

1<sup>st</sup> April 2021

## SIS (INDIA) LIMITED – BUY

**CMP : 404**  
**Target Price : 478**  
**Upside : 18%+**  
**Stop Loss : 380 (closing basis)**

### About the Company

SIS is a leading security services company in India and Australia enjoying leadership positions in cash logistics and facility management services. The SIS Group offers solutions across service lines including security services in India key customers in India include leading businesses in a wide range of sectors across banking and financial services, IT/ITES and telecom, automobile, steel and heavy industries, governmental as well as public sector undertakings, hospitality and real estate, utilities, educational institutions, healthcare, consumer goods, engineering and construction and in Australia, the acquisition of Chubb Security Personnel Pty Ltd. Chubb's guarding business in Australia. It was then renamed and rebranded as MSS Security. It provides cash logistics through SIS Cash Services, a joint venture with Prosegur of Spain and the second largest cash logistics service provider in India. The company forayed into facility management services by entering into an exclusive license agreement with Service Master for the 'Service Master Clean brand. In FY17 the SIS Group acquired 78.72% of the outstanding equity shares of Dusters, the fourth largest FM provider in India, in terms of revenues.

### Investment Thesis

#### Strong collections support healthy OCF/EBITDA level of 145%

Gross margins have been stable through the year underlining pricing power as market leader and customer's payment prioritisation for essential services like security, facility management and cash logistics solutions. The reported PAT for the first 9 months is Rs. 265 Crs as against Rs. 229 Crs for 9M FY20. SIS continues stellar cash flow conversion metrics from H1 to Q3 SIS is glad to report OCF generation of Rs. 213 Crs in Q3 (145% of EBITDA) driven by strong collections, lower working capital needs lower grower rate and stable business. This cash conversion may however come off as growth revives and working capital needs increase. for a total of Rs. 555 Crs of OCF generation in the 9M FY21 (140% of 9M EBITDA)

#### Scalable business model focuses on key result drivers

Continuously develop new sales in across different segments and sustainable manner, operational management resulting in quality service delivery, manpower management driving high employee quality and retention, and efficient receivables collection minimizing bad debt.

#### Visibility of huge oppourtunity in security services in India

The private security services market is estimated to be around Rs 650,000 million in size with nearly 65-70% of this controlled by smaller, non-compliant players. The security services market in India is estimated to grow at the rate of 20.00% per annum to reach Rs 10,00,000 millions by 2022. Market Share of India and Australia security business stands at 3.5% and 21% respectively market leader in Australia. Expect SIS to emerge market leader in Indian manned guarding services by FY20 with 5% market share. Facility management business has seen revenue CAGR of 93% over FY14-18 with improving margin profile (5.1% in FY18 vs. 3.4%. FM segment should see huge ramp up in next two years. A combination of high organic growth should lead to EPS CAGR of 38% over FY18-23E and RoE expansion from 21.7% to 23.3%.

Stock Details	
Market Cap (RsCr)	6149
BSE Code	540673
NSE Code	SIS
Sector/Index	Spe. Cons Serv./BSE 500
Year End	March
52 w.High/Low	624/314
Shares in Issue (cr)	14.75
BSE Sensex	51215
NSE Nifty	15102

Shareholding Pattern	
Indian Promoters	75.36%
DII's	4.80%
FII's	6.67%
Others	13.17%

Key Ratios	
Div Yield	0.46%
TTM PE	34.20
ROE	20.02%
TTM EPS (INR)	22.45

SIS' services should revive going forward as businesses gradually come out of lockdowns. India security revenues in December 2020 were at 97% of March 2020 revenue levels, International Security was at 136%, and Facility Management was at 83%. We make minor revisions to our EBITDA estimates; lower interest and depreciation charge drive a 4-11% EPS upgrade for FY2022-23.

### International business drives revenue outperformance

SIS posted healthy 3QFY21 performance driven by international security business revenue growth of 27% yoy was significantly ahead of our estimate of 12% yoy growth, India business revenues declined 15% yoy and India security business revenues declined 2% yoy. The international business gained from new government business, ad-hoc contract wins and festive season demand. India businesses are gradually recovering; we expect India security business to recover to pre-Covid levels by 4QFY21, while the FM business may take longer to recover

### Key Business Highlights

#### India security business (37% of total revenue in FY20)

It is the second largest player after G4S and the entire growth so far has been achieved organically. Segment with across verticals such as highest revenue contributions BFSI and Government are the two largest sectors with 15% and 11% revenue contribution.

#### Australian security business (51% of total revenue in FY20)

MSS Security Services –combined with Southern Cross Protection (in which SIS owns a 51% stake) is the largest security services provider in Australia. Business is growing at a steady state pace with high cash flow generation (more than 70% CFO/EBITDA). In FY18, SIS secured Rs1000Cr corpus loan from an Australian bank against its cash generated in Australia to make inorganic acquisitions in India.

#### Facilities Management (11.5% of total in FY20)

It is currently working on 18 railway sites. It is dominant in Southern and Western India with presence across the country. SIS is a no. 3 player.

