October 22, 2024

Sila Solutions Private Limited: Ratings reaffirmed; rated amount enhanced

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	78.00	[ICRA]BBB+(Stable); reaffirmed/assigned
Long-term/ short-term – Fund -based/ non-fund-based limits – Others	16.00	22.00	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed/assigned
Total	**56.00**	**100.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Sila Solutions Private Limited (SSPL) and its wholly owned subsidiary FFServices Private Limited (FFS) (together referred to as the Group/Sila Group) while arriving at the ratings for SSPL, owing to their common promoter group, similar business operations and financial linkages between the entities.

The rating action factors in the healthy scale-up of the Group's operations, with revenue of Rs. 713.0 crore in FY2024 against Rs. 514.4 crore in FY2023. ICRA expects this growth to sustain over the near to medium term, aided by the Group's growing geographical presence and strong relationship with key customers. Besides, the Group's financial profile has remained comfortable, characterised by steady internal accrual generation and relatively lower debt levels, translating into comfortable capitalisation metrics and adequate liquidity position. However, the Group's coverage indicators marked some moderation in FY2024 owing to a decline in operating margins, partially due to certain one-off expenses. Nonetheless, improvement in the metrics is expected in the current fiscal, aided by higher operating profitability and no significant increase in debt levels. Additionally, the ratings continue to draw comfort from the Group's established operational track record in the facilities management industry and the Group's wide customer base which includes reputed entities.

The ratings, however, are constrained by the fragmented and intensely competitive nature of the facility management business, resulting in moderate profit margins. Further, the industry faces high employee attrition rates owing to the unskilled/low skill and temporary nature of its work profile. This risk, however, is partially offset by the Group's extensive pan-India recruitment network and spend towards training and development to retain/rehire talent. The Group's ability to retain its key clientele and improve its profit margins by enhancing penetration into high-margin segments would remain key rating considerations.

The Stable outlook on the long-term rating reflects ICRA's opinion that Sila Group will report healthy growth and accrual generation, supported by a favourable demand outlook for the industry, its established customer base and its growing geographic presence.

Key rating drivers and their description

Credit strengths

Established track record of operations in the facilities management industry – SSPL was incorporated in 2009 by the brothers, Mr. Sahil Vora and Mr. Rushabh Vora. The entity provides facility management services to companies in corporate, industrial, commercial, residential and hospitality sectors. Additionally, SSPL's subsidiaries, including FFS, provide project management/advisory, general contracting, pest control and catering services. Over the years, Sila Group has expanded its operational footprint across more than 125 cities, employing over 22,000 employees as of March 2024.

Diversified and established client base with reputed entities – The Group's established operational track record, coupled with its diverse service offerings, technology-driven solutions and pan-India presence have helped it establish a wide customer base with reputed companies across industries, such as JSW Steel Ltd., JLL Group, Table Space Technologies Pvt. Limited, ANSR group and Hikal Limited, among others. Over the years, the Group has developed strong relationships with its key customers, which resulted in repeat business that further demonstrates its strength in a competitive market. In addition, the reputed customer base and low customer concentration mitigate the risk of bad debts inherent to the industry. The Group also extends its services to clients across diversified sectors such as BFSI, retail, manufacturing, housing and hospitality.

Comfortable financial profile – Sila Group over the years has witnessed a healthy scale-up in operations with revenue growth at a CAGR of 34% over the past five years, resulting in a stable accretion to reserves and low dependence on debt. The Group's capital structure remained comfortable with total debt/tangible net worth (TD/TNW) and total outside liabilities/TNW of 0.6x and 1.5x, respectively as on March 31, 2024, supported by the relatively lower debt levels and improved net worth due to stable accretion to reserves. The Group's net worth stood at Rs. 123. 1 crore as on March 31, 2024, while its debt profile largely comprises working capital requirements. While coverage metrics witnessed some moderation in FY2024 due to some decline in operating margins, improvement is expected in the current fiscal. Additionally, ICRA expects the capital structure to improve further with a proposed equity infusion of ~Rs. 20 crore by the promoters in FY2026, supporting the Group's financial profile.

