Operator: Good afternoon, everyone. This is the fourth and final day of the Bharat Connect conference. I welcome you all to the call of SIS Ltd. Today, from management, we have Mr. Vinit Toshniwal, President, M&A and IR, and Ms. Shweta Jain, Associate Vice President, M&A and IR. Before I hand over the call to management, I will lay out the flow of the event. We will start with brief introductory remarks by management and then move on to the Q&A round. Any participant who would like to ask a question can raise their hand or put it in the chat box. First, we will take questions from participants who have raised their hands, and then we will move on to the chat box. If time permits at the end, we will take questions that I have received from clients who were unable to participate. With this, I now hand over the call to management. Over to you, sir.

Vinit Toshniwal – President M&A and IR: Thank you very much, and good morning to everyone. I can see that there are many participants on the call. Thank you for taking the time to join us.

As we speak today, we are at the end of H1. For SIS, FY26 has been a very good year in terms of overall business growth momentum returning. We also completed a successful acquisition, which was consolidated in H2 of last year. Therefore, H1 of this year will continue to show excellent growth because the full effect of the acquisition is also becoming visible in Q1 and Q2. From Q2 and Q3 onwards, the base will reset, obviously.

This year, however, we are seeing fantastic business traction. Q1 was great. We were 20% up year-on-year. This quarter also, we expect to see similar growth rates as we move forward. For the full year, we are forecasting growth of close to 20%, which, based on the current run rate, should be achievable if all goes well on the overall economy, geopolitical, and currency fronts. However, I believe our business is far too insulated from temporary fluctuations in the economy. Therefore, I do not think there is anything immediate to worry about from our business perspective.

The traction continues to remain strong. Securities continues to grow at 15%, as you saw in Q1. The facility management business is picking up growth at 11-12%. It will hopefully pick up further, but the EBITDA performance has been over 15%, so there are no issues there. The international business, surprisingly, is currently on a very strong footing. We are getting two tailwinds: one is from the currency, and the other is the significant wins in the domestic Australian market, which started showing a revenue impact from last year. Therefore, the international business will grow by more than 20%. All in all, 18-20% growth this year over last year is very much achievable. Let us move to the specific questions that you would like to ask.

Operator: Any participant who would like to ask a question can raise their hand or put it in the chat box. First, we will take questions from participants who have raised their hands, and then we will move on to the chat box. If time permits at the end, we will take questions that I have received from clients who were unable to participate. We have our first question from Vandeet Dharmshi. Please go ahead.

Vinit Toshniwal – President M&A and IR: Just a brief one-line introduction about your fund, PMS, or wherever you come from would be helpful.

Vandeet Dharmshi – {? Amibora Private Limited ?}: Hi, Vinit. My name is Vandeet. We have interacted previously several times. We run a proprietary book called {? Amibora Private Limited ?}.

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I have two questions. First, it is encouraging to know that 20% growth is already achievable for this year. Do you have any thoughts on pricing power? Outside India, have we been able to obtain better pricing power in our newer contracts?

Vinit Toshniwal – President M&A and IR: No, I do not think we need to build any narrative around pricing power changing. This is a very stable business. There is no erosion of pricing power and no increase in pricing power. In particular, the international business is a very stable, long-term business. It is all about growth in terms of volumes and new wins. It is not about having to increase prices or anything of that sort.

I do not think that in that market you can go to the same customers and ask for higher prices. However, you can definitely ask the same customer for as much additional business as possible. That is not an issue.

Vandeet Dharmshi – {? Amibora Private Limited ?}: Understood. Secondly, thank you for continuing to conduct buybacks. What is your thinking regarding capital allocation for the next 2-3 years? Is there a percentage that we would want to allocate every year towards buybacks?

Vinit Toshniwal – President M&A and IR: As you know, buybacks are opportunistic by definition. I do not think we can have a buyback policy. Over the last few years, the stock has been deeply undervalued, so we felt that a buyback would take out excess liquidity and that a contraction in the share base would help. Going forward, however, we do not know what the market situation will be or where the stock price will be. That is not in our hands.

