

# Manpower and Facility Management Industry

Security & Intelligent Services India Limited

*Disclaimer: Stocks discussed are only for educational purpose and not recommendation. Please do your own research. Author may or may not have any positions in discussed names*

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20<sup>th</sup> May 2019

# Opportunity Size and Growth Potential

## IN LARGE INDUSTRIES (RS BN)

	MARKET SIZE (RS. BN FY15)	GROWTH (FY15-20E)	<b>&gt; 1.5 X Industry Growth</b>
Security services India	390	20%	
Security services Australia	122	5.4%	
Facility Management	100	20%	
Cash Logistics	29	18%	

**\$25 bn MARKET OPPORTUNITY BY 2020\***

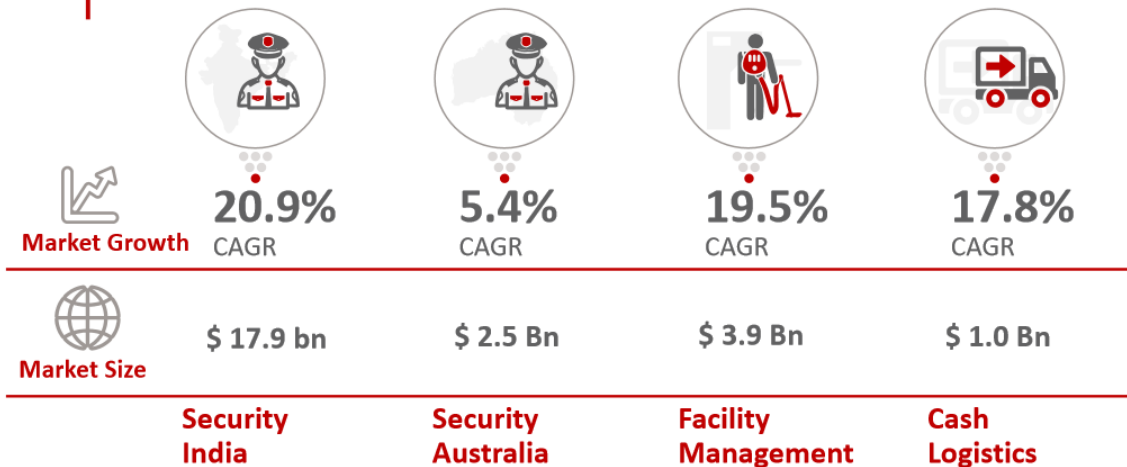
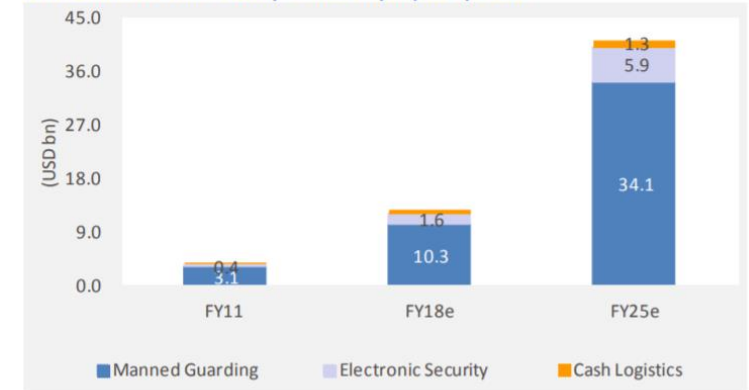
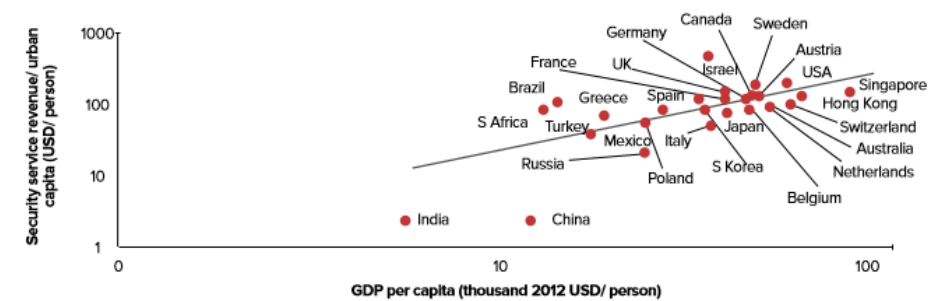


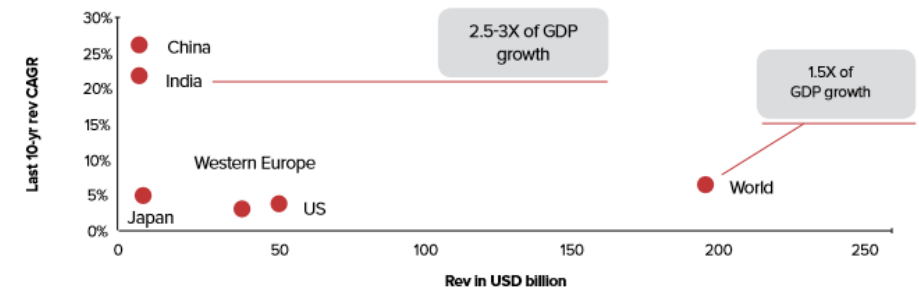
Chart 5: Indian Private Security Services to jump 3x by FY25E



Source: Company; Edelweiss research



## Security industry growth closely linked to GDP growth



\*Frost and Sullivan, July 2017; Freedonia, July 2017

# Opportunity Size and Growth Potential

## Facility management

Growth Triggers for Security Services Revenue			
	Trends	Macroeconomic Factors	Socio-economic Factors
Demand/ Growth Drivers	High growth opportunities from expanding organised sectors such as hospitality, pharma, IT & ITes and manufacturing facilities.	Increased regulatory pressures are leading to a significant shift from unorganised to organised sectors.	Need for safe, comfortable and healthy environment for employees and growing awareness of outsourced services among corporate clients, educational institutions and manufacturing units are facilitating industry growth.
	Growing demand of high-level hygiene standards in healthcare and pharma sectors are also paving the growth trajectory for the facility management industry.		

**₹252** billion

Facility management market in India is expected to grow from ₹100 billion in FY15 to ₹252 billion in FY20 (E), at 20% CAGR.

**₹104** billion

Hard services are expected to grow from ₹40 billion in FY15 to ₹104 billion in FY20 (E), at 21% CAGR.

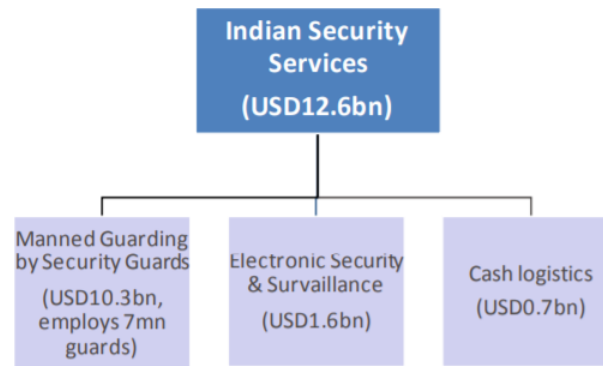
**₹21** billion

Pest services are expected to grow from ₹12 billion in FY15 to ₹21 billion in FY20 (E), at 12% CAGR.

**₹81** billion

Cleaning services are expected to grow from ₹31 billion in FY15 to ₹81 billion in FY20 (E), at 22% CAGR.

Fig. 1: Composition of Indian security services

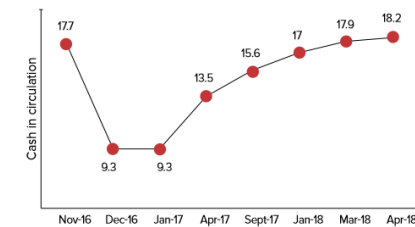


## Cash logistics

### Growth drivers

- ATM penetration in India is extremely low compared to global standards.
- Point of Sale (PoS) terminals presence is weak, leading to continued dependence on cash.
- Digital transactions have become stagnant after spurt post-demonetisation.

Cash in circulation back to pre-demonetisation levels (₹ in trillion)



Cash in circulation/ GDP trends close to pre-2017 levels (₹ in trillion)

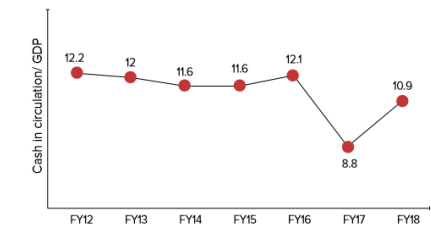
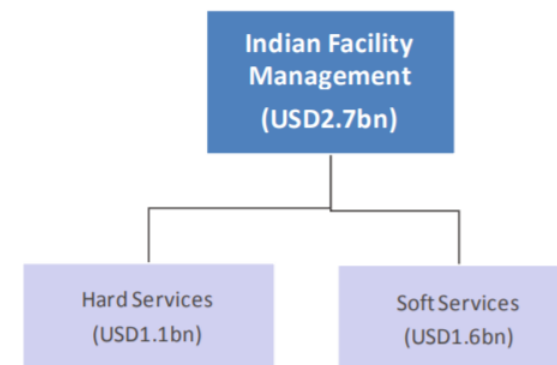


Fig. 2: Indian facility management set for rapid growth



Source: Company; Edelweiss estimates

# What does company do

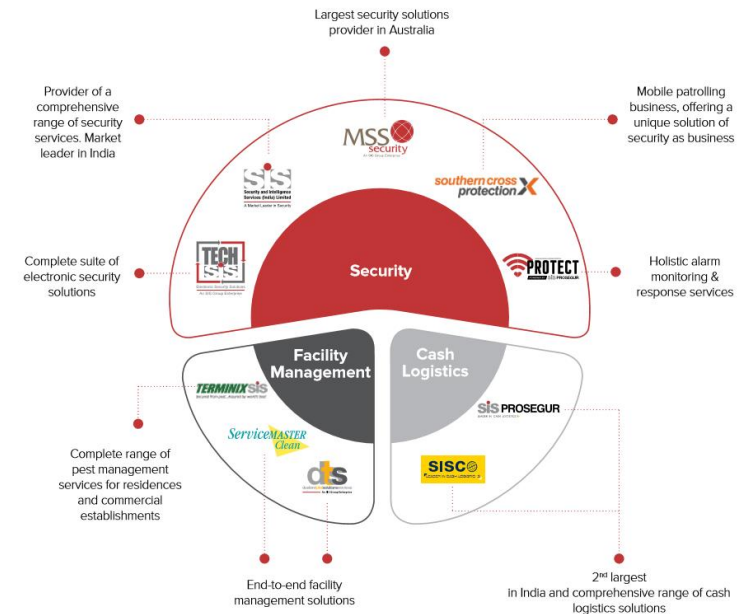
#1

## LEADING MARKET POSITION IN DIVERSE SERVICES

#2 Security Services Co. in India	#4 Facility Management Co. in India	#2 Cash Logistics Co. in India
#1 Fastest growing in India	#2	
#1 Security Services Co. in Aus		
4% market share	3% market share	14% market share

