

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	333
12 month price target (INR)	490
52 Week High/Low	565/326
Market cap (INR bn/USD bn)	48/0.6
Free float (%)	25.6
Avg. daily value traded (INR mn)	17.0

SHAREHOLDING PATTERN

	Dec-24	Sep-24	June-24
Promoter	71.70%	71.85%	71.69%
FII	13.17%	13.56%	16.61%
DII	5.26%	5.26%	3.04%
Pledge	0.0%	0.0%	0.0%

FINANCIALS

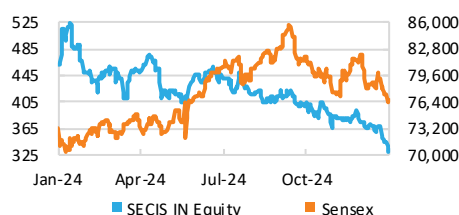
(INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	1,22,614	1,30,861	1,42,166	1,54,057
EBITDA	5,845	5,924	6,477	7,275
Adjusted profit	1,900	3,284	3,844	4,517
Diluted EPS (INR)	12.8	22.1	25.9	30.4
EPS growth (%)	(45.1)	72.8	17.0	17.5
RoAE (%)	10.8	12.7	13.1	13.5
P/E (x)	26.0	15.1	12.9	11.0
EV/EBITDA (x)	12.3	12.1	11.1	9.9
Dividend yield (%)	0	0	0	0

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	1,30,861	1,42,166	0.9	0.7
EBITDA	5,924	6,477	4.7	3.0
Adjusted profit	3,284	3,844	(0.8)	2.2
Diluted EPS (INR)	22.1	25.9	(0.8)	2.2

PRICE PERFORMANCE



Margin improvement efforts paying off

SIS reported a modest Q3FY25 with revenue at INR33.6bn (+2.9% QoQ/+9.4% YoY), slightly below our estimate of INR34.3bn. Consolidated EBITDA margin improved by 23bp QoQ to 4.7% against our estimate of 4.4%. PAT came in at INR1,021mn, higher than our estimate of INR724mn. Higher PAT was due to greater other income.

SIS delivered better-than-expected margin as efforts to improve margin are showing results with better margins at the contract level as well as lower SG&A cost. Margin improved at both in the India and international businesses. We are tweaking FY25E/26E/27E EPS by < 3%; retain 'BUY' with a DCF-based TP of INR490 (implying 19x FY26 PE, earlier INR480).

International security business growth boosted by seasonality

SIS's group revenue grew 2.9% QoQ (9.4% YoY). EBITDA margin came in at 4.7% (+23bp QoQ/-26bp YoY). India security revenue grew +2.6% QoQ/+7.7% YoY, partially impacted by deferral of few contracts from Dec-24 to Jan-25. New deal-wins during the quarter were around INR300mn of monthly revenue, led by major contributions from the mining, IT, government, BFSI and manufacturing sectors. EBITDA margin contracted 10bp QoQ to 5.5% (pre-covid level). OCF/EBITDA during Q3FY25 stood at 230% driven by efficient management of working capital and tax refunds. International business revenue grew +2.6% QoQ/+11.1% YoY, primarily driven by new wins in the airport, defence, residential and retail sectors. EBITDA margin improved 50bp QoQ to 3.8%. The improvement in EBITDA margin was driven by new-wins and the high-margin seasonal business.

Facility management and cash logistics solutions

The FM segment's revenue +4.1% QoQ/+9.8% YoY, primarily driven by new-wins of ~INR170mn of monthly revenue in the retail, manufacturing, health and real estate sectors. SIS is witnessing good demand traction in the Healthcare vertical. EBITDA margins expanded 30bp QoQ to 4.6% driven by cost-efficiency initiatives. Cash Logistics revenue grew +2.9% QoQ/+12% YoY. EBITDA margin remained flat QoQ at 17%. The focus remains on improving margin profile by rationalizing SG&A costs and increasing volumes per branch.

