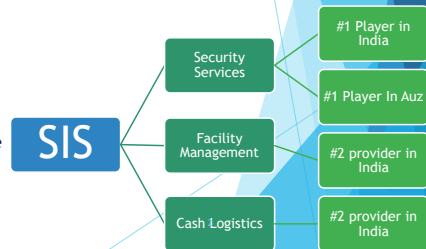


Disclaimer:

1. I am not a SEBI Registered Analyst.
2. This is for education purpose only, shared as an idea to learn and poke holes at the thesis.
3. **I have a 3% allocation in my portfolio to this company.** I might be **biased** in my presentation.
4. Please do your own due diligence before considering investing in this company.

Company

- ▶ Company: Security & Intelligence Services India Ltd
- ▶ Ticker: SIS
- ▶ Market Cap: 5600 Crores (Current Market Price: Rs.382)/52 week low - Rs.322
- ▶ Description: SIS provides security, facility management and cash logistics services, which are essential to the functioning of a vibrant and healthy economy.
- ▶ Only listed player in the Security services space.
- ▶ SISL is the flagship company of the SIS Group and is promoted by Mr. R.K. Sinha and Mr. Rituraj Sinha. The company was listed on the stock exchange during FY2018, raising Rs. 362.5 crore as fresh equity from the primary market during its IPO in August 2017.



Industry Dynamics - Security

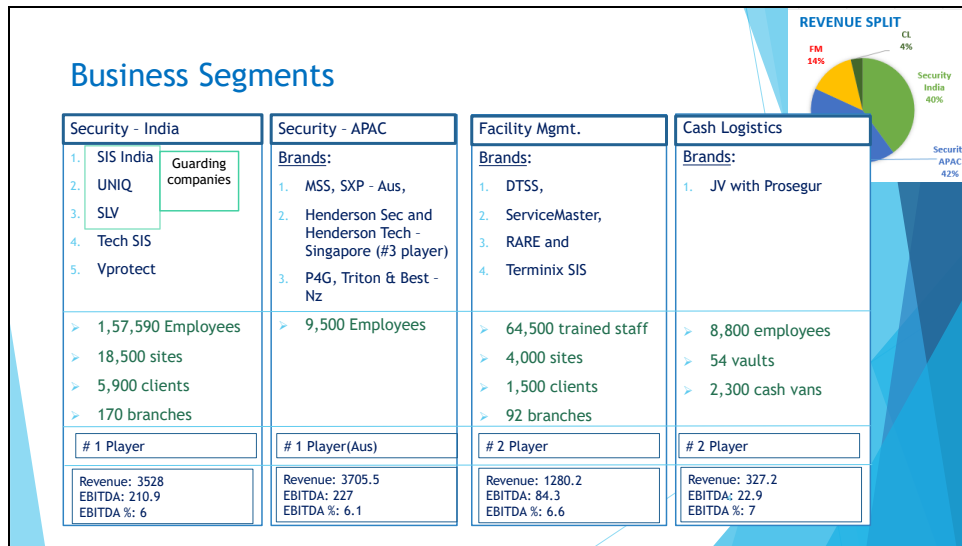
- ▶ The Private Security Sector is the second largest employer of manpower after the Agriculture Sector and lies predominantly in the unorganized sector of our economy.
 - ▶ 75% - Manned guards
 - ▶ 20-25% - Cash services management and Electronic security services
- ▶ Securities Industry:
 - ▶ Market is growing at 1.5-3x GDP growth rate.
 - ▶ In India is expected grow at approx 15% CAGR*
- ▶ Huge Market Size from an opportunity perspective - PSARA Act should help migration from Un-Organized to Organized sector. - GST¹⁵
- ▶ Pay: Minimum wage, PF, gratuity, Insurance, etc. Categorization of Security workers
- ▶ *Technology is going to be the biggest game changer in the security industry, especially over the next few years. I think the industry is not going to be linearly dependent on people as it has historically been. Technology is going to become cheaper. Personnel employment will become costlier.*
- ▶ Competitors in the security space are relatively underperforming # - TOPSGRUP, Checkmate, G4S.
- ▶ Market leader globally typically holds 20%- market share - US, UK, Australia. @@
- ▶ Not a double digit Margin game. It is play on ROCE (Tgt=25%) and growth(Tgt=20%).
- ▶ Globally margins are monitored at EBITDA level & is a single digit number, in SIS case, the company aspires to be 7%+.
- ▶ There are more than 15,000 registered licensed private security agencies in India, out of which only two security businesses are over 1,000 crores in revenue. (G4S)

* INR 80,000 FY'19 -> INR 157,000 crore by FY '24 – guarding or Security Solutions Sector.
FICCI report.

