3C CAPITALS
expertise you can trust

Game Changer

Security and Intelligence Services (India) Limited

A Market Leader in Security

Critical, Predictable & Recession Proof

Date: 21st May, 2021 (CMP = 405)

Inside the Report

Tennis Balls & Broken Eggs

How can a retail investor survive the unpredictable and dynamic market conditions during their lifetime?

We think this question has troubled every long term investor more than once. Well the following quote from the book "The Joys of Compounding – The Passionate Pursuit of Lifelong Learning", by Gautam Baid, explains this fittingly.

"Ensure that you have tennis balls (high quality businesses) in your portfolio and not eggs (bad quality junk stocks) that will splatter after hitting the floor. In a market crash both quality and junk fall. Quality eventually rises again and junk never recovers."

In our quest for wealth creation, we strive to dig out good quality businesses and avoid bad quality companies. However, its not so easy as it is said. We have had our share of tennis balls and also eggs, that we thought were tennis balls.

It is really important to analyze tennis balls that are in the downtrend but have the potential to bounce back. Most of these stocks do have something in common. Some were knocked down over valuation concerns. Some were roughed up after stumbling financially. Others were just victims of the market's perpetual amnesia.

However, it is not only important to find good tennis balls but also to find them in industries with huge market size opportunity. As long as the total addressable market is limited, even if the company is firing in all its cylinders, an investor will not make much money out of it.

The security services market in India is witnessing high growth due to an improved economic environment, increasing concerns about crime, terrorism, inadequate public safety measures and urbanization. The sector is still dominated by unorganized players. However, one time shocks like demonetization and GST and the pandemic have more or less crippled the ability of these informal participants to keep their operations running because they were heavily dependent on cash payments. Moreover with the government planning to make compliances stricter, unorganized players stands to lose their market share.

Our latest Game Changer recommendation, **Security and Intelligence Services Ltd (SIS),** is the market leader and the fastest growing Pan India player with operations abroad also. We believe concerns over the structural impact of the business due to WFH scenario has led the stock to languish ~40% below pre-Covid levels. SIS, being one of the very few players with integrated offerings, should be a key beneficiary led by improving volumes post Covid.

Company Snapshot

Total Weightage % in Portfolio = 6%

Best Buying Range = Buy 3% between 400-410 & further buying 3% between 350-370 range

Price Target = 800 in 12 months & 1200+ in 3 years (Expect 30-35% CAGR over next 3-5 years)

Current Market Price (INR) – 405.00	**Market Cap (INR Cr.) – 6,018.00**
BSE – 540673	**52 Week High / Low – 478.00 / 314.00**
NSE – SIS	**Promoter's Holding – 72.90%**
Bloomberg Code – SECIS:IN	**Pledged Percentage – 0%**

Business : Security and Intelligence Services (SIS) is among the largest business services providers in India, with leadership across Security Services, Facilities Management, and Cash Logistics. It is also a leading security vendor in the stable markets of Australia, New Zealand and Singapore, which complement its fast-growing India business. **SIS is a combination of defensive and growth businesses.** The company's core businesses offer both high growth – due to low formalization and high fragmentation – and resilience to macro cycles on account of their essential nature.

Management : SIS is run by second generation entrepreneur, **Mr. Rituraj Kishore Sinha**. Under his leadership, the company has grown to a multiple services, technology led, Pan-India player. With ambitious plans in place, the management led by Mr. Rituraj looks to further strengthen its market share.

Valuation: The current valuations clearly doesn't capture the diverse services mix and cash generating capability of SIS' businesses. **Unlike its other competitors in flexi-staffing (Quess Corp & Team Lease) which generates much less margins than SIS, we believe market is not valuing it correctly.** Given the recession proof business model and essential tag now assigned to the sector, we expect further re-rating once the economy is back on its track post the pandemic.

Risks : Intense competition from unorganized players, ability to derive growth from all its group companies, currency fluctuations in International businesses and working capital intensive nature of operations.

Business Overview

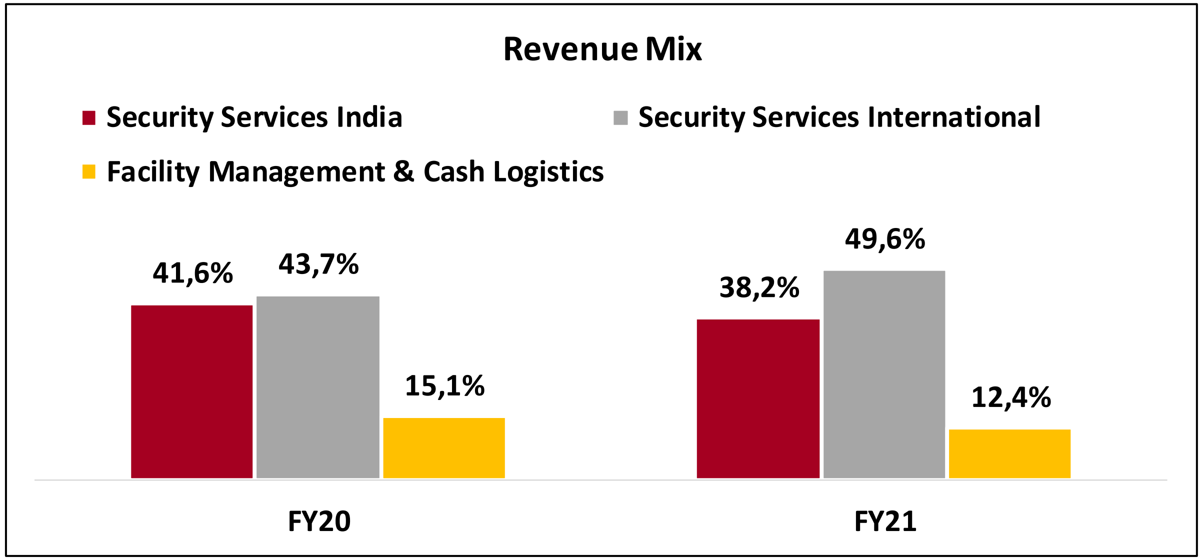
#1 Security Solutions company in India

#1 Security Solutions company in Australia

Among top 3 players in Singapore and New Zealand

2nd largest Facilities Management company in India

2nd Largest Cash Logistics company in India



Security Solutions – India

Security Solutions – International

Facility Management Solutions-India

Cash Logistics Solutions

Investment Rationale

Untapped Total Addressable Market

Formalization pushing market share from Unorganized to Organized sector

Essential Services Tag – Predictable & Sticky business model

Strengthening Balance Sheet by reducing debt

Largest Pan-India Player

Diversified Geographical Presence – Mix of High Growth Indian Market and Stable Growth International Market

Diversified Product Mix

Increasing Scale leading to Operating Leverage

Why we love SIS?

