



Date: October 24, 2019

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

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai-400001

NSE Symbol: SIS

BSE Code: 540673

Dear Sir/Madam,

Sub.: Earnings update on Financial Results for Q2 & H1 FY20

Pursuant to the provisions of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the earning update on financial results for the quarter and half-year ended September 30, 2019.

This is for your information and records

Thanking you.

For Security and Intelligence Services (India) Limited

Pushpalatha K
Company Secretary





A Market Leader in
Security, Cash Logistics
& Facility Management



Earnings Update

Q2 – FY19-20

October 24, 2019

REVENUES ↑ 23.6% YoY 2,089 cr	EBITDA ↑ 58.1% YoY 124 cr	PAT ↑ 74% YoY 76 cr	EPS ↑ 74% YoY Rs 10.4
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Notes from the Group Managing Director



All four growth engines deliver amidst challenging macro

Q2 of FY20 continued our strong track record of quarter on quarter growth. Impressive client wins, strong focus on operations and rigorous monitoring of costs have helped all the business units deliver good revenue and profitability metrics. Our consolidated revenues increased from Rs2,008 cr in Q1 of FY20 to Rs2,089 cr in Q2 of FY20. This is a QoQ increase of 4.0% in revenues and a YoY increase of 23.6%. For H1FY20, the revenues were Rs4,097 cr which is a 24.1% growth YoY.

Our EBITDA was relatively flat at Rs123.6 cr in Q2 as against Rs124.7 cr Q1 of FY20, which is a QoQ decline of 0.9% but a YoY increase of 58.1%. The marginal EBITDA decrease this quarter has been on account of the annual salary increment for back office staff in India and the federal minimum wage hikes in Australia which take time to get passed on. For H1FY20, the EBITDA was Rs248.3 cr which is a 62.7% YoY growth over the Rs152.6 cr registered in H1FY19.

Recession resistance demonstrated

Post Q1, the drumbeat on an economic slowdown has only increased. While the jury is out on

the longevity of the slowdown, we are glad to be in segments that are quite inelastic from a demand point of view. Security and facility management services are seen by customers as necessities that can't be dispensed with even during periods of downturn.

We ended Q2FY20 with a monthly run rate of Rs.748 cr as compared to Rs.700 cr in March 2019. Over the last 10 quarters our revenues have grown at a quarterly CAGR of 5.9% and our EBITDA has shown a quarterly CAGR of 7.1% over this period. The SIS business model is repeatable, scalable and predictable and our continued growth even during tough times is testimony to this.

Acquired assets performance on track

After five acquisitions in FY19, we have turned our attention towards integration of these entities in FY20. All of our acquired entities are showing strong performance parameters with a smooth transition from the earlier owners to the SIS management. We are glad to have not lost key senior management in any of our acquired entities which is a signal of our integration capabilities which has a special focus on culture and systems.

A large part of our integration efforts also go into earnings optimisation

“248 cr EBITDA in H1FY20 - 63% YoY growth in a trying macro economic environment – testimony to the resilience of our model”

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measures and policy alignment which ensure that SIS is able to do a seamless integration through its in-house STEP integration process.

Returns and Leverage

Our key metric of Return on Equity, is currently at 22.6%, despite a large hit on account of non-cash items in interest and amortization due to PPA treatment for acquisitions. Our leverage levels are comfortable at 1.4X Net Debt/ EBITDA with an average cost of capital of 7.5%.

Strong reforms portend an economic revival

Apart from the new labour legislations that the government has introduced in the Parliament, the government has made game changing reforms in the taxation regime in India.

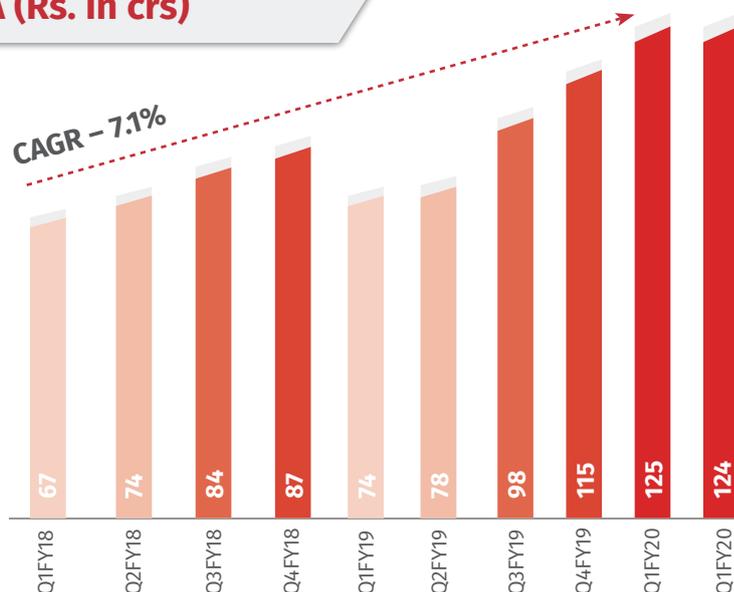
On September 20th, the Finance Ministry announced a new tax regime for India which reduces the overall tax rate and makes India globally competitive. Under the new

