December 30, 2022

Updater Services Limited: Ratings reaffirmed; assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT - Fund-based	100.00	135.00	[ICRA]A+(Stable); Reaffirmed/Assigned
LT Fund-based – (sublimit)	(35.00)	(35.00)	[ICRA]A+(Stable); Reaffirmed
ST - Non-fund based	44.00	44.00	[ICRA]A1+; Reaffirmed
ST- Fund-based	0.00	35.00	[ICRA]A1+; assigned
Total	**144.00**	**214.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in Updater Services Limited's (UDS/group) established presence in highly fragmented Integrated Facility Management (IFM) and Business Support Service (BSS) space with a customer base of ~700+ clients. The company derives its revenues from diverse set of sectors like healthcare, manufacturing, retail and banking, all of which have rebounded as the pandemic subsided. Moreover, the addition of new customers as well as increased wallet share with the existing customers supported the top line growth. It has a fairly diversified clientele of more than 700+ customers (standalone level) and though the top 20 customers accounted for ~64% of its revenues in FY2022 comfort is taken from the strong client retention rates which has been above 90% in the last five years ended FY2022. The ratings also consider UDS' strong financial profile characterised by consistent scale-up of operations, strong capital structure and comfortable coverage metrics. UDS' consolidated revenue from operations grew by 23.3% to Rs. 1,484.5 crore in FY2022 on account of significant uptick in revenues of recently acquired subsidiaries and improvement in business environment as offices reopened and demand for IFM services picked up. The company has reported a consolidated revenue of Rs. 979.9 crore in H1 FY2023 growing by 32% on an annualised basis as against Rs. 1484.5 crore in FY2022. The company is expected to post a healthy growth of ~20%-23% in top line on a consolidated basis, driven by favorable business environment, uptick in revenues seen at subsidiary level and acquisition of new businesses.

The standalone operations accounted for 71.8% of revenues, 45% of OPBDITA, 30.1% of PAT and 98.1% of debt. Over the course of years the share of subsidiaries to the group's OPBDITA has improved and the same can be attributed to the improvement in scale of operations of subsidiaries with higher margins like Matrix Business Services Private Limited (MBS, involved in providing background verification and business assurance services), Avon Solutions and Logistics Private Limited (mailroom management and logistics) and Denave India Private Limited ('Denave'; involved in sales enablement space) which was acquired in FY2022. This has resulted in the operating margin expanding to 6.4% in FY2022 from 5.7% in FY2021. UDS has also improved its collection cycle with voluntary exits from contracts with high credit period leading to comfortable working capital cycle. ICRA expects the company's margins to improve in the near term on the back of uptick in revenues of higher margin subsidiaries which were acquired in the recent years.

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 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 ~55% (in FY2022) of its revenues from South India, indicating moderate geographical concentration risk. ICRA also notes the increase in debt levels in the current fiscal as the company has undertaken an acquisition of a BSS firm which was partially debt funded and incurred a debt funded capex towards its flight handling business. The acquisition was funded through a mix of internal accruals and long-term debt to the tune of Rs.35.0 crore. The increase in scale of operations coupled with utilisation of internal accruals for the acquisition has resulted an increase in the working capital debt in the current fiscal to Rs. 157.1 crore as on September 30, 2022 from Rs. 57.2 crore as on March 31, 2022. Moreover, the acquisitions undertaken by the company in recent fiscals have been with an initial pay-out for certain stake, and staggered payouts over the future years for incremental stake, in line with the performance of the entity. ICRA expects outlay of ~Rs. 100.0-120.0 crore over FY2024-FY2025 towards acquisition of incremental stake in the previously acquired subsidiaries. Going forward, the company's ability to improve its profitability by successfully scaling up and integrating the newly acquired businesses, and its ability to buy out the remaining stake of its subsidiaries without adversely impacting its liquidity and debt levels, will remain a key monitorable.

The Stable outlook reflects ICRA's belief that UDS will continue to benefit from the effective scale up of its revenues and margins through organic as well as inorganic growth, leading to improvement in its cash flows and debt metrics.