## WITH SIGNIFICANT SIZE OF OPERATIONS

<b>45,671*</b> (Rs. mn) REVENUES	Security Services India	15,875
	Security Services Australia	23,945
	Facility Mgt.	3,950
	Cash Logistics	1,651
<b>~170,000</b> EMPLOYEES <sup>1</sup>	Security Services India	110,928
	Security Services Australia	6,929
	Facility Mgt.	41,833
	Cash logistics	9,434



## AND OUTPACING INDUSTRY GROWTH

	REVENUE GROWTH (FY13-17)	5 year average ROCE of > 25%
Security services India	30%	
Security services Australia <sup>(2)</sup>	8% (AUD)	
Facility Management	84%	
Cash Logistics	23%	

# Company's Journey

30+ YEARS OF OPERATING HISTORY SUPPLEMENTED BY ACQUISITIONS, JOINT VENTURES AND PARTNERSHIPS






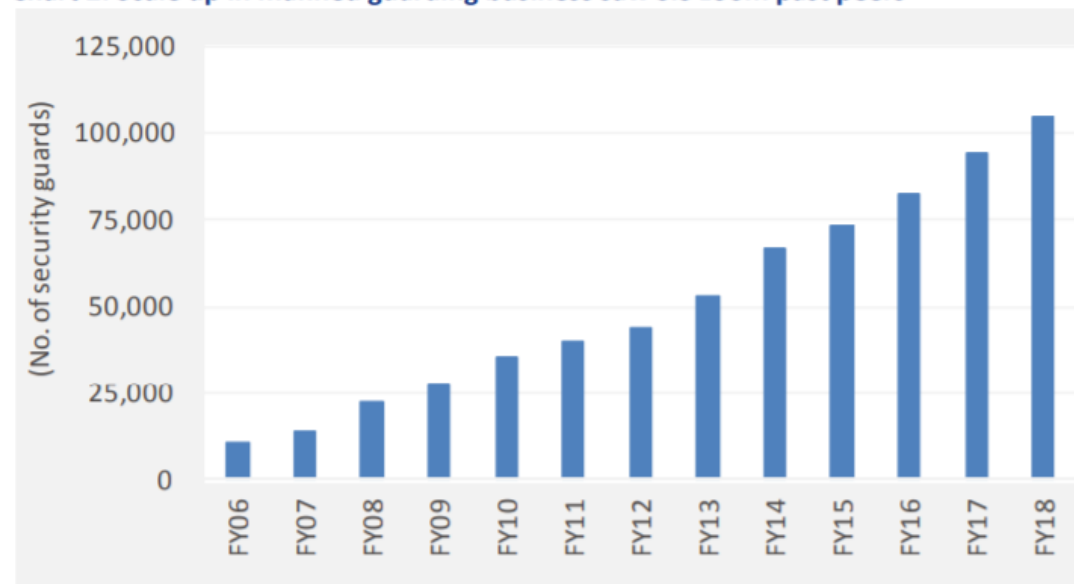
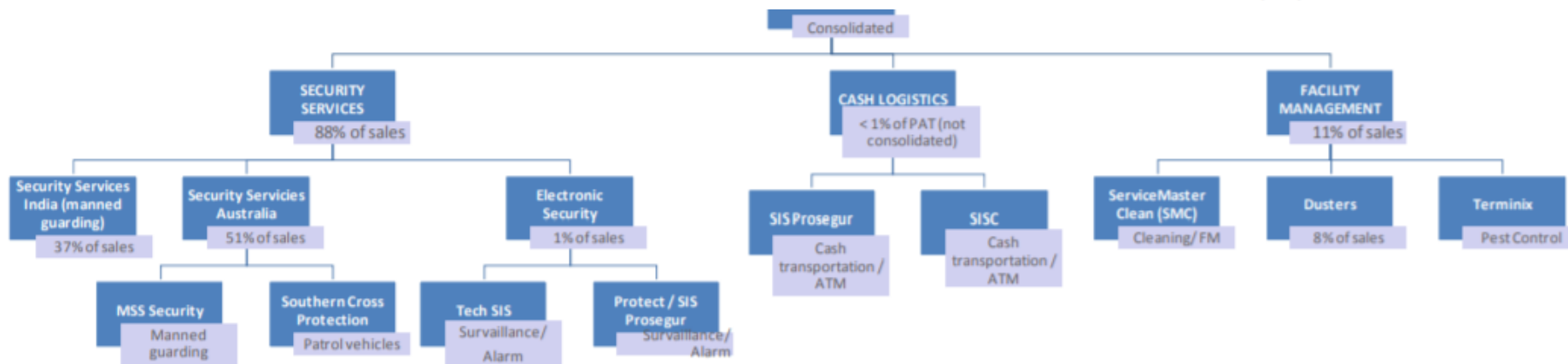
<b>SECURITY SERVICES - INDIA</b>		<ul style="list-style-type: none"> <li>Started in 1985</li> <li>Business is completely organically grown</li> </ul>
<b>SECURITY SERVICES - AUSTRALIA</b>		<ul style="list-style-type: none"> <li>Acquired manned guarding business of Chubb Security in Australia (Aug 2008) for AUD 45 Mn</li> <li>Increased stake in Southern Cross Protection (SXP) from 10% to 51% in July 2017</li> </ul>
<b>ELECTRONIC SECURITY</b>		<ul style="list-style-type: none"> <li>Commenced Electronic Security Services business (2010-11)</li> <li>JV with affiliates of Prosegur</li> </ul>
<b>FACILITY MANAGEMENT</b>		<ul style="list-style-type: none"> <li>Exclusive license agreement with ServiceMaster, JV with Terminix US</li> <li>Acquired 78.72% in Dusters (Aug 2016)</li> </ul>
<b>CASH LOGISTICS</b>		<ul style="list-style-type: none"> <li>JV with Prosegur Spain, a global player in cash management (May 2011)</li> <li>Acquired the cash and valuables services division of ISS SDB (Dec 2014)</li> <li>Acquired business contracts and assets of SSMS in (Dec 2017)</li> </ul>

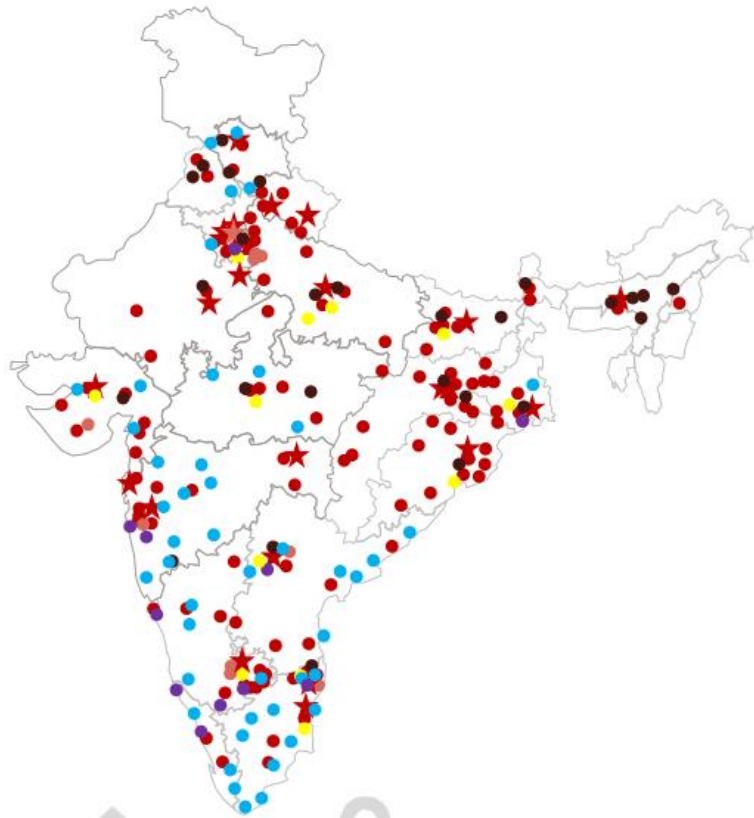
Chart 2: Scale up in manned guarding business saw SIS zoom past peers



Source: Company; Edelweiss estimates



# Company's Journey



  
**253**  
Branches

  
**125**  
Cities Presence

## BRANCH CREATION STRATEGY

**Smaller/Regional Customers**  
Micro-Market approach:  
Branches are located close to the customer location leading to better sales & services

## BRANCH EXPANSION STRATEGY

**None of the branches are started from scratch**  
Existing branches which have grown beyond certain Revenue/Man-power thresholds are split in two

**Larger Customers**  
Need the ability to serve across the country with consistent systems, processes and SLAs

- All branches are on same performance metrics & parameters
- Helps provide career path for aspiring managers

**Sell more per branch per month**

**Ability to serve across the country**

**Economies of Scale**

# Company's Journey

## Operational & Reporting Systems Tied in to the ERP System



**ARK**

### Automated Recruitment Kiosk - Product Quality and Consistency

Enables enforcement of minimum quality standards and detailed product quality metrics



### Sales Maxx- Salesforce Productivity and Margin Control

Tablet based sales platform

Targeted at enhancing sales productivity; real time margin validation pre quote generation, incentive linkage



### iOPS - Service Quality Assurance and Operations Productivity

Mobile app based operations platform

Workflow automation, data analytics, real time customer reporting and PMP linkage



### Seven Finger Model - ERP generated monthly balanced scorecard

Version of the balanced scorecard, through which we measure KPIs and review those on a monthly basis for all our branches