The private security services industry is one of the largest employers in India. There are around 6–6.5 million private security personnel employed across the country. The sector is involved in skill development and employment of backward, economically weaker sections of our society, particularly from the rural and semi-urban areas of the country.

Manned guarding is the largest component of the private security services industry and is expected to contribute more than 90% of the private security services market. Cash services is expected to grow at a faster rate as compared to the manned guarding market over the next few years. However, considering the relative market sizes, manned guarding is expected to be a predominant component of the private security services market.

SIS' business model radiates certain characteristics that we believe makes it a comfortable bet for any log-term investor. The company's businesses are uniform across geographies irrespective of any macro or micro factors.

- **Critical Nature of Services:** Security services are in the nature of managed services, wherein the outcome (safety and security) is highly critical. Although the market is sensitive to price, this would not be the only determinant in the choice of vendor. Quality of service is becoming increasingly important for many customers. Moreover the industry has been witnessing growth of value added services providing ample opportunities for companies to diversify its revenue streams. <u>Private security solutions was classified as 'essential services' by the Ministry of Home Affairs (MHA), Government of India during the COVID-19 pandemic. This further cements the criticality of the business of the company.</u>

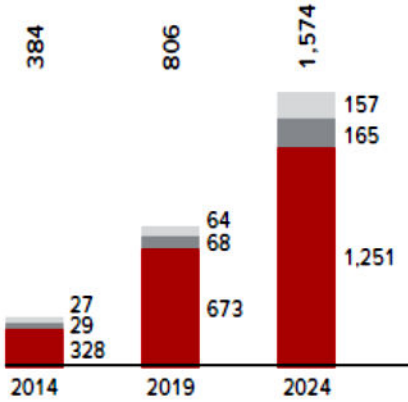
- **Predictable & Sticky:** The Security business is one where providers are not changed often, unless there is an operational issue or a breach. Given that this is a business associated with a sense of value and responsibility, such events are a rare occurrence. The business, hence, creates long-term relationships. Moreover, <u>revenue from security services is predictable and has a high degree of visibility. Unlike flexi-staffing services, where demand is based on several macro and micro factors that may result in year-to-year deviations, security headcount, once placed, can be assumed to generate annuity revenue.</u>

- **Recession Proof:** Despite variation in customers' operating performance, security would be one of the last places one would think of cutting costs. <u>Viewed more as a necessity than an option, the business is recession-proof and has come out unharmed through various economic cycles.</u>

Untapped Total Addressable Market

- **Low citizen to police ratio:** India has one of the lowest police-to-population ratios. India has a ratio of 1 policeman for every 726 people. The ratio is far lower than the government-sanctioned ratio of 1 officer for every 547 Indians as well as the United Nations' recommended ratio of 1 police officer for every 450 people.
- **High terror activity index:** When compared to some of the other markets, India ranks significantly high at 8th place on terror activity index (7.353 incidents v. 5.26 incidents for US).
- **Low per capital expenditure on security solutions:** India has the lowest per capita spend on security solutions among most countries – at INR 597 per year vis-à-vis INR 3,000 for Turkey.
- **Strong Growth Drivers:** Factors such as faster urbanization, increased focus on infrastructure creation and smart cities, inadequate police infrastructure and a steady GDP growth over time will ensure a sustained expansion in security solutions. Moreover, the industry is witnessing a transition from the unorganized to organized sector.

Growth trajectory (₹ in Billion)

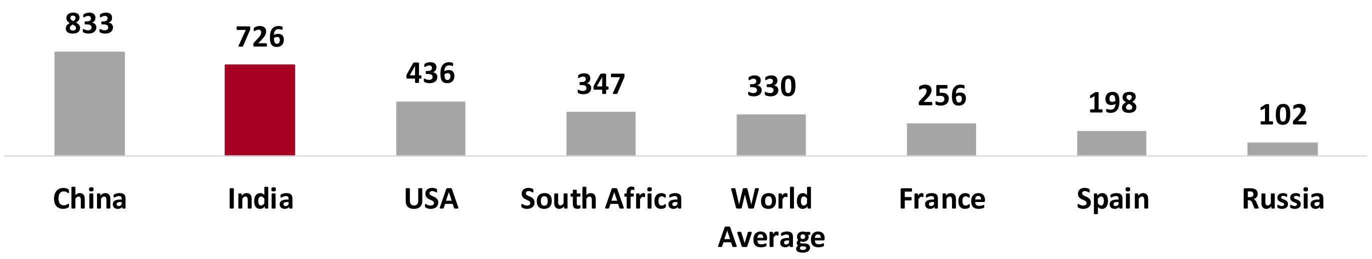


(%)

CAGR	2014-19	2019-24
Total	**16.0**	**14.3**
System Integration	19.1	19.5
Alarm Monitoring/ Response	18.9	19.3
Guarding	15.4	13.2

