September 04, 2020

Updater Services Private Limited: [ICRA]A+ (Stable)/[ICRA]A1+ assigned to enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	80.00	95.00	[ICRA]A+/Stable; assigned/outstanding
Fund-based – (sublimit)	(43.00)	(35.00)	[ICRA]A+/Stable; outstanding
Non-fund Based-Working Capital Facilities	34.00	49.00	[ICRA]A1+; assigned/outstanding
CP	-	30.0	[ICRA]A1+; assigned
Total	**114.0**	**174.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in Updater Services Private Limited's (UDS) strong financial profile characterised by healthy revenue growth, moderate debt levels, strong capital structure and comfortable coverage metrics. In FY2020, UDS' consolidated revenues grew 21.9% to Rs. 1,323.0 crore (provisional; FY2019: Rs. 1,085.6 crore), supported by an increase in standalone revenues as well as top-line growth in acquired entities. The standalone revenues grew by 15.6% to Rs. 1,092.3 crore in FY2020 (provisional) on the back of steady accretion to customer base as well as increased wallet share with existing customers, including new contracts secured for railway station management and airport housekeeping services, among others. UDS proposes to undertake more such contracts with the Government as it has scalability, stickiness and long-term revenue visibility.

Standalone operations accounted for 82% of revenues, 67% of OPBDITA, 65% of PAT and 99% of debt. Most of the subsidiary revenues came from Fusion Foods India Private Limited (involved in the business of industrial catering) and the newly acquired Matrix Business Services India Private Limited (MBS; engaged in providing background verification and business assurance services). Apart from MBS, UDS acquired another subsidiary in FY2020, Washroom Hygiene Concepts Private Limited (WHCPL). The acquisition of these two high-margin subsidiaries aided in a 60-bps expansion in operating margins to 5.2% in FY2020 (provisional) from 4.6% in FY2019. A sizeable portion of Government revenues that entail a longer credit period and the use of accruals in funding the acquisition led to a higher working capital intensity, resulting in an increase in short-term debt to Rs. 88.8 crore as on March 31, 2020 from Rs. 28.4 crore as on March 31, 2019. However, the tightened credit policy and an increasing emphasis laid by the management on collections resulted in a reduced debtor period in the last few months, paring down the debt levels to Rs. 30.0 crore as on August 25, 2020.

UDS' standalone revenues declined by 6.4% in Q1 FY2021 to Rs. 234.0 crore (Q1 FY2020: Rs. 250.0 crore) impacted by the Covid-19 pandemic and challenging business conditions, leading to headcount reduction by UDS' clients.

With the gradual opening of establishments and easing of restrictions by states, an improvement in revenues is expected from Q3 onwards. However, for full-year FY2021, ICRA expects UDS to post a YoY revenue de-growth, given the lower business from certain highly impacted sectors like retail, tourism and a general reduction in manpower requirements by most of the companies to save costs. Although a healthy chunk of UDS' business stems from healthcare, the BFSI and Government business, a fairly-diversified customer base of more than 740 customers and the top 20 customers accounting for ~42% of the company's revenues, the impact is likely to be relatively low. Nevertheless, the scale reduction and margin renegotiation by some of UDS' clients are expected to result in margin moderation in FY2021. However, given the limited capex plans, voluntary exits by UDS from contracts with high credit period, effective collection mechanism and the absence of dividend payouts, the debt levels are likely to remain low. Consequently, gearing and interest coverage would remain at comfortable levels. Higher-than-expected capex, triggered by asset-heavy business verticals/contracts may, however, impact its credit profile and hence, remains a key monitorable.

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/re-hire talent. Further, ICRA notes that despite the diversified geographical presence, UDS derives ~62% of its revenues from South India, indicating moderate geographical-concentration risk. Going forward, UDS' ability to acquire new customers, grow the subsidiaries' top-line to aid diversification in revenues and 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.

Key rating drivers

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 ~741 clients and a retention rate of over 90%. Over the years, UDS 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 low at ~42.6% in FY2020 (38.4% in FY2019). Further, its reputed client profile and long-standing relationship with the same mitigates the risk of client loss to an extent.

Strong financial profile – UDS' financial profile is characterised by healthy revenue growth, strong gearing and coverage metrics. It reported consolidated revenue growth of ~21.9% in FY2020 supported by an increase in standalone as well as subsidiaries' revenues. While its debt levels rose to Rs. 88.8 crore as on March 31, 2020 from Rs. 28.7 crore as on March 31, 2019 owing to an increased working capital intensity with a high share of Government receivables, the tightening of collections in the past few months significantly pared down UDS' debt levels. This coupled with healthy accruals, limited capex and ploughing back of profits has resulted in strong gearing and comfortable coverage metrics.

Large manpower base backed by strong in-house training capabilities – UDS currently has ~47,000 employees (July: 31,2020) 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 company.

Credit challenges

Moderate geographical diversification of revenues – The company has operations across 24 regions in India. However, it derives 62% of its revenues from South India, indicating moderate geographical-concentration risk.

Moderation expected in scale and margins impacted by the pandemic – UDS' standalone revenues de-grew 6.4% to Rs. 234.0 crore in Q1 FY2021 from Rs. 250.0 crore clocked in Q1 FY2020, impacted by lower business amid production cuts and cost-cutting initiatives by UDS' customers to cope up with demand challenges as a result of the pandemic. A few of UDS' clients have also renegotiated commission charged by it, which is likely to exert further pressure on margins already impacted by a lower scale. While ICRA expects a revenue de-growth and moderation in UDS' margins in FY2021, given the diversified client profile and the company's presence in healthcare, BFSI and Government sectors, the revival is likely to be strong.

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 generated healthy cash accruals of Rs. 52.9 crore in FY2020 as per the provisional financials. While its working capital utilisation levels were moderately high at about 74% during FY2020, moderate capex requirement of Rs. 10 crore for FY2021 and no committed repayment obligation owing to no long-term debt provide comfort. Further, there has been a marked reduction in debt levels in the last few months. UDS had a debt o/s of Rs. 30.0 crore and large unutilised WC limit of Rs. 113.5 crore as on August 25, 2020. Overall, ICRA expects UDS to be able to meet its near-term commitments through internal as well as external sources of cash.

Rating sensitivities

Positive triggers – Substantial improvement in scale along with a sustained improvement in operating and net margins or a reduction in debtor/receivable days leading to lower working capital requirements on a sustained basis.

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 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
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 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. The company is headquartered in Chennai and has ~800 permanent administrative staff and close to ~47,000 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 operating income (OI), 83% of PAT and 96% of Debt in FY2019. UDS' major subsidiaries include Fusion Foods India Private Limited (industrial catering) and Avon Solutions and Logistics Private Limited (mail room services), which contributed 6% and 4%, respectively to the OI in FY2019.

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

Source: Updater Services Private Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					4-Sep-2020	31-Jan-2020	12-Oct-2018	10-Apr-2017
1	Cash Credit	Long term	95.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Interchangeable limits	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	30.00	-	[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	-	-	-	95.00	[ICRA]A+ (Stable)
-	Interchangeable limits	-	-	-	(35.00)	[ICRA]A+ (Stable)
-	Bank Guarantee	-	-	-	49.00	[ICRA]A1+
-	Commercial Paper	-	-	-	30.00	[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

Analyst Contacts

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

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

Ravina Rishi Haran
+91 44 4596 4311
ravina.haran@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:

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

info@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.

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.

For more information, visit www.icra.in

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,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999