High Conviction Report

SIS Ltd.

An unmatched contender in a crowded market

21st September 2023

BUY

CMP Rs. 432

TARGET Rs. 837 (+94%)

Founded in 1985 by Indian billionaire and journalist Ravindra Kishore Sinha, SIS Ltd (SIS), formerly known as Security and Intelligence Services (India), has transformed into an Indian multinational company. It currently holds market leadership in India-Security Solutions (5%), India-Facility Management (4.5%), India-Cash Logistics (17%), and International Security (Australia, 23%) as of FY23. Impressively, the Company has expanded its customer base by 27% from ~6,000 in FY19 to ~21,000 in FY23 across the 3 segments (ex. Cash). SIS has demonstrated steady revenue growth at ~12% between FY19 and FY23, with management expectations of a 15% growth trajectory for the next 4-5 years.

Key takeaways from management meet

SIS has embarked on implementing several strategic initiatives to foster growth. These include the introduction of city-level CEOs and a targeted increase in the cross-sell ratio from ~7% in FY23 to ~15-20% in the near future. Additionally, SIS is actively exploring growth opportunities within the energy management division (a part of the facility management segment). In line with our strong domestic growth, SIS aims to boost India's contribution from ~55% in FY23 to a substantial 70% by FY28 (Note: Operating margins for Indian business is higher than International). Within the Security Solutions-India segment, SIS is demonstrating a proactive stance by emphasizing on VProtect, their high-margin (~20%) alarm monitoring business. In the realm of facility management, SIS has established a distinct competitive advantage through long-standing service records with esteemed organizations like Reliance Industries. Furthermore, SIS remains receptive to strategic acquisitions and diligent cost rationalization efforts within this segment.

Technology infrastructure

SIS, though people-centric, has a strong tech backbone. Tools like Automated Recruitment Kiosk (ARK), Intelligent Operations (iOPS), mTrainer, and mySIS capture and share data, empowering all stakeholders. The Company's software assets have grown by 27% since FY18, with a 38% CAGR in intangible assets. It has reduced general and administrative expenses to 3% from a long-term average of 5%.

Unlocking value in the cash logistics segment

The Company is undergoing a transformation phase on the back measures like reducing contribution from ATM replenishment business from ~65% in FY18 to ~21% in FY23. Resultantly, cost control reduced the cost-to-sales ratio from ~99% to ~86%, increasing EBITDA margins from ~1% to 16% from FY19 to FY22. With an FCFF of Rs. 200 Mn in FY22, indicates further potential of reducing debt gradually and increasing net profit margins.

View & Valuation

We believe that the leadership position of the Company, supported with subtle and evident areas of strength, makes a major potential benefactor of the rising prospects in the industry for the following 3 years. Consequently, we initiate coverage on SIS Ltd. with a high-conviction BUY rating at 5-year median PE of 22x on FY26E EPS, giving a target price of ~Rs. 837, implying an upside of 94%.

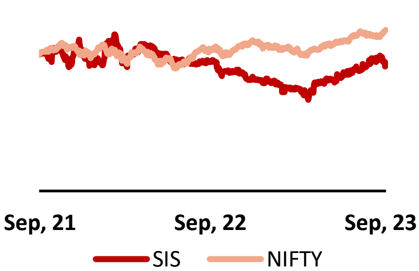
Company Data

Bloomberg Code	SECIS IN
MCAP (Rs. Mn)	62,906
O/S Shares (Mn)	146
52w High/Low	483/318
Face Value (in Rs.)	5
Liquidity (3M) (Rs. Mn)	37

Shareholding Pattern %

	Jun-23	Mar-23	Dec-22
Promoters	71.59	71.59	71.59
FIIs	15.25	14.95	14.66
DIIs	3.96	4.05	4.5
Non-Institutional	9.21	9.42	9.26

SIS vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
Revenue	113	127	143
EBITDA	5	6	7
Net Profit	3	3	4
Total Assets	55	58	62
ROCE (%)	8	12	13
ROE (%)	16	13	15

Source: Company, Keynote Capitals Ltd.

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Industry

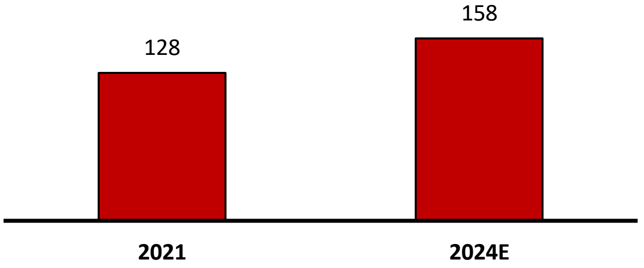
The security services market consists of a wide range of services that are designed to protect people and property from harm. These services can be broadly categorized into two main types: physical security (guarding service) and cyber security.

Physical security services are designed to protect people and property from physical harm. This includes services such as security guards, CCTV surveillance, and access control systems.

Cyber security services are designed to protect computer systems and networks from cyber-attacks.

The global physical security market was valued at $128 Bn in 2021 and is expected to grow at a CAGR of ~7%, reaching an estimated value of ~$158 Bn by 2024.

Global physical security market (USD Bn)



Source: Securitas AR, Keynote Capitals Ltd.

In the physical security market, tech-enabled security is expected to grow faster due to the increasing use of Artificial Intelligence (AI), machine learning, and big data analytics. Tech-enabled security services include systems integration (design, sales, installation, and project management of integrated systems) and alarm monitoring (constant monitoring by a certified center and other security services). Technology-enabled security systems form an essential part of any modern security solutions and enable the collection and analysis of data, resulting in an improved client offering.

According to the Australian Security Industry Association Limited's 'Security 2025 Report', the estimated annual revenue generated is ~AUD 11+ Bn in 2023, and the industry is expected to grow at a CAGR of 3% from 2023-2027.

India is expected to be one of the fastest-growing markets globally. The Indian security services market was Rs. 390 Bn in 2015 and grew at the rate of ~11% CAGR to reach Rs. ~911 Bn by 2023, driven by increasing crime rates, rising urbanization, political instability, and the need for assets and individual protection.

The organised security services market is expected to grow faster than the unorganised market in the coming years. This is due to the ability to cater to bulk requirements due to the benefit of having a large pool of trained employees. This helps them to provide better quality services, including specialised security services to players like pharma and chemicals.

Additionally, the government's strict enforcement of minimum wage bills, provident fund norms, gratuity insurance, and other regulations promotes the growth of the organised security services market.

The COVID-19 pandemic has led to a fundamental shift in addressing security needs, pushing for innovative and advanced technological approaches to ensure safety and protection. Post-pandemic, the demand for technology-based security solutions is expected to grow at higher rates than traditional guarding services. The technology-based security solution is expected to grow by 24% CAGR from 2023 to 2028. Technological advancements like AI, biometrics, and drones will further fuel industry growth.

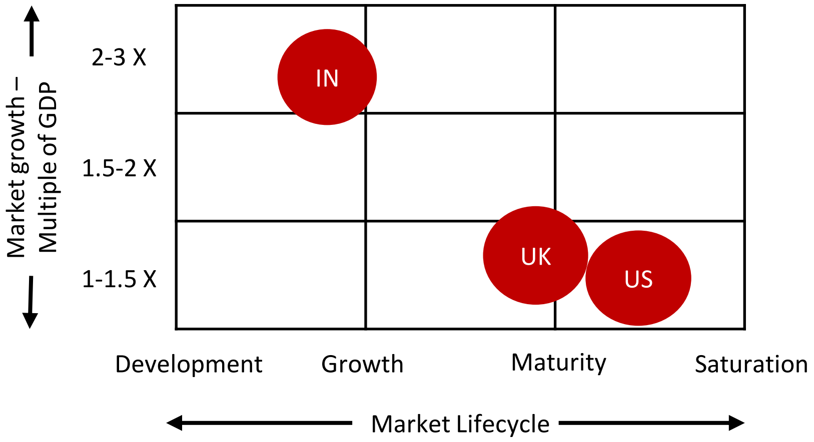
Industry trends

Increasing economic activity and GDP growth are driving the demand for security services

Despite the global slowdown, tightening of monetary conditions, and high inflation, India recorded a higher economic growth rate in FY22. The GDP growth for FY23 was 7.2%, and it is expected to grow at a similar pace for the next two years.

With increased economic activity, business establishments are increasing their budgets for safety and security. The contribution of security services to India's GDP has consistently increased, indicating that the security services market is outpacing GDP growth. A positive outlook for GDP is expected to drive the growth of demand for security services.

India's security service market is expected to grow 2-3x of GDP



Source: Company, Keynote Capitals Ltd.

Shift from unorganised to organised

The Indian security services industry is highly fragmented, with around 20,000 small to medium-sized unorganised players and only 8-10 national players. Unorganised players hold a dominant market share of ~65% as of FY23. However, the industry is gradually moving towards the organised sector as the demand for security services evolves from traditional manpower guarding to professional and skilled guards who have the ability to cater to bulk requirements, including specialized security services, which make it hassle-free for companies and can also provide integrated electronic security solutions.

Additionally, more stringent enforcement of labour laws and the increasing cost of compliance will put pressure on unorganized service providers and favor organized companies. We believe that the increased regulation and demand for more professional/trained guards in the post-COVID-19 world will further accelerate the shift from unorganized to organized and catalyze sector consolidation.

Growth in wages

The annual increase in wages of security guards is a key driver in the growth of the security services industry. The security industry is a labor cost plus markup business, making it particularly sensitive to changes in wage inflation. Before COVID, India experienced an average annual minimum wage increase of around 10-11% from 2010-20. However, due to COVID, it dropped to under 3%. As the economy reverts to full operation and inflation strains lower middle-class income levels, indicators point toward an impending catch-up in the minimum wage.

Higher minimum wages drive industry consolidation, attract and retain better talent, and lead to higher margins and pricing adjustments. Though the immediate impact might be disruptive (impact margin in the near term), these changes favor industry growth.

Evolving electronic security market

According to the Mordor Intelligence report, India's electronic security market size is at US $2.1 Bn in 2023. It is expected to reach US ~$6.0 Bn by 2028, growing at a CAGR of ~24% from 2023-2028. The digitization and the ever-increasing deployment of video surveillance systems, the increased use of cameras by law enforcement agencies, the use of advanced analytics, such as AI to enable facial recognition, thermal scanning, and monitoring, and a surge in the number of residential and commercial buildings, along with the development of smart cities, are driving the market's growth.

Facility Management

Facility management (FM) refers to outsourcing services and functions, which are considered non-core activities for a business. FM encompasses a coordinated effort between space and people to improve building maintenance and the efficient operation of facilities.

FM services can broadly be classified into two types:

Hard services (~46% of the FM market size as of FY23): include mechanical, electrical, and plumbing maintenance; asset management strategies, planned preventive maintenance services, short-term repairs, Heating, Ventilation and Air-Conditioning (HVAC) issues, among others; and

Soft services (~54% of the FM market size as of FY23): include cleaning and housekeeping, pest control, catering, gardening and landscaping, office support, mail room support, guest house or service apartment management, laundry, and production support, among others.

FM market in India is highly fragmented. Small and medium-sized market players dominated the majority of the market.

However, in recent times, the need for professional facilities management solutions is constantly on the rise. With a sharper focus on hygiene and safety, the industry is transitioning from an unorganised to an organised sector.