Source: Freedonia Research

India has one of the worst citizen-to-policeman ratios globally

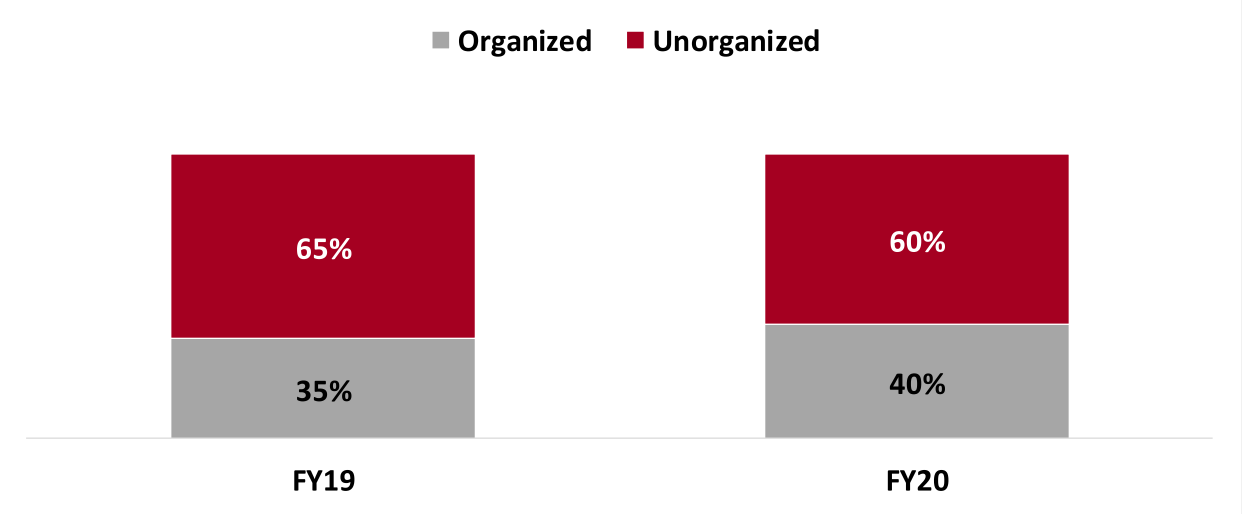


Per Capita Security Services Spends

Country	Security Services ₹/Capita Value (₹)
India	597
Developed Countries	
France	5,695
Germany	6,879
Italy	2,382
South Korea	7,560
UK	6,046
USA	13,326
Developing countries	
Brazil	3,898
Malaysia	4,720
Poland	3,862
South Africa	3,035
Turkey	2,999

Formalization – Towards a Level Playing Field

- While the verticals of IT and ITES, industrial, offices, healthcare, and BFSI together constitute ~80% of the total business of organized companies, the Retail and Residential sectors are still dominated by the unorganized players.
- The unorganized sector tends to gain a competitive advantage owing to the cost-sensitiveness of the customer, location, and nature of services demanded.
- Various reports suggest that 80% of agencies hired by apartments and gated communities are not organized.
- The industry is witnessing a transition from the unorganized to organized sector.



Two key triggers for the formalization of the sector

- **PSARA:** The government has made it mandatory for any private security service provider to obtain a PSARA (Private Security Agency Regulation Act, 2005) license. PSARA has brought all private security agencies under government control. The central government has drafted the law, and state governments are responsible for its implementation and enforcement. PSARA is a key driver favoring organized participants as agencies are mandated to undergo certain training to bring about a sense of professionalism in the market.
- **GST:** India has around 15,000 unorganized players that provide security services. In the service tax era, they charged clients on a per employee per month basis, but did not remit the service tax to the government. On the other hand, the organized players charged a service tax to the clients and remitted the amount to the government. This created a non-level playing field, with unorganized players benefiting over organized players.

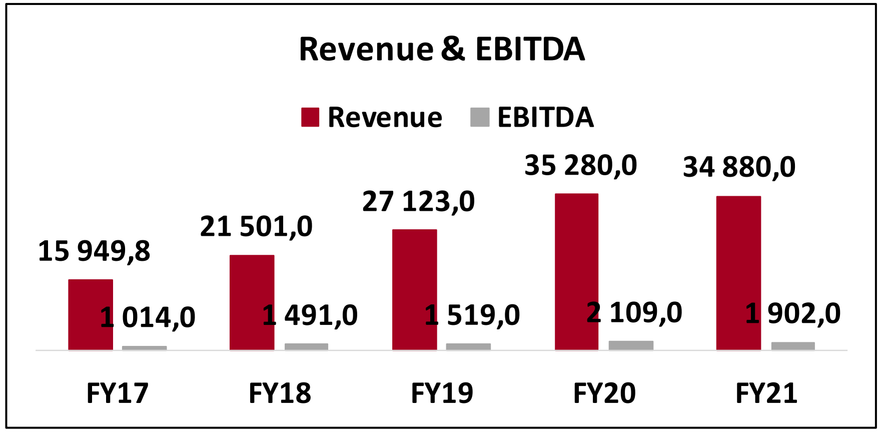
1. Security Solutions – India

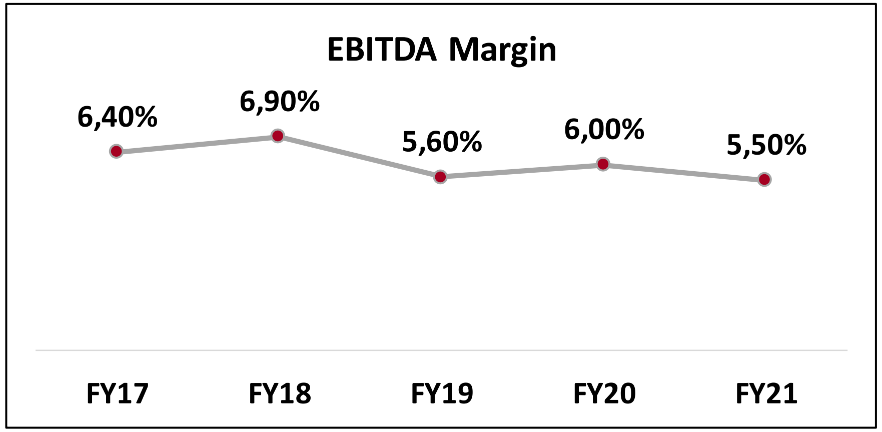
- The Indian security solutions industry is forecasted to grow from INR 806 Billion in FY19 to INR1,574 Billion in FY24E, at a CAGR of 14% (Source: Freedonia Report on India Security Solutions and Facility Management, March 2020).
- Alarm monitoring and response business "vProtect" has won orders to take the business close to 13000 sites, a 3X increase over the previous year.
- SIS' revenue consists of the salary payable to guards (pass-through) and the commission earned by it. A change in the business mix toward the higher end and increased contribution from electronic security would lead to a further increase in realization.
- The company's pan India presence is a huge advantage as strong local influence is required for smooth coordination with local authorities and better management of industrial relationships especially in industrial and retail sectors.
- Local presence also helps the companies to meet the incremental demands of clients and enhances their ability to scale up in limited time.
- SIS is well diversified in its end-user segments with low exposure in high risk segments (Hotels, restaurants and retail).
- Even though SIS is the market leader, its market share is still in single digits which again points to the level of fragmentation in the industry. As the industry becomes more formalized we expect the company's market share to improve.
- The management is focusing to be a technology led one stop solution provider for all its customers.

