

Q1 2021 Security and Intelligence Services (INDIA) Ltd Earnings Call

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TEXT version of Transcript

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Corporate Participants

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* Devesh Desai

Security and Intelligence Services (India) Limited - Group CFO

* Rituraj Kishore Sinha

Security and Intelligence Services (India) Limited - Group MD & Executive Director

* Vamshidhar Guthikonda

Security and Intelligence Services (India) Limited - President of M&A and IR

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Conference Call Participants

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* Aditya Bagul

Axis Capital Limited, Research Division - Assistant VP of Midcaps

* Jeetu Panjabi

* Kashyap Pujara

Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy

* Riddhima Chandak

Roha Asset Managers LLP - Equity Research Analyst

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Presentation

Operator [1]

(technical difficulty)

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [2]

Okay. I think, Vamshi, we can just start and continue.

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [3]

Okay. So thanks, everyone. I'm sorry for the slight delay. Usual tech issues. Glad to speak to you after a couple of months, taking you through our Q1 results. I hope all of you had a chance to go through our results which were uploaded on the stock exchange and website yesterday evening. This quarter has been the most challenging quarter for the company since inception on the back of the COVID crisis and the lockdowns for most of the quarter (inaudible) lockdowns are continuing in many of the states on and off intermittently. So this has been extremely (inaudible) country and as a company for the last (inaudible), but despite all these shocks to the economy, we are extremely glad that we could actually report an 8% increase on consolidated revenues Y-o-Y and a minor 2% increase on a quarter-on-quarter. And this is in the quarter when most of the economy was shut, factory, offices, transport.

And in this environment actually to present these results actually is a massive credit to our team. And you would have probably seen a lot of results over the last month or so in the listed universe. And I don't think very many companies would have come out with the kind of results which we have done during this quarter. So the primary -- 2 primary factors, which I would say are (inaudible) the nature of our services (inaudible).

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [4]

Vamshi, could you unmute yourself, please.

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [5]

(inaudible) Am I?

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [6]

Yes, yes.

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [7]

I think the primary 2 factors which helped us (inaudible) performance in Q1, I think number one, would be the essential nature of our services (inaudible) declared as essential services on March 24, when the lockdown was announced, along with a few other sectors like pharma, banking, FMCG, telecom, e-commerce, et cetera. So that gave us a freedom to operate uninterrupted over the last (inaudible) to India. If you look at other peers of us internationally, most of us have been showing similar trends. So we are actually quite blessed to be in an industry which is so remarkably (inaudible) and the second factor that has actually helped us is what I mentioned (inaudible) finance and HR team, whether it is training or recruitment, payroll and invoicing, collections, so the entire execution has been flawless over the last 3 months, something which we -- actually ourselves could not have anticipated when we entered into the lockdown on March 24.

So that is on the broad top line and growth. And coming to the margins, our gross margins have been pretty stable this quarter. Initially, we were also a bit worried how we might trend, how customers would (inaudible) they want to negotiate. But actually, it's been a pleasant surprise for us. Most of our customers have been very supportive. They do realize that in these times, we really don't want to negotiate on crucial services like security and facility management. And also, you don't want to really change your vendors at this time because (inaudible) labor crises, people migrating, so you really don't want to move away from a stable branded national (inaudible). So customer attrition has been at all-time low. So overall, gross margin has been a pleasant surprise, credit to our teams and our supportive customers.

And EBITDA again has been quite flat, just a 3% drop Y-o-Y despite significant provisioning for credit notes and bank debts which are primarily cautionary in nature because we don't know how the next 2 quarters are going to pan out from economy and clients CASA, we will review these provisions as we go forward during the year.

And I'm sure you would have also appreciated the fact that retaining EBITDA in a market like (inaudible) cost measures, all of it. And actually, I'm very proud to be saying that we haven't reduced the pay of any (inaudible) we haven't laid off anyone, there's been no staff retrenchment. And I think we are actually very proud of the SIS' culture to have retained the employee benefits as they are. And despite that, we are looking to save up to INR 40 crores, INR 45 crores of savings over the year in terms of SG&A costs, which are paid down and the nonemployee costs. And yes, I think overall it's been a pretty good year on the EBITDA front and the margin front.