Key rating drivers and their description

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 and BSS services industry with a customer base of ~700+ clients and a retention rate of over 90%. Over the years, it 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 at ~64% in FY2022. The company has a diversified mix of revenue across manufacturing, healthcare, BFSI, IT/ITeS, logistics, retail, etc. Further, its reputed client profile and long-standing relationships with the same mitigate the client concentration risk to an extent. The company's ability to acquire new customers, along with profitably scaling up the newly acquired businesses, aiding revenue diversification remains crucial.

Strong financial profile – UDS' financial profile is characterised by healthy revenue growth, comfortable scale of operations, strong gearing and coverage metrics. The company's revenues on a consolidated basis grew significantly in FY2022 due to improved business prospects, addition of new customers, and inorganic growth pursued by the company. This has resulted in healthy revenue growth in the current fiscal as well, with the company reporting a consolidated revenue of Rs. 979.9 crore in H1 FY2023, a growth of 32% on an annualised basis. The company is expected to post a healthy growth of ~20%-23% in top line on a consolidated basis, driven by favorable business environment, uptick in revenues seen at subsidiary level and acquisition of new businesses.

The operating margin expanded by 62Bps to 6.4% in FY2022 from 5.7% in FY2021 and further to 6.9% in the H1 FY2023 period. UDS on a standalone basis saw a margin expansion of 40Bps in FY2022 to 4.4% from 4.0% in FY2021 on the back of various cost rationalisation efforts and uptick in revenues. Going forward the margins are expected to improve on the back of growth in revenues of higher margin subsidiaries.

The capitalisation and coverage metrics however moderated in FY2022 as the company had utilised internal accruals towards the acquisition of Denave which resulted in increase of working capital borrowings. The coverage and capitalisation metrics are expected to moderate in the current fiscal on account of debt funded capex, an acquisition which was partially debt funded and increase in working capital borrowings. The coverage indicators marked by TD/OPBDITA is expected to moderate to about 1.2x-1.6x in FY2023 from 0.8x in FY2022 while the capitalisation metric marked by TOL/TNW is expected in the range of 1.3x-1.5x. However, the same is expected to improve gradually in the medium term on the back of improvement in margins and steady accretions to net worth.

Large manpower base backed by strong in-house training capabilities – UDS currently has ~50,000 employees (March 31, 2022), 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.

Established presence of more than three decades; strong management – UDS incorporated by Mr. Raghunanda Tangirala, has experience of more than three decades in the IFM space. Among the new businesses in the group, especially in the BSS segment like verification services, sales enablement services etc, the company has pursued the inorganic route to improve its product offering and gain market presence.

Credit challenges

Moderate geographical diversification of revenues – The company has operations across 24 regions in India. However, it derives ~55% (in FY2022) of its revenues from South India, indicating moderate geographical concentration risk. The same is mitigated to some extent on the back of healthy client retention rates, which has remained above 90% in the last five years ended FY2022.

Vulnerability of margins to wage price inflation – Employee costs constitutes ~72% of the operating income and has varied in the range of 70%-80% during the last five years. The company's wage bill is susceptible to increase in minimum wage thresholds, which could impact its margins directly. The risk is mitigated, to some extent, as UDS enters into actual cost-plus margin contracts with most of its IFM customers.

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. Hence, UDS has been reporting modest OPM in the range of 4%-7% in the last five years ended FY2022. Nevertheless, ICRA expects the company's margins to improve in the near term on account of ramp up in scale of operations of margin accretive subsidiaries.

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. The number of employees increased by 6.7% in FY2022 and further by 6.1% in H1 FY2023, commensurate with the increase in revenues.

Liquidity position: Adequate

UDS' liquidity position is **adequate** given the free cash balances of ~Rs. 90 crore as on December 26, 2022, comfortable operating cash flows, buffer in working capital limits of ~Rs. 20 crore as against low capex plans and moderate repayment obligations of ~Rs. 3 crore in H2 FY2023 and Rs. 6.8 crore in FY2024. The company also has investment obligation of ~Rs. 100.0-120.0 crore over FY2024-FY2025 towards acquisition of incremental stake in companies acquired in the last two years. Overall, ICRA expects the company to be able to meet its near-term commitments through internal accruals and cash balances. Any impact of further acquisitions or buy out of remaining stakes in its subsidiaries on its liquidity profile would be a key rating monitorable.