Credit challenges

Moderate profit margins given the nature of operations and highly competitive industry structure – Operating in the facility management business, the Group faces stiff competition from other organised and unorganised players. This limits its pricing flexibility, which consequently constrains its margins. Nonetheless, the Group benefits to an extent from its strong relationships with its key customers, resulting in repeat business in addition to new client additions, adopting tech solutions to optimise overall cost and ensuring regulatory compliance. The Group's margins in FY2024 moderated on account of one-off costs for the fiscal, however, FFS' margins (on standalone basis) improved to 5.7% in FY2024 compared to 3.3% in the previous year. Going forward, with the absence of these one-time costs, margins on a consolidated basis are expected to be 4-5%.

Moderate working capital intensity – The Group's operations are moderately working capital intensive marked by receivable days of ~94 in FY2024 (~113 in FY2023) as the Group follows the pay-and-collect model and extends a credit period of ~75-90 days to its customers. Consequently, the improvement in the scale of operations in FY2024 has led to an increase in borrowings to meet the incremental working capital requirements. However, the Group mostly serves blue-chip customers, which mitigates the risk related to receivables.

High attrition levels inherent in industry – The Group, like other industry players, witnesses high employee attrition owing to the unskilled/low-skill and temporary nature of the work involved. This risk is partially mitigated by the Group's continuous spend on the training and skill development of its employees.

Liquidity position: Adequate

The liquidity profile remains adequate, supported by higher internal accrual generation and free cash/bank balances of ~Rs. Rs. 15.0 crore as on August 31, 2024. The Group's debt repayment liability is Rs. 2-2.5 crore in FY2025, with capex expected to be Rs. 7-8 crore. The Group has availed cash credit limits of Rs. 94.80 crore and bill discounting limits of Rs. 22 crore (in SSPL and FFS combined), the utilisation of which was ~58% for the 6-month period ending in August 2024. ICRA notes that while utilisation levels are typically lower at the month-end, they tend to peak during mid-month. The Group's liquidity position is expected to remain adequate going forward, supported by steady internal accrual generation, no major repayment liability and the absence of any major capex plans over the near-to-medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates healthy growth in revenues and internal accrual generation, strengthening its liquidity profile.

Negative factors – Pressure on the ratings could arise if there is considerable decline in revenues and internal accrual generation on a sustained basis and/or deterioration in working capital cycle, impacting its liquidity position. Specific credit metrics include interest coverage of less than 3.8 times 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 SSPL. As on March 31, 2024, the company had three subsidiaries, which are listed in Annexure-II.

About the company

SSPL was incorporated in 2009 by brothers Mr. Sahil Vora and Mr. Rushabh Vora, with seed capital investment from Haresh Mehta & family. The company provides facility management, project management/advisory and general contracting services to companies in corporate, industrial, residential and hospitality sectors. SSPL has an operational footprint in 125+ cities, employing over 22,000 staff, as of March 2024.

SSPL's Facility Management services team uses a combination of technology, engineered processes, and skilled human resources to efficiently manage real estate for clients. SSPL has built a proprietary technology platform called SILA Connect to streamline its service delivery and operations. Norwest Venture Partners (NVP) first a acquired stake in SSPL in August 2019, since then, NVP has invested ~Rs. 110-120 crore in SSPL. It is the large shareholder in SSPL, holding ~48.59% stake as on March 31, 2024.

In FY2023, SSPL acquired FFS in an all-cash deal of Rs. 42 crore. FFS was established in 2006 and is involved in the integrated facilities management business. The company provides integrated facilities management services, including mechanized cleaning, food services, operations and maintenance, guest house management, facade cleaning and pest control services. The company has 280+ active clients across 20+ states and employs 6,500+ individuals.