Our international market has been -- markets have been a standard performer in Q1. They continue to be a strong cash flow generating machine. They've been of great counterbalance to the volatility in India. Looking forward, as we go along, I think the economy is unlocking, we believe that SI services are required more than ever. Companies are looking to us to provide them better safe, hygienic and more secure workplace. Employees need to be assured that they can come back safely to work. The facility management division, especially is likely to see a steep increase in operating expenditure as companies intensify their cleaning and disinfection, sanitization measures.

Similarly, in the security vertical, we have moved forward and started offering smarter access control solutions, data and video analytics based solutions to ensure compliance with social distancing, masking, et cetera norms. So lot of innovative solutions have been launched. We have trained our 200 sales people over the last 3 months. They started selling these on the ground, deploying. And even a huge amount of recurring orders upwards of INR 20 crores over the last 2, 3 months. And we have actually (inaudible) we're not actually sitting and just waiting for the crisis to blow over. We've been very proactive in thinking through solutions and seeing how we can actually capture the demand recovery.

Finally, I think a lot of things are still uncertain on the macro front. The demand shock, the longevity, the magnitude is still unforeseen. The fiscal situation, the health situation, I don't know when it will finally ease out. So we still are cautiously optimistic for the rest of the year. And SIS has always bucked the trend. For the last 4 years, if you see the GDP trends, the GDP of India has (inaudible) but SIS' revenues have tripled during these same 4 years. And we hope to continue to keep that momentum going. And we look forward to a pretty good FY '21.

So with that, let me see if I -- see if we can directly move to the Q&A.

Aditya Bagul, Axis Capital Limited, Research Division - Assistant VP of Midcaps [8]

Vamshi, do you want me to -- yes, let me try playing the video.

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [9]

Aditya?

Aditya Bagul, Axis Capital Limited, Research Division - Assistant VP of Midcaps [10]

Yes, wait.

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [11]

Yes. Sure. If you can, that will be great, otherwise you can move to the Q&A.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [12]

There's no sound for the video?

Devesh Desai, Security and Intelligence Services (India) Limited - Group CFO [13]

You might want to restart playing it. See if the sound carries?

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [14]

Why? You're not hearing the sound?

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [15]

Yes. There's no audio.

Devesh Desai, Security and Intelligence Services (India) Limited - Group CFO [16]

There's no audio.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [17]

Okay. So I don't know, some technical issue again. The video is playing, but I don't know why the audio is not going through. Let me try once again, let's see. Is the sound coming through now?

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [18]

No.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [19]

Is the sound coming?

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [20]

No, Kashyap.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [21]

No.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [22]

So I think we'll have to then skip to the -- and move over to the Q&A because I don't know. It's somehow not going through.

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [23]

Yes. That's fine, Kashyap. I think the idea was to just give everybody a view of the SIS operations in the new normal. I think (inaudible) played this video, maybe Aditya can forward this video to everybody later. We should just make use of time now and jump into Q&A. I'm sure that's what people would be looking forward to.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [24]

Sure. So ladies and gentlemen, you can please go ahead and ask questions. There is a chat box below. You can either type in your question there or just raise your hand and one-by-one you can ask the questions.

There are 80 investors on the call. I would request the participants to please ask their questions. Please just go ahead and ask your questions. You will have to just unmute your line and ask the question.

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Questions and Answers

Jeetu Panjabi, [1]

Can you hear me? This is Jeetu Panjabi.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [2]

Yes, please go ahead, Jeetu. We can hear you.

Jeetu Panjabi, [3]

Vamshi, there are 2 questions broadly. One, can you -- there was obviously a dip in revenues this quarter. Can you take us through what is the path to normalization over the next 6 months? And how would you -- what segments do you think would be -- you'd be very optimistic about? What segments you would not be optimistic about? And also some thoughts on how do you think the margins play out over this period?

