

October 06, 2023

S&IB Services Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Cash Credit	22.00	22.00	[ICRA]A (Stable), reaffirmed
Fund-based Limits – Stand by Line of Credit	5.00	-	-
Non-Fund based Limits – Bank Guarantee	38.00	-	-
Fund-based/ Non-Fund based Limits – Stand by Line of Credit	-	5.00	[ICRA]A (Stable)/ [ICRA]A1, reaffirmed
Non-Fund based Limits – Bank Guarantee	-	38.00	[ICRA]A (Stable)/ [ICRA]A1, reaffirmed
Unallocated Limits	7.83	7.83	[ICRA]A (Stable)/ [ICRA]A1, reaffirmed
Total	72.83	72.83	

* Instrument details are provided in Annexure – I

Rationale

The reaffirmation of the ratings of S&IB Services Private Limited (S&IB) considers the long track record and established market position of the company in the private security and other manpower related services, particularly in West Bengal, and favourable demand outlook for the manpower sourcing and security services industry. ICRA notes that the overall profits and cash accruals from the business witnessed a steady growth over the years, primarily driven by an increase in business from the existing customers, addition of new customers and foray into new services segments. The ratings also consider the quality of services offered by the company, which enabled it to attract as well as retain reputed clientele from different segments. Further, the ratings derive comfort from the favourable financial profile of S&IB, reflected by a conservative capital structure, strong debt coverage metrics, aided by a relatively lower working capital intensity of operations, and a healthy unencumbered cash/ bank balance.

The ratings are, however, constrained by the fragmented and intensely competitive nature of the private security service business due to the presence of many organised and unorganised players, leading to contract renewal risk. Besides, it has a moderate level of customer concentration risk with the top-ten clients accounting for around 47% of the total revenue of the company in FY2023. However, ICRA notes that S&IB enters into separate contracts (in relation to different services) for different geographical locations for the same customer, which mitigates the customer concentration risk to some extent. The company's scale of operations continued to remain at a moderate level, however, the same witnessed a steady growth over the past few years, which is likely to continue in the near-to-medium term as well. ICRA notes that increasing operating costs against a large number of long-term fixed rate contract exerted pressure on the margins, leading to a declining operating profit margin (OPM) of the company over the past few years. The OPM is likely to remain under check due to stiff competition in the security service segment, which accounted for around 39% of the company's revenue in FY2023. The ratings are also impacted by the high geographical concentration risk as the major portion of its revenue is derived from West Bengal. Going forward, the company's ability to increase its scale of operations through geographical expansion and acquisition of new clients will remain crucial from the credit perspective. S&IB's ability to retain its key clientele and improve its profit margins by enhancing penetration into high-margin segments would also remain key rating considerations.

The Stable outlook on the long-term rating reflects ICRA's opinion that S&IB will continue to benefit from its established market position in the private security, facility management and other manpower related services, and maintain its business position while sustaining its profitability level in the long run.

Key rating drivers and their description

Credit strengths

Long track record and established market position with a reputed clientele across diverse segments – S&IB's business profile is characterised by its presence across multiple service offerings, including security services, facility management, cash logistics etc. The company has a long operational track record in the private security business, particularly in West Bengal. It has around 35,000 trained personnel deployed in security services, facility management and other functions. The company has recently ventured into treasury management, e-waste management, partnered with the major IT OEMs and stepped into broader range of facility management services to extend all-in-one solutions. S&IB's satisfactory service quality helped it build and retain many institutional clients across diverse segments including banks and financial institutions, government organisations, manufacturing companies, information technology companies, healthcare and educational institutions, hotels, telecom tower companies, e-commerce companies etc.

Consistent improvement in profits and cash accruals from business over the past few years – ICRA also notes that the overall profits as well as cash accruals from the business have consistently improved over the years, in line with its scale of operations. The trend is likely to continue in the near-to-medium term, in tandem with the top-line growth. S&IB's security services and other manpower recruitment segments, which account for the major portion of its overall turnover, entail a low capital requirement. This coupled with healthy profits led to a comfortable return on capital employed of around 21% in FY2023.

Conservative capital structure and strong coverage indicators – The capital structure of the company continues to remain conservative on account of a sizeable net worth and low reliance on external debt. The gearing of the company stood at 0.04 times and TOL/TNW at 0.4 times as on March 31, 2023. The debt coverage indicators continue to remain strong on account of healthy profits as well as cash accruals and low debt. ICRA does not foresee any deterioration in its capital structure and coverage indicators in the near-to-medium term.

