Management Discussion

Dhiraj Singh - Chief Executive Officer, SIS Limited
Thank you. Good afternoon everyone and welcome to the Q2 FY '27 earnings call. Before we begin, it is with deep sadness that I share the passing of our founder chairman Shri Ravindra Kishore Sinha ji on the 30th of October. He was the visionary who built this company, and his leadership values and guidance have shaped everything we are today. His loss is deeply felt by all of us at SIS. On behalf of the board, the management team, and all our employees, I extend our heartfelt condolences to his family.

We will carry forward the legacy he leaves behind and remain committed to the values he stood for. It is with that spirit and commitment that we continue our journey, and I would now like to take you through our performance for the quarter. I hope you have had a chance to look at our results and the earnings note which was uploaded on the stock exchanges and the company website yesterday. In Q1, we had called FY '27 an inflection year. Q2 establishes the trend. This was a milestone quarter for SIS on every measure that matters- record revenue, record EBITDA, record profit, and margin expansion across all three of our business segments.

Consolidated revenue for the quarter was a record INR4,816 crores, up 28.1% year-on-year basis and 4.6% sequentially. Even excluding APS, on an organic basis, the growth has been 18.6% year-on-year and 4.4% quarter-on-quarter. Please note, this is our ninth consecutive quarter of sequential revenue growth. At the same time, EBITDA was a record INR222 crores also, up 32.7% year-on-year and 7.8% sequentially. This is the fifth record EBITDA quarter in a row. Even without APS, this has been a growth in EBITDA of 23.8% year-on-year and 6.8% quarter-on-quarter basis.

Margins also expanded and came in at 4.6%, which is up 16 basis points year-on-year and our best in the past six quarters. Profit after tax was INR111 crores. Up 37.1% year-on-yearand the highest in the company's history. I want to draw your attention to one point in particular. Both EBITDA growth of 32.7% and PAT growth of 37% ran ahead of revenue growth of 28.1%. So it means we are not simply getting bigger, we are getting better also as we get bigger. This is the operating leverage we have been building forward.

On scale, trailing 12-month revenues now stands at INR18,094 crores, and our annualized run rate is now nearing the INR20,000 crore mark, and we are at INR19,300 crores. For the half year, revenue was up to INR9,420 crores. Which is up almost 29%, and it is already 59% of our entire FY '26 revenue. H1 EBITDA was at INR430 crores, up 34.4%, with margins up 19 basis points. And H1 profit was INR212 crores, which is up 22.3%. Let me now spend a moment on the labor force because this is central to our outlook. The codes are a clear positive for SIS, and our early readiness is now visible in the numbers too.

We began our internal compliance programs on June 1st, and India EBITDA has grown 13.8% over the six months since the codes were introduced, with the India margins improving from 5.2% in Q4 FY '26 to 5.4% this quarter. Higher wage and statutory costs are being fully passed through to customers, lifting both the revenue and the margin. Enforcement though is state by state and still early. Karnataka, Haryana, Uttar Pradesh, and Uttarakhand have revised the minimum wages. Others are expected to follow as state model rules are notified.

The major part of the repricing benefit is therefore still ahead of us. Over time, the codes will also create a level playing field between organized and unorganized providers, which we expect to be accretive at both the EBITDA and PAT levels. Now turning to the various business segments,

Security Solutions India delivered a record revenue of INR2,144 crores, which is up 38.9% year-on-yearand 7% sequentially. This is the 10th consecutive quarter of sequential growth. Even without APS, the organic growth for Security Solutions India was 15.7% year-on-year and 6.8% quarter-on-quarter.