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [4]

Sure. Thanks, Jeetu. I'll have our Group Managing Director, Rituraj, answer this question.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [5]

Jeetu, thanks for that question. I think, first of all, let me clarify that on the quarter-on-quarter basis, SIS has not reported a revenue decline. We did roughly INR 2,200-odd crores in the last quarter and this quarter we have done INR 2,170 crores. So that's like INR 30 crores, INR 40 crores off. If you look a little closer, you might have observed that the India security business for the style of what maybe last -- compared to last quarter, we were down by 5%, 7%. But that's predominantly on account of service volume changes that happened in April and May. It's very simple. When April and May, a lot of our customers were in complete shutdown, they reduced their headcount in certain places, which have since gone back up when the country unlocked starting early June, and the service volume continued to scale up after that.

As regards to FM, you will see a steeper volume variation (inaudible) which I think 13% to 14% volume changed quarter-on-quarter (inaudible) primarily on account of our exposure to Indian Railways, metro and other such public transport opportunities. You know Indian Railways for the first time in its history is in almost like complete closure mode. Again, that's the reason that explains it. But I think let me give you the more important aspect, the more important aspect is that during Q1, April to June, we secured 1,600 new orders. Our overall revenue was down only marginally quarter-on-quarter, but we may be amongst the few on the BSE 500 that will report a 7% to 10% type growth on a -- even on a year-on-year basis.

Looking ahead, I think service volumes are ramping up, security and facility management, our business continuity imperative. For the longest time, we've called out the fact that in good times you need these services. But in crisis and bad times, you need these services even more. That is what our numbers of Q1 demonstrate. And I'm sure that our numbers in the subsequent quarters will also hold a testimony to. For a lot of people, for the longest time, there's been confusion about staffing and service. I guess this quarter and the coming quarters will also fundamentally explain the difference between staffing and services like ours.

Jeetu Panjabi, [6]

Okay. This is super useful. A couple of other questions. When you're kind of thinking over the next 9 to 12 months, what is your people headcount plan that you guys are working with? And the second question is, in this -- in the next 6 or 9 months, what part of the business will be most difficult or most challenging to handle, will it be manning the people under transitions or would it -- how -- can you just give us some color on management aspects that are challenging in the business?

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [7]

Well, sure. I think -- honestly speaking, I think our segment and our business is the least impacted. I explained to you -- I mean -- let's put it in (inaudible) explain the 100-day plan that we put in place from 6th of April (inaudible) that's our first response to corona. The 100-day plan had 6 agenda items. The first item was to keep all our offices operational, more than 400 offices (inaudible). There was so much buzz around migrant labor issue and whatnot. The fact of life is that our employee reporting during this period was 98.3%. So we managed to keep operations normal through the national lockdown, both office staff and site staff.

The second item that we were very concerned about is the P&L, the gross margin impact. I'm very proud of the fact that in Q1 we've had least GM depletion. There is hardly any gross margin changes. Our EBITDA is down singularly because of the INR 54 crore of prudential provision we decided to take. Frankly, we don't have any problem on gross margin or EBITDA.

I earlier was asked question by media about PAT. Now that PAT question is simply a result of the fact that we haven't taken 80JJA provisioning in Q1. But we are carrying forward INR 56 crores worth of 80JJA credit. So even if for some weird reason we come to a standstill and we don't recruit a single soul for the remaining 9 months, we will still report or have to pay 0 tax for the Indian operations. We have enough buffer for that. So the second P&L parameter, we are quite solid.

On cost management, Vamshi already told you. Our nonemployee cost were INR 130 crores. We are cutting that back by INR 40 crores, and we have made good progress. So cost management is good.

Fourth item on 100-day plan was the cash flow management piece. On that, again, I'm very, very happy to -- I'm pleasantly surprised, honestly, to say that in 2 out of 3 months, we collected more than our monthly invoice value. Our OCF to EBITDA of 81% explains our cash situation. So I will not indulge too much in that.

