

Security and Intelligence Services (Ind.) Ltd.

Leading security services player offers secure returns

Incorporated in 1985, Security and Intelligence Services (India) Limited (SIS) provides private security and facility management services in India and Australia. They offer cash logistics & security services, including manned guarding and electronic security; and facility management services, such as mechanized cleaning, and pest & termite control services.

Leadership position in all the segments: In terms of revenue SIS is the 2nd largest security services provider in the cash logistic segment in India, and it is growing at a rapid pace. Company's revenue from security services business in India grew at 29.7% CAGR (FY2013-17). Further, SIS acquired Dusters, the fourth largest facility management service provider in India (in terms of revenues), as of March 31, 2016, according to Frost & Sullivan. SIS's brand is well-recognized for providing quality services in India and Australia and the management believes that strong brand positioning and strategic focus on such business has contributed to sustained increase in business over the years.

Variety of services coupled with diverse customer base: SIS's customer segments range across a variety of sectors including banking and financial services, IT/ ITeS & telecom, automobile, steel & heavy industries, governmental undertakings, hospitality & real estate, utilities, educational institutions, healthcare, consumer goods, engineering and construction, which therefore, reduces vulnerabilities to economic cycles and dependence on any particular set of customers. SIS's diverse portfolio of services comprises of security services, cash logistics services, electronic security & home alarm monitoring and response, as well as facility management services. SIS's multiple service offerings allow to derive operational efficiencies by centralizing key functions.

Inorganic growth through strategic acquisitions: SIS acquired 78.72% equity in Dusters Total Solutions Services Pvt. Ltd (4th largest) with an agreement to increase its shareholding to 100% over the next three years. SIS, through its 100% subsidiary, SIS Australia Group Pty Ltd., acquired 51% equity in Andwills Pty Ltd., which contributes ~60% of total revenues. While continuing to maintain organic growth momentum, SIS intends to explore inorganic expansion as well, leveraging on the experience the company has gained through its previous acquisitions.

Outlook and Valuation: At the upper price band of ₹815, issue is offered at 61x FY17EPS (Pre issue marketcap), which is at ~36% discount to Qess Corp (96x FY2017EPS). Moreover, SIS has better ROE (16.4%) compared to Qess Corp (13.6%). Furthermore, at 10.3xP/BV, 26.2xEV/EBITDA, SIS's valuation looks attractive compared to Qess Corp's valuation of 13.1xP/BV, 50.4xEV/EBITDA.

Hence, we recommend **SUBSCRIBE** rating on the issue.

Key Financials

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017
Net Sales	2644	3098	3551	3836	4567
% chg		17.2	14.6	8.0	19.1
Net Profit	57	69	63	76	91
% chg		20.1	-8.7	20.8	20.5
OPM (%)	4.7	4.8	4.5	4.4	4.9
EPS (₹)	8	10	9	11	13
P/E (x)	98.0	81.5	89.3	73.9	61.3
P/BV (x)	16.9	14.3	14.1	12.5	10.3
RoE (%)	16.0	16.5	12.0	14.0	16.4
EV/Sales (x)	2.1	1.8	1.6	1.5	1.3
EV/EBITDA (x)	44.1	37.2	35.2	33.3	26.2

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

SUBSCRIBE

Issue Open: July 31, 2017

Issue Close: August 02, 2017

Present Eq. Paid up Capital: ₹68.7cr

Offer for Sale: **0.51cr Shares

Fresh issue: ₹362.3 cr

Post Eq. Paid up Capital: ₹73.1cr

Issue size (amount): *₹774.5cr - **₹779.6 cr

Price Band: ₹805-815

Lot Size: 18 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹5889cr - **₹5962cr

Promoters holding Pre-Issue: 76.9%

Promoters holding Post-Issue: 65.2%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

Post Issue Shareholding Pattern

Promoters	65%
Others	35%

Abhishek Lodhiya

+022 39357600, Extn: 6811

Abhishek.lodhiya@angelbroking.com

Company background

Incorporated in 1985, Security and Intelligence Services (India) Limited provides private security and facility management services in India and Australia. They offer cash logistics & security services, including manned guarding and electronic security; and facility management services, such as mechanized cleaning, and pest & termite control services.

