

**“SIS Limited”
Q4 FY2022 Earnings Conference Call”**

May 05, 2022

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Moderator: Ladies and gentlemen, good day, and welcome to the SIS Limited Q4 FY2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Devesh Desai from SIS Limited. Thank you, and over to you, Mr. Desai!

Devesh Desai: Thank you very much. A very warm welcome to everyone for our Q4 FY2022 earnings call. Along with me, I have our Group Managing Director, Mr. Rituraj Sinha, and our newly joined President for M&A and Investor Relations, Mr. Bharat Bakhshi. I hope everyone has had an opportunity to look at our results, the earnings note and update which has been uploaded on the stock exchange and the company’s website at www.sisindia.com.

We are extremely happy to report that FY2022 was a landmark year for SIS Group. We crossed the Rs. 10,000 Crores annual revenue mark for the first time in our history and the last quarter also was one of the strongest quarters of growth for the group with revenues touching a record high of 2648 Crores. Other recent developments which are noteworthy are that Terminix is all set to become a 100% subsidiary of the SIS group. Execution of the agreements are imminent, and we also recently made our first investment as part of our SIS venture initiatives in a company called Staqu Technologies which is a video analytics company. I would now like to handover back for the question and answer session.

Moderator: Thank you very much. We will now begin the questions and answer session. The first question is from the line Rahul Chopra from HSBC. Please go ahead.

Rahul Chopra: Good morning. I have three questions, first is on terms of the growth. I mean looking at your graph I think I could see a nice uptick in March in terms of revenue for the industry. I just want to understand basically what is the seasonal is it probably relating to reopening of office and basically kind of conversations you have with these clients the reason reopening the economy so I just wanted to understand, it is more uptake of security jobs being deployed given the reopening so I just want to understand what you have basically discussing, just to understand. Thank you.

Rituraj Sinha: Rahul thanks for that question. The great thing is that growth is clearly back and it is back across segments, it is back across security in India, in cash in India, in facility management in India and also in international markets we are seeing uptick in tender activity and clearly growth is back across all four segments and this is a mix of new activity around the new orders, new tenders, new RFPs but then it is also a lot of volume that had contracted during COVID in the IT sector, in the hotel industry various other subsectors which saw deeper COVID impact. They are coming back to full operationalization now and that is leading to lot of volume recovery as well. The third element which is the price change, the three legs to our growth storage, volume growth, new orders, and then price change, the third angle is still not in play and we are hoping that sometime this year we will see as the economy opens up and goes back to growth trajectory we

will see a wider minimum wage increase across the country and that will be supplementing our growth opportunity at hand so generally a good momentum coming back around.

Rahul Chopra: Understood. I mean just to followup on that since you mentioned price. So are you saying that you have not clearly passed on price increase to the extent you would probably like to so should we expect probably some uptick of gross margin as well as the year progresses or broadly you have to be where you are looking at few gross margins?

Rituraj Sinha: Actually, it is not that we have not passed on price increase or that there is no lag on our part. The problem is that Indian on an average pre COVID was witnessing a 9 to 10% minimum wage increase per annum that is like a 10 year trajectory before COVID happened. During the COVID year this percentage has dropped to sub 5%, it is like 2%, 3% in some states because the government has been weary of pushing the minimum wage for obvious reason. Now as the economy goes back to full scale operation and inflation is putting further pressure on the lower middle class income levels one is looking at all indicators that suggest that there should be a reasonable minimum wage catch up maybe not in one shot, may be over a period of time but one expects that this should be coming back.

Rahul Chopra: I have a few followup Ritu, if I may, one on operating margins I mean which is sequentially it was quite down obviously there was a bit of impact as we can see in the press release maybe if you could just help us just to understand the moving parts sequentially what was the delta increase in onetime bonus and the discretionary payments, just help us understand the bridge and maybe how should we think about margins coming back to sub 5% level. I mean trying to understand should be more like FY2023 or should it look more like FY2024 get back to this 5.5 or 5% margin which we are probably leading to?

Rituraj Sinha: I personally believe that because the gross margin is intact across businesses and growth momentum is coming back I think in the next three to four quarters we should be at our pre COVID level but then again I would like Devesh to explain the segment wise split and what is happening to give you greater clarity across all four verticals.

Rahul Chopra: I will be just interested In India vertical because that is what probably I think the market is looking at.