The fifth element of the 100-day plan was not to allow the sales engine to go complete shutdown. So we have 232 sales reps across SIS business in India. We had put in place the circle of safety solution program that I had given you visibility on in my last quarterly report as well of 5 solutions, circle of safety,

design for COVID. Results are phenomenal. We have approached 32,000 clients in the last 100 days. 7,000 quotations went out, 1,600 orders came through. And this happened when most of large businesses in India were reporting 50% lower sales and whatnot. So sales engine is up and alive.

Sixth and last element of our 100-day plan was digital transformation, and we are working in a big way to take a leapfrog in terms of digital attendance and implementing our new IT platforms, et cetera. We've ensured that those IT transformation projects, including our shared services platform go on uninterrupted during this period, idea being that we should come out better prepared in terms of a platform IT wise at the end of this whole corona cycle. So overall, frankly, I -- if you asked me this question in -- when we were declaring our annual results on 30th of April, how I felt about Q1, I was far more worried. But today, I can tell you with great confidence that SIS has survived the initial impact of corona, with least impact, we are looking forward to a V-shaped recovery for whatever branches that are impacted marginally also. And I hope that gives you a deep flavor of what the issues were and what we've done and how we've performed.

Jeetu Panjabi, [8]

Beautiful. I think you've been excellent in articulating the entire plan very clearly. Just a tiny follow-up question. For this INR 40 crore cost saving that you guys talk about, is that -- would you say that would be more or less permanent in your -- baked into your cost structure going forward? Or is this just a near-term thing?

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [9]

I think all of that would not be permanent in nature. A large part of that saving is linked to the fact that there is no travel. There is no meeting. There's a lot of naturals, things that are flowing through. And honestly speaking, in my line of work, I want travel to happen, I want people to get out to customer sites. The meetings and the pep talks and the trainings have to happen. So I think all of this INR 40 crores is not permanent saving. Maybe half of it is permanent saving. But even if we managed to save half of it through rent reductions and other consultant cost reductions (inaudible) and other such reductions, even 20% (inaudible), which I think is fair and reasonable for a business of our type.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [10]

Yes. I think we have our next question, posted by Deepak. The question is, can you please comment on the sustainability of adjusted profitability, adjusted for the INR 54 crores that we provided and the margin post adjustment will be around 8%. And can you comment on the sustainability of the margins? And also if you could share a growth outlook or a number for FY '21. You pretty much gave a flavor right now, but if you can just elaborate.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [11]

Well, I'm sure, Vamshi and Devesh will come in and help me on this one. But honestly (inaudible) this is not (inaudible) for me to make anything (inaudible). We clearly see that the coming 1 or 2 quarters could be impacted significantly in terms of what we see at our customers. But what we've done is, we have provided for all those unforeseen risks in Q1 itself. INR 54 crore is a massive provision. We could have done with much lesser. But we've taken a very, very prudential view on it. And I -- my view on like is that I'd rather release some of that back into my quarterly results should things go to plan than give you bad surprises subsequently. So that's my outlook on the EBITDA.

As far as growth is concerned, I have already said enough. I think this is a turning point for the facility management business. The 2 big trends that I wanted to call out to all of you. First big trend is, (inaudible) when all my customers across segments are looking for cost cuts, I managed to see that all of them are actually looking to increase their spending towards safety and hygiene (inaudible). None of our customers have come back saying that we (inaudible) most of them are coming back saying, what can we do better? What can we do more? Because their primary concern is that their factory should not shut down because somebody got corona. People should not avoid coming to the movie theater because they are fearful about the safety precautions being taken. Same for schools, same for public transport, same for everything.

So I see a very interesting trend where the operating monthly expenditure on things like security and facility management might go up when the spend on everything else is actually coming down. So that's a very (inaudible) for everybody's benefit. How much of that translates into results is to be seen. But that's a #1 trend on my agenda; #2 trend is, first time I'm seeing a shift in customer behavior. We have been market leaders in Security and FM for a long time. But the customer's approach and the procurement guy's approach has always been about who can sharpen the pencil and who can lower the margins. For the first time I see that customers are not focused on cost alone. They are talking about quality. They want to deal with market leaders. They are putting a premium on quality because they have gone through the worst business continuity disaster that anybody could envisage.