4% Market Share

182 branches

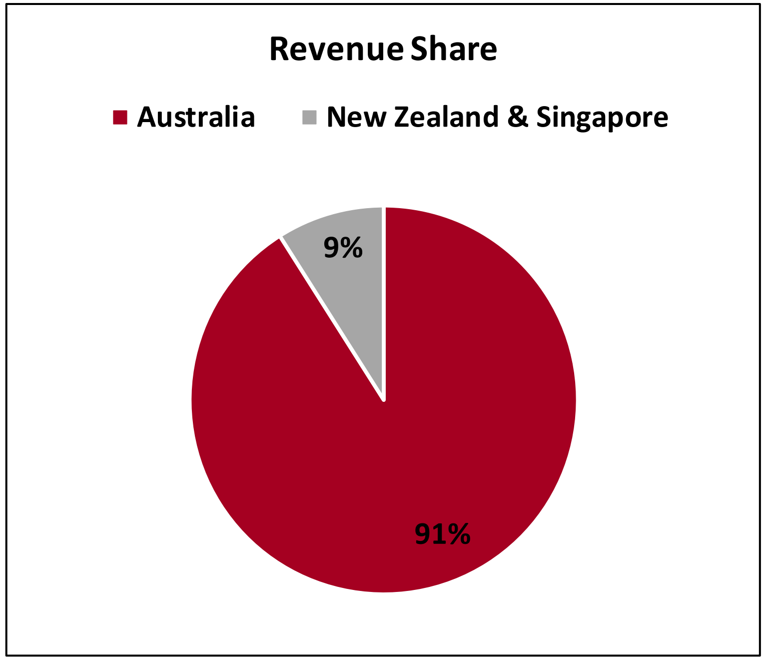
155,028 employees

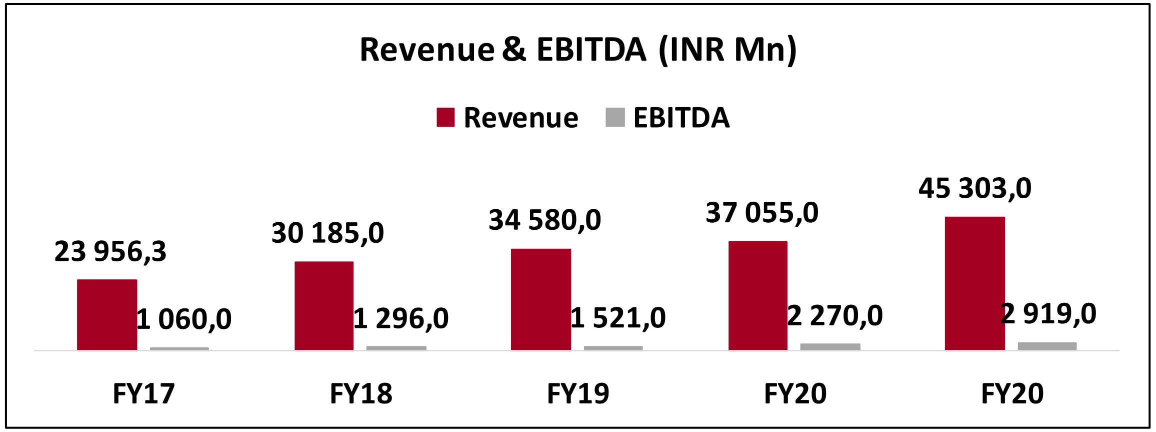


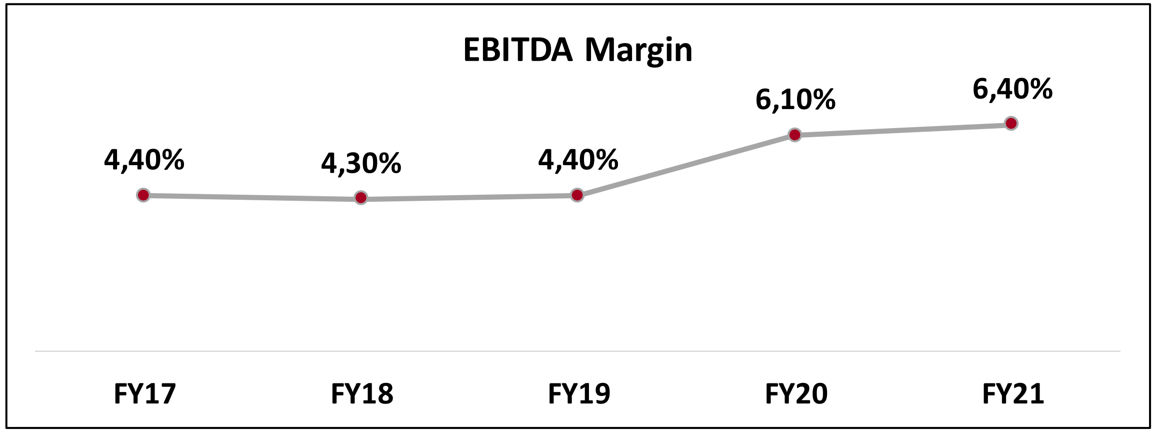


2. Security Solutions – International

- Unlike its Indian market, SIS's international markets are matured and developed. We believe this will provide a good support to the fast growing Indian business. The International security business currently has over 8,816 employees.
- The company entered the Australian market through the acquisition of the country's largest security services company – MSS/Chubb – in 2008. It has since been operating under the MSS brand in Australia.
- In the past two years, the company has ventured into two new geographies (Singapore and New Zealand) by acquiring Triton Security Services (New Zealand) and 60% majority stake in Henderson Security Services (Singapore). Together, MSS and SXP have ~20% market share in Australia. SECIS leads the market in Australia and is among the top three security manpower companies in Singapore and New Zealand.
- <u>The management has been focusing to de-risk and lower its dependency on Australian business. Australian exposure was 100% in FY19.</u>