Devesh Desai: As Rituraj said that with the growth momentum coming back and the revenue going up, the gross margin continues to remain intact and it is a matter of getting the volumes back in shape to get the EBITDA margin but of course in this quarter and the year we had certain extra costs, one off cost. COVID continues to impact us as far as SG&A is concerned. We did incur significant amounts in this year on protection measures and mitigating measures for COVID. Even in the last quarter it was less than the earlier quarters as mentioned in the note. In the earnings note we have also mentioned what those amounts were, the one off costs and discretionary payment costs. The other thing I think which we all need to appreciate is that in FY2021 taking cognizance of the situation we did manage to roll back and reduce a significant amount of costs on rental,

travel, consulting and various other stuff that was almost 50 Crores in the year. Now of course with activity picking up and economy opening up these have all started to come back in the system and those costs are now getting reflected in the P&L. As Rituraj said over the next three to four quarters with growth coming back, we hope to come back into the pre COVID level of earnings. These are the factors which have impacted us this year.

- Rahul Chopra:** Understood. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Vidit Shah from India Infoline. Please go ahead.
- Vidit Shah:** Thanks for taking my question. My first question was on this Mahanadi coal field contract that we won of roughly 220 odd Crores. Can you shed some light like what sort of service is being provided there for 3000 guards the average revenue per guard is fairly high compared to what we are averaging for the rest of the business?
- Rituraj Sinha:** This is a pretty standard security contract but there is use of vehicles, there is use of technology, equipment. There is also use of people who are trained in fire, fire trained people. Other factor is that the mining minimum wage is higher as it is a central minimal wage which is higher than the average state minimum wages so all of this put together is the reason why you have a higher per guard realization in MCL type contract. Please remember that the central minimum wages in India are significantly higher almost 50% higher than the national average minimum wage per state.
- Vidit Shah:** Fine and this 220 odd Crores that you mentioned is the annual value of the contract or is it multi year.
- Rituraj Sinha:** No it is a multiyear contract.
- Vidit Shah:** Understood, also just trying to understand this strategy and get some clarification on the fund incubator strategy where you say that 75 Crores is what you are planing on investing across various start up adjacent to the business so is this 75 Crores per year or is this what the total fund is to be invested across multiple years?
- Rituraj Sinha:** As of right now it is just a clearance we have taken from the board for up to 75 Crores. It is not defined as per year or multi-year but it does not look like that we will be investing anything close to 75 Crores in a single year or doing that every year back to back. The larger idea here is that in the security space there is lot of startups emerging, which are adding a lot of value using artificial intelligence. Like for example there are millions and millions of CCTV cameras in the country, but then most of CCTV cameras are used for recording footage and supposedly after an incidence happens you can go back and refer to it so there are what we term as dumb cameras, they are not intelligent cameras they are basically not proactive about anything. They are basically for recording evidence which is not really helpful. What companies like Staqu are doing now is that they are putting AI technology for various applications. Like CCTV today can count the number

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of vehicles going into a parking. They can count where the people are charging for the parking or they are using pass to charge or they are collecting or cash. In a factory type set up beyond security they are actually able to count who is spending how much time on the shop floor, who is taking more breaks, who is taking less breaks. In an e-commerce warehouse they can count the number of cargo packages coming, cargo packages going out so they are able to use CCTV cameras not just for making it proactive and intelligent. They are also using the CCTV camera what we call beyond security application which are a major value add for customers and the beauty is that it does not require you to invest further in capex. It does not require you to change your CCTV cameras. The technology that is being built is generally capable of working on any reasonable IT based CCTC system so these are future product. Similarly, there are various other experiments that are happening in the FM space which are around energy efficiency of buildings etc. In cash logistics there is a lot of merchant based cash collection and cash delivery systems which are happening so there is lot of tech being used in our space. Is it possible to sort of incubate all this 10, 20, 30 different items buy ourselves? Probably not because it requires a different kind of DNA to be able to do that. So what we have decided is that lot of these start ups need large platforms like us to connect them to pilot their product and solutions and it suits us because we are basically on technologies that could be potentially value add through us in the immediate term and who knows maybe five year down the line there could also be replacement technology so that is what we should be investing in. SIS has always taken a lead to experiment with new ideas. We started experimenting with Cash in 2010 when it was not such a significant industry. We started getting into Facility Management in 2009 when it was not what it is today. We started experimenting with alarm monitoring and response services which is VProtect business for home security, for ATM security in 2015 way ahead of the time went it really became an important product especially around COVID so similarly we believe in the next 5 to 10 years some of these ideas will be major ideas and that is what we want to take small positions to help them scale not all of them will succeed, but the bigger problem would be for SIS to turn its back and say that these technologies do not matter. So, this is a bit of future insurance if you would like.