So right now, the clear premium is to reliability and quality over cost. That augurs very, very well with market leaders like us. For our thesis, where we are saying that we are market leaders, but we are market leaders with 5% market share, I see COVID and these 2 trends to lead up to potential trigger for organic consolidation in our space, which we're (inaudible) and I'm just keeping my fingers crossed as this goes to plan, this could be a bigger trigger for organic consolidation than even GST was or labor reforms could be.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [12]

Sure. Great. Ritu, your voice is cracking quite a bit. So may I request you to be at a point where the network is stable. The other question which is there on the chat is any -- what are your thoughts on the significant increases in other expenses? And also, there has been a reduction in number of employees in each of the segments. So if you can kind of provide some color on this, you or Devesh or Vamshi, whoever.

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [13]

So Kashyap, I'll have our Group CFO, Devesh, respond.

Devesh Desai, Security and Intelligence Services (India) Limited - Group CFO [14]

Am I audible?

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [15]

Yes, Devesh, you are audible. Please go ahead.

Devesh Desai, Security and Intelligence Services (India) Limited - Group CFO [16]

Okay. Other expenses as you see which has increased is primarily as a result of usage of subcontracting task for certain special work in Australia business. So while the number of employees -- the employee expense has come down because the number of permanent employees was put down for some time. The subcontract expenses which are classified under other direct expenses and not in our employee expenses have gone into increase the other expenses. There is a reduction in employee expenses, as you will see also.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [17]

Sure. And any color on that number of employees?

Devesh Desai, Security and Intelligence Services (India) Limited - Group CFO [18]

Vamshi, you have that number with you?

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [19]

Yes, so just to -- Kashyap, on the number of employees, so coming to the international markets first, as Devesh just outlined, we have used a lot of subcontractors this quarter to service some of the special projects and ad hoc business that has come (inaudible) permanent employees (inaudible) you would have seen that would be lower in June because though expenses now (inaudible) and as far as the India business is concerned, (inaudible) as a consequence of the -- I mean, it's part and parcel of the decline in revenue side. So we had a 7% decline in revenue in India security quarter-on-quarter. So the headcount also would be accordingly lower. And same is the case with facility management.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [20]

Sure. Participants, if you would like to ask a question, please raise your hands, unmute yourself, and go ahead and ask a question. In the meanwhile, until someone asks a question, I will ask Aditya, who has a question to go ahead and ask his question.

Aditya Bagul, Axis Capital Limited, Research Division - Assistant VP of Midcaps [21]

Congratulations. Good set of numbers this time. So just a couple of questions that I wanted to ask. One is that there are some of the peers in similar categories who are into staffing and into other similar categories have talked about some amount of pricing pressure that comes in. While we've not seen too much of an impact in terms of gross margin and you've made that quite candid, do you think that in future that impact would come in (inaudible) especially towards the second half of the year?

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [22]

(inaudible) I think I've been trying to explain the difference between staffing and service for the last 3.5 years without (inaudible) should look at the global comp security. Look at G4S, look at Prosegur, look at Securitas, all of them have announced their results for the first half of the year, Jan to June. And Europe had (inaudible) major impact of COVID. If you pick up their result (inaudible)

Aditya Bagul, Axis Capital Limited, Research Division - Assistant VP of Midcaps [23]

Rituraj, your voice is not audible.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [24]

There is an echo. Aditya, please mute your line while Ritu is speaking.

And Ritu, please go ahead.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [25]

Can you hear me better now?

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [26]

Yes, significantly better.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [27]

Okay. So let me restart. So what I was saying is that I've been trying to call out the difference between staffing and services for a long time. I think corona will establish the fundamental difference between the 2 more than ever before. I would urge everybody on this call to go and have a look at the numbers of ISS Global or G4S Global, Prosegur or Securitas, which are our global comps and they are listed entities for over 30, 40 years. None of them have reported any major pressure on revenue or on margins. So we are not doing anything different in India. But let me also be very, very specific that we (inaudible) not in the same business as what you term as a staffing company. So I view business where basically staff has been kept off payroll for eventualities like this where (inaudible) they might need to drop fixed costs significantly.