The company is definitely a very strong cash flow generator. As you can see, we have maintained OCF of more than 70% since listing. That has been our target. We generate up to 100% or more of our PAT as FCF. That trend is going to continue. If we are at a current run rate of {? 430-440 crore ?} of PAT this year, we expect {? 450 crores ?} of FCF to be generated this year as well, with a larger number next year. Cash is definitely being generated.

What do we want to do with the cash? We will possibly return 30-33% of that cash to shareholders, either by way of dividends, buybacks, or perhaps a combination of both. I cannot say for certain, but assume that at least 30-33% of the cash we generate will be returned to investors. Beyond that, we can assess opportunistically whether more is possible.

Going forward, there is some debt in the company. The interest rate regime is changing, as we can clearly see. I think we may be entering a higher interest rate regime for the next year or more. Therefore, the approach will be to focus on debt reduction and use the liquidity generated to pay down debt. These are the two things that we can see are under our control and that we can undertake.

Vandeet Dharmshi – {? Amibora Private Limited ?}: Understood. Do you have any thoughts on acquisitions in India or outside India?

Vinit Toshniwal – President M&A and IR: Outside India, we have never actively contemplated acquisitions. We are very reactive. If something really cheap and very interesting comes our way, we will evaluate it. Otherwise, I do not think there is any active plan to do anything there.

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In India, we completed a large acquisition last year. We are still digesting it, and its integration is under way. That asset was acquired at a 4% EBITDA margin, while our security margins were 5.5%. It is our intention to bring the margins of this asset from 4% to 5% over the next 2 years in order to realize the benefit of the acquisition. We will continue to work on that.

Apart from this, there is nothing significant on the table right now. We will be cautious when it comes to acquisitions. We will see what happens. One should never say never; if something very attractive comes up at a throwaway price or something very interesting arises, we can always respond. As of now, however, the focus is not so much on acquisitions.

Vandeet Dharmshi – {? Amibora Private Limited ?}: Understood. My last question is regarding the open-market buying that we have been doing in one of the companies. Could there be any possibility of longer-term synergies?

Vinit Toshniwal – President M&A and IR: No, I think we are getting ahead of ourselves. We have just bought a stake with the very clear intention that, in the long term, we see the market consolidating. Consolidation would benefit both listed companies, both promoters, and both sets of shareholders. That is what we see.

However, this should not be taken as a statement from the company, and people should not approach the other company on that basis either. We are clearly maintaining the position that there is no official intent to do anything. It is simply that, in the long term, we see a possibility of consolidation.

There was an interesting price point at which we looked at this company and said that, by having a stake, we might have a foot in the door for a long-term opportunity, or it may not become an opportunity at all. Both possibilities remain open. We are not saying anything to the market that we are definitely going to do this.

Vandeet Dharmshi – {? Amibora Private Limited ?}: Understood. Thank you very much. I will come back to the queue.

Operator: Thank you. We have our next question from Nachiket Kale. Please go ahead.

Nachiket Kale: Thank you. My queries were answered by the previous caller. Thank you.

Operator: We have our next question from Gopinada Reddy. Please go ahead.

Gopinada Reddy – PNR Investments: Hello, sir. I am from PNR Investments, which is a family investment business. My question relates to the large upfront provision that we made. How are clients responding in terms of recovery, and how is the process progressing?

Vinit Toshniwal – President M&A and IR: The provision was taken in the December quarter. As you know, the labor codes were notified in November, and the {? CFA ?} Institute stated that all companies had to take a provision. Therefore, we took a provision. It was a conservative provision because the government changed the definition of basic wages under the new labor code.

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The component that was previously considered basic was revised to 50% of the overall emoluments paid to the guard. Naturally, the basic wage component increased. This was the only provision that had a retrospective impact. Otherwise, everything was prospective, and the prospective component is not an issue. We therefore took a decision...