As per Frost and Sullivan, the Indian FM market size for FY23E is ~ Rs. 419 Bn. There is huge opportunity lying in various sectors for Facilities Management and it is estimated to be nearly ₹ 1.3 trillion of untapped opportunity within various sectors. According to Expert Market Research Report, the Indian FM is expected to grow at a CAGR of 17% over FY23-28, driven by increasing outsourcing trends, rising investment in infrastructure, growing awareness of cleanliness and hygiene, and a shift towards integrated facility management solutions.

Industry trends

A shift of FM partners from commodities suppliers to problem solvers

Traditionally, FM providers are responsible for essential services like cleaning, security, and maintenance. Over the years, the FM has gradually shifted towards more automated service delivery, like sensors and connected devices embedded in buildings and facilities to monitor various parameters such as occupancy, temperature, humidity, and energy usage. This data is then analysed to optimise building operations, including heating, ventilation, and lighting, to ensure energy efficiency and minimise maintenance costs.

Increasing uses of technology-driven platforms that enable efficient work order management. These technological adoptions ensure that the correct data is collected, recorded, and interpreted in a manner that supports management efficiency. FM companies today need the expertise and knowledge to resolve any issue. The idea is to work closely with the clients to identify any areas of improvement and provide solutions that meet their specific needs.

Growing construction activities for infrastructural development

The increasing number of infrastructure and real-estate projects is emerging as the major driving factor for the India facility management market. The Indian construction industry is the third-largest contributor to economic growth. The government and private entities are spending heavily on the construction of public and private spaces, such as airports, railways, commercial complexes, residential complexes, hotels, etc., which is fueling the demand for various hard and soft services. Furthermore, various foreign entities are also establishing manufacturing plants which are also contributing to the India facility management market.

Outsourcing is a Megatrend

Demand for facility management services is consistently growing with increasing awareness among end-users. End users include offices, hotels, hospitals, malls, residential spaces, automobile industry, pharmaceutical industry, electronics, food, and infrastructure development. Customers are increasingly aware of the benefits of outsourcing to reduce the operating costs of the facilities/buildings and focus on core business activities. Outsourcing improves working conditions in the facility by providing a safer, cleaner, and healthier environment for the occupants.

Cash Logistics

Cash logistics services are integral to the Indian banking system, particularly considering the large amounts of cash circulating in the country. In FY23, the share of Currency In Circulation (CIC) to India's GDP was ~14%. Since the demonetization in 2017, the CIC to GDP ratio has grown from 10.7% in FY18 to 14.4% in FY23. At the same time, there was a significant rise in digital payments in India. The digital transaction has increased from Rs. 1.3 Bn in FY14 to Rs. 127 Bn in FY23.

Cash logistics services comprise of three functions: ATM replenishment, Cash-In-Transit (CIT), and Cash Pickup and Delivery (CPD). Cash management service providers also provide other services such as transportation of jewels, artworks, valuables and bullion, cash processing, and cash vault services. The Indian cash management market witnessed a CAGR of 10% from FY10 to FY21. Going forward, it is expected to grow at a CAGR of 13% from FY21 to FY26.

The cash management industry is consolidating due to changes in regulations — 1) Service providers and subcontractors must maintain a minimum net worth of Rs. 1 Bn at all times. 2) A minimum fleet size of 300 dedicated cash vans (owned or leased) is required. 3) Cash vans are mandated to have armed guards, who must carry functional firearms along with valid gun licenses. 4) Each cash van should be equipped with GPS tracking and real-time monitoring, incorporating geo-fencing features. Additionally, they should display the nearest police station information along their routes for emergency situations. etc. These regulatory adjustments have led to a growing preference among customers for larger cash management firms. As a result of these shifts, the market share of the two largest ATM cash management companies has risen from 58% in FY18 to 74% in FY21. Simultaneously, the number of cash management companies commanding a market share exceeding 5% has dwindled from six to four.

The ATM base in India is expected to grow at a CAGR of 6% from FY21 to FY27, with a significant contribution expected from outsourcing of the cash management services. In FY21, cash management outsourcing stands at 60%, and this figure is expected to rise further. This increase is because managing the growing ATM network in-house has become cost-prohibitive and inefficient.

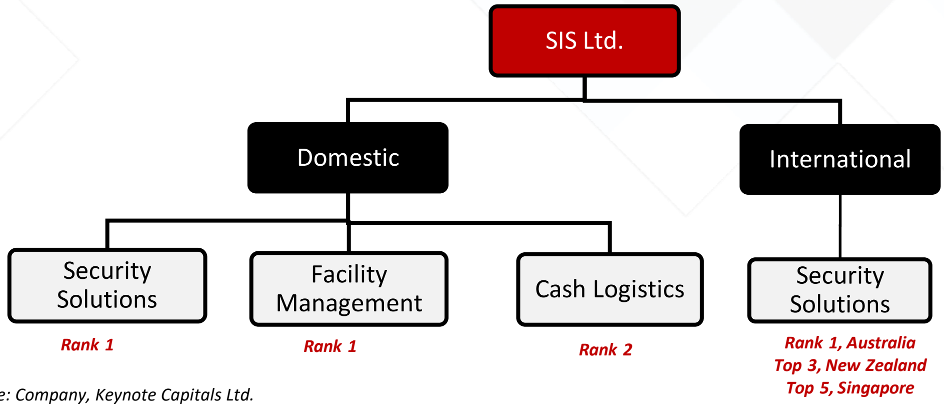
Stages of Outsourced Business Services

Layer	Name	Services	Pricing Model	EBITDA Margin	Client Stickiness
Basic Layer	**Staffing**	Payrolling, recruit as per requirements, mostly staff is rolled over, no training, no supervision, no responsibility for performance / outcomes	Fixed fees	2%-4%	Poor
Layer 2	**Services**	SLA based contracts, responsible for performance/outcomes, recruit, train, supervise, payroll, pay first - collect later	Cost+ Fixed fees	5%-7%	High
Layer 3	**Solutions**	All elements of services + tech, lesser manpower component, hardware/software leasing, electronic security (e.g., E-surveillance solution for banking sector), 24*7 monitoring, manpower for emergency response, value-added services	Cost not exposed; greater pricing power	11-15%	High, long-term contracts
Layer4	**Route-based Solutions**	All elements of services + route based, economics based on cost / stop, route breakeven and route density linked profits, non-linear business (e.g. doorstep banking services in cash logistics)	Cost is not exposed; greater pricing power and route productivity gains	20%+	High

Source: Company, Keynote Capitals Ltd.

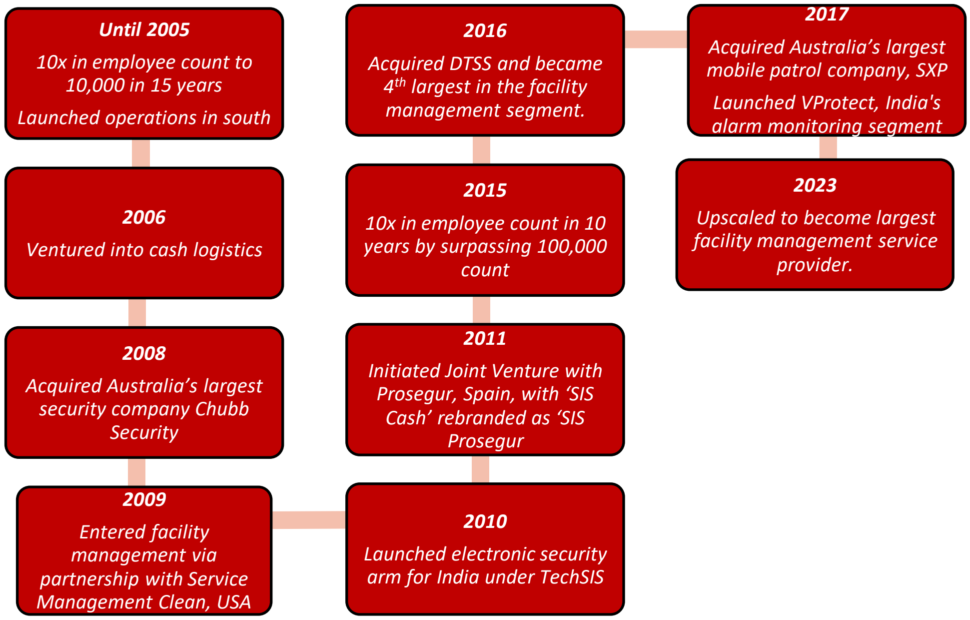
About the Company

SIS Ltd. (SIS), an Indian MNC, provides security solutions and facility management services, commanding a ~5% market share in Indian security, ~4.5% in Indian facility management, ~17% in cash logistics and a ~23% overall market share in the Australian security solutions market. With 334 branches, 50 regional offices, 29 training academies in India, and a remarkable presence at over 50,000 customer sites in 4 countries, as of FY23, SIS is a formidable industry leader.



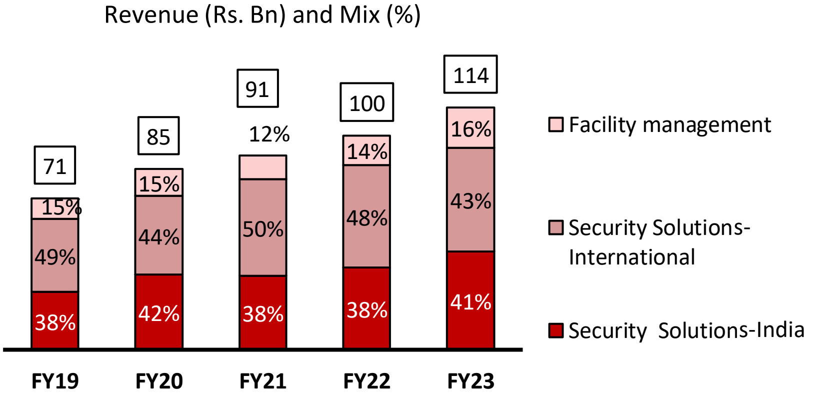
Source: Company, Keynote Capitals Ltd.

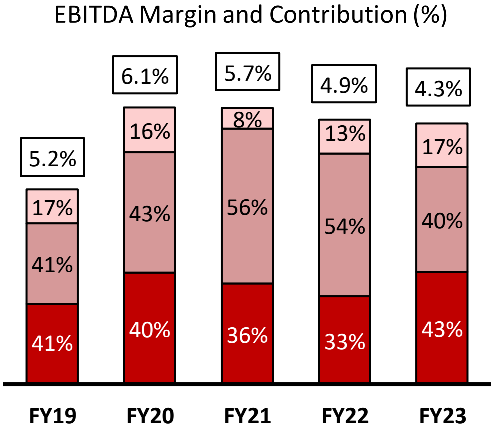
Timeline



Source: Company, Keynote Capitals Ltd.

Segment Mix





Source: Company, Keynote Capitals Ltd.

Domestic - Security Solutions

SIS leads India's private security services, commanding ~5% market share in the organised industry as of FY23. With 182 branches across 630+ districts (penetration rate over 82%), the Company offers a comprehensive suite of manguard, technology, and electronic and alarm monitoring solutions. This segment has exhibited a robust ~14% CAGR over the past four years, elevating its revenue contribution from ~38% (FY19) to ~40% (FY23) and oversees ~33,000 sites as of FY23.