In Jan 2017, pay. Security guards without arms have been recategorised as “skilled” and security guards with arms and security supervisors have been recategorised as “highly skilled”.

\$\$ Impact of GST—The new tax regime has led to a shift from unorganised to organised sector supported with the move from manual to digital technologies. GST takes away current unfair advantage enjoyed by the unorganised sector by bringing them to folds of the organised sector. In effect GST has been a positive step and has given a level playing field to the industry players and brought the unorganised sector at par with the organised sector. Thus, unorganised entities have been forced to make efforts to transform their business models into legitimate and compliant entities competing for consumers with the organised entities.

@@ Australia is 80% organized with us holding as a single operator a 20% market share. So, that is why I was saying earlier that we are wired for growth because we believe that in India the five-year opportunity is to benefit from this formalization and garner may be 10% - 15% of the Indian security market, 10% - 15% of the Indian facility management market over the next five years plus. So that is how we look at developing our business





Competitive Strengths

- ▶ Diverse services profile and market leaders across the biz segments
- ▶ Clients across industries - Diversified base - across economic cycles
- ▶ Operating leverage
 - ▶ Vast branch network & well integrated.
 - ▶ Scale of People, managers
 - ▶ Cross sell products and services from organic and inorganic branches - increase service offerings.
 - ▶ Custom technology - iOPS, Salesmaxx, ARK..
 - ▶ Consistent investments to train and educate
- ▶ Higher retention rate of Clients & a strong list of clients (250+ of BSE 500)
- ▶ In-Organic Growth Engine - Successful integration and Scaling
 - ▶ Operational Synergies
 - ▶ Adjacent area of growth (biz wise)
 - ▶ Deeper penetration in to new and existing markets & territories.
 - ▶ Infrastructure helps scale - given the # of employees they deal with
 - ▶ Can optimize cost by spreading across existing teams - Sales, IT, legal etc.

Client list include the likes of:

- Aditya Birla Group
- Mahindra Group
- Axis Bank
- SBI
- Deloitte
- Google
- UPS
- Amazon
- ITC
- JP Morgan
- Taj group
- Global and Apollo Hospitals
- many more..

5

On acquisitions:

- We do innovative structures where we incentivize the promoters to stay on with us and build the business together and incentivize them through higher payouts linked to EBITDA growth, EBITDA margins.
- Our rationale for M&A is essentially consolidating our market share in key geographies and customer segments.

Competitive Strengths - Contd.

- ▶ "Relative inelasticity to the economic cycles"
 - ▶ Both the Security services and the FM businesses, being largely recession and economy resilient, whether there's a downturn, upturn. We have continued seeing over the cycle of the last 10, 15 years, we've seen different cycles of economic progress and economic ups and downs.
- ▶ Post COVID19 (in a year or 2) - opportunity for M&A will be higher given the stress that is being observed by management & probability of being available at attractive valuations.
- ▶ Inflation hedge - Minimum wage growth, baked in to contracts.
- ▶ Scalability using standardized recruitment, training, deployment, operations and quality measurements and feedback aggregation.
 - ▶ Automated Recruitment Kiosk (ARK): ensures product quality and consistency, minimizes errors and human intervention by enabling recruitment through a kiosk-based recruitment processes. *Consider the number of people they employ - 2,40,450.*

A few key points worth noting

- ▶ Across the organizations hierarchy - consistent KPIs and ingrained culture
 - ▶ Revenue growth in every business
 - ▶ EBITDA growth and Margin
 - ▶ OCF to EBITDA ratio
- ▶ With organic and inorganic growth (being margin accretive ##) EBITDA growth > Revenue growth*
- ▶ Works on Cost + business model - any wage increments is passed on to the client, which is essentially baked in to the contract.
- ▶ Strategically migrating from manpower supply to an all encompassing Services Solution provider.
- ▶ Facility mgmt. vertical is a high margin business compared to the Security and CL verticals.
- ▶ All the vertical businesses in SIS are characterized by recurring revenues, enabling a high degree of predictability.
- ▶ Short term pain for long term - Mtrainer: *we have more than 400 hours of training content that has been developed over the last 12 months at a significant cost; training content is customized, if it is a hotel the content is different, if it is a hospital or a mine the content is different, etc.*
 - ▶ *As we work our way through becoming India's largest security services enterprise, one of our core areas of focus is not just to Become the largest, but also Remain the largest in the long-term and that is only possible if we are able to take on more contracts than anybody else, while at the same time retaining more than most of the competitors would*

*Conf call notes.