Management: ...that if the entire workforce currently employed were to be reassessed and their gratuity liability reassessed based on the requirements of the new labor code, we had to look at the entire SIS workforce and determine the difference between the gratuity liability assessed earlier and the new liability.

That difference initially came out to 280, which was subsequently revised to 240. We had taken the provision as a matter of conservative accounting. It is not a cash charge, an immediate outflow, or an immediate liability.

The labor codes were brought into legal effect from May 9. After May 9, the new guidelines are applicable, so we are approaching the customers. There are two types of customers. The first type consists of customers with whom we were working but whose relationship was subsequently discontinued. Those customers are no longer with us, and we have moved on. It is unlikely that a customer with whom we have discontinued our relationship will pay the new gratuity amount once the liability crystallizes and we have to pay it, even if we approach that customer. They may pay or may not pay; I do not know, because we do not have a continuing relationship with them.

The second type consists of continuing customers, where there has been no break in the relationship. In those cases, we have already taken the liability under the new labor code. We are presenting the gratuity liability to them, and this process is already under way.

We currently have 25,000 contracts. We are negotiating with each customer, sending them new contracts in accordance with the new labor code, and making them aware of the changes and their liability to make the payment. If a customer is continuing with us, that customer is already aware that the new liability is applicable. Therefore, it is very likely that the same customer will not deny the past liability by saying that it is not their problem and that they will not pay.

In particular, the guard is the same continuing guard. Therefore, I think recoveries will happen over a period of time. There is no formula that would allow us to say that recovery will be 50%, 70%, or 80%. We do not know. However, it is not a zero-or-one situation. Recoveries will definitely come in.

Also, the entire liability may not crystallize because people leave during the period. Attrition is high in this industry, so people also leave. As a result, a significant portion of the liability may never crystallize as a cash liability.

Some customers may not pay immediately, but they may say that they will reimburse us when the liability crystallizes. In that case, it is not really a current liability. The employee may leave after 2 years, 3 years, or 5 years; we have no idea. When the employee leaves, if the customer has clearly stated that it will reimburse us upon the actual expense, we will recover the amount from that customer.

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Gopinada Reddy – PNR Investments: Understood. This is a long-drawn process. I wanted to understand how clients are responding, whether they are willing to be accommodative, and, separately, what percentage of the 240 crores may relate to companies with which we have discontinued our relationship.

Management: I do not know that number. I really do not know. Even a rough estimate—I do not have any idea. I have never actually looked at it. What we can do is have the team take note of this and check with finance regarding continuing and discontinued relationships. We can obtain this breakup. Please send us a follow-up email, and perhaps we can come back to you in 7-10 days on this.

Gopinada Reddy – PNR Investments: Thank you. That is all from my side.

Operator: Thank you. Any participant who would like to ask a question can raise their hand or put it in the chat box. We have our next question from Vishal Gupta. Please go ahead.

Vishal Gupta – Brothers Finance Solutions: Good afternoon. This is Vishal Gupta from Brothers Finance Solutions. Brothers Finance Solutions is the name of the firm.

Management: Your voice is not very clear. There is some disturbance.

Vishal Gupta – Brothers Finance Solutions: Am I audible now?

Management: Yes, you are.

Vishal Gupta – Brothers Finance Solutions: I have two questions that are interrelated. Historically, we have generally maintained an EBITDA margin of 5-6%, but now the EBITDA margin has come down to approximately 4%. In one year, it was also 2.5%, and then it returned to 4%. Are we planning any value-added products or services so that we can maintain a consistent level of EBITDA margin?

The second question is related to the acquisition of APC Securitas. Was this a normal purchase or a distressed purchase, and what are our expectations from APC Securitas in terms of revenue and commissioning?

Management: I do not know what margin trends you are seeing. Let us take the three businesses separately.

The international business was operating at a 4.4% EBITDA margin. There was a margin issue because one of the subsidiaries was a very high-margin business. Significant client attrition occurred there, and the management team left. We took a charge—in the sense that we lost some business, had to take out the existing management, and bring in new management. This caused the margins to fall to around 3.5%. They then came back to 4%.