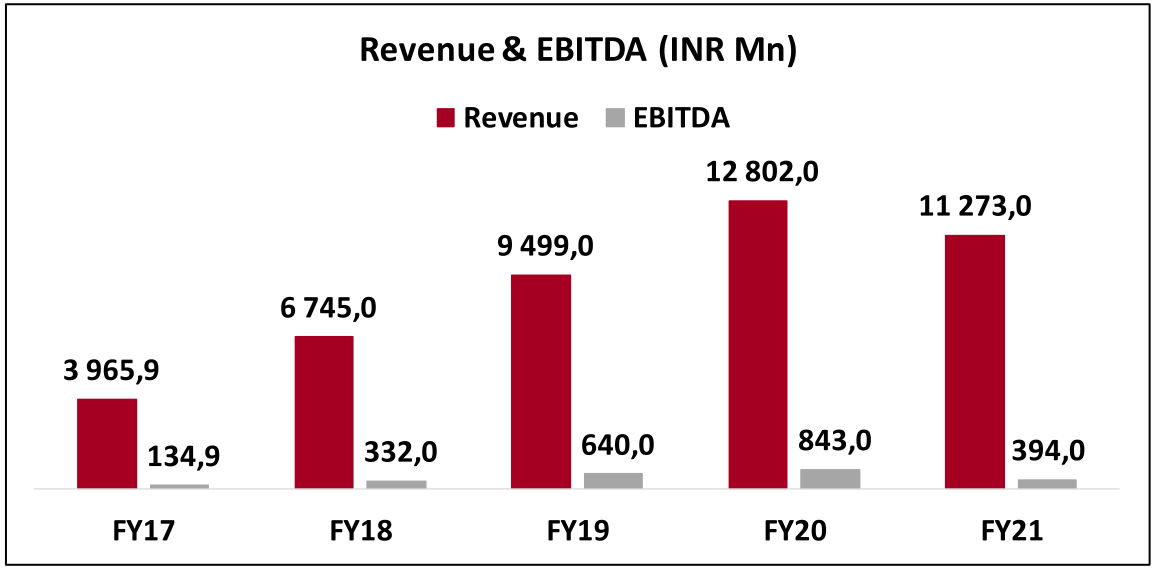


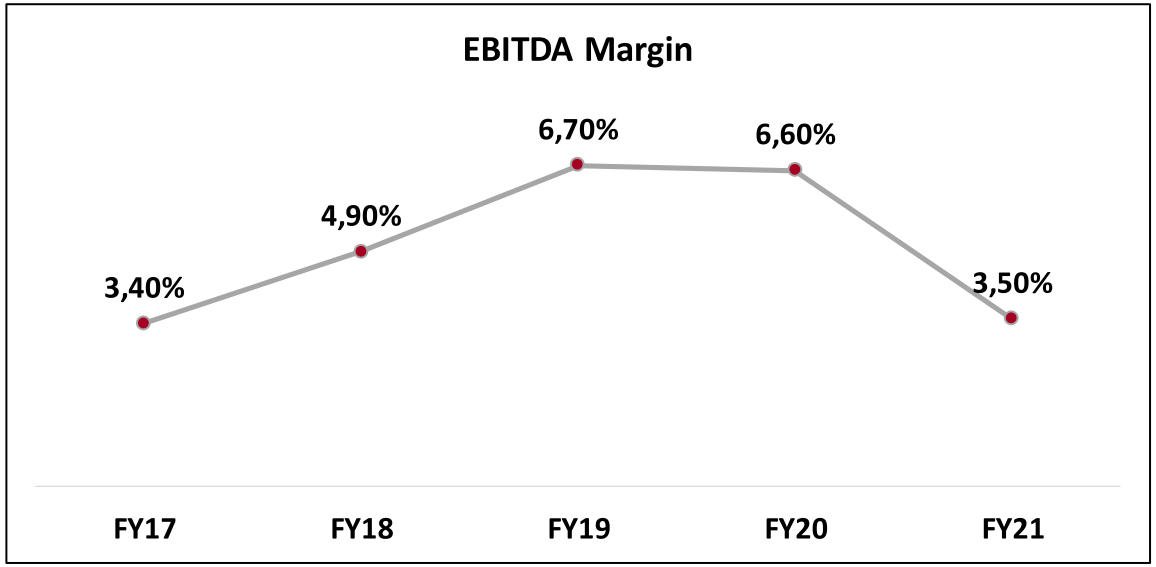




3. Facilities Management

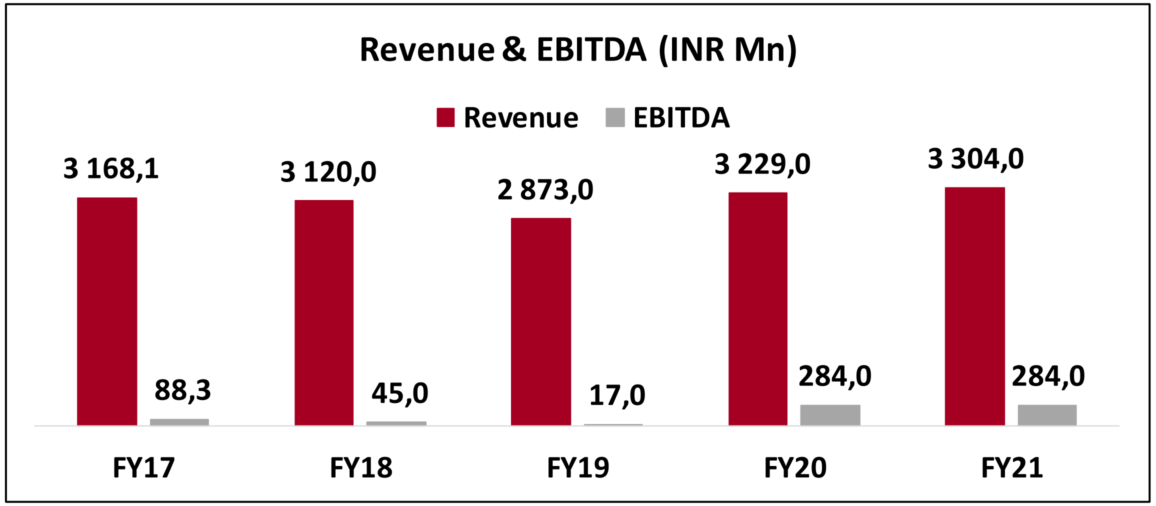
- SIS' Facilities Management (FM) services are spread across the housekeeping services, janitorial support, HVAC repairs, and pest control domains. The company currently operates across 92 branches and has close to 64,500 employees.
- The industry is forecasted to grow from INR 1055 Billion in FY19 to INR 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.
- SIS is the fastest growing Facility Management business in the country with a five-year revenue CAGR of 86%. The company's focus has been to cater specialized verticals like healthcare and pharma.
- The management's expects that the customer's changing view of the FM from a mere "Hygiene" issue to a "Health and Safety" issue will lead to a sharp uptick on monthly operating expenditure on hygiene management even post Covid.