proposals, SIS can opt for the lower rate of 22% which after surcharge and cess will, effectively be 25.17% and at the same time can continue to claim benefits under Section 80 JJAA. Hence there will be an insignificant change in the effective tax rate for SIS as a result. However, companies that opt for the 22% tax rate would no longer have to pay MAT, as a result of which our cash flows will improve to the extent of the MAT outflow that is no longer required.

Group Revenues (Rs. In crs)



Group EBITDA (Rs. In crs)



Security Solutions – India

The India security solution business comprises our flagship SIS security business and two acquired entities SLV and Uniq, that came under our fold in FY19 and our tech arms – Tech SIS and VProtect. The India security solution business currently operates across 170 branches and has 154,700 employees. With Rs295 cr monthly run rate in September 2019, we are now the undisputed market leader in security solutions in India.

Solid Organic Revenue Growth

The India security business had a strong Q2, with total revenues of Rs 879 Crs as against Rs 812 Crs for Q1 FY20. This is a QoQ increase of 8.2% and a YoY increase of 39.5%.

Organically the security business has grown 24%. The acquired SLV and Uniq businesses have been contributing healthily to both revenues and EBITDA. Together these two entities generated a 6.4% EBITDA margin in Q2FY20 which is a significant increase from their pre-acquisition margins.

Revenue increase happened on back of both client wins and lower customer attrition.

Revenues per Branch growing

The revenues per branch per month, on an organic basis, increased from Rs 1.33 Crs in Q2 FY19 to Rs 1.63 Crs in Q2 FY20. Including the acquisitions, the revenue per branch increased to Rs 1.73 Crs. The segment ended

September with a run rate of Rs 295 Crs monthly revenues establishing a solid base for the rest of the year. Every single branch has shown growth in H1FY20.

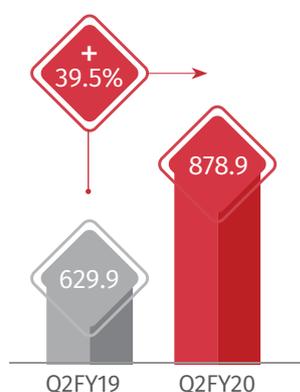
Margins stable

The segmental EBITDA for India security was Rs 53.7 Crs which is a 1.1% QoQ growth and a YoY increase of 65.6%. However, EBITDA margin decreased from 6.5% in Q1 FY20 to 6.1% in Q2 FY20. The margins have been impacted due to the full quarter impact of the annual wage revisions for the non-billing staff in June 2019.

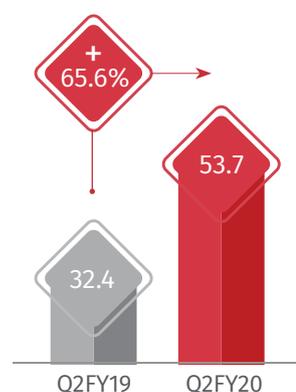
Collections also improved with a DSO of 66 days as against 70 days for Q1 FY20.

Rs in Cr	Q2FY20	Q1FY20	Change QoQ	Q2FY19	Change YoY	H1FY20	H1FY19	Growth
Revenues	878.9	812.3	8.2%	629.9	39.5%	1691.2	1194.8	41.5%
EBITDA	53.7	53.7	1.1%	32.4	65.6%	106.8	59.9	78.4%
EBITDA%	6.1%	6.5%		5.1%		6.3%	5.0%	
Share of group Revenues	42.1%	40.4%		37.3%		41.3%	36.2%	
Share of group EBITDA	43.5%	42.6%		41.5%		43.0%	39.3%	

Revenues



EBITDA



Security Solutions – International

The International security business comprises our entities in Australia (MSS and SXP) and the recently acquired businesses in Singapore (Henderson) and New Zealand (Platform4Group and Triton Security). We are the market leader in Australia and top 3 player in Singapore. The International security business currently has over 9,000 employees.