You will see the international business operating at a 4% EBITDA margin in Q3 and Q4. I am not saying that it will happen immediately, but 4.4% has been the historical norm. It should return to a 4.5% margin in about a year. For now, you can model a 4% stable international EBITDA margin.

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The margins in the FM business had declined, and there is some background noise coming into my ears. Please mute yourself.

Operator: Vishal, please mute your line.

Vishal Gupta – Brothers Finance Solutions: Yes, please continue.

Management: The FM business is where the margin had taken a significant hit. It fell all the way to 4%. We worked on all the low-margin contracts and either renegotiated them or exited those contracts. You can see the impact of that work: FM margins have gradually climbed over the last 2 years, and FM is now operating at almost 6%.

You can take 6% as the stable, optimal forward margin for FM. Can it go higher? The answer is yes, but over a period of time. International has room to grow from 4% to 4.5%, while FM has reached a 6% EBITDA margin, which is an optimal number.

The security business used to operate at a stable margin of 5.5%. We acquired APC Securitas, which was a lower-margin asset. We knew that. Its margin is 4%. However, it is a firm with {? 120 crore ?} of revenue per month.

We see the possibility of integrating this asset properly into SIS Ltd. over the next 2-3 years. It may not be integrated as a brand; it will continue separately. However, the back office, HR, and everything else will be completely integrated. We have a business model under which we believe we can extract at least {? 100 basis points ?} of EBITDA margin from this asset. That is how we will create value from this acquisition.

Once APC Securitas improves its EBITDA margin from the current 4% to 5%, the overall security margin for the India security business will return to 5.5% from 5.1% today. Therefore, you can see an improvement from 5.1% to 5.5% in India Security, international improving from 4% to 4.4%, and FM at 6%. These will be the stable business margins going forward that you can model.

Was APC Securitas a distressed purchase? The answer is absolutely no. It is not a distressed company. The company has delivered an 18% CAGR over the last 5 years. It is one of the top 6-7 companies in India, with very stable management and an excellent customer reputation among customers such as HDFC Bank and other large BFSI clients.

We had low BFSI exposure, so we decided to acquire this asset. The management comes along with the business. It is currently a 51/49 structure. We will buy out the remaining 49% over the next 2 years. The asset is growing at more than 15% year-on-year. Therefore, there is no question of distress. It is a value acquisition, and its addition to our footprint in the BFSI sector was the main attraction.

Vishal Gupta – Brothers Finance Solutions: Thank you for your answer. One last point: is there any optimistic outlook or target for the upcoming FY30 in terms of the top line and bottom line?

Management: By targets, do you mean the actual numbers? As a policy, we do not provide guidance. We do not say that we will achieve a particular number. We have never done that. However, at the start of the call, I said that we are very confident of 18-20% PAT growth this year

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over last year.

As you can see, PAT was {? 103 or 104 crores ?} last quarter. We should do better than that in this quarter and in the subsequent quarters. You will see the run rate gradually increasing, and if you do the mathematics, it will take you to approximately {? 435-440 crores ?}.

Vishal Gupta - Brothers Finance Solutions: So for FY27, we are expecting 18-20% PAT growth?

Management: Yes, 18-20%. 18-20%.

Vishal Gupta - Brothers Finance Solutions: Understood. Thank you very much.

Operator: Thank you. Any participant who would like to ask a question can raise their hand or put it in the chat box. We have a few questions in the chat box that I can read out for you to answer.

The first question is: Can you walk us through your reasoning behind purchasing 10% of UDS and explain why we took a minority stake in a competitor's business?

Management: I think I answered that as part of the first question, but I will explain it again. It is an unusual move, agreed. If you look at the overall scenario for facility management businesses in India, we are currently running at close to {? 2,800 crores ?} in the FM business. Very soon, for want of a better term, it will be a {? 250 crores ?} run rate in a year's time. We will therefore be a 3,000 crore pure-play FM business next year.

