

Security and Intelligence Services (India) Limited

October 22, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	40.00	55.00	[ICRA]A+ (Stable); Reaffirmed
Long-Term Fund Based	395.00	405.00	[ICRA]A+ (Stable); Reaffirmed
Non-Fund Based Facilities	84.00	154.00	[ICRA]A1+; Reaffirmed
Total Bank Line Facilities	519.00	614.00	
Non-Convertible Debenture Programme	250.00	250.00	[ICRA]A+ (Stable) reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]A+ (pronounced ICRA A plus) and the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 614.00-crore¹ bank facilities (enhanced from Rs. 519.00 crore) of Security & Intelligence Services (India) Limited (SISL)². ICRA has also reaffirmed the long-term rating of [ICRA]A+ outstanding on the Rs. 250.00-crore non-convertible debenture programme of the company. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of ratings takes into consideration SISL's well diversified business profile with presence in the security services business (in India and Australia), facility management (in India) and cash management services business (in India) and its comfortable liquidity position and credit metrics, notwithstanding the expectation of increase in leverage to fund inorganic acquisitions. The ratings also reflect the management's stated plans of growing inorganically through acquisitions, which may lead to increase in leverage over the medium-term, high reliance of working capital borrowings to fund business and highly competitive nature of the security services business. In addition, the company's plans to acquire balance stake in recent acquisitions will require sizeable cash outflow.

Aided by both organic and inorganic means, SISL has been registering healthy growth in its business over the past many years. This trend continued in FY2018 and Q1 FY2019 as reflected by 33% and 30% growth, respectively, supported by consolidation of Duster Total Solutions Private Limited (Duster) and Southern Cross Protection Pty Limited (SXP), as well as organic growth across various entities. This would be further augmented over the near term through the recent acquisition of SLV Security Services Private Limited (SLV).

Over the past couple of years, SISL's organic and inorganic growth initiatives has helped cement its position in the various markets along with its diversified service offerings. At present, the company is positioned as the second largest player in the Indian security services market and has benefited from its strong track record of operations. Additionally, it is the second largest cash logistics player and fourth largest integrated facility management (IFM) player in the Indian market

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

currently, with the latter augmented by the acquisition of Duster in FY2017. SISL's business profile in India is also characterised by its ability to offer comprehensive range of services such as security services, IFM, cash management, electronic security and pest control through its various subsidiaries and joint ventures (JVs), thereby enabling it to be an integrated service provider.

In addition to its strong presence in the Indian market, SISL also enjoys a leadership position in the Australian security services market as one of the leading players. During FY2018, this was strengthened further through consolidation of SXP, which expanded its service offering in Australia and scale and scope of operations. The overseas entity, with healthy cash balances and stable cash accruals, has also been supporting the overall financial risk profile of the consolidated entity, in addition to supporting SISL by providing growth capital.

While the consolidated financial risk profile of SISL has historically been supported by healthy performance in the Australian entity, during the previous two fiscals, the Indian operations of the Group also improved significantly and contributed to the improvement in credit metrics. The consolidated operating profit margins (OPM) expanded to 5.4% in FY2018 from 3.4% in FY2016, supported primarily by margin expansion in SIS India (6.9% in FY2018 from 3.5% in FY2016) and consolidation of higher margin entities like Duster, Tech SIS Limited (Tech SIS) and SXP. Although margins have come under pressure during the current fiscal due to pricing pressures and closure of certain contracts in the Indian security services market, and higher than expected wage hikes in Australia, ICRA expects operating leverage benefits across various entities to offset these pressures over the medium term.

The credit metrics on a consolidated basis also improved over the previous fiscal, supported by successful completion of the company's Initial Public Offering (IPO) and retirement of high-cost debt. However, ICRA notes that the company has raised fresh funds of Rs. 150 crore through the Non-Convertible Debenture (NCD) route during the current fiscal for funding its inorganic investments, and has plans to raise additional funds in Australia as part of the same. Additionally, owing to the working capital-intensive nature of the company's operations, its dependence on external borrowings is likely to increase, going forward, as operations scale up. Consequently, leverage is expected to increase, going forward, and credit metrics would witness some moderation, although expected to remain comfortable supported by the healthy quantum of cash balances maintained.

Despite a strong business profile, the ratings continue to remain constrained by the high competitive intensity in SISL's business verticals, especially its mainstay manned guarding business. Owing to the highly fragmented nature of the market, pricing pressures abound, limiting the scope for margin expansion. Accordingly, ICRA expects the consolidated OPM of the Group to remain range bound at 5-6% going forward as well.

