SIS Limited

Q2 FY27 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY27 earnings conference call hosted by SIS Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing 'star' then 'zero' on your touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Dhiraj Singh, CEO from SIS Limited. Thank you and over to you, Mr. Singh.

Dhiraj Singh: Thank you. Good afternoon, everyone, and welcome to the Q2 FY27 earnings call. Before we begin, it is with deep sadness that I share the passing of our Founder Chairman, Shri Ravindra Kishore Sinha Ji on the 30th of October. He was the visionary who built this Company and his leadership, values and guidance have shaped everything we are today. His loss is deeply felt by all of us at SIS. On behalf of the Board, the management team and all our employees, I extend our heartfelt condolences to his family.

We will carry forward the legacy he leaves behind and remain committed to the values he stood for. It is with that spirit and commitment that we continue our journey. And I would now like to take you through our performance for the quarter. I hope you have had a chance to look at our results and the earnings note, which was uploaded on the stock exchanges and the Company website yesterday.

In Q1, we had called FY27 an inflection year. Q2 establishes the trend. This was a milestone quarter for SIS on every measure that matters: record revenue, record EBITDA, record profit and margin expansion across all 3 of our business segments.

Consolidated revenue for the quarter was a record INR 4,816 crore, up 28.1% year-on-year basis and 4.6% sequentially. Even excluding APS, on an organic basis, the growth has been 18.6% year-on-year and 4.4% quarter-on-quarter. Please note, this is our ninth consecutive quarter of sequential revenue growth.

At the same time, EBITDA was a record INR 222 crore also, up 32.7% year-on-year and 7.8% sequentially. This is the fifth record EBITDA quarter in a row. Even without APS, this has been a growth in EBITDA of 23.8% year-on-year and 6.8% quarter-on-quarter basis. Margins also expanded and came in at 4.6%, which is up 16 basis points year-on-year and our best in the past 6 quarters. Profit after tax was INR 111 crore, up 37.1% year-on-year and the highest in the Company's history.

I want to draw your attention to one point in particular. Both EBITDA growth of 32.7% and PAT growth of 37% ran ahead of revenue growth of 28.1%. So it means we are not simply getting bigger. We are getting better also as we get bigger. This is the operating leverage we have been building forward.

On Scale, trailing 12-month revenues now stands at INR 18,094 crore and our annualized run rate is now nearing the INR 20,000 crore mark, and we are at INR 19,300 crore. For the half year, revenue was up to INR 9,420 crore, which is up almost 29%, and it is already 59% of our entire FY26 revenue.

H1 EBITDA was at INR 430 crore, up 34.4%, with margins up 19 basis points and H1 profit was INR 212 crore, which is up 22.3%. Let me now spend a moment on the labor codes because this is central to our outlook. The codes are a clear positive for SIS, and our early readiness is now visible in the numbers, too.

We began our internal compliance program on the June 1, and India EBITDA has grown 13.8% over the 6 months since the codes were introduced, with the India margins improving from 5.2% in Q4 FY26 to 5.4% this quarter.

Higher wage and statutory costs are being fully passed through to customers, lifting both the revenue and the margin. Enforcement, though, is State by State and still early. Karnataka, Haryana, Uttar Pradesh and Uttarakhand has revised the minimum wages. Others are expected to follow as state model rules are notified. The major part of the repricing benefit is, therefore, still ahead of us. Over time, the codes will also create a level playing field between organized and unorganized providers, which we expect to be accretive at both the EBITDA and PAT levels.

Now turning to the various business segments. Security Solutions India delivered a record revenue of INR 2,144 crore, which is up 38.9% year-on-year and 7% sequentially. This is the 10th consecutive quarter of sequential growth. Even without APS, the organic growth for Security Solutions India was 15.7% year-on-year and 6.8% quarter-on-quarter. EBITDA was a record INR 113 crore, which is up 37.2% year-on-year and 10.4% sequentially. Without APS, it is 18.9% year-on-year and 8.6% quarter-on-quarter basis. Also the fifth record quarter in a row now. Margins improved 16 basis points in the segment sequentially to 5.3% now and are broadly flat year-on-year basis.