- Q4FY20 - for entire Security Solution, like previous year, we had INR 2,712 crore and the current year, which has ended in March 31, 2020, we finished at INR 3,528 crore, thus making a 30%-plus growth in terms of revenue. And in terms of EBITDA, it's about 40% growth in terms of EBITDA. Last year was INR 151 crore vis-à-vis the current year, it is about INR 211 crores.
- Q1FY20 -SIS Group has started FY '20 with a solid quarter. We crossed the INR 2,000 crore quarterly run rate mark in this quarter. With this, we have now achieved a quarterly CAGR of 6.2% over the last 9 quarters as far as revenue is concerned. The EBITDA has grown even faster during the same period. The quarterly CAGR of EBITDA growth is 8.1% over the same period.
 - All our business units have continued to deliver strong revenue and profit metrics. Our consolidated revenues came in at INR 2,008 crores for the first quarter of FY '20, which is an increase of 2.7% over the previous quarter and almost 25% increase over the same quarter in the last year. Similarly, our EBITDA was INR 125 crores in the current quarter, which was a quarter-on-quarter increase of 8.8% and 67% increase over the same quarter in the previous year.
 - The increase in EBITDA has been the result of operating leverage across segms along with various profit improvement and cost management measures implemented across the larger group entities.

Oct 2018, Q2FY19

If you look at Dusters, prior acquisition they were growing at about 12%-13% year after for the past three - four years prior to that and since the acquisition for the past three years on an average they have grown at about 26%-27%. So obviously we do a few things that help in the growth, right from the way we setup our SBU branch structure, the way we setup our target and review mechanism, performance mechanism incentives that we bring it into all the companies that we acquired and partner with.

Slide 8

Contd..

- ▶ Many of the acquisitions/M&A till date have been Margin accretive and have demonstrated growth in terms of revenue contribution from each of the companies and addition to the margins. *"the company has a proven track record in turning around acquired businesses, coupled with synergies in recently acquired entities that are likely to aid in strengthening its business profile in security services and facility management."*⁸
- ▶ M&A list:
 - ▶ MSS
 - ▶ Uniq
 - ▶ SLV
 - ▶ Henderson
 - ▶ SXP
 - ▶ P4G
 - ▶ DTSS
 - ▶ SMC
- ▶ M&A list (Contd.) -
 - ▶ RARE (hospitals)
 - ▶ Triton
 - ▶ Adis (Pharma)
 - ▶ SIS Alarms
- ▶ Optionality of a few nascent businesses to succeed:
 - ▶ ManTech⁹⁵
 - ▶ VPROTECT - FY17 - Proseguer partnership - Alarms and monitoring systems
 - ▶ Design and custom solution'ing - HPCL - Oil & gas client* (for their oil tankers security)

*ICRA 2019 notes & AR :

SISL acquired multiple entities during FY2019 at a cumulative investment of Rs. 369.2 crore. Apart from the acquisition of Henderson, the company had acquired four more companies earlier in FY2019 – SLV Security Services Private Limited (SLV), Rare Hospitality and Services Private Limited (Rare), Uniq Detective and Security Services Private Limited (Uniq) and Platinum 4 Group Limited (P4G) for a cash consideration of Rs. 50.5 crore, Rs. 37 crore, Rs. 51 crore and Rs. 6.4 crore respectively. The acquisition of SLV, Rare and Uniq were funded through the proceeds of the NCD (Rs. 150 crore) raised earlier in the early part of FY2019, while the P4G acquisition was funded via lines of credit available with SIS's Australian subsidiary.

Effective May 1, 2019, the Company acquired an additional 50% of the voting rights and shares (in addition to the 50% already held, directly and indirectly, in SIS Alarm Monitoring and Response Services Private Limited ("SIS Alarms") for an aggregate consideration of ` 200 Million. SIS Alarms was formerly a joint venture between the Company and Singpai Alarms Private Limited, and as a result of this acquisition, it has become a wholly owned subsidiary of the Company.