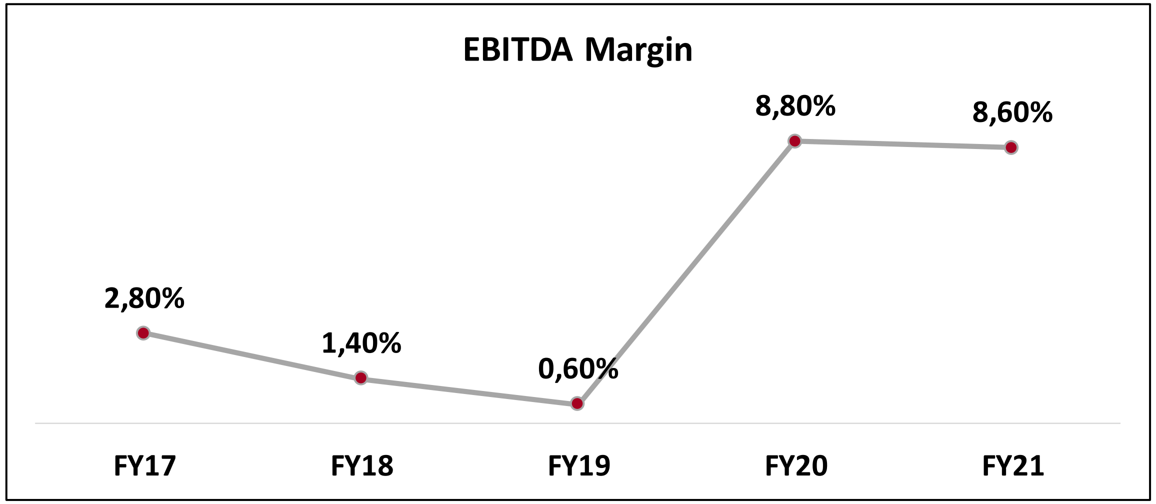




4. Cash Logistics

- In Cash Logistics, SIS' offerings include cash-in-transit, doorstep banking, and ATM-related services.
- The business started off with SIS entering into a JV with affiliates of Prosegur Spain in May 2011.
- To further mark its presence in this space, it acquired the Cash and Valuables Services division of ISS SDB in India in December 2014. Furthermore, it acquired specified business contracts, vendor contracts, licensed properties, employees, and related assets from Scientific Security.
- Currently, SIS' Cash Logistics business has 54 vaults or strong rooms, 2,300 cash vans, and operates in 300 cities across India. It is the second largest player in India in the Cash Logistics space.
- The Cash business was largely dominated by ATM servicing (~60% of revenue). However, higher competition and fewer ATM additions have led to sluggishness in the Cash Logistics business.
- With revenue diversification, SIS has significantly reduced its dependency on the ATM business, which now contributes just 27% to the total revenue.
- The company's focus on non-ATM business over ATM business has helped it increase margins over FY19.





Inorganic Route towards multiple Opportunities (1/2)

- The company started off in Security Services more than 30 years ago. However, it gained scale only a decade ago post the acquisition of Chubb(Australia), which was >6x the size of SIS. Simultaneously, it established its Facilities Management and Cash Logistics businesses.
- SIS' inorganic strategy has enabled it to enter multiple avenues for growth. The company has done 11 acquisitions and four JVs/partnerships.
- The company's acquisition strategy revolves around:
  - Consolidating market share in key growth territories
  - Augmenting service portfolio gaps
  - Building market share and credentials in promising customer segments
- To ensure promoters' interest after selling majority stake to SIS, the company always sources deals with an earn-out structure.
- In all its acquisitions, the company has aimed to achieve IRR of at least 20%.
- For future acquisitions, the company would seek to further consolidate the market in Security Services and Facilities Management.

Partnerships	Geography	Segment	Comments
Prosegur Spain	India	Security services	Alarm monitoring
ServiceMaster	India	Facilities management	Commercial and residential cleaning services (exclusive license agreement)
Terminix US	India	Facilities management	Termite and pest control services
Prosegur Spain	Australia	Cash logistics	Cash Management

Inorganic Route towards multiple Opportunities (2/2)

Acquisitions	Date	Geography	Segment	Stake	Payment
MSS Security	Aug-08	Australia	Security services	100%	AUD45m
Cash Service of ISS	Dec-14	India	Cash logistics	100%	NA
Dusters Total Solutions Services	Aug-16	India	Facilities management	78%	INR1169m
Southern Cross Protection	Jul-17	Australia	Security services	51%	AUD18m
SLV Security	Sep-18	India	Security services	51%	INR505m
Rare Hospitality	Nov-18	India	Facilities management	80%	INR320m
Henderson Security Services	Feb-19	Singapore	Security services	61%	SGD43m
Platform 4 Group	Feb-19	New Zealand	Security services	51%	NZD1m
Uniq Detective & Security Service	Feb-19	India	Security services	51%	INR515m
Triton Security Services	Jun-19	New Zealand	Alarm monitoring	100%	NZD6m
Adis Enterprise	Dec-19	India	Facilities management	51%	INR9m
Uniq Detective & Security Service	Apr-21	India	Security services	49%	INR520m

Financial Analysis (1/2)

	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Revenues (INR Cr.)	2,405.22	2,639.87	3,091.74	3,546.47	3,834.94	4,385.26	5,833.37	7,093.27	8,485.17	9,127.30
Operating Profit (INR Cr.)	165.34	124.44	147.78	159.29	169.42	220.36	299.82	351.62	515.98	520.78
Operating Profit Margin (OPM%)	6.87%	4.71%	4.78%	4.49%	4.42%	5.03%	5.14%	4.96%	6.08%	5.71%
Net profit after tax (INR Cr.)	85.92	57.15	68.66	62.68	75.73	111.86	162.07	215.82	225.46	365.44
Net Profit Margin (NPM%)	3.57%	2.16%	2.22%	1.77%	1.97%	2.55%	2.78%	3.04%	2.66%	4.00%
Total Debt (INR Cr.)	233.21	208.55	246.69	443.60	446.25	699.64	556.91	974.92	1,214.34	1,164.56
Cash + Investments (CI +NCI)	293.99	264.71	308.37	384.91	361.31	526.63	634.89	664.28	706.83	1,181.59
Interest Coverage	-	4.7	5.4	3.8	3.2	3.2	4.0	3.8	3.9	3.6
Debt to Equity ratio (D/E)	0.9	0.7	0.6	1.1	1.0	1.2	0.5	0.8	0.9	0.6

- Revenues of the company have grown at a CAGR of 16% over the past 8 years.
- Operating Profit and Net Profit have clocked a CAGR of 14% and 17% respectively during the same time period.
- Both Operating and net profit margins of the company have been improving due to its increasing scale and product mix. We expect operating margins to increase majorly led by operating leverage in the business.
- The reduction in debt and strong cash flow generation reinforce the high cash generating capabilities of our business.
- However, the management reiterated that they would not reduce the debt in one go as close to 80-85% of cash flows are required to pay salaries and other internal expenses. Majority of the debt is working capital in nature.
- Finance costs for the Group amounted to INR 28.2 Crs, representing a decrease of (27.1%) over the same quarter in the year FY20. This was driven by re-negotiation of facilities leading to a reduction in the rate of interest of existing working capital facilities by 270 bps in India business.