#### Results Drivers

Sustainably developing **new sales**

Service quality and **client retention**

**Manpower retention** and input quality

Efficient **receivables collection**



#### Performance Measures

Revenue growth

Cost control

Unit Level Margin and cash generation

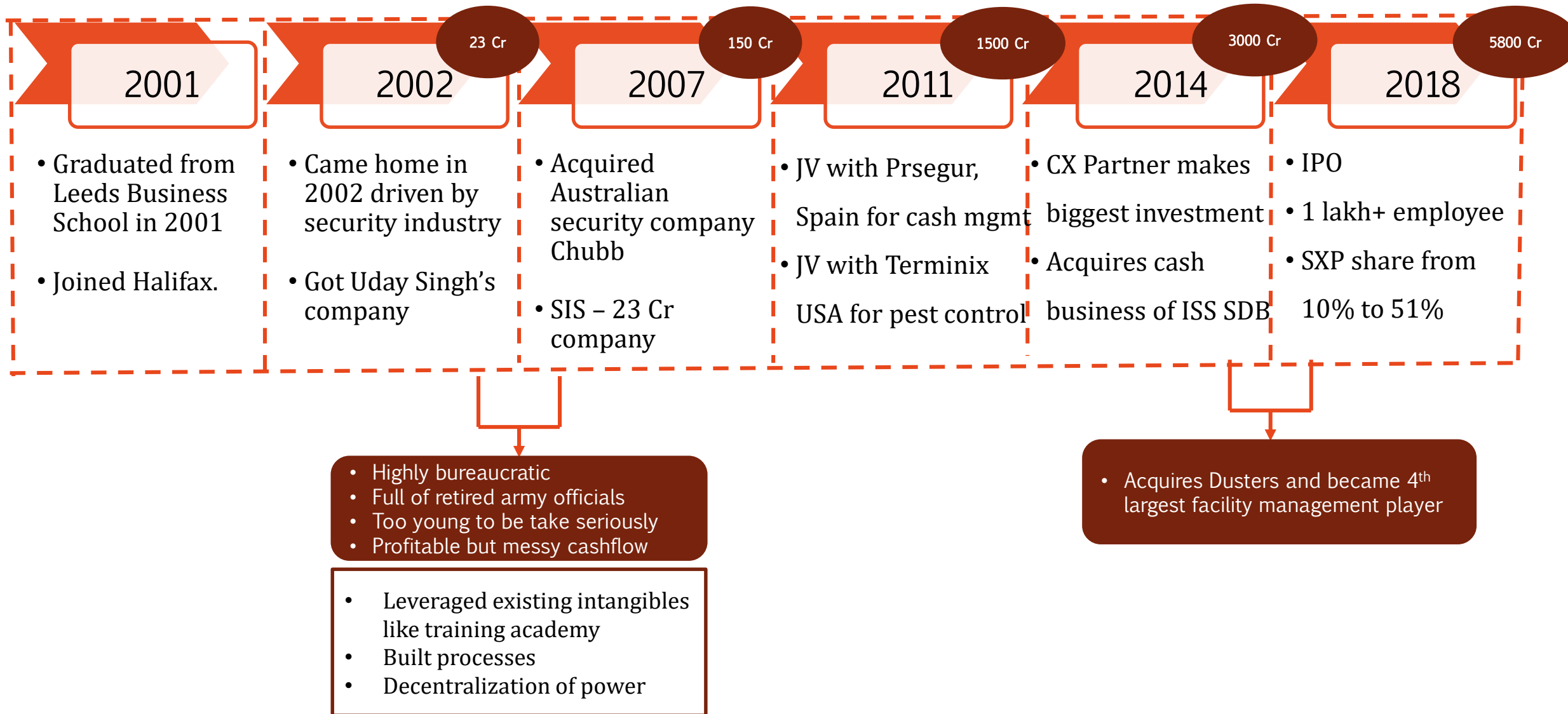
**PMP**

### PMP - Customised PMP portal

Employee performance score, peer group ranking and transparent, quantitative pay review system

Basis for talent development, promotions, transfers and separations

# Rituraj Sinha's Journey : JVs, Acquisitions and Business Ramp Up





# Financial Performance Overall

Chart 3: India business to remain key growth driver

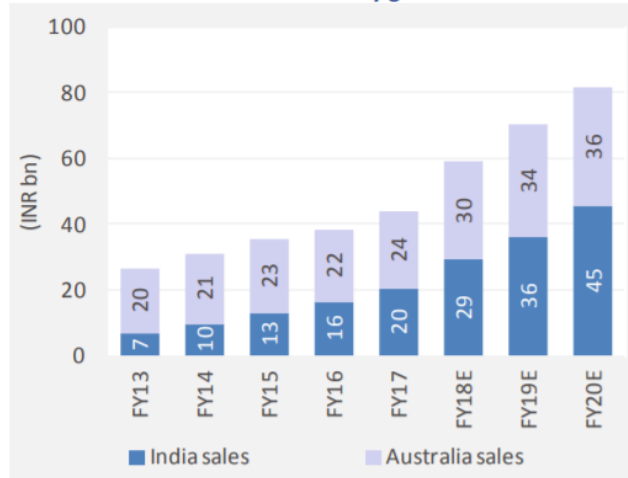


Chart 4: Manned guarding and FM segment both to excel

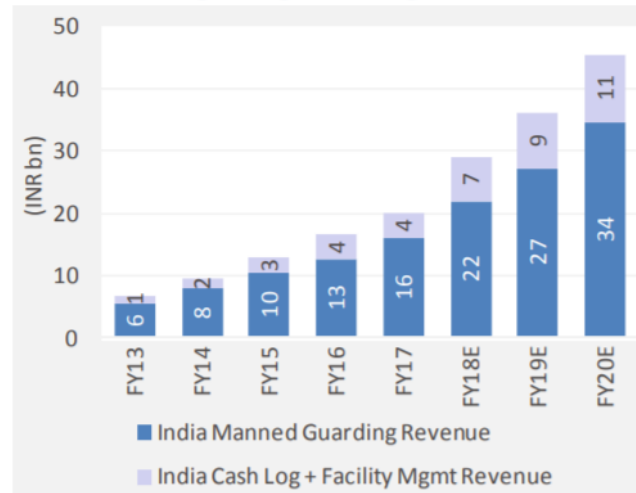


Chart 5: Domestic contribution to sales (FY13-20E)

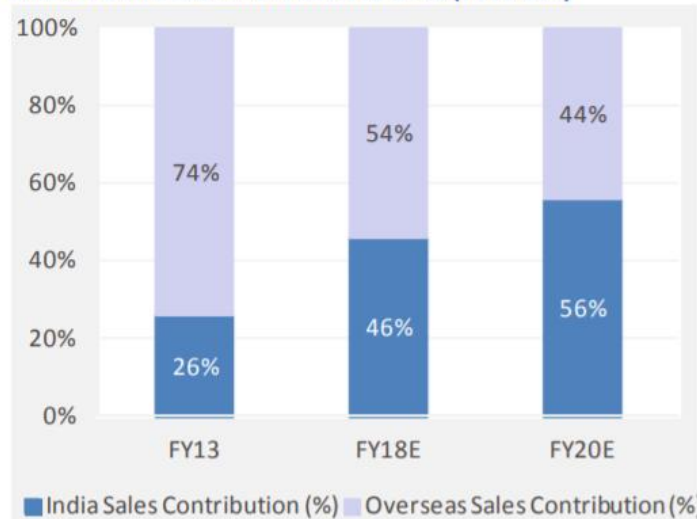
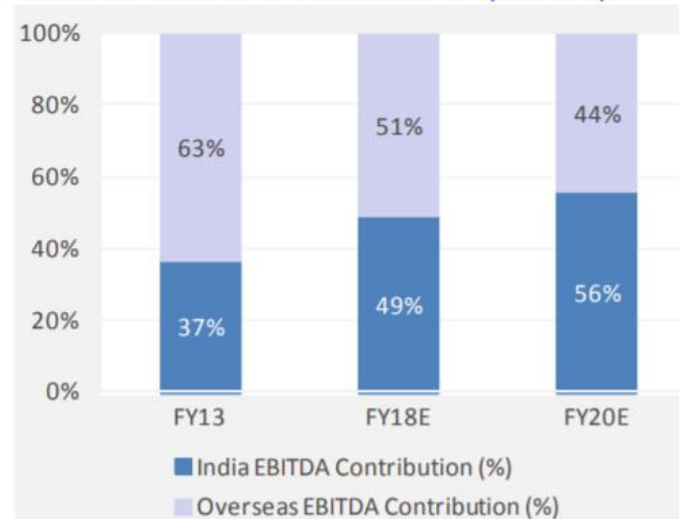


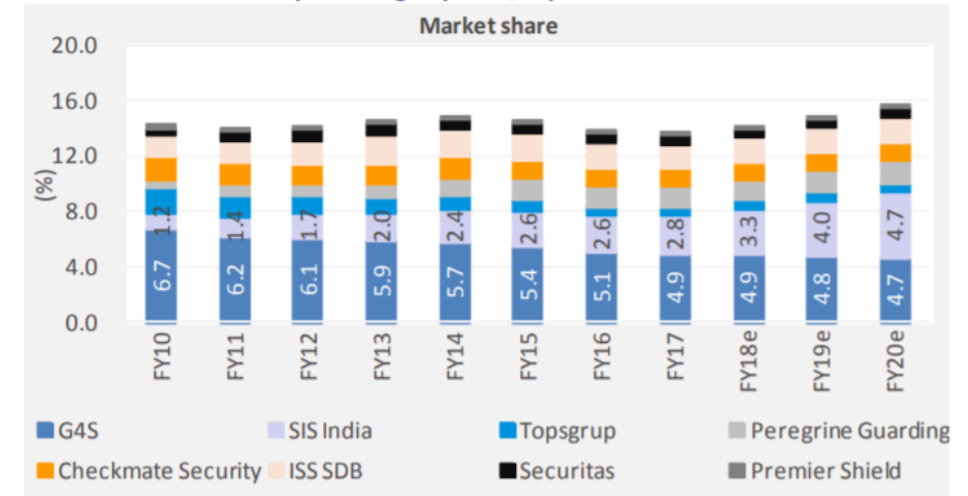
Chart 6: Domestic contribution to EBITDA (FY13-20E)