Security services: SIS is the second largest security services provider in India, in terms of revenue, as of March 31, 2016, and the fastest growing security services provider in India, based on revenues for FY2010-14, according to Frost & Sullivan. In addition, Freedonia ranks SIS's wholly-owned Subsidiary, MSS Security Pty Limited ("MSS") as the largest security services provider in Australia, jointly with a competitor, in terms of revenues, as of March 31, 2015. SIS provides a comprehensive range of security services ranging from providing trained security personnel for general guarding to specialized security roles in India and Australia. In Australia, company also provides paramedic and allied health, fire rescue services, mobile patrol, loss prevention and other related services.

Cash logistics services: SIS is the second largest cash logistics service provider in India, in terms of market share by revenue, number of employees, ATMs served and cash vans utilized, as of March 31, 2015, according to Frost & Sullivan. SIS's cash logistics business in India includes services such as cash in transit including transportation of bank notes and other valuables, doorstep banking as well as cash processing, ATM related services including ATM replenishment, first line maintenance and safekeeping, and vault related services for bullion and cash.

Electronic security services and home alarm monitoring and response services: In India, the company provides electronic security services, including integrated and turnkey electronic security and surveillance solutions combining electronic security with trained manpower and it has recently entered into a joint venture in order to provide home alarm monitoring and response services.

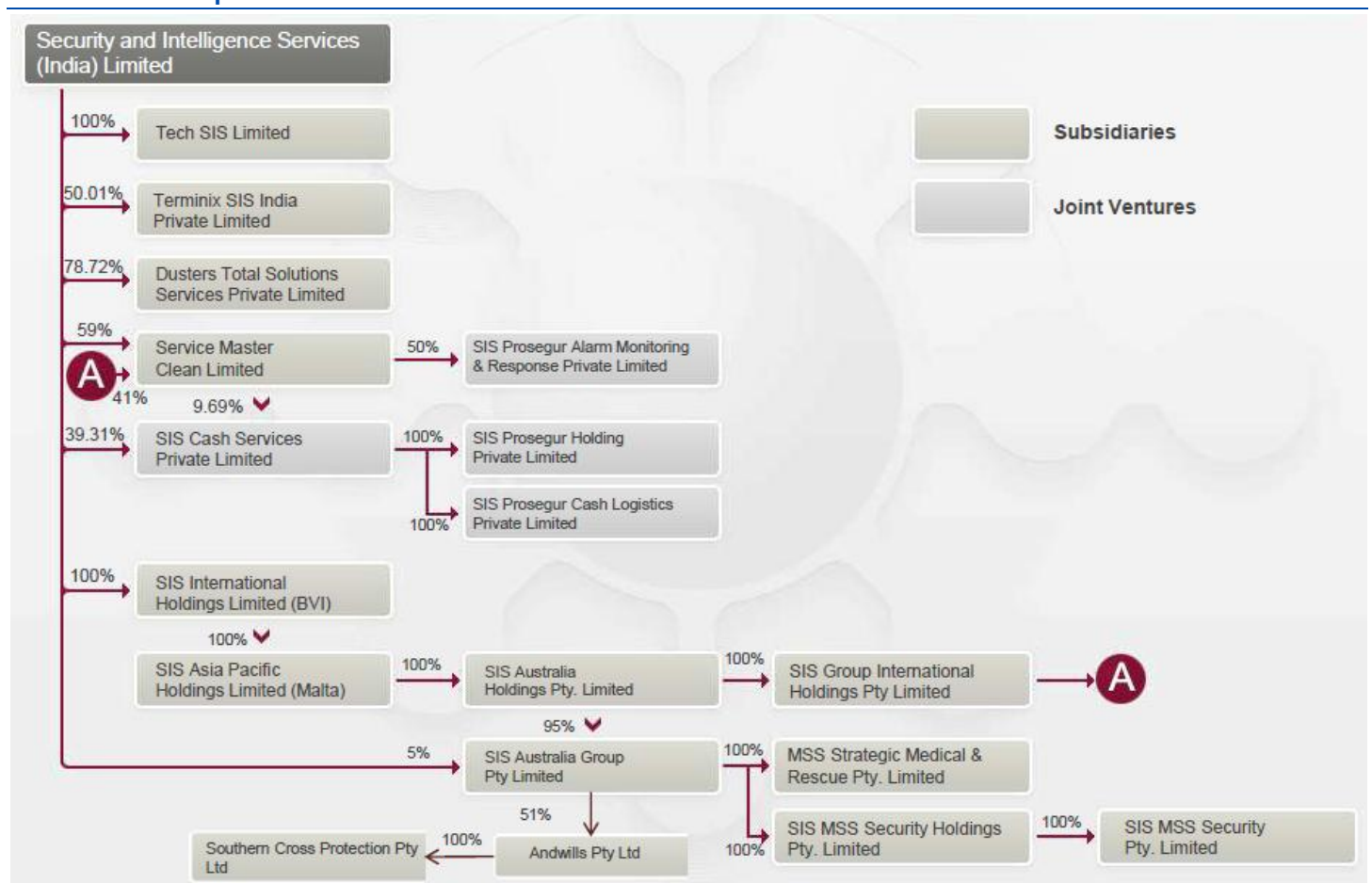
Facility management services: SIS's facility management services in India includes cleaning, janitorial services, disaster restoration and clean-up of damage, as well as facility operation and management such as deployment of receptionists, lift operators, electricians and plumbers, and also pest and termite control. Effective August 1, 2016, SIS acquired 78.72% of the outstanding equity shares of Dusters Total Solutions Services Private Limited ("Dusters"), with the agreement to increase the shareholding to 100% over the next three years. Dusters is the fourth largest facility management services provider in India, in terms of revenues, as of March 31, 2016, according to Frost & Sullivan. Company has developed its portfolio of services in order to cater to the needs of diverse consumer segments, including, business entities, Government organizations and households, and to leverage the growth and potential of such customer segments in India.

