

September 29, 2022

SMS Integrated Facility Services Private Limited: Ratings reaffirmed

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); Reaffirmed
Total	40.00	40.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the extensive experience of SMS Integrated Facility Services Private Limited (SIFSPL) in the facilities management industry and its established relationships with its customers, particularly with entities in the banking, financial services and insurance (BFSI) sector. The ratings also draw comfort from the comfortable capital structure of the company, characterised by nil long-term debt and minimal working capital limit utilisation over the past two years. ICRA also believes SIFSPL's business prospects remain comfortable, supported by established relationships with its clients, improvement in the post-pandemic macroeconomic environment, as well as focus on digitisation initiatives.

However, the rating remains constrained by the high competitive intensity in the industry from a large number of unorganised players and low entry barriers, which constrain its pricing flexibility and profitability. Accordingly, its operating profit margins (OPM) have remained range-bound, below 2%, over the past many years. It further contracted to 0.2% in FY2022 on account of one-time provisions related to gratuity expenses. While the company has taken steps to ensure that such provisioning would not recur, its ability to maintain and improve its profitability in the competitive business environment remains critical. The ratings are 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 provide some comfort.

The Stable outlook on the long-term rating reflects ICRA's expectation that SIFSPL's business and financial risk profile would remain largely stable. While margins are likely to remain range-bound, given the competitive intensity in the industry, the company's efforts to manage its working capital requirements efficiently are likely to support its capital structure and credit metrics.

Key rating drivers and their description

Credit strengths

Extensive track record of operations in facilities management industry – SIFSPL is engaged in facility management services, such as housekeeping, security and hospitality along with certain technical and value-added services since its inception. It has strengthened its presence further following its acquisition by Launcelot Investments in November 2017. It has a pan India presence with an employee base of ~12,500 employees and operations across more than 2,500 locations and 15 regional offices.

Comfortable capital structure – The company's capital structure improved over the past two fiscals, supported by repayment of its entire long-term debt, and minimal utilisation of working capital limits. This was aided by efficient working capital management, with the management focussing on speedy collection of receivables, thereby limiting its dependence on external borrowings. Most of the credit metrics, such as Total Debt/OPBITDA and DSCR, also improved during this period, despite muted profitability, supported by the overall lower debt servicing obligations.

Established relationships with clientele – SIFSPL’s successful track record coupled with its diverse service offerings and pan India presence have 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 HDB Financial Services Limited, etc, 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 36% of its total sales in FY2022.

Credit challenges

Low profitability levels – SIFSPL has historically reported weak profitability levels, with OPM less than 2% over the past many years. During FY2022, the profitability further came under pressure on account of one-time provision taken for gratuity related expenses. Furthermore, its top-line growth in FY2021 and FY2022 was impacted by the pandemic, which also resulted in negative operating leverage.

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, thereby 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 digitisation and value-added services (which are more margin accretive) holds the company in good stead.

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 contract labour, which exposes its operations to regulatory risks. Further, with employee expenses forming the largest cost for the company, any revisions in wage rates, which cannot be adequately passed on to 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 some comfort.

Liquidity position: Adequate

The liquidity position of the company is **adequate** with unencumbered cash and liquid investments of ~Rs. 8.4 crore as on March 31, 2022. Additionally, the company has adequate cushion available in the form of undrawn working capital limits of Rs. 19.4 crore as on July 31, 2022 (against Drawing Power). Given the absence of any significant capacity expansion plans and nil term-loan repayment obligations, ICRA does not foresee any major concerns on liquidity over the near to medium term.

Rating sensitivities

Positive factors – The rating can be upgraded if there is a) significant improvement in scale and turnaround of operations, and b) improvement in working capital intensity through reduction in receivables cycle.

Negative factors – The rating can be downgraded in case of any significant deterioration in its profitability or in case of a stretch in its receivables cycle, which impacts its credit profile and liquidity 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 issuer.

About the company

SIFSPL was originally established in 2002 as Sanjay Maintenance Services Private Limited by the Mumbai-based Khanvilkar family, for servicing the hospitality and facility management needs of various industries. It was taken over in FY2017 by a Mauritius-based investor, Launcelot Investments, through acquisition of the entire stake held by the Khanvilkar family and renamed as SMS Integrated Services Private Limited. Currently, it comprises three companies—i) SMS Integrated Facility Services Private Limited, ii) Service Max Facility Management Private Limited (through a BTA in FY2022), and iii) Blue Bell Integrated Facility Services Private Limited (BBIFSPL). SIFSPL is headquartered in Mumbai and has an employee strength of over 12,500, serving about 500 clients across the country.

Key financial indicators (audited)

SIFSPL - Standalone	FY2021	FY2022
Operating income	234.7	237.7
PAT	1.1	0.2
OPBDIT/OI	1.1%	0.2%
PAT/OI	0.5%	0.1%
Total outside liabilities/Tangible net worth (times)	1.0	1.1
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	2.5	1.5

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

Instrument		Current rating (FY2023)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 29, 2022	Aug 02, 2021	May 04, 2020	Mar 31, 2020
1	Fund based Cash Credit	Long-term	40.0	NA	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Very 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, is available on ICRA's website: www.icra.in

Annexure-1: 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-2: List of entities considered for consolidated analysis – Not applicable

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