In comparison, we are an essential service. Today, you cannot run any establishment without a security guard up from your fever check, doing Aarogya Setu check, doing mask compliance. Today, cameras are being used, CCTV is being used extensively for COVID, social distancing compliance, and mask compliance. So (inaudible) facility management has become a business continuity imperative. Nobody wants to reopen their office or factory without ensuring that it's properly disinfected and safe for employees and (inaudible) customers. This is not the same as staffing. Our closest peer group has 90% of (inaudible) staffing, we have 100% of our revenues coming only and singularly from services, 0 from (inaudible) so it's not fair to compare, they are not comparable.

Aditya Bagul, Axis Capital Limited, Research Division - Assistant VP of Midcaps [28]

Understood. My second question is, again, in your press release yesterday, you talked about scope for inorganic additions. While, again, in your opening remarks and right now, you said that this is a landmark change. I just wanted to understand a bit more as to what do you think could be the key traits of any of the acquisitions that you might do in future? You've talked about some areas in the west that you might be looking for. So any color on that would be quite helpful.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [29]

Okay. The first thing is that we are not looking to do any acquisitions in the immediate term. Our complete focus is on ensuring that we get our monthly invoices back on track, our monthly revenues to go back to the growth mode of 2% month-on-month type change (inaudible). Having said that (inaudible) I also will say

(technical difficulty)

So I don't know how to read that. Whether that's bad news that IT is moving to work-from-home-or is good news that even if half of IT was to come back to their premises, the frequency of cleaning and security spend is going to go up by maybe 20%. I guess next 2 quarters will tell us.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [30]

Sure. Another question which [Pratish] has kind of raised is that international business has grown during the quarter. What were the key drivers for this growth internationally? And if you can comment qualitatively on what the view on international business over a 2-, 3-year view would be? And also in India, while April and May would obviously be weak. I mean the key interest was what is the June month exit run rate? I think what is that magic number is what we are kind of keen to know.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [31]

Okay. So first-up, just like I've failed to explain to the general investor community about the difference between staffing and service, another aspect that I have not been able to convince many are is the importance of having an international operations. For the longest time, people have seen it as a drag on the SIS story. Events like COVID outline the fundamental importance of having a counterbalance in the (inaudible). You can from 5% GDP growth to minus 5% GDP growth in a matter of 12 months. I'm very glad today that 40% of our revenue comes from countries like Australia, New Zealand and Singapore, which have probably responded to the health challenge and the economic challenge that corona poses far better than most other countries.

Coming to your question, Australian revenue and performance is up simply because in mature markets like Australia, they don't use police and paramilitary for everything. So when they set up their quarantine facility or need to top-up their (inaudible) at public establishments, they tend to use private security. And that's where such substantial temporary work has come through which has served us very well in Q1

and will continue to serve us reasonably well in Q2 as well as it seems. I think that's a good marker also where the Indian market is headed. As the Indian private security industry gains more reputation, gets more organized, over time you will see that large part of noncore police functions are outsourced to private security. You are seeing this in Singapore. You are seeing this in Australia. Maybe India is a few years behind that curve. But this is also a good time to register what the future of the opportunity may look like.

The last question, I think, you had asked about exit run rate. I think we are down maybe -- on a monthly basis, we are down broadly INR 30 crores, INR 40 crores at best. So I guess, on a run rate basis, we are not even down 5% yet. And that's predominantly because of service variations. We have -- our contract cancellations are at an all-time low. Our sales engine is working, but, yes, orders are thinner than pre-corona, but it's still working. Once all the schools, all the educational establishments, all others reopen with greater spend on security and facility management as business continuity imperatives, like we are seeing in manufacturing.