As of April 30, 2017, SIS had a widespread branch network consisting of 251 branches in 124 cities in India, which covers 630 districts. Company employed 148,678 personnel in India and rendered security and facility management services at 11,869 customer premises across India. In Australia, company operates in each of the eight states and employed 5,754 personnel, servicing 245 customers, as of April 30, 2017. SIS's widespread branch network enables it to

service a large number of customer premises and render customized services across India and Australia.

SIS has set up an extensive employee platform which spans recruitment, customized training & development, deployment, incentivization and management of personnel. Company has deep geographical reach for manpower sourcing and training and currently operates 18 training academies across India and four training academies across Australia. In India, company's security services personnel undergo extensive physical and classroom training. SIS's personnel recruitment, training and deployment initiatives are process oriented and technology driven with detailed performance indicator tracking, reporting and evaluation of personnel. SIS benefits from a pipeline of operational managers from the graduate trainee officer program undertaken at its training academy at Garhwa, Jharkhand, which is focused on developing a management cadre with in-depth knowledge of company's business and operations. SIS's security personnel in Australia hold required state security licenses and undergo both company-specific and site-specific training.

Exhibit 1: SIS Corporate Structure



Source: IPO Presentation, Angel Research

Issue details

The company is raising ₹362.3cr through a fresh issue of equity shares in the price band of ₹805-815. The fresh issue will constitute ~6% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band. The company is offering 0.51cr shares that are being sold by the promoter group.

Exhibit 2: Pre and Post-IPO shareholding pattern

	No. of shares (Pre-issue)		(%)	No. of shares (Post-issue)		(%)
Promoters	5,28,42,867		76.9	4,77,22,248		65.2
Others	1,58,71,383		23.1	2,54,36,787		34.8
	6,87,14,250		100.0	7,31,59,035		100.0

Source: RHP, Angel Research; Note: Calculated on upper price band

Objects of the offer

- Repayment/pre-payment, in full or part, of certain borrowings availed by Company (₹200cr will be utilized)
- Funding working capital requirements of the Company (₹60cr will be utilized)
- Remaining will be utilized for general corporate purpose

Investment Rationale

Leadership position in all the segments

SIS is the second largest security services provider in India, in terms of revenue as of March 31, 2016, and the fastest growing security services provider in India, based on revenues for FY2010-14, according to Frost & Sullivan. Between FY2013-17, company's revenue from security services business in India grew at a CAGR of 29.7%.

