

IPO Flash

July 28, 2017

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Security and Intelligence Services (India)

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IPO details:	
Issue open	31-Jul-17
Issue closes	02-Aug-17
Issue size	Rs774-780 crore
Offer size	96.2 lac equity shares of which secondary offer of 51.2 lac shares
Face value	Rs 10
Bid lot	18 shares
Price Band	Rs 805 to Rs 815 per share
Retail portion	Not more than 10% of the offer

About the IPO

Security and Intelligence Services (India) wishes to raise Rs774-780 crore from the equity market at a price band of Rs 805-815 with an Initial Public Offer (IPO). The offer comprises of 96,20,619 lac shares split between primary and secondary offering, with secondary offer of 51,20,619 shares.

Company Background

SIS provides private security services in India and Australia. It is also engaged into providing facility management services and cash logistics services in India. SIS provides private security and facility management services to several customer segments such as business entities, Government organisations and households. Facility services management business includes cleaning, janitorial services, disaster restoration and clean-up of damage, as well as facility operation and management such as deployment of receptionists, lift operators, electricians and plumbers and pest and termite control. Cash logistics services comprise of three functions, (1) ATM replenishment, (2) cash-in-transit and (3) cash pick-up and delivery. Currently, ATM replenishment is the largest segment of the cash logistics services market.

During FY2013-FY2017, revenues for SIS has compounded at 15% annually to Rs4,567 crore. During the same period, EBITDA margins have remained consistently above 4.5% and ROACE

above 25%. During FY17, Revenue rose 19% YOY to Rs4,567 crore and PAT rose 21% YOY to Rs91 crore.

Key positives

Dominant market position across its businesses

As per Frost & Sullivan Report, the company has been ranked at #2 position in the security services segment and in cash logistics business and at #4 in Facility Management business in India in FY2015 in terms of revenue. In Australia, SIS' wholly owned subsidiary MSS Security Pty Ltd has been ranked at #1 position as per report from Freedonia in FY2015 in terms of revenue.

Gradually diversifying its revenue base

SIS has been gradually diversifying its revenue base with contribution to consolidated revenue from Facility Management business increasing to 9% in FY2017 from 2% in FY2013 and from Cash Logistics business increasing to 4% from 1% in FY2013.

Decent Return Ratios

Average Return on Capital Employed (ROACE) for last 4 years (FY2014-FY2017) has been very good in the range of 24-28% demonstrating the company is using financial resources efficiently.

Geographical presence spread across pan-India

SIS has a strong geographical footprint of 251 branches across 124 cities in India. To provide training to its huge employee base of 1,54,000 employees and new employees, SIS' training infrastructure includes 18 training centres across 15 States in India. Its customer base stands at a strong 3,000 entities in Security Services. SIS' strategy is to focus on growth across business verticals and customer segments through organic as well as inorganic route and leverage its branch network and infrastructure to achieve operational synergies. The company's focus is also on use of technology to improve productivity and customer satisfaction.

Shareholding pattern

Category of Shareholders	No. of Shareholders	Total no. of fully paid up equity shares held pre IPO	Shareholding as % of total no. of shares held
Promoter and Promoter group	10	52842867	76.9
Public	290	15871383	23.1
Total		68714250	100

Key risk

(1) ~52% of its consolidated revenue for FY17 were contributed from security services business in Australia indicating significant dependence on single geography (2) ~87% of consolidated revenue for FY17 were from security services business only (3) Industry related data has been provided by Frost & Sullivan and Freedonia have not been independently verified by management.

Valuation

At Rs815 (higher end of price band), SIS is offering shares at 61x FY17 consolidated EPS of Rs13.3 and

that appears expensive considering that more than half of its revenue being contributed only by its Australian security services business. However, once Cash Logistics and Facility Management businesses achieve scale, bottom line of the company should improve substantially. In FY2017, Cash Logistics business contributed ~4% of consolidated revenue and Facility Management ~9% of revenue. In its Security Services business in India, SIS has invested heavily towards setting up training infrastructure as well as branch network. Hence, profits of the business should improve substantially going forward with higher operating leverage.