EBITDA was a record INR113 crores, which is up 37.2% year-on-year and 10.4% sequentially. Without APS, it is 18.9% year-on-year and 8.6% quarter-on-quarter basis. Also the fifth record quarter in a row now. Margins improved 16 basis points in the segment sequentially to 5.3% now and are broadly flat year-on-year basis. On the international front, Security Solutions International recorded its highest ever revenue at INR2,020 crores, up 25.7% year-on-year and 6.3% on a constant currency basis. EBITDA was INR72 crores, which is up 35%, with the margins improving 23 basis points year-on-yearto 3.6%.

Following the Fair Work Commission's 4.7% minimum wage increase in Australia, price revisions under a number of client contracts are tied to contract anniversaries, which create a temporary lag between cost and price, pass-through. But will happen in due course. Facility Management Solutions posted a record revenue of INR677 crores and a record EBITDA of INR38 crores. It's ninth consecutive record EBITDA quarter. The margin expansion continues. It is now at 5.7% and is the highest in the past six years, up almost 50 basis points year-on-year

On our return ratios, the return on capital employed stands at 16.5%, up from 14.3% a year ago, and the return on equity is also at 16%. During this quarter, we also completed our fifth buyback. SIS was among the first in the market to announce an open market buyback, and we completed it in 45 trading sessions, acquiring approximately 25 lakh shares INR406 crores. With this, the total capital return to shareholders since listing now stands at a little over INR700 crores. Let me address also the working capital, which was the one soft spot in this quarter.

Operating cash flow was negative INR99 crores on a working capital outflow, of INR273 crores, of which INR216 crores sat in our international business due to delayed collections from one of the largest clients, the defense segment. This is a timing issue, not a credit issue, and the payments in fact have already been received in October. Net debt to EBITDA moved to 1.24 times from 1.05 times at the end of Q1, primarily due to the working capital outflow in Security Solutions International and a bit because of the buyback payouts of INR92 crores.

However, gross debt was broadly flat at about INR2,047 crores. On the DSO front, India's security actually improved in spite of all the labor code reforms happening at the same time. It improved to 73 days, which is better both sequentially and also on year-on-year basis. FM was stable at the 93 days. The increase was largely concentrated international, as I mentioned. Which is caused due to a temporary timing difference and will be normalized through this quarter. To summarize, this has been a quarter of record revenue, record EBITDA, our highest ever quarterly profit, growing faster than revenue, margin expansion in every segment, both ROCE and ROE above 16%, and a structural tailwind from the labor costs where most of the benefit is still to come.

We remain focused on margin expansion and on bringing working capital back in line. As I end, I would like to mention that our Group Managing Director, Mr. Rituraj Sinha, has not been able to join the investor call due to the sudden demise of his father, and I'm sure you will understand this. However, on the call we have with us Mr. Brajesh Kumar, Chief Financial Officer, Mr. Murali Krishna, CEO, SIS International, to address any of your queries. We will now turn it over for question-and-answer

Thank you so much.

Questions & Answers

Operator
Thank you. [Operator Instructions][Operator Instructions][Operator Instructions][Operator Instructions][Operator Instructions]The first question comes from the line of Amit Saxena, who is an individual investor, please go ahead.

Amit Saxena - Individual Investor, Individual Investor
Thank you for the opportunity. So my first question was on the social security right of that number, so I wanted to understand how much of it we have recovered and school.

Brajesh Kumar - Chief Financial Officer, SIS India, SIS Limited
Mr. Brajesh this side., do you want to ask about the graduation one time cost we have taken in Q3 of class financial right? [Foreign Speech] INR290 crore. So there's no further write-up as we have mentioned at that time, the of ICI. And in the due course, whenever any employee pertaining to that period is getting separated or leaving and we have to pay the casualty, we are claiming that from the customer and making that payment. So there is no cash flow impact because of that. And going forward also, there is no additional impact we, are expecting on this round.

So whatever has been done in last Q3 of 2025 figurable set, after that they, no change. I hope that clarify.