ICRA also notes that certain businesses of the Group, including electronic security solutions (Tech SIS), alarm monitoring systems (SIS Prosegur Alarms) and pest control (Terminix SIS) are currently in nascent stages of operations and are yet to turn profitable. Hence, over the medium term, ICRA expects funding support to be extended from SISL or Group companies to these entities till operations scale up to profitable levels. Additionally, the cash logistics business of the Group is also generating losses and would need funding support from SISL over the medium term. Accordingly, ICRA would continue to monitor the performance of these entities and the quantum of funding outflow from SISL for supporting these entities as key rating sensitivities.

Additionally, ICRA expects significant outflow over the medium term both from the Indian as well as Australian entities for purchasing the balance stake in entities like Duster, SLV and SXP to convert them to wholly owned subsidiaries. With approximately Rs. 300 crore payout expected towards funding these stake purchases by FY2020, the cash outflow requirements remain significant. The funding mix adopted for the same and the impact on the overall credit profile of SISL would, hence, remain a key sensitivity.

Given SISL's plans to emerge as the largest player in the Indian security services, cash logistics and IFM markets by 2020, the Group is expected to engage in inorganic investments periodically. Accordingly, ICRA would continue to monitor such inorganic growth activity, including the impact of planned investments on the consolidated profile of SISL on a case-to-case basis. Additionally, the funding mix adopted for funding these acquisitions and the extent of leveraging done would continue to have an impact on the credit metrics of the company. Accordingly, these would remain key rating sensitivities and would be monitored, going forward.

Outlook: Stable

ICRA believes that SISL would continue to report healthy growth over the medium term, supported by both organic as well as inorganic growth in the company. Although incremental debt would be availed for funding possible acquisitions, ICRA expects credit metrics to remain at moderate levels.

However, the outlook may be revised to Negative in the event of higher than expected external borrowings and deterioration in credit metrics of the company, or higher than expected fund outflow towards supporting loss-making entities or inorganic investments. The outlook may be revised to Positive in case of significant improvement in operating performance and credit metrics of SISL.

Key rating drivers

Credit strengths

Well-diversified business profile with presence across multiple service segments – SISL's business profile is characterised by presence across multiple service offerings including security services, IFM, electronic security, pest control and cash logistics, with the former being the key revenue contributor. In addition to the diversification benefits by virtue of having multiple service offerings, SISL is able to act as an integrated service provider with scope for bundling its offerings across segments to its customers.

Market leadership position across the various service segments – SISL is the largest security services provider in Australia, second largest in India, and among the top four facility management players in India. In the Indian cash logistics segment too, it is the largest player.

Robust growth over recent years supported by inorganic growth initiatives as well as organic growth across various entities – Over the past five years, SISL's consolidated revenues have grown at a robust CAGR of 22%. This has been supported by inorganic investments pursued by the company (Duster, SXP, SISCO, etc), as well as healthy organic growth in entities like SIS India, Service Master Clean, MSS Security, etc, driven both by wage hikes as well as expanding market presence.

Improvement in financial risk profile in recent years, supported by IPO proceeds, margin expansion across entities and retirement of high-cost debt – Over the past two years, the financial risk profile of SISL has improved, both on standalone as well as consolidated basis. While the operating performance improvement was driven primarily by scale up in operations across entities which provided operating leverage benefits, the improvement in credit metrics and liquidity has been on the back of sizeable funds of Rs. 362 crore raised from the company's IPO in FY2018, which supported it in retiring high-cost debt. Although credit metrics are likely to moderate marginally in the current fiscal, given the issuance of Rs. 150 crore of NCD, ample funds parked in liquid investments in India and Australia offer comfort.

Part of the SIS Group, with extensive experience in the services industry in India – SISL’s promoters have experience of more than four decades in the Indian security services market. In new segments that the Group has ventured into (IFM, cash logistics, pest control, etc), the company has entered into strong international collaborations to improve its product offering and gain market presence.

Credit challenges

Working capital intensive nature of operations keeps cash flow generation weak and dependence on external borrowings high – Nature of operations in the labour-intensive services segment remains highly working capital intensive, as employees need to be paid upfront, while payment is received from customers post a credit period. To bridge this gap in cash flows, SISL remains dependent on working capital borrowings. Going forward, as operations scale up, the working capital requirements, and consequently, short-term borrowings would increase across various entities.