Vidit Shah:

Just a followup on that. I am presuming Staqu was also part of this 75 Crores approval. Just in terms of valuation of Staqu, I mean how do you look at the start ups and how do you value these because if I understand 5 Crores for 7.5% odd is roughly a valuation of 60 Crores when FY2021 revenue was around 3 Crores so that is significantly higher than the previous acquisitions that you have made. You said in the past that you would be investing at the right value and your previous acquisitions have been fairly successful in doing that. When it comes to state funding and startup could there be a diversion to the method or no.

Rituraj Sinha:

We are conservative investors so that does not change. Who knows about the right value of startup space here. I mean we have Zomato and PayTm right in front of us where the entire stock market or Nykaa for that matter. So, I would not get into how they should be valued in the start up space. What I can tell you is Staqu as 3 Crores revenue that is fine. Their order book will take them to 7 to 10 Crores in the coming year but most important for me they are not burning cash.

They are almost 0 cash Burn Company on a monthly basis which I believe demonstrates not just the unit economics. They are making money per camera per months but more importantly the mindset of the founders so that is what we believe and I do not think that it is a higher value. We have taken reference of other deals in the space and I think we have got a very good pricing from that perspective and we also have another VC fund investing with us who have again done their diligence. Not just our own diligence but somebody who specializes in VC funding, so we both are entering at the same price point.

Vidit Shah: Understood and just one final one for Devesh if I may. Just about the tax rate what should we assume for the tax rate going forward given 80JJAA benefits flowing through again so what is the tax rate in the international business. I am presuming the standalone business will be a zero tax.

Devesh Desai: Yes, you are right. Tax rate in the international business you could take it as an average of 30%. For most of the India business getting 80JJAA benefit it is close to zero.

Vidit Shah: Okay fine and this is likely to continue for the next four to five over a long term. There is no indication that after certain level of guards are surpassed.

Devesh Desai: So there is no threshold on the amount of guards. There is threshold on the salary paid to the guards that will become eligible for the benefit and that is Rs. 25,000 on an average, so I think on an average we are still some way away from it, If 80JJAA section continues and we do not have another repeat of the last two years we expect to continue growing and getting the benefit.

Vidit Shah: Okay thanks. That is all from me. Thank you so much.

Moderator: Thank you. The next question is from the line of Rishab Sisodiya from Concept Investwell. Please go ahead.

Rishab Sisodiya: Thank you for the opportunity. Sir I have a few questions on the Cash Business EBITDA. Like the current quarter we have 10 or 20% EBITDA margin so how confident are you on this part. Is it a sustainable margin that we should look ahead?

Devesh Desai: So, part of this 20% margin this quarter was based on our balance sheet review. There were some provisions we had which do not seem to be any longer required so that has been taken into this quarter and that skewed this quarter a bit. Last quarter I think was 11% or so, so 20% is a bit of aberration over here.

Rituraj Sinha: Let me just add to that. We believe that on a steady state cash business we are doing initial double digit margin, 10 to 12%. It has cleared potential and trajectory to head towards 15%, and like Devesh said 20% is not something we are forecasting at the moment but I am glad that you asked that question because what I think goes unnoticed or unrealized or not fully captured is the fact that SIS is also the second largest cash logistic company in the country and it is a 400 Crores

business. Its run rate is 40 Crores a month right now so it is clocking close to 500 Crores on an annualized basis already so on the pipeline it is very strong and we believe that this business can be scaled rapidly in the coming one to two years as cassette swap minimum standards and other price enhancing features come into play so I guess overall this is a great opportunity for us and we are very bullish about it. We will continue to invest in the space going forward and we believe at some point in the future stock market will take cognizance of the fact that right now our cash business is pretty much assigned negligible or nil value.

Rishab Sisodiya: Thank you for the brief answer on the next part is thank you if you could give me the DSO for all that business for the full year and are we seeking any inorganic opportunities going ahead

Devesh Desai: I think the DSOs are there in the earnings note for every segment have a look at it please. What was the other question?

Rishab Sisodiya: Any inorganic opportunity that we are seeking in the domestic or in the international business?

