January 31, 2020

Updater Services Private Limited: Ratings reaffirmed

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in Updater Services Private Limited's (UDS) strong financial profile characterised by healthy revenue growth, minimal debt levels, strong capital structure and comfortable coverage metrics. UDS' consolidated revenues grew 19.1% to Rs. 1085.6 crore in FY2019, supported by increase in standalone revenues as well as top-line growth in acquired entities. The standalone revenues grew by 15.5% to Rs. 944.8 crore in FY2019 on the back of steady accretion to customer base as well as increased wallet share with existing customers. Substantial growth in subsidiary revenues in FY2019 was derived from revenues of Fusion Foods India Private Limited which is involved in the business of industrial catering. In 2019, UDS bagged 'operations and maintenance' contract for three railway stations, viz. Anand Vihar in Delhi, Chandigarh and Secunderabad wherein it shall manage and monetise the space available on railway stations. This entails an eventual profit-sharing with the Indian Railway Station Development Corporation (IRSDC). UDS proposes to undertake more such contracts with the Government as it has scalability, stickiness and long-term revenue visibility.
The operating margins moderated to 4.6% in FY2019 from 5.2% in FY2018 due to high employee costs and high cost of consumables which could not be passed on to customers. The cascading effect led to deterioration of net margins to 3.3% in FY2019 from 4.1% in FY2018.

UDS acquired two entities viz. Matrix Business Services India Private Limited (MBS) and Washroom Hygiene Concepts Private Limited (WHCPL) in May 2019 and September 2019 respectively. MBS provides background verification services (constituting ~50% of its revenues) and business assurance services (comprising the balance 50% revenues). It reported operating income (OI) of Rs. 63.0 crore in FY2019 with OPBDITA margin of 13.8%. WHCPL provides hygiene-related products and services. It reported an OI of Rs. 10.5 crore with an OPBDITA margin of 40.6% in FY2019. The acquisition of the high-margin accretive MBS business aided in improving the company's operating margin to 5.6% in H1 FY2020 from 4.6% in FY2019. Addition of WHCPL with effect from October 2019 is expected to further diversify revenue offerings. The additional investment in subsidiaries/acquisition has, however, resulted in an increase in debt from Rs. 16.0 crore as on March 31, 2018 to Rs. 28.6 crore as on March 31, 2019 and further to Rs. 109.3 crore as on December 31, 2019, primarily due to increased utilisation of working capital limits. The company had a cash balance of Rs. 22.0 crore as on March 31, 2019.

Healthy accruals, absence of dividend pay-outs and limited capex in the last few years have led to steady addition to TNW, with it growing to Rs. 209.7 crore as on March 31, 2019 from Rs. 65.1 crore as on March 31, 2015. Consequently, gearing and interest coverage remained comfortable at 0.1 times and 13.4 times respectively, as on March 31, 2019.

The ratings positively factor in the diversified customer base spread across more than 700 clients and 24 regions with revenue contribution from the top 20 customers constituting to 38.4% in FY2019. Despite the diversified geographical presence, UDS derives 68% of its revenues from South India indicating moderate geographical concentration risk.

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 also 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/rehire talent. Going forward, UDS' ability to successfully integrate and derive synergies from acquisition, generate healthy accruals without significantly increasing the debt levels will be the key monitorable.

The Stable outlook reflects ICRA's belief that UDS will continue to benefit from the extensive experience of its promoters and scale up its revenues through organic as well as inorganic growth.

Key rating drivers

Credit strengths

Experience of promoter of more than three decades; strong management - Incorporated in 1985 by Mr. Raghunanda Tangirala, UDS is one of India's leading Integrated Facility Management (IFM) services provider and staffing solutions company. Over the years, the company has expanded its operations and has ~49,000 staff working at various client locations as on September 30, 2019.