Valuation comfort; retain 'BUY'

Management reaffirmed its guidance of growing at 2x GDP (~15% growth) along with a returns profile of around 15% and OCF/EBITDA staying in a range of 60–65%. We anticipate a revenue and EBITDA CAGR of ~8% each over FY24–27E. Retain 'BUY' with a TP of INR490 (on 13x FY26E EPS; earlier INR480).

Financials

Year to March	Q3FY25	Q3FY24	% Change	Q2FY25	% Change
Net Revenue	33,625	30,734	9.4	32,688	2.9
EBITDA	1,568	1,513	3.6	1,448	8.3
Adjusted Profit	1,021	369	176.8	688	48.4
Diluted EPS (INR)	7.0	2.5	181.9	4.7	48.3

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	1,22,614	1,30,861	1,42,166	1,54,057
Cost of revenues	1,01,944	1,06,789	1,16,389	1,26,330
Gross profit	20,670	24,073	25,777	27,728
Other expenses	14,826	18,149	19,300	20,453
EBITDA	5,845	5,924	6,477	7,275
Depreciation	1,663	1,605	1,553	1,681
Less: Interest expense	1,482	1,610	1,529	1,509
Add: Other income	427	780	760	829
Profit before tax	3,126	3,488	4,156	4,914
Prov for tax	819	419	540	639
Less: Other adj	249	261	274	288
Reported profit	2,556	3,284	3,844	4,517
Less: Excp.item (net)	(656)	0	0	0
Adjusted profit	1,900	3,284	3,844	4,517
Diluted shares o/s	149	149	149	149
Adjusted diluted EPS	12.8	22.1	25.9	30.4
DPS (INR)	0	0	0	0
Tax rate (%)	26.2	12.0	13.0	13.0

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
PBT growth (%)	13.8	11.6	19.2	18.2
Asset turnover (X)	3.2	3.3	3.4	3.3
EBIT margin (%)	3.4	3.3	3.5	3.6
EBITDA margin (%)	4.8	4.5	4.6	4.7
Net profit margin (%)	1.5	2.5	2.7	2.9
Revenue growth (% YoY)	8.1	6.7	8.6	8.4
EBITDA growth (% YoY)	18.9	1.4	9.3	12.3
Adj. profit growth (%)	(45.1)	72.8	17.0	17.5

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.0	6.0	6.0	6.0
Repo rate (%)	4.0	4.0	4.0	4.0
USD/INR (average)	72.0	72.0	72.0	72.0
Ind. Sec. growth (%)	10.3	7.7	11.8	12.4
Ind. Sec. margin (%)	5.7	5.4	5.4	5.6
Int. Sec. growth (%)	3.9	6.9	5.0	2.5
Int. Sec. margin (%)	4.1	3.7	3.7	3.7
India FM growth (%)	10.0	4.0	10.0	12.0
Cash log. growth (%)	10.0	12.0	12.0	12.0

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	26.0	15.1	12.9	11.0
Price/BV (x)	2.0	1.8	1.6	1.4
EV/EBITDA (x)	12.3	12.1	11.1	9.9
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	721	721	721	721
Reserves	23,415	26,699	30,543	35,060
Shareholders funds	24,135	27,420	31,264	35,781
Minority interest	0	0	0	0
Borrowings	15,086	14,586	14,986	15,186
Trade payables	847	947	1,013	1,080
Other liabs & prov	12,965	13,815	14,933	16,086
Total liabilities	56,462	60,195	65,624	71,561
Net block	3,735	3,131	2,579	1,898
Intangible assets	12,644	12,644	12,644	12,644
Capital WIP	22	22	22	22
Total fixed assets	16,401	15,797	15,245	14,565
Non current inv	1,108	1,108	1,108	1,108
Cash/cash equivalent	7,405	6,992	10,274	14,020
Sundry debtors	18,858	20,183	21,999	23,940
Loans & advances	3,319	3,319	3,319	3,319
Other assets	9,326	10,174	11,057	11,987
Total assets	56,462	60,195	65,624	71,561

