

## S & IB Services Private Limited

September 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	30.00	CARE A+; Stable	Assigned
Long-term / short-term bank facilities	55.00	CARE A+; Stable / CARE A1	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to bank facilities of S & IB Services Private Limited (SISPL) factors in experienced promoters and the company's long track record of operations in private security and facility management services and strong market position in West Bengal. Ratings also take note of its diversification initiatives into new service segments, resulting in consistent increase in scale of operations, reputed and diversified clientele with low payment risk, inhouse trainings provided for skill development. Further, ratings also factor strong financial risk profile characterised by prudent capital structure, strong debt protection metrics and healthy liquidity maintained by the company.

However, ratings are constrained by numerous long-term fixed rate contracts exerting pressure on profitability margins, high geographical concentration risk despite mitigated to an extent through gradual diversification, risk associated with cash management operations, intense competition and high attrition rate in private security service industry exerting pressure on profitability, and contract renewal risk.

Going forward, the company's ability to further increase its scale of operations and mitigating geographical concentration risk and managing the risks associated with cash management operations will remain crucial from credit perspective.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive Factors

- Increasing scale of operations resulting in total operating income (TOI) of over ₹ 2,500 crore and sustenance of profitability margins at current levels.
- Maintaining strong debt coverage indicators marked by total debt to gross cash accruals (TD/GCA) of less than 0.20x.

#### Negative Factors

- Substantially dipping TOI by over 20% and moderating profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins to below 4% on a sustained basis.
- Moderating capital structure marked by overall gearing of over 0.20x on a sustained basis.

### Analytical approach: Standalone

### Outlook: Stable

The stable outlook on long term rating of SISPL reflects CARE Ratings Limited's (CARE Ratings') opinion that the company will continue to maintain growth momentum in scale of operations over the medium term, considering continuous addition of new clients and increased volume with existing clients and steady capital structure and debt protection metrics.

### Detailed description of key rating drivers:

#### Key rating strengths

#### Experienced promoters and long track record of operations and strong market position

Promoter, Shyamal Karmakar is associated with security services industry for over three decades and has established long standing relationship with clients. He has a vast experience of nearly three decades in manned security guard service industry and is supported by an experienced operational team.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

The company has strong market position in private security and related works, especially in West Bengal, from where the company initiated its operations. The company has ~40,000 trained staff deployed across services provided to its clients. The company increased its foothold over the years and currently operates across 31 states/union territories throughout the country. SISPL provides services to large corporate houses, banks and financial institutions, hospitals, education institutions, hotels and malls among others.

### **Diversification initiatives into new service segments resulting in consistent increase in scale of operations**

SISPL has over the years successfully expanded its services portfolio and diversified in businesses, including manpower outsourcing, payroll management, integrated facility management (including mechanical, electrical and plumbing services), banking support services, ATM cash management, cash (notes and coins) transportation for Reserve Bank of India (RBI), fire safety and disaster management services, event security management, emergency response service, security surveillance, civil construction and operation and maintenance of telecom towers, among others. However, majority revenue is derived from manpower recruitment (including facility services) contributing 37% of total sales in FY24, followed by revenue from security services contributing 37% of total sales in FY24. SISPL also entered cash management and logistics for bank and coin distribution for RBI mints, with the share of revenue increasing 13% of total sales in FY22 to 14% in FY24. However, due to inherent risks in cash logistics business and banks requiring significant guarantees, SISPL has limited its growth in this space.

SISPL's scale of operations witnessed robust compounded annual growth rate (CAGR) of 22% resulting in TOI of ₹808.17 crore in FY24 as against ₹370.30 crore in FY20. Growth is driven by increasing customer base and foray in new services segments over past few years. PBILDT margins remained in the range of 5.90% to 6.80% over the last 4-5 years and stood at 5.92% in FY24. This moderated by ~100 bps over the last four year considering fixed service charges, which accentuate pressure on profitability margin, considering increasing operating costs. However, the growing scale of operations ensured improving absolute margins over the years. On absolute terms, PBILDT improved from ₹25 crore in FY20 to ₹47.83 crore in FY24. Profit after taxation (PAT) margin stood at 4.03% in FY24 (4.07% in FY22).

### **Reputed and diversified clientele with low payment risk**

SISPL majorly caters B2B segments with reputed clientele across banking institutions, government organisations, manufacturing companies, information technology sector, jewellery shops, telecom sector and hospitality covering over 3000 clientele across geographies. Majority customers are private banks and corporates which make timely payments in 45-60 days after billing with low payment risk involved. Corporates and financial institutions comprise ~51% and 26% of revenue in FY24, respectively. Moreover, operations are well-diversified among sectors which help SISPL to avoid material losses from sector specific shocks.

Further, the revenue is diversified and none of the client contributes over 6% of TOI. Top five customers contributed ~19% of TOI in FY24 (~23% in FY22).

### **Inhouse trainings provided for skill development**

To maintain a competitive edge in marketplace, SISPL imparts on the job trainings, sector specific trainings and provides skill development classes to its unskilled/semi-skilled employees. SISPL also hosts knowledge campaigns, indulge in frequent interactions with the employees for better understanding and development of the employees. The company has inhouse training academy at their head office in Laketown, Kolkata and other states for training employees for their current jobs and developing skills for their future roles and responsibilities.

Training programme is conducted by in-house senior management and therefore, the training and development cost is comparatively low.