#### Cash Logistics business(49% owned by SIS currently till now not consolidated into parent )

SIS expects one to two years of turbulence in this business because of increasing compliance requirements from RBI norms came, which will increase both OPEX as well as CAPEX of this segment.

### Valuation

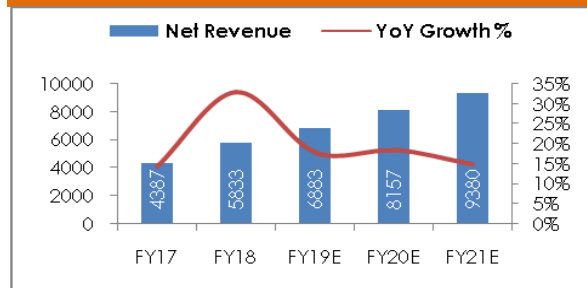
The company ended the quarter with a monthly run rate of Rs 728 crore in March 2020 as against Rs 644 crore in the same month of 2019. Over the last 12 quarters, since the IPO, revenues have grown at a quarterly CAGR of 5.8 percent.operating profit has shown a quarterly CAGR of 6.9 percent over this period.For the full year 2019-20, the company's net profit rose by 40 percent to Rs 292 crore from Rs 215 crore in 2018-19.

At the same time revenue for the fiscal was up 20 percent at Rs 8,485.2 crore from Rs 7,093.3 crore in the previous fiscal."Stellar FY 2020 result amidst slowdown & a global pandemic underlines predictability of our business model COVID crisis and categorisation of our services as "essential" across India and the world, re-affirms the criticality of these services in our economy and the relative inelasticity of the demand.Q4, particularly March 2020 results are testimony to the same," SIS Group MD Rituraj Kishore Sinha said.

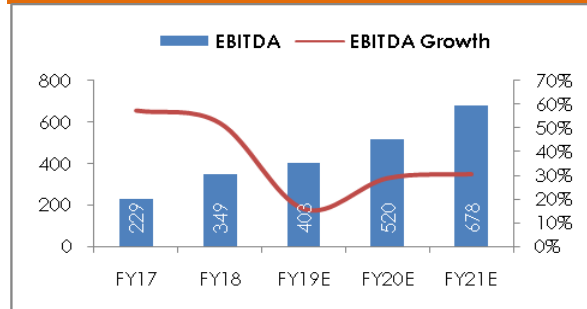
Private security, facility management (Hygiene & Sanitation) and cash logistics have been classified as essential services by the government amid COVID crisis and resultant lockdown, he said, adding all these verticals put together has contributed to good quarterly numbers. Considering the general economic outlook for FY21, SIS management has also created a 100-day Plan to organically pivot to the post COVID era,we should buy stock at this level price with TP of Rs 478. SIS' services should revive going forward as businesses gradually comeout of lockdowns. India security revenues in December 2020 were at 97% of March 2020 revenue levels, International Security was at 136%, and Facility Management was at 83%. We make minor revisions to our EBITDA estimates; lower interest and depreciation charge drive a 4-11% EPS upgrade for FY2022-23.

## Graphs & Charts

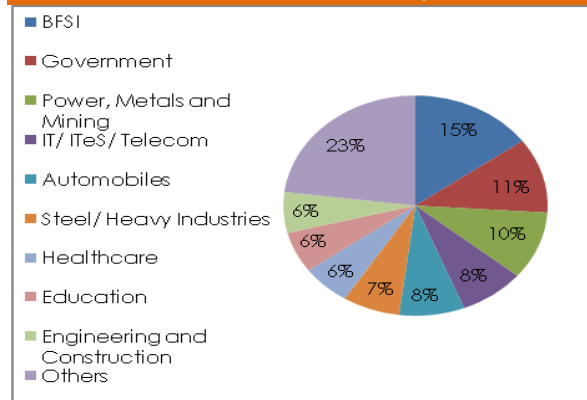
### Net Sales Trend



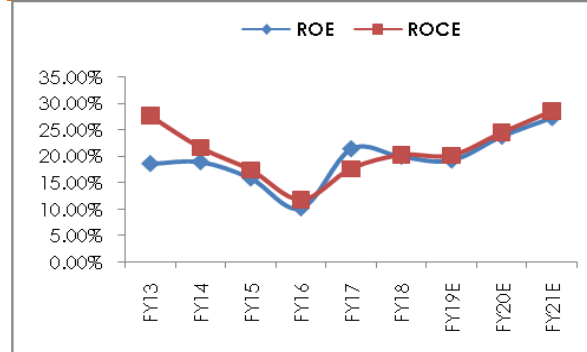
### EBITDA & EBITDA Margin Trend



### Top 10 customer contribute between 30 to 40% of Revenues(Indian Security Business)



### Consistent Healthy Return Ratio



## Risk & Concern

Slowdown in the Australian economy leading to lower demand for security services will pose downside risk to Australia business  
7-8% annual wage hike for security guards in India would be risky for this kind of business.  
Failure to consistently gain market share poses downside risk

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