

April 10, 2017

Updater Services Private Limited

Instruments*	Amount rated (Rs. crore)	Rating Action
Long term: Fund Based limits	65.00 (enhanced from 35.00)	[ICRA]A+ (Stable) / assigned/outstanding
Long term: Fund Based sublimits	(25.00) (revised from (35.00))	[ICRA]A+ (Stable) / assigned/outstanding
Short term: Non fund based limits	25.00 (revised from 5.00)	[ICRA]A1/ assigned/outstanding
Long term/ Short term: Unallocated	Nil (revised from 30.00)	-

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]A+ (pronounced ICRA A plus) for the Rs. 65.00 crore¹ enhanced fund based limits (enhanced from Rs. 35.00 crore) of Updater Services Private Limited (UDS / the company)². The outlook on long term rating is Stable. ICRA has also assigned the short term rating of [ICRA]A1 (pronounced ICRA A one) for the Rs. 25.00 crore enhanced short term non-fund based limits (revised from Rs. 5.00 crore) of the company.

Rationale

The rating action takes into account the consistent performance of the company over the past fiscal and the recent PE fund driven organic acquisitions, which is expected to support scale of operations. UDS has tied-up PE fund infusion of Rs. 100 crore from India Business Excellence Fund, a part of Motilal Oswal group. Of this Rs. 50.0 crore is expected to be received in FY2017 and the balance during FY2018. These funds will be used to fund acquisitions of one or two companies with a cumulative turnover of Rs. 250 crore. The company is targeting an exit for the PE via an IPO in FY2019.

Funded through accruals, UDS in February 2017 acquired Stanworth Management Private Limited to focus in the Hotels and Hospitals sector. With the proposed inorganic growth in FY2018, UDS will increase its focus on specialized sectors and new geographies together with its current organic customer base. ICRA would continue to monitor the progress on this transaction and the company's inorganic growth plans. These acquisitions are not expected to add incremental debt to UDS.

UDS has maintained consistent growth in top line (~8% in FY2016 and CAGR of 22.8% during the period between FY2013 and FY2016) in its core facility management services business with high client retention rates (~98% in FY2016). The ratings also take into account the diversified revenue profile of the company spanning across various sectors including manufacturing, banking and IT/ITes sectors which lends revenue stability.

The operations are supported by a strong management team led by the promoter with significant experience in the industry. During May 2016, the company undertook a share buyback exercise from the promoters/promoter company of Rs. 57.0 crore, funded temporarily through working capital debt of Rs. 35.0 crore which led to sharp spike in the working capital utilisation levels in the subsequent months

¹For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

²† 100 lakh = 1 crore = 10 million

(utilization of limits increased to over 80% of sanctioned limits during June and August 2016). Subsequently, the promoter infused Rs. 20.0 crore into the company as unsecured interest-free subordinated loans with no repayments.

ICRA also takes note of the healthy financial profile of the company characterised by strong capital structure (0.1x as on March 31, 2016), comfortable coverage metrics (TD/ OPBITDA at 0.2x and interest cover at 20.5 as on March 31, 2016) and adequate liquidity buffer. While the metrics deteriorated post the debt-funded share buyback, financial profile has since improved and the company is expected to be debt free as of March 31, 2017. The performance remains stable in the current year with standalone revenues of Rs. 505.0 crore and operating and net margins of 7.6% and 4.2% respectively during 9m FY2017.

These positives are partially offset by the high competitive intensity and the fragmented nature of business leading to relatively thin operating margins (~6.9% in FY2016). Although the company's accruals remain positive, owing to the nature of receivables and payables, the working capital cycle remains moderately stretched at ~67days. The high attrition level in this industry is also a constant challenge for the company. UDS is also exposed to regulatory risks inherent to the industry given the various stringent laws governing the employment of contract labour in organisations.

Key rating drivers

Credit Strengths

- Vast experience of the promoter and strong management team
- Leading market share in the organized facility management services industry
- Proven track record of excellence as evidenced by high client retention rates
- Relatively diversified revenue base spread across over 620 reputed clients and over 20 different industries
- Large manpower base backed by strong in-house training capabilities provides an edge over competition
- Healthy financial profile characterised by robust profitability, strong capital structure and coverage metrics

Credit Weakness

- Highly fragmented industry; significant competitive intensity leads to pricing pressure
- Elongated working capital cycle on account of long collection periods – ability to manage working capital is crucial to sustain positive cash flows
- Regulatory risks emanating from requirement to comply with several central government as well as state level laws pertaining to contract labour.
- High level of attrition is a concern for the industry; ability to attract and retain well skilled manpower would be crucial to expand array of services as well as to attract new customers.
- Ability to maintain credit profile while acquiring and integrating new companies over the next fiscal (FY2018)

Description of key rating drivers highlighted above:

UDS has tied up with PE fund India Business Excellence Fund, part of Motilal Oswal group for Rs. 100.0 crore of fund infusion during FY2017 and FY2018 for its acquisition plans. Of this Rs. 100.0 crore has already been infused in the company during Q4FY2017.