Amit Saxena - Individual Investor, Individual Investor
I remember after that Q3 '25 in I think next quarter and last quarter there was reversal of some amount out of that INR290 crore so if I am correct. so that was

Brajesh Kumar - Chief Financial Officer, SIS India, SIS Limited
Accounting yes you are correct. in So that was just an accounting adjustment. It's not related to any business transaction.

Amit Saxena - Individual Investor, Individual Investor
And, we, have been talking about the new labor code which has been, which we think will be quite, favorable for us because of the minimum wage code. So, however, we have been on more on the qualitative terms that, the, minimum wages will be increased and that will show up in our contract values and further in revenues. But in terms of quantitative aspect, is there any rough guideline as to, how much revenues it can increase? Of course, the numbers can be- we cannot have exact numbers, but is there a rough guideline wherein we can say, for example, yeah, we do expect a revenue increase of 30% just because of the Minimum Wage Act kicking in next three years.

So some guideline on that front will help investors a lot.

Dhiraj Singh - Chief Executive Officer, SIS Limited
So as we mentioned, definitely both on the revenue side we've seen the uptick and this is the early stages in this quarter. But going forward, our guidance, we'd like to remain at the 15-18% growth. Overall, and we are in line with that. The margin expansion has happened from 5.2% to 5.4% even in the early stages. And while we can't give you a particular number, but the trend should continue, in the next few quarters.

Amit Saxena - Individual Investor, Individual Investor
Okay, so, on the dividends and buyback, we, We have, we have returned almost close to INR700

crores in the last few years since our IPO. Is there any guideline or kind of, the kind of- we, are roughly making, say INR400 crores PAT, and which may move to INR450 crores, INR500 crores over time. So is there any rough, or, how do investors look at it in terms of how much, on an average the company plans to return back, In terms of- because all the dividends and the buyback have been staggered and there is no clear trend.

So is there a clarity we can get for the dividends and buyback in terms of how the profitability- in terms of the PAT, this much can be expected to be returned?

Dhiraj Singh - Chief Executive Officer, SIS Limited
We have circulated in the past also a policy for the dividend and the buyback, and, we have been fairly consistent with that going forward too. We expect to return well to our shareholders, in the form of a combination of both dividends and buyback, while we will continue to invest in the business also and look to retire some of our debt also. So it'll be a combination of all these.

Amit Saxena - Individual Investor, Individual Investor
Okay. and last question is on the cash logistics IPO. So we have been holding it out because of the adverse market circumstances. Do our --, is this the same over there, or do we- is there any change in our thinking as of now?

Dhiraj Singh - Chief Executive Officer, SIS Limited
So as of now, as you know, the approval period has expired, and we will look at it at the opportune time in the future. But the business continues to do very well. It has had a record revenue of INR220 crores in this quarter. With more than 17% EBITDA. So we are focusing on the business, and at the right time, we will look to go back to the market.

Amit Saxena - Individual Investor, Individual Investor
Okay, thank you very much for patiently answering my question. Thank you. Thank you very much.

Operator
Thank you. [Operator Instructions] [Operator Instructions]The next question comes from the line of Abhinav Mandowara from Aequitas Investments. Please go ahead.

Abhinav Mandowara - Analyst, Aequitas Investments
Yeah, congratulations on good sets of numbers. My first question is regarding AP Securitas revenue number and EBITDA numbers, if you could provide me.

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
Just hold on. The revenue number they have reported for this quarter is INR388 crore. And the EBITDA number is INR15.1 crore. So they have shown a growth of 8% in quarter-to-quarter basis.

Abhinav Mandowara - Analyst, Aequitas Investments
Okay, EBITDA of INR15.1 crore, right?

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
Yeah, it's 4.2% EBITDA they have reported. Okay,

Abhinav Mandowara - Analyst, Aequitas Investments
And second question was regarding the international business. You mentioned there has already been a wage hike in Australia from July onwards. How much lag does it have in our contract

repricing, and when would we be able to pass it on?