### **Strong financial risk profile**

Historically, the company's capital structure remains healthy and strong marked by overall gearing of 0.06x as on March 31, 2024 (0.03x as on March 31, 2022). The company's debt profile consists majorly small vehicle loans and working capital borrowings. Debt coverage indicators marked by interest coverage remained strong and stood at

21.64x in FY24 (26.35x in FY22). Further, TD/GCA remained less than 1 and stood at 0.35x as on March 31, 2024 (0.18x as on March 31, 2022).

Going forward, the company is expected to sustain growth momentum and improve its profit margins by increasing penetration into high-margin segments in medium term.

### **Key weaknesses**

#### **High geographical concentration risk**

Though the company has presence in 31 states/UTs in the country, the major portion of total sales is derived from single state (West Bengal) contributing 72% of the total revenue in FY24, although reduced marginally from 78% of in FY22 exposing the company to high geography concentration risk. Going forward, the company's ability to diversify its geographical reach while retaining key clientele and adding new clients will remain key rating considerations.

#### **Risk associated with cash management operations**

SISPL is engaged in cash management and logistics business, serving private banks and RBI. Banks including HDFC bank, Axis bank, an ICICI bank among others have outsourced their ATM maintenance services, including guarding and cash replenishment to SISPL. Entire value of cash logistics is secured by bank guarantees (BGs), which poses a risk of an unforeseen incident where the guarantee is invoked. To mitigate this risk, SISPL has availed money transit insurance. Additionally, SISPL is exposed to potential liability claims from its clients in case of negligence from the manned security guards at client's location. However, the risk is mitigated to some extent as SISPL has taken fidelity guarantee cover for armed guards and cash pickup personnel. Although, insurance serves as a risk mitigation tool, but payments from insurance agencies are guaranteed upon satisfaction of covenants and stipulations. The company's ability to manage the risks associated with cash management operations will remain crucial from credit perspective.

#### **Intense competition and high attrition rate in private security service industry exerting pressure on profitability**

Manned security guarding services industry has large number of unorganised players and a few organised players due to low entry barriers, which has made it easy for companies to start business and has pushed down prices leading to intense competition in the industry resulting in gap between the pricing of organised and unorganised players remains a key challenge for the industry.

Unorganised players have regional presence and offer services at low cost resulting in pricing pressure for organised players which have higher overheads to maintain quality. Moreover, the industry has high employee attrition rate due to the presence of large number of unorganised players. Any issues regarding availability of workforce may constrain the relationship with the client and may also impact revenue and profitability.

Further, employee cost represents 80-85% of the company's total cost and such trainings costs drive up operational expenses putting stress on SISPL's profitability.

#### **Contract renewal risk**

SISPL provides its services based on agreement executed between with clients, which are generally valid for three years and are renewable. For procuring contracts from PSU's and RBI, SISPL has to go through a formal bidding process and for private sector clients' contracts are allotted based on relation with client. Therefore, the revenue is vulnerable to the risk of contract not getting renewed. However, SISPL has a long-standing relationship of over a decade with prime banks including HDFC, Axis and SBI among others and historically such contracts have been renewed regularly on yearly basis thus mitigating the contract renewal risk to some extent.

#### **Liquidity: Strong**

The company maintains strong liquidity, bolstered by a conservative approach to external debt funding, healthy cash accruals and low working capital utilisation. The company had cash and bank balance of ₹58.33 crore as on March 31, 2024 (including lien-marked fixed deposits of ₹37.10 crore) and liquid investments of ₹1.19 crore parked in mutual funds. The company is required to maintain fixed deposits for B margins, cash collateral to the bank, and security deposits to customers. Average working capital utilisation remained low and stood at 23% for the 12 months

ending June 30, 2024. Going forward, S&IB's overall liquidity position is expected to remain strong over medium term in absence of major planned capital expenditure.

**Environment, social, and governance (ESG) risks-** Not applicable

### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Service Sector Companies](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services and supplies	Diversified commercial services

S&IB was set up by Shyamal Karmakar as a proprietorship firm in 1988 in the name of Security and Investigation Bureau with the aim to provide manned security services. Later, the firm was converted to a private limited company in January 2008 and its name was changed to S&IB Services Private Limited.

The company's promoters are associated with the security services industry for over three decades and have established long standing relationship with clients. Currently, SISPL has employee strength of ~40,000 personnel including security guards, housekeeping personnel, drivers, and tower maintenance personnel among others and its operations are primarily concentrated in Eastern India.

SISPL is registered under the Private Security Agency (Regulation) Act, 2005 and is also an ISO 9001: 2008 certified company by BSI, UK.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	643.51	808.17	189.61
PBILDT	37.88	47.83	17.38
PAT	25.75	32.53	NA
Overall gearing (times)	0.04	0.06	NA
Interest coverage (times)	24.44	21.64	NA

A: Audited, UA: Unaudited; NA: Not Available' Note: The above financials are the latest available

**Status of non-cooperation with previous CRA:** ICRA conducted the review based on best available information and classified SISPL's rating as 'Not Cooperating' vide its press release dated September 06, 2024. The reason provided by ICRA is non-furnishing of requisite information for monitoring of rating.

**Any other information:** Not applicable

**Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd:** Not applicable

**Disclosure of Interest of Managing Director & CEO:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE A+; Stable
Fund-based - LT-Letter of Credit		-	-	-	5.00	CARE A+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	55.00	CARE A+; Stable / CARE A1

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	55.00	CARE A+; Stable / CARE A1				
2	Fund-based - LT-Cash Credit	LT	25.00	CARE A+; Stable				
3	Fund-based - LT-Letter of Credit	LT	5.00	CARE A+; Stable				

LT: Long term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instrument / facilities-** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Letter of Credit	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

**Annexure 5: Lender details**

To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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### About us:

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### Disclaimer:

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