Financials

Consolidated Profit & Loss Statement

Rs crore

Particulars	Mar-14	Mar-15	Mar-16	Mar-17
Revenue from operations	3097.66	3550.63	3836.22	4567.09
Other Income	10.03	14.52	13.90	10.04
Total Revenue	3107.69	3565.15	3850.12	4577.13
Cost of materials consumed	2.00	2.38	3.59	13.46
purchase of traded goods	1.32	10.36	7.12	5.11
Increase/(Decrease) in inventory	0.08	-0.39	-0.10	-2.15
Employee benefit expenses	2538.35	2892.02	3116.24	3788.66
Depreciation & amortisation expenses	30.52	45.44	43.16	45.65
Finance Costs	25.61	47.74	47.52	74.88
Other expenses	408.14	486.97	539.95	540.34
Total expenses	3006.02	3484.52	3757.48	4465.95
Share of net profit of associates	0.74	0.93	1.56	1.70
Profit/(Loss) before taxation	102.41	81.56	94.20	112.88
Tax expenses				
Current tax	45.88	37.67	39.64	36.39
MAT credit entitlement				-1.90
Deferred tax charge/(credit)	-8.91	-4.59	-10.01	-12.13
Total tax expenses	36.97	33.08	29.63	22.36
Net profit/(loss) after tax before minority interest and conversion to JV from subsidiary	65.44	48.48	64.57	90.52
Conversion to JV from subsidiary				
Profit/(loss) for the year before minority interest	65.44	48.48	73.85	90.52
Less: Minority interest in profit/(loss)	-3.23	-14.20	-1.88	-0.74
Profit/(loss) for the year attributable to minority shareholders	68.67	62.68	75.73	91.26

Consolidated Balance Sheet				Rs crore
Particulars	Mar-14	Mar-15	Mar-16	Mar-17
Equity and Liabilities				
Shareholder's funds				
Share capital	6.18	6.18	6.20	68.70
Reserves and surplus	385.59	385.30	443.15	474.39
	391.77	391.48	449.35	543.09
Share application money pending allotment		5.41		
Minority Interest	36.38	76.47	2.58	14.59
	428.14	473.35	451.93	557.68
Non-current Liab				
Long-term borrowings	59.58	200.36	178.97	405.95
Long term provisions	74.97	55.14	66.95	76.45
	134.55	255.50	245.93	482.41
Current Liabilities				
Short-term borrowings	140.25	194.87	220.87	279.52
Trade payables	28.73	42.58	33.27	46.55
Other current liabilities	258.36	321.07	307.04	459.71
Short-term provisions	156.23	164.34	200.79	222.62
	583.57	722.86	761.97	1008.40
Total equity and liabilities	1146.26	1451.72	1459.82	2048.49
Assets				
Non-current Assets				
Fixed assets				
Tangible assets'	123.17	123.36	132.51	160.25
Intangible assets	128.17	205.16	175.47	277.82
Capital work in progress	7.14	6.86	0.04	0.41
Intangible assets under development	1.29	0.00	0.10	3.56
Non-current investments	11.43	10.42	12.03	19.53
Deferred tax assets (net)	37.91	40.45	47.48	62.90
Long-term loans and advances	11.24	12.62	15.32	24.50
Other non-current assets	0.20	0.24	0.33	0.61
	320.55	399.11	383.28	549.57
Current assets				
Inventories	5.31	6.55	1.06	3.97
Trade receivables	253.13	311.90	287.69	461.74
Cash & bank balances	296.94	374.49	349.28	450.80
Short-term loans and advances	20.12	43.41	52.26	67.30
Other current assets	250.20	316.26	386.25	515.10
	825.70	1052.61	1076.54	1498.91
Total assets	1146.25	1451.72	1459.82	2048.48

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