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
hi everyone, this is Murali Krishna here. so this is a yearly event, Abhinav, so there is nothing new, first of all. So yearly, every year in the month of July, the Fair Work announces its increase for the wage, and as per contractual term we are entitled to pass through those costs onward to the customer. Typically what happens is it happens at the anniversary of the contract. So this is spread across over, through the year, but the bulk of it actually happens within the next first quarter and the second quarter.

Abhinav Mandowara - Analyst, Aequitas Investments
Okay, so you mean a lot of contracts would be renewing now, you'll be getting the rebate benefit from one or two quarter lag.

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
Yeah, it's not renewal, but it's at the contract anniversaries. So, so what happens is if you have signed up a contract, customer contract, in let's say November, the price hike typically happens on 1st of November. So it's all dependent on individual contracts, but I'm just giving you a very generic, thing, or which is a very fairly standard one. It happens at a contract anniversary usually. But bulk of it happens very close to and soon after the 1 July. So July to September quarter is a good material portion of the hike happens through the quarter.

And the next quarter, between October to December, a very sizable one also happens. And, the remainder happens in the next couple of quarters, which is Q4 and Q1 of next year. But those will be not as much.

Abhinav Mandowara - Analyst, Aequitas Investments
Okay, so Q3 we would have the maximum price. So what percentage of contracts will be up for revision? If you could just give me a directional view.

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
Sorry, I didn't quite catch that question. Can someone repeat the question?

Abhinav Mandowara - Analyst, Aequitas Investments
While we mentioned that the pass-on would be on a staggered manner and it's already on a contractual basis. Just wanted to understand, in the next couple of quarters, say Q3, Q4, how much percentage of orders are up for renewal?

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
No, these are not renewal, these are not renewal. What happens is, let's say we sign a three-year or a five-year contract, at every contract anniversary typically the pass-through happens, and, we have usually costed for it, well ahead as well. So it's not that we are taking a loss or anything. It just happens subsequently. So a good portion of that happens in quarter one, and a good portion- sorry, not quarter one, quarter two, which is the quarter that just went by- and a good portion happens in quarter three.

Quarter four and quarter one, are very small ones. So these are not dependent on renewal. These are obligations at the end of the customer, contracted obligations to pass through the

Abhinav Mandowara - Analyst, Aequitas Investments
Got it. also in terms of international business, our working capital has deteriorated apart from the one major order of defense which has a payment delay. How much will be our, operating cash flow?

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
I will just answer you with respect to that one customer receivable. It is a major customer for us. So what happened last quarter, yeah, typically Australia follows a July-June calendar, financial calendar. So by the end of June, typically customers tend to- and actually some of the major ones, governments and so on and so forth- typically tend to clear off, just before June, the, outstanding. So June was a better picture, but September typically we come back to the normal cycle of working capital. Unfortunately, One particular collection got missed out, which we did collect subsequently, in the month of October already. So we should get back to the usual terms of the international business roughly goes about, about 50 days of DSO, 50-51 days of DSO, and we should get back to that in the next, next quarter. But we are already back there, which should be seen in the next quarter.

Abhinav Mandowara - Analyst, Aequitas Investments
Got it. And our net debt has also increased on a basis, I think around INR200 odd crores. So what is the kind of sustainable debt level we want to, keep in the company considering that I understand some cash is there in the international business and the utilization is there, considering all these factors, how much would be the debt you are comfortable with?

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
is this for all in all, assets group or is it for international?

Abhinav Mandowara - Analyst, Aequitas Investments
No, under group.

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
Okay, sorry, back to you. Okay, from group perspective, if you can see that the net debt for India has not increased, it has, it has come down from INR796 crores to INR769 crores. It's only for international it has increased. last quarter it was INR11 crore of net debt, this quarter it has increased to INR256 crore, and the reason already has already So when we'll be back to normal, when the international will be back to normal DSO of around 50 days in Q3, we are hoping that the net debt of by December we will be on the reducing side.

the whatever increase has happened is only because of international, because of one-off event of one large customer where the payment has got delayed.