# Relative Performance

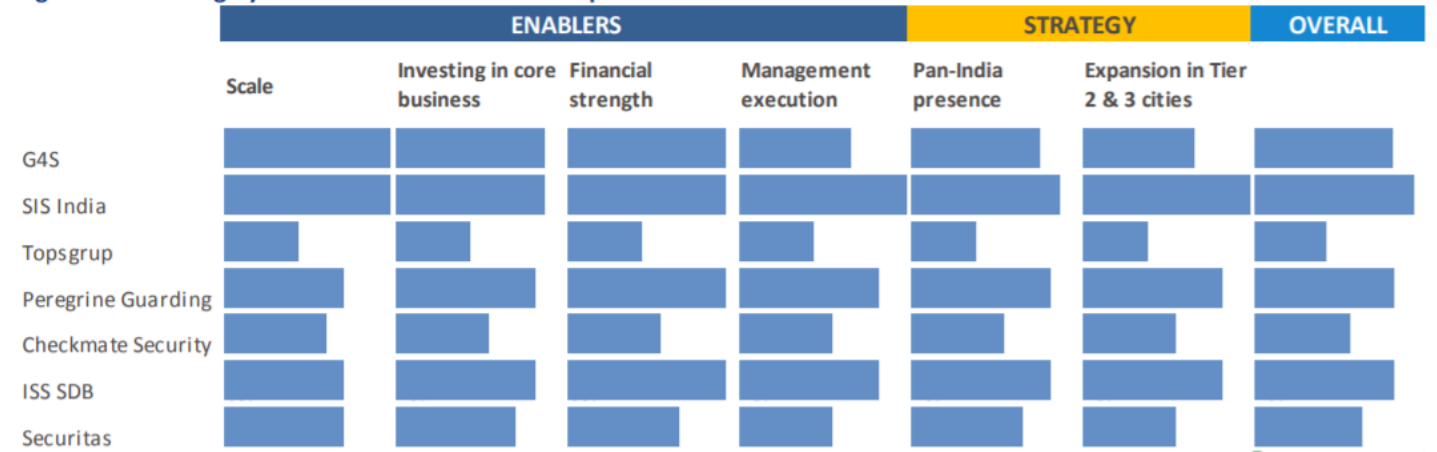
- Gaining market share continuously
- Credit rating of some of largest player deteriorated
- Decentralized model with better reach in tier 2 & 3 cities

Chart 2: Market leadership to change by FY20; expect SIS to be market leader



Source: Registrar of Companies; Edelweiss research

Fig. 3: SIS ranks highly in India on all critical success parameters



Source: Registrar of Companies; Company; Edelweiss research

# Financial Performance Security Management - India



**153+**  
Locations across India

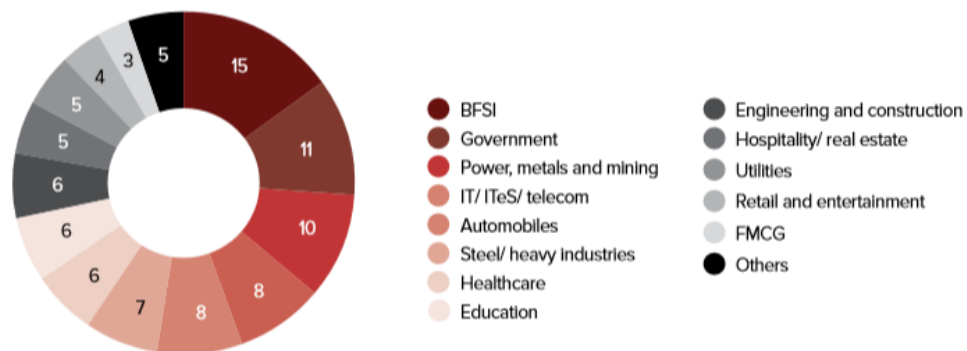
**107,000+**  
Trained security professionals

**3,600+**  
Customers

**11,900**  
Customer premises served

**24x7**  
Backup monitoring

- Rs 97000 Cr market by 2020 growing at 20% CAGR with 65-70% controlled by smaller non-compliant players
- Second largest player with 3.5% market share, growing above market rate
- Bundled Man-tech solutions
- Increasing hub locations from 7 to 9 for higher coverage
- Change in classification of security workers from unskilled to skilled under central government notification and new wage guidelines introduced



## Financial performance

	₹in million	
Security Services - India	FY18	FY17
Revenue from operations	21,441.2	15,949.8
EBITDA	1,485.2	1,014.0
EBITDA %	6.9%	6.4%
Revenue share in overall business	36.8%	36.4%
EBITDA share in overall business	47.6%	46.0%

# Financial Performance Security Management - Australia



**21%**  
Market share

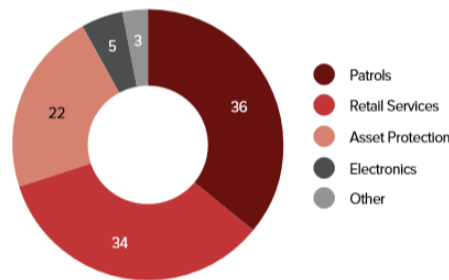
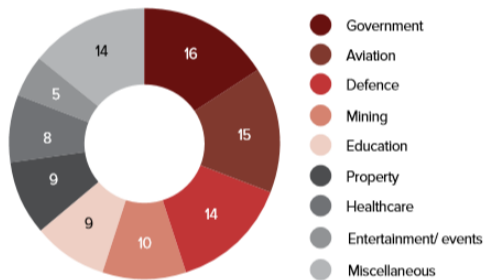
**7,400+**  
Trained guards

**9,600**  
Mobile patrol clients

**AUD 603 million**  
26% y-o-y growth

**96%**  
client retention rate

- Won commonwealth games contract with 3 other players
- 20% attrition rate
- Acquired 41% additional stake in SXP
- 42 days of Days Sales Outstanding (DSO)
- Rs 150 Cr of free cash flow
- Through 41.% EBITDA share contributes to 76% of CFO with overall EBITDA/CFO ratio at 0.69 at consolidated level



## Financial performance

	₹in million	
Security Services - Australia	FY18	FY17
Revenue from operations	30,185.1	23,956.3
EBITDA	1,295.8	1,060.0
EBITDA %	4.3%	4.4%
Revenue share in overall business	51.7%	54.6%
EBITDA share in overall business	41.5%	48.1%

# Financial Performance Facility Management Services



**42,148**

Employee strength

**522**

Customers served

**2,740**

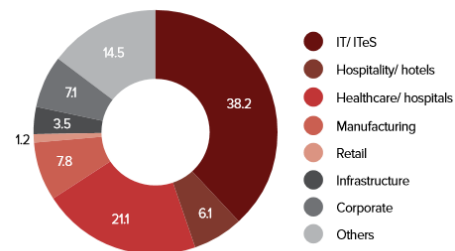
Customer sites

**59**

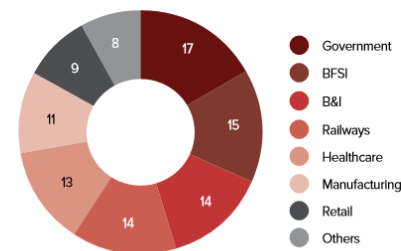
Branches

- 69% revenue growth from Rs 397 Cr to Rs 671 Cr
- EBITDA share up from 6% to 11% YoY and margins from 3.4% to 5.1%
- Overall market growing at 16%. Hard services – 40% share and out of soft services, cleaning services – 50% share followed by 20% share for pest control
- Acquired Dusters Total Solutions Services (DTSS) – Strong presence in Karnataka and Maharashtra. Upgrading to organizational technology layer
- Looking for opening up of B2G and Railway opportunities (India is yet to open up)
- Green concept helping integrated facility mgmt. and opportunities in hospital, pharma and FMCG
- Terminix SIS: Rs 2000 Cr market by 2020, 64% revenue growth (64% route and 35% site based)

Sector-wise sales mix of DTSS (%)



Sector-wise sales mix of SMC (%)



## Financial performance

	₹ in million	
Facility Management	FY18	FY17
Revenue from operations	6,707.4	3,965.9
EBITDA	343.5	134.9
EBITDA %	5.1%	3.4%
Revenue share in overall business	11.5%	9.0%
EBITDA share in overall business	11.0%	6.1%

# Financial Performance Cash Logistics Services



- JV with Prosegur, global leader in cash based logistic services in 2011
- Acquired cash division of ISS-SDB in December 2014
- 2<sup>nd</sup> largest cash logistic company with 11% market share
- Prosegur provides tools for operations control (SCO, Genesis and ATM app) as well as the platform for Cash Deposit Machine (CDM) for operation and reporting
- Closed non-profitable contracts
- Muted growth, Short term challenges and should take sometime to revive
- 49% stake and hence adopted equity accounting for this method

**9,123**

Employee strength

**80**

Branches

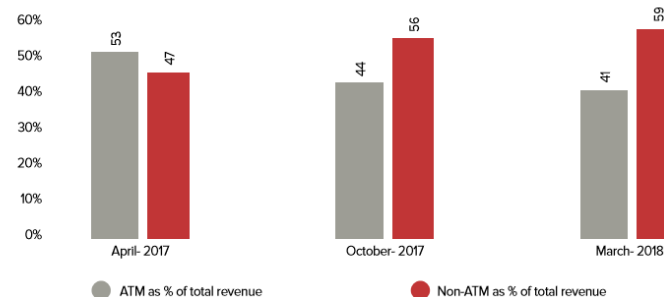
**59**

Vaults/strong rooms

**2,247**

Cash vans and two-wheelers

Portfolio shift (%)



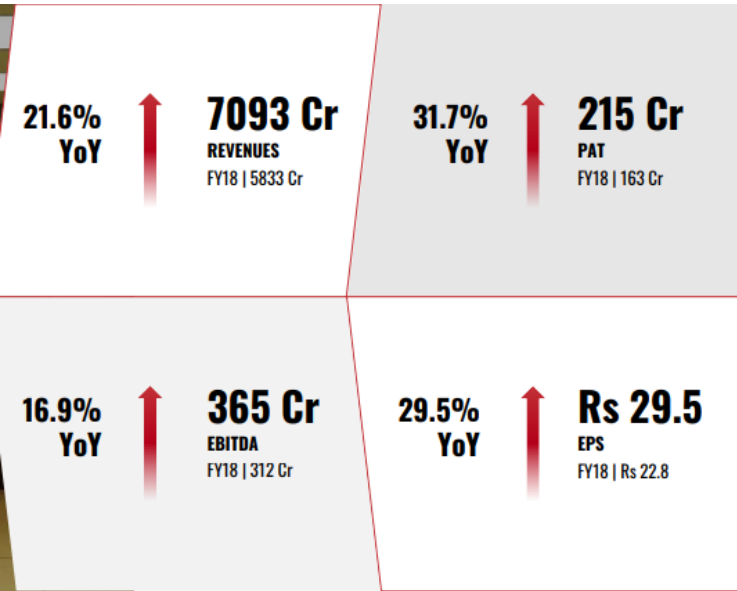
## Financial performance

₹ in million

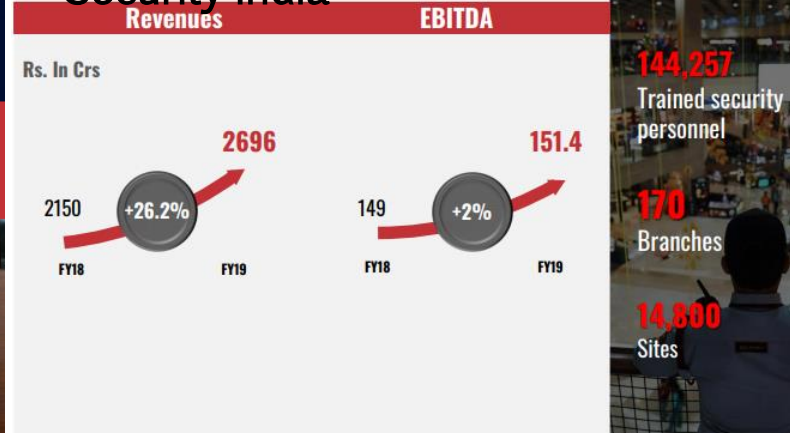
Cash logistics	FY18	FY17
Revenue from operations	3,118.9	3,168.1
EBITDA	45.0	88.3
EBITDA %	1.4%	2.8%
Revenue share in overall business	NA	NA
EBITDA share in overall business	NA	NA

Please note that the cash logistics business is not consolidated in our financials post transition to Ind-AS.