During FY2017, UDS acquired Stanworth Management Private Limited-a facilities management company engaged in services to the Hotels and Hospitals sector for a consideration of Rs. 4.0 crore; this is expected to be a focus vertical for UDS going forward. UDS is in the later stages of finalization of one or two more target companies in the services vertical. These entities are expected to add ~Rs. 250 crore to revenues with margins of ~7%; these will be funded through the PE funds. The proposed acquisitions are

expected to be debt free or with limited working capital debt. Ability to efficiently integrate and draw synergies from the proposed acquisitions is critical to the company's prospects. The promoter is expected to hold a minimum of >83% stake in the company post the Rs. 100 crore of fund infusion. The company is targeting an IPO by FY2019 as an exit route for the PE.

UDS has over the years diversified its service portfolio to offer integrated facility management services including hard and soft services. Coupled with growth in demand for such service, expansion into new verticals and client additions has helped the company to clock four year revenue CAGR (between FY2013 and FY2016) of ~22.8%. The company presently provides services under seven different heads including housekeeping, integrated facilities management, production support, staffing, maintenance and other services.

UDS derives bulk of its revenues from the manufacturing sector and IT/ ITes sector from where demand arises for facilities management services. Although concentration on these sectors remains dominant, proposed diversification into new verticals and newer geographies is expected to provide balance in the near term. As on March 2016, the company caters to about 620 clients with a client retention ratio of ~98%. Also, supporting the growth of the company has been the experience of the promoter (Mr. Raghunandana Tangirala) and a strong second line of management with several years of experience in the industry.

These positives are partially offset by the competitive intensity in the highly-fragmented industry leading to thin operating margins (~6.9% in FY2016). Given the nature of work (temporary and largely blue-collared), the company and the industry faces high attrition coupled with stringent laws governing the employment of contract labour.

Analytical approach:

While arriving at the ratings, ICRA has taken a consolidated view of the financials of UDS and its direct subsidiaries: Wholly owned Subsidiary (WOS) Tangy Supplies and Solutions Private Limited, WOS Integrated Technical Staffing and Solution Private Limited and WOS Avon Solutions & Logistics Private Limited.

Links to applicable Criteria

Corporate Credit Rating - A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

About the Company:

The Updater Group of companies (the group) was setup in Chennai in 1985 by Mr. Raghunandana Tangirala. The flagship company of the Group is Updater Services Private Limited (UDS / the company) one of India's leading integrated facility management services provider and staffing solutions company. The company is headquartered in Chennai and has ~500 permanent administrative staff and close to 37,000 staff working at various client locations. UDS is engaged in providing 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. During FY2017, the promoters bought back 24 lakh shares of the company amounting to Rs. 57.0 crore; this was funded temporarily through working capital debt followed by a promoter infusion of funds in the form of unsecured loans to the tune of Rs. 20.0 crore.

On a standalone basis, the company reported PAT of Rs. 21.1 crore on operating income of Rs. 505.0 crore in 9M, FY2017, as against PAT of Rs. 25.9 crore on an operating income of Rs. 654.4 crore in FY2016.

On a consolidated basis, the company reported a PAT of Rs. 28.3 crore on operating income of Rs. 695.6 crore in FY2016, as against a PAT of Rs. 25.5 crore on an operating income of Rs. 642.5 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years	
		Type	Rated amount (Rs. Crores)	Month - year & rating	Month - year & Rating in FY2016	Month - year & Rating in FY2015
1	Cash Credit	Long term	65.0	April 2017	Feb 2017	Sept 2015
				[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Interchangeable limits	Long term	(25.0)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Bank Guarantee	Short term	25.0	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue(Rs. Cr)	Current Rating and Outlook
Fund based - cash credit	-	-	-	65.00	[ICRA]A+(Stable)
Interchangeable limits	-	-	-	(25.00)	[ICRA]A1
Bank Guarantee	-	-	-	25.00	[ICRA]A1

Source: Company

Name and Contact Details of the Rating Analyst(s):

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Shweta Sankaramani
+91 444297 4344
shweta.sankaramani@icraindia.com

Pavethra P
+91 4445964314
pavethra.p@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 98450 22459
jayantac@icraindia.com

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.

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500