

May 31, 2023

## SIS Alarm Monitoring And Response Services Private Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Fund-based Working Capital	5.00	15.00	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed/assigned
Long-term/ Short-term – Non-fund Based Working Capital	5.00	5.00	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed
<b>Total</b>	<b>10.00</b>	<b>20.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation continues to favourably factor in the financial and operational support enjoyed by SIS Alarm Monitoring and Response Services Private Limited (SIS Alarm/SIS AMR) as part of the SIS Group, whose flagship entity is SIS Limited (SIS). SIS is one of the largest players in the organised security services industry in India, Australia, New Zealand and Singapore. Through its JVs and subsidiaries, the company enjoys a presence across multiple service offerings including security business, facility management and cash logistics. Besides providing diversification benefits, this allows the company to offer integrated bundled services to its customers. Furthermore, to enhance the Group's service offerings, SIS Alarm offers a natural progression from physical security to electronic security for the Group.

SIS has supported SIS Alarm financially by infusing funds in the form of non-convertible debentures (NCDs) and has also provided an unconditional and irrevocable corporate guarantee to the company's working capital debt availed from the banks. The company is of strategic importance to the SIS Group given its focus on man-tech security solutions; hence, ICRA expects timely support from the parent entity to continue. The rating also factors in the company's ability to provide alarm monitoring as well as response services on a pan India basis, aided by its association with SIS. The presence of SIS in more than 630 districts across India with a trained workforce of ~2,72,000 employees provide a ready response team to SIS Alarm's pan India B2B operations. This in-house team availability increases the reliability and consistency of the company's service offerings, against other alarm monitoring service providers who rely on local security providers for response services. The company is, thus, able to command a premium for its services vis-à-vis the industry average.

The company's revenues have grown at a CAGR of ~65% over FY2020-FY2023 despite the operations being adversely impacted during the pandemic. While the operating margins remain relatively low, the same improved gradually from ~1.0% in FY2022 to ~3.7% in FY2023. The company had a total debt of ~Rs. 27.3 crore as of March 2023; of which Rs. 12 crore of NCDs were availed from its parent and are expected to offer a flexible repayment structure, providing some comfort. While the growing e-surveillance industry in India offers healthy growth prospects for the company, its ability to scale up its operations and achieve profitability remains to be seen and would be a key monitorable, going forward.

The ratings remain constrained by the company's modest scale of operations, given that it is in its nascent stages at present. Nevertheless, the operational and the financial support extended by SIS provides financial flexibility and comfort regarding the ability and willingness of the parent to support the entity, when required. The rating also remains constrained by the client and segment concentration risks faced by SIS Alarm. The top five customers of the company, all of whom are either banks or NBFCs, generated ~45% of its revenues in FY2023 (reduced from 65% in FY2021). Nevertheless, its efforts to make inroads into other segments like logistics and retail offer comfort regarding the diversification of revenues.

The Stable outlook on the long-term rating reflects ICRA's opinion that SIS Alarm will continue to benefit from its association with the SIS Group and superior product offering. Further, the growing preference for e-surveillance solutions across different industries in India also offers untapped market opportunities for the company, which is likely to support its scale-up over the next few years.

## Key rating drivers and their description

### Credit strengths

**Operational and financial support from SIS** – Being a wholly-owned subsidiary of the SIS Group, SIS Alarm enjoys operational as well as financial support from the Group's flagship entity, SIS. SIS is one of the leading players in the organised security services industry in India, Australia, New Zealand and Singapore and is present across multiple service offerings, including security business, facility management and cash logistics. The presence of SIS in 630+ districts across India provides a ready and widespread response team for SIS Alarm. In terms of financial support, SIS has subscribed to the NCDs issued by SIS Alarm worth Rs. 12.0 crore and has also provided an unconditional and irrevocable corporate guarantee to the company's working capital debt. With SIS Alarm sharing its name with its parent entity and offering a natural progression from the parent's business of physical security to electronic security, it continues to enjoy certain operational synergies and is likely to remain a strategic focus of the Group, going forward.

**Strong growth prospects as the e-surveillance industry in India is currently at a nascent stage** – The e-surveillance sector is at its nascent stages in India, compared to other countries, with banks and NBFCs being its largest users. However, with better reliability for end-users and availability of more sophisticated solutions, the industry is expected to witness rapid growth over the next few years with sectors like retail and logistics likely to adopt e-surveillance solutions, apart from increased penetration into financial services. The management has also been focusing on new initiatives such as— a) providing solutions for asset monitoring; and b) offering security on-the-go (rather than solutions being limited to the premises)—as well as on increasing its presence in the NBFC segment. This is expected to bode well for SIS Alarm's growth prospects.

**Products and services priced at a premium** – SIS Alarm is one of India's first integrated technology-based security response solution providers. It is one of the few entities in India providing in-house alarm security as well as response services on a pan India basis. Thus, it has positioned itself as a reliable and consistent security solution provider. Also, the company provides a more comprehensive range of services than its peers. This helps it to charge a premium for its services compared to its peers, thereby increasing its average ticket size. During FY2023, 92% of the company's revenue came from its B2B operations, which is a recurring revenue source for the company.