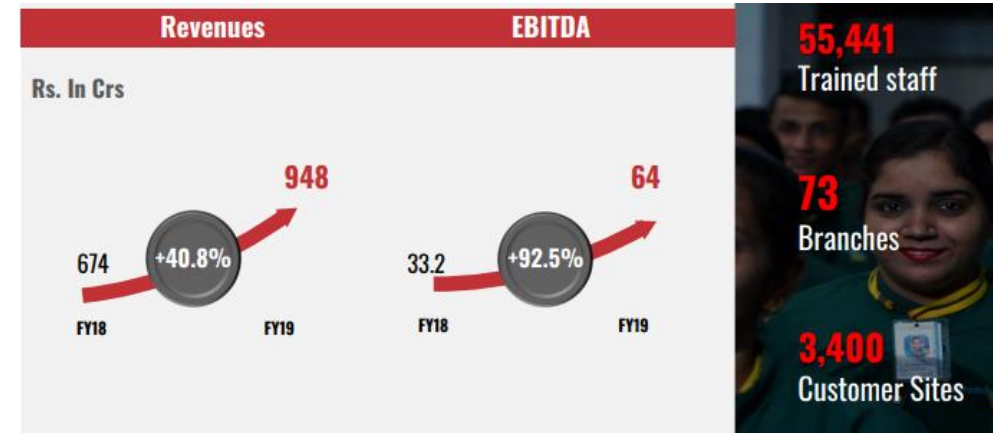
# Financial Performance FY19 vs 18



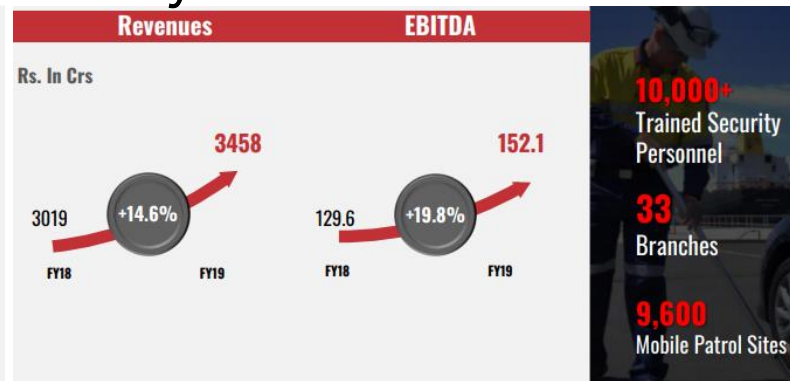
## Security India



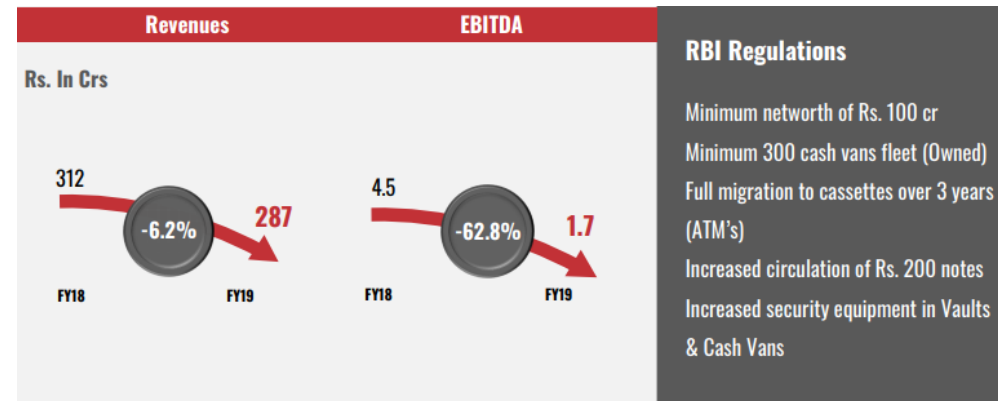
## Facility Management



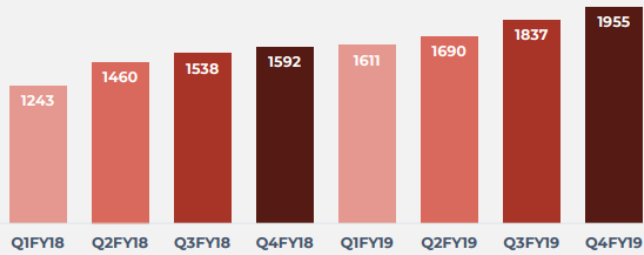
## Security Australia



## Cash Logistic



### Group Revenues (Rs. In crs)



Quarterly CAGR over last 8 quarters of 6.7%

# Financial Performance FY19 vs 18



M&A	Technology	Returns	Growth
<p>Strong pipeline - Look at fewer but larger acquisitions</p> <p>Integration of 5 recent acquisitions prioritised</p>	<p>Continue investment in team and training - be early leader in solution play</p> <p>Be a tech transformer - move delivery from commodity to solutions</p>	<p>Maintain ROCE and RONW despite funding for acquisitions</p>	<p>Strong revenue run rate - renewed focus on costs and collections</p> <p>Last year of Vision 2020 - on track to be No. 1 in Security, Facility Mgt and Cash Services</p>



# Financials

Number of shares	7.33
Face Value	10
Current Price	904.1
Market Capitalization	6627.09

BALANCE SHEET							
Report Date	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Equity Share Capital	5.33	5.33	6.18	6.18	6.2	68.7	73.18
Reserves	258.83	310.6	385.59	385.3	443.15	521.87	955.12
Borrowings	233.21	208.55	246.69	443.6	446.25	699.64	556.91
Other Liabilities	446.87	551.12	555.59	675.49	634.01	914.04	1434.6
<b>Total</b>	944.24	1075.6	1194.05	1510.57	1529.61	2204.25	3019.81
Net Block	208.92	231.39	251.34	328.52	307.98	399.85	717.02
Capital Work in Progress	4.82	6.12	8.43	6.86	0.14	3.97	5.27
Investments	10.12	11.46	11.43	10.42	12.03	97.43	92.1
Other Assets	720.38	826.63	922.85	1164.77	1209.46	1703	2205.42
<b>Total</b>	944.24	1075.6	1194.05	1510.57	1529.61	2204.25	3019.81
Receivables	260.11	299.35	253.13	311.9	287.69	420.66	624.27
Inventory	3.46	3.66	5.31	6.55	1.06	3.26	14.15
Cash & Bank	283.87	253.25	296.94	374.49	349.28	429.2	542.79
No. of Equity Shares	5330470	5330470	6175280	6175280	6200280	68703000	73184000
New Bonus Shares							
Face value	10	10	10	10	10	10	10

PROFIT & LOSS							
Report Date	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Sales	2405.22	2639.87	3091.74	3546.47	3834.94	4387.2	5833.37
Raw Material Cost	1.6	3.35	3.32	12.74	10.71	18.44	25.98
Change in Inventory	0.06	0.23	-0.08	0.39	0.1	2.15	-10.3
Power and Fuel	2.23	11.82	17.73	28.13	28.36		
Other Mfr. Exp	178.78	171.67	205.71	235.47	255.34	9.09	17.29
Employee Cost	1908.38	2165.49	2543.61	2896.39	3122.59	3695.78	4757.79
Selling and admin	139.49	155.37	164.69	200.77	220.06	424.35	678.55
Other Expenses	9.48	7.98	8.84	14.08	28.57	14.08	24.09
Other Income	10.58	15.1	10.76	15.45	15.46	2.63	24.76
Depreciation	21.09	25.53	30.52	45.44	43.16	35.82	55.97
Interest	31.35	31.07	25.61	47.74	47.52	76.69	92.51
Profit before tax	123.46	82.94	102.41	81.56	94.2	110.48	187.43
Tax	37.38	28.58	36.97	33.08	29.63	0.77	24.41
Net profit	85.92	57.15	68.66	62.68	75.73	111.86	162.07
Dividend Amount	2.38	10.4	21.72	16.07	27.04		25.61

CASH FLOW:							
Report Date	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Cash from Operating Activity				71.27	73.02	100.15	215.03
Cash from Investing Activity				-109.96	-51.72	-297.4	-121.6
Cash from Financing Activity				151.72	-63.71	192.88	99.48
Net Cash Flow				113.03	-42.4	-4.38	192.91
<b>DERIVED:</b>							
Adjusted Equity Shares in Cr	0.53	0.53	0.62	0.62	0.62	6.87	7.32

# Financials

- Invested capital has doubled in last 2 years on new acquisitions, will it lead to better profitability?
- Margins increasing YoY but will it go up?
- Given scope for margin improvement and growth opportunity in terms of market size, is 30 times valuations too high considering the cash profit discrepancy between Indian and Australian business
- Why return on capital numbers not matching?
- Why tax paid was lower in recent years?