Entities/Brands

Security and Intelligence Services (India) Limited – A Market Leader in Security	SLV	UNIQ	TECH SIS – Electronic Security Solutions – An SIS Group Enterprise	PROTECT – An SIS Group Enterprise
Security Services, pan India	Security Services, North India	Security and facility Services, South India	Electronic Security Solutions	Alarm Monitoring

Source: Company, Keynote Capitals Ltd.

Security India encompasses five entities, offering various manned security solutions, including static guarding, event management, escorting, patrolling, quick reaction teams, and access control. This segment, accounting for ~80% of Security India's revenue, operates with an EBITDA margin of ~5-7%. The revenue structure for manned guarding includes components such as minimum wage, statutory charges (provident fund, bonuses, etc.), service charges, supervisory charges, and management charges.

Apart from manned guarding solutions, SIS offers advanced man-tech solutions, including access control/entry automation, AI-enabled surveillance, SaaS-based software solutions, intrusion alarm monitoring, and long-distance drone-based surveillance. SIS collaborates with leading security equipment manufacturers such as Honeywell, Alulha, LG, Schneider Electric, Bosch, and Staqu, among others. The revenue model hinges on whether SIS or the client purchases the equipment. When SIS procures the equipment, the client subscribes to a recurring rent plan, whereas if the client acquires the equipment, they cover installation and annual maintenance fees.

Integrating technology into man-guard capabilities not only reduces client costs but also enhances satisfaction by addressing and resolving issues efficiently. This approach yields a higher EBITDA margin of ~11-20%, with current salience of ~20%.

The business exhibits stability on the client side but faces some volatility in labour supply. With a workforce of ~0.2 Mn employees and an attrition rate of around 20-25%, SIS distinguishes itself as a top employer by offering additional benefits and keeping attrition below the industry average of ~30-35%. As per the management, this stands in contrast to certain industry leaders experiencing attrition rates as high as ~70%. While the frequent revision of minimum wages attracts the workforce, some employees leave their positions temporarily to return to their villages during the harvest season. Importantly, the Company doesn't face supply constraints to the same extent as their international counterparts, providing assurance and relief.

The client base comprises over 9,000 customers spanning various industries and turnover scales, with an impressive retention rate of ~94% over the past 4-5 years, underscoring strong customer loyalty. However, clients tend to be cautious about relying exclusively on a single security solutions partner, reflecting the idea of not laying all eggs in one basket.

Marquee Clients of Security India

TATA STEEL, ONGC, Wipro, Coal India, MCL, Cognizant, IndusInd Bank, Godrej, Amazon, L&T, AIIMS, Pidilite, Airtel

Source: Company, Keynote Capitals Ltd.

Leading companies in India typically engage the services of the top three premier security solutions firms, determining their allocation based on criteria like performance, cost-effectiveness, and other relevant factors.

SIS successfully mitigated significant losses and enhanced client value in a case involving a six-year-old oil and gas client facing challenges like unauthorized intrusion, pipeline and marker damage, unauthorized digging near pipelines, and leakage issues. SIS implemented a comprehensive solution, including deploying 1,000 trained static guards, 450 bike patrollers, rapid incident resolution, pipeline health assessments, and incident reporting and management. This concerted effort resulted in the resolution of ~ 95% of errors and issues, delivering substantial benefits to the client.

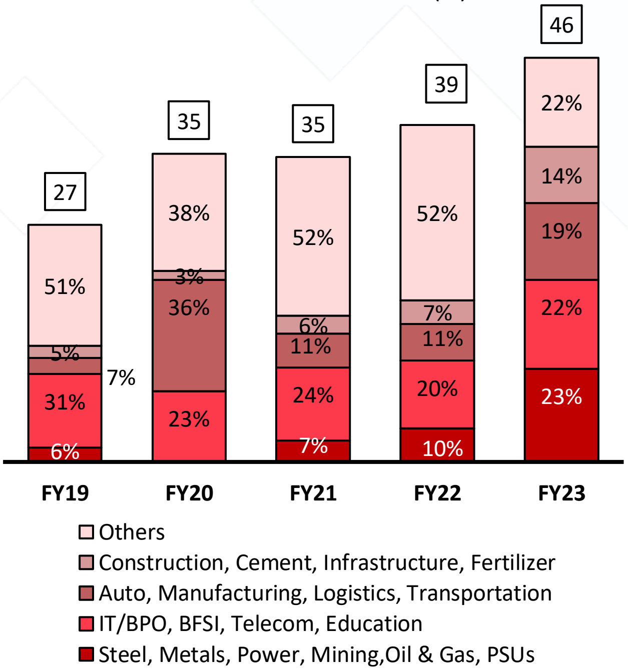
In addition to contemporary security solutions, SIS offers advanced alarm monitoring and response services through the VProtect Edge brand, characterized by its proactive approach in identifying and resolving issues in less than 3 minutes. Launched in FY17, this service aims to provide a superior alternative to traditional physical guarding and CCTV solutions. ~90% of the revenue is derived from Banks and NBFCs, with ~3% from logistics and 8% from B2C clients. The number of customer sites has surged from ~1,400 to ~14,000 at an impressive CAGR of ~ 80% between FY19-23. Concurrently, the monthly alarm count has seen a ~340% CAGR growth, from ~7,500 alarms per month in FY19 to ~3 Mn alarms per month in FY23. Notably, the metric of real alarms deterred through physical involvement, as a percentage of monthly alarm counts, has significantly improved, decreasing from 17 bps in FY19 to less than 1 bps in FY23. While SIS has currently onboarded around 10,000 of the ~250,000 ATMs in the country, the management anticipates a substantial increase in adoption rates in the coming years, potentially up to 100%. This exceptional service relies on the world-renowned "Mastermind" software for alarm monitoring activities, making SIS the exclusive operator of this software in India.

Outlook for Security India

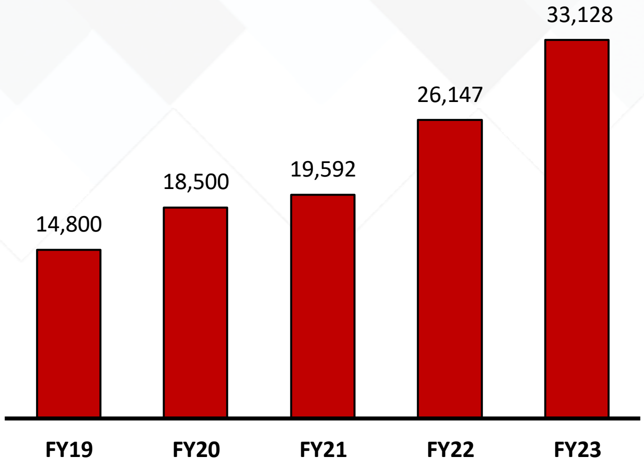
In this rapidly evolving technological landscape, the involvement of tech-equipped man-guards is set to rise, enabling the Company to enhance its services and achieve higher margins. Besides believing the man-guards to stay relevant in the industry for a long period, the Company guides an increase in the salience of VProtect in the segment’s revenue in the next 3-4 years. This confidence is further backed by the guidance of growing VProtect's revenue by ~54% from ~650 Mn in FY23 to ~Rs. 1 Bn in FY24 and customer points by ~79% from ~14,400 in FY23 to ~25,000 in FY24. The electronic security industry in India is anticipated to grow at ~24% CAGR growing the industry from USD ~2 Bn in FY23 to USD ~ 6 Bn in FY26. The Security India segment as a whole exhibited strong growth of ~20% in FY23, driven by minimum wage revisions in states like Sikkim (~67%), Karnataka (~23%), Bihar (~15-17%), Punjab (~15-17%), and central minimum wage hikes. While these revisions surpassed the average, primarily due to minimal increases during the Covid period, the Company's growth trajectory in the segment for FY24 will depend largely on volume expansion to replicate or exceed the previous year's growth.

For the future, the Company has advanced offerings like GOSecure, an on-the-go emergency response assistant, and AI-enabled cameras that provide alerts on a real-time basis.

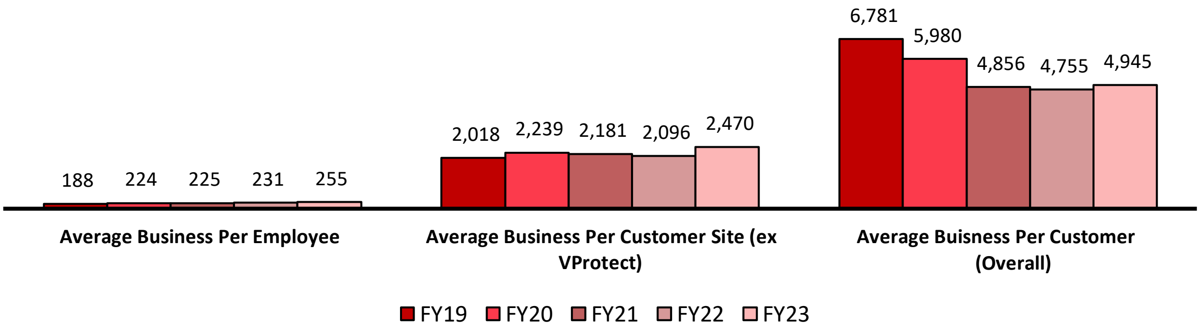
Security Solutions India Revenue (in Rs. Bn) and Customer Mix (%)



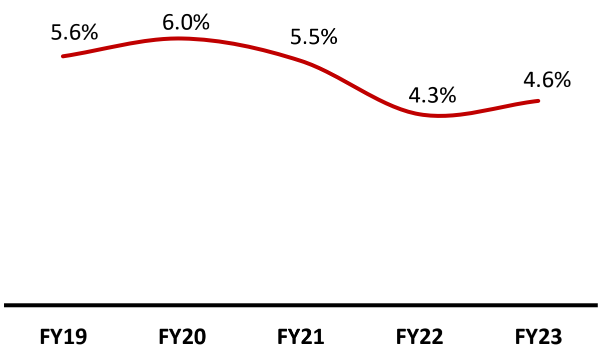
Security Solutions India Customer sites



Average Revenue Per Unit (in 000's Rs.)



EBITDA Margin (%)



Source: Company, Keynote Capitals Ltd.

Domestic – Facility Management

In the facility management sector, SIS is commanding a ~4.5% share of the overall market as of FY23. With operations spanning ~74 branches across numerous districts, the Company serviced over 9,000 sites in FY23. The facility management portfolio encompasses a range of services, including sanitation, cleaning, fumigation, pest control, and more. This segment has demonstrated robust growth at a 19% CAGR over the past four years, ending in FY23.

Entities/Brands in the segment

dts (An SIS Group Enterprise)	ServiceMASTER Clean	RARE Hospitality (An SIS Group Enterprise)	TERMINIX SIS (Secured from pest...Assured by world's best)	adis
General	General	Hospitality	Pest Control	O&M in Pharma

Source: Company, Keynote Capitals Ltd.
O&M stands for Operations and Maintenance

SIS entered the facility management sector in 2009 and achieved market leadership by FY23, surpassing longstanding competitors with over two decades of presence. Over the past four years, ending in FY23, the Company achieved remarkable revenue growth, boasting a CAGR of ~19%, the highest within the organization. SIS provides a comprehensive range of services, including hard services such as water treatment systems, plant operations and maintenance, M&E services, plumbing and carpentry, and energy management. All other offerings, such as janitorial, horticulture services, waste management, staffing and payroll, façade cleaning, concierge services, etc., are categorized as soft services. In FY23, the revenue distribution between soft and hard services stood at 88:12, reflecting the relative sizes of these respective industries.