Relatively lower working capital intensity of operations – The company's working capital intensity of operations remained at a relatively lower level with moderate receivables as well as payables and nominal stocking requirement. The net working capital relative to the operating income of the company stood at 12% (12% in FY2022) in FY2023. As a result, the company's working capital limit utilisation remained low, supporting its liquidity position.

Credit challenges

Moderate scale of current operations, however, top line witnessed a steady growth over the past few years – Historically, the company's scale of operations continued to remain at a moderate level. However, the same witnessed a steady growth over the past few years, primarily driven by an increasing customer base and foray into new services segments. The operating income of the company stood at around Rs. 644 crore in FY2023, registering a growth of around 29% over the previous fiscal. In the first five months of the current fiscal, the company has already recorded a gross turnover of around Rs. 314 crore compared to around Rs. 237 crore in the similar period of the last fiscal. The growth momentum is likely to continue in the current fiscal and ICRA expects S&IB to register a growth of around 15% in FY2024 on a YoY basis.

Fragmented and competitive nature of the security services industry gives rise to contract renewal risk and exerts pressure on margins – In line with the industry practice, the company follows a wage-plus-service-charge model for pricing of security services, facility management and other manpower supply-based services rendered to the customers. The manpower outsourcing and security services industry are fragmented and intensely competitive in nature amid presence of many organised and unorganised players. This leads to a significant price-based competition, giving rise to contract renewal risk and exerting pressure on the margins, primarily in the security services segment. Moreover, increasing operating costs against a large number of long-term fixed rate contract accentuate margin pressure. The OPM of the company gradually declined to 5.9% in FY2023 from 7.9% in FY2019. However, the company has been diversifying into other high-margin service segments to counter the same.

Limited geographical diversification as the major portion of revenue is derived from West Bengal – The company operates in 31 states/ union territories in the country. However, ICRA notes that West Bengal continues to be the major contributor to S&IB’s revenues (~75% in FY2023). This exposes S&IB to high geographical concentration risk.

High attrition levels inherent in industry – The company, like the rest of the industry players, witnesses high employee attrition owing to unskilled/ low skill and temporary nature of the job. This risk is partially mitigated by continuous spend on training and development of employees.

Liquidity position: Strong

The company generated positive fund flow from operations (FFO) over the past few years, supported by healthy cash accruals from the business, coupled with low working capital intensity of operations, which is likely to continue in the near-to-medium term. The average utilisation of the fund-based working capital limits of the company remained at a low level during the last 15 months, ended in August 2023. The company had unencumbered cash/ bank balance of around Rs. 23 crore as on March 31, 2023. However, the company has to maintain sizeable FDRs (encumbered) towards margin for bank guarantee, cash collateral to the bank and security deposits to the customers. Nevertheless, in view of adequate cash flow from operations, surplus cash/ bank balance, undrawn working capital facilities and absence of any major planned capital expenditure programme, ICRA expects S&IB’s overall liquidity position to remain strong, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade S&IB’s ratings if the entity is able to increase its scale of operations substantially, while maintaining its profitability and healthy credit metrics on a sustained basis.

Negative factors – Pressure on S&IB’s ratings may arise if there is a substantial drop in the top line and profit margins and/or an increase in the working capital intensity of operations, adversely impacting the liquidity position. Specific credit metrics that may trigger ratings downgrade include RoCE of less than 16% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/ Group support	Not applicable
Consolidation/ Standalone	The ratings are based on the standalone financial statements of the company

About the company

S&IB Services Private Limited (S&IB) was initially established by Mr. Shyamal Karmakar as a proprietorship firm in 1988 in the name of Security & Investigation Bureau to commence security services business. In 2008, the firm was converted into a private limited company and its name was changed to S&IB Services Private Limited. The company provides security, housekeeping, cleaning, facility management and other manpower related services to institutional clients. Over the years, the company has also diversified into other businesses, including electronic cash refilling and replenishment for banks, cash and coin transportation for the RBI, event security management, emergency response service, security surveillance, civil construction, operation and maintenance of telecom tower etc. The company operates through 31 offices spread across the country and has an employee strength of around 35,000 at present.

Key financial indicators (audited)

S&IB, Standalone	FY2022	FY2023
Operating income	500.6	643.6
PAT	20.4	25.8
OPBDIT/OI	6.4%	5.9%
PAT/OI	4.1%	4.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.1	0.2
Interest coverage (times)	26.5	24.5