Rituraj Sinha: SIS is predominantly an organic growth story and it remains so but you know that since IPO we have made several acquisitions and most of the acquisitions have demonstrated our ability not just to get in the right valuation for more importantly to be able to integrate and post integration grow the businesses whether it is unique, whether it is DTSS, whether it is SLV or any other business or even let us say our investment into international markets we have been able to demonstrate that and that has been mostly our history of acquisition in the last 10 years so we will keep looking at acquisition opportunity but we must understand that our growth when I say that we want to go back to 20% growth in FY2023 that is not dependent on M&A. If there is an opportunistic thing that comes up and we get a fair price it is one of the targets that we have been sort of tracking for several years definitely so you must remember that if M&A happens it will happen in security cash FM, the spaces that we know where we have demonstrated capability. It will always happen for either market share enhancement in certain key pockets or growth or to enter a new service segment and we will maintain the discipline around IRR of 21% in a conservative case which is the basis of our financial model and our investment case. As of today short answer would be that are we looking to acquire something in the next three months we do not have any deal at that stage.

Rishab Sisodiya: Thank you for that. Last question if I could, given in the last year we had lot of COVID revenues be it the international business and the Indian business. A lot of hospital revenue I guess rare might have done really well on that part in the last two years so going ahead as we see the economy opening up, the IT sector opening up which leads to be a very big contributor to our revenue and so how do you see this shift happening. Will you see the IT revenues coming back to the pre-COVID level or do you see the hospital revenue repeating a bit from?

Rituraj Sinha: Let me just correct you there. You know the beauty of the SIS model is that things like security and facility management services are used by everybody. We are not 30% - 40% revenue coming from one sector. The biggest sectors that we have likes of IT, BFSI etc or even manufacturing

they are all in teams, 10, 12, 13% contribution to overall revenue. The reason why, SIS did what it did during the COVID period in terms of 7% growth in the first year and 10% growth in the year that just concluded, is because we are customer segment agnostic. Coming to the point you are making IT is coming back we believe that is going to be a bonus for us because we started growing in manufacturing, in mining, in health care in various other such sectors before and now that retail is coming back, IT is coming back, hospitality is coming back they are just going to add to our growth opportunity.

Rishab Sisodiya: Right Sir. Thank you for the opportunity.

Moderator: Thank you. The next question is from the line of Kashyap Pujara from Broadview Research Private Limited. Please go ahead.

Kashyap Pujara: Devesh and Ritu, just couple of questions. India security business you have mentioned in your notes that gross margins were intact so the margin dip is largely due to maybe other expenses like COVID etc so just wanted to understand going forward now that COVID has receded can we expect the normalized margin trajectory for the India security business to be visible in FY2023 or do we still have cost which are sticky in nature and we might not get there.

Rituraj Sinha: Kashyap the COVID related cost are now literally negligible right. The vaccination exercise has been largely concluded so COVID costs are negligible. What you are witnessing in India security business is us ramping up a growth. We are adding more than 50 people on our sales team. We have restarted opening branches. Other things that were pending or that were not done during the COVID years like some increment catch up, the onetime bonus pay out. These are all things that are basically impacting the EBITDA line of India security business so that is what I said. This is not COVID. I hope that COVID expenses do not come back. It is basically expenses like Devesh explained that being curtailed like travel, like hotel accommodation, like all of those things, meetings, trainings all of these are coming back, rentals etc are coming back and at the same time you are also investing in growth levers because we believe every crisis is followed by a fresh opportunity, a turbo charged opportunity. We think that we are poised to gain market share in the current environment and we are funding for that and I have said always that growth will be a priority for us. As far as margins are concerned they are important. Margins will go back up but Kashyap I think we had the chat before. For me the ultimate metric is return on equity. If margin and my growth put together is delivering me close to 20% return on equity ultimately that is the metrics that matters.

Kashyap Pujara: That is fair. Just to understand that if we kind of end up growing that you were mentioning FY2023 broadly in this business. It would also imply that you will get leverage on our branch cost given that COVID expenses were no longer there and you can kind of bulked up on setting up branches and incur some of those expenses so logically there should be operating leverage which would flow through as a function of growth that you are perceiving so it is logical to expect some margin expansion from where we are maybe.