Facility management services inherently require specialized staff tailored to each client industry's unique demands. For instance, pharmaceutical companies necessitate compliance with US FDA regulations, healthcare firms mandate specific waste management protocols, and manufacturing companies require environmental health and safety management. Over more than a decade, SIS has honed its expertise in serving eight major industries: IT, healthcare, airports/railways/B2G, commercial spaces/retail, manufacturing, pharma, educational institutes, and coworking spaces/ data centres. Among these sectors, the company holds leadership positions in pharma, healthcare, manufacturing, and airports, collectively contributing to ~49% of revenue in FY23. This success has been facilitated by the presence of subject matter experts with prior industry experience, enabling the Company to grasp and fulfil nuanced industry requirements effectively.

As part of its impressive growth, SIS boasted ~2,000 clients in FY23, with a remarkable retention rate of ~95%. The small portion accounting for the remaining 5% is intentionally reduced each year by the Company as they seek to safeguard their margins, while the remaining half is attributed to unavoidable losses stemming from competition, fixed-term contracts, or other factors.

Marquee Clients of Facility Management Segment

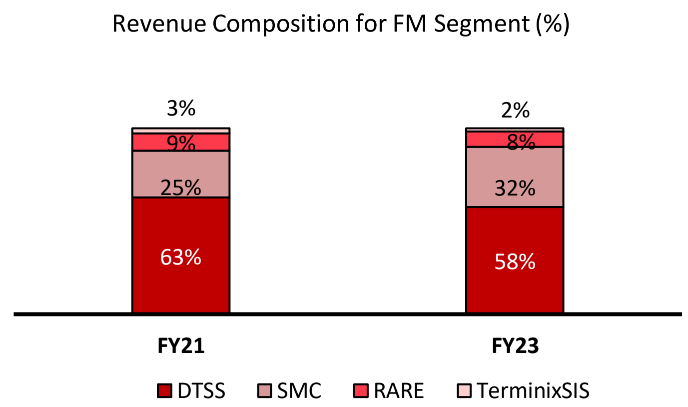
ITC Limited, IIMB, FLAME University, Cipla, Dr.Reddy's, Honda, wework, Murugappa Group, Antilia, XLRI, Coca-Cola, Fortis Healthcare, The LaLiT Mumbai

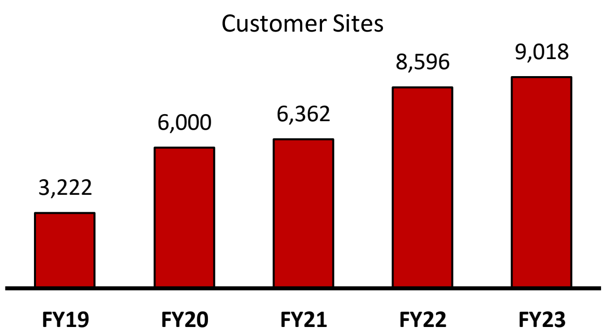
Source: Company, Keynote Capitals Ltd.

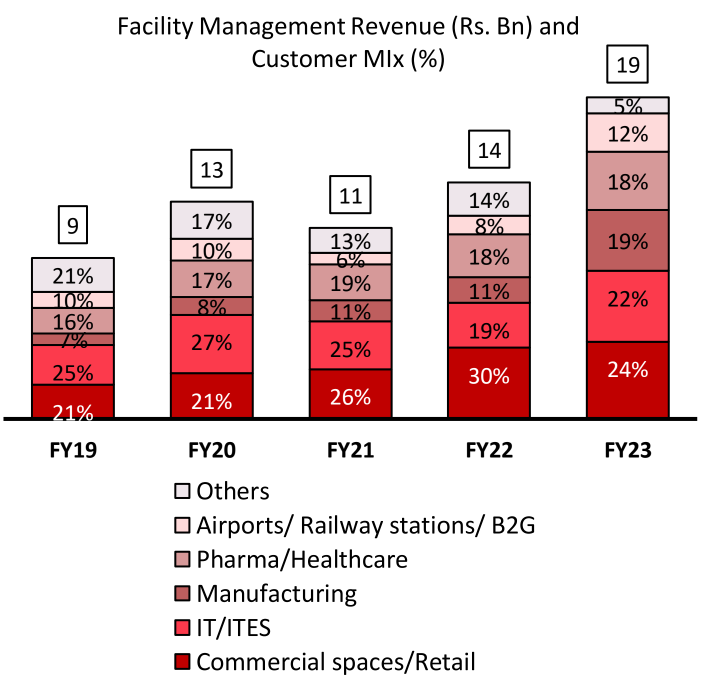
KEYNOTE

Outlook for Facility Management

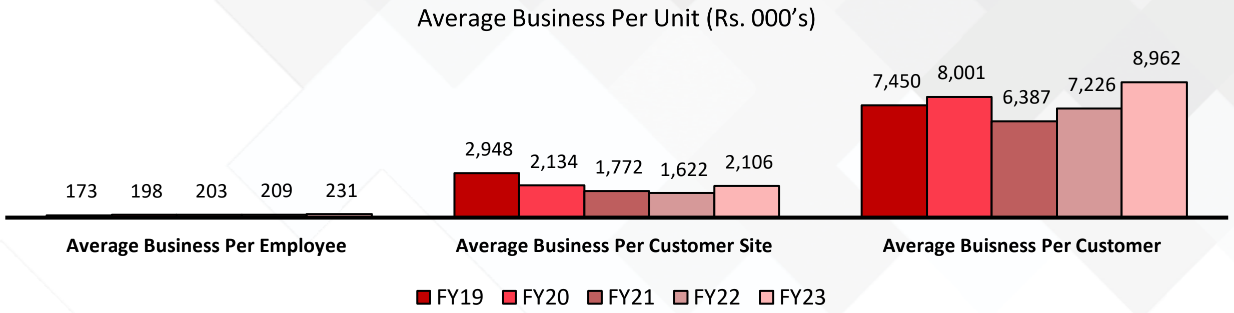
In FY23, the segment registered an impressive growth of ~36% on a YoY basis, primarily driven by volume, notably the shift from non-compliant unorganized players in smaller cities. The management expresses confidence in experiencing exponential growth in the industry due to this transition, remaining optimistic about the future. While wage inflation couldn't be fully passed on in FY23, the Company anticipates increased revenue from this aspect in FY24. Moreover, the management forecasts a margin improvement of ~1.5% by FY25, implemented in two equal increments over the next two years, restoring margins to pre-COVID levels of ~6%. The Company has dropped low-margin clients and is now focusing on those with gross margins exceeding 12%, emphasizing technology infrastructure, service specialization, transitioning from fixed fee contracts (~8-10% of revenue) to variable fee contracts, and implementing stringent control measures on SG&A expenses. Additionally, the management is open to exploring emerging trends like energy management, smart facility management, and on-demand facility management, reflecting the Company's commitment to innovation and adaptability.

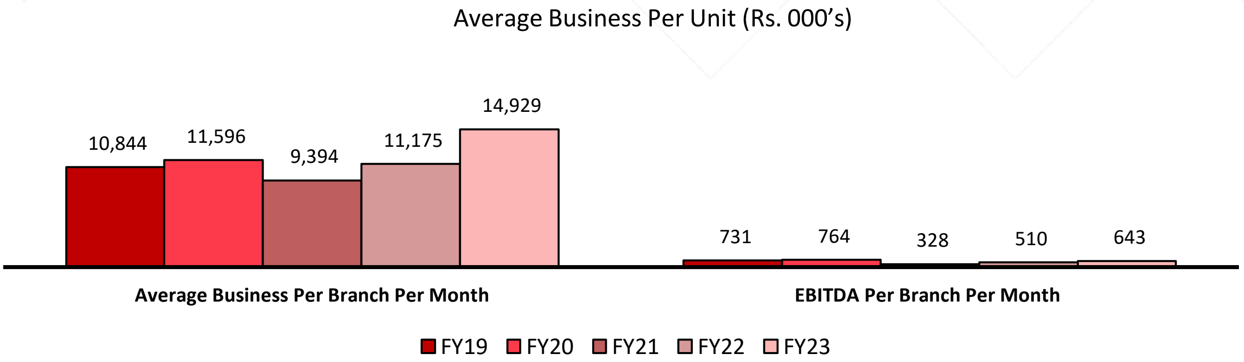






Source: Company, Keynote Capitals Ltd.





Source: Company, Keynote Capitals Ltd.

Domestic – Cash Logistics

The cash logistics business, established in 2006, entered a joint venture between SIS and global cash logistics company Prosegur in 2011. This venture encompasses two primary categories of business operations: ATM services and non-ATM services. SIS offers a comprehensive suite of cash logistics solutions, including secure cash-in-transit services, the safe transport of valuable items, doorstep banking, cash currency processing, ATM replenishment, first-line maintenance, and secure vault-related solutions for bullion and cash. This segment has evolved to become India's second-largest cash logistics company, boasting a workforce of over 10,500 employees, a fleet of 3,000 cash vans, and a network of 60 vaults/strong rooms. As an associate of the Company, this segment contributes directly to the bottom line, with a contribution of ~ 4% to consolidated profits during FY23.

Entities/Brands

SIS PROSEGUR	SISCO
Cash Logistics	Cash Logistics

Source: Company, Keynote Capitals Ltd.

Over the past five years, the Company has strategically transitioned from a Cash Logistics business to a Bank Outsourcing and Support Solution (BOSS) business. Notably, the Company refrained from heavily investing in the ATM segment due to slower ATM additions and intense competition within the industry and, at the same time, explored less competitive geographies, specifically the Northeastern states. This strategic shift has yielded remarkable results, with route density growth in Doorstep Banking (DSB) surging by 84%, while route density growth in ATMs grew by a modest 3% from FY18 to FY22. The Company's exceptional growth and margin improvement can be attributed to a shift in revenue mix, with non-ATM activities now constituting the majority of revenue, alongside tariff adjustments.

In the realm of ATM services, the Company proudly holds a substantial market share of ~17%, securing its position as the second-largest cash logistics company in the industry, with CMS Info Systems leading the way, boasting a 35% market share as of FY23.

The non-ATM services segment, where banks retain control over a majority of operations in-house while outsourcing only 10% of the business to cash management companies, is where SIS Prosegur shines. Remarkably, SIS Prosegur manages ~42% of the total currency chests, which counts to 3,000 in total.

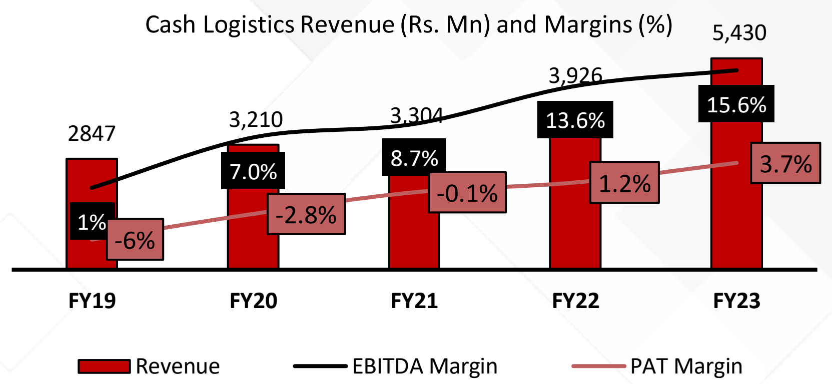
While the current arrangement involves partial outsourcing, mainly revolving around the provision of staff and cash processing machines, the Company is actively pursuing a comprehensive outsourcing model where they would take on the responsibility of managing every aspect within the premises, especially the non-core business, such as loan processing.