Parameter	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	TTM	3 Year Average/Sum	5 Year Average/Sum
<b>PRICE:</b>										
Adjusted Equity Shares in Cr										
Revenue	2405	2640	3092	3546	3835	4387	5833	6201	14056	20694
Receivables	260.1	299.4	253.1	311.9	287.7	420.7	624.3		1333	1898
Invested Capital	497	524	638	835	896	1290	1585			
PAT	85.9	57.2	68.7	62.7	75.7	111.9	162.1	181.0	350	481
CFO	0.0	0.0	0.0	71.3	73.0	100.2	215.0		388	459
CAPEX	234.8	49.3	52.8	121.1	15.9	131.5	374.4		522	696
Dividend	2.4	10.4	21.7	16.1	27.0	0.0	25.6		53	90
FCF including Dividend	-234.8	-49.3	-52.8	-49.8	57.1	-31.4	-159.4		-134	-236
Enterprise Value	-51	-45	-50	69	97	270	8237	6641		
Revenue Growth	NA	10%	17%	15%	8%	14%	33%			
PAT Growth	NA	-33%	20%	-9%	21%	48%	45%			
Receivables as a % of Sales	11%	11%	8%	9%	8%	10%	11%		9%	9%
PAT Margin	3.6%	2.2%	2.2%	1.8%	2.0%	2.5%	2.8%	2.9%	2%	2%
Tax Rate	30%	34%	36%	41%	31%	1%	13%		16%	49%
<b>Profitability Ratios</b>										
Other Mfr. Exp as a % of Sales	7%	7%	7%	7%	7%	0%	0%		2%	7%
Employee Cost as a % of Sales	79%	82%	82%	82%	81%	84%	82%		82%	82%
Selling and admin as a % of Sales	6%	6%	5%	6%	6%	10%	12%		9%	6%
Depreciation as a % of Sales	0.9%	1.0%	1.0%	1.3%	1.1%	0.8%	1.0%		1%	1%
EBIT Margin	6%	4%	4%	4%	4%	4%	5%		4%	4%
PAT Margin	3.6%	2.2%	2.2%	1.8%	2.0%	2.5%	2.8%		2%	2%

Parameter	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	TTM	3 Year Average/Sum	5 Year Average/Sum
<b>Balance Sheet Ratios</b>										
Capex/Gross Fixed Asset	107%	20%	20%	35%	5%	31%	51%		29%	29%
Debt to Equity	0.9	0.7	0.6	1.1	1.0	1.2	0.5		0.9	0.9
Current Ratio	1.6	1.5	1.7	1.7	1.9	1.9	1.5		1.8	1.7
Interest Coverage Ratio	4.9	3.7	5.0	2.7	3.0	2.4	3.0		2.8	3.2
Leverage	3.6	3.4	3.0	3.9	3.4	3.7	2.9		3.4	3.4
cash to Market Cap							7%			
<b>Operating Ratios</b>										
Working Capital/Sales (including cash)	11%	10%	12%	14%	15%	18%	13%		15%	14%
Debtor Days	39	41	30	32	27	35	39		33.8	32.7
Debtor Turnover	9.2	8.8	12.2	11.4	13.3	10.4	9.3		11.0	11.3
Inventory Days	1	1	1	1	0	0	1		0.4	0.5
Cash Return on Assets	0.0%	0.0%	0.0%	4.7%	4.8%	4.5%	7.1%		5%	4%
Return on Assets	9.1%	5.3%	5.8%	4.1%	5.0%	5.1%	5.4%		5%	5%
CFO/PAT	0.0	0.0	0.0	1.1	1.0	0.9	1.3		1.1	0.9
CFO/Sales	0%	0%	0%	2%	2%	2%	4%		3%	2%
FCF/Sales	-10%	-2%	-2%	-1%	1%	-1%	-3%		-1%	-1%
Profit Margin	4%	2%	2%	2%	2%	3%	3%		2%	2%
Asset turnover	2.55	2.45	2.59	2.35	2.51	1.99	1.93		2.1	2.3
Financial Leverage	3.6	3.4	3.0	3.9	3.4	3.7	2.9		3.4	3.4
Return on Equity	33%	18%	18%	16%	17%	19%	16%		17%	17%
Return on Capital	31.1%	21.7%	20.1%	15.5%	15.8%	14.5%	17.7%		16%	17%
CFO/Invested Capital	0%	0%	0%	9%	8%	8%	14%		10%	8%

# Overall Financial Performance

- Share of losses from associate companies should come down slowly
- Interest cost should come down
- Share of high margin businesses is growing
- Economies of scale should help

## INCOME STATEMENT (AMT. IN ₹ MILLION)

	Q4FY18	Q4FY17	Y-o-Y	FY18	FY17	Y-o-Y
<b>Revenue from operations</b>	<b>15,921.9</b>	<b>12,380.5</b>	<b>28.6%</b>	<b>58,333.7</b>	<b>43,872.0</b>	<b>33.0%</b>
<b>EBITDA</b>	<b>865.6</b>	<b>652.0</b>	<b>32.8%</b>	<b>3,119.6</b>	<b>2,203.6</b>	<b>41.6%</b>
Share of net profit/ (loss) of Associates	(56.6)	10.3	(650.4%)	(117.9)	(60.5)	94.9%
Depreciation and amortisation expense	182.9	102.1	79.1%	559.7	358.2	56.3%
Other Income	41.2	7.1	479.7%	357.1	86.7	311.7%
Finance costs	276.9	243.8	13.6%	924.8	766.9	20.6%
<b>Profit before Tax</b>	<b>390.4</b>	<b>323.5</b>	<b>20.7%</b>	<b>1,874.3</b>	<b>1,104.8</b>	<b>69.7%</b>
<b>Tax expense</b>	<b>29.8</b>	<b>(232.3)</b>	<b>-</b>	<b>244.0</b>	<b>7.7</b>	<b>-</b>
<b>Profit after taxes</b>	<b>360.6</b>	<b>555.9</b>	<b>(35.1%)</b>	<b>1,630.3</b>	<b>1,097.1</b>	<b>48.6%</b>
<b>Profit after tax %</b>	<b>2.3%</b>	<b>4.5%</b>	<b>-</b>	<b>2.8%</b>	<b>2.5%</b>	<b>-</b>
<b>EPS</b>	<b>4.66</b>	<b>8.09</b>	<b>(42.4%)</b>	<b>22.77</b>	<b>16.03</b>	<b>42.0%</b>
<b>Diluted EPS</b>	<b>4.57</b>	<b>7.94</b>	<b>(42.4%)</b>	<b>22.36</b>	<b>15.81</b>	<b>41.4%</b>

# Tailwinds/Strengths/Opportunities

- Australian business generating free cash flow of Rs 150 Cr
- Operating leverage possibilities in Indian security and higher margin facility management business
- Economies of scale possibility reflected in margin improvement
- Huge market size opportunities with high growth rate and unorganized to organized shift (PSARA act)
- Young and able promoter who is snatching market share from competition
- Increasing role of technology and service layer
- Ability to form JV with some of best international players
- Some of competitors not doing well

(<https://www.icra.in/Rationale/GetRationaleFile/63102~Tops%20Security%20%20-R-06102017.pdf>)

# Headwinds/Risk/Weaknesses

- Low margin and low barrier to entry business
- Indian security business on a revenue of Rs 2144 Cr has made hardly 15 Cr cash profit and Rs 65 Cr accounting profit. So, basically, most of cash profit is coming from Australian security business or facility management business. So, is Indian security business worth consideration despite of all growth projections? Also, loss making subsidiaries
- Auditors have not audited foreign subsidiaries which includes Australian business which is a major cash profit contributor
- Provisions as a % of PAT seems very high, getting rid of unviable contracts
- Bulk of balance sheet asset is goodwill acquired from multiple acquisitions
- Company has historically used debt as a vehicle for acquisition
- Not sure if company has adequately hedged the loans it has taken from Australian sources
- Possibility for recession in Australia
- Operational, reputational and political risk
- RBI regulations on cash logistics business will lead to higher cost on security related expenses and hence may not give adequate profitability. Also ATM installations stagnant and pricing pressure increasing
- Aggressive acquisition history
- High attrition industry and company's attrition is 20%
- Litigations related to labor laws (Rs 20 Cr quantitative impact)
- Regulatory wage hike
- Dependence on JVs and partners to grow

**Abhijeet Akela:** Great. Thanks a lot. One just last quick thing and I will get back in the queue. The tax rate for the quarter seems to have dipped quite significantly, if you could comment on that and what your outlook for the full year tax rate. Thanks a lot.

**Devesh Desai:** Yes we continue to gain the benefits of 80JJAA and I think that is the main reason for the tax rate in the quarter, but we continue to hold on to our earlier guidance of around 15%.

Business	Purpose	Bottomline
SIS Terminix	Pest Control	(Rs 4 Cr)
Tech SIS	Security	(Rs 1.7 Cr)
SIS Cash	Cash Logistics	(Rs 13 Cr)
SIS Prosegur	Cash logistics	(Rs 8 Cr)

# Valuations – Edelweiss Rationale

- For global staffing companies, the average one-year forward PE is 15.5x, while EPS CAGR stands at only 9% (PEG of 2.1x).
- In this context, considering that TeamLease and Quesst are estimated to clock 24-31% EPS CAGR, their PE multiples of 33-35x (PEG of 1.1-1.4x) are not expensive, in our view.
- Also, RoEs of Indian and global companies are similar and hence the high growth in India justifies our implied target multiples.

**Table 11: Global valuations for security services and staffing companies**

	1-year fwd PE (x)	2-year fwd PE (x)	Next 2-yr EPS CAGR	1-year fwd PEG	RoE (%)
<b>Security Services</b>					
G4S	12.5	11.4	12.3	1.0	30.0
Securitas AB	14.6	14.8	6.7	2.2	20.0
Prosegur	20.2	17.8	15.0	1.3	15.0
Brinks	19.8	19.7	23.3	0.9	50.0
ISS	14.5	13.0	9.4	1.5	18.0
Loomis	14.7	13.7	7.3	2.0	20.0
<b>SIS India</b>	<b>31.2</b>	<b>24.1</b>	<b>37.6</b>	<b>0.8</b>	<b>23.3</b>
<b>Global avg (ex SIS)</b>	<b>16.1</b>	<b>15.1</b>	<b>12.3</b>	<b>1.3</b>	<b>25.5</b>

Price is 20% down from here

# Questions & To do list

## Questions:

- Indian security business on a revenue of Rs 2144 Cr has made hardly 15 Cr cash profit and Rs 65 Cr accounting profit. So, basically, most of cash profit is coming from Australian security business or facility management business. So, Is Indian security business worth consideration despite of all growth projections? Why Indian security working at <1% cash profit which means very poor return on capital?
- Status of loss making subsidiaries
- Auditors have not audited foreign subsidiaries which includes Australian business which is a major cash profit contributor
- Provisions as a % of PAT seems very high, getting rid of unviable contracts
- Fixed cost of branch and hub opening (capex fixed + fixed nature in opex)
- Optimum revenue limit at branch range
- Bulk of balance sheet asset is goodwill acquired from multiple acquisitions
- Company has historically used debt as a vehicle for acquisition
- Not sure if company has adequately hedged the loans it has taken from Australian sources
- Employee count different, ROCE difference

## To do list:

- Study other companies in similar business : Teamlease, Qness Corp, Apollo Sindoori, Karya Facilities, ANI Integrated Facilities
- Study JV partners how they have done in respective countries
- Study world leaders like Sodexo, Compass Group