Key financial indicators (audited)

SSPL – Consolidated	FY2023	FY2024
Operating income	514.4	713.0
PAT	15.3	9.1
OPBDIT/OI	3.9%	3.8%
PAT/OI	3.0%	1.3%
Total outside liabilities/Tangible net worth (times)	1.3	1.5
Total debt/OPBDIT (times)	2.5	2.8
Interest coverage (times)	4.0	3.0

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					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Oct 22, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based Limits - Cash Credit	**Long term**	**78.00**	**[ICRA]BBB +(Stable)**	26-Oct-23	[ICRA]BBB+ (Stable)	25-Aug-22	[ICRA]BBB+ (Stable)	-	-
Fund based/Non-Fund Based limits-others	**Long term / short term**	**22.00**	**[ICRA]BBB +(Stable)/ [ICRA]A2**	26-Oct-23	[ICRA]BBB+ (Stable)/ [ICRA]A2	25-Aug-22	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term/ Short-term – Fund based/ Non-Fund Based limits - others	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	**Fund based Limits - Cash Credit**	NA	NA	NA	78.00	[ICRA]BBB+(Stable)
NA	**Fund based/ Non-Fund Based limits-others**	NA	NA	NA	22.00	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sila Project Management Services Private Limited	100.00%	Full Consolidation
Envocare Pest Control Services Private Limited	63.3%	Full Consolidation
FFServices Private Limited (Erstwhile Forbes Facility Services Private Limited)*	100%	Full Consolidation

*Source: Company, *FFS Private Limited is its 100% subsidiary w.e.f. July 1, 2022*

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About ICRA Limited:

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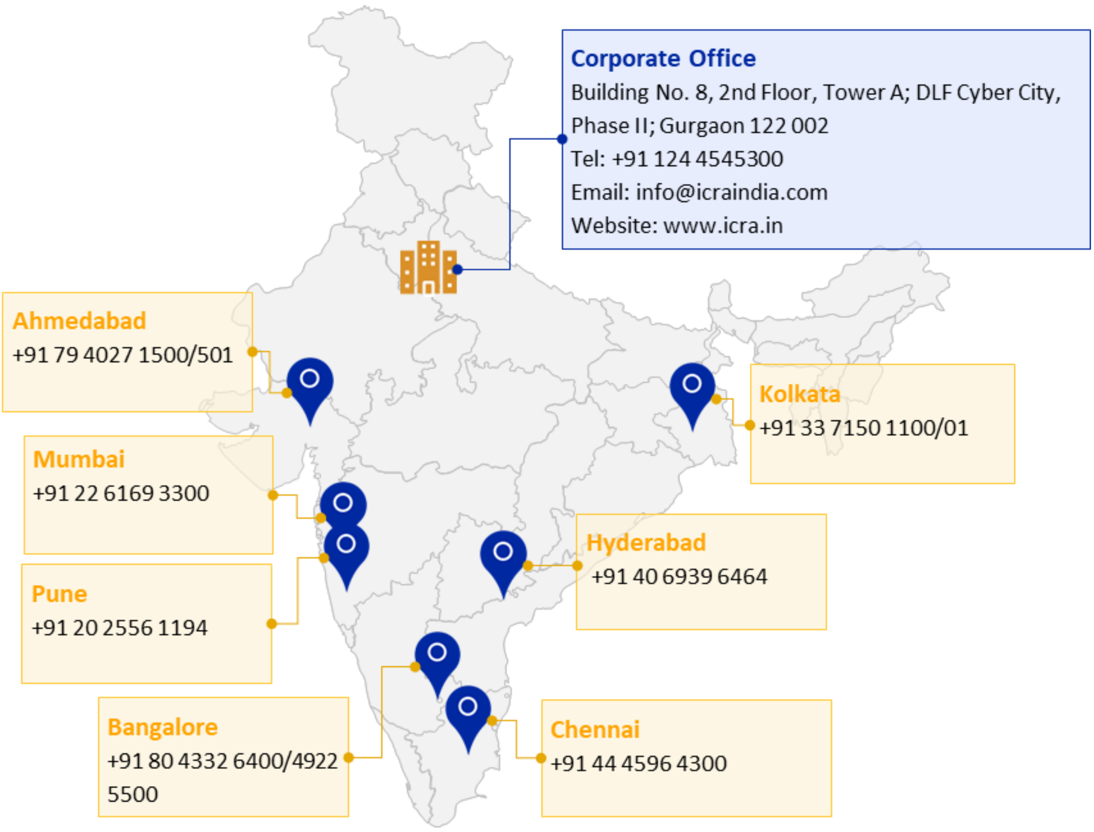

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