During the past 4 years, the Company has expanded its revenues at 17% CAGR and operating profit at 166% CAGR, improving its EBITDA margin from < 1% in FY19 to ~16% in FY23.

Marquee Clients of Cash Logistics

Bank of Baroda, Standard Chartered, UCO Bank, Ferrari, IDFC First Bank, LIC, Fortis, Hilton, Mphasis, Muthoot Finance, Citibank, ICICI Bank, HDFC Bank, State Bank of India, Yes Bank, Deutsche Bank

Source: Company, Keynote Capitals Ltd.



As of FY23, the EBITDA Margin for this segment stands at ~16%, with the PAT Margin at ~4%. The significant difference of ~12% between these margins is largely attributed to depreciation. This segment is inherently asset-heavy, primarily due to its reliance on automobiles, and the depreciation costs have been elevated due to compliance with BSVI norms, resulting in higher expenses. In FY22 and H1 FY23, the Company allocated a capital expenditure (capex) of ~Rs. 855 Mn and ~Rs. 323 Mn, equivalent to ~84% and ~65% of the respective Net Cash Flows from Operations (Net CFOs). Nevertheless, it is anticipated that depreciation cost as a percentage of sales will gradually decrease in the coming years, contributing to an enhancement in margins.

Outlook for Cash Logistics

Historically, SIS has effectively navigated the competitive landscape, shifting its focus from areas like ATM replenishment to establishing its stronghold in the non-ATM industry. As part of exploring optionality, CMS Info Systems has been making strides in managed services, delving into domains like banking automation, ATM as-a-service, remote monitoring, and more. SIS, on the other hand, has strategically carved out niches in unexplored categories such as bullion management, value cargo, CashToday, and Cash Processing Outsourcing. Additionally, the Company is actively exploring potential acquisitions to bolster this segment further. In addition to its growth potential, we believe there is room for SIS to enhance its operating margins, aiming to align with industry standards by increasing them from ~16% in FY23 to ~20% while also targeting an improvement in PAT margin from ~2% to ~10% by mitigating interest expenses, which accounted for ~5% of sales in FY22.

International – Security

The Company maintains a significant global presence outside India, accounting for its highest revenue contribution of ~43% and the second-highest EBITDA contribution at ~40% as of FY23. SIS operates in diverse international markets, including Australia, Singapore, and New Zealand, providing a wide range of security services such as security guards, armed guards, fire suppression, maritime security, aviation security, command and control center operations, paramedic and allied health services, roving and mobile patrols, and closed-circuit television surveillance, among others. Over the past four years, this segment has consistently achieved impressive revenue growth at ~9% and EBITDA growth at ~7%.

Brands/Entities

Security Solutions, leader in Australia	Mobile Patrol, leader in Australia	Medical, Rescue and Fire, Australia
Security solutions, New Zealand	Alarm Monitoring, New Zealand	Security Solutions, Singapore

Source: Company, Keynote Capitals Ltd.

The Australian market accounts for over 90% of the segment's revenue with three brands/entities: MSS Security, Southern Cross Protection, and SDS Security. MSS, being the biggest company in Australia, has a market share of ~23% as of FY23.

Southern Cross Protection is a company dedicated to providing protection to small-scale businesses that find having full-time security personnel uneconomical.

SDS is a new acquisition, added to the portfolio in 2022, specializing in emergency, paramedical and related services.

The Australian market is a mature market like other developed countries, whereby the growth for the past 5 years has been 9%. Further, the country undergoes labour shortages on occasions where the Company has to deliver the promised manpower; as a result, the Company pays the available guards overtime and penalty, registering a decline in margins.

Besides Australia, the Company has been operating fairly with 10-15% market share and third position with similar market share in New Zealand with two companies, P4G Security and Triton Alarm Monitoring.

Lastly, the Company also provides security solutions in Singapore with a subsidiary called Henderson Security. With the advent of COVID, the Company underwent a dreadful time with supply constraints on the Malaysian workforce that accounted for ~20-25% of the workforce in Singapore, creating a scarcity of labour in the country. During this time the Company found out that the subsidiary wasn't fully compliant so it couldn't execute with the contracts. Later, after becoming compliant, the Company experienced margin compression.

Marquee Clients of International Security

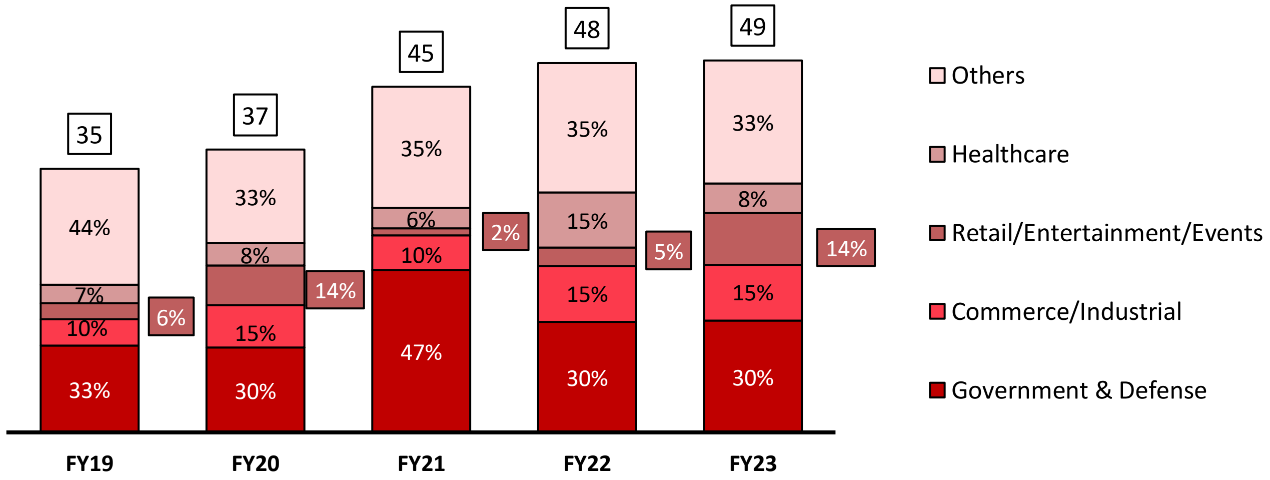
Source: Company, Keynote Capitals Ltd.

Nevertheless, with the Singaporean government's COVID-19 aid of ~30 Mn SGD, standing at 27 Mn SGD as of FY23, the Company is confident of returning back to its pre-covid levels gradually.

Outlook for International Security:

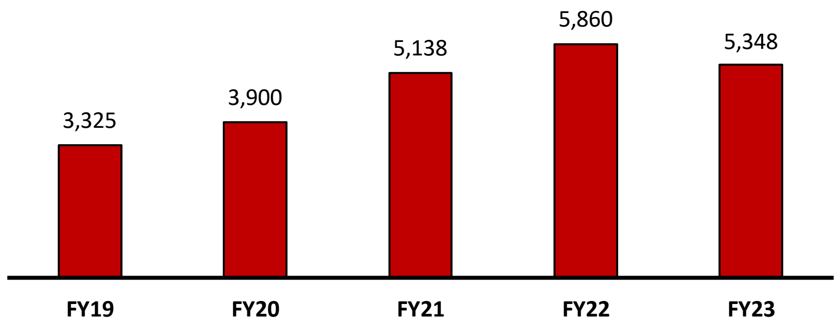
The Company believes that international revenue will grow by 6% or higher in the coming years. Further, the Company plans to expand business in the high-margin segment like the solutions business, which provides patrolling, monitoring, etc. As of FY23, the segment accounted for ~7% of the international segment, leaving the low-margin man-guarding business at ~93%. The Company is confident that though the change in revenue mix has a long gestation, it will achieve it. Within the security and solutions business, the Company's primary goal is to avoid B2C monitoring segments, which, despite their high margins, do not offer sufficient cross-selling potential. Additionally, the Company refrains from entering the facility management segment due to the intense competition from established players.

Revenue (Rs. Bn) and Customer Mix (%)



Source: Company, Keynote Capitals Ltd.

Average Business Per Employee (More than Rs. 000's)



Source: Company, Keynote Capitals Ltd.

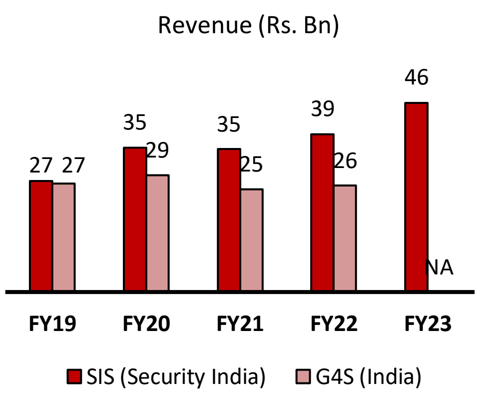
Peer Analysis between the leaders

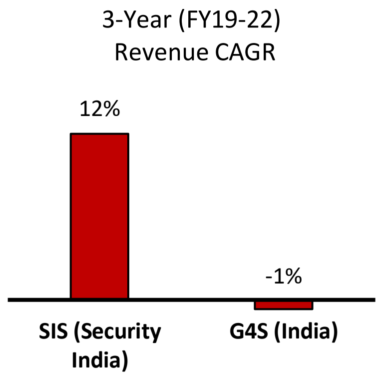
The Indian business segment currently contributes ~56% of the Company's total revenue, and there are plans to bolster this figure to ~70% over the course of the next five years. Consequently, we have focused our peer analysis on companies operating within the Indian security and facility management segments.

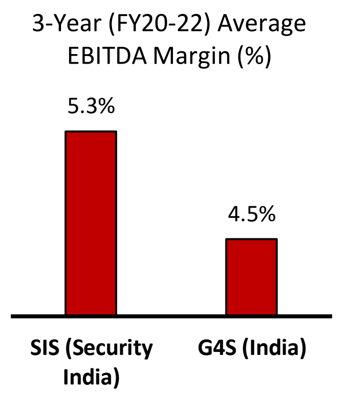
Company	Security India	Facility Management India	Cash Logistics India	Security International	Others
SIS (MNC)	Yes *Rank 1*	Yes *Rank 1*	Yes *Rank 2*	Yes *Rank 1*	-
G4S (India)	Yes *Rank 2*	Yes *NA*	No	No	Security Consultancy
BVG (India)	No	Yes *Rank 2*	No	No	Emergency Response Services, Solid Waste Management
CMS Info Systems (India)	No	No	Yes *Rank 1*	No	Managed Services

Source: Companies, Keynote Capitals Ltd.

