November 26, 2024

SMS Integrated Facility Services Private Limited: Rating upgraded to [ICRA]BB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Cash credit	40.00	40.00	[ICRA]BB+ (Stable); Upgraded from [ICRA]BB (Stable)
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade of SMS Integrated Facility Services Private Limited (SIFSPL) factors in the improvement in its operational and financial risk profiles in the recent past, and expectations that the trend will sustain, going forward. The company recorded a YoY growth of 32% in its revenues in FY2024, which was driven by the addition of new customers, along with continuing healthy traction from its existing customers. Although the company continues to report modest operating profit margin (OPM of 2.2% in FY2024), the same has increased from 1.6% in FY2023 and is likely to improve gradually, going forward, as revenues continue to scale up and SIFSPL realises operating leverage benefits. However, the OPM is likely to remain in the low single digit. The rating revision also factors in SIFSPL's comfortable financial risk profile, with satisfactory capital structure and coverage indicators, characterised by nil long-term debt and modest utilisation of working capital limit. The rating upgrade also considers the incremental revenue potential from the acquisition of Awfis Care – the facility management division of Awfis Space Solutions Limited in September 2024 for a cash consideration of Rs. 27.5 crore (funded through available cash and liquid balances).

The rating continues to factor in the extensive experience of the promoters in the facilities management industry and the company's established relationships with its customers, particularly with entities in the banking, financial services and insurance (BFSI) sector. ICRA also believes SIFSPL's business prospects remain comfortable, supported by its established relationships with its clients, as well as its focus on diversifying its revenues.

The rating, however, remains constrained by the intense competition in the industry from various unorganised players and low entry barriers, which constrain its pricing flexibility and profitability. Accordingly, its OPM has remained range-bound and stood below 2.5% over the past many years. The rating is further constrained by the susceptibility of SIFSPL's operations to any unfavourable regulatory changes or wage revisions, though the company's track record of passing on these cost increases to its customers provides some comfort.

The Stable outlook on the long-term rating reflects ICRA's expectation that SIFSPL's business and financial risk profiles would remain largely stable, driven by healthy traction from its key customers.

Key rating drivers and their description

Credit strengths

Extensive track record of operations in facilities management industry – SIFSPL provides facility management services, such as housekeeping, security and hospitality along with certain technical and value-added services since its inception in 2002. SIFSPL has strengthened its presence further following acquisition by Launcelot Investments in November 2017. It has a pan-India presence through 15 regional offices with an employee base of ~20,000 (as of October 2024) and operations across more than 5,000 locations.

Healthy revenue growth; comfortable financial profile – The company recorded a YoY revenue growth of 32% in FY2024, driven by the addition of new clientele, along with continuing healthy traction from its existing customers. Further, the OPM improved to 2.2% in FY2024 from 1.6% in FY2023, though the same continues to remain modest. Also, the company's capital structure continues to remain comfortable, supported by nil long-term debt and modest utilisation of working capital limits. Its coverage indicators are also satisfactory, with an interest cover of 14.3 times in FY2024.

Established relationships with clientele – SIFSPL's successful track record, coupled with its comprehensive service offerings and pan-India presence, helped it in establishing a wide customer base of more than 500 clients comprising several reputed private corporations, multinational companies (MNCs) as well as Government departments/ entities. Some of its major clients include HDFC Bank Limited, ICICI Bank Limited, and DCB Bank Limited, among others, with SIFSPL catering to many of them for more than a decade. Comfort is also drawn from the fact that its revenues are quite diversified, with its top five customers accounting for 30% of its total sales in FY2024.

Credit challenges

Modest profitability levels – SIFSPL has historically reported thin profitability levels, with OPM of less than 2.5% over the past many years. While some improvement in OPM was witnessed in FY2024 and is likely to improve further as revenues scale up and the company realises operating leverage benefits, it is likely to remain largely range-bound at low single-digit, considering the nature of the industry it operates in.

Low entry barriers; fragmented industry structure with intense competition from organised and unorganised players – The facilities management industry is highly fragmented with stiff competition from large organised as well as small unorganised players, which limits the company's pricing flexibility and bargaining power with customers, putting pressure on its revenues and profit margins. Nevertheless, increasing focus on ensuring that all the regulatory compliances are met in a timely manner, along with focus on diversifying its revenue base, helps mitigate the risks to some extent.

Margins susceptible to regulatory changes in the market – The company is required to comply with several Central Government as well as state level laws pertaining to contractual labour, which exposes its operations to regulatory risks. Further, with employee expenses accounting for the largest cost component for the company, any revision in wage rates, which cannot be adequately passed on to the customers, can impact the company's profitability. Nevertheless, the company's track record of passing on these cost increases to most of its customers provides comfort.

Liquidity position: Adequate

The liquidity position of the company is adequate with unencumbered cash and liquid investments of ~Rs. 15 crore as on September 30, 2024. Additionally, the company has adequate cushion available in the form of undrawn working capital limits of Rs. 14.8 crore (as on September 30, 2024). Given the absence of any substantial capex plan and nil term loan repayment obligation, ICRA does not foresee any major concern on liquidity over the near-to-medium term.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company exhibits significant growth in revenues and profitability, leading to improvement in credit metrics and liquidity profile on a sustained basis.

Negative factors – The rating can be downgraded in case of significant deterioration in the company's earnings on a sustained basis and/or if there is a stretch in its receivables cycle, which impacts its credit metrics or liquidity profile 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 the standalone financials of the company.

About the company

The company was originally established in 2002 as Sanjay Maintenance Services Private Limited by the Mumbai-based Khanvilkar family, for providing hospitality and facility management services to various industries like banking, financial services and insurance (BFSI), information technology (IT), healthcare, and hospitality, among others. In FY2017, it was taken over by a UK-based investor, Launcelot Investments, through acquisition of a 92.07% stake previously held by the Khanvilkar family and renamed it as SMS Integrated Services Private Limited. SIFSPL is headquartered in Mumbai and has an employee strength of over 20,000 as on October 25, 2024, and serves around 500 clients across the country.

Launcelot Investments is a UK-based privately held company, engaged largely in making investments in the real estate sector.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	293.7	388.4
PAT	3.6	9.3
OPBDIT/OI	1.6%	2.2%
PAT/OI	1.2%	2.4%
Total outside liabilities/Tangible net worth (times)	1.1	1.2
Total debt/OPBDIT (times)	0.0	1.3
Interest coverage (times)	12.4	14.3

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

	Current rating (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long-term	40.00	Nov 26, 2024	[ICRA]BB+ (Stable)	Sep 14, 2023	[ICRA]BB (Stable)	Sep 29, 2022	[ICRA]BB- (Stable)	Aug 02, 2021	[ICRA]BB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Cash credit	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	9.75%	NA	40.0	[ICRA]BB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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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