UDS has an FM business of more than 2,000 crores and approximately 1,000 crores of other business, consisting of business support services. These are the two largest FM businesses in India: SIS and UDS. The others are much smaller. The listed company Crystal, for example, is approximately 1,500 crores, and there are also unlisted companies.

We believe that if the two large players can come together, there would be significant overlap in terms of the same customers, the same cities, the same offices, and the same HR back end. If the two large players can come together and create synergies, it would be a powerful market narrative for the shareholders of SIS and UDS. It would also be beneficial for both promoters.

That is the statement of intent that we are making. We believe it would be a good development. Will it happen? We do not know. It is a significant question mark because something that is logical and obvious does not necessarily always happen.

We saw an opportunity where the stock in question was available at a very attractive price point. We said that simply having a stake, although unusual, would not hurt. If something works out tomorrow, everyone could plan for a new, larger player of this scale through consolidation. If it does not happen, the stock may be at an attractive enough price point to exit, and we can take a tactical decision to exit.

All options are open at this point. We are invested; that is a fact, and there is no denying it. However, we do not have any statement to make about what we will do tomorrow morning. There is no immediate quarter-on-quarter plan here.

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Operator: We had a discussion with UDS management, and they mentioned that SIS had not tried to contact them to acquire a majority stake and that this was done without any discussion with them.

Management: You are saying that UDS said this, correct?

Operator: UDS said that there had been no communication regarding taking a majority stake in the company.

Management: We have not taken a majority stake; it is only 10%.

Operator: Looking ahead, if you want to pursue a collaboration or partnership...

Management: Nothing, absolutely nothing. We have not had any discussions. That is why I do not want you to approach the company and say that SIS has made a particular statement. You are asking a question, and I am saying that, as a neutral market observer, is there a theoretical consolidation opportunity? Yes. Is it happening? No. No does not mean that it will not happen; it means that I do not know.

Management: There has been no discussion with UDS. Let us be clear: we respect them, and there should not be any confusion that we have made a statement to which they will say they are not a party. There has been absolutely no communication with UDS regarding this. It is a solitary move by SIS on its own. There is no collaboration with UDS to do this.

Operator: We have our next question from Abhishek Sinha.

Abhishek Sinha: Cash and ATM management businesses have been under stress since last year. Do you foresee cash and ATM management declining substantially in the near future?

Management: Our business has only {? 17-18% ?} exposure to ATMs. The rest of the business has absolutely nothing to do with ATMs. Yes, ATMs are under stress; we have been seeing this for a very long time. ATMs are gradually declining, but cash is not declining. In fact, cash is coming back.

With MDR beginning from {? October 15 ?}, the general expectation is that there will be more cash in the economy because small grocery retailers are not going to accept an MDR. Purchases these days very easily cross {? 2,000 rupees ?}; 2,000 rupees is a very small amount now.

Therefore, cash will return. We believe that the sentiment, which is extremely negative and highly pessimistic, may be overstated. The current sentiment suggests that everything will come to a stop tomorrow morning, and this is probably reflected in the price of CMS as well.

The sentiment may completely reverse if the business delivers one good quarter. Our business has always been focused on retail cash management and banks. Our business involves the movement of cash between multiple bank points—from the vault to the branch, to small Tier 2 city branches—and the movement of cash from organized retailers to bank vaults.

That business is not going anywhere. It is a solid business and is growing in line with GDP because cash as a percentage of GDP has stabilized.

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Abhishek Sinha: Understood. Are you participating in any transaction-linked business or fixed-price contracts?

Management: When you say fixed-price contracts, we have contracts with all the banks, and those are fixed-price contracts. Transaction-linked is typically a model in which you own the ATM asset. If you are an MSP, you own the asset, and in that case the RBI has specified a number, such as 18 rupees or 20 rupees per transaction, that applies to the ATM.

We are not asset owners. We do not have an MSP business like CMS, and we do not own even a single ATM. We are a pure service provider.