If you go to an auto manufacturing sector right now, the entry gate looks pretty much like aviation airport type line arrangement. There is a guy to check mask compliance and give hand sanitizer. There's a second guy to do fever check. There's a guy on CCTV camera who's tracking thermal imaging. There's a fourth guy doing attendance and baggage sanitization or bag -- tiffin sanitization before it goes into premises. It's like an assembly line process. It's like what CISF does when we used to board flights. So I think this is clearly going to boost the expenditure on these counts. And I'm pretty confident that as market leaders offering greater expertise and reliability of service, I guess, in the long term, this augurs very well for market share consolidation.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [32]

Sure. Thanks, Ritu. The next question I have is from Alok of Edelweiss. The question is, do you see pressure on working capital, mainly receivables in the coming months as most client sectors are struggling with lack of demand? And second question is among your clients, IT sector, which has been very vocal about structurally moving to part of the employee base -- I think this you covered more or less. So yes, the first question would hold. Do you see pressure on the receivables in the coming months as clients are kind of struggling due to lack of business?

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [33]

Well, our DSOs were off by 6, 7 days. But in the current environment, this is far better than I had initially envisaged (inaudible) this question in (inaudible) I would have expected much worse. Honestly speaking, I believe that essential services like ours moved up in the payment priority order. People are paying us before because they understand that they can't function if the security guard doing the fever check hasn't been paid salaries or the janitor is half-hearted

(inaudible)

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [34]

Ritu, your line is breaking up.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [35]

(inaudible) So I think even as our DSOs are high. Can you hear me?

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [36]

Yes, please go ahead.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [37]

(inaudible) Kashyap?

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [38]

Yes, please go ahead.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [39]

Yes. I'm saying that even the DSOs slip 5%, 6%, the important (inaudible) just to look at (inaudible) we have collected more than a month (inaudible) of 80. So (inaudible) no way collection cycles. I believe that the working capital pressure or the working capital intensity (inaudible) and that's why we're looking at it as an opportunity (inaudible) further improve our net debt-to-EBITDA ratio. Let me underline once again. I just had some media questions around this as well. INR 54 crore provisioning is not at all linked to pressure on collections. We are not provisioning because our customers are folding up or something. We are provisioning because we don't know what the 9 months will entail. And if things go to plan, we will be able to reduce our net debt-to-EBITDA and also, at the same time, hopefully, bring some of that INR 54 crores back into our EBITDA line quarter-on-quarter, depending on how it plays out.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [40]

I have a question from Vaibhav of Ashmore. Could you give some color on sequential growth expectations going ahead?

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [41]

Can you hear me?

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [42]

Yes, Vamshi. Please go ahead.

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [43]

Yes, (inaudible) in line with the past (inaudible) explicit guidance. And (inaudible) actually will -- please understand, last 3 years, even though the environment was reasonably fine, we stayed away from guidance. And in a situation like we are in right now where you can't even forecast beyond the next month or 2 (inaudible) for us to (inaudible) forecast for the next (inaudible) in a pretty strong (inaudible).

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [44]

Yes, but the only thing I want to add is that rather than looking at us to give you a forecast or outlook, I think the important thing that you should look at is the 12 quarters since SIS listing. From 8% EBITDA -- 8% GDP growth, India is now heading to degrowth. For the last quarters, the economic environment has only been going from bad to worse. Despite that fact, last 12 quarters performance and the results are in front of you. So I think sometimes the historical performance could be a good indicator of what the future may look like.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [45]

Thanks. Anyone who has a question, please raise your hand and unmute yourselves and go ahead and ask, please.

Unidentified Analyst, [46]

Hello, Mr. Rituraj, sir. What about the employee recruitment process? Is it halted? Or is it going on, going forward? How will it be (inaudible) increase in the facilities management, then will there be more recruitments in the company?

