

March 21, 2024

Updater Services Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT – Fund-based	135.00	135.00	[ICRA]A+ (Stable); Reaffirmed
LT – Fund-based – (sublimit)	(35.00)	(35.00)	[ICRA]A+ (Stable); Reaffirmed
ST – Non-fund based	44.00	44.00	[ICRA]A1+; Reaffirmed
ST – Fund-based	35.00	35.00	[ICRA]A1+; Reaffirmed
Total	214.00	214.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings factor in ICRA's expectation that Updater Services Limited (UDS/the Group) will maintain a comfortable credit profile on the back of healthy growth in revenues and earnings supported by stable demand for Integrated Facility Management (IFM) and Business Support Services (BSS). The ratings consider UDS' established presence in the highly fragmented IFM and BSS space with a large customer base. The company derives its revenues from various sectors like IT/ITeS, manufacturing, retail and banking, which coupled with the addition of new customers and increased wallet share with its existing customers have supported the growth in revenues. It has a diversified clientele of more than 700 customers (standalone level); though the top 20 accounted for ~64% of its revenues in 9M FY2024.

The ratings also consider UDS' financial profile characterised by improving scale-up of operations, strong capital structure and comfortable coverage metrics. Its consolidated revenue stood at Rs. 1,812.6 crore in 9M FY2024, growing by 18.7% on a YoY basis. The company is expected to post a high single-digit revenue growth in FY2025, driven by a stable business environment, uptick in revenues from subsidiaries and acquisition of new businesses. ICRA also notes that equity infusion of ~Rs. 380 crore (net of IPO expenses) as a result of the company's IPO in October 2023 has strengthened its net worth and liquidity position. IPO proceeds would be/ have been deployed towards repayment of debt, reduction in working capital requirements, inorganic growth and general corporate purposes.

The standalone operations accounted for 62.4% of revenues, 33.4% of OPBDITA, 93.6% of PAT and 82.2% of debt in FY2023. The share of subsidiaries OPBDITA to the Group's OPBDITA has improved in recent years, owing 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), Denave India Private Limited (Denave; sales enablement space) and Athena BPO Services Private Limited (Athena; BPO and card sales services), which were acquired in late FY2023. The operating margins have reduced marginally to 6.6% in FY2023 from 7.2% in FY2022 on account of increase in operating costs. In 9M FY2024, the margins have contracted marginally to 6.2% owing to higher employee expenses; however, it is expected to improve given the higher margins expected from the newly acquired subsidiaries. UDS has also improved its collection cycle with voluntary exits from contracts with a high credit period, leading to a comfortable working capital cycle. ICRA expects the margins to improve in the near term on the back of uptick in revenues of higher margin subsidiaries, which were acquired in the recent years.

The ratings remain constrained by relatively moderate margins and intense competition. The 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 derived ~57% of its revenues in 9M FY2024 from South India, indicating moderate geographical concentration risk. The

acquisitions undertaken by the company in recent fiscals have been with an initial pay-out for certain stake, and staggered payouts over forthcoming years for incremental stake, in line with the performance of the entity. ICRA expects outlay of ~Rs. 100.0-120.0 crore over FY2025-FY2026 towards acquisition of incremental stake in the already acquired investee entities. Going forward, the company's ability to improve its profitability by successfully scaling up and integrating the newly acquired businesses, and its ability to maintain strong liquidity and comfortable debt levels, will remain a key monitorable.

The Stable outlook reflects ICRA's belief that UDS will continue to benefit from the effective scale up of its revenues and margins through organic as well as inorganic growth, leading to improvement in its cash flows and debt metrics.

Key rating drivers and their description

Credit strengths

Leading market share, diversified customer base; proven track record with high client retention rates – UDS is among the top players in the highly fragmented IFM and BSS 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 its top 20 customers was ~64% in 9M FY2024. The company has a diversified mix of revenue across manufacturing, healthcare, BFSI, IT/ITeS, logistics and retail industries, etc. Further, its reputed client profile and long-standing relationships with them mitigate the client concentration risk to an extent. The company's ability to acquire new customers, along with profitably scaling up its newly acquired businesses, aiding revenue diversification remains crucial.

Strong financial profile and liquidity position – UDS' financial profile is characterised by healthy revenue growth, comfortable scale of operations, strong gearing and coverage metrics. The company's revenues on a consolidated basis grew significantly in FY2023 due to improved business prospects, addition of new customers, and its inorganic growth route. This has resulted in healthy revenue growth in the current fiscal as well, with the company reporting a consolidated revenue of Rs. 1,812.6 crore in 9M FY2024, a YoY growth of 18.7%. The company is expected to post a revenue growth of single digits in FY2025, driven by a favourable business environment, uptick in revenues at the subsidiary level, and acquisition of new businesses.