Security India

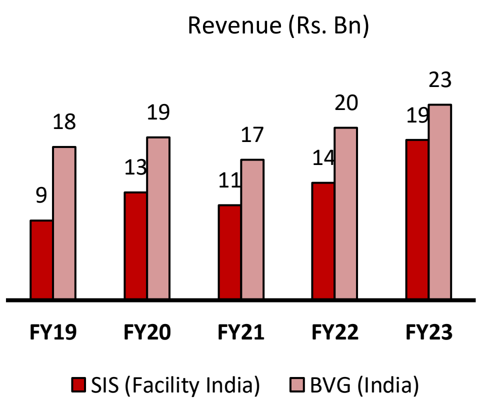


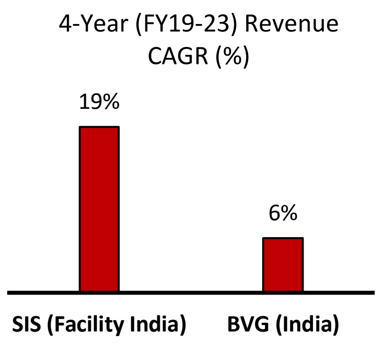


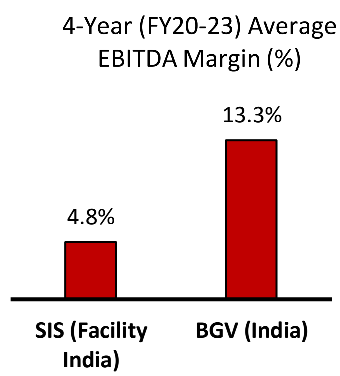


Source: Companies, Keynote Capitals Ltd.

Facility Management India

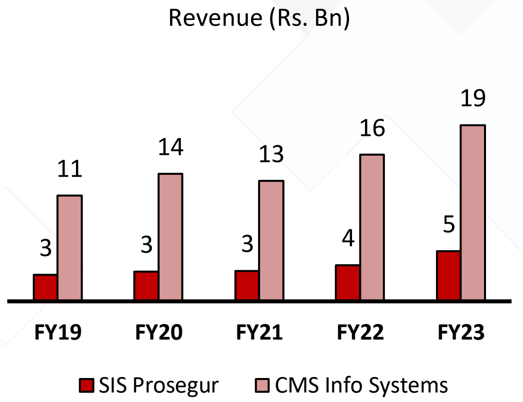


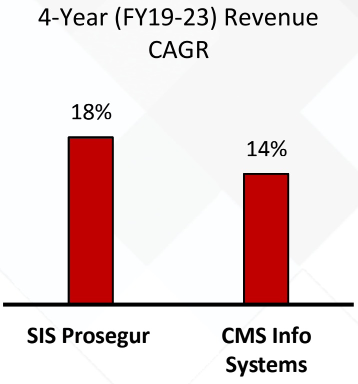


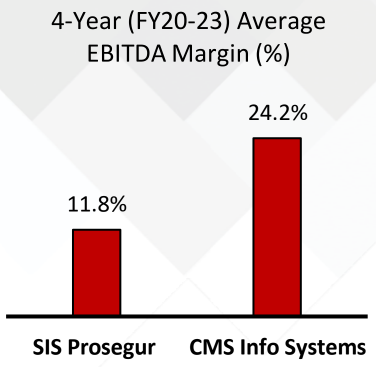


Source: Companies, Keynote Capitals Ltd.

Cash Logistics

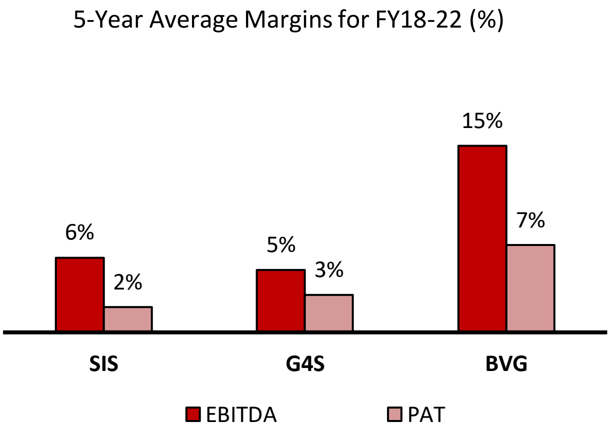


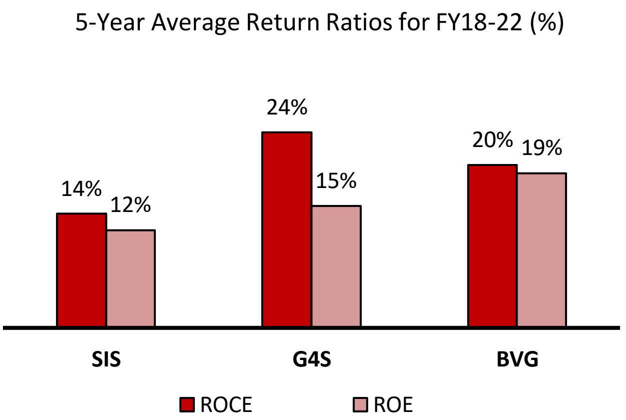




Source: Companies, Keynote Capitals Ltd.

Overall Comparision





Source: Companies, Keynote Capitals Ltd.
**SIS data includes consolidated numbers from all the segments. The period for SIS and G4S is FY18-22, and BVG is from FY17-21.*

Management Analysis

The Management team of SIS consists of industry veterans who bring immense expertise and relevant experience of working with large entities.

Name	Designation	Previous Experience	Experience with SIS (Yrs.)
Rituraj Sinha	Group MD	-	20+
Devesh Desai	Group CFO	CFO, SIS International VP Finance, Air Deccan	21+
Dhiraj Singh	CEO, SIS India	Senior Advisor, McKinsey & Company Advisor Director, Simplex Infra	10
Tapesh Chaudhuri	CEO, Security Solutions, SIS India	CEO, G4S	NA
Shamsher Puri	CEO, Facility Management, SIS India	Founder, DTSS	10+
R S Murali Krishna	President, SIS International	Transactions and Advisories, E&Y	6+

Source: Company, Keynote Capitals Ltd.

Promoter Holding and Management Compensation

Particulars	FY21	FY22	FY23
% Promoter Holding (~)	72.9%	71.5%	71.6%
MD's salary (Rs Mn)	100	100	100
As a % of PAT (~)	3%	3%	3%

Source: Company, Keynote Capitals Ltd.

Top Shareholders with more than 1% stake (%)

Stakeholders	FY21	FY22	FY23
Smallcap World Fund, Inc	-	3.0	3.8
Nippon Life India Trustee Ltd-A/C Nippon India Small Cap Fund	1.8	2.3	2.7
Steinberg India Emerging Opportunities Fund Limited	1.5	1.8	2.1
Malabar Select Fund	2.2	1.9	1.9
Malabar India Fund Limited	2.0	1.8	1.6
Fidelity Funds - Asian Smaller Companies Pool	-	-	1.5
Abu Dhabi Investment Authority - Monsoon	-	-	1.4
Thomas Fredrik Berglund	-	1.3	1.3
Haakan Gustaf Oscar Winberg	-	1.1	1.1
Abu Dhabi Investment Authority – Behave	1.2	1.3	-

Source: Company, Keynote Capitals Ltd.

Opportunities

Key takeaways from management meet

- **New initiatives:** (1) To drive more growth, the management has designated the senior management as city-level CEOs for the top 15 cities that contribute 70-75% of the business, vesting them with autonomy to drive business, clients, branding, employees, etc. of a city. (2) The Company aims to increase the contribution of cross-sales in revenue from ~7% in FY23 to ~15-20% in the future. (3) The management is in the early stages of looking at growth opportunities in energy management and smart energy supply, in the facility management segment, as it is popularly the second biggest cost for manufacturing companies. (4) Grow organic/inorganically "One SIS", which is a consultancy in the security and facility management segment that also generates double-digit operating margin. (5) A guided ballpark revenue mix for five years from now is expected to be ~50% security in India, ~20% facility management and ~30% security International. (6) As an internal KPI for penetration in India, currently, the Company serves ~340 of the top 1,000 Indian Companies in either of the segments and only 85 are cross-sold. The management aims to serve the top ~600 companies, with ~300 of them served by both segments.

- **Growing people, business, and technology:** Not only does the management believe in aggressively growing the business, but also becoming technologically intelligent and empowering their employees by frequently training them. The contest to vouch for this trio is not commonly backed by their peers and, in turn, warrants their leadership position.

- **Security India:** The Company is an outright leader in the security India segment with ~5% market share. However, within security, the Company is aggressively growing VProtect, its alarm monitoring segment, with ~ Rs. 650 Mn revenue in FY23 and an operating margin of ~20%, to become a sizeable portion of its revenue in the next 3-4 years. The solution segment (electronic solutions and alarm monitoring) accounts for ~7% of the segment's revenue but ~10% of the segment's operating profit.

- **Facility Management:** The Company's client base in the facility management of companies such as Reliance Industries has maintained the highest service levels. Further, the advantages of being a significant player enable them to invest in specialised services like maintenance and machinery. Another technical niche area the Company plans to venture into is off-balance sheet asset engineering, where the Company would run the asset for the client. We believe service segments like this have high barriers to entry, which, over the years, can build stickiness, strengthening the moat. The Company is looking at a few potential candidates for inorganic growth in this segment. To optimize SG&A, the Company plans to merge two entities in the segment, as they compete in broadly the same market.

Off-balance sheet asset engineering: taking over clients' assets and managing them for a charge

Technological Infrastructure

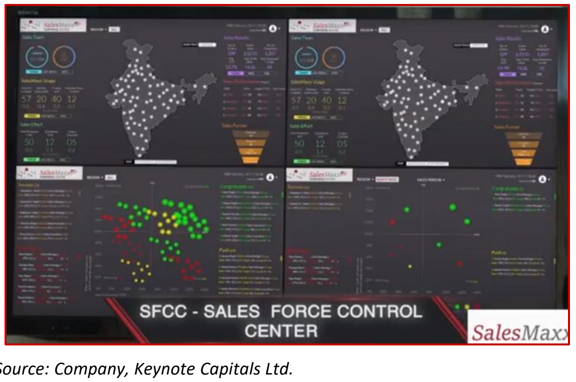
SIS, despite being a people-intensive Company, has built a strong technological infrastructure for its internal and client-facing operations. With this the Company has integrated seamless communication and execution practices into their ecosystem, involving all stakeholders. Their software tools, including ARK, iOPS, mTrainer, and mySIS, capture on-ground activities and transmit them up the hierarchy.

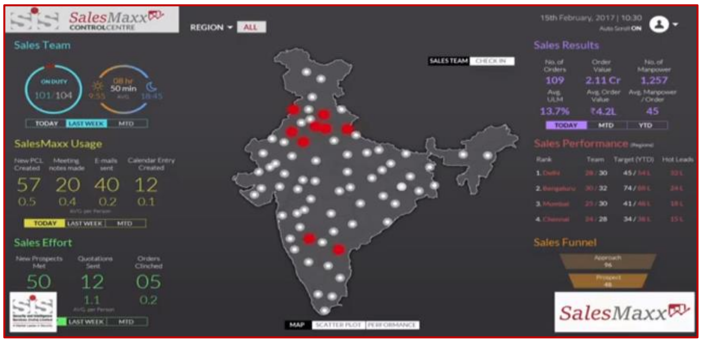
This recorded data empowers regional teams and top management to make insightful decisions based on accurate, structured information. Over time, we believe that this database will enhance client stickiness by increasing predictability and preparedness through data analytics.