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- Rituraj Sinha:** Correct you are absolutely 100% right that as growth picks up operating level starts to flow, but I can tell you just on a lighter note then you will also see more working capital employed in the business and then probably next time you are talking we will be discussing why working capital is going up but anyway that is the nature of our business.
- Kashyap Pujara:** But as long as you maintain 40 to 50% conversion to EBITDA and manage to show a 20% return on the capital and end up growing I think that is a fair way to think about it how the model will work.
- Rituraj Sinha:** Boss I have been saying it from the first day since we went to IPO, the metric I have measured myself and it has 70% promoter held company. The metrics that I measure the business are, 20% growth, 20% return on equity and greater than 50% operating cash flow to EBITDA as long as I am hitting these three metrics or close to these three metrics, I think directionally we are going well. So for a fact we are only doing 10% growth versus 20% right. Our return on equity 16, 17% against 20% and our operating cash flow to EBITDA would be close to 50%. Last year Kashyap if you remember FY2021 where we grew slower we had more than 100% OCF /EBITDA but that is wonderful right from perspective of many people but for me that is just a bad idea because it shows that I am not reinvesting in the business.
- Kashyap Pujara:** One more question was on the cash logistic side. A lot has not been spoken on that business and definitely this quarter the numbers were pretty good. Just wanted to understand how you are thinking about it from a growth trajectory in this business going forward. You did mention a 400 Crores annualized run rate, 500. What are your broad thoughts here over the next three years in terms of revenue growth and second is that do we see a normalized 15% margin in this business by when. In the next year can we look at it or going forward because I think it may be making sense to start valuing this vertical as well which has not been assigned any value so far?
- Rituraj Sinha:** Thank you Sir. I have to be grateful for actually capturing that but let me answer your questions. So next three years we want to double the business and I think if it delivers anywhere between 12 to 15% I am happy with that. I do not want to tighten every screw and shut out every large dollar and take it to 18%. I am not a private equity player yar. I am not optimizing my EBITDA. Honestly speaking as long as we have seen a reasonable profit line it is growing fast, capturing market share, I am not having to acquire and pay for acquiring ATMs etc. I had rather invest organic growth then make expensive acquisitions. I am not saying that acquisitions in cash are bad idea. I am just saying that organic growth is a higher return on equity scenario so that is my guidance, 12 to 15% is what you can work with.
- Kashyap Pujara:** Fair enough. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Rama Krishna from Zen Wealth Management. Please go ahead.

- Rama Krishna:** I think just as a continuation to the previous question and the answer that you are giving. I am just trying to understand I mean we have just evolved coming out from two difficult years and if things normalize from now on, slightly longer term horizon maybe next three, maybe FY2025 I am just trying to understand your thoughts in terms of the ROE target that you had or the growth target that you had or the cash flow conversion target that you had so how close would we be FY2025 in terms of meeting those target as a business across the business segments and in terms of balance sheet the leverage kind of say so there is some kind of holistically thought process if you had gone through internally if you would want to share from the next three years perspective where we can expect SIS to be from now by FY2025.
- Rituraj Sinha:** I can only talk to you about our vision 2025. We set out a vision 2025 last year and obviously from a growth perspective we only grew 10% this year so it is not our best growth. Yes, given the context it is wonderful but it not 20% plus. The good news is the key metric if would like to draw your attention to which actually will probably help you get a clearer answer. If you look at the earnings note in the first section I have put out a chart that explains the SIS security FM, cash business, international business revenues pre COVID March 2020 and then March 2022 24 months later. If you see that chart, you will see that not one but all businesses have grown through this period, so in a year when economy contracted FY2021 they grew. FY2022 when the economy came back they grew and hopefully in FY2023 when the economy really picks up momentum then we have larger prospects to grow that are the true power of essential services as a segment. It has a very interesting correlation to GDP. When GDP expands you grow two and half times GDP. When GDP contracts you actually do not shrink, you actually continue to grow so it is a like blend between defensive sector and having advantages of consumer play so that is there real base for the security or FM or cash business what we call essential services and I believe if this rolls out for the next three years we will be in a position to double or market share, in security, in cash, and in FM right and that is our key goal. We want to double our market share and we want to step up from services company to becoming a solution driven company by using more and more technology and increasing our margin for every Rs. 100 that we invoice out.
- Rama Krishna:** Thanks.
- Moderator:** Thank you. The next question is from the line of Aasim Bharde from DAM Capital Advisors. Please go ahead.
- Aasim Bharde:** Hi afternoon team. So first question actually was on the cash logistic business so firstly can you just give me a revenue break up of what all in the cash business right now and when you say you are the second largest in the space how do you define that.
- Rituraj Sinha:** Second largest is by revenue and the split of 40 Crores monthly invoice value right now approximately would be 40 to 45% CIT (Cash in transit services) and another 30 odd percent would be ATMs (ATM replenishment services) and the remainder would be door step banking and other bullion services etc.