### Credit challenges

**Limited vintage and scale of operations** – SIS Alarm was incorporated in 2015 and the initial one-and-half years went into setting up technology for its monitoring and responses services. While the company has witnessed a healthy ramp-up in operations since then, its scale of operations remains limited. This has resulted in limited coverage of fixed costs. While ICRA expects the company to turn profitable at the net level over the near to medium term, led by ramp-up in operations, the same would remain a key monitorable, going forward.

**Weak financial profile because of nascent stage of operations, support from parent entity provides comfort** – Being at a nascent stage, the company has been incurring losses, which has resulted in negative net worth and a weak capital structure. Similarly, low operating profits have resulted in weak coverage indicators. However, the company's financial profile is supported by the fact that SIS has extended corporate guarantee for the working capital facility of the company along with subscribing to NCDs. Further, there has been no cash outgo in paying the interest costs on NCDs to the parent as the same has been accruing over the years. Both capital structure and coverage indicators are likely to improve over the medium term as the company turns profitable.

**High client and segment concentration risks** – The company derived ~45% of its revenue from its top five customers in FY2023, all of whom were either banks or NBFCs. While the concentration is quite high, the same has reduced from 65% in FY2021. Further, this also exposes the company to end-user sector concentration risk to some extent. The company is trying to foray into other sectors such as logistics, warehousing and retail for its customer mix as part of its diversification strategy; however, banks and NBFCs are expected to dominate the mix over the near-term. Moreover, with SIS Alarm still in its growth phase, ICRA expects its customer concentration risk to moderate over the medium term as it grows its clientele.

### Liquidity position: Adequate

The liquidity position is adequate, supported by expected fund flow from operations of Rs. 8-10 crore, and Rs. 1.0–2.0 core of cushion available in working capital limits. The company has availed NCDs of Rs. 12 crore from its parent, SIS, with repayments to begin from FY2024 (Rs. 10 crore repayable in FY2024). However, the repayment schedule remains flexible, with the parent entity likely to provide extension for the same, if required. The company is expected to incur nominal capex of ~Rs. 1 crore per annum in the near-term.

### Rating sensitivities

**Positive factors** – A rating upgrade could be triggered if the company can significantly ramp up its scale of operations, leading to improvement in profitability indicators and cash accruals. Further, an improvement in the parent company's credit profile could also result in a rating upgrade.

**Negative factors** – Continued losses due to the inability to scale up business or achieve an optimum cost structure could result in prolonged weakness in the financial risk profile, leading to a rating downgrade. Further, any change in the parent company's credit profile, or a deterioration in the linkages between the two entities, could also negatively affect the rating.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Parent/Group Company: SIS Limited. The rating factors in the operational and financial support provided to SIS AMR by its parent company.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SIS Alarm.

### About the company

SIS Alarm Monitoring and Response Services Private Limited was incorporated as SIS Prosecur Alarm Monitoring and Response Services Private Limited in 2015 as a 50:50 joint venture between the SIS Group and Singpai Alarms Private Limited. In May 2019, the latter's shareholding was acquired by SIS for a cash consideration of Rs. 20 crore.

SIS Alarm is a holistic provider of alarm, monitoring and response services for homes, offices and retail spaces in India, backed by a private emergency response fleet. It is also among India's first integrated security response solution providers. The company primarily relies on a B2B model for providing alarm, monitoring and response services to customers on long-term contracts, which entails some periodic payments. The company has set up an infrastructure with a capacity to monitor up to five lakh sites. It has also set up a 24/7 monitoring team with a response time of 15 minutes. The company covered ~12,500 B2B sites and 14,400 overall sites as of March 31, 2023. It has a B2C business for direct sales of its equipment and e-surveillance services, primarily in residential areas.

### Key financial indicators (audited)

Standalone	FY2021	FY2022	FY2023*
Operating income	18.3	29.4	52.9
PAT	-0.6	-5.1	-1.9
OPBDIT/OI	8.0%	1.0%	3.7%
PAT/OI	-3.1%	-17.5%	-3.6%
Total outside liabilities/Tangible net worth (times)	2.2	15.4	-202.8
Total debt/OPBDIT (times)	8.6	67.9	13.9
Interest coverage (times)	0.9	0.1	0.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; \*provisional

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				May 31, 2023	-	Mar 30, 2022	Jan 15, 2021
1 Fund Based Working Capital	Long term/short term	15.0	--	[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
2 Non-fund Based Working Capital	Long term/short term	5.0	--	[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund Based Working Capital	Simple
Long-term/ Short -term – Non-fund Based Working Capital	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Working Capital	NA	NA	NA	15.0	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Non-fund Based Working Capital	NA	NA	NA	5.0	[ICRA]A- (Stable)/ [ICRA]A2+

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#### Annexure II: List of entities considered for consolidated analysis – Not applicable

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