Focus on margin improvement

The Australian economy is going through a subdued environment which has hampered growth. Planning for this we had instituted margin improvement measures that have yielded good results. Though the International business ended Q2 FY20 with total revenues of Rs 903 Crs which is a QoQ decline of 1.1% from Rs 913 Crs for Q1 FY20, this has

been countered by an aggressive focus on margins restructuring that has seen the EBITDA margin increase from 3.7% in Q2 FY19 to 5.5% in Q2FY20. Revenue decrease in Q2 was mainly due to impact of one-off events managed by SXP in Q1 FY20. This is a 60.3% YoY increase in EBITDA.

The EBITDA margin decreased from 5.9% in Q1 FY20 to 5.5% in Q2 FY20 due to timing impact of wage revisions in Australia vis-à-vis pricing renewals. As has happened in the past, we expect the wage revisions to be passed through with a time lag over the remaining part of the financial year

Revenue decrease in Q2 was mainly due to impact of one-off events managed by SXP in Q1 FY20.

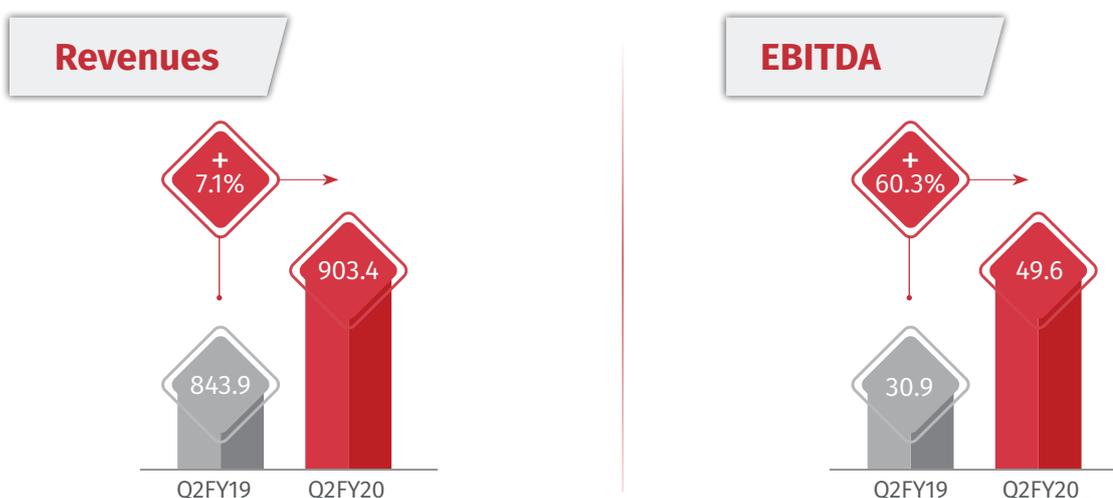
Integration underway

Our integration plan for the acquired entities to align policies and best practices and to optimize synergies is underway and as a result of that we have witnessed margin improvements in our Singapore business. The Henderson business in Singapore generated revenues of Rs 72 Crs in its second full quarter under SIS with an EBITDA margin of 11.6%.

Aviation business

Qantas is the government appointed screening authority for a number of terminals in Australia. Qantas is discontinuing this task at some of the terminals and are transferring the security requirements back to the airport owner which already has a supplier for its own terminals. Consequently, some of MSS' aviation business might be at risk.

Rs in Cr	Q2FY20	Q1FY20	Change QoQ	Q2FY19	Change YoY	H1FY20	H1FY19	Growth
Revenues	903.4	913.4	-1.1%	843.9	7.1%	1816.8	1693.6	7.3%
EBITDA	49.6	53.7	-7.6%	30.9	60.3%	103.2	65.3	58.29%
EBITDA%	5.5%	5.9%		3.7%		5.7%	3.9%	
Share of group Revenues	43.2%	45.5%		49.9%		44.3%	51.3%	
Share of group EBITDA	40.1%	43.0%		39.6%		41.6%	42.8%	



Facility Management Solutions

The facility management business comprises DTSS, SMC, Rare Hospitality and Terminix SIS. We are the second largest and fastest growing FM business in the country. The FM business continued its strong growth as the fastest growing vertical in the group. The FM business currently operates across 77 branches and has 58,300 employees.