Financial Analysis (2/2)

	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Cash from Operating Activity (INR Cr.)	0.00	0.00	0.00	71.27	73.02	100.15	215.03	204.84	201.38	639.57
CFO/EBITDA	0.00%	0.00%	0.00%	44.74%	43.10%	45.45%	71.72%	58.26%	39.03%	122.81%
Free Cash Flow (INR Cr.)	-	-49.30	-52.78	-49.78	57.12	-31.37	-159.41	-721.86	-16.25	622.12
Trade Receivables	260.11	299.35	253.13	311.90	287.69	420.66	624.27	952.96	1,174.97	1,243.01
Trade Receivables as a % of revenues	11%	11%	8%	9%	8%	10%	11%	13%	14%	14%
ROE	32.53%	18.09%	17.53%	16.01%	16.85%	18.94%	15.76%	17.27%	16.24%	19.96%
ROCE	17.53%	12.00%	12.78%	10.89%	11.48%	10.96%	10.82%	8.39%	11.22%	10.33%
Net Fixed Asset Turnover	-	11.99	12.81	12.23	12.05	12.39	10.45	6.19	5.25	5.65
Receivables days	-	39	33	29	29	29	33	41	46	48
Working capital cycle days (Rec + Inv Days)	-	39	33	30	29	30	33	42	47	50

- Total operating cash flows of INR 640 Crs. was **the highest ever cash flows in its history.** SIS' ability to generate cash flows is gain cemented by the fact that the CFO has been positive over the past 7 years.
- The company's immense focus on working capital management is reflected in the high CFO/EBITDA of 122.81%.
- The company has adopted the strategy of deploying its fast-growing OCF to fuel growth through acquisitions. Free cash flow have been volatile due to the continuous inorganic growth the company has undertaken to scale its operations.
- The impact of continuous inorganic expansion is clearly visible on the volatile return ratios. We believe this would improve once the synergies of acquisitions kick in.
- Despite higher working capital days, the company has been able to grow its CFO. Trade receivables have been showing an uptrend over the years. However, receivables as a % of revenue have been range bound between 8-14%.

Q4 FY21 & FY21 Update

	Mar-20	Dec-20	Mar-21	Q-o-Q	Y-o-Y
Revenues (INR Cr.)	2209.75	2357.51	2445.21	3.72%	10.66%
Operating Profit (INR Cr.)	135.99	146.7	123.35	-15.92%	-9.29%
Operating profit margins	6.15%	6.22%	5.04%	-	-
Net profit (INR Cr.)	-4.05	98.56	102.27	-	-
Net profit margins	-0.18%	4.18%	4.18%	-	-

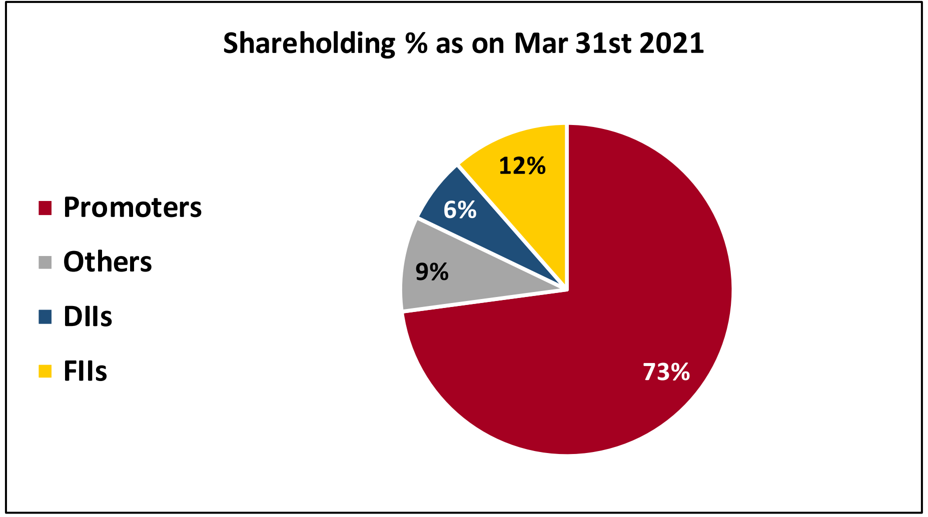
- **Security Solutions India:** INR 3,488 Crs in FY21 vs INR 3,528 Crs in FY20; INR 901 Crs in Q4FY21 vs INR 924 Crs in Q4FY20.
- **Security Solutions International**: INR 4,530 Crs in FY21 vs INR 3,706 Crs in FY20; INR 1253 Crs in Q4FY21 vs INR 949 Crs in Q4FY20;
- **Facilities Management:** INR 1127 Crs in FY21 vs INR 1280 Crs in FY20; INR 296 Crs in Q4FY21 vs INR 343 Crs in Q4FY20;
- The Group's cost management measures continued to yield savings to the tune of INR 6.2 Crs during the quarter Q4 FY21, in addition to the INR 43.3 Crs of savings in 9M FY21, thus taking the total savings for FY21 to INR 49.5 Crs.
- Against the backdrop of improved credit rating the company was able to refinance its earlier NCDs of INR 150 Crs through a fresh issuance of INR 190 Crs during the quarter at a coupon of 7.90%. which is a significant reduction from the existing coupon rate of 9.50%.
- **The company management has announced a buyback of 18 lakh shares of 1.2% of the total equity at INR 550/ share.**

	Revenue Growth		EBITDA Growth		PAT Growth	
	Q4 FY21 v/s Q4 FY20	**FY21 v/s FY20**	**Q4 FY21 v/s Q4 FY20**	**FY21 v/s FY20**	**Q4 FY21 v/s Q4 FY20**	**FY21 v/s FY20**
Security Solutions –India	-2.5%	-1.1%	-10.8%	-10.0%	120.3%	-30.3%
Security Solutions – International (on a constant currency basis)	12.2%	10.7%	-2.9%	20.7%	652.5%	280.5%
Facilities Management	-13.7%	-11.9%	-75.5%	-53.3%	-128.5%	-89.1%

Management Analysis & Shareholding %

The company is driven by Mr. Rituraj Kishore Sinha who is the son of BJP politician and businessman Ravindra Kishore Sinha (well reputed and he has no involvement in business now). Mr. Rituraj comes across as an "Intelligent Fanatic" that we could bet on as he has proved over the years how aligning new age ideas with company's decade old methods can lead to success.