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	2,556	3,284	3,844	4,517
Add: Depreciation	1,663	1,605	1,553	1,681
Interest (net of tax)	993	1,079	1,024	1,011
Others	1,971	(148)	(156)	(231)
Less: Changes in WC	(3,240)	(1,223)	(1,514)	(1,651)
Operating cash flow	3,944	4,597	4,751	5,327
Less: Capex	(1,559)	(1,001)	(1,001)	(1,001)
Free cash flow	2,386	3,596	3,750	4,326

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	10.8	12.7	13.1	13.5
RoCE (%)	11.8	12.6	12.9	13.2
Inventory days	1	1	1	1
Receivable days	53	54	54	54
Payable days	2	3	3	2
Working cap (% sales)	11.8	12.0	12.1	12.2
Gross debt/equity (x)	0.6	0.5	0.5	0.4
Net debt/equity (x)	0.3	0.3	0.2	0
Interest coverage (x)	2.8	2.7	3.2	3.7

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	(45.1)	72.8	17.0	17.5
RoE (%)	10.8	12.7	13.1	13.5
EBITDA growth (%)	18.9	1.4	9.3	12.3
Payout ratio (%)	0	0	0	0

Q3FY25 earnings call highlights

India Security business

- Revenue grew 2.5% QoQ as some major contracts were expected to start in December, but got deferred to January.
- Some margin-dilutive contracts expired during the quarter, and this led to improvement in margins.
- IT refund under the India security business stood at INR900mn.

International Security business

- There are various events during festive season and summer season in New Zealand and Australia, and this led to growth on the revenue side. Margins of these event contracts remain in normalised range.
- IT refund under the International security business was INR250mn.

Facility Management business

- Non-ATM business contributed 84% to top line compared to 80% during Q2FY25, thereby reducing the dependence on ATM business.
- Expects Cash Logistics' EBITDA margin to remain in range of 17–18% and PAT margin to remain around ~8% in coming quarters.

Other commentary

- Between 2010 and 2020, the minimum wage hike was 8–10% and during FY25, the minimum wage hike was around 3%.
- Aim remains to grow at 2x GDP (~15% growth), returns profile to be around 15% and OCF/EBITDA to remain in a range of 60–65%.
- Management is working towards increasing the workforce headcount by 1.3 times per branch; thereby reducing SG&A cost and improving operational efficiencies.
- Various initiatives have been taken for margin expansion such as rationalizing SG&A costs and passing on wage hike to customers during renewals.
- Focus remains on improving margin profile and margin expansion efforts have started to pay off.
- Have reduced net debt by INR2.3bn to INR6.3bn (INR8.6bn in Q2FY25).
- Net debt/EBITDA stood at 1.07 compared to 1.47 in Q2FY25 (lowest in last three years).
- Other income shot up due to a tax refund and interest on tax refund amounting to INR125mn.
- Barring INR500–1000mn, remaining debt is related to working capital.