Continued Revenue Momentum

The revenues for the FM vertical were Rs 314.3 Cr as against Rs 290.2

Cr for Q1 FY20. This is a QoQ increase of 8.3%, and a YoY increase of 42.0%. The organic growth YoY is 31.5%. The FM segment ended Q2 with quarterly revenues of over Rs 300 Cr the first time, marking a key milestone in the evolution of our FM business. The segment also has a strong platform for growth with the September revenue run rate of Rs 108 Cr.

Pest Control business EBITDA positive

The Terminix SIS business, after breaking even in Q4FY19, has continued showing strong growth

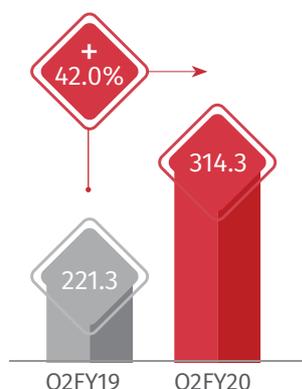
in operating margin in Q2 FY20 and has ended with an EBITDA margin of 3.2%. We are seeing increased offtake in both commercial and residential. Our partner Terminix is a global leader in the pest Control Business.

Margins at a more sustainable level

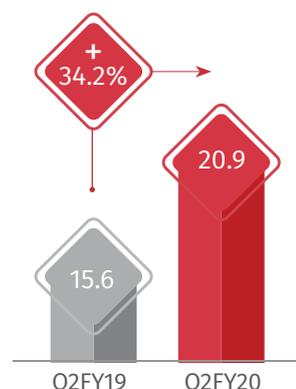
The EBITDA margin improved from 6.2% in Q1 FY20 to 6.6% in Q2 FY20 with margins at Rare improving significantly on the back of good contract wins.

Rs in Cr	Q2FY20	Q1FY20	Change QoQ	Q2FY19	Change YoY	H1FY20	H1FY19	Growth
Revenues	314.3	290.2	8.3%	221.3	42.0%	604.4	421.0	43.6%
EBITDA	20.9	18.1	15.5%	15.6	34.2%	39.0	28.2	38.1%
EBITDA%	6.6%	6.2%		7.0%		6.4%	6.7%	
Share of group Revenues	15.0%	14.4%		13.1%		14.8%	12.8%	
Share of group EBITDA	16.9%	14.5%		19.9%		15.7%	18.5%	

Revenues



EBITDA



Cash Logistics Solutions

The cash logistics business is a JV with Prosegur of Spain, a world leader in cash solutions. We have a 49% holding in the JV which is the second largest cash logistics business in India.

Pricing Revisions more complicated than expected

The pricing environment is improving steadily – several discussions happening with banks, to address the regulatory compliance requirements from RBI and MHA. While the pace is slower than hoped for due to protracted negotiations with banks, we tend to be cautiously optimistic. If the expected price increases get delayed further, financial pressures in the

industry will intensify. Regulatory uncertainty continues with the RBI interchange fee committee yet to take decision and impending court case vs RBI guidelines sub-judice at Supreme Court.

RBI/ MHA Regulation compliance has significant capex implications. The RBI and MHA norms will entail higher spending on fleet and vaults apart from increased operational expenditure. The additional capex is expected to be Rs9.3 lakhs per CV and Rs 12 lakhs per vault.

Revenue growth returning

We have had a few quarters of weak revenue growth as we exited unviable contracts. However, in Q2 FY20 our revenues rebounded to

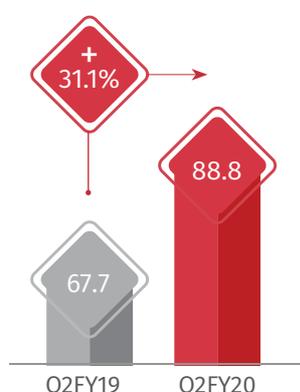
end at Rs 89 Crs, a 31.1% YoY growth and 11.5% QoQ growth. We continue to prioritise non-ATM business over ATM business as we steadily reduce the share of the ATM business in our overall mix, given the pricing and penalty terms

Margins stable

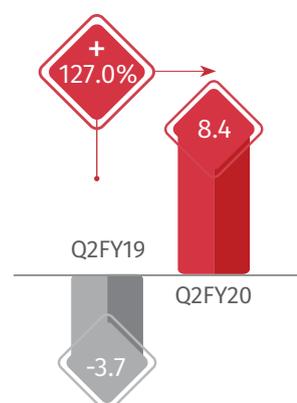
Focus on non-ATM business and exiting unprofitable contracts has helped us steadily improve profitability. The EBITDA for the segment was Rs 8.4 Crs. The EBITDA margin for the segment is 9.5% as against 4.3% in Q1 FY20 and -5.5% in Q2 FY19. Continuous productivity improvement measures and better route synergies helped the segment improve margins.