Freedonia has ranked SIS's wholly-owned Subsidiary, MSS, as the largest security services provider in Australia, jointly with a competitor, in terms of revenues, as of March 31, 2015. Between FY2013-17, company's revenue from security services business in Australia grew at a CAGR of 7.7% in Australian Dollar terms.

SIS acquired the cash and valuables services division of ISS SDB Security Services Private Limited ("ISS"), in December 2014 and operates it under the 'SISCO' brand. SIS is second largest cash logistics service provider in India, as of March 31, 2015, in terms of market share by revenue, number of employees, ATMs served and cash vans utilized, according to Frost & Sullivan. For cash logistics business, company has entered into a joint venture with an affiliate of Prosegur, a global player in cash management services. SIS has established a nation-wide network in India, comprising 80 branches, including shared branches, 2,748 cash routes, served by 2,518 cash vans as well as two wheeler vehicles and 59 vaults and strong rooms, as of April 30, 2017, and has set up a secure cash processing unit at New Delhi, to service customers needs.

In March 2008, SIS entered into an exclusive license agreement with ServiceMaster for the 'ServiceMaster Clean' brand, and associated proprietary processes, operating materials and knowhow in order to develop facility management business in India. Effective August 1, 2016, SIS acquired Dusters, the fourth largest facility management service provider in India, in terms of revenues, as of March 31, 2016, according to Frost & Sullivan. SIS has also entered into a JV with Terminix, a multinational provider of termite and pest control services. Company believes that factors such as diverse range of services, customer base comprising business entities, Government organizations and households - ranging from malls and retail centers, hotels and hospitals to government offices and airports, and strength of the established brands used, enable SIS to further strengthen its leadership position.

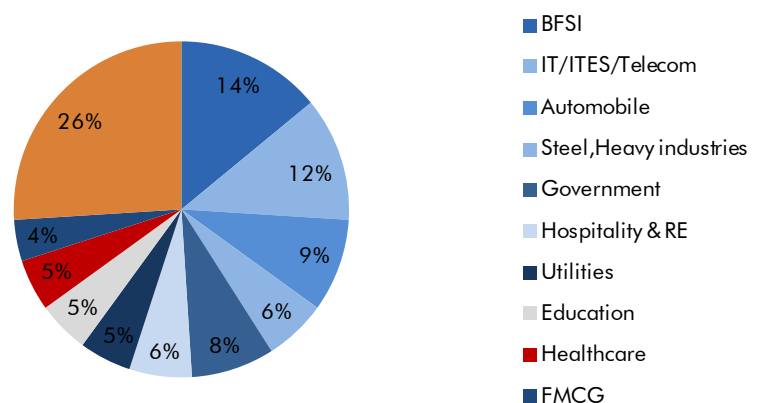
SIS's long-standing presence in India and Australia has enabled it to gain an understanding of the respective markets, which the company believes has contributed towards its operational success. SIS's brands are well-recognized for providing quality services in India and Australia and management believes that strong brand positioning and strategic focus on such business has contributed to sustained increase in business over the years.

Diverse customer base

SIS provides private security and facility management services to several customer segments such as business entities, Government organizations and households. These customer segments range across a variety of industries and sectors, which include banking and financial services, IT/ ITeS & telecom, automobile, steel &

heavy industries, governmental undertakings, hospitality & real estate, utilities, educational institutions, healthcare, consumer goods, engineering & construction, which reduces vulnerabilities to economic cycles and dependence on any particular set of customers. Company believes its ability to offer customized private security and facility management services to fit the needs of the customers across various business segments allows to deepen its relationships with customers and enables to target a greater share of their requirements. SIS believes that it has been able to retain existing customers and attract new customers because of brand visibility, strong market position and delivery of quality services.

Exhibit 3: No Sector Contributes > 15% of Revenues



Source: IPO Presentation, Angel Research

Diverse portfolio of private security and facility management services

SIS's diverse portfolio of services comprises of security services, cash logistics services and electronic security & home alarm monitoring and response, as well as facility management services. Its security services range from providing trained security personnel for general guarding to specialized security roles in India and Australia. In Australia, company also provides paramedic and allied health, fire rescue services, mobile patrol, loss prevention and other related services. SIS's cash logistics business includes services such as cash in transit including transportation of bank notes and other valuables, doorstep banking as well as cash processing, ATM related services including ATM replenishment and first line maintenance and safekeeping, and vault related services for bullion and cash. In India, company also provides electronic security services, including offering integrated solutions combining electronic security with trained manpower, and has recently entered into a joint venture to provide home alarm monitoring and response services. SIS's facility management services include cleaning, janitorial services, disaster restoration and clean-up of damage, as well as deployment of receptionists, lift operators, electricians and plumbers and pest and termite control services.