On the International front, Security Solutions International recorded its highest ever revenue at INR 2,020 crore, up 25.7% year-on-year and 6.3% on a constant currency basis. EBITDA was INR 72 crore, which is up 35%, with the margins improving 23 basis points year-on-year to 3.6%. Following the Fair Work Commission's 4.7% minimum wage increase in Australia, price revisions under a number of client contracts are tied to contract anniversaries, which creates a temporary lag between cost and price pass-through, but will happen in due course.

Facility Management Solutions posted a record revenue of INR 677 crore and a record EBITDA of INR 38 crore, its ninth consecutive record EBITDA quarter. The margin expansion continues. It is now at 5.7%, and is the highest in the past 6 years, up almost 50 basis points year-on-year.

On our return ratios, the return on capital employed stands at 16.5%, up from 14.3% a year ago, and the return on equity is also at 16%.

During this quarter, we also completed our fifth buyback. SIS was among the first in the market to announce an open market buyback, and we completed it in 45 trading sessions, acquiring approximately 25 lakh shares for INR 106 crore. With this, the total capital returned to shareholders since listing now stands at a little over INR 700 crore.

Let me address also the working capital, which was the one soft spot in this quarter. Operating cash flow was negative INR 99 crore on a working capital outflow of INR 273 crore, of which INR 216 crore sat in our international business due to delayed collections from one of the largest

client, the defense segment. This is a timing issue, not a credit issue, and the payments, in fact, have already been received in October.

Net debt to EBITDA moved to 1.24x from 1.05x at the end of Q1, primarily due to the working capital outflow in Security Solutions International and a bit because of the buyback payouts of INR 92 crore.

However, gross debt was broadly flat at about INR 2,047 crore. On the DSO front, India security actually improved in spite of all the labor code reforms happening at the same time. It improved from 73 days, which is better both sequentially and also on a year-on-year basis. FM was stable at 93 days. The increase was largely concentrated in international, as I mentioned, which is caused due to a temporary timing difference and will be normalized through this quarter.

To summarize, this has been a quarter of record revenue, record EBITDA, our highest ever quarterly profit, profit growing faster than revenue, margin expansion in every segment, both ROCE and ROE above 16% and a structural tailwind from the labor codes where most of the benefit is still to come. We remain focused on margin expansion and on bringing working capital back in line.

As I end, I would like to mention that our Group Managing Director, Mr. Rituraj Sinha has not been able to join the investor call due to the certain demise of his father, and I'm sure you will understand this. However, on the call, we have with us Mr. Brajesh Kumar, Chief Financial Officer; Mr. Murali Krishna, CEO SIS International, to address any of your queries. We will now turn it over for question-and-answer. Thank you so much.

Moderator: We will now begin the question and answer session. The first question comes from the line of Amit Saxena, who is an Individual Investor.

Amit Saxena: So, my first question was on the social security write-off that we did a few quarters back, which was close to INR 250 crore number. So, I wanted to understand how much of it we have recovered and…?

Brajesh Kumar: So, it's Brajesh this side. You want to ask about the gratuity one-time cost we have taken in Q3 of last financial year, right?

Amit Saxena: Right.

Brajesh Kumar: It was INR 290 crore. So, there's no further write-off as we have mentioned at that time. That is a one-time exceptional item we have accounted for as per the guidance of ICAI. And in the due course, whenever any employee pertaining to that period is getting separated or leaving and we have to pay the gratuity, we are claiming from the customer and making that payment. So, there is no cash flow impact because of that. And going forward also, there is no additional impact we are expecting on this one. So, whatever has been done in last Q3 of 2025, the figure we will set, after that, there is no change. I hope that clarifies.

Amit Saxena: I remember after that Q3 '25 in, I think, next quarter or last quarter, there was a reversal of some amount out of that INR 290 crore. So if I'm correct that....?

Brajesh Kumar: So, that was accounting. Yes, you are correct. In Q4, we have taken some reversal. That was an accounting adjustment because on the base of actual valuation, some portion has been transferred from liability to OCI. So, that was just an accounting adjustment. It's not related to any business traction.

Amit Saxena: And we have been talking about the new labor code, which we think will be quite favorable for us because of the minimum wage code. So, how we have been getting, - more on the qualitative terms that the minimum wages will be increased and that will show up in our contract values and further in revenues. But in terms of quantitative aspects, is there any rough guideline as to how much revenues it can increase? Of course, we cannot have exact numbers. But is there a rough guideline wherein we can say, for example, yes, we do expect a revenue increase of 30% just because of the minimum wage act kicking in, in the next 3 years. So, some guideline on that front will help investors a lot?