Rs in Cr	Q2FY20	Q1FY20	Change QoQ	Q2FY19	Change YoY	H1FY20	H1FY19	Growth
Revenues	88.8	79.6	11.5%	67.7	31.1%	168.4	137.6	22.3%
EBITDA	8.4	3.4	145.0%	(3.7)	127.0%	11.9	(6.7)	77.0%
EBITDA%	9.5%	4.3%		-5.5%		7.1%	-4.9%	

Revenues



EBITDA



Rs in Cr	Q2FY20	Q1FY20	Change QoQ	Q2FY19	Change YoY	H1FY20	H1FY19	Growth
Revenue from ops.	2,088.8	2,008.4	4.0%	1,690.2	23.6%	4097.1	3,301.6	24.1%
EBITDA	123.6	124.7	-0.9%	78.2	58.1%	248.3	152.6	62.7%
EBITDA%	5.9%	6.2%		4.6%		6.1%	4.6%	
Profit after taxes	76.2	74.9	1.7%	43.8	74.0%	151.1	83.3	81.4 %
Profit after taxes%	3.6%	3.7%		2.6%		3.7%	2.5%	
EPS Rs	10.4	10.2	1.6%	6.0	73.7%	20.6	11.4	81.3%
Diluted EPS Rs	10.2	10.1	1.6%	5.9	73.8%	20.3	11.2	81.5%

Revenues

Revenue from operations has increased by 23.6% YoY to Rs 2,088 Crs in Q2 FY20 from Rs 1,690 Crs in Q2 FY19. All the businesses have shown good revenue growth. Quarterly revenue has increased by 4.0% in Q2 FY20 over Q1 FY20.

EBITDA

Strong focus on costs and operating leverage across segments has resulted in a 58.1% YoY increase in EBITDA to Rs 123.6 Crs in Q2 FY20. However, on a quarterly basis, there is a marginal de-growth in EBITDA of 0.9% when compared to Q1 FY20 of Rs 124.7 Crs.

PAT

Profit after tax has increased by 74% in Q2 FY20 as compared to Q2 FY19. The rise in PAT is commendable despite a large hit due to the PPA related adjustments for finance costs and depreciation.

PPA related adjustments

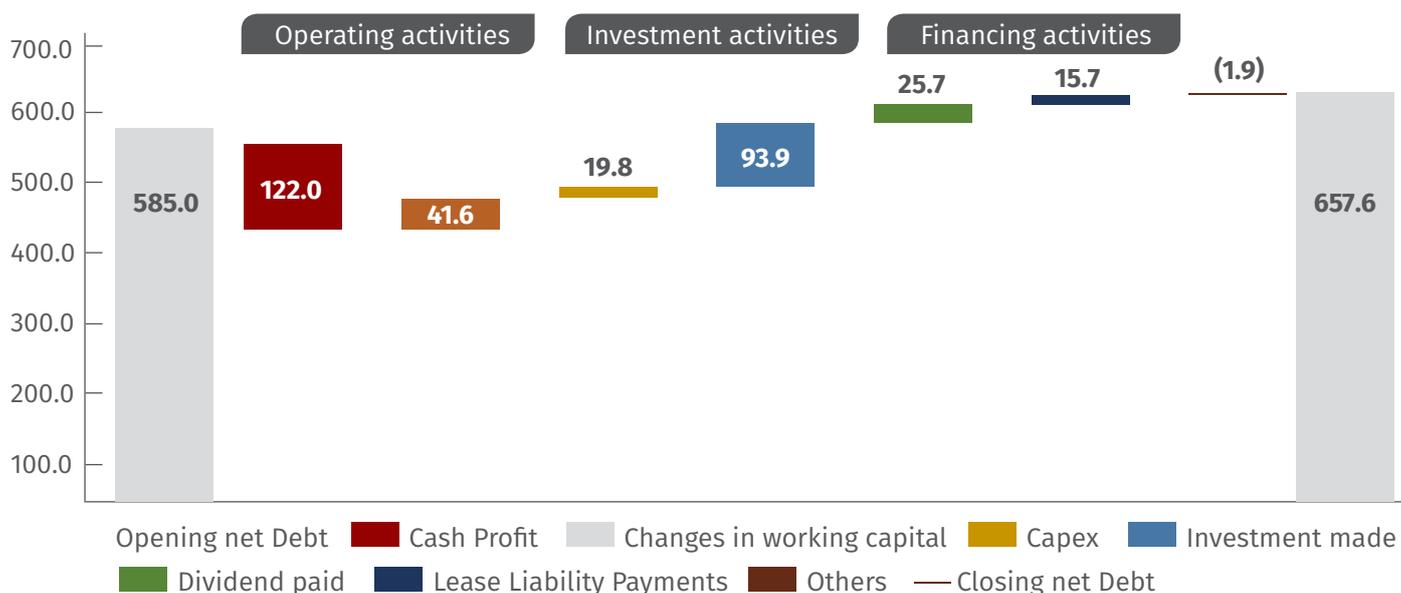
PPA related adjustments: Finance cost with respect to unwinding of PV of PPA related future consideration (non-cash) is Rs 9.56 Cr and Amortization for identified assets is amounting to Rs 5.7 Cr in Q2 FY20.