Rating sensitivities

Positive factors– Substantial improvement in scale along with a sustained improvement in operating and net margins while maintaining a healthy working capital cycle and liquidity position on a sustained basis.

Negative factors– Negative pressure on rating could arise from stretch in the working capital cycle, any major debt-funded capex or acquisition, the company's inability to improve its earnings or change in business skew to asset-heavy business, which could lead to deterioration in the capital structure and ROCE to 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	For arriving at the ratings, ICRA has considered the consolidated financials of UDS; as on March 31, 2022, the company had ten subsidiaries which are all enlisted in Annexure-2

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 Limited (UDS), is one of India's leading integrated facility management services providers and staffing solutions companies. It is headquartered in Chennai and has ~800+ permanent administrative staff and close to ~50,000 employees across all locations, providing services across 250 million square feet of office space. UDS provides soft (housekeeping, 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. Few of its subsidiaries offer solutions in the space of audit and assurances, mail room management, catering services, employee background verification services, sales enablement services, ground handling service in airports and hygiene.

Key financial indicators

UDS Consolidated	FY2021	FY2022 P*
Operating Income (Rs. crore)	1203.6	1484.5
PAT (Rs. crore)	43.4	58.8
OPBDITA/OI (%)	5.7%	6.4%
PAT/OI (%)	3.6%	4.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	1.4
Total Debt/OPBDIT (times)	0.2	0.8
Interest Coverage (times)	10.1	9.4

*Source: Updater Service Limited; *Provisional; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All the figures for FY2022 and FY2023 mentioned in the rationale are provisional numbers.*

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	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Dec 30, 2022	Sep 30, 2021	Sep 04, 2020	Jan 31, 2020
1	Cash Credit	Long term	135.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund based (sublimit)	Long term	(35.00)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Bank Guarantee	Short term	44.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	CP	Short-term	0.00	-	-	[ICRA]A1+ ; Withdrawn	[ICRA]A1+	-
5	WCDL	Short-term	35.00	-	[ICRA]A1+	-	-	-

Source: company

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term Fund based facilities - Cash Credit	Simple
Long Term Fund Based Sublimit	Simple
Short Term Non-Fund Based Limits – Working Capital Facilities	Very Simple
Short-Term Working Capital Demand Loan	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: [Click Here]

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	135.00	[ICRA]A+ (Stable)
NA	Sub-limits	-	-	-	(35.00)	[ICRA]A+ (Stable)
NA	Bank Guarantee	-	-	-	44.00	[ICRA]A1+
NA	WCDL	-	-	-	35.00	[ICRA] A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	UDS Ownership	Consolidation Approach
Tangy Supplies and Solutions Private Limited	100.00%	Full Consolidation
Integrated Technical Staffing and Solution Private Limited	100.00%	Full Consolidation
Avon Solutions & Logistics Private Limited	76.00%	Full Consolidation
Fusion Foods and Catering Private Limited	100.00%	Full Consolidation
Stanworth Management Private Limited	100.00%	Full Consolidation
Wynwy Technologies Private Limited	100.00%	Full Consolidation
Global Flight Handling Services Private Limited	70.00%	Full Consolidation
Matrix Business Services Private Limited	87.50%	Full Consolidation
Washroom Hygiene Concepts Pvt Ltd	100.00%	Full Consolidation
Denave India Private Limited	54.07%	Full Consolidation

Source: *UDS Provisional financials FY2022*

Note: *ICRA has taken a consolidated view of the parent (UDS) and its subsidiaries while assigning the ratings.*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 4067 6515
nithya.debbadi@icraindia.com

Sachidanand Thillai
+91 74015 51867
sachidanand.thillai@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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches