start at auto, cement, steel, hotel hospitals, you name it. You take the top 10, we'll be working with more than five of the top 10. That is how SIS business is diversified. So our dependence on a particular segment like infrastructure, for example, or manufacturing for example, or IT services is inconsequential.

For us, it's a geography. Whatever is happening in that geography. If it is Odisha, then our strategy is completely to work with the manufacturing guys. If it's Karnataka, our strategy is completely centered around commercial spaces, corporate parks, IT parks.

Riya Mehta: Got it. And in terms of the business model, we charge a percentage on the entire contract for labor or how is it?

Rituraj Sinha: Yes, absolutely. So, when SIS bids for a contract, it's not a head count provision. So whether it's facility management or security, we get called in to say, okay, can you study my facility, which could be a mall, it could be a hotel, it could be a hospital. And we are supposed to go back to the client to say, okay, these are your key issues.

I think this is a number of manpower you need. These are the number of cameras you need. This is the list of software you need to use. For cleaning, these are the machines you need to use. These are the chemicals you need to use. And that's the composite cost for cleaning or providing security to your facility. So that's how it operates.

Riya Mehta: Got it. And in terms of -- do we do any residential projects?

Rituraj Sinha: Few, very few. One of our companies SLV, which is our Gurgaon-based enterprise, works a lot with RWAs. But SIS security, the flagship company predominantly focuses on core industry.

Riya Mehta: Got it. And what -- are you seeing any direct benefits from the current budget for the entire provision on skilling and employment?

Rituraj Sinha: Well, three schemes that the FM announced yesterday. Scheme A, B and C. One of those schemes is linked only to manufacturing. So that doesn't apply to us. Scheme A and C, which if you see, scheme A talks about incentivizing the employee with INR15,000 for the first-time joiner.

We still have to read the fine print because Madam FM has said that also benefits employers in some way. But in her speech and also in her news interviews, we haven't seen clarity on that. So we're still waiting for the fine print from the department. As far as Scheme C is concerned, that's the provident fund-linked scheme where the government is saying that it will help employer and employee while contributing to the year.

Again, the Provident Fund Department circular is not out. So we don't know exactly how that operates because then she also said that if a person is not employed for X number of years, then it has -- the benefit has to be repaid. And I don't know, the news articles have not been very clear.

So we are just waiting for the fine print to come out, how these schemes will operate. And then we will be in a better position to comment. But broadly said, my takeaway is that the Government of India budget recognizes the need for job creation. It recognizes the need for blue collar job creation. It recognizes a need for incentivizing not just the employees, but the employers who can create such jobs. And if the circulars are in sync with that broad intent, then I think they will definitely be very attractive for SIS.

Riya Mehta: Got it. Thank you. That's it from my side.

Moderator: Thank you very much. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Rituraj Sinha for closing comments.

Rituraj Sinha: Thank you, everyone for this extended call. This is a subdued quarter in terms of results for us, primarily driven by the SIS International entity. But I would request you to kindly look at the development on the India side of the business. I think that's far more reassuring. Second point I wanted to quickly make a mention of is the budget. In the coming weeks, we will try and ascertain closer the implications of the budget. And by the looks of it, it is definitely encouraging. And I hope the bureaucratic fine print is consistent with the larger intent.

The third point I wanted to state is that we will be reaching out to the larger investor community with regard to our plans around the cash business in the coming weeks. So I hope to see any of you who might be interested in that. I think that's a very attractive business, it is now ready to go its own way, and we are looking to unlock value in that domain. So those are three things I wanted to quickly sum up. Thank you very much once again for being patient and being on this call. Thank you. Bye, bye.

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