September 30, 2021

Updater Services Private Limited: Ratings reaffirmed; rating on commercial paper programme withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT - Fund-based	95.00	100.00	[ICRA]A+/Stable; Reaffirmed
LT Fund-based – (sublimit)	(35.00)	(35.00)	[ICRA]A+/Stable; Reaffirmed
ST - Non-Fund based	49.00	44.00	[ICRA]A1+; Reaffirmed
CP	30.0	0.00	[ICRA]A1+ Withdrawn
Total	**174.00**	**144.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in Updater Services Private Limited's (UDS) strong financial profile characterised by moderate scale of operations and debt levels, strong capital structure and comfortable coverage metrics. UDS' consolidated revenue from operations witnessed a CAGR of ~11% to Rs. 1,203.4 crore in FY2021 from Rs. 642.5 crore in FY2015 (supported by an increase in standalone revenues as well as top-line growth in the acquired entities). However, the company's revenues declined by 9.1% in FY2021 on account of the Covid-19 pandemic-led disruptions. Higher exposure to healthcare and manufacturing sectors, where employees were back to office earlier than in services industry, supported its revenues to an extent. Moreover, the addition of new customers as well as increased wallet share with the existing customers mitigated the impact of the Covid-19 pandemic to an extent. It has a fairly diversified clientele of more than 700 customers and contraction is low with the top 20 customers accounting for ~41% of its revenues. UDS' revenues grew at an annualised rate of 4% to Rs. 416.9 crore in 4M FY2022 and ICRA expects its revenues to reach pre-Covid-19 levels owing to improved business environment and increased revenues from the newly added clients.

The standalone operations accounted for 82% of revenues (82% in FY2020), 59% of OPBDITA (67% in FY2020), 69% of PAT (65% in FY2020) and 99% (99% in FY2020) of debt. Increase in the share of subsidiaries to the Group's OPBDITAs can be attributed to the improvement in scale of operations of subsidiaries with higher margins like Matrix Business Services Private Limited (MBS, involved in providing background verification and business assurance services), Avon Solutions and Logistics Private Limited (mailroom management and logistics), etc. UDS was able to maintain the OPBDITA margins at 5.3% with cost rationalisation efforts including pruning the employee costs and incentive cycle. UDS has improved its collection cycle with voluntary exits from contracts with high credit period leading to improved working capital cycle and lower working capital debt. Enhanced collections helped in paring down the debt to Rs. 11.5 crore as on March 31, 2021 from Rs. 89.9 crore as on March 31, 2020. ICRA expects the company's capital structure and coverage metrics to remain comfortable, despite a marginal increase in debt levels in the near term.

The ratings remain constrained by relatively thin margins and intense competition. The integrated facility management (IFM) industry is highly fragmented and limits pricing flexibility for the players. The industry has high employee attrition rates owing to the unskilled/low skill and temporary nature of the job. The risk is partially offset by UDS' extensive pan-India recruitment network and spend towards training and development to retain/re-hire talent. Further, ICRA notes that despite the diversified geographical presence, UDS derives ~60% of its revenues from South India, indicating moderate geographical concentration risk. Going forward, the company's ability to acquire new customers, along with top-line growth in the subsidiaries aiding revenue diversification remain crucial. Moreover, successful inorganic growth opportunities resulting in higher scale of operations, margins and ability to redeploy its manpower to align with the changing market demand, while managing its debt levels, will remain the key monitorable.

The Stable outlook reflects ICRA's belief that UDS will continue to benefit from the industry prospects and effective scale up its revenues and margins through organic as well as inorganic growth.

ICRA has withdrawn the ratings assigned to the commercial paper of UDS based on the request of the company as there are no amounts due and in accordance with ICRA's policy on withdrawal and suspension.

Key rating drivers and their description

Credit strengths

Leading market share, diversified customer base; proven track record indicated by high client retention rates – UDS is among the top players in the highly fragmented IFM services industry with a customer base of ~700 clients and a retention rate of over 90%. Over the years, it has steadily added customers across several industries and geographies, mitigating the risk of sectoral or regional impact on its revenues. The revenue contribution from the top 20 customers was at ~41% in FY2021 (34.0% in FY2020; 38.4% in FY2019). The company has a diversified mix of revenue across manufacturing, healthcare, BFSI, IT/ITeS, logistics, retail, etc. Further, its reputed client profile and long-standing relationships with the same mitigate the client concentration risk to an extent.

Strong financial profile – UDS' financial profile is characterised by healthy revenue growth, comfortable scale of operations, strong gearing and coverage metrics. While the company's revenues declined in FY2021 due to pandemic-related disruptions, improved business prospects and addition of new customers are expected to result in healthy growth in FY2022. It maintained the operating margins at 5.3% in FY2021 with the help of cost rationalisation efforts like reduction of wages. The operating margin improved to 7.2% in 4M FY2022 owing to better performance from subsidiaries with higher margins and increased revenue from the newly added high-margin clients. The debt levels reduced to Rs. 11.5 crore as on March 31, 2021 from Rs. 88.8 crore as on March 31, 2020, backed by a decrease in the working capital intensity with rationalisation of the collections cycle. This coupled with healthy accruals, limited capex and ploughing back of profits led to a strong gearing and comfortable coverage metrics. The company's debt metrics are likely to remain comfortable even going forward, despite a marginal increase in debt levels in the near term.

Large manpower base backed by strong in-house training capabilities – UDS currently has ~46,000 employees (March 31, 2021), supported by an extensive pan-India recruitment network and large in-house vocational training programme for skill building in its workers. The company provides in-house training and development to retain/re-hire talent.

Promoter with more than three decades of experience; strong management – Incorporated in 1985 by Mr. Raghunanda Tangirala, UDS is one of India's leading IFM services provider and staffing solutions companies.

Credit challenges

Moderate geographical diversification of revenues – The company has operations across 24 regions in India. However, it derives ~60% of its revenues from South India, indicating moderate geographical concentration risk.

Vulnerability of margins to wage price inflation – Employee costs constitutes ~81% of the operating income and has varied in the range of 80%-83% during the last five years. The company's wage bill is susceptible to increase in minimum wage thresholds, which could impact its margins directly. The risk is mitigated, to some extent, as UDS renews its contract with the clients on a yearly basis, thereby mitigating the impact of increase in the wages to an extent.

Highly fragmented industry; significant competitive intensity leads to pricing pressure – IFM is a highly fragmented industry with intense competition from both organised and unorganised players. This limits the pricing flexibility for the players across the industry, resulting in thin margins.

High attrition levels inherent in industry – The company, like the rest of the industry players, witnesses high employee attrition owing to unskilled/low skill and temporary nature of the job. This risk is partially mitigated by continuous spend on training and development of employees. The number of employees dropped by about ~8.8% YoY as on March 31, 2021, commensurate with the decrease in revenues.

Liquidity position: Adequate

UDS' liquidity position is **adequate** given the free cash balances of ~Rs. 82 crore as of July 2021, comfortable retained cash flows, buffer in working capital limits of ~Rs. 65-70 crore as against low capex plans and absence of any repayment obligations. Overall, ICRA expects the company to be able to meet its near-term commitments through internal sources of cash and the impact of any acquisitions on its liquidity profile would be a key rating monitorable.

Rating sensitivities

Positive triggers –Substantial improvement in scale, along with a sustained improvement in operating and net margins, while maintaining a healthy working capital cycle and liquidity position on a sustained basis.

Negative triggers – Negative pressure on the ratings could arise from a stretch in the working capital cycle, any major debt-funded capex or acquisition, or change in business skew to asset-heavy business, which could lead to deterioration in the capital structure and ROCE below 18% on a sustained basis.

Analytical Approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA Policy on Withdrawal and Suspension of Credit Ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of UDS; as on March 31, 2021, the company had nine subsidiaries which are all enlisted in Annexure-2

About the company

The Updater Group of Companies (the Group) was set up in Chennai in 1985 by Mr. Raghunandana Tangirala. The flagship company of the Group, Updater Services Private Limited (UDS), is one of India's leading integrated facility management services providers and staffing solutions companies. It is headquartered in Chennai and has ~800 permanent administrative staff and close to ~46,000 employees across all locations, providing services across 250 million square feet of office space. UDS provides soft (house-keeping, gardening, etc) and hard facility management (electrical and mechanical maintenance, server management) services to a diverse set of customers across industries on a pan-India basis. Few of its subsidiaries offer solutions in the space of audit and assurances, mail room management, catering services and hygiene.

Key financial indicators

UDS Consolidated	FY2020	FY2021 P*
Operating Income (Rs. crore)	1324.0	1203.4
PAT (Rs. crore)	42.6	45.5
OPBDIT/OI (%)	5.5	5.3
RoCE (%)	20.1	16.5
Total Outside Liabilities/Tangible Net Worth (times)	1.3	0.8
Total Debt/OPBDIT (times)	1.3	0.3
Interest Coverage (times)	6.9	9.4

*Source: Updater Service Private Limited; *Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All the figures for FY2022 and FY2021 mentioned in the rationale are provisional numbers.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 30, 2021	Sep 04, 2020	Jan 31, 2020	Oct 12, 2019
1	Cash Credit	Long term	95.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	LT – fund based (sublimit)	Long term	(35.00)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Bank Guarantee	Short term	49.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	CP	Short-term	0.00	-	Withdrawn	[ICRA]A1+	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term Fund based facilities - Cash Credit	Simple
Long Term Fund Based Sublimit	Simple
Short Term Non-Fund Based Limits – Working Capital Facilities	Very Simple
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

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	Cash Credit	-	-	-	100.00	[ICRA]A+ (Stable)
NA	Sub-limits	-	-	-	(35.00)	[ICRA]A+ (Stable)
NA	Bank Guarantee	-	-	-	44.00	[ICRA]A1+
NA	Commercial Paper	-	-	-	30.00	[ICRA] A1+ Withdrawn

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	UDS Ownership	Consolidation Approach
Tangy Supplies and Solutions Private Limited	100.0%	Full Consolidation
Integrated Technical Staffing and Solution Private Limited	100.0%	Full Consolidation
Avon Solutions & Logistics Private Limited	75.0%	Full Consolidation
Fusion Foods and Catering Private Limited	65.6%	Full Consolidation
Stanworth Management Private Limited	100.0%	Full Consolidation
Zappy Investments Private Limited	100.0%	Full Consolidation
Global Flight Handling Services Private Limited	75.0%	Full Consolidation
Matrix Business Services Private Limited	87.5%	Full Consolidation
Washroom Hygiene Concepts Pvt Ltd	100.0%	Full Consolidation

Source: *UDS Provisional annual report FY2021*

Note: *ICRA has taken a consolidated view of the parent (UDS) and its subsidiaries while assigning the ratings.*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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