Strong financial profile characterised by healthy revenue growth, strong capital structure and coverage metrics - UDS' financial profile is characterised by healthy revenue growth, and strong capital structure and coverage metrics. UDS reported consolidated revenue growth of ~19% FY2019 supported by increase in standalone as well as subsidiaries' revenues. That said, high employee costs and increase in cost of consumables which could not be passed on to customers led to moderation in operating margins. However, aided by acquisition of high-margin MBS, the OPM improved to 5.6% in H1 FY2020. Despite increase in debt to Rs. 109.3 crore as on December 31, 2019 from Rs.16.0 crore as on March 31, 2018, the gearing and coverage indicators remained strong at 0.1 times and 13.4 times respectively as on March 31, 2019 on the back of strong TNW.

Large manpower base backed by strong in-house training capabilities- UDS currently has ~49,000 employees (September 30,2019) supported by an extensive pan-India recruitment network and large in-house vocational training program to skill its workers. The company provides in-house training and development to retain/rehire talent.

Granular customer base and regular addition of new customers provides diversity to revenues - The steady addition of customers coupled with high retention over the years has aided in developing a strong customer base of more than 700 customers in FY2019. The revenue contribution from the top 20 customers was low at 38.4% in FY2019 (37.8% in FY2018).

Credit challenges

Moderate geographical diversification of revenues- The company has operations across 24 regions in India. However, it derives 68% of its revenues from South India indicating moderate geographical-concentration risk.

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.

Liquidity position: Adequate

UDS's liquidity is **adequate** with positive cash flow from operations of nearly Rs. 9-10 crore. While its working capital utilisation levels were moderately high at about 71% during the first six months of FY2020, moderate capex requirement of Rs. 10 crore for FY2020 and no committed repayment obligation owing to no long-term debt provide comfort. Further, it had unencumbered cash and cash equivalents of nearly Rs. 28.0 crore as on December 31, 2019. Overall, ICRA expects UDS to be able to meet its near-term commitments through internal as well as external sources of cash. Net debt levels are expected to moderate to Rs. 60 -65 crore by March 31, 2020 supported by accruals.

Rating sensitivities

Positive triggers: Substantial improvement in scale through organic growth and successful integration of high-margin acquisitions leading to sustained improvement in operating and net margins

Negative triggers: Negative pressure on rating could arise from stretch in the working capital cycle, any major debt-funded capex or acquisition, or change in business skew towards asset-heavy businesses 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
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on consolidated financial statements of the rated entity.

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, Updater Services Private Limited (UDS), is one of India's leading integrated facility management services providers and staffing solutions companies. The company is headquartered in Chennai and has ~800 permanent administrative staff and close to ~49,000 employees across all locations. 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. Standalone financials constitute 87% of OI, 83% of PAT and 96% of Debt in FY2019. UDS' major subsidiaries include Fusion Foods India Private Limited which is in the business of Industrial

Catering, and Avon Solutions and Logistics Private Limited that provide mail room services which contributed 6% and 4% respectively in FY2019 OI.

In FY2019, the company reported a net profit of Rs. 36.0 crore on an OI of Rs. 1,085.6 crore, compared to a net profit of Rs. 37.6 crore on an OI of Rs. 911.2 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	911.2	1085.6
PAT (Rs. crore)	37.6	36.0
OPBDIT/OI (%)	5.2%	4.6%
RoCE (%)	26.0%	19.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	0.3	0.6
Interest Coverage (times)	33.4	13.4
DSCR	26.6	10.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					31-Jan-2020	12-Oct-2018	10 Apr 2017	21 Mar 2017
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	Short term	34.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1

Amount in Rs. crore

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Avon Solutions and Logistics Private Limited	76%	Full Consolidation
Integrated Technical and Staffing Solutions Private Limited	100%	Full Consolidation
Tangy Supplies and Solutions Private Limited	100%	Full Consolidation
Fusion Foods India Private Limited	65.6%	Full Consolidation
Zappy Home Solutions Private Limited	100%	Full Consolidation
Global Flight Handling Solutions Private Limited	70%	Full Consolidation
Stanworth Management Private Limited	100%	Full Consolidation

Source: Updater Services Private Limited

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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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