Updater Services Private Limited

October 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	65.00	80.00	[ICRA]A+(Stable); reaffirmed
Fund-based – (sublimit)	(25.00)	(43.00)	[ICRA]A+(Stable); reaffirmed
Non-fund Based-Working Capital Facilities	25.00	34.00	[ICRA]A1+; upgraded from [ICRA]A1
Total	**90.0**	**114.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the short-term rating) of Updater Services Private Limited (UDS)[2] from [ICRA]A1 (pronounced ICRA A one) to [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 34.00 crore short term non-fund-based limits (revised from Rs. 25.00 crore. ICRA has reaffirmed the long-term rating at [ICRA]A+ (pronounced ICRA A plus) for the Rs.80.00 crore[1] enhanced fund-based limits (enhanced from Rs. 65.00 crore) and Rs.43.00 crore of fund based sublimit of the company. The outlook on long term rating is Stable.

Rationale

The upgrade in short-term rating factors in the strong operational and financial performance of the company during FY2018 characterized by robust revenue growth, healthy profitability, strong capital structure and coverage metrics. Following two years of muted growth (CAGR of 5% during FY15-17), UDS witnessed a 28% y-o-y growth in FY2018 supported by steady accretion to customer base, diversification to new geographies coupled with inorganic growth from acquisition of Fusion Foods India Private Limited. Further, the company registered ROCE of 26.4% (FY2018) supported by asset light model of business coupled with healthy accrual generation. This coupled with the limited debt supported the healthy capital structure and coverage indicators.

The ratings also consider the diversified customer base spread across 640 clients and 20 regions with revenue contribution from top 20 customers constituting to 37.8% in FY2018. Despite the diversified geographical presence, UDS derives 72% of its revenues from South India indicating moderate geographical concentration risk. The ratings also take cognisance of the highly fragmented and competitive integrated facility management (IFM) industry leading to limited pricing flexibility for the players. However, the same was partially negated by the long-standing experience of the promoter and the company spanning over three decades.

The ratings also factor in the high employee attrition rates prevailing across the industry owing to unskilled/low-skill and temporary nature of the job. The risk is partially offset by UDS's extensive pan-India regionalized recruitment network and spending towards training and development to retain its talent and limit its attrition. Going forward, UDS's ability to generate healthy accruals and improve the overall credit profile will be key monitorable.

Outlook: Stable

ICRA believes UDS will continue to benefit from the extensive experience of its promoters and the strong recruitment network. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Vast experience of the promoter spanning over three decades - Incorporated in 1985 by Mr.Raghunanda Tangirala, UDS is one of India's leading IFM services provider and staffing solutions company. Over the years, the company has expanded its operations and currently has ~40,000 staff working at various client locations as on 31 March 2018.

Healthy financial profile- UDS's financial profile is characterised by robust profitability, strong capital structure and coverage metrics. UDS recorded healthy ROCE of 26.4% during FY2018. The coverage indicators remained comfortable with interest coverage of 35.6x and DSCR of 28.0x as on March 2018. Further, the company has liquidity buffer from cash and liquid investments of Rs.17 crore as on March 2018.UDS's average working capital utilization was 36% for the period (Apr'17 to Aug'2018)

Large manpower base backed by strong in-house training capabilities- UDS currently has ~40,000 employees (Mar 2018) supported by an extensive pan-India regionalized recruitment network and large in-house vocational training program to skill its workers. The company spends ~3% of its employee cost towards training and development to retain its talent and limit its attrition.

Low customer concentration risk - The steady additions coupled with strong retention over the years has aided in developing a strong customer base of 640 customers in FY2018. The revenue contribution from the top 20 customers was low at 37.8% in FY2018 (41.7% in FY2017).

Credit challenges

Moderate geographical diversification of revenues- The company has operations spread across 20 regions in India. However, the company derives 72% of its revenues from South India indicating moderate geographical concentration risk. The same is partially offset by diversifying its geographic footprints to other regions with entry into new states like Punjab, Uttar Pradesh.

Highly competitive and fragmented IFM industry reduces pricing flexibility- IFM is a highly fragmented industry with intense competition from both organised and un-organised players. This limits the pricing flexibility for the players across the industry resulting in thin margins.

High levels of employee attrition - The company and industry witness high employee attrition owing to unskilled/low-skill and temporary nature of the job thereby limiting the ability to retain talent. This risk is partially mitigated by continuous spend on training and development of employees.

Analytical approach: While arriving at the ratings, ICRA has taken a consolidated view of the financials of UDS and its direct subsidiaries: Tangy Supplies and Solutions Private Limited, Integrated Technical Staffing and Solution Private Limited, Fusion Foods and Catering Private Limited, Stanworth Management Private Limited, Avon Solutions & Logistics Private Limited and Zappy Investments Private Limited.

Links to applicable criteria:

Corporate Credit Rating Methodology

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) 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 ~40,000 across all 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.

In FY2018, on a provisional basis, the company reported a net profit of Rs. 25.5 crore on an operating income of Rs. 914.6 crore, as compared to a net profit of Rs. 36.9 crore on an operating income of Rs. 712.6 crore in the previous year.

Key financial indicators (Consolidated)

	FY2017	FY2018 (Provisional)
Operating Income (Rs. crore)	712.6	914.6
PAT (Rs. crore)	25.5	36.9
OPBDIT/OI (%)	6.2%	5.3%
RoCE (%)	36.0%	26.4%
Total Debt/TNW (times)	0.0	0.1
Total Debt/OPBDIT (times)	0.0	0.3
Interest coverage (times)	7.6	35.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Oct 2018	Apr 2017	Mar 2017	Sep 2015
1	Cash Credit	Long term	80.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Interchangeable limits	Long term	(43.00)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Bank Guarantee	Long term	34.00	-	[ICRA]A1+	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	80.00	[ICRA]A+ (Stable)
-	Interchangeable limits	-	-	-	(43.00)	[ICRA]A+ (Stable)
-	Bank Guarantee	-	-	-	34.00	[ICRA]A1+

Source: Updater Services Private Limited.

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

V.S.Ranganathan
+91 9787897158
v.ranganathan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

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

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
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