The capitalisation and coverage metrics moderated in FY2023 as the company had raised debt and utilised internal accruals towards the acquisition of Athena, which resulted in increase of working capital borrowings. However, after the IPO and the subsequent reduction in debt, the coverage and capitalisation metrics have improved in the current fiscal. The coverage indicators marked by TD/OPBDITA is expected to improve to about 0.7x-1.0x in FY2024 from 1.6x in FY2023, while TOL/TNW is expected to improve to 0.7x-1.0x in FY2024 from 2.0x in FY2023. Further, the same is expected to improve in the medium term on the back of improvement in margins and steady accretions to net worth.

Large manpower base backed by strong in-house training capabilities – UDS currently has ~48,000 employees (as on December 31, 2023), supported by an extensive pan-India recruitment network and large in-house vocational training programme for skill building of its workers. The company provides in-house training and development to retain/re-hire talent.

Established presence of more than three decades; strong management – UDS, incorporated by Mr. Raghunanda Tangirala, has been operational for more than three decades in the IFM space. Among the Group's new businesses, especially in BSS segments like verification services and sales enablement services, the company has pursued the inorganic route to improve its product offering and gain market presence.

Credit challenges

Moderate geographical diversification of revenues – The company has operations across 24 regions in India. However, it derives ~57% (in 9M FY2024) of its revenues from South India, indicating moderate geographical concentration risk. The same is mitigated to some extent on the back of healthy client retention rates, which has remained above 90% in the last five years ended FY2023.

Vulnerability of margins to wage price inflation – Employee costs constituted ~67% of the operating income in FY2023 and has varied in the range of 65-80% 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 same has reflected via a dip in the operating margins in 9M FY2024 to 6.2% vis-à-vis 6.6% in FY2023. However, the risk is mitigated, to some extent, as UDS signs actual cost-plus margin contracts with most of its IFM customers.

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 of players across the industry, resulting in thin margins. Hence, UDS has been reporting modest OPM in the range of 5-8% in the last five years ended FY2023. Nevertheless, ICRA expects the company’s margins to improve in the near term on account of ramp up in scale of operations of its margin accretive subsidiaries.

High employee attrition levels inherent in industry – The company, like its industry peers, 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 increased by 8.8% in FY2023, which aided the improvement in revenues.

Liquidity position: Strong

UDS’ liquidity position is **strong** given the sizable cash and bank balances of ~Rs. 338.8 crore (as on December 31, 2023), comfortable retained cash flows, buffer in working capital limits of ~Rs. 150 crore against a capex plans of ~Rs. 75.0–100.0 crore and no repayment obligations. The company also has investment obligation of ~Rs. 100.0-120.0 crore over FY2025-FY2027 towards acquisition of incremental stake in companies acquired in the last two years.

Rating sensitivities

Positive factors – 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 factors – Negative pressure on rating could arise from a stretch in the working capital cycle, any major debt-funded capex or acquisition, the company’s inability to improve its earnings or change in business skew to asset-heavy business, which could lead to deterioration in the capital structure and ROCE to below 18% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of UDS; as on March 31, 2023, the company had eleven 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 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 ~50,000 employees across all locations, providing services across 250 million square feet of office space. UDS provides soft (housekeeping, gardening) and hard facility management (electrical and mechanical maintenance, server management) services to a diverse set of customers across industries on a pan-India basis. Some of its subsidiaries offer solutions in the space

of audit and assurances, mail room management, catering services, employee background verification services, sales enablement services, and ground handling services at airports.

Key financial indicators (audited)

UDS Consolidated	FY2022	FY2023
Operating income	1,484.5	2,098.9
PAT	57.4	34.6
OPBDIT/OI	7.2%	6.6%
PAT/OI	3.9%	1.6%
Total outside liabilities/Tangible net worth (times)	1.4	2.0
Total debt/OPBDIT (times)	0.7	1.6
Interest coverage (times)	21.0	9.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Jan 31, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 21, 2024	Dec 30, 2022	Sep 30, 2021	Sep 04, 2020
1 Cash Credit	Long term	135.0	62.5	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Fund based (sublimit)	Long term	(35.0)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3 Bank Guarantee	Short term	44.0	41.5	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 CP	Short term	-	-	-	-	[ICRA]A1+; Withdrawn	[ICRA]A1+
5 WCDL	Short term	35.0	-	[ICRA]A1+	[ICRA]A1+	-	-