As a result, the Company has compounded the computer software assets by ~27% from ~Rs. 100 Mn in FY18 to ~Rs. 300 Mn in FY23. During this period, intangible assets underdevelopment has grown at 38% CAGR, implying a consistent and substantial endeavor to engage with updated technology in the Company's day-to-day operations. Resultantly, the general and administrative expenses as a percentage of sales have come down to ~3% from the long-term average (ex aberrations) of ~5%. With the increasing penetration of technologies within the Company and client base, the operating expenses may further be rationalized.

Source: Company, Keynote Capitals Ltd.

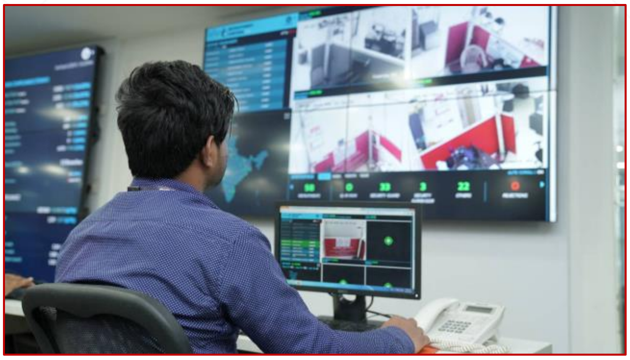
- **SalesMaxx:** Sales Maxx is a software customized for the security industry vested in every Android tablet of sales representative. This helps them overview their leads, organize appointments, record meeting notes, check in at client premises, create sales presentations, prepare quotations, manage margins, track leaves, claim reimbursements, etc. All these, handled at the individual level, is summarized at the sales force control centre, where the managers evaluate the macro view of the sales team on a real-time basis. Currently, the Company has ~126 sales representatives that generate more than 800 quotations/month.

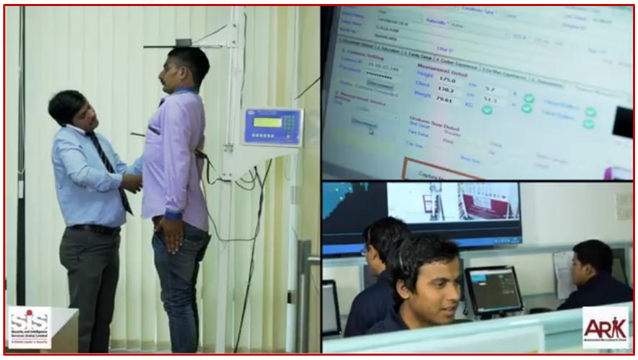




Source: Company, Keynote Capitals Ltd.

- **ARK:** ARK is a first-of-its-kind industry solution that eliminates manual errors, biases and guarantees recruitment quality and efficiently recruits an average of ~6,000 professionals per month. The process begins with the candidate filling out a registration form, followed by document scanning and upload, experience verification online from authentic portals, and a mock-up interview. Followed by automated physical checks, biometric capture, Aadhar verification and barcode printing. While these are completed in concurrent support from control room branches, they ensure real-time collection of information and standardization of the selection process across the country. Based on the result outcomes, the guards are categorized into A++, A+ and A- and C.





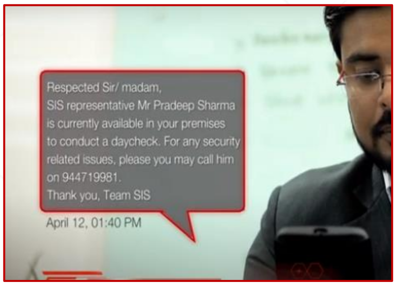
Branch-Regional Office Co-ordinated Recruitment

Source: Company, Keynote Capitals Ltd.

- **iOPS (Intelligent Operations):** The key to success is not deploying guards at sites but periodic site visits, keeping up the service and resolving issues even before the client realizes it. The function of iOPS revolves around keeping track of security checks, guard checks, duty register checks, security risk observation, etc. on a real-time basis. This platform empowers workflow automation, harnesses the power of data analytics, and provides real-time customer reporting. It includes activities like Automated Task Scheduling, Updates on Day/Night checks by supervisor, client coordination, bill submission, incident reporting, customer/employee grievances, plan of action, etc. iOPS is a software that ensures the longevity of client relationships because it gathers nuanced and peculiar data of sites in the form of questionnaires, photographs (in case of any risky spots, as little as a broken door), and audios (in case of grievance recording). This structured data is reviewed by Regional Operational Command Centers (ROCC) that send compiled reports of a site to the concerned customer. Consequently, appropriate actions are taken for the best outcomes. iOPS turns out to be the most critical link among all the involved parties, such as clients, deployed staff, supervisors, and all the way to regional management.

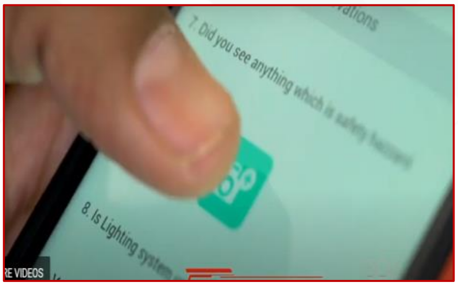
According to the most recent reports from the Company, iOPS covers an average of over 17,000 sites every month, with a combined total of more than ~67,000 checks in a month. This indicates an average of ~4 checks conducted per site monthly (or two day and night checks), which is remarkable and rigorous. Although the current penetration of iOPS is ~40%, there is significant potential for increased efficiency and diligence.

iOPS manages ~17,000+ of the total 40,000+ sites, indicating a ~40% penetration rate.



Notifying clients

SIS representative checking employee count



SIS representative collecting other premise-data

ROCC receives premise report in real time

National Command Centre connected

Critical client feedback

Source: Company, Keynote Capitals Ltd.

- **mTrainer:** m-trainer is a training program run on vans, mobiles and tabs that cover more than 5,000 videos on general and industry-specific modules. While training in vans is provided in sites that have more than 10 employees, tablet and mobile-based training is provided for small-scale clients. Under this program, the Company imparts an average of more than 7,400 trainings/month.
- **mySIS:** mySIS is an app for frontline employees deployed at sites for attendance management, training, chatting with senior staff, etc. This app is also built on a geotagging feature that records the real-time location of the employee. Besides, mySIS provides information on salary, PF, and other details related to the employees. This software takes daily attendance of ~1,30,000 employees.

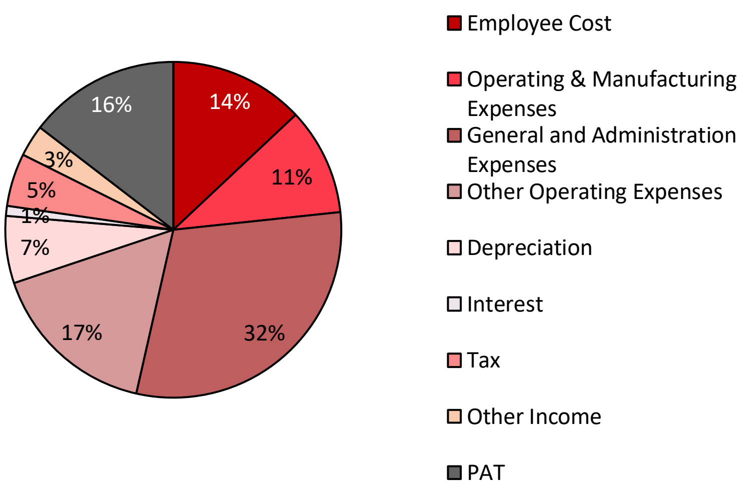
Cash logistics to potentially unlock huge value

SIS ventured into the cash logistics business 2006 and in partnership with Prosegur in 2011. Initially, the Company struggled to contribute significant value to the consolidated entity. However, SIS has since been diligently working towards achieving profitability in this segment. The Company is focused on optimising its cost structure by leveraging the following key strategies:

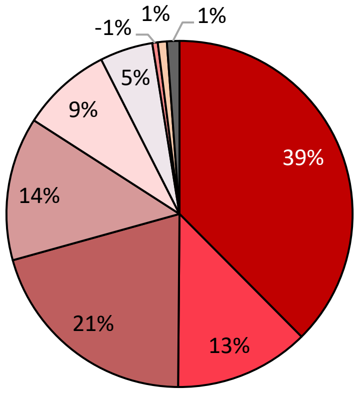
- **Increase operating leverage:** This concerted effort of transition from ~65% (FY18) revenue from ATM replenishment to ~21% (FY23) has resulted in an overall reduction in the operating cost-to-sales ratio, decreasing from ~99% to ~86% over the same period. Consequently, EBITDA margins have improved substantially, rising from ~ 1% to 16%. The Company's strategies, such as driving sales growth, optimizing route density, and implementing revenue per stop charging, have all played a role in this transformation. Continuing in the same direction, the Company is expected to expand operating margins further.

- **Reduce debt/interest**: In FY22, the Company carried a debt load of ~ Rs. 2 Bn, resulting in an erosion of around 5% from its profit margin in the form of interest expenses. In FY22, the Company generated FCFF of ~Rs. 200 Mn, indicating the potential for reducing debt in a phased manner.

CMS Info Systems P&L Common Size for FY23 (%)



SIS Prosegur P&L Common Size for FY22 (%)



Source: CMS Info Systems, Company, Keynote Capitals Ltd.

Numerous other merits

- **Market leadership**: The Company is a market leader in security services in India with a ~5% market share, in security services Australia with a ~23% market share, in facility management with a ~4.5% market share, and in cash logistics with ~17% market share. With market dominance comes the power to onboard more customers, register higher sales growth, and earn a premium for the long-operating history and industry-specific knowledge built and delivered over the years. Furthermore, SIS, as a market leader, is an innovator, which in turn will enable them to build a specialised business at a reasonable margin. G4S, the second largest player in security in India, has not shown significant growth on its top line for the past 5-6 years, making SIS mightier with a stronger foothold.

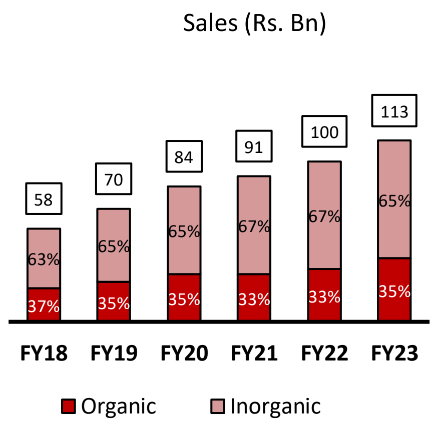
- **Tactical acquisition and allocation of power**: The promoters believe in hiring the best person in the industry for a role and delegating them with autonomy to grow their business. Two of the outstanding examples are Tapesh Chaudhary, CEO of Security Solutions India, who previously headed G4S as a CEO, and Shamsher Puri, the CEO of the facility management division, who was previously the founder of DTSS, a subsidiary company that SIS acquired in FY16 which has grown to become the leading contributor in the segment with ~60% in FY23. Similar to this, SIS became a leader in Security International (Australia) and Cash logistics by bringing on board leaders like MSS Security and Prosegur, respectively.