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

Source: S&IB Services Private Limited, ICRA Research

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 on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Oct 6, 2023	Sep 2, 2022	Sep 6, 2021	Jul 15, 2020
1 Cash Credit	Long Term	22.00	0.70	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2 Term Loan	Long Term	-	-	-	-	-	[ICRA]A- (Stable)
3 Stand by Line of Credit	Short Term	-	-	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+
4 Bank Guarantee	Short Term	-	-	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+
5 Stand by Line of Credit	Long Term/ Short Term	5.00	-	[ICRA]A (Stable)/ [ICRA]A1	-	-	-
6 Bank Guarantee	Long Term/ Short Term	38.00	-	[ICRA]A (Stable)/ [ICRA]A1	-	-	-
7 Unallocated Limits	Long Term/ Short Term	7.83	NA	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A2+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term/ short-term Fund-based/ Non-Fund based Limits – Stand by Line of Credit	Simple
Long-term/ short-term Non-Fund based Limits – Bank Guarantee	Very simple
Unallocated Limits	Not applicable

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
-	Cash Credit	-	-	-	22.00	[ICRA]A (Stable)
-	Stand by Line of Credit	-	-	-	5.00	[ICRA]A (Stable)/ [ICRA]A1
-	Bank Guarantee	-	-	-	38.00	[ICRA]A (Stable)/ [ICRA]A1
-	Unallocated Limits	-	-	-	7.83	[ICRA]A (Stable)/ [ICRA]A1

Source: S&IB Services Private Limited

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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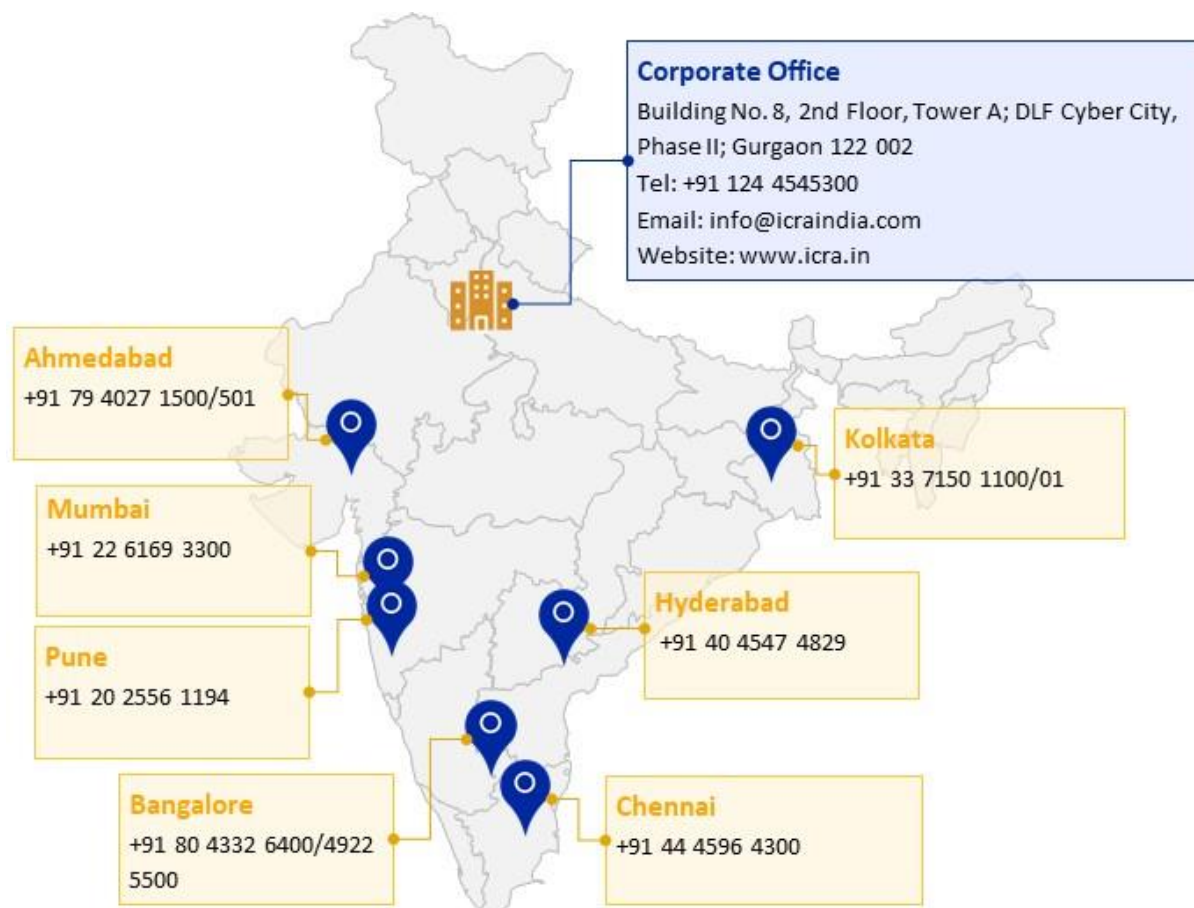


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