- Aasim Bharde:** Sir I just wanted to understand the gap between EBITDA margin and net profit margin. So I think EBITDA margin we get about 14 odd percent this year. If I just to calculate just to add Prosegur share back into it and add it to the share of profit of associate line times in the report, I think the net profit margin is less than 2% while EBITDA margin is 14% so what would explain the gap between the two.
- Devesh Desai:** Being a capex heavy business, and with every contract being related to a deployment of a vehicle with specialized fabrication and specialized equipment and treatments to the vehicle, most of this gap between EBITDA and taxes is a towards depreciation and financing cost. As you would also know the new MHA and RBI compliance norms require vehicles to be new and not more than seven years old, so now the rotation of vehicles has become faster and also mandatory. With the new contracts we are having to replace vehicles and that is where the capex is being incurred and resulting in interest and depreciation cost being as high as it is.
- Aasim Bharde:** So when you say you want to double the business in next two to three years. Of course some of it will come because of the compliance norm but fair to say that the gap between EBITDA margin and the net profit margin would still be at a similar level, 14% EBITDA and 2 odd percent for net profit.
- Devesh Desai:** As time going by, the average age of the vehicles is going to come down. So right now, with the transition happening at a fairly rapid pace, the age of vehicles is becoming higher in the short term but the average age of the vehicles going down and this gap is going to increase. You should see a better net profit margin over the years.
- Aasim Bharde:** And on VProtect just how much is VProtect as a percentage of India's security revenue in FY2022 and what was it in FY2021.
- Rituraj Sinha:** So as of right now VProtect would not even be contributing 1% to the revenues of India security. It is fairly small business but it is delivering more than 20% a big deal and very soon we will be touching the 10,000 connections mark. We have roughly 6000 connections in the bag to be deployed. Lot of connections deployment got hung up because of COVID and all the issues that happened in the last year but we are strong believers in that business. We think that in the next one to two years it could be more than 100 Crores in revenue. It will continue to be only 2/3/4/5% of India security consolidates but that 5% will add a very significant piece to the overall India security margin so far.
- Aasim Bharde:** Just a followup on this. You mentioned that you have an order book of over 6000 site and you will be touching 10,000 once you add that and I think in your release.
- Rituraj Sinha:** It is close to 10,000 and we will be adding another 6000 closer to 15k.
- Aasim Bharde:** Okay fine. Thanks for the clarification and just finally just wanted to understand. How do you see your capital allocation so basically we get back on the growth trajectory that you are talking

about and cash flow generation of 50% plus and I assume there will not be any major M&A in the near term, some smaller ones are fine but in terms of cash deployment will we be going back to the dividend route or would you be focusing on maybe cutting out international debt because of the rising interest environment.

Rituraj Sinha: International debt is at less than 2% all in cost, 2, 2.5% right Devesh.

Devesh Desai: Yes, that is right.

Rituraj Sinha: Actually, if I eliminate the debt in international, I actually worsen my return ratios. So, I am a believer that there should be a healthy level of debt that balance sheet needs to maintain for the return profile. Capital allocation if I were purely driven by equity funded growth SIS would not have grown from 20 Crores business to 10,000 Crores business with promoters holding 70% equity so there has to be an optimal level of debt in the mix, 3X EBITDA gearing is dangerous I understand and I understand that not in theory I understand that by having done that. When we acquired those business in 2008 we were more than 5X EBITDA and I know what that feels like so SIS is not going back there and doing crazy stuff but if you believe that SIS should be zero net debt we should dilute our equity and pay back debt back even in the current environment the interest cost is going up. My blended cost of borrowing remains below 6% or close to 6%. I think India's inflation is greater than 6%. I do not see why I need to be in a rush to pay back debt I do not see that to be a problem. If I get more than 2X then definitely yes but I think financially it is not prudent to actually pay that down by diluting equity or the second scenario of paying that down to be like FY2021 where there was no growth. We were sitting on a pile of cash so we paid back debt and we did 125 Crores, 100 Crores plus buy back as well so I mean these are two scenarios which are not optimal for me.

Aasim Bharde: Understood. And just one last question in Q4 of course part of India security margins got hit because of the one off cost is there anything similar to call our on FMS side as well in Q4.