# Summary from Additional Reading on Industry

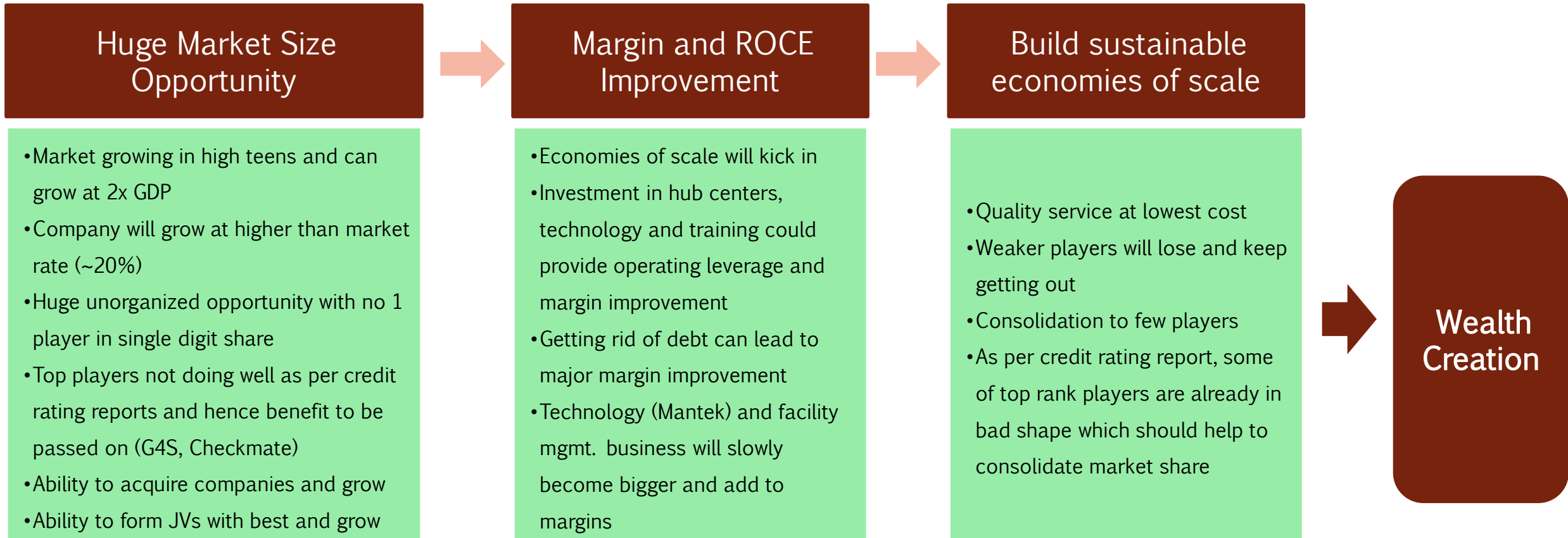
- In India, it is a high growing industry (15-20% CAGR) which is still highly non-complaint and unorganized
- Very less entry barrier and very less margins
- Relatively, facility management area seems to be a better area and has higher margins and return on capital (Faber Sindoori, a JV between Apollo Sindoori and Faber in the area of bio medical facility management works on ~10% PAT margin growing at 20%+ rate at revenue scale of Rs 200 Cr)
- Catering management is another emerging industry (\$B dollar businesses in developed nations like Sodexo, Compass group) with better financial ratios slowly picking up in India
- Security management is a low margin business where market leaders are trying to add technology services layer over pureplay manpower. Economies of scale might lead to margin gains
- Formalization of economy, compliance, PSARA act etc. might give additional benefit to organized players
- Compliant players are gaining market share. Government (specially Railways) could be a big opportunity



# Overall Summary

Security & Intelligent Services India Limited

# If The Story flows well



Powered by a management who has scaled it up well for last 15 years aggressively snatching market share, expanding into similar businesses, acquiring companies and making them profitable

# Loop holes in the story

## Huge Market Size Opportunity

- What if labor cost keeps going up and automation/robotics/drones becomes necessity and technology disrupts man power business (Typical jobs will be replaced)

## Margin and ROCE Improvement

- What if regulations for employee salary never allow margins to grow
- What if labor union problems crop up?
- What if Indian business where Australian cashflow is being deployed never reached expected profitability?
- Provisions as a % of PAT seem high, what if it destroys value?
- How to value so much of intangible assets on balance sheet?
- Subsidiaries outside India have not been audited by auditors. How to build trust?

## Management

- What if Panama paper issue leads to some real surprise
- What if promoters political ambitions spoil the show (some of latest youtube videos show his willingness to support father's interest)
- What if acquisition and debt strategy goes wrong considering a low margin business
- Reputation risk (G4S went through case where employee was involved in one of US worst mass shooting)

**Wealth Destruction**

# Combining the two

## Huge Market Size Opportunity

- Industry can grow at 1.5–2.5x GSP
- More than 70% still unorganized
- Industry can grow 15% for 10 yrs
- Government still to contribute

- Robotics, Drones and automation can replace manpower
- Automation in other industries -> Job cuts -> Less Infra -> Low growth

**STRONGLY POSTIVE BUT NEED TO TRACK DISRUPTION**

## Leadership Position

- Company in top 3 in most SBUs
- Taking market share away from leader in security and still in single digit with scope to grow
- Jumped market share position in other verticals within few years
- Economies of scale looks the way

- Inorganic route of growth can backfire

**STRONGLY POSTIVE**

## Supportive Financial Economics

- Company in top 3 in most SBUs
- Taking market share away from leader in security business
- Jumped market share position in other verticals within few years
- Still market share in single digit with lot of scope to grow

- ROCE profitability of Indian business in question
- Very low margin business with no pricing power
- Can economies of scale lead better margin & sustainable ROCI

**DIFFICULT IN ENVISAGE LONG TERM STABLE MARGIN & ROCE**

## Management Quality

- Ritutraj scaled from Rs 25 Cr to 6000+ Cr in 16 years
- Promoter salary in permissible range
- Some of acquisitions have worked well

- Family in Panama paper scam
- Rituraj is politically active with father (check youtube videos)
- Looks too much excited about M&A and can backfire
- Subsidiaries in doubtful nations

**RISK ITEMS RAISE CONCERN & UNCERTAINTY**

# Justifying one against other

 High confidence Level

 Low confidence Level

## Huge Market Size Opportunity

- Even in developed regions like Europe expect manned security services market to grow at CAGR of 7.36% for next 2-3 years, then, it means disruption for countries like India is still many years away
- Seeing growth rate of no 1 players, its leverage and underperformance of some of top players (G4S), this should only help SIS. Other players like Checkmate, Tops also not doing well. When most of top 5 players not doing well and SIS growing much faster, this should only benefit

## Financial Economics and Economies of Scale

- Considering other players struggling to make decent profit and under high leverage in security business, should help SIS to gain bargain power in low margin, low barrier to entry commodity service industry
- Hub and spoke model should lead to some operating leverage
- Facility management and technology should lead to margin improvement
- Reduction in debt can significantly improvement PAT margins (~40% jump)
- **Regulatory impact on employee expenses is something which need to be watched closely**
- **Can India reach same revenue per unit employee cost as Australia of Rs 1.28 Cr? In fact, that is where India operated in 2012 and from Rs 1.28 Cr, it went to Rs 1.10 Cr where from 2012 to 2016, employee cost growth was higher than revenue growth leading to margin contraction and now again, from last 2 years, revenue growth is higher than employee growth. What led to this fall from Rs 1.28 Cr to Rs 1.1 Cr and why it is increasing now? This is most important as per unit employee cost lift in revenue had >3x lift in OP in Australia and more than 7x lift in OP in India**

## Management

**Not sure how to take call on Panama paper news and its implications considering company has multiple subsidiaries and few of them located in dubious locations like Virgin Islands (related to AML and frauds) and also unaudited**

# How should I Answer the following

- What is the optimum topline and PAT each hub location can generate?
- When automation/robotics/drones can become a threat to business model?
- How to take a call on promoter integrity?
- How to build confidence that acquisition was not a one time wonder and risks would be calculated one?
- How to build confidence over unaudited subsidiaries?
- Is there a way to find what could be long term sustainable margins?
- How to value loss making subsidiaries?
- How to build trust over balance sheet with so much intangible assets (G4S also has bulk of assets in intangibles, is it an industry trend)?

# Resources

## Business and Financials

- Company DHRP Filing
- Company Annual Reports
- Con call Transcript
- Ace Equity Financial Database

## Management Interview

- <https://www.youtube.com/watch?v=vNw938ulwOA>
- <https://www.youtube.com/watch?v=BV6wUrMiF9M>
- <https://www.youtube.com/watch?v=VfdDEdW8Qwl>

## Competition (Why competition is in bad shape)

- [https://www.crisil.com/mnt/winshare/Ratings/RatingList/RatingDocs/Checkmate\\_Facility\\_and\\_Electronic\\_Solutions\\_Private\\_Limited\\_November\\_01\\_2018\\_RR.html](https://www.crisil.com/mnt/winshare/Ratings/RatingList/RatingDocs/Checkmate_Facility_and_Electronic_Solutions_Private_Limited_November_01_2018_RR.html)
- [https://www.crisil.com/mnt/winshare/Ratings/RatingList/RatingDocs/Checkmate\\_Services\\_Private\\_Limited\\_May\\_29\\_2018\\_RR.html](https://www.crisil.com/mnt/winshare/Ratings/RatingList/RatingDocs/Checkmate_Services_Private_Limited_May_29_2018_RR.html)
- <https://www.icra.in/Rationale/GetRationaleFile/63102~Tops%20Security%20%20-R-06102017.pdf>
- <http://tools.morningstar.co.uk/uk/stockreport/default.aspx?tab=10&vw=kr&SecurityToken=0P00007ODS%5D3%5D0%5DE0WWE%24%24ALL&Id=0P00007ODS&ClientFund=0&CurrencyId=BAS>
- <https://www.moneycontrol.com/news/business/companies/sis-may-topple-multinational-g4s-to-become-indias-biggest-security-solutions-provider-by-next-fiscal-2518675.html>
- <https://www.g4s.com/-/media/g4s/corporate/files/investor-relations/2017/prelim2017fullyearresults08032018.ashx>
- <https://www.ft.com/content/650e6264-9b9a-11e8-9702-5946bae86e6d>
- <https://en.wikipedia.org/wiki/G4S>