Effective July 1, 2019, Platform 4 Group Limited, a subsidiary of the Company, acquired 100% of the outstanding equity shares of Triton Security Services Limited (Triton), New Zealand for an aggregate consideration of NZD 5.58 Million. Triton provides alarm monitoring services in New Zealand. The acquisition has helped Platform 4 Group Limited and SIS Group to add alarm monitoring offerings to its service portfolio in the New Zealand market.

Effective February 1, 2020, the Company, through DTSS, its wholly owned subsidiary, acquired 51% of the outstanding equity shares of Adis Enterprises Private Limited ("AEPL"), for an aggregate consideration of Rs. 8.61 Million. – gateway in to Hard Facility Mgmt. & top pharma players

\$Mantech Market Opportunity: Increasing terror threats, growing public and private infrastructures and the increase in crime rates have resulted in the demand of the surveillance market in India. Video surveillance systems have been the largest product category in India electronics security segment. The Indian video surveillance market was reported to be around US\$1.58 billion in 2014 and is expected to reach to US\$8.24 billion by 2022, while growing at a CAGR of 22.96%. Market verticals that hold a significant share in the surveillance industry are transport, banking and financial verticals and other commercial offices.

^ Our efforts on Mantech Solutions are bearing fruit -we were able to design and deliver our complex security solutions for HPCL for their oil tankers security. This is Rs.14 Crores order on opex model, which includes equipment solution designs, software design, AMC, provision of technical manpower and control room ops. This is pretty much how we see the future of the service business moving from commodity service and moving from that service onwards to solution so HPCL is perfect example of Mantech Solutions where we are trying to address the issue of pilferage and tampering with oil tankers for the oil marketing companies. Now mind you the solution I am talking about is only for some 2,000 old trucks or oil tankers as they are called and India has more than 1.5 lakh such tankers

Contd.

- ▶ **I will pick growth and ROCE over margins.** It is very simple now. I have been in this business for 17 years now. I completely understand that this business cannot be a 15% - 20% - 25% EBITDA gain, it will never be, that is not globally.
 - ▶ You should look at G4S, Securitas, Prosegur and satisfy yourselves. This business is not a double-digit EBITDA margin game. This business is a ROCE game.
 - ▶ This is a business where you could actually get 2% month-on-month growth in security. You could get 2% month-on-month growth in facility management that is what I am chasing, what I am chasing is the fact that in Australia, if you look at my MSS investment in Australia, on a standalone basis, MSS ROCE is close to 70%.
 - ▶ if I carve out just my security businesses, which is MSS Australia and India security. If I take these two businesses, which are old, and mature businesses now in my group, if I take these two particular businesses aside these two businesses would have return on capital employed in excess of 40% that is what the business is about.
 - ▶ This industry, the service industry, security, cash and FM is about those numbers, it is about 2% month-on-month growth, it is about maturing businesses, scaling businesses to a level where they could make like 40% type ROCE. So what we continue to do is every time we see that our ROCE is sharp I take some money and invested in a new business.
 - ▶ India security ROCE is very good that is the reason why we are building Vprotect, which is OUR home alarm business that is why we are spending money in Mantech, because those are subscale new concepts, which are being designed for 2022 and beyond. I would rather have a 25% ROCE and 20% growth. I do not want exponential 40% ROCE for few years and then be out of market at the end of five years that is not the way we look at business.

Note: Above is from Q2FY19 Earnings Call

- ▶ Link related to month on month 2% increment - BQ interview: https://youtu.be/lkoEPrtyn_s

Link related to month on month 2% increment – BQ interview: https://youtu.be/lkoEPrtyn_s



Demand Opportunity - India

- ▶ Govt rules - contd. migration from Unorganized to Organized
 - ▶ PSARA Act- Private Security Agencies Regulation Act
 - ▶ FISCAL benefits to compliant players.
- ▶ Increasing economic activity across industries pan india
 - ▶ Especially across Tier II and III cities - higher growth
- ▶ Continued Urbanization
 - ▶ Development of 100 Smart cities
 - ▶ The exponential growth of the Indian economy over the last two decades, the need for security arrangements of industrial complexes, offices, IT parks and other public infrastructures such as airports, metro stations, shopping malls and public utilities has grown manifold*
- ▶ Consumer demand for security is gradually evolving from a mere guard to a professional and skilled guard, trained for movement of men and material, fire incidents, medical exigencies, etc.
- ▶ Higher threat perception
- ▶ Inadequate Police force##