Rituraj Sinha: It is good that you asked that question because we have not discussed FM in this call today. If you recall if you have been attending these quarterly calls on a regular basis right at the onset of COVID I had called out at the biggest winner out of the COVID situation amongst our service line is going to be FM. It took the biggest hit initially, but you will now witness it to be the biggest gainer over the course of next three years. People have moved. The mindset of customers is moving from facility management for cleaning to facility management for hygiene and disinfection and health and safety. General consciousness increase in this direction is basically resulting in a higher spend per square foot because people want better equipment they want better chemicals, They want higher frequency of cleaning and disinfection. It is not a cleaning job. It is hygiene, sanitation, like job in the customer eyes now therefore they prefer larger organized and reliable players more than the cheapest provider of cleaning staff. I think this a big shift in the FM industry and over the next three years you will witness that FM business probably will maintain the highest growth rate if they can capitalize on the opportunity ahead.

- Aasim Bharde:** Yes I understood that. Just wanted to get a sense on was there anything to pinpoint on the cost front in Q4 because you continued to grow well because things are reopening right. There was 30% growth y-o-y on the FM business, 5% quarter on quarter growth but on margins at least on a sequential basis there has been a dip so just wanted to know if there are some one of cost there as well or anything else you wanted to call out.
- Rituraj Sinha:** So every time you grow you have some initial operationalisation cost. So you have a big contract that you take on. You have set up cost that happens there. Secondly as I said earlier, we are investing in expanding our sales force.
- We are investing in lot of branch set ups that we had held off during COVID, A lot of cost that has been curtailed during COVID like travel etc, etc coming back so it could be a blend of all those factors, but I still say that the FM business is going to head back towards broadly a 6% EBITDA margin trajectory. It may take two quarters. It may take four quarters but that is where it is going to go.
- Aasim Bharde:** Got it. Thanks a lot for answering all my questions.
- Moderator:** Thank you. The next question is from the line of Vaibhav from Ashmore Group. Please go ahead.
- Vaibhav:** Thanks, could you share segment wise growth aspirations for FY2023?
- Rituraj Sinha:** We have a budget in place but that is not what we do, so segment wise it is going to be difficult for me to call out. On a consolidated basis you can take 20%.
- Moderator:** Thank you. The next question is from the line of Alok Deshpande from Edelweiss Securities. Please go ahead.
- Alok Deshpande:** Good afternoon, Rituraj good afternoon, Devesh. First of all, congratulations to the SIS team on crossing the 10,000 Crores milestone. Couple of questions one is just wanted to understand how do you see FY2023 for the international business because as you have mentioned in your note the tapering down of the COVID related contract is now sort of talking place so how should we look at that and also Rituraj your comment on the next three or four quarters we can probably get back to the pre COVID margin levels across segment. I mean if you could out any numbers to it. Are we looking at that 5% to 6% range or closer to 6% or higher so these couple of questions from my side.
- Rituraj Sinha:** So international security delivered a exceptional result in FY2021 Alok. It will not deliver 20% year on year growth in an economy that does not grow more than 3 to 4% at best and in FY2021 the Australian economy shrunk but they delivered 20% year on year growth. They delivered that growth at more than 6% EBITDA margin. That happened because they had a lot of temporary work and temporary work is priced differently when we took a higher margin call on that. Now that FY2021 was a complete exception. What you see in FY2022 is normalization towards pre

COVID levels so obviously the growth is not 20% anywhere close to 20%. It is single digits and the EBITDA margin is now tracking more towards 5%, than 6%. The way to look at our international business is go back and look at the FY2020 numbers. We believe that the international business will ultimately revert back to the FY2020 pre COVID broad range and mostly it should happen over the course of FY2023.

Alok Deshpande: The second question on the margins for the India business. The Reversion is to more steady state margins. Is it more closer to 5.5, 6% that we were clocking earlier.

Rituraj Sinha: I think we will go back to 5.5, 6% broad range whether it takes two quarters or four quarters I cannot call out because every time there will be Mahanadi coalfields type mounting of contracts. There will be a hell of a lot of expense that goes into starting up such contracts right.

Mobilization cost are there. Please be mindful and I am calling it now because we might have this point bothering you guys a little bit in the coming quarter. The growth is going to come back. You will see margin volatility because start up cost of different contracts if you remember long back when we had Cognizant. We started up the Cognizant contract that quarter also the margin slipped and there was a big concern around it, so when growth comes back, there will be things like that could be happening so please do not get spooked by one quarter or get over excited by one quarter of exceptional margin. Number two as growth comes back working capital will increase but I think as long as the blended cost of borrowing even in 6% range and lower than the inflation I think we are not worried about that because all of the debt that you see in SIS balance sheet divided between long term debt and working capital debt. You will see that more than 90% is purely working capital debt that is fully backed by debtors from our customers and we are getting that money at a blended cost of 6% India, Australia mix right so please be mindful of both the margin mix and the fact that the working capital employed in the business will go up.