RONW

Our RONW continues to inch up steadily and is at 22.6% in Q2FY20 as compared to the 20.9% in Q1FY20. Our ROCE continues to hold steady at 20.3%. We are proud to show strong return ratios despite doing five acquisitions over the past 12 months, demonstrating our capital efficiency and making optimal usage of our balance sheet capacity.

Rs in Cr	September 30 th 2019			June 30 th 2019		
	India	Intl	Total	India	Intl	Total
Gross Debt						
Long-term borrowings	201	444	646	197	452	648
Short-term borrowings	464	7	470	454	12	467
Curr. Portion of LT Liability	26	8	33	26	1	27
Gross Debt	690	459	1149	677	465	1,142
Add: Lease Liability	57	51	107	58	48	106
Less: Cash and Cash Equivalents	199	293	492	223	334	557
Net Debt	547	217	765	512	180	691

Net Debt movement from Q1FY20 to Q2FY20



Payment for acquisitions

- Payment for DTSS final tranche of Rs52 cr
- Completed acquisition of 100% equity of Triton Security Services Limited, for a consideration of NZD \$5.5 Mn and acquisition of 100% of the business and assets of BAS Securities Limited, for a consideration of NZD \$2.8 Mn

Working capital

Though DSOs in the India security business declined from the previous quarter, the Australia business had higher DSOs. Collections in India improved despite a weak macro and credit environment for our customers. Australia DSOs were at 54 days which is seasonally consistent – even in Q2 FY19, the DSOs in Australia were 53 days. As is usual, we expect this to reduce by the end of the year.

Leverage Ratios

Our Net Debt to EBITDA is 1.4X (based on trailing 12 months EBITDA of Rs461 cr) which we are quite comfortable with as our average cost of debt is only 7.5%. Including the impact of the new lease accounting norms under IND-AS, our Net Debt to EBITDA is 1.65.

Segmental Cash flows

INR CRS	IND - SEC	INT - SEC	FM	Adjustment	Total
PBT	32.1	24.1	13.0	-13.7%	55.5
Cash Profit	56.2	56.6	19.6	1.9	134.2
Changes in working capital	16.4	-13.2	-15.8	-1.7	-14.3
Taxes Paid	-4.7	-16.8	-5.6	-0.1	-27.2
Net Operating Cash flows	67.9	26.5	-1.8	0.1	92.7
Capex	-7.5	-6.7	-5.6	0.0	-19.8
Investment made/realised	-59.5	-41.3	-0.0	6.9	-93.9
Others	29.2	-20.7	-1.8	-16.8	-10.1
Net Investing Cash flows	-37.7	-68.7	-7.4	-9.8	-123.8
Term Loans, net	0.7	-2.4	3.0	0.0	1.4
Lease Liability	-3.3	-11.6	-0.7	-	-15.7
Interest paid	-18.4	2.1	-3.1	4.4	-15.0
Others	6.5	-10.8	3.2	5.1	4.1
Net financing cash flows	-14.4	-22.7	2.4	9.6	-25.1
Net change in cash flows	15.7	-64.9	-6.8	-0.2	-56.2
OCF/EBITDA	126%	53%	-9%	-	75%

The India security business has been the standout performer in collections in Q2 and has reduced its DSO by nearly 4 days thus resulting in an OCF/ EBITDA of 126% while the group as a whole showed strong collections despite stressed clientele resulting in an OCF/ EBITDA of 75% for the group.