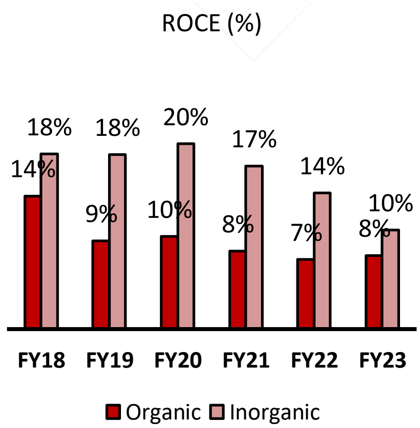
- **High customer stickiness**: The Company operates in businesses where the clients don't look forward to changing their service provider unless something significant happens. Evidently, SIS has a ~94% customer retention in security services (India and International) and ~95% in facility management for the past several years.

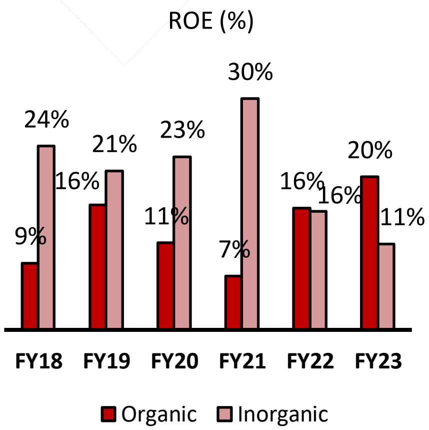
Challenges

Declining profitability prowess

Over time, it is evident that the Company has been generating lower operating profit relative to the capital employed in the business. This observation becomes apparent when comparing the growth of operating profits to the growth of capital employed. Specifically, the standalone (organic) operating profit experienced a modest 3% CAGR between FY18-23, in contrast to the corresponding growth in capital employed, which stood at 15% over the same period. Similarly, for subsidiaries (inorganic), the and capital employed exhibited CAGRs of 10% and 23%, respectively.



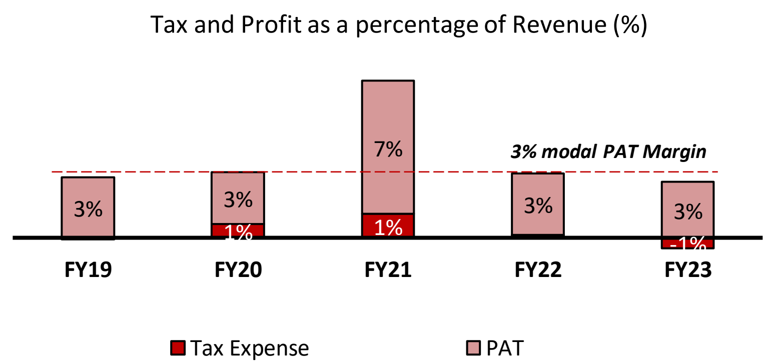




Source: Company, Keynote Capitals Ltd.

The declaration of sunset clause for 80JJAA

Section 80JJAA under the Indian Income Tax Act deals with tax deductions related to the profits and gains of businesses. This provision allows for a 30% deduction on increased employee expenses over a consecutive three-year assessment period. However, it's important to note that the Company faces an effective tax rate of ~30% in Australia, which indirectly offsets the benefits of Section 80JJAA in India. Despite the advantages of Section 80JJAA, the Company maintains a five-year modal profit margin of ~3%. This situation poses a potential threat to profitability in the event a sunset clause is implemented for this tax provision. It's worth noting that the Company operates in an industry with thin profit margins and limited pricing power, making it vulnerable to profitability challenges in unfavourable circumstances.



Source: Company, Keynote Capitals Ltd.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	**1,00,591**	**1,13,458**	**1,27,034**	**1,42,595**	**1,60,438**
Growth %		13%	12%	12%	13%
Raw Material Expenses	796	1,069	1,143	1,283	1,444
Employee Expenses	78,112	92,012	1,03,533	1,15,858	1,29,955
Other Expenses	16,724	15,461	16,260	18,110	20,376
EBITDA	**4,958**	**4,915**	**6,098**	**7,344**	**8,664**
Growth %		-1%	24%	20%	18%
Margin%	5%	4%	5%	5%	5%
Depreciation	1,116	1,347	1,415	1,491	1,576
EBIT	**3,843**	**3,568**	**4,682**	**5,853**	**7,088**
Growth %		-7%	31%	25%	21%
Margin%	4%	3%	4%	4%	4%
Interest Paid	984	1,149	1,425	1,425	1,425
Other Income & exceptional	554	327	320	320	320
PBT	**3,413**	**2,747**	**3,577**	**4,748**	**5,983**
Tax	179	-616	537	712	897
PAT	**3,233**	**3,363**	**3,041**	**4,036**	**5,086**
Others (Minorities, Associates)	26	102	208	326	460
Net Profit	**3,259**	**3,465**	**3,248**	**4,361**	**5,545**
Growth %		6%	-6%	34%	27%
Shares (Mn)	147.0	145.7	145.7	145.7	145.7
EPS	**22.17**	**23.78**	**22.29**	**29.93**	**38.05**

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	7,384	7,509	8,473	10,286	12,721
Current Investments	3	103	103	103	103
Debtors	13,913	16,777	19,055	21,389	24,066
Inventory	340	314	381	428	481
Short Term Loans & Advances	6,651	7,267	7,267	7,267	7,267
Other Current Assets	646	890	890	890	890
Total Current Assets	28,938	32,860	36,169	40,363	45,529
Net Block & CWIP	16,039	16,465	16,320	16,255	16,284
Long Term Investments	960	880	1,087	1,413	1,873
Other Non-current Assets	3,380	4,446	4,446	4,446	4,446
Total Assets	**49,316**	**54,652**	**58,023**	**62,478**	**68,131**
Creditors	583	639	762	856	963
Provision	5,100	4,278	4,278	4,278	4,278
Short Term Borrowings	4,888	6,654	6,654	6,654	6,654
Other Current Liabilities	11,845	11,354	11,354	11,354	11,354
Total Current Liabilities	22,416	22,925	23,048	23,141	23,248
Long Term Debt	6,069	8,032	8,032	8,032	8,032
Deferred Tax Liabilities	-2,541	-3,476	-3,476	-3,476	-3,476
Other Long Term Liabilities	2,629	3,839	3,839	3,839	3,839
Total Non Current Liabilities	6,156	8,394	8,394	8,394	8,394
Paid-up Capital	735	729	729	729	729
Reserves & Surplus	19,977	22,604	25,853	30,214	35,760
Shareholders' Equity	20,713	23,333	26,581	30,943	36,488
Non Controlling Interest	31	0	0	0	0
Total Equity & Liabilities	**49,316**	**54,652**	**58,023**	**62,478**	**68,131**

Source: Company, Keynote Capitals Ltd. Estimates,
NA: not available as the company was not listed

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	3,413	2,747	3,577	4,748	5,983
Adjustments	1,855	2,406	2,520	2,596	2,681
Change in Working Capital	-899	-2,608	-2,222	-2,287	-2,623
Total Tax Paid	-2,059	-938	-537	-712	-897
Cash flow from operating Activities	**2,309**	**1,607**	**3,339**	**4,344**	**5,143**
Net Capital Expenditure	-1,021	-1,187	-1,270	-1,426	-1,604
Change in investments	-484	-577	0	0	0
Other investing activities	280	285	320	320	320
Cash flow from investing activities	**-1,224**	**-1,480**	**-950**	**-1,106**	**-1,284**
Equity raised / (repaid)	-1239.11	-996.53	0	0	0
Debt raised / (repaid)	-972	191	0	0	0
Dividend (incl. tax)	0	0	0	0	0
Other financing activities	-1,300	-1,480	-1,425	-1,425	-1,425
Cash flow from financing activities	**-3,511**	**-2,285**	**-1,425**	**-1,425**	**-1,425**
Net Change in cash	-2,426	-2,158	964	1,813	2,434

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	22	24	22	30	38
Growth %		7%	-6%	34%	27%
Book Value Per Share	141	160	182	212	250
Return Ratios					
Return on Assets (%)	7%	7%	6%	7%	8%
Return on Equity (%)	17%	16%	13%	15%	16%
Return on Capital Employed (%)	7%	8%	12%	13%	14%
Turnover Ratios					
Asset Turnover (x)	2.0	2.2	2.3	2.4	2.5
Sales / Gross Block (x)	4.4	4.7	5.0	5.4	5.7
Working Capital / Sales (x)	7%	7%	9%	11%	12%
Receivable Days	48	49	51	52	52
Payable Days	2	2	2	2	2
Liquidity Ratios					
Current Ratio (x)	1.3	1.4	1.6	1.7	2.0
Interest Coverage Ratio (x)	4.5	3.4	3.5	4.3	5.2
Total Debt to Equity	0.6	0.6	0.6	0.5	0.4
Net Debt to Equity	0.3	0.3	0.2	0.1	0.1
Valuation					
PE (x)	21.9	18.4	19.6	14.6	11.5
Earnings Yield (%)	5%	5%	5%	7%	9%
Price to Sales (x)	0.7	0.6	0.5	0.4	0.4
Price to Book (x)	3.4	2.7	2.4	2.1	1.7
EV/EBITDA (x)	15.6	14.2	11.4	9.5	8.0
EV/Sales (x)	0.8	0.6	0.5	0.5	0.4

SIS's Valuation

Valuation	
Expected (in Rs. Mn , otherwise stated)	**FY26E**
Net Profit	5,545
PE (5-year median)	22
Market Capitalization	1,21,990
No. of shares outstanding	145.7
Target Price	837
Current Market Price	432
% Upside/(Downside)	+94%

Source: Company, Keynote Capitals Ltd. estimates

SIS is a formidable player in an extremely competitive industry, which has made its way to leadership through forms of inorganic growth, vesting power at different levels of the hierarchy, uncommonly deploying funds in technology to become a securi-tech company and fostering its employees with training so that they themselves become more powerful to drive their locus of control, whereby taking the entire company in the best direction.

SIS at its best footing, has been able to grow its entire business at 12% CAGR, with Security India at 14%, Facility Management at 19%, Security International at 9% between FY19-23. With brightening industry and economic prospects, we anticipate the overall business growth to sustain at 12% for the next 3 years, with security India growing at ~15%, facility management at 20%, and security international at 6%.

Further, with EBITDA margins increasing from ~4.3% to ~5%, it will contribute additionally to the bottom line. Another key contributor to net profit is anticipated to be cash logistics business, which we believe can grow at 20% CAGR for the next 3 years, outgrowing its previous 4-year CAGR (FY19-23) at 17%. Additionally, we believe the segment's PAT margin shall increase from 4% in FY23 to ~10% in FY26 on the back of cost rationalisation and resultantly increase its contribution to consolidated net profit from ~3% to 8% in the same course, resulting in 17% CAGR for net profit.

Consequently, we initiate coverage on SIS Ltd. with a BUY rating and at 5-year median PE of 22x on FY26E EPS, giving a target price of ~Rs. 837, implying an upside of 94%.

DEVIN PRAMOD JOSHI Digitally signed by DEVIN PRAMOD JOSHI Date: 2023.09.21 13:29:04 +05'30'

MAROO CHIRAG Digitally signed by MAROO CHIRAG Date: 2023.09.21 13:24:46 +05'30'

Our Recent Reports

Sula Vineyards Ltd.

Metropolis Healthcare Ltd.

Havells India Ltd.

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BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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