He was instrumental in diversifying a INR 25 Cr. business into a INR 5000 crore security firm through a series of acquisitions, and made sure systems were put in place for smooth functioning of the expanding business. During his interactions with analysts, Mr. Rituraj has stressed that the company is not looking to gain market share while lowering its prices. The focus of the company is not be the cheapest and largest player in India.



Promoter Shareholding : Current shareholding of promoters in the company is 72.88% as on March 31st, 2021. There has been a gradual decrease in the promoter's holdings over the years. Promoter holdings stood at 75.48% on June, 2018. Mr. Rituraj's share in the company has also seen a gradual fall from 11.19% in September, 2020 to 11.03% in March, 2021.

Management compensation: Management compensation has been in line with the ceiling limits of 10% of net profits. It is also worth noting that non-salary compensation represents a greater slice of total remuneration.

Capital allocation record: The company's capital allocation record has been good in terms of business stand point and market share gains. However, the same cannot be said about its financial effect. The management seems to have a clear plan of action for its acquisitions and finding out potential target companies. Acquiring companies in tranches instead of all out buying them out, speaks of the checks that they have put in place to make sure the acquisitions add further value to the company.

Shareholder communication: Adequate

Pledged Shares: Nil pledged shares

Peer Comparison

	SIS Ltd	Quess Corp Ltd	Team Lease Services Ltd
Market Cap	6018.38	9407.56	5576.67
Current Price	405.00	637.85	3257.45
Stock P/E	10.47		175.26
Book Value	123.35	159.65	356.53
Dividend Yield	0.49	1.10	0.00
ROCE	31.66	12.20	15.31
ROE	35.70	-17.78	6.30
Face Value	5.00	10.00	10.00
Promoter holding	72.88	55.24	34.01

- Although not apple to apple comparable but we have tried comparing the similar kind of businesses listed and found that SIS Ltd is not only grossly undervalued as compare to Quess Corp & Team Lease but also has better ROCE & ROE.
- Rituraj Sinha, who runs SiS says "any company in the security business that reaches a 500 million $ turnover will cross 2 billion $ in 7 years." SiS crossed the 1st mark in 2015, making the target 2022 for a 14,000 cr turnover. 1.5x from today's sales. 1.5x sales in the next 2 years on such a huge base is not an easy task but let's wait & watch.
- Currently around 6,000 Market Cap with leverage reducing as well as margins set to inch from 4-4.5% to about 6% once the malls, theatres and railway stations open up post Covid-2, the company should be able to throw out about 500 crores of cash with a Net Profit of about 300 cr a year.
- 10,000 Cr Market Cap is a no-brainer for this company due to attractive valuation as on today @ PE of 10.47.

Sources of Risks

Intense Competition from Unorganized Players

The Indian security service is highly fragmented. Even though the share of unorganized sector are reducing over the year, the unorganized players still pose a great threat to the organized players.

However, the current pandemic scenario has also fasten the shift from unorganized to organized.

Currency Fluctuations

Close to 50% of SIS' revenues comes from its International businesses in Australia, New Zealand and Singapore. The International business is also the biggest contributor to the company's cash flows.

Ability to derive growth from all its group companies

The company has done 11 acquisitions and four JVs/partnerships. The management's plan of "Vision 2025" depends highly on its ability to turn around these investments.

Working Capital Intensive Operations

The security services industry in India is working capital intensive. SIS' working capital needs have increased over the years due to its increased scale. However, the stable and cash flow making International businesses provides a good cover for the company to meet its working capital needs.

Future Outlook

<u>**The management has released its ambitious plan for the next 4 years as part of Vision 2025. The major goals of its vision are to a). Double market share in India and b). Move from being a service provider to being a solutions provider with greater use of technology.**</u>

The management is also planning to move away from being an Inorganic growth led business and focus more on organic growth. <u>In the coming years, as per management commentary, 15% of growth is going to be from M&A and 85% is expected to be derived from organic growth.</u>

Technology-enabled services, such as remote site monitoring, installation and operating of electronic security services are some of the key avenues of growth being evaluated by the management. Given the pressure on margins in security services space, the company is also developing capabilities in relatively high value services such as consultancy, training and investigation services.

<u>The company is also planning to push away from the cost plus structure to a more output based structure. This also ensures that customers are willing to commit for longer contracts.</u>

The unorganized segment is reportedly less compliant to labor laws, and wages in this segment are expected to be more a function of market dynamics. Hence, pricing in the unorganized sector is more market driven and is generally significantly lower than the organized sector.. With more stringent enforcement of labor laws, the cost of compliance for small players is likely to increase in future. The management also believes that smaller competitors may not be able to ride out the sustained period of downturn which coupled with labor reforms are going to formalize the industry at a greater pace.

Covid-19 has made customers re-think in meeting their security and facilities management needs. The pandemic has also led to increase in the demand for multiple solution providers.

SIS clearly has a good set of tailwinds enabling its growth and unlike other sectors, the pandemic has only helped its case.

Statutory Disclosure

SEBI Research Analyst Registration No. : INH200006451

1. At the time of writing this article, **the analyst have no position in the stock** covered by this report.
2. The analyst has not traded in the recommended stock in the last 30 days.
3. The research analyst does not have any material conflict of interest at the time of publication of the research report.
4. The research analyst has not received any compensation from the subject company in the past twelve months.
5. The research analyst or its associates has not managed or co-managed public offering of securities, has not received any compensation for investment banking or merchant banking or brokerage services nor received any third party compensation. The subject company was not a client during twelve months preceding the date of distribution of the research report.
6. The research analyst has not served as an officer, director or employee of the subject company.
7. The research analyst or research entity has not been engaged in market making activity for the subject company.
8. The research analyst or research entity or its associates or relatives does not have actual/beneficial ownership of one per cent or more in the securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.
9. The analyst does not own more than 1% equity in the said company.