Exhibit 1: Financial snapshot

INR mn	Q3FY25	Q3FY24	YoY %	Q2FY25	QoQ %	FY24	FY25E	FY26E	FY27E
Revenues	33,625	30,734	9.4	32,688	2.9	1,22,614	1,30,861	1,42,166	1,54,057
Cost of revenues	28,071	25,684	9.3	27,613	1.7	1,01,944	1,06,789	1,16,389	1,26,330
Gross Profit	5,554	5,050	10.0	5,075	9.5	20,670	24,073	25,777	27,728
Others expenses	3,986	3,537	12.7	3,627	9.9	14,826	18,149	19,300	20,453
Total expenditure	32,057	29,221	9.7	31,241	2.6	1,16,770	1,24,938	1,35,689	1,46,783
EBITDA	1,568	1,513	3.6	1,448	8.3	5,845	5,924	6,477	7,275
Depreciation	407	416	(2.3)	420	(3.1)	1,663	1,605	1,553	1,681
EBIT	1,161	1,097	5.8	1,028	13.0	4,181	4,318	4,924	5,593
Interest	405	404	0.2	404	0.4	1,482	1,610	1,529	1,509
Other income	321	54	491.7	76	324.6	427	780	760	829
Add: Prior period items									
Add: Exceptional items	0	0				656	0	0	0
Profit Before Tax	1,076	747	44.1	700	53.9	3,782	3,488	4,156	4,914
Less: Provision for Tax	122	447	NA	72	69.7	819	419	540	639
Less: Minority Interest	0	0	NA	0	NA	0	46	46	46
Add: Share of profit from ATsociates	67	69	NA	61	10.4	249	261	274	288
Less: Profit from Discontinued Operations									
Reported Profit	1,021	369	176.8	688	48.4	3,212	3,284	3,844	4,517
Adjusted Profit	1,021	369	176.8	688	48.4	3,212	3,284	3,844	4,517
P/E (x)						24.4	19.0	16.2	13.8
ROAE(%)						10.8	12.7	13.1	13.5
AT % of net revenues									
Cost of revenues	83.5	83.6		84.5		83.1	81.6	81.9	82.0
Other expenses	11.9	11.5		11.1		12.1	13.9	13.6	13.3
EBITDA	4.7	4.9		4.4		4.8	4.5	4.6	4.7
Net profit	3.0	1.2		2.1		2.6	2.5	2.7	2.9

Source: Company, Nuvama Research

Exhibit 2: Segmental breakdown

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
Sales										
India Security Services	12,149	12,150	12,866	13,030	12,957	13,235	13,681	14,033	7.7	2.6
International Security Services	12,904	12,427	12,591	12,453	13,219	12,760	13,473	13,829	11.1	2.6
India Facility Management	5,037	5,190	5,279	5,251	5,201	5,303	5,534	5,763	9.8	4.1
EBITDA										
India Security Services	605	662	737	800	719	720	767	774	(3.3)	0.9
International Security Services	522	503	498	488	572	432	444	530	8.7	19.5
India Facility Management	221	226	210	225	204	222	238	265	18.0	11.4
EBITDA margin (%)										
India Security Services	5.0	5.4	5.7	6.1	5.6	5.4	5.6	5.5		
International Security Services	4.0	4.0	4.0	3.9	4.3	3.4	3.3	3.8		
India Facility Management	4.4	4.4	4.0	4.3	3.9	4.2	4.3	4.6		

Source: Company, Nuvama Research

Company Description

SIS is a leading security services company in India and Australia enjoying leadership positions in cash logistics and FM services. The SIS Group offers solutions across service lines including security services (mainly manned guarding business) in India and Australia where it has expanded operations with the acquisition of Chubb Security Personnel Pty Ltd, which was later renamed and rebranded as MSS Security. It provides cash logistics through SIS Cash Services, a joint venture with Prosegur of Spain and the second largest cash logistics service provider in India. The company forayed into FM services by entering into an exclusive license agreement with Service Master for the Service Master Clean brand.

Investment Theme

Since FY13, SIS has clocked ~18% sales CAGR. We expect this outperformance to peers to extend as the company aces on all critical success enablers, viz. i) scale; ii) reinvesting in core business; iii) pan-India presence; and iv) expansion in tier II-III cities, among others. SIS's market leadership position in Australia is also likely to remain unchallenged. Furthermore, SIS's domestic FM segment shall see a huge ramp up in the next few years.

Key Risks

We have based our estimates and target price on assumptions, which factor in consistent market share gains in the Indian manned guarding business for SIS over next six to seven years. Failure to consistently gain market share poses downside risk to our estimates and target price. Any slowdown in the Australian economy leading to lower demand for security services will pose downside risk to our Australia business assumptions. Higher-than-expected pricing intensity in security services business may exert pressure on our margin assumptions and pose downside risk to our estimates.

