

July 16, 2024

SIS Alarm Monitoring And Response Services Private Limited: Ratings downgraded to [ICRA]BBB+ (Stable)/[ICRA]A2

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	15.00	15.00	[ICRA]BBB+ (Stable)/ [ICRA]A2; downgraded from [ICRA]A- (Stable)/[ICRA]A2+
Long-term/short-term – Non-fund based working capital	5.00	5.00	[ICRA]BBB+ (Stable)/ [ICRA]A2; downgraded from [ICRA]A- (Stable)/[ICRA]A2+
Total	20.00	20.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings downgrade for SIS Alarm Monitoring and Response Services Private Limited (SIS Alarm) factors in a slower-than-expected improvement in the scale of operations and earnings, resulting in weaker-than-expected credit metrics. The scale-up of operations of the entity is expected to take longer than expected earlier. However, the credit metrics for the company are expected to improve gradually over the medium term. The ratings assigned continue to draw comfort from the operational and financial support extended to the company by its parent, SIS Ltd. (SIS), the flagship company of the SIS Group.

SIS is one of the leading 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. To enhance the Group's service offerings, SIS Alarm offers a natural progression from physical to electronic security for the Group. SIS has supported SIS Alarm financially by infusing funds in the form of non-convertible debentures (NCDs) and also provided an unconditional and irrevocable corporate guarantee to the company's working capital facilities availed from the banks. The company is of strategic importance for the SIS Group given its focus on man-tech security solutions; hence ICRA expects timely support to continue from the parent. The ratings also factor 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 650+ districts across India with a trained workforce of 2,70,000 employees provides a ready widespread response team to SIS Alarm's pan -India B2B business. The in-house availability of a team increases the reliability and consistency of the company's service offerings, opposed to 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 expanded at a CAGR of 42% over FY2021-FY2024 despite its operations being impacted during the pandemic. While the operating margins remain relatively low, the same improved gradually from ~1% in FY2022 to 3.8% in FY2024. The company's capitalisation structure remains weak as it had total debt of Rs. 27.8 crore as of March 2024. However, out of the total debt, Rs. 12 crore of NCDs has been availed from its parent with a flexible repayment structure, which provides some comfort. The operations are likely to grow at a steady rate over the medium term with the EBITDA margin likely to improve both the capital structure and coverage indicators.

The ratings remain constrained by the company's modest scale of operations, given that it is in its nascent stages. Nevertheless, the support extended by SIS in the form of NCDs and corporate guarantee for bank credit provides financial flexibility and comfort regarding the ability and willingness of the parent to support the entity, when required. While the growing e-

surveillance industry in India offers healthy growth prospects for the company, its ability to ramp-up operations and improve profitability remains to be seen and would be a key monitorable, going forward. The ratings also remain constrained by the client and segment concentration risks faced by SIS Alarm. The top five customers of the company, being either banks or NBFCs, contributed 45-50% to its revenues in FY2024. While the concentration is quite high, the same has 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 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 – SIS Alarm, being a wholly-owned subsidiary of the SIS Group, 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 widespread response team for SIS Alarm. In terms of financial support, SIS has subscribed to 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 its parent's business of physical 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 for e-surveillance industry in India –The e-surveillance is at its nascent stages in India, compared to other countries, with banks and NBFCs being its largest users. However, the industry has been gaining increased prominence domestically as the use of technology leads to greater security on premises as well as cost optimisation. With better reliability for end-users and availability of more sophisticated solutions, the industry is expected to grow rapidly over the next few years with retail and logistics likely to adopt e-surveillance solutions, apart from increased penetration into financial services. 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 providing in-house alarm security as well as response services on a pan- India basis and has, thus, 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 the company charge a premium for its services compared to its peers, thereby increasing its average ticket size. During FY2024, 94% of the company's revenue came from its B2B business, which is a recurring revenue source.

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 (operating income of Rs. 68.7 crore in FY2024), its scale remains limited. This 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, however, support from parent provides comfort – The company, being in a nascent stage, has been incurring losses, which resulted in partial erosion of its 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 SIS’s corporate guarantee for its working capital facility along with subscribing to NCDs. The 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 45-50% of its revenue from its top five customers in FY2024, all of which were either banks or NBFCs. While the concentration is quite high, the same has reduced from 65% in FY2021. Further, this exposes the company to some extent of end-user sector concentration risks. 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. Further, as SIS Alarm is still in a growth phase, when it is targeting new customers, ICRA expects its customer concentration risk to moderate over the medium term.

Liquidity position: Adequate

The liquidity position is expected to remain adequate, characterised by steady fund flow from operations and some cushion available in working capital limits. The company has availed NCDs of Rs. 12 crore from parent, SIS Limited. Even as the repayment for the same was scheduled from FY2024, the same has been renewed for another five years. The company is expected to incur nominal capex of Rs. 1-2 crore per annum in the near term.

Rating sensitivities

Positive factors – An upgrade could be triggered if the company is able to significantly ramp-up its scale of operations leading to improvement in profitability indicators and cash accruals. Further, an improvement in the parent’s credit profile could result in a rating upgrade.

Negative factors – An inability to scale-up business leading to improved profitability or achieve optimum cost structure could result in prolonged weakness in the financial risk profile, triggering a 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 ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent/Group company - SIS Limited (SISL). The ratings factor in the high likelihood of its promoter entity, SIS, extending financial support to it because of its strategic importance and close business linkages. ICRA also expects the promoter entity to be willing to extend financial support to SIS Alarm out of its high reputation sensitivity.
Consolidation/Standalone	Standalone

About the company

SIS Alarm Monitoring and Response Services Private Limited (SIS Alarm) 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 SISL 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 provider. The company primarily relies on a B2B business model whereby it provides alarm, monitoring and response services to customers

on long-term contracts, which entails some periodic payments. The company has an infrastructure with a capacity to monitor up to five lakh sites and has set up a 24/7 monitoring team with a response time of 15 minutes. At present, the company covers close to 11,700 B2B sites. Apart from this, it has B2C business whereby it directly sells its equipment to customers and provides e-surveillance, primarily in residential areas.

Key financial indicators

SIS Alarm standalone	FY2022	FY2023	FY2024*
Operating income	29.4	52.9	68.7
PAT	-5.1	-1.9	-1.1
OPBDIT/OI	1.0%	3.7%	3.8%
PAT/OI	-17.5%	-3.6%	-1.7%
Total outside liabilities/Tangible net worth (times)	15.4	-194.8	-38.4
Total debt/OPBDIT (times)	67.9	13.9	10.6
Interest coverage (times)	0.1	0.8	0.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs crore; *Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			July 16, 2024	May 31, 2023	-	Mar 30, 2022
1 Fund-based Facilities	Long-term and short-term	15.0	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]A- (Stable)/[ICRA]A2+	-	[ICRA]A- (Stable)/[ICRA]A2+
2 Non-fund based facilities	Long-term and short-term	5.0	[ICRA]BBB+ (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]BBB+ (Stable)/ [ICRA]A2
NA	Non-fund Based Working Capital	NA	NA	NA	5.0	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Company

[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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