SIS believes company's extensive portfolio of services enables it to grow its customer relationships and scope of engagements and serve as a single point of contact for multiple services, driving high customer retention. Company's multiple

service offerings allow to derive operational efficiencies, by centralizing certain key functions such as finance and sales and also certain other administrative functions.

Inorganic growth through strategic acquisitions

While continuing to maintain organic growth momentum, SIS intends to explore inorganic expansion as well, leveraging on the experience company has gained through its previous acquisitions.

SIS acquired 78.72% equity in Dusters Total Solutions Services Private Limited with effect from August 1, 2016, with an agreement to increase its shareholding to 100% over the next three years. SIS acquired Dusters for a cash consideration of ₹116.9cr. Effective July 1, 2017, SIS, through its 100% subsidiary, SIS Australia Group Pty Ltd., acquired 51% equity in Andwills Pty Limited, the ultimate holding company of Southern Cross Protection Pty Ltd., one of our current Associates, in which 10% of the equity share capital and voting rights are directly held by SIS Australia Group for a cash consideration of ₹88.4cr (AUD 17.79 Million). This acquisition resulted in the Company, indirectly and directly, controlling 51% of the equity share capital and voting rights in SXP.

Frost & Sullivan anticipates competition in the industry will become stiff, leading to further consolidation of the market. Leveraging on this consolidation, SIS intends to evaluate growth opportunities to inorganically grow operationally, including by acquisition of cash accretive contracts from competitors, similar to the acquisition of specified business contracts, vendor contracts, licensed properties, employees and related assets from Scientific Security in December 2016. SIS will also continue to consider opportunities for inorganic growth in India and the Asia Pacific region, particularly to consolidate the company's market position in existing business lines; achieve operating leverage in key markets by unlocking potential efficiency and synergy benefits; strengthen and expand service portfolio; enhance depth of experience, knowledge-base and know-how; and increase branch network, customers and geographical reach.

Outlook and Valuation

At the upper price band of ₹815, issue is offered at 61x FY2017EPS (Pre issue marketcap), which is at ~36% discount to the Qess Corp (96x FY2017EPS). Moreover, SIS has better ROE (16.4%) compared to Qess Corp (13.6%). Furthermore, at 10.3xP/BV, 26.2xEV/EBITDA SIS's valuation looks attractive compared to Qess Corp's valuation of 13.1xP/BV, 50.4xEV/EBITDA. **Hence, we recommend SUBSCRIBE rating on the issue.**

Key risks

- SIS is subject to several labour legislations and regulations governing welfare, benefits and training of the employees. Any increase in wage and training costs or if any decisions in pending cases are against the company, it could adversely affect the business, financial condition and cash flows.
- SIS is subject to risks associated with operating with joint venture and other strategic partners.
- SIS derives a significant portion of total revenue from security services business. Any decrease in the demand for security services may have an adverse impact on business, financial condition and result of operations.

Consolidated Income Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017
Total operating income	2,644	3,098	3,551	3,836	4,567
% chg	-	17.2	14.6	8.0	19.1
Total Expenditure	2,519	2,950	3,391	3,667	4,345
Operating Expenses	3	3	12	11	16
Employee	2,159	2,538	2,892	3,116	3,789
Others Expenses	357	408	487	540	540
EBITDA	124	148	159	169	222
% chg	-	18.8	7.8	6.4	30.8
(% of Net Sales)	4.7	4.8	4.5	4.4	4.9
Depreciation & Amortisation	26	31	45	43	46
EBIT	99	117	114	126.3	176.0
% chg	-	18.6	(2.9)	10.9	39.4
(% of Net Sales)	3.7	3.8	3.2	3.3	3.9
Interest & other Charges	31	26	48	48	75
Other Income	14	10	15	14	10
(% of PBT)	17.1	9.9	18.0	15.0	9.0
Recurring PBT	82	102	81	93	111
% chg	-	24.2	(20.7)	14.9	20.0
Tax	29	37	33	30	22
PAT (reported)	53	65	48	63	89
Share in profit of Associates	1	1	1	11	2
Less: Minority interest (MI)	(3)	(3)	(14)	(2)	(1)
PAT after MI (reported)	57	69	63	76	91
% chg	-	22.6	(27.1)	11.9	67.0
(% of Net Sales)	2.0	2.1	1.3	1.4	1.9
Basic & Fully Diluted EPS (Rs)	8.3	10.0	9.1	11.0	13.3
% chg	-	20.1	(8.7)	20.8	20.5