Complexity level of the rated instruments

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

Short-Term Working Capital Demand Loan

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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	135.00	[ICRA]A+ (Stable)
NA	Sub-limits	NA	NA	NA	(35.00)	[ICRA]A+ (Stable)
NA	Bank Guarantee	NA	NA	NA	44.00	[ICRA]A1+
NA	WCDL	NA	NA	NA	35.00	[ICRA] A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	UDS Ownership	Consolidation Approach
Tangy Supplies and Solutions Private Limited	100.00%	Full Consolidation
Integrated Technical Staffing and Solution Private Limited	100.00%	Full Consolidation
Avon Solutions & Logistics Private Limited	76.00%	Full Consolidation
Fusion Foods and Catering Private Limited	100.00%	Full Consolidation
Stanworth Management Private Limited	100.00%	Full Consolidation
Wynwy Technologies Private Limited	100.00%	Full Consolidation
Global Flight Handling Services Private Limited	83.25%	Full Consolidation
Matrix Business Services Private Limited	100.00%	Full Consolidation
Washroom Hygiene Concepts Pvt Ltd	100.00%	Full Consolidation
Denave India Private Limited	77.69%	Full Consolidation
Athena BPO Private Limited	57.00%	Full Consolidation

Source: UDS Provisional financials FY2022

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

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Nithya Debbadi
+91 22 6939 6416
Nithya.Debbadi@icraindia.com

Nikhil Parakh
+91 44 4596 4321
nikhil.parakh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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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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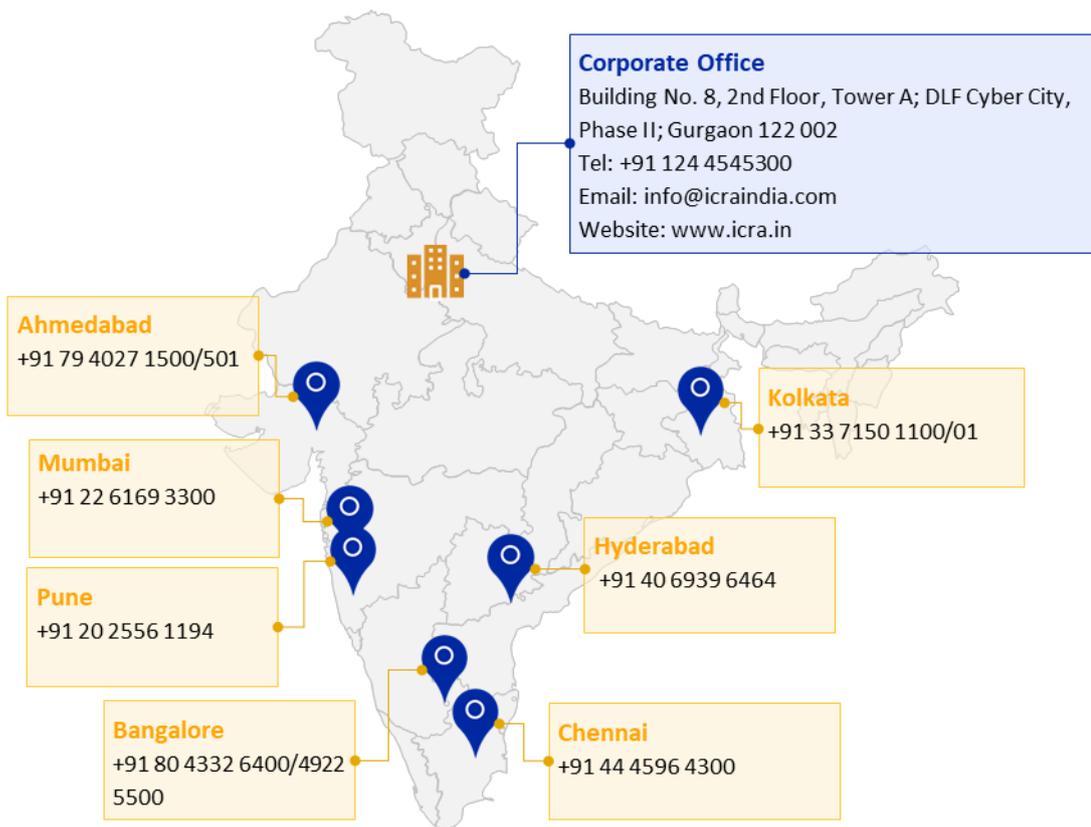
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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