March 2024

Initiating Coverage | Sector: Staffing

Updater Services

Diversified play on high-growth business services

Mukul Garg - Research analyst (Mukul.Garg@MotilalOswal.com)

Pritesh Thakkar - Research analyst (Pritesh.Thakkar@MotilalOswal.com)

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Updater Services

Diversified play on high-growth business services

- Updater Services (UDS) is one of the leading business service providers in India, with a presence in Integrated Facilities Management (IFM) and other Business Support Services (BSS) segments such as sales enablement, BPS, recruitment, and sales audits. We see the company as a unique opportunity to benefit from the long-term trend of outsourcing non-core business operations for greater efficiency and service quality. With continued momentum in the IFM space (growing in the high teens), and an inorganic growth engine in the high-margin BSS vertical, we expect UDS to deliver sustainable and profitable growth. We expect its earnings CAGR (~33%) to outpace revenue CAGR (~19%) over FY24-FY26. The company sees inorganic growth, along with continued exceptional performance, as a core feature of its long-term growth strategy. This growth will be supported by its healthy cash balance of ~INR2,534m (10% of market cap) and a strong cash conversion rate (115% OCF/EBITDA in FY23). Considering the steady revenue and earnings growth potential, UDS' valuation looks inexpensive at 13x FY26E Adj. earnings. Initiate coverage with a BUY rating and a TP of INR465 (premised on 18x FY26E P/E on adj. EPS).

Updater Services

BSE Sensex	S&P CNX
73,677	22,356

uds Redefining Business Services

Stock Info

Bloomberg	UDS IN
Equity Shares (m)	66.8
M.Cap.(INRb)/(USDb)	22.9 / 0.3
52-Week Range (INR)	385 / 235
1, 6, 12 Rel. Per (%)	-4/-/-
12M Avg Val (INR M)	155
Free float (%)	41.3

Financial Snapshot (INR b)

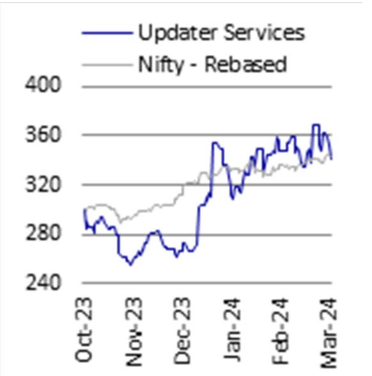
Y/E MARCH	FY24E	FY25E	FY26E
Sales	25.2	29.5	35.7
EBIT	0.9	1.3	1.8
PAT	0.7	1.1	1.5
Adj PAT	1.0	1.3	1.7
EPS (INR)	10.3	16.1	21.8
Adj EPS (INR)	14.6	19.8	25.8
EPS growth (%)	-8%	36%	30%
BV/Sh (INR)	132.2	148.4	170.4
Valuations			
P/E (x)	32.6	21.5	15.8
P/BV (x)	2.6	2.3	2.0
RoE (%)	11.2	11.6	13.8
RoCE (%)	8.4	9.2	11.0

Shareholding pattern (%)

As On	Dec-23
Promoter	58.7
DII	15.3
FII	7.3
Others	18.8

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR342 **TP: INR465 (+36%)** **Buy**

Diversified play on high-growth business services

Margin improvement led by BSS scale up to drive earnings growth

Updater Services (UDS) is one of the leading business service providers in India, with a presence in Integrated Facilities Management (IFM) and other Business Support Services (BSS) segments such as sales enablement, BPS, recruitment, and sales audits. We see the company as a unique opportunity to benefit from the long-term trend of outsourcing non-core business operations for greater efficiency and service quality. With continued momentum in the IFM space (growing in the high teens), and an inorganic growth engine in the high-margin BSS vertical, we expect UDS to deliver sustainable and profitable growth. We expect its earnings CAGR (~33%) to outpace revenue CAGR (~19%) over FY24-FY26. The company sees inorganic growth, along with continued exceptional performance, as a core feature of its long-term growth strategy. This growth will be supported by its healthy cash balance of ~INR2,534m (10% of market cap) and a strong cash conversion rate (115% OCF/EBITDA in FY23). Considering the steady revenue and earnings growth potential, UDS' valuation looks inexpensive at 13x FY26E Adj. earnings. Initiate coverage with a BUY rating and a TP of INR465 (premised on 18x FY26E P/E on adj. EPS).

BSS service lines poised to deliver exponential growth

- UDS is drawing more attention to growing its high-margin business (BSS), while leveraging subsidiaries that offer full-stack tech capabilities and have a presence in multiple business lines.
- The acquisitions of Denave and Athena have been undertaken with a view to not only diversify and broaden its service mix but also to deliver incremental profitable growth. Both of these businesses are margin-accretive and are expected to clock 27% and 26% revenue CAGR over FY24-26E, respectively.
- Additionally, the service line was further enhanced by the acquisition of Matrix in 2020. This acquisition added Employee Background Verification and Audit & Assurance services to its portfolio, increasing its horizontal mix and capturing a 5.7% market share.
- The fragmented market, growing importance of compliance, and strong industry growth (15% CAGR over FY24-FY27E), are providing a broad runway to drive profitable and sustainable growth for BSS. This is expected to drive 23% revenue CAGR over FY24-26E.

IFM business to maintain its steady growth

- We expect the company to deliver steady and sustainable growth within the IFM business, where both soft and hard services account for ~75% of the overall pie, with UDS being among the top five players in the IFM industry.
- Additionally, the earlier investments have materialized strongly with growth in both the organic business and acquisitions (e.g., Fusion contributing materially to the overall IFM revenue).
- IFM reported a sharp increase in volume in FY23 and achieved a 27% YoY growth due to the base effect. We anticipate that revenue growth will moderate in FY24 before stabilizing and maintaining a consistent annual growth rate of over 20%.

Strong intent to play around the high-margin business

- UDS is drawing more focus and attention in growing its high-margin business (BSS), while leveraging subsidiaries that offer full-stack tech capabilities and have presence in multiple business lines.
- The company is flexing multiple levers for margin improvement, such as: 1) its subsidiaries, offering BSS, are enhancing their technological capabilities; 2) it is strengthening the business development initiatives across all businesses; and (3) it is undertaking cross-selling initiatives.
- Although we expect BSS to contribute 36% to the overall revenue in FY26, given its robust margin profile, we project the EBITDA contribution for BSS to be ~60% during the same period.
- Athena and Denave (part of BSS) are expected to contribute positively to the overall business margins and are projected to surpass the margin expansion of the consolidated business over FY24-FY26E.
- Collectively, Athena and Denave are high-margin businesses. We expect the EBITDA growth for these two entities to outpace the corresponding revenue growth over FY24-FY26.

Attractive growth, profitability, and cash flow conversion

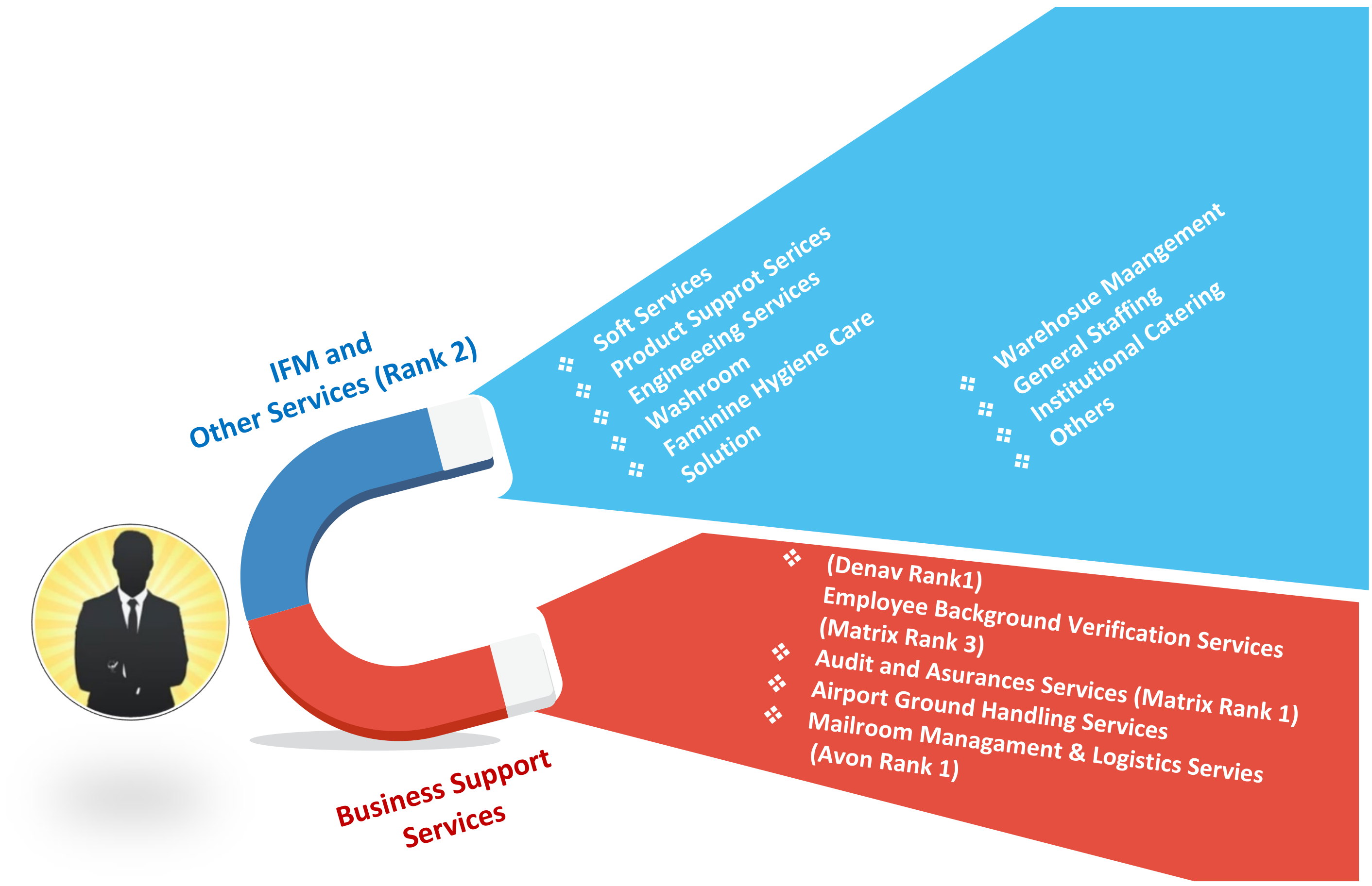
- Given the strong growth potential for both IFM and BSS services, UDS is expected to clock consolidated revenue/Adj. EBITDA/Adj. PAT CAGR of 19%/26%/33% over FY24-FY26.
- The earnings growth is outpacing revenue growth, which provides meaningful improvement in ROE/ROCE to 13.8%/11.0% in FY26E vs 9.8%/6.7% in FY23
- With significant turnaround in growth and profitability for its inorganic investments (especially in BSS), the cash conversion looks attractive and sustainable over FY24E-FY26E. OCF/Adj. EBITDA and FCF/Adj. PAT is expected to be 71%/69% in FY26.