Source: RHP, Angel Research

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017
SOURCES OF FUNDS					
Equity Share Capital	21	6	6	6	69
Reserves & Surplus	311	386	391	443	474
Shareholders Funds	332	392	397	449	543
Minority Interest	39	36	76	3	15
Total Loans	157	200	395	400	685
Deferred Tax Liability	-	-	-	-	-
Total Liabilities	528	628	869	852	1,243
APPLICATION OF FUNDS					
Gross Block	155	202	259	278	340
Less: Acc. Depreciation	57	78	136	145	180
Net Block	98	123	123	133	160
Other Intangible assets	133	128	205	175	278
Capital Work-in-Progress	6	8	7	0	4
Investments	11	11	10	12	20
Current Assets	759	837	1,065	1,092	1,524
Inventories	4	5	7	1	4
Sundry Debtors	299	253	312	288	462
Cash	253	297	374	349	451
Loans & Advances	52	31	56	68	92
Other Assets	151	250	317	387	516
Current liabilities	509	518	583	608	805
Net Current Assets	250	319	482	484	719
Deferred Tax Asset	29	38	40	47	63
Total Assets	528	628	869	852	1,243

Source: RHP, Angel Research

Consolidated Cash Flow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017
Profit before tax	83	102	82	94	113
Depreciation	26	31	45	43	46
Change in Working Capital	(19)	(34)	(52)	(74)	(75)
Interest / Dividend (Net)	29	24	46	46	72
Direct taxes paid	(51)	(48)	(57)	(58)	(81)
Others	(4)	6	8	23	20
Cash Flow from Operations	64	80	71	73	94
(Inc.)/ Dec. in Fixed Assets	(43)	(54)	(47)	(66)	(67)
(Inc.)/ Dec. in Investments	16	12	(63)	14	(139)
Cash Flow from Investing	(27)	(42)	(110)	(52)	(206)
Issue of Equity	0	16	0	0	0
Inc./(Dec.) in loans	(11)	(35)	156	(18)	173
Others	(66)	26	(4)	(45)	49
Cash Flow from Financing	(77)	7	152	(64)	222
Inc./(Dec.) in Cash	(40)	45	113	(42)	110
Opening Cash balances	284	253	297	374	349
Adjustment	9	(1)	(36)	17	(9)
Closing Cash balances	253	297	374	349	451

Source: RHP, Angel Research

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017
Valuation Ratio (x)					
P/E (on FDEPS)	98.0	81.5	89.3	73.9	61.3
P/BV	16.9	14.3	14.1	12.5	10.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	2.1	1.8	1.6	1.5	1.3
EV/EBITDA	44.1	37.2	35.2	33.3	26.2
EV / Total Assets	10.4	8.7	6.5	6.6	4.7
Per Share Data (₹)					
EPS (Basic)	8.3	10.0	9.1	11.0	13.3
Cash EPS	11.5	13.9	13.5	15.5	19.6
Book Value	48.3	57.0	57.8	65.4	79.0
Returns (%)					
ROCE	20.2	19.8	14.4	14.9	14.3
Angel ROIC (Pre-tax)	44.1	41.4	28.0	25.9	23.2
ROE	16.0	16.5	12.0	14.0	16.4
Turnover ratios (x)					
Asset Turnover (Gross Block)	17.0	15.4	13.7	13.8	13.4
Inventory / Sales (days)	1	1	1	0	0
Receivables (days)	41	30	32	27	37
Payables (days)	2	2	2	2	2
Working capital cycle (ex-cash) (days)	40	29	31	26	35

Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.comWebsite: www.angelbroking.com

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