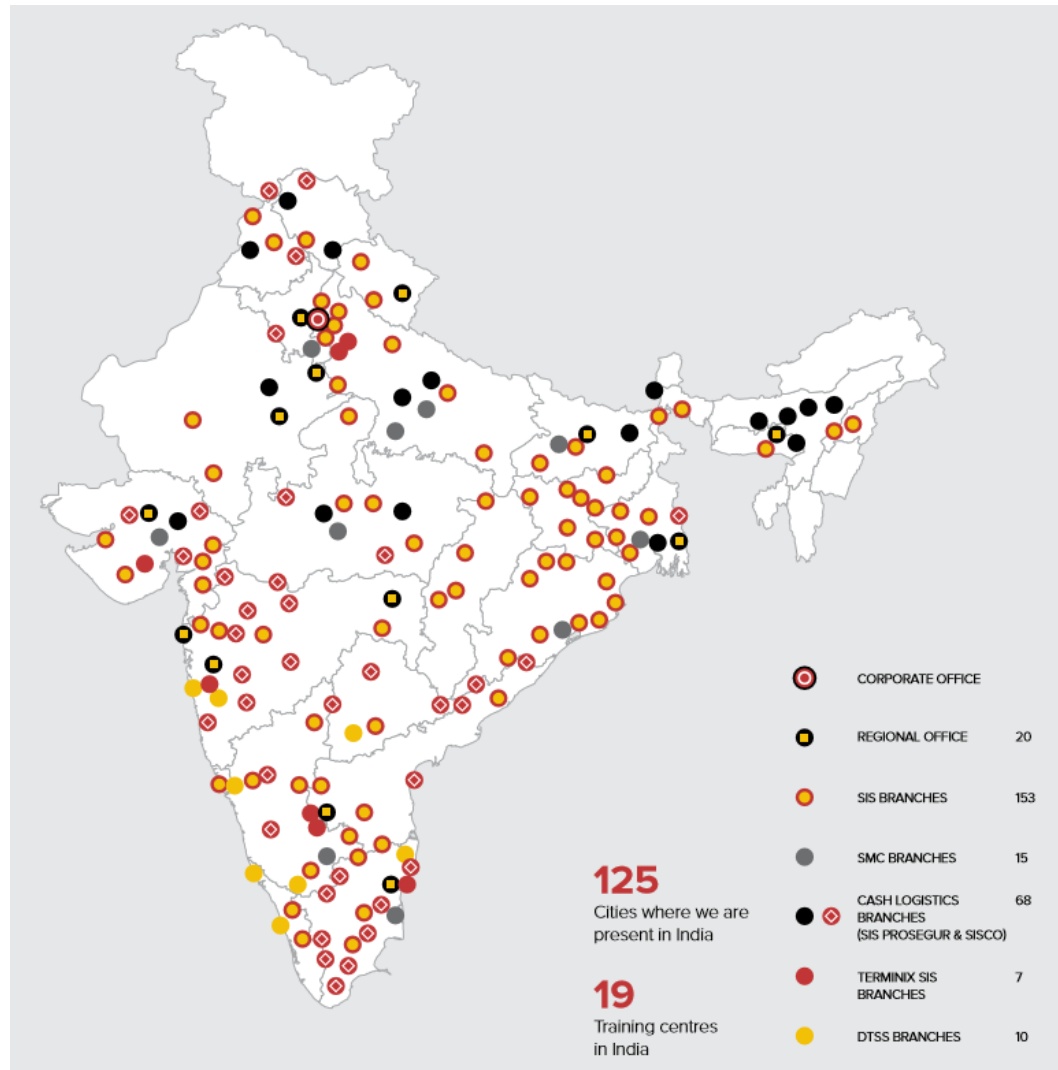
## Management – Panama Paper, Political Inclinations

- <https://www.youtube.com/watch?v=wevwxGbUcEw>
- [https://www.youtube.com/watch?v=v\\_R8sc4VKN0](https://www.youtube.com/watch?v=v_R8sc4VKN0)
- <https://www.youtube.com/watch?v=pDiHQQkg-Fo>

Back Up



# Company's Journey



# Service Offering



## Security Services

- Security guards/ officers Armed guards
- Firemen Maritime security
- Fire suppression Perimeter protection
- Command and control centre Access control/entry automation
- Closed-circuit television (CCTV)
- Intrusion detection Fire detection
- Closed-circuit television (CCTV)
- Access control/entry automation
- Entry automation solutions
- Fire detection Public address systems

## Facility Management

- Mechanical and electrical maintenance
- Plumbing services
- Asset management strategies
- Preventive maintenance services
- Short-term repairs
- Heating, ventilation and air-conditioning
- Cleaning and housekeeping
- Catering
- Pest control
- Office support
- Guest house or service apartment management

## Cash Management

- Safe keeping and vault-related services
- ATM related services
- Cash in transit
- Doorstep banking
- Cash pick-up and delivery
- On-site and off-site cashiers
- Bullion transportation



# Compensation and Dividend

Name and Designation	Age	(in ₹)	(In Years)	Commencement of employment	employment/ Position held	
<b>Top ten employees in terms of remuneration drawn.</b>						
Dhiraj Singh Chief Executive Officer (FM & EB)	49	2,29,10,914	B Tech & MBA	24	21-10-2013	Telamon Investment Advisors and Consultants Pvt. Ltd./ Director
Ravindra Kishore Sinha Chairman	67	1,97,66,712	B.A.	31	02-Jan-1985	Security & Intelligence Services proprietorship/ Proprietor
Vamshidhar Guthikonda President (M & A)	43	1,18,19,640	B.Com (Hons), ICWA and PGDM	18	04-Apr-2016	SeedX, Founder and CEO
Uday Singh CEO and Whole-Time Director	69	1,10,88,908	B.E. & PGDM	39	18-Oct-2002	Praxair India (Pvt.) Limited- Director & Business Head
Devesh Desai Chief Financial Officer	49	90,46,154	B. Com. & C.A.	21	01-Sep-2008	Deccan Aviation Limited- VP Finance & Controller
Tapash Chaudhuri Chief Operating Officer (India Security)	59	78,42,884	B.E.	37	08-July-2013	G4S Security Solution- Chief Executive Officer
Rituraj Kishore Sinha Managing Director	38	77,74,012	B.A. from Leeds University	15	08-July-2002	Halifax Bank UK
Arvind Kumar Bali Regional Vice President	54	75,63,025	B.A. & MBA	35	01-Feb-2009	Premier Shield- Regional Head
Vinod K Advani Executive Vice President	48	52,59,974	B.E. M.M.S.	23	04-Oct-2010	Accor Services Pvt Ltd- Head Sales, Affiliations & Business Operations
Arvind Kumar Prasad Director- Finance	61	44,77,400	B.COM. C.A. Inter	32	05-07-1985	N.A.

Name of Director/Key Managerial Personnel and Designation	Remuneration drawn in FY 17-18 (in ₹) <sup>†</sup>	Ratio of the remuneration of each Director to the Median Remuneration of Employees for the financial year 2017-18	% Increase in Remuneration in the financial year 2017-18
Mr. Ravindra Kishore Sinha Chairman	1,97,66,712	130:1	8%
Mr. Uday Singh CEO and Whole-time Director	1,10,88,908	73:1	3%
Mr. Rituraj Kishore Sinha Managing Director	77,74,012	51:1	13% <sup>¶</sup>
Mr. Arvind Kumar Prasad Director - Finance	44,77,400	29:1	14% <sup>¶</sup>
Mr. Devesh Desai Chief Financial Officer	90,46,154	59:1	178%
Mr. Brajesh Kumar Chief Financial Officer (India Security and Facility Management)	44,40,160	29:1	13%
Ms. Pushpalatha K Company Secretary	35,82,618	24:1	36%

<sup>†</sup> Remuneration includes salary, allowances, performance linked incentive and bonus.

<sup>¶</sup> Appointed as Managing Director effective April 24, 2017 and percentage increase in remuneration is based on the remuneration drawn by him in the capacity of Chief Operating Officer prior to that date.

<sup>¶</sup> Appointed as Director – Finance effective April 24, 2017 and percentage increase in remuneration is based on the remuneration drawn by him in the capacity of Chief Financial Officer prior to that date.

- During the financial year 2017-18, there was an increase of 11% over the previous financial year, in the median remuneration of the employees.
- There were 1,11,770 permanent employees on the rolls of Company as on March 31, 2018.
- Average percentage increase made in the salaries of employees, other than the managerial personnel in the financial year 2017-18, was 16% over the previous financial year, which is in line with the industry benchmark and cost of living index and the average remuneration of the managerial personnel for the same financial year increased by 8%.
- The shareholders of the Company have approved the Special Resolutions on the following matters through Postal Ballot the results of which were declared by the Company on March 19, 2018:
  - Issue of Secured Redeemable Rated Listed Non- Convertible Debentures up to ₹ 500 Crores on Private Placement basis in one or more tranches.
  - Giving Loans, guarantees, providing security and/or acquiring the securities of any other body corporate up to ₹ 1,200 Crores.
  - Creation of charge by way of mortgage / hypothecation on the movable and immovable properties of the Company, both present and future, in respect of the borrowings up to ₹ 1,500 Crores.

# Other Information

- 600 Cr loan line open from Australian banks
- CFO/EBITDA = 69%
- Acquisitions will be fewer but bigger to fill geographical gaps or capability enhancement
- CFO generated from Indian business is only Rs 75 Cr
- Rs 220 Cr on Rs 1092 Cr capital employed but India contributes only 75 Cr, what is capital employed for India and ROCE?  
Specially considering Australian share of EBITDA is 48% but CFO IS 66%?
- 'Man Tech' services is adding human+technology, the solution aspect of security
- 2<sup>nd</sup> largest security provider , still, 3.5% market share
- What are hard and soft services in facility management?
- Attrition down from 50% to 20%
- Some of top players not doing well as per credit rating report and SIS snatching market share
- Security SBU contributed 90% in 2016 but every year its share falling by 2%
- Revenue from Australia security is 57% and is falling by 4% every year
- Graduate Trainee Officer (GTO) – 6 month training
- 19 training institutes with 25000 capacity
- Revenue from Australia security is 57% and is falling by 4% every year

# Shareholding Pattern

Entity	Mar'17	Mar'18
Promoter	76.91%	75.48%
MF		4.65%
FPI		5.77%
Overseas non-institutional corporate bodies	15.2%	4.65%
Indian non-institutional corporate bodies		1.3%
Foreign Nationals	4.21	3.95
Relatives of PAC	.89	.84
Individual Shareholders		2.5%

Entity	Mar'17	Mar'18
Theano Pvt. Ltd.	76.91%	75.48%
MF		4.65%
FPI		5.77%
Overseas non-institutional corporate bodies	15.2%	4.65%
Indian non-institutional corporate bodies		1.3%
Foreign Nationals	4.21	3.95
Relatives of PAC	.89	.84
Individual Shareholders		2.5%