Alok Deshpande: Sure, Rituraj and Rituraj you mentioned 20% growth in one of the earlier question. That is the sales growth guidance you are giving for next year.

Rituraj Sinha: Yes. I am only giving guidance, revenue growth.

Alok Deshpande: Revenue growth consolidated level right.

Rituraj Sinha: That is what would make me happy. That is what I would consider as a good result and that is what we are hitting for.

Alok Deshpande: Okay so that would mean the India part of the business will be substantially above 20 right given that what you mentioned earlier about international business I mean for that blend to work out.

Rituraj Sinha: Yes.

Alok Deshpande: Got it. Thanks a lot Rituraj. Thanks a lot Devesh.

- Moderator:** Thank you. The next question is from the line of Mukul Garg from Motilal Oswal. Please go ahead.
- Mukul Garg:** Good afternoon, Rituraj. Rituraj I just wanted one clarification regarding your earlier statement about the minimum wages and the possibility of how it will play out this year. I am sure given the elevated inflation in Indian market you and the industry on a broader level will be representing to both state and central governments on increasing the minimum wages. Generally, what are the pulls and pushes governments are grappling with in this context and what probability will you assign to increase in the current calendar year.
- Rituraj Sinha:** You want me to forecast minimum wage increase.
- Mukul Garg:** I just want you to share your thoughts what kind of pressure which are there on both sides and is there a chance that they have to increase minimum wages this year given the kind of inflation everyone is grappling with.
- Rituraj Sinha:** I would love if my opinion matters but this question is better posed to Bhupender Yadav who is the current labour minister.
- Rituraj Sinha:** I cannot believe that India has not increased minimum wages materially across states and center for the last 24 month and unfortunate reality of this country is that people who are white collars workers they got pay cuts and they also get catch up pays and we had the great resignation and hiring uptakes and pay increases across that is happening in the white collar space. In the blue collar space there is nothing like that happening. People are stuck, they are stuck waiting for minimum wages to go up and then they're paid to be you know going up on pro rata basis it's really unfortunate right and with the current situation around. When the governments wake up to it and how much they wake up to it. Are they going to wake up to it with another 3% pay hike. I have no clue but over a period of next few years can the government not give a fair pay hike over a four year window back to back. I think that would be a disaster for the country.
- Mukul Garg:** Just to carry this forward and I am sure you guys are regularly in contact with them sharing this perspective do you think this sensitivity is still low across both state and central governments and they are responding and they are actively considering how to deal with this.
- Rituraj Sinha:** I mean it is a very difficult situation in one hand the government is rolling out free ration and free homes and free electricity incentives for farmers in terms of PM Kisan etc. Actually, people who are not in the formal work force or are like farmers etc, the government is really covering for them and that is good but the people who are at the bottom end of our work force. India has 55 Crores work place, 30 Crores plus people work in nonfarm sectors. Roughly 6 to 8 Crores people are in jobs which are PF covered. Now in the PF covered or the social security jobs are the jobs which are getting hurt most because you are taking care of your industry, you are taking care of your white collar, you are taking care of people who are below or as poverty line but the blue collar is getting left out. I hope and I think the government will take up this situation.

- Mukul Garg:** That is helpful. That would be from my side and it is great to hear about the kind of demand environment which is prevailing right now. Best of luck for this calendar year.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. As there are no further questions, I will now hand the conference over to the management of SIS Limited for closing comments.
- Rituraj Sinha:** Thank you guys for continuing interest in SIS and I hope that the performance of FY2022 is clearly in line with what we had spoken to you about at the onset of COVID where we called the recession resilient nature of our industry in our own business model and SIS is looking forward to FY2023 being a year of revival, going back to our pre COVID levels of growth and we are very bullish about the situation and we clearly hope that we do not have any disruptions in FY2-23 and we can get on with business as usual. I would also take a moment to once again introduce my colleague Bharat Bakhshi who has recently joined us. Bharat basically has a banking background, he has been with the likes of UBS, Citi and he has been on investing sides with funds and with Ernst & Young on the advisory side. He brings great deal making expertise and investing expertise and he will be looking after key aspects closely one is IR where he will be interfacing with all of you. I hope that you will give him the same support that you have extended to Devesh and myself. He will also be looking after M&A and SIS Ventures. So please join me in welcoming Bharat to the SIS family. Thank you very much.
- Moderator:** Thank you. On behalf of SIS Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.