10

- FICCI EY Report
- ## - Workforce size of PSI is more than the combined strength of the Army, Navy, Air force and Police put together. With 8.9 million security guards and 1.9 million police officers, India has 05 times as many private security guards than police officers. While the sanctioned strength of police personnel (civil and armed) in 2016 was just 2,464,484 the employment in the PSI far exceeds the number of police personnel in the country.
 - Ratio of personnel in Private Security to Police Force India 83:17, China 65:35, US: 58:42, UK 61:39 Germany 50:50

Demand Opportunity - India (contd.)

- ▶ India has the *lowest* per capita spend globally - huge headroom to grow
- ▶ Customers would want integrated solutions - one vendor for all risk mgmt.
- ▶ All the top tier companies prefer dealing with established vendors, who are being compliant and have a one stop shop kind of solution. -
- ▶ Customer's preferences have shifted to the organized service providers due to benefits of value added services, better trained personnel, use of advanced technologies and streamlined solutions. Most clients look for technology enabled security solutions which organised players in the industry already offer, owing to high capital and highly skilled manpower availability.



Market Opportunity - India

- ▶ INR 80,000 FY'19 -> INR 157,000 crore by FY'24E - guarding or Security Solutions Sector. (CAGR = 14%-[®]). 65% of market is controlled by unorganized players.
- ▶ Security vertical clocking INR 3500 Cr out of the potential 80,000 which is not even 5%. A long way to go in terms of market share. Currently approx 4% market share.
(Fragmented industry consolidation expected, especially on the back of COVID)
- ▶ Facility management- INR 105,500 Cr FY'19 -> INR 232,800 Cr FY'24[^] (CAGR = 17%-)[^]
- ▶ The Indian Facility Management industry is expected to grow at 17% p.a over the period 2019-2024, as per Freedonia Research. The Facility Management industry too has a large unorganized sector which accounts for 70% of the industry, however the unorganized sector is gradually ceding space to the organized players

12

Freedonia Report, AR

@India's security solutions market has been seeing strong and steady growth aided by increasing urbanisation and infrastructure spends, growing concerns about crime, terrorism and inadequate public safety measures. The industry is forecast to grow from Rs. 806 Billion in FY19 to Rs. 1,574 Billion in FY24E, at a CAGR of 14% (Source: Freedonia Report on India Security Solutions and Facility Management, March 2020).

[^] The industry is forecast to grow from Rs. 1055 Billion in FY19 to Rs. 2328 Billion in FY24E, at 17% CAGR (Source: Freedonia Report on India Security Solutions and Facility Management, March 2020). The above market size includes housekeeping solutions, technical/hard facility management, landscaping, catering and even solutions provided by OEM vendors under their service contracts.

Management

- ▶ Promoters have experience of close to 4 decades in the securities market.
- ▶ Rituraj Sinha - diversified a Rs 25 crore business into a Rs 5000 crore security firm through a series of acquisitions, and made sure systems were put in place for smooth functioning of the expanding business. - “The Consolidators”.
- ▶ Have walked the talk as far as vision, medium term goals and metrics...

Risks

- ▶ Regulated by Govt. and/or Governing body - inability to pass on impact can impact biz (ATM/CL aspect)
- ▶ Failure to live up to operational expectations, non-effective risk mitigation policies can lead to reputation damage & customer loss(es).
- ▶ Low barriers to entry & Low pricing power
- ▶ Attrition and inability to hire and keep employees - growth
- ▶ Working Capital Intesive - mgmt. critical
 - B2G - Cash collection delays or Economy slowdown might impact this vertical.
- ▶ Inorganic growth - Synergies not working out
- ▶ Tech investments - not panning out as expected - burning through cash
- ▶ 80% revenue from Security services - any black swan event might disrupt earnings.
- ▶ Covid19 - Impact - Collection and scaling back from customers
 - ▶ TCS - 90% of the workforce is going to be remote, similarly if all other eligible companies follow suit, the scope of growth for securities and FM services might be impacted.