Cash outflow requirements towards inorganic investments and additional stake purchase in existing subsidiaries expected to increase reliance on external borrowings – With the company’s plans to increase its market presence in the highly fragmented security and IFM markets, it is expected to engage in inorganic growth over the medium term to gain market share. Such inorganic investments, coupled with expected outflows towards purchasing incremental stake in existing subsidiaries like SXP, Duster and SLV, would increase the cash outflow requirements from both India and Australia, and are expected to be funded majorly through external borrowings.

Certain businesses that are in nascent stages of operations require funding support – In addition to the cash logistics business of the Group, which is currently incurring losses, certain other entities like SIS Alarms, Tech SIS and Terminix SIS are also in nascent stages of operations. SISL is expected to support these entities either in the form of additional equity infusion or extension of inter-corporate loans, going forward.

Limited pricing power due to highly fragmented and competitive nature of the industry – The security services and facility management industry in India is characterised by low entry barriers and is, therefore, highly fragmented, comprising numerous unorganised players. This limits the pricing power and scope for margin expansion for the company. Hence, SISL has been reporting modest margins with OPM in the range of 3-6% and NPM in the range of 1-3% over the years, and this is likely to continue, going forward as well.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of SISL and its various subsidiaries and joint ventures. ICRA has also applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

SISL is one of the leading players in the organised security services industry in India and Australia. The parent company of the SIS Group, the company has presence in various other lines of business through JVs and subsidiaries. These include MSS Security—through which it operates the Australian man-guarding business, Service Master Clean, the facility management company, SIS Terminix, offering pest control services, Tech SIS, for integrated electronic security solutions and SIS Prosegur Cash Services, which offers cash logistics services. In addition, the company regularly engages in investments and acquisitions to enter new geographies and businesses. The company’s recent acquisitions include Duster Total Solutions Private Limited in FY2017 and the Indian cash logistics business of Denmark’s ISS Group during FY2015 by the JV of SIS Prosegur Cash Services. Additionally, during FY2018, SISL increased its presence in the Australian security services market through conversion of Southern Cross Protection Pty Limited to a subsidiary, by way of purchase

of shares and voting interest through its parent company. In the current fiscal, the company also acquired majority stake in SLV Security Services, a leading security services provider in the Delhi NCR market.

SISL is the flagship company of SIS Group and is promoted by Mr. R.K. Sinha and Mr. Rituraj Sinha. It was established in 1974 as a proprietorship firm and then was reconstituted as a private limited company in 1985, and as a public limited company in 1993. The company was listed on the stock exchange during FY2018, raising Rs. 362.5 crore as fresh equity from the primary market during its IPO in August 2017. The promoter groups led by Mr. R.K. Sinha and Mr. Rituraj Sinha (as promoters) and family and associates own 75.5% (PY: 76.9%) stake in the company with 4.65% (PY: 15.20%) of the balance being held by Private Equity (PE) investor, CX Partners, through its subsidiary, Theano Private Limited.

Key financial indicators – Consolidated

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	4,387.2	5,833.4
Concern Share (Rs. crore)	104.9	158.8
OPBDIT/OI (%)	5.0%	5.4%
RoCE (%)	17.7%	20.3%
Total Debt/TNW (times)	1.2	0.5
Total Debt/OPBDIT (times)	3.2	1.8
Interest Coverage (times)	2.9	3.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating	Date & Rating in FY2018			Date & Rating in FY2017
				Oct 2018	Mar 2018	Dec 2017	Apr 2017	Nov 2016
1	Term Loan	55.0	25.4	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- &
2	Long term fund based limits	405.0	111.1	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- &
3	Short term non fund based limits	154.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1 &
4	NCD	250.0	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-

*As on March 31, 2018

&On Rating watch with developing implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	FY2018	NA	FY2024	25.00	[ICRA]A+ (Stable)
NA	Term Loan 2	FY2017	NA	FY2021	15.00	[ICRA]A+ (Stable)
NA	Term Loan 3	FY2018	NA	FY2022	15.00	[ICRA]A+ (Stable)
NA	Long term fund based limits	NA	NA	NA	405.00	[ICRA]A+ (Stable)
NA	Short term non fund based limits	NA	NA	NA	154.00	[ICRA]A1+
INE285J07033	NCD	Apr'18	9.5%	Apr'21	250.00	[ICRA]A+ (Stable)

Source: Security & Intelligence Services (India) Limited

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