Dhiraj Singh: So as we mentioned, definitely, both on the revenue side, we've seen the uptick and this is the early stages in this quarter. But going forward, our guidance, we'd like to remain at the 15% to 18% growth overall. And we are in line with that. The margin expansion has happened from 5.2% to 5.4% even in the early stages. And while we can't give you a particular number, but the trend should continue in the next few quarters.

Amit Saxena: Okay. So, on the dividends and buyback, we have returned almost close to INR 700 crore in the last few years since our IPO. Is there any guideline or the kind of, we are roughly making, say, INR 400 crore PAT and which may move to INR 450 crore, INR 500 crore over time. So is there any rough, how do investors look at it in terms of how much on an average the Company plans to return back in terms of, because the dividends and the buyback have been staggered and there is no clear trend. So is there a clarity we can get for the dividends and buyback in terms of the profitability, in terms of the PAT, this much can be expected to be returned?

Dhiraj Singh: We have circulated in the past also our policy for the dividend and the buyback. And we have been fairly consistent with that. Going forward, too, we expect to return well to our shareholders in the form of a combination of both dividends and buyback, while we will continue to invest in the business also and look to retire some of our debt also. So it will be a combination of all these.

Amit Saxena: Okay. And last question is on the Cash Logistics IPO. So, we have been holding it out because of the adverse market circumstances. Is the status same over there? Or is there any change in our thinking as of now?

Dhiraj Singh: So as of now, as you know, the approval period has expired and we will look at it at the opportune time in the future. But the business continues to do very well. It has had a record revenue of INR 220 crore in this quarter with more than 17% EBITDA. So, we are focusing on the business. And at the right time, we will look to go back to the market.

Moderator: The next question comes from the line of Abhinav Mandowara from Aequitas Investments.

Abhinav Mandowara: Congratulations on good sets of numbers. My first question is regarding AP Securitas' revenue number and EBITDA numbers, if you could provide me?

Brajesh Kumar: The revenue number they have reported for this quarter is INR 388 crore and the EBITDA number is INR 15.1 crore. So they have shown a growth of 8% on a quarter-to-quarter basis.

Abhinav Mandowara: Okay. EBITDA of INR 15.1 crore, right?

Brajesh Kumar: Yes, it's 4.2% EBITDA, they have reported.

Abhinav Mandowara: Okay. And second question is regarding the international business. You mentioned there has already been a wage hike in Australia from July onwards. How much lag does it have in our contract repricing? And when would be able to pass it on?

R S Murali Krishna: This is Murali Krishna here. So this is a yearly event, Abhinav. So, there is nothing new, first of all. So yearly, every year in the month of July, the Fair Work announces its increase for the wage. And as per contractual terms, we are entitled to pass through those costs onward to the customer. Typically, what happens is, it happens at the anniversary of the contract. So, this is spread across over through the year. But the bulk of it actually happens within the first quarter and the second quarter of the year.

Abhinav Mandowara: Okay. So, you mean a lot of contracts we would be renewing now would be getting the repricing benefit from 1 or 2 quarter lag?

R S Murali Krishna: Yes, it's not renewal, but it's at the contract anniversaries. So, what happens is if we have signed up a contract, customer contract in, let's say, 1st of November, the price hike typically happens on 1st of November. So it's all dependent on individual contracts, but I'm just giving you a very generic thing, which is a very fairly standard one. It happens at the contract anniversary usually. But bulk of it happens very close to and soon after the 1 July.

So, July to September quarter is a good material portion of the hike happens through the quarter. And the next quarter, between October to December, a very sizable one also happens. And the remainder happens in the next couple of quarters, which is quarter 4 and quarter 1 of next year. But those will be not as much.

Abhinav Mandowara: While we mentioned that the pass on would be on a staggered manner and it's already on a contractual basis. Just wanted to understand in the next couple of quarters, say, Q3, Q4, how much percentage of orders are up for renewal?