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [47]

Yes. Absolutely, yes. I mean we will be looking to hire more people. And in fact, since COVID, one has experienced that the government is really, really serious about labor reforms and they are very serious about prioritizing job creating sectors and companies like ourselves. We have the potential to create jobs, and we are keenly looking forward to doing that. And not just in India, I might take this opportunity to also explain that we have received more than INR 30 crores (inaudible)

I guess somebody will need to go on mute.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [48]

Please, everyone who is not talking go on mute. Ritu, please go ahead.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [49]

I was just only saying that we will continue to recruit, and we believe that we will continue to get 80JJA benefits in India. We are also very bullish on what the government is at least talking to us about the speed at which they want to implement labor reforms and (inaudible) et cetera (inaudible) look at our results for this quarter (inaudible) indicates that (inaudible) companies that can create entry-level organized sector jobs, not for engineers and doctors and technicians, but entry-level job for people with basic skills. These sectors are clearly a priority area for governments across the world, including Australia, Singapore, New Zealand and (inaudible). This, again, we are very, very bullish about the whole labor reforms discussion and also incentivizing companies that are job creators. So I think overall, this could be a pretty solid trend for us.

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [50]

So Kashyap, we take one last question before we wind up for the day.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [51]

Sure. Anyone who has a question, please go ahead and ask.

Unidentified Analyst, [52]

Hello, team, are you able to hear me?

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [53]

Yes, you are loud and clear. Please go ahead.

Unidentified Analyst, [54]

Sir, I just want to ask only one thing. I appreciate good work, and I have read it regarding the debt (technical difficulty) for other companies also? And any plans for reducing the debt?

Vamshidhar Guthikonda, Security and Intelligence Services (India) Limited - President of M&A and IR [55]

So let me answer that question. As you would have noticed in our (inaudible) our net debt has actually gone down from the March quarter to (inaudible) so because of our strong cash flow generation this quarter, our net debt has actually come down by INR 30 crores compared to the (inaudible) earlier said, it's very comfortable. Our interest coverage is over 4x. So there's no concerns which we see on the net debt. Our average borrowing cost is just around 7%. So I think we're very well placed from a balance sheet point of view, and we're not at all worried about the leveraged position.

Kashyap, I think there's one lady who was asking a question, probably with that you can end the call.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [56]

Yes, I think it was Avanthika, could you go ahead and ask, please?

Riddhima Chandak, Roha Asset Managers LLP - Equity Research Analyst [57]

Hello?

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [58]

Yes, please go ahead.

Riddhima Chandak, Roha Asset Managers LLP - Equity Research Analyst [59]

I'm Riddhima Chandak from Roha Asset Managers. I go through your presentation and in that you have written that across all your businesses you have increased pricing power. So that means, sir, in the quarter or so, none of your clients asking for any discount during this COVID and -- yes. So some color on the pricing part.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [60]

I think what we mean by that is that in the environment like this where every single business is in a cost cut drive, in an environment like this, when you have more than 5,000 corporate customers, 289 of the BSE, NSE 500 are SIS customers. (inaudible) corporate customers with organized procurement teams, et cetera. Despite their best efforts, we've held on to our pricing. Therefore, we've held on to our gross margin line. That is what I think is the ultimate sort of litmus test of pricing power because unless you deliver top class and you don't have easy replacement, you'll be able to hold on to pricing and gross margin in an environment as tough as the one we are (inaudible) meant by saying that we have increased pricing power for our businesses across segments. I hope that explains it.

Kashyap Pujara, Axis Capital Limited, Research Division - Head of Research & Executive Director of Strategy [61]

Yes, I think that was the last question. Thanks, everyone. But I would also like to also apologize. I think the line has been a bit unclear. Voice has been cracking quite a bit. So there would have been things in commentary which might would have missed out. In case you have any questions, please feel free to reach out to Vamshi or reach out to Aditya at Axis Capital, we'll be happy to kind of take you through and clarify whatever doubts you have which are unanswered. Thank you, Ritu, Devesh and Vamshi for being on the call today.

Rituraj Kishore Sinha, Security and Intelligence Services (India) Limited - Group MD & Executive Director [62]

Thank you, Kashyap. Thank you, everyone, for joining the call.

Devesh Desai, Security and Intelligence Services (India) Limited - Group CFO [63]

Thanks, Kashyap.