Abhinav Mandowara - Analyst, Aequitas Investments
All right. the quantum for that order was around $120 million.

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
And only, yes,

Abhinav Mandowara - Analyst, Aequitas Investments
Yeah. Okay, thank you,

Operator
Thank you. [Operator Instructions] [Operator Instructions]The next question comes from the line of Gopinath Reddy from PNR Investments. Please go ahead.

Gopinath Reddy - Analyst, PNR Investments
Sir what is the interest rate we are paying on the debt that we have now on an average?

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
So I in India it is around 8.5% Murli what will be in international can you help me on that? I think we will be hovering about 6.5%.

Gopinath Reddy - Analyst, PNR Investments
Okay so

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
We are comfortable having

Gopinath Reddy - Analyst, PNR Investments
Please go ahead,

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
Sir. So weighted average will be around 7%,

Gopinath Reddy - Analyst, PNR Investments
7.25%. So are we comfortable having this debt instead of- I mean, my doubt is because we are doing buybacks and giving dividends instead of paying, this debt. So are we comfortable holding this debt and we want to continue like this, or what is the plan,

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
Sir? So as a policy, we have studying that we want to this debt equity ratio, somewhere around 1. This quarter, due to one special reason, it has gone up to 1.24. Hopefully we'll be back to 1 or less than 1. So keeping that, the debt in that level, we will also need to see that the commitment towards our shareholders, and accordingly we take the decision of returning back the money to shareholders by way of buyback and dividend. So I'm not saying that, we will- our total focus will be the reduction debt.

We will be doing that also, but at the same time, by maintaining a proper balance in debt equity ratio, we will be meeting our commitment towards buyback and dividend payout to our shareholders.

Gopinath Reddy - Analyst, PNR Investments
Understood, sir. But our comfort level is at 1, is it?

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
Yeah, somewhere around 1 we need to maintain.

Gopinath Reddy - Analyst, PNR Investments
Okay. Last question, sir. How is the Singapore business doing,

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
Sir? Mr. Gopi, thanks for that question. the Singapore business is doing well. It's continuing to grow. I think, same quarter from- I have compared to the same quarter last year, I think we posted

somewhere about 20% plus growth. So which is a fairly good growth. we are continuing to keep, the orders with us, so we are renewing all the revenues and so on and so forth. the business organically is doing very well. the, grant, which is, usually a big part because the PWM wage hike happens, is kind of sunsetting, and, that's the, that's the reason the EBITDA has kind of declined a little bit quarter on quarter.

But other than that, there is nothing fundamental to worry about, and I think the business is doing fairly good.

Gopinath Reddy - Analyst, PNR Investments
Okay, thank you, sir. That's it from my side. Thank you.

Operator
Thank you. [Operator Instructions] [Operator Instructions]The next question comes from the line of Abhinav Mandowara. From Aequitas Investments, please go ahead.

Abhinav Mandowara - Analyst, Aequitas Investments
thank you so much for the follow-up question. are we planning, with the cash that we have, and you were mentioning it, I think on the interview also, that we are planning for inorganic acquisitions. What kind of nature of business are we planning would be, and, what would be the time duration when you are seeing such kind of acquisition to happen?

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
this is for the international side. This question,

Abhinav Mandowara - Analyst, Aequitas Investments
Sorry,

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
is this, is this specifically directed at the international business?

Abhinav Mandowara - Analyst, Aequitas Investments
no, both domestic, international. What kind of inorganic opportunities are you seeing? Because I think in the interview over here, if you are mentioning that you were looking for. So just wanted an update and follow-up on this.

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
I don't think I could quite catch the question, but I'll answer for the international business. Your question is about that we do have cash and are we looking at acquisitions. so yes, acquisitions as a part of growth is a strategy that is well established in the international business. So, we have specific areas where we want to acquire, so we don't want to acquire in every area. So where it gives a specific capability or a geographical expansion or capability expansion and so on and so forth, or maybe scale, is where we typically acquire.