R S Murali Krishna: No, these are not renewals, Abhinav. These are not renewals. What happens is, let's say, we sign a 3-year or a 5-year contract, at every contract anniversary, typically the pass-through happens. And we have usually costed for it well ahead as well. So, it's not that we are taking a loss or anything. It just happens subsequently. So, a good portion of that happens in quarter 1 and a good portion, sorry, not quarter 1, quarter 2 which is the quarter that just went by, and a good portion happens in quarter 3. Quarter 4 and quarter 1 are very small ones. So, these are not dependent on renewals. These are obligations at the end of the customer, contracted obligations to pass through the renewal.

Abhinav Mandowara: Got it. Also, in terms of international business, our working capital has deteriorated apart from this one major order of defense, which has a payment delay. How much will be our operating cash flow?

R S Murali Krishna: I will just answer you with respect to that one customer receivable. It is a major customer for us. So, what happened last quarter, typically, Australia follows a July, June calendar, financial calendar. So, by the end of June, typically, customers tend to and at least some of the major ones, Governments and so on and so forth, typically tend to clear out just before June, the outstandings. So, June was a better picture.

But September, typically, we come back to the normal cycle of working capital. Unfortunately, this time, one particular collection got missed out, which we did collect subsequently in the month of October already. So, we should get back to the usual terms of, the international business roughly hovers about 50 days of DSO, 50, 51 days of DSO, and we should get back to that in the next quarter itself. We are already back there. It should be seen in the next quarter itself.

Abhinav Mandowara: Got it. And our net debt has also increased on a basis, I think, around INR 200-odd crore. So, what is the kind of sustainable debt level we want to keep in the Company considering that I understand some cash is there in the international business and the utilization is there in that? Considering all these factors, how much would be the debt you are comfortable?

R S Murali Krishna: Is this for all in, all SIS group? Or is it for international only?

Abhinav Mandowara: Sir, on the group?

R S Murali Krishna: Group, yes. Sorry. Back to you Brajesh Ji.

Brajesh Kumar: Okay. From a group perspective, we can see that the net debt for India has not increased. It has come down from INR 796 crore to INR 769 crore. It's only for international, it has increased. Last quarter, it was INR 11 crore of net debt. This quarter, it has increased to INR 256 crore and the reason Murali has already explained. So, when the international will be back to normal, DSO of around 50 days in Q3. We are hoping that the net debt by December will be on the reducing side. Whatever increase has happened is only because of international because of one-off event of one large customer where the payment has got delayed.

Abhinav Mandowara: Got it. The quantum for that order was around INR 120 million annually?

Brajesh Kumar: Annually, yes.

Moderator: The next question comes from the line of Gopinath Reddy from PNR Investments.

Gopinath Reddy: Sir, what is the interest rate we are paying on the debt that we have now on an average?

Brajesh Kumar: So in India, it is around 8.5%. Murali, what will be in international, can you help me on that?

R S Murali Krishna: I think we'll be hovering about 6.5%.

Gopinath Reddy: So we are comfortable having, please go ahead, sir.

Brajesh Kumar: So, weighted average will be around 7.2%.

Gopinath Reddy: So, are we comfortable having this debt instead of, my doubt is because we are doing buybacks and giving dividends instead of paying this debt. So, are we comfortable holding this debt and we want to continue like this? Or what is the plan, sir?

Brajesh Kumar: So as a policy, we have been stating that we want to maintain this debt-to-equity ratio somewhere around 1. This quarter, due to one special reason, it has gone up to 1.24. Hopefully, we'll be back to 1 or less than 1. So, keeping the debt in that level, we will also need to see that the commitment towards our shareholders. And accordingly, we take the decision of returning back the money to shareholders by way of buyback and dividend. So, I'm not saying that we will, our total focus will be the reduction in debt. We will be doing that also. But at the same time, by maintaining a proper balance in debt-to-equity ratio, we will be making our commitment towards buyback and dividend payout to our shareholders.

Gopinath Reddy: Understood, sir. But our comfort level is at 1, is it?

Brajesh Kumar: Yes. Somewhere around 1 we need to maintain.

Gopinath Reddy: Okay. Last question, sir. How is the Singapore business doing, sir?

R S Murali Krishna: Mr. Gopi, thanks for that question. The Singapore business is doing well. It's continuing to grow. I think as compared to the same quarter last year, I think we posted somewhere about 20% plus growth, which is a fairly good growth. We are continuing to keep the orders with us. So, we are renewing all the revenues and so on and so forth. The business organically is doing very well.