Additional Data

Management

CEO	Rituraj Sinha
CFO	Devesh Desai
COO	AK Prasad
Other	Devdas Apte
Auditor	Saxena & Saxena

Holdings – Top 10*

	% Holding		% Holding
Sinha Ravindra	39.27	Emirate of Abu	2.57
Sinha Rita Kish	16.02	360 one AMC	2.37
Sinha Rituraj K	10.93	Vocational Skil	2.18
Sinha Rivoli	3.25	Steinberg India	1.94
FIL Ltd	2.71	Nippon Life AMC	1.70

*Latest public data

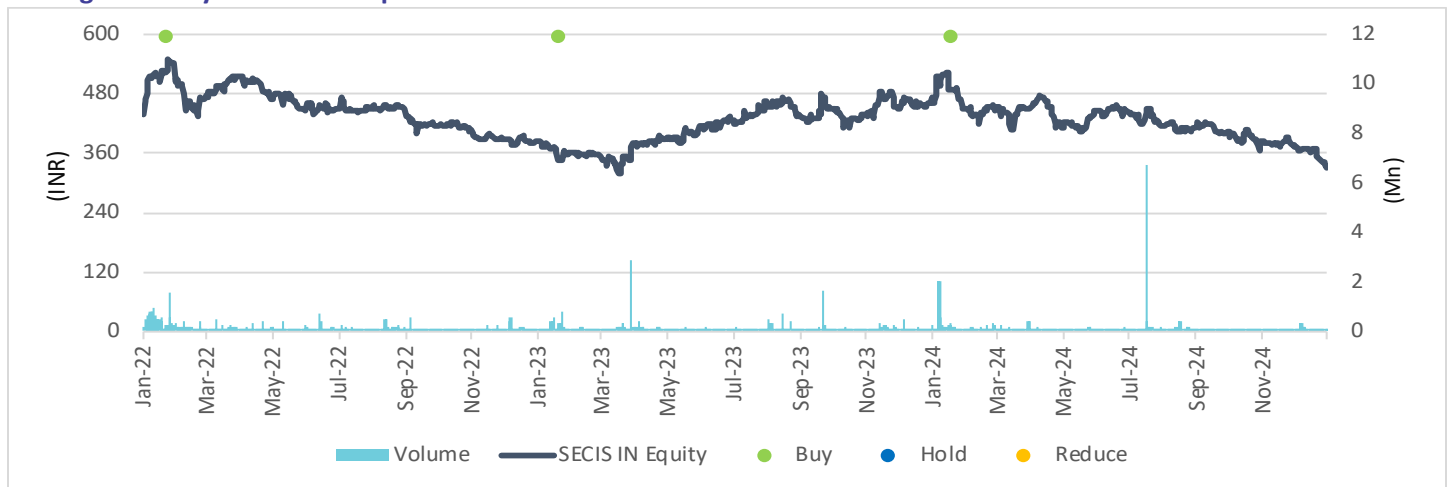
Recent Company Research

Date	Title	Price	Reco
29-Oct-24	Margin expansion remains key focus; <i>Result Update</i>	386	Buy
25-Jul-24	SXP international affects performance; <i>Result Update</i>	425	Buy
02-May-24	Margins feeling the squeeze once more; <i>Result Update</i>	457	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
06-Nov-24	Teamlease Services	TeamLease Services (TEAM IN, INR 2,847, ; <i>Result Update</i>
29-Oct-24	Qess Corp	Growth to pick up in H2FY25; <i>Result Update</i>
31-Jul-24	Teamlease Services	Growth strong; margin dips; <i>Result Update</i>

Rating and Daily Volume Interpretation



Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	225
Hold	<15% and >-5%	64
Reduce	<-5%	27

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