Operator: The next question is from Dhaval Agarwal.

Dhaval Agarwal: Can you walk us through the working capital cycle?

Management: The working capital cycle is based on the guard or individual being on duty. The first 30 days constitute the duty period. We then prepare the wage sheet, attendance sheet, and everything else. We submit these to the client for verification. The client's signature and all related processes take place between the first and the fifth or sixth of the month.

After that, we pay the guards' salaries on the seventh of the month. The statutory dues, including PF and others, are then deposited. Finally, an invoice is submitted to the customer along with proof of all payments. The client then pays us at the beginning of the following month.

Typically, you will see a DSO cycle of 63-65 days overall. However, if you break it down, international operations are at 45 days because the payment process is automatic and quick: you submit the invoice and receive the payment.

In India, recovering money is never easy. In the security business, it takes a total of 75 days, but the 75 days are not counted from the date of bill submission. They are counted from the relevant starting point in the cycle. Therefore, you can say that it takes 75 minus 30, or approximately 45 days, on average.

FM is worse. FM takes 85-90 days. Therefore, it takes almost 2 months to recover the money from an FM client.

Dhaval Agarwal: Understood. In the case of FM, does this apply to all clients?

Management: Mostly. The average is like this. Some may pay early and some may pay late, but this is generally the pattern. I have also never understood why it should be this way, but that is how the industry functions, and you end up receiving the money in 80-85 days.

Operator: The next question is: What is the impact of AI? Commercial spaces are slowing because of it, which could indirectly affect the core business. What are your future plans for robotic and AI integration?

Management: AI is probably no threat to us directly. There is no direct replacement of facility management, cash management, guarding, or security because of AI. However, if you are saying that AI will result in a reduction in high-level manpower, companies will downsize, they will not

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invest as much in commercial real estate, and real estate and infrastructure development will slow down, then of course we will be affected because we are ultimately connected to the brick-and-mortar economy.

Robotic security and similar solutions are part of the future, and we actually want that to happen more and more. If a client says that it has a new factory in a particular location and wants a security management solution, we will not simply say that it requires three shifts and 100 guards.

Instead, we may say that it will cost 1 crore, but that amount will include significant drone-based surveillance, cameras, access control, RoboDogs, human personnel, and a network center to monitor everything. All of these elements put together will form the solution.

That is positive. If AI is involved, the service offering becomes very effective. If a human has to continuously look at a screen for monitoring, people need to sit and stare at the screen continuously. However, if all the cameras and equipment are programmed to provide intrusion and activity alerts, the workforce becomes much more effective. With fewer people, we can achieve the same outcome.

In this way, AI will be a productive force for us rather than a threat. We are waiting for it. The only issue is that there is no return on investment today. If you present a sophisticated solution involving drones, RoboDogs, and other equipment, the client may appreciate it, but the client will not necessarily pay more. The client has a budget.

Therefore, the prices of these technologies have to fall significantly, to a level at which the decision between manpower and equipment becomes obvious. It is not an obvious decision right now.

Operator: We have our next question from Gopi Nandan Reddy. Please go ahead.

Gopi Nandan Reddy: Regarding SIS Prosegur—I am not sure whether I have spelled it correctly—how is the business performing? We were planning to come out with an IPO, but market conditions are not very favorable. Is the business facing problems because of the recent issues affecting ATMs?

Management: As I said, our exposure to ATMs there is only 15-18%. Therefore, if there is a problem, it is a problem for everyone; there is no doubt about that. Growth has slowed down, but it is not negative growth. It has simply slowed down.

Because we are directly exposed to cash in the economy through retailers and banks, the threat from the overall ATM issue is very limited. The IPO is postponed because the market for this particular offering is not favorable. The CMS stock has crashed, and if the market leader has crashed, what hope do you have of going to the market and telling a story that is so differentiated that clients will sell CMS and buy us? That is not the case.

Gopi Nandan Reddy: Understood. How is VProtect performing?