The grants which is usually a big part because the PWM wage hike happens is kind of sunsetting. And that's the reason the EBITDA has kind of declined a little bit quarter-on-quarter. But other than that, there is nothing fundamental to worry about, and I think the business is doing fairly good in Singapore.

Moderator: The next question comes from the line of Abhinav Mandowara from Aequitas Investments.

Abhinav Mandowara: Thank you so much for the follow-up question. Are we planning with the cash that we have and you are mentioning, I think, on the interview also that you are planning for inorganic acquisitions. What kind of nature of business are we planning would be? And what would be the time duration when you are seeing this kind of acquisition to happen?

R S Murali Krishna: This is for the international business, this question?

Abhinav Mandowara: Sorry?

R S Murali Krishna: Is this specifically directed at the international business?

Abhinav Mandowara: No. Both domestic, international, what kind of inorganic opportunities are you seeing? Because I think in the interview with CNBC you were mentioning that you are looking for. So, I just wanted an update and follow-up on the same.

R S Murali Krishna: I don't think I could quite catch the question, but I'll answer for the international business. Your question is about that we do have cash and are we looking at acquisitions? So yes, acquisitions as a part of growth is a strategy that is well established in the international business. So, we have specific areas where we want to acquire. So, we don't want to acquire in every area. So where it gives a specific capability or a geographical expansion or capability expansion and so on and so forth or maybe scale is where we typically acquire.

We are in the market looking for possible targets. And as and when it presents itself, we will be cultivating a few targets as well. As and when the opportunity shapes up, we will definitely consider acquisition. Acquisition is a good strategy for international business typically, considering the multiples at which, or the prices at which the assets are actually.

Abhinav Mandowara: Sure. Got that. And in domestic side, are we looking for any acquisition again?

R S Murali Krishna: Sorry. In which space?

Abhinav Mandowara: Domestic. Domestic side.

R S Murali Krishna: Domestic side. Dhiraj, back to you.

Moderator: Ladies and gentlemen, the management has been reconnected. Thank you and over to you, management.

Dhiraj Singh: Yes. So continuing on the last question, sorry about this hiccup and delay. So, we look at India acquisition opportunities, but focus more on the businesses that are solutions oriented and which are much higher EBITDA margin profile. But as of now, there's nothing to be closed for Q3 at least.

Moderator: The next question comes from the line of Amit Saxena, Individual Investor.

Amit Saxena: Yes. So, on the Cash Logistics, we just discussed that we have INR 220 crore of revenues and I think close to 20% EBITDA margin. So, where is it reflected in the disclosures that we have given? So, we have INR 223 crore of EBITDA, INR 113 crore in India Securities, INR 72 crore in International Securities and INR 38 crore in FM. So, where does this Cash Logistics numbers actually reflect in our disclosures?

Brajesh Kumar: So the Cash Logistics is a JV Company. We are not holding 51%. So, this is not getting consolidated in our consolidated accounts. We used to report it separately in our earnings notes. But since till last quarter, it was under process of IPO. We were bound not to disclose those numbers, so that was not included. From next quarter onwards, the number will be separately disclosed, will be disclosed in the earning note. Currently, it is not disclosed in the earnings note, and it is not included in our balance sheet also because we are not holding 51% there. That's a JV Company, we are the minority shareholder.

Amit Saxena: So is it, like, it's part of P&L in the other comprehensive income below the, I mean, somewhere in the P&L line, it will be shown, right?

Brajesh Kumar: Yes. The share of profit is only being showing in the P&L account. On the published accounts, it will be appearing under the heading of share of profit from joint venture. Yes, consolidated P&L account.

Moderator: As there are no further questions, ladies and gentlemen, we have reached the end of question-and-answer session. I now hand the conference over to Mr. Dhiraj Singh for closing comments.

Dhiraj Singh: Thank you, and thank you to all the participants. We are confident that we shall continue the good numbers and the performance in this quarter. And with additional focus on improving the working capital, and we will continue to look at interesting inorganic opportunities. And the whole year on a year-on-year basis, we are confident that it should be one of our better years. Thank you all for participating again. Happy Diwali again to all of you, and happy and safe Diwali again. Thank you.

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

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