We are in the market looking for possible targets, and as and when it presents itself, we will be cultivating a few targets as well. As and when, the, opportunity shapes up, we will, we will definitely consider acquisition. Acquisition is a good strategy for international business typically, considering, the multiples that, at which, or the prices at which the assets are.

Abhinav Mandowara - Analyst, Aequitas Investments
sure about that. And in domestic side, are we looking for any acquisitions?

Unidentified Speaker - Unidentified Speaker, SIS Limited
Shree [Phonetic], which case?

Abhinav Mandowara - Analyst, Aequitas Investments
Domestic, side.

Unidentified Speaker - Unidentified Speaker, SIS Limited
Domestic side. Dhiraj back to you. Hello,

Operator
Ladies and gentlemen. I believe the management's line has been disconnected. Let me add him, add them back into the subconference really quickly. Okay, please stay connected. Ladies and gentlemen, the management has been reconnected. Thank you, and over to your management.

Dhiraj Singh - Chief Executive Officer, SIS Limited
Yeah, so continuing on the last question, sorry for this, hiccup and delay. So we look at India equation of opportunities, But focus more on the businesses that are solutions-oriented and which are much higher EBITDA margin profile. But, as of now, there's nothing to be closed for Q3 at least.

Abhinav Mandowara - Analyst, Aequitas Investments
All right, thank you so much.

Operator
we will move with the next question. [Operator Instructions] [Operator Instructions]The next question comes from the line of Amit Saxena, individual investor. Please go ahead.

Amit Saxena - Individual Investor, Individual Investor
Yeah, so, on the cash logistics, we, just discussed that, we have INR220 crores of revenues and I think, close to 20%, EBITDA margins. So Where is it reflected in the, in the disclosures that we have given? So, we have INR223 crores of EBITDA, INR113 crores in India securities, INR72 crores in international securities, and INR38 crores in FM. So, where does this cash logistics, numbers actually reflect in, our disclosures?

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
So the cash logistics is a JV company. We are not, not holding 51%, so this is not getting considered in our constituted accounts. We used to report it separately in our earning notes, but since till last quarter it was under process of IPO, we, were bound not to disclose those numbers, so this was not included. From next quarter onwards, the number will be separately disclosed, will be disclosed in the earning note. Currently it is not disclosed in the earning note and it is not included in the, our balance sheet also because it's, we are not holding 51% here.

That's a JV company, we are the minority shareholder.

Amit Saxena - Individual Investor, Individual Investor
So is it like, it's part of P&L in the other comprehensive income, below the- I mean, somewhere in the P&L line it will be shown, right?

Murali Krishna - Chief Executive Officer, SIS International, SIS Limited
Yeah, it's in this- the share of profit is only being shown in the P&L account. For the published accounts, it will be appearing As A- under the heading of share of profit from joint venture. In the consolidated P&L account.

Amit Saxena - Individual Investor, Individual Investor
Perfect. Okay, thank you very much.

Operator
Thank you. [Operator Instructions] [Operator Instructions][Operator Instructions]as there are no further questions, ladies and gentlemen, we have reached the end of question-and-answersession. I now hand the conference over to Mr. Dhiraj Singh for closing

Dhiraj Singh - Chief Executive Officer, SIS Limited
Comments. Thank you and thank you to all the participants. We are confident that we shall continue the good numbers and the performance in this quarter, and with additional focus on improving the working capital. And we will continue to look at interesting inorganic opportunities. And the whole year, on a year-on-year basis, we are confident that it should be one of our better years. Thank you all for participating again. Happy Diwali again to all of you, and happy and safe Diwali again. Thank you.

Operator
[Operator Closing Remarks] [Operator Closing Remarks]