Management: VProtect is a stable business, but it has not seen much traction over the last 1.5 years. The major issue was that the government imposed a ban on certain cameras, particularly Chinese cameras, and required STQC certification for all the players operating in India.

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Over the last 1-1.5 years, the business has almost come to a halt because there are very few certified players in the market. Most tenders were held up because they required vendors to offer only STQC-certified hardware. The entire cycle is therefore undergoing a changeover.

From a long-term perspective, however, the forecast for this business is very positive. It is a business of the future, involving remote surveillance, alarm monitoring, response, and other services. It is far more effective than deploying guards.

Two guards for a full shift cost 60,000-70,000 on a fully compliant basis. A solution such as this would cost 6,000-7,000 rupees per month to monitor a particular property. Therefore, I believe people will opt for this offering as we move forward.

This does not mean that the requirement for manpower will fall to zero. However, as manpower costs continue to increase, demand for electronic services will increasingly grow in the future. There is no doubt about that.

Gopi Nandan Reddy: Understood. So everyone is now competing for orders for Indian government-certified cameras, and demand for these cameras is increasing?

Management: Yes. You can see the Aditya Infotech CP stock performing very strongly.

Gopi Nandan Reddy: Yes. Thank you. That is all from my side.

Operator: Thank you. Any participant who would like to ask a question can raise their hand or put it in the chat box. We have our next question in the chat box from Vishal Gupta: Are we planning to purchase the remaining 49%, or is there a term sheet stating that we have to purchase the remaining 41% of APC Securitas?

Management: Yes, we have to purchase it by the end of FY28.

Operator: Understood. Have clients started paying the security guards slightly earlier?

Management: Not at present. The central labor code has been notified, but I do not think any state has formally enacted those laws yet. The model rules have been issued in draft form, but they have not been made into law at the state level.

Therefore, the process is still ongoing, and clients will not start paying earlier immediately. It has to happen, but it will not happen tomorrow morning.

The reason is the current cycle. The duty is completed on the 30th, the wage sheet is submitted as I explained, it is verified with the client, and then we make the payment. The client wants proof that all payments have been made, and only then does it accept the final invoice. That invoice then enters the client's payment process at the end of the monthly cycle.

From the first to the fifth of the month, the client makes the payment. If we have to move to a cycle in which clients pay earlier, we are trying a different approach. We are telling clients that, instead of taking the wage cut-off as the 30th of the month, we will try to set the wage cycle cut-off on the 20th or, at most, the 25th.

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This would move the cycle 5-10 days earlier. We would complete the duty register and verification by the 30th of the month, the client would put the invoice into its payment system, and then pay us by the fifth or sixth so that we could pay the guards on the seventh.

That is what the law requires: the employer is now responsible for paying the guard or employee by the seventh of the month. This will require a complete change in the cycle. It is all under discussion and negotiation. We have sent the proposals to the customers.

The response will be gradual, and people will adapt slowly. However, there is no way around this. Eventually, customers will have to adapt and agree because they cannot simply say that they will not pay or that they will pay whenever they want. The government has left them no choice. Eventually, they will have to pay.

Operator: The next question is from Pragati Lunavat. Are there any plans for debt reduction?

Management: As I said, debt reduction will happen through the organic accrual of cash flows going forward. If we generate {? 850 crores ?} from EBITDA this year, we will have 70-75% of that in the form of OCF.

After accounting for the dividend and buyback that we are undertaking, if we do not make any more acquisitions, the remaining cash will improve our cash position and reduce debt. The idea is to use our cash flows to reduce debt as much as possible over the next 2 years.

Interest rates are clearly rising now, so debt is going to become increasingly expensive. It is therefore better to reduce that debt.

Pragati Lunavat: Why not repay the debt first instead of buying back shares?

Management: I agree. There is always a decision to be made regarding maintaining a track record of returns for investors. We have been doing that, and many investors expect a certain yield from the stock going forward. We are therefore trying to maintain the trend so that the trend line does not break, because our cash flows are real.