Valuation and view: Robust growth to continue; initiate with a BUY

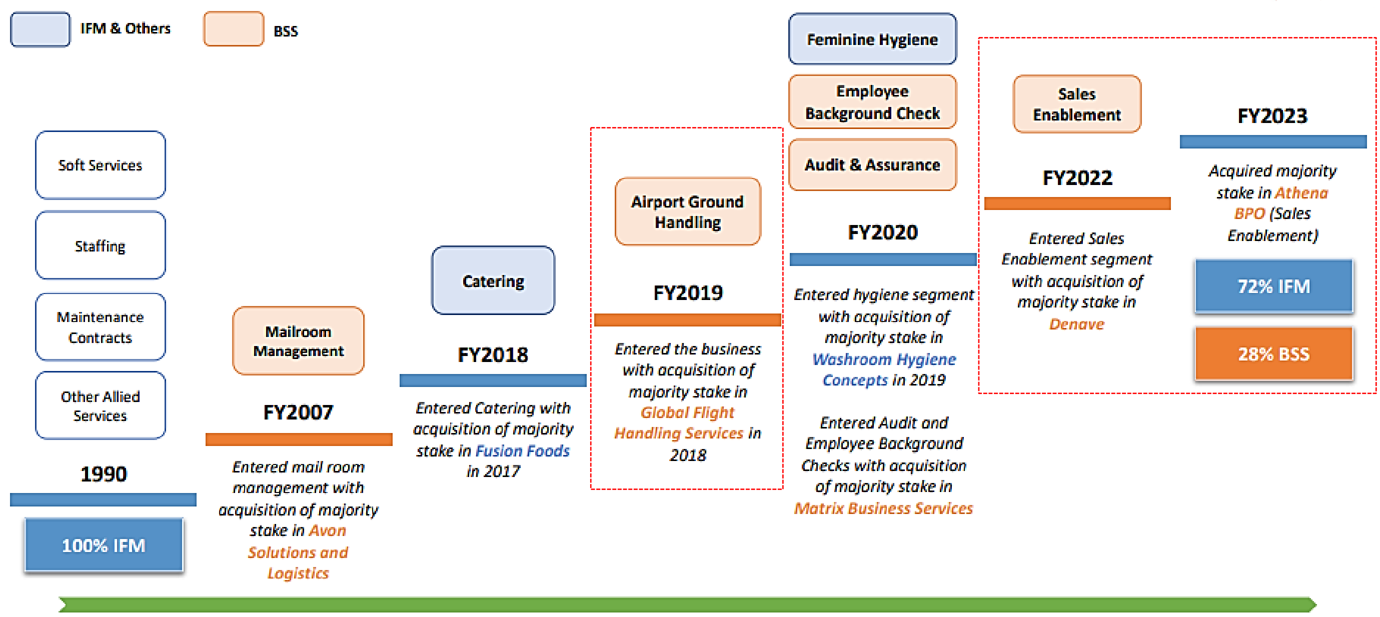
- Given the strong industry tailwinds for IFM and a solid foothold in Soft Services, we anticipate robust and sustained growth for IFM from FY24 to FY26. Thus, we forecast a revenue and EBITDA CAGR of 15% and 22% over FY24-26E, respectively.
- We expect BSS to clock a revenue and EBITDA CAGR of 23% and 29% over FY24-FY26E, respectively, aided by the potential expansion in distinct service lines and strategic investments aimed at driving incremental and profitable growth.
- With visibility of healthy earnings growth over the medium term and strong option value from the expansion plans, **we initiate coverage on UDS with a BUY rating and a TP of INR465 (premised on 18x FY26E P/E on adj. EPS).** Our TP implies a 36% upside potential.

STORY IN CHARTS

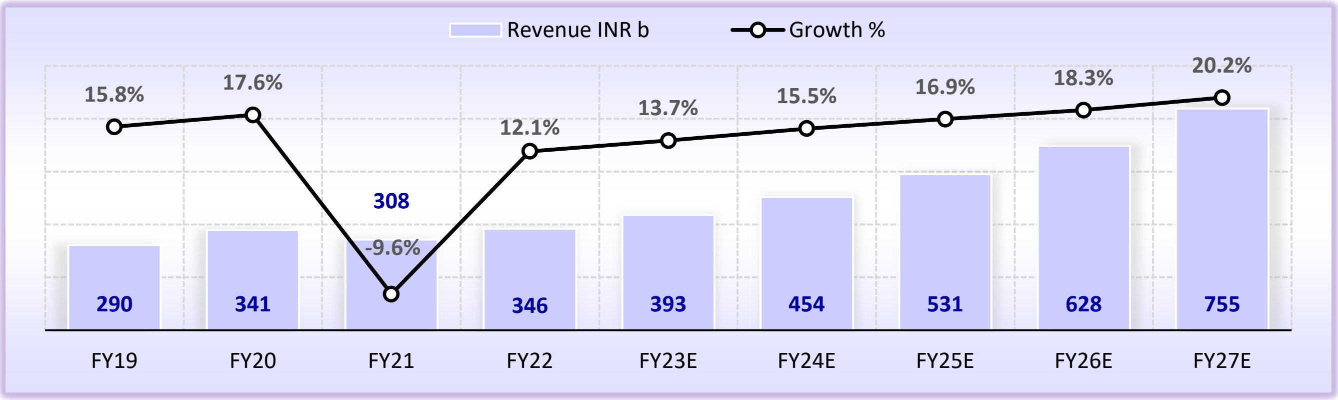
UDS is a leader in two large business service segments



UDS Evolution – BSS lines to drive the future course

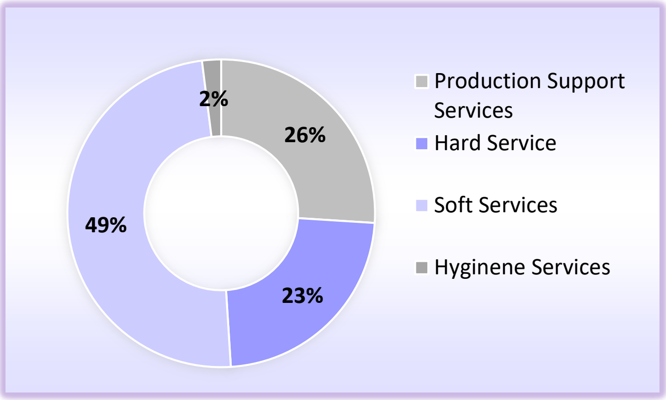


IFM market: Historical and forecasted revenue trend (FY19 – FY27) in India



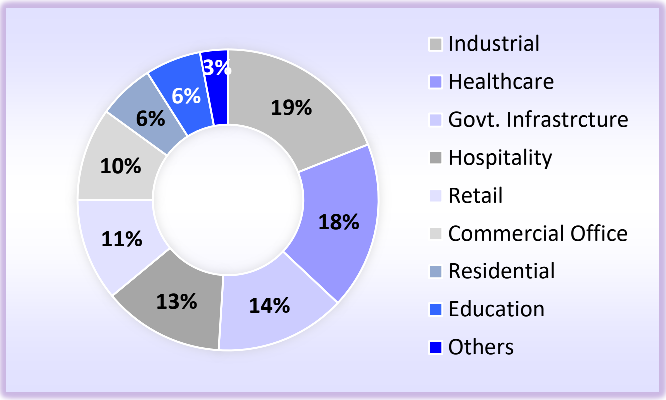
Source: MOFSL, Company

IFM market – breakdown by service types, India, FY22



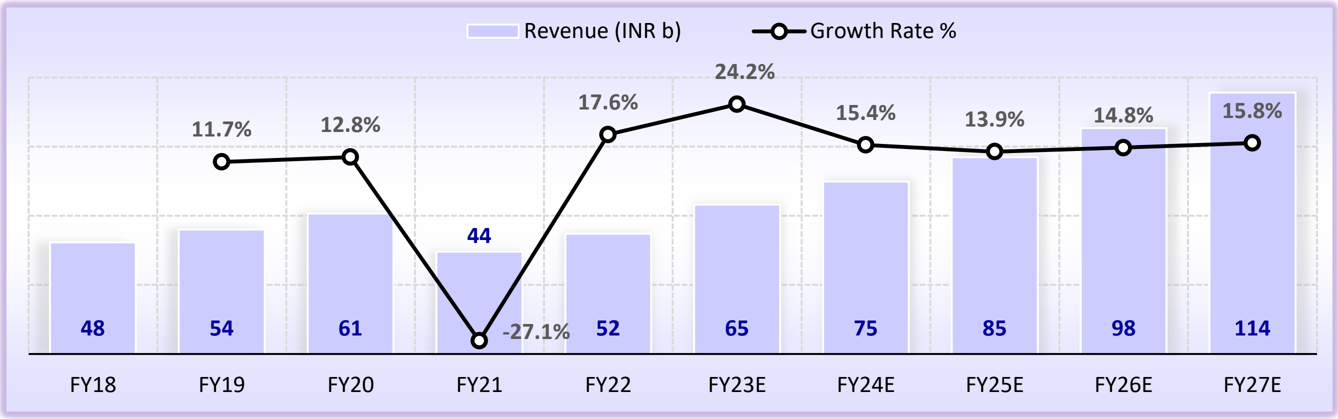
Source: MOFSL, F&S Report

IFM market – breakdown by end-user segment, India, FY22



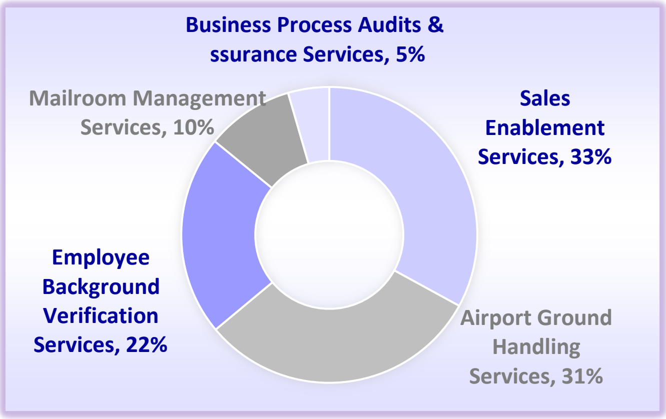
Source: MOFSL, Company

BSS market size: Historical and forecasted revenue trend, India, FY18 – FY27



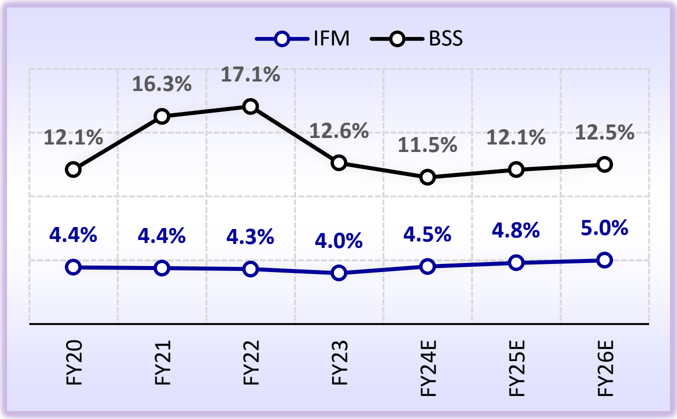
Source: MOFSL, F&S Report

Breakdown by service types, India, FY22



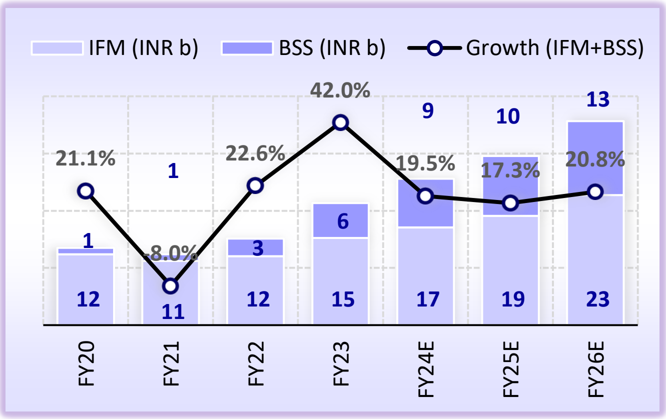
Source: MOFSL, Company

EBITDA margin % IFM and BSS



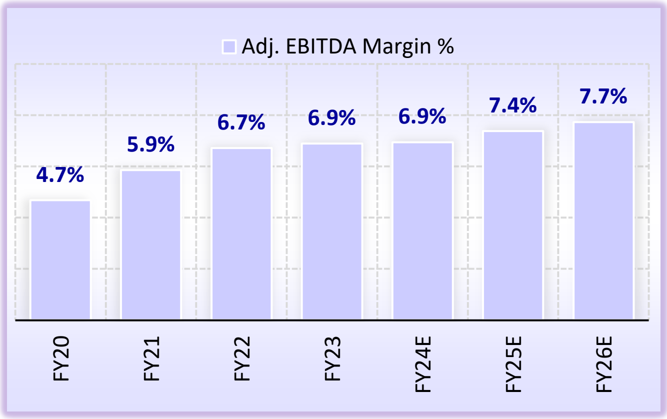
Source: MOFSL, Company

BSS' share of consolidated revenue has moved up



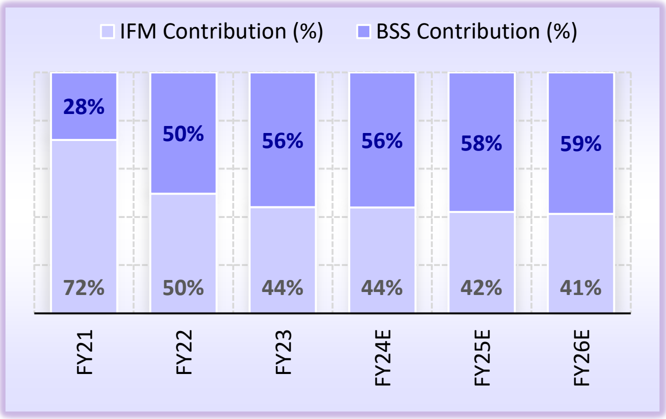
Source: MOFSL, Company

Adjusted EBITDA margin %



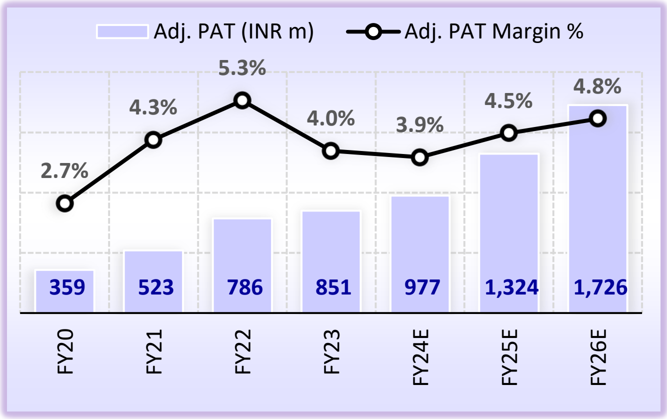
Source: MOFSL, Company

IFM and BSS' contributions to EBITDA



Source: MOFSL, Company

Adj. PAT CAGR at 33% during FY24-26E



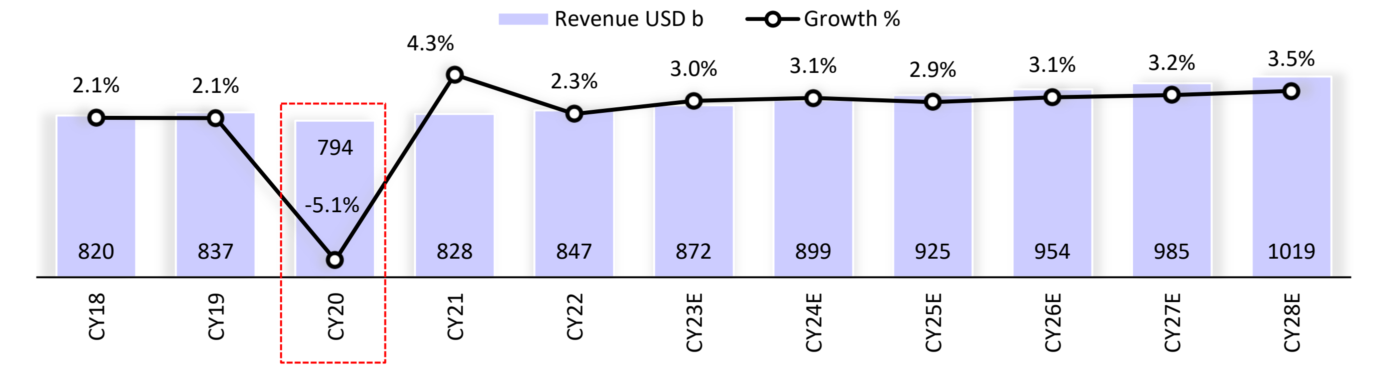
Source: MOFSL, Company

IFM industry – Growing outsourcing opportunities

The IFM services have recorded significant growth, fueled by increasing awareness, the growth in outsourcing of non-core business activities, and the surging demand in the realty sector. The commercial offices segment would remain a key contributor to market growth, experiencing higher demand from the IT/ITeS and BFSI segments. Covid-19 had a severe impact on the IFM market, and the market revenue witnessed a decline of 9.6% in FY21. The Soft Services segment was the most affected, registering a decline of 14.7%, followed by Hard Services at -10.3%. Intermittent lockdowns and remote working models adopted by IT, ITeS, Institutional Segment etc. due to the pandemic, resulted in lesser demand for IFM services.

Despite the challenges, the pandemic created several opportunities for facilities management (FM) companies. Disinfection and sanitation services were the most sought-after during 2020 and 2021. The Covid-19 guidelines and protocols encompass several measures related to health and safety, which is expected to boost the demand for deep cleaning and sanitization services in the medium term.

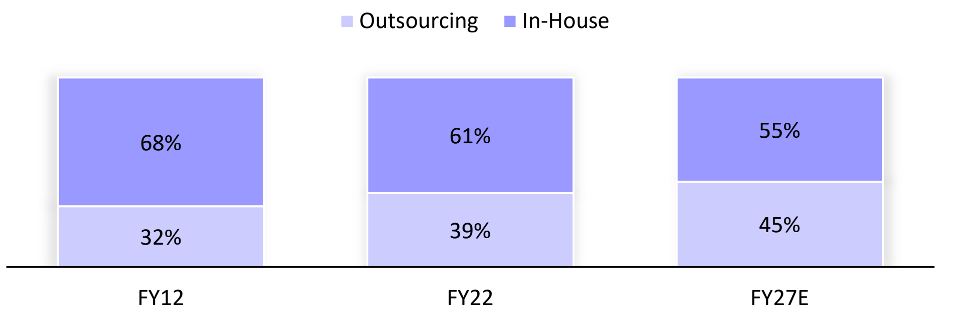
Exhibit 1: Outsourced FM market revenue trend, global, 2018 – 2028



Source: MOFSL, Company

The global FM market is undergoing a significant transformation fueled by technological innovation, new business models, emerging value propositions, competitive disruption, and novel service offerings. Value propositions are now centered on service outcomes, user experience, and enhancing business productivity. The global FM market is estimated at USD828b in 2021, registering a growth of 4.3% from 2020.

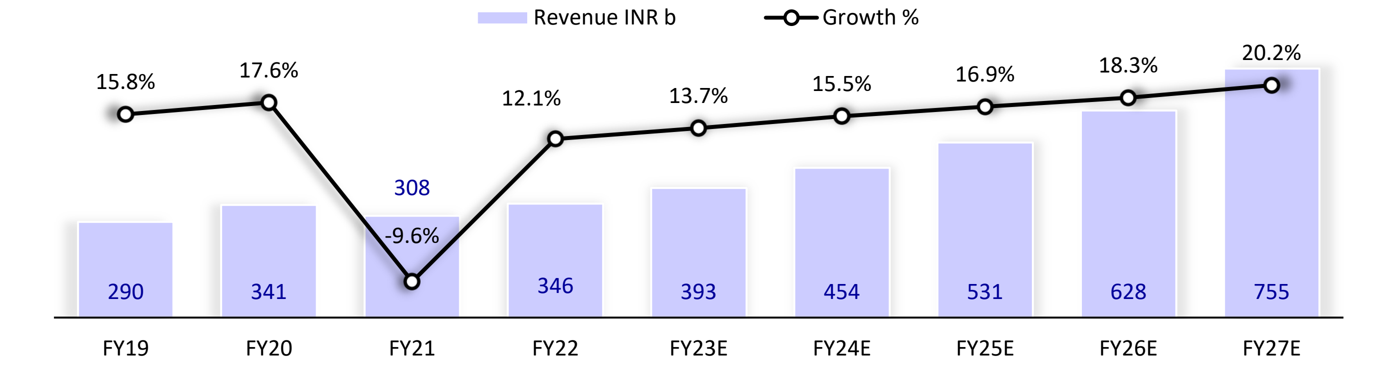
Exhibit 2: IFM market: The outsourcing pie is getting bigger



Source: MOFSL, Company

Asia is the largest FM market and is highly diverse. While Australia, the most developed market in the region for both FM and IFM, has reached a certain degree of maturity, other markets such as China and India, are still in their infancy stages. These markets are expected to grow steadily and become more competitive over time. The low penetration of FM services markets in many of Asia's fast-growing economies indicates that immense potential exists for market participants to grow and develop as outsourcing becomes more commonplace in the next 10 years.

Exhibit 3: Outsourced Indian IFM market: Rejoining the growth trajectory



Source: MOFSL, Company

The IFM market in India has been growing steadily over the last decade and is set to witness significant growth momentum over the next five years. The total IFM market in India was valued at INR894.8b in FY22 and ~39% of this was outsourced to the third-party companies. Between FY18 and FY22, the outsourced Indian IFM market reported a CAGR of 8.4%. In FY22, the outsourced IFM market was estimated at INR345.5b.

Given the current expansion and increased investments in the IT, ITeS, and BFSI segments, the demand for professional IFM services is on the rise. The IT sector is transitioning towards more personalized and customized services, utilizing both Hard and Soft FM services. This shift is expected to increase consumption propensity and create opportunities for outsourcing.

BSS industry – The high-margin vertical services play

The BSS is a set of ancillary services that facilitate companies streamline and enhance non-core business operations smoothly and effectively. These services include end-to-end supply chain audits, such as warehouse depot audits, distributor audits, retail point audits, market hygiene audits, and channel/trade claims processing, as well as schemes administration and trade programs, et al.

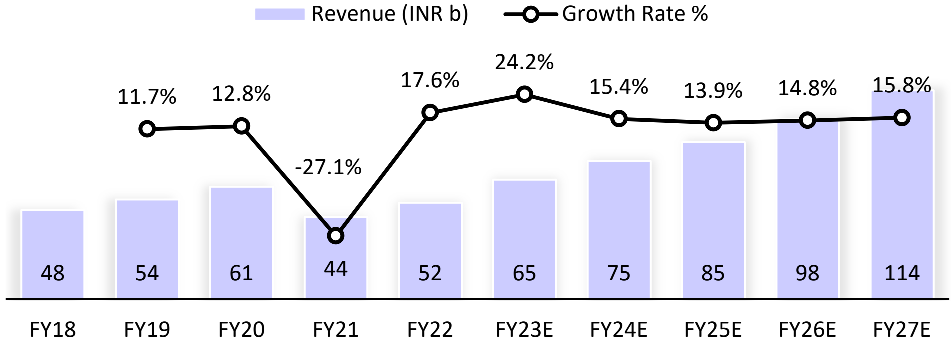
Organizations have resorted to outsourcing their non-core business activities or support services to specialized third-party companies. Business support services, when conducted internally, can be expensive and time-consuming if not handled efficiently. Organizations may lack the expertise and resources to effectively manage these services.

Exhibit 4: Breakdown by service types, India, FY22

Source: MOFSL, Company

The market for BSS was valued at INR52.3b in FY22. The market recorded a CAGR of 1.9% from FY18 to FY22, and witnessed a decline of 27.1% in FY21 due to the restrictions imposed during the pandemic. The market posted a CAGR of 11.6% over FY17-FY20, driven by the growing demand for outsourcing from the rising industrial and commercial sectors.

Exhibit 5: Historical and forecasted revenue Trend



Source: MOFSL, Company

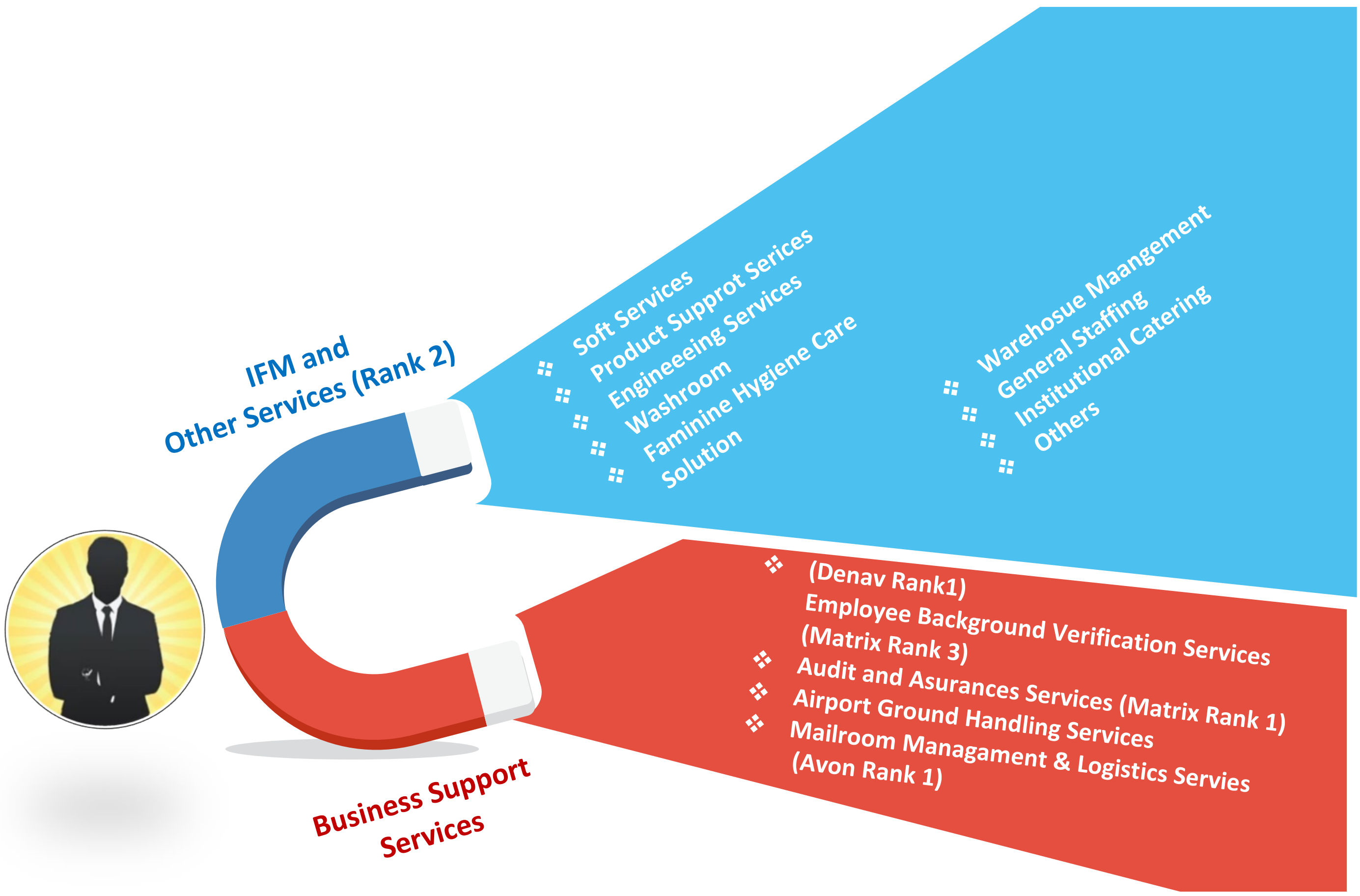
The Sales Enablement Services was the largest segment within BSS as of FY22. Improvisation of internal business processes and the need for technology adoption are the major drivers of the Sales Enablement Services market in India. One of the customers' needs is to enhance the targeting and efficiency of their business development teams by providing them with qualified leads. Another major growth enabler is the offshoring of work from the US, Europe, and other countries worldwide.

UDS – leadership across diversified business services

UDS is a leading, focused, and integrated business services platform in India offering IFM services and BSS to its clients, with a nationwide presence. UDS was incorporated in 1990 by its founder and current Chairman & MD, Mr. Raghunandana Tangirala, as a facility management business in Chennai, Tamil Nadu. The company has grown over the years through both organic growth and acquisitions. It is now among the largest players in IFM services segment in India and has the widest range of services in the industry, making it a unique and differentiated player in the market. During FY21, FY22, and FY23, the IFM segment accounted for 92%, 81%, and 72% of the company's consolidated revenue, respectively, and 72%, 50%, and 44% of EBITDA.

BSS, on the other hand, offers differentiated and vertical business services such as sales enablement (Denave), BFSI BPO (Athena), audit & assurance, and employee background verification check services (Matrix). During FY21, FY22, and FY23, the BSS segment accounted for 8%, 19%, and 28% of its consolidated revenue from operations, respectively. Further, the segment has contributed significantly to the company's EBITDA due to its higher profitability.

Exhibit 6: Service portfolio across the two segments



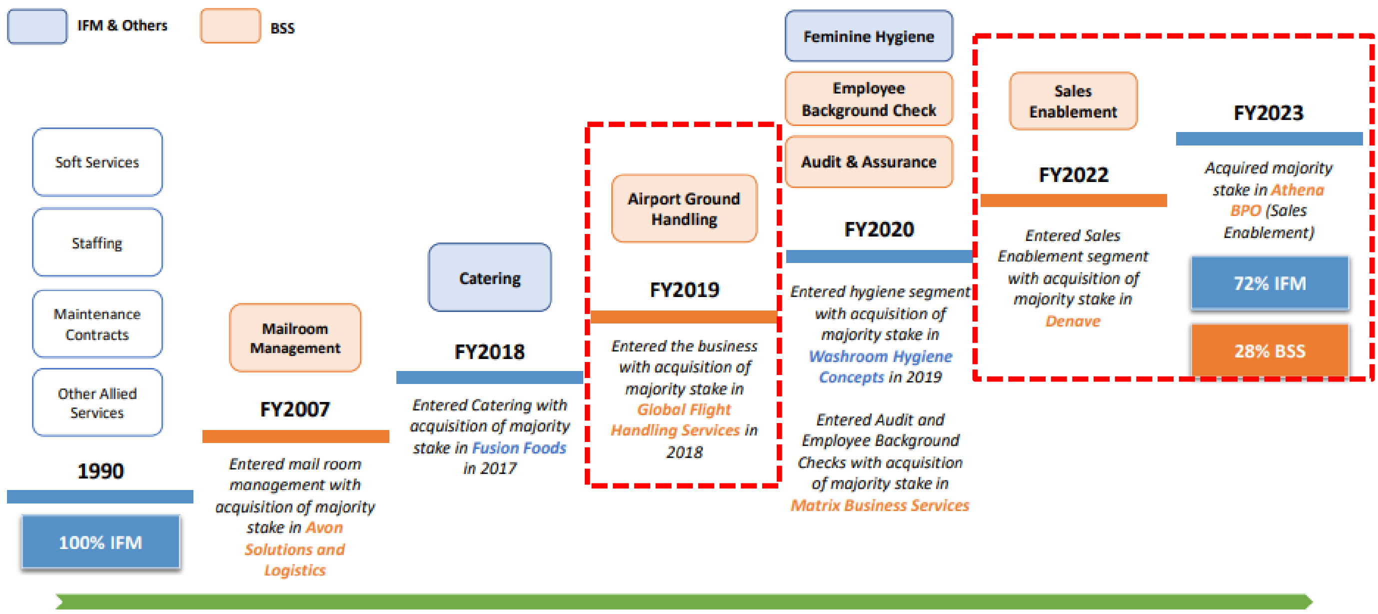
Integrated Facility Management (IFM):

- **Soft Services:** These include services such as housekeeping and cleaning services, disinfecting and sanitizing services, pest control, horticulture, and facade cleaning.
- **Production Support Services:** Production support services ("PSS") are solutions offered to manufacturing facilities, including material handling, material movement, on-site warehouse management, stores and inventory management, production support activities, and equipment maintenance.
- **Engineering Services:** These mainly comprise services related to mechanical, electrical, and plumbing ("MEP").
- **Washroom and Feminine Hygiene Care Solutions:** These include feminine hygiene care solutions and products & services such as air fresheners, sanitizers, and washroom solutions.

Business Support Services (BSS):

- **Sales Enablement Services:** Focused on serving global customers across multiple industries, including information technology / information technology-enabled services ("IT / ITeS"), telecom, and other industries. Services include demand generation, lead management, inside sales, database management services, digital marketing, sales and retail analytics, customer outreach, field force management, field marketing services, and outbound tele-sales.
- **Employee Background Verification Check Services:** These services comprise address verification, identity verification, educational qualifications verification, employment history verification, legal case history, et al.
- **Audits and Assurance Services:** It provides services such as supply chain audits, including warehouse depot audit, distributer audit, and retail point audit, et al.
- **Airport Ground Handling Services:** These services include baggage and cargo handling, passenger movement, and aircraft turnaround, among others.
- **Mailroom Management and Niche Logistics Solutions:** These services are mainly provided through its subsidiary, Avon, which is a leading service provider in India and a pioneer in the mailroom and asset movement business.

Exhibit 7: UDS evolution – BSS lines to drive the future course



Source: MOFSL, Company

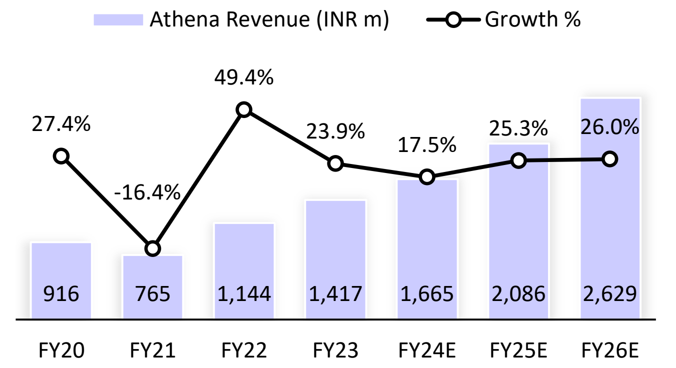
BSS to achieve a revenue CAGR of 23% over FY24-FY26E

Besides growing organically through IFM, UDS has undertaken multiple strategic investments over the years to acquire and integrate businesses that are complementary to its BSS portfolio, while enabling the creation of a larger business services platform.

The wide spectrum of services offered under BSS is highly fragmented in nature. The fragmented market, growing importance of compliance, and strong industry growth (15% CAGR over FY24-FY27E) are providing a broad runway to drive profitable and sustainable outcome for BSS. UDS is drawing more focus and attention in growing this high-margin business (BSS), while leveraging subsidiaries that offer full-stack tech capabilities and have presence in multiple business lines. The company's strategy has been to acquire and integrate businesses that are complementary, thereby creating a bigger business services platform.

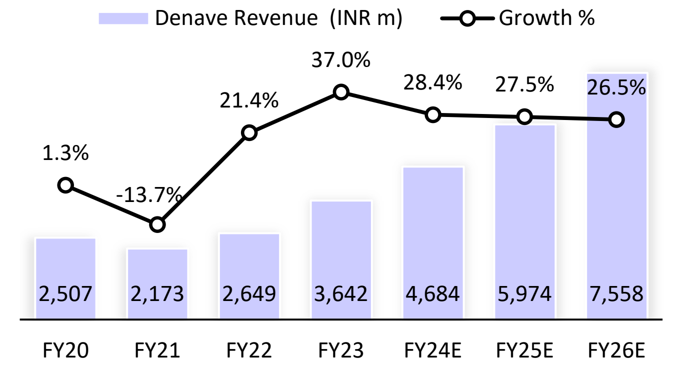
Sales Enablement Services Segment Analysis: This segment is the largest segment within BSS, which contributed ~75% of BSS revenue in 1HFY24. This is emerging as a critical service, as it enables the sales team to go through an effective process to achieve better results. Another major growth enabler is offshoring from the USA, Europe, and other global countries. The relatively lower labor costs and ability to handle complex tasks et al. make India an attractive destination for outsourcing these services.

Exhibit 8: Athena to clock 26% CAGR (FY24-FY26E)



Source: MOFSL, Company

Exhibit 9: Denave to clock 27% CAGR (FY24-FY26E)



Source: MOFSL, Company

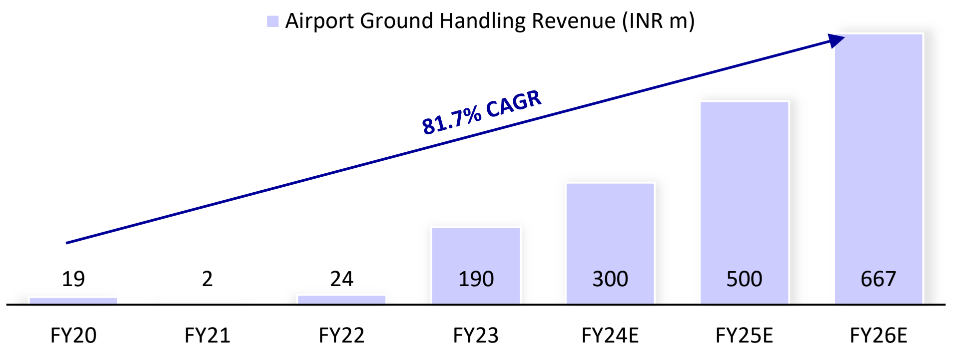
These services are mainly provided through its subsidiaries, Denave and Athena. Denave is a sales enablement B2B company focused on serving global customers across multiple industries (IT/ITeS, Telecom & others). Denave is the largest player in this segment, with a market share of 15.4% in India. Athena is a B2C outbound tele-sales BPO, focused on the BFSI segment in India.

These acquisitions have been undertaken with a view to not only diversify and broaden its service mix, but also to deliver incremental profitable growth. Both Athena and Denave are margin accretive to the consolidated business and are even expected to outpace the consolidated business margin growth over FY24-FY26E.

Airport Ground Handling Services: UDS entered this segment in 2018 with the acquisition of Global Flight Handling Services that facilitate critical activities at an airport. These activities include baggage and cargo loading & unloading, passenger movement, aircraft clean-ups, in-flight meal loading & unloading, and others.

The service line contributed marginally (~1% of revenue) in 1HFY24, but it has strong potential to deliver compounded growth over the coming years. The business is currently in ramp-up mode. In CY22, the company handled 1,047 scheduled aircraft across five airports (including Pune, Patna and others). Additionally, it has tie-ups with airline majors and managed ground handling services for six airline customers in CY22.

Exhibit 10: Airport Ground Handling Service is expected to clock exponential (82%) growth

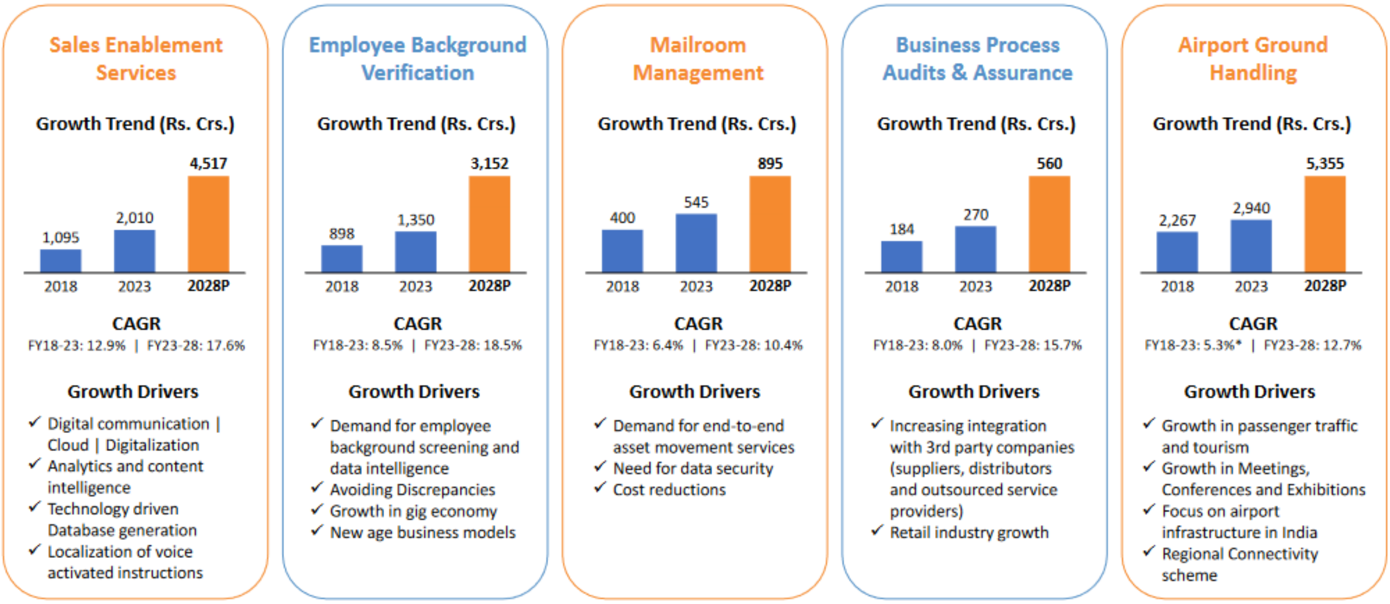


Source: Frost & Sullivan Analysis

Audit and Assurance Service: Matrix is a leading Audit and Assurance company for dealer and distributor audits as well as retail audits. Its strong branch presence and field associate reach have driven the company to achieve the top spot in India, with a market share of 16.2% in FY22. It provides services to the FMCG and consumer durable companies to ensure the integrity and performance of their distribution, channel, and retail management operations. Additionally, it caters to supply chain audits, including warehouse depot audit, distributer audit, and retail point audit, et al. with back-office services related to marketing programs and channel partner claim processing for global customers.

Employee background verification: These services comprise address verification, identity verification, educational qualifications verification, employment history verification, and legal case history, among others. These services are offered through its subsidiary, Matrix, which is the third largest company in India in the segment with a share of 5.7% in FY22.

Exhibit 11: Industry projections for key service lines under BSS

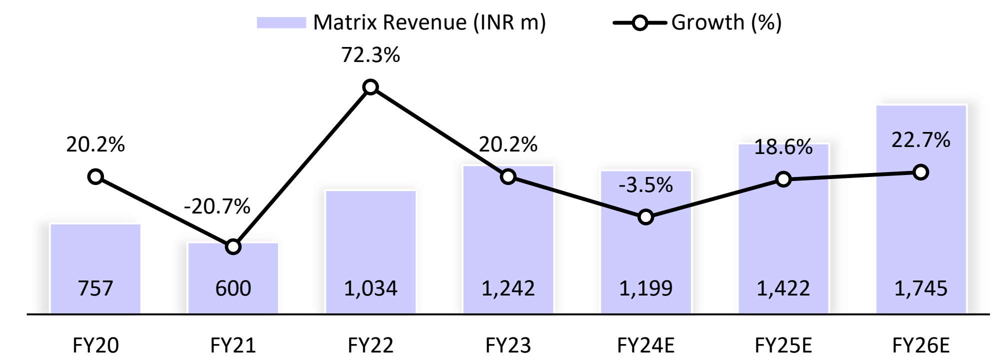


Source: MOFSL, Company

The major factors driving the demand for employee background verification services are: 1) the technology churn keeps on increasing, which is making the verification process even more difficult; 2) misleading information on job application stood at 8.0%, while for IT sector it was 16.6% in FY21; 3) around 4m people are added to the Indian workforce annually, which is creating a broader runway for employee background verification service providers.

Matrix has reported 18% CAGR over FY20-FY23 on account of robust IT-related hiring and elevated work-from-home activities during the pandemic. Given the slowdown in hiring and resuming office workspace, we expect the elevated volume to get normalized in FY24E before it starts picking up again in FY25/FY26.

Exhibit 12: Matrix to report 21% revenue CAGR (24-26E)

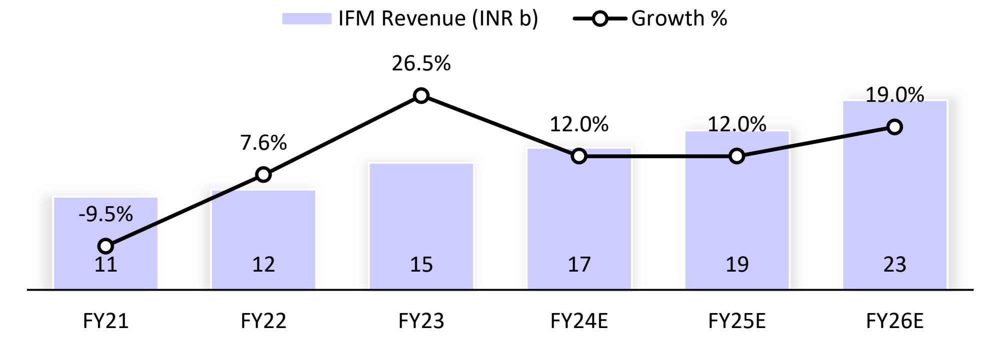


Source: MOFSL, Company

IFM Service segment to achieve 15% CAGR (FY24-FY26E)

Within the IFM industry, the company operates across service lines such as soft services, production support services, engineering services, warehousing management, pest control, and horticulture that have been added organically over a period of time. It is among the largest players in the domestic IFM services segment and has the widest service offerings in the industry, making it a unique and differentiated player in the market.

Exhibit 13: IFM service to achieve 14% CAGR (23-26E)

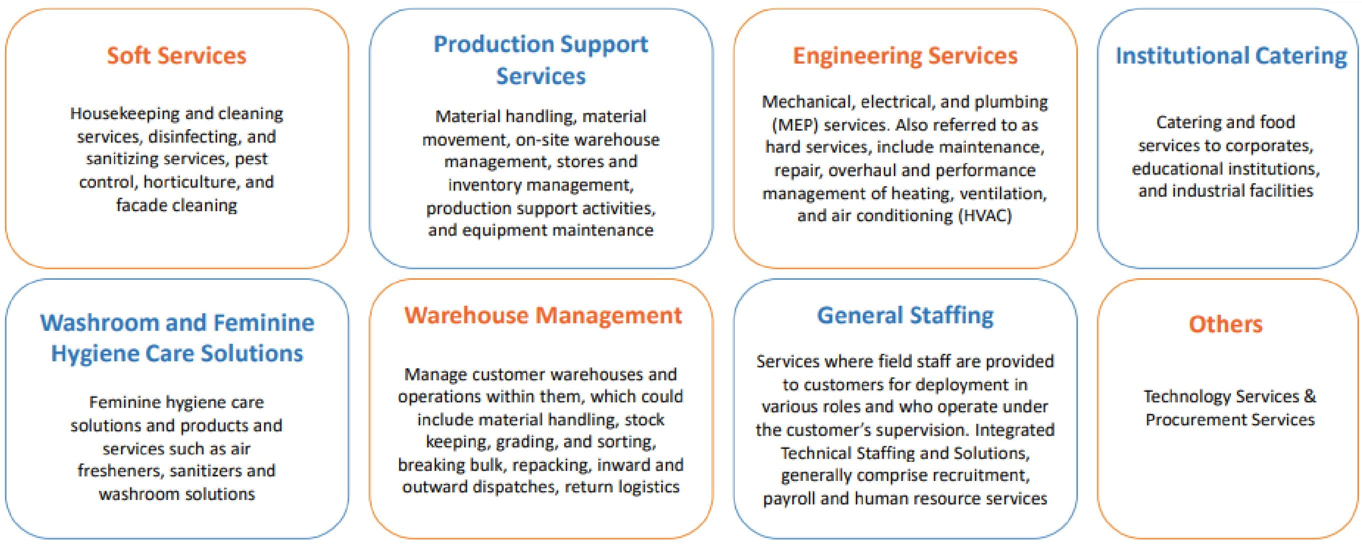


Source: MOFSL, Company

The IFM services have recorded higher growth on the back of increasing awareness levels, growth in outsourcing of non-core business activities, and a spike in demand for the real estate sector. Covid-19 had a severe impact on the IFM market, and market revenue witnessed a decline of 9.6% in FY21. The Soft Services segment was the most hit, registering a decline of 14.7%, followed by Hard Services at -10.3%.

IFM reported a sharp increase in volume in FY23 and clocked 26% YoY growth due to the base effect. We expect revenue to see some moderation in growth in FY24, before it stabilizes and maintains a consistent 20%+ YoY growth.

Exhibit 14: IFM Services – horizontal mix



Source: MOFSL, Company

Exhibit 15: IFM market: Competitive Structure, India, FY22

Number of Companies	Close to 270- 300
Major Market Participants	❖ BVG ❖ ISS Facility Services India Private Limited ❖ Updater Services India Limited (UDS) ❖ Sodexo Facilities Management Services India Pvt. Ltd. ❖ Quess Corp ❖ SIS Limited
Other Notable Market Participants	❖ OCS Group ❖ Compass India Support Services Private Limited ❖ Property Solution India Private Limited (PSIPL) ❖ Krystal Integrated Services ❖ Impression Services ❖ Lion Services Ltd. ❖ Rentokil (Rentokil Initial Hygiene and Rentokil PCI)Others
FM Consultants/ Managing Agents	❖ JLL ❖ CBRE ❖ Knight Frank ❖ Cushman & Wakefield ❖ Others ❖ The above companies sub-contract FM projects to companies like BVG etc.

Source: MOFSL, Company

UDS has organically expanded into the procurement and supply of consumables, machines and related items for the facilities management industry. It has also grown inorganically through multiple acquisitions, and has expanded its services portfolio over the years by venturing into the higher-margin BSS service portfolio. The investments within BSS have been instrumental in expanding a new set of service lines, changing business mix, and growing wallet share from key accounts.

With the help of these investments, UDS was able to clock a 32% revenue CAGR (over FY21-FY23) and outpaced the industry's average CAGR of ~25%. The company has followed a disciplined approach in scaling up its topline growth, while ensuring the quality in terms of market potential and margin profile of the acquired entity.

Exhibit 16: Comparison of financial KPIs with listed peers/business services universe

	Revenue (INR m)			Adj. EBITDA Margin %			PAT Margin %		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
UDS	**12,100**	**14,836**	**21,061**	**5.9%**	**6.7%**	**6.9%**	**4.3%**	**5.3%**	**4.0%**
Quess	1,08,369	1,36,918	1,71,584	5.3%	4.8%	3.4%	2.0%	1.9%	1.0%
SIS	91,273	1,00,591	1,13,458	5.7%	5.0%	4.3%	2.1%	2.9%	3.1%
TeamLease	48,815	64,798	78,700	2.0%	2.2%	1.6%	1.8%	1.7%	1.4%

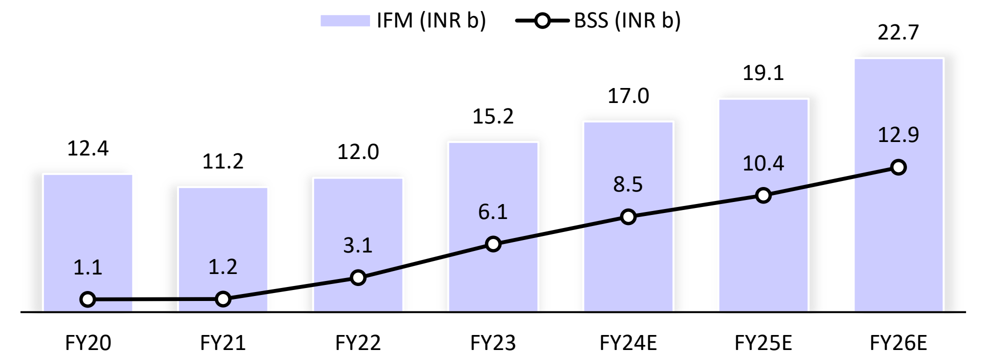
Source: MOFSL, Company

Well poised to deliver industry-leading growth

Doubling down on BSS to drive margin expansion

UDS has developed a unique strategy for growth through both organic and inorganic routes. The company has expanded its services portfolio over the years by venturing into higher-margin businesses through multiple acquisitions, and integrating the companies seamlessly. UDS has witnessed strong growth over the years. It is the second-largest player in the highly fragmented domestic Soft Services market with a share of 4.2%; whereas for Hard Services, UDS is the fourth-largest player with 1.3% market share.

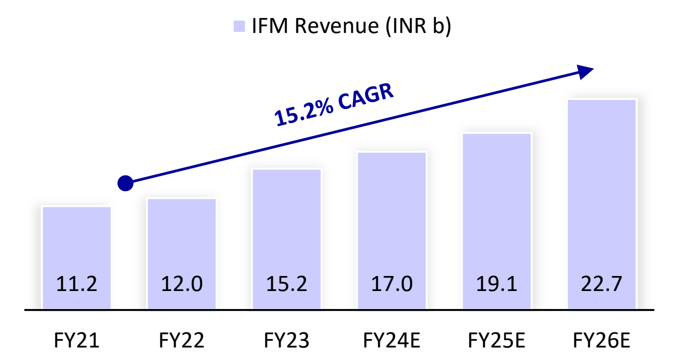
Exhibit 17: Steady revenue between FY24 and FY26E



Source: MOFSL, Company

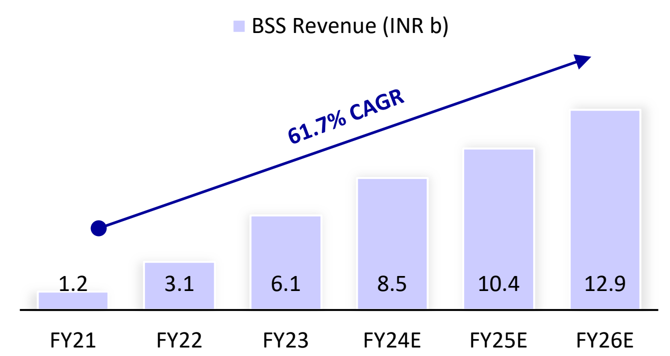
We expect the company to deliver steady and sustainable growth within the IFM business, wherein both soft and hard services account for ~75% of the overall pie, with UDS being the top five player within IFM. Secondly, the earlier investments have materialized with organic business contributing ~86% while Fusion (a key inorganic investment) contributed 8% to the overall IFM revenue in FY23. Both these categories have grown at 22% and 81% in FY23, respectively. We expect the growth momentum to continue within the IFM business, aided by robust industry-led growth, meaningful market share, and organic investments within the space.

Exhibit 18: BSS to outpace IFM revenue growth…



Source: MOFSL, Company

Exhibit 19: …and clock a 62% CAGR (over FY21-FY26E)



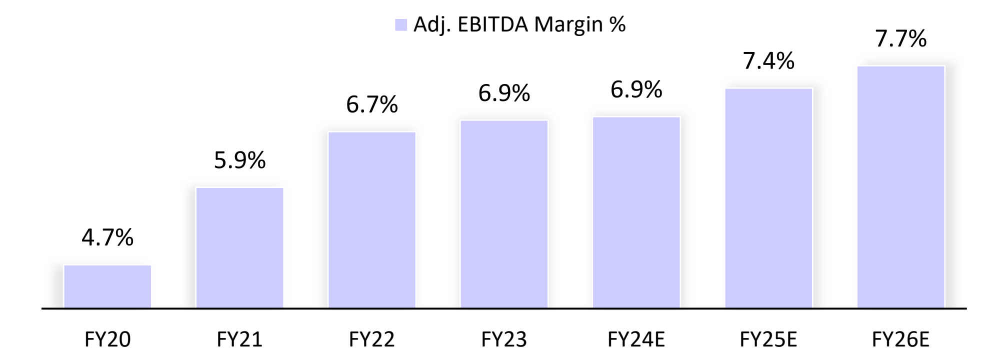
Source: MOFSL, Company

BSS services contribute ~30% to the company's overall topline. The service portfolio is a building block of entities that are acquired through the inorganic route. The acquired service line within BSS has a strong potential to deliver double-digit growth, and also generate a higher margin than IFM. Athena, Denave, and Matrix are the key subsidiaries under BSS that together contribute ~90% to the overall BSS revenue. These are likely to report a CAGR of 25.6%, 27.0%, and 20.6% over FY24-26E, respectively.

EBITDA contribution from BSS service lines is more than 60%

The company is focused on growing its high-margin businesses aggressively, and this growth is expected to improve its margin profile on a consolidated level. The company is flexing multiple levers for margin improvement: 1) its subsidiaries offering BSS are growing their technological and other capabilities, 2) it is strengthening the business development initiatives across all the businesses, and 3) it is augmenting its cross-selling initiatives.

Exhibit 20: EBITDA margin %



Source: MOFSL, Company

Although we expect BSS to contribute 36% to the overall revenue in FY26E, given the robust margin profile, we expect the EBITDA contribution for BSS to be ~60% during the same period. Collectively, Athena and Denave within BSS are the high-margin businesses. We expect the EBITDA growth for these two entities to outpace the corresponding revenue growth over FY24-FY26.

Exhibit 21: IFM and BSS EBITDA margin %

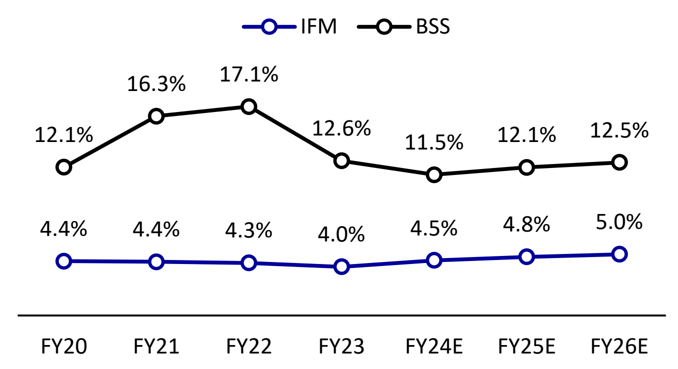
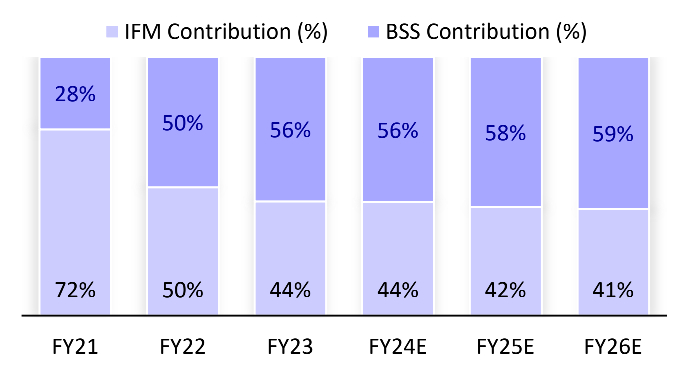


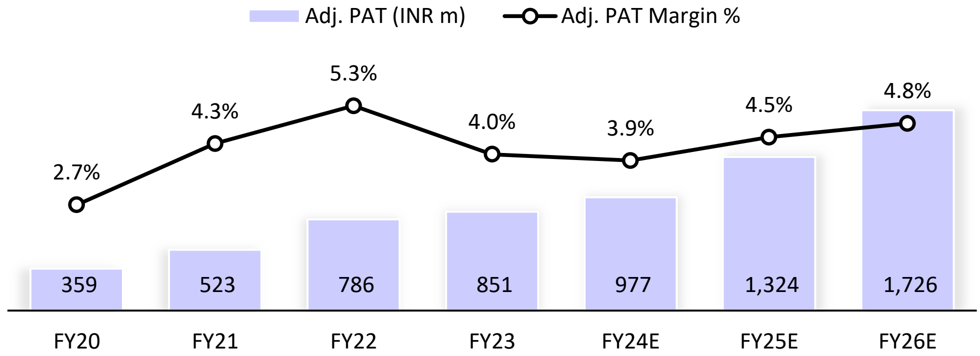
Exhibit 22: IFM and BSS contribution to EBITDA



Source: MOFSL, Company

Additionally, management believes that the adoption of technology will help bring more efficiency, accuracy, and quality, while reducing the operating costs. Within BSS, the growing technological capabilities, strengthening business development initiatives across all businesses, and cross-selling initiatives should help it deliver long-term profit growth. This strategy also incorporates the company's intent to acquire businesses that are net margin accretive on a consolidated level. Hence, we expect the adj. net profit to clock a 33% CAGR over FY24-26E.

Exhibit 23: Earnings growth to remain strong and report 33% CAGR over FY24-26E



Source: MOFSL, Company

Robust growth to continue; initiate with a BUY

- Given the strong industry tailwinds for IFM and a solid foothold in Soft Services, we anticipate robust and sustained growth for IFM from FY24 to FY26. Thus, we forecast a revenue and EBITDA CAGR of 15% and 22% over FY24-26E, respectively.
- We expect BSS to clock a revenue and EBITDA CAGR of 23% and 29% over FY24-FY26E, respectively, aided by the potential expansion in distinct service lines and strategic investments aimed at driving incremental and profitable growth.
- With visibility of healthy earnings growth over the medium term and strong option value from the expansion plans, **we initiate coverage on UDS with a BUY rating and a TP of INR465 (premised on 18x FY26E P/E on adj. EPS).** Our TP implies a 36% upside potential.

Exhibit 24: Comparison of financial KPIs with peers

Company	Rating	Price (INR)	MCap (INRb)	Target Price (INR)	EPS (Adj)			P/E (x)			Rev growth (%)			EBIT Margin (%)			PEG
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24-26E
UDS	**Buy**	**342**	**23.0**	**465**	**14.6**	**19.8**	**25.8**	**23.6**	**17.4**	**13.3**	**19.5**	**17.3**	**20.8**	**3.7**	**4.4**	**4.9**	**0.41**
Quess	Neutral	517	76.8	560	20.6	33.6	46.4	25.2	15.4	11.1	12.1	15.8	18.0	3.6	4.4	4.7	0.22
SIS	Buy	451	6.5	590	21.4	34.5	45.1	21.1	13.1	10.0	9.9	14.3	15.4	2.7	3.2	3.6	0.22
TeamLease	Buy	2,847	47.7	3,450	70.0	104.1	150.9	40.7	27.3	18.9	19.3	18.2	19.7	0.9	1.3	1.7	0.40

Source: MOFSL, Company

Bull & Bear cases

Bull case

- ☑ In our bull case analysis, we factor in a higher ~25% revenue CAGR over FY24-26E, driven by inorganic investments within BSS.
- ☑ We also expect higher EBITDA margin of 8.0% for FY25 and FY26 each, which will translate into 5.5%/5.9% EBIT margin for FY25 and FY26.
- ☑ This should drive a PAT CAGR of 41% over FY24-26E.

Bear case

- ☑ In our bear case analysis, we factor in a lower ~15% revenue CAGR over FY24-26E, factoring in slower growth in the BSS segment.
- ☑ We also expect lower EBITDA margin at 6.5% for FY25