Is there a trade-off between not paying dividends or conducting buybacks and reducing debt? The answer is definitely yes. I will not deny it. There is a trade-off.

Which option is better? The mathematics may suggest that not paying dividends or conducting buybacks is better. The mathematics is clear because debt obviously carries a higher cost. I think management understands this. Now that interest rates are rising from October onwards, we will review this policy in the next quarter.

Operator: The next question in the chat box is from Viresh Sangwan: Is there a plan to enter security or surveillance in the defense sector?

Management: What do you mean by the defense sector? Providing solutions to defense establishments?

Operator: For example, drone surveillance.

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Management: Who would you be providing the surveillance for? Who would be the customer in this case?

Operator: Viresh, if you could—

Management: We are not drone makers. We use drones to perform this work. If you are referring to a defense establishment as the customer, the answer is no. The government does not outsource this type of work.

In Australia, we do work with defense establishments. In that country, a significant amount of security work relating to airports, defense, ports, and other areas is outsourced to private security companies. In India, that has not been the case.

Operator: The next question is from Ishan Bhave: A number of FMCG distributors are seeing an increase in wages for unskilled labor. Are you seeing a similar trend in SIS?

Management: Absolutely. Wages are increasing. Look at Haryana, where there has been an increase of more than 50%. It is a significant increase.

However, I would argue that this is positive for SIS because ours is a management-charge model. We charge a percentage on top of the amount paid to the employee. If a higher amount is paid, we receive a higher management charge. That management charge leads to a better margin profile for us.

Operator: Can you help us understand how we plan to gain more market share, given that the market in which we operate is quite unorganized?

Management: The market is definitely highly unorganized. We ourselves are an 8,000-9,000 crore security company. All security companies together represent 20,000-25,000 crores, comprising the top 10-15 companies. Beyond that, there are many smaller players.

The market itself is approximately 1-1.5 lakh crores, so it is a huge market. No more than 20% of the market is organized.

What will change from here? We have been discussing the labor codes extensively. The labor codes are now in force. The states will have to notify them, and they have no choice. They may take a maximum of 2-3 months, but they will notify all these labor codes.

As all the states move to the new labor codes and the central government moves forward with the labor code, the model followed by smaller companies that used to engage in cutthroat pricing and make money by siphoning off statutory dues will gradually come to an end.

Everything is digital now. Going forward, everything will be on one portal. There will be a single challan throughout India for any service provider, and everything will be under a single ID called the labor identification number.

Labor inspectors and everyone else will be able to see a consolidated view of SIS, G4S, or any other service provider. Through one LIN number and one challan, they can see what we are doing across India.

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The same information will also be visible to the customer through the Shram portal via APIs. Until now, this digitization did not exist. There were multiple departments and extensive paperwork. It was possible to manipulate documents, show that one amount had been deposited, and show something else to the customer. That was how the entire business model operated.

If everything is recorded digitally with the government and visible to the customer, and the customer is also liable because it is now the employer, there is no way for the customer to say that it did not know what the service provider was doing. The customer cannot escape.

If the customer has to start paying all statutory dues and the agency also has to pay everything, how can smaller companies survive on a 2% management charge? They will either have to go back to the customer and say, “Pay me 10% as well.” In that case, the customer will think that if it has to pay 10%, it might as well pay G4S, SIS, or Securitas and at least have peace of mind.

Therefore, the smaller players will gradually disappear because the business will become unviable for them going forward. What has been the norm for the last 30–40 years is going to become very unviable.

Eventually, the additional business that is generated will come to large organized players such as us, G4S, and others. After that, it will be a question of who wins.

Operator: This answers most of the questions. Due to time constraints, we will have to close the call. I would like to thank management on behalf of Arihant Capital for sparing the time and sharing insights about the company. If participants have any further questions, they can get in touch with the team at Arihant Capital. Thank you.

Management: Thank you very much to all of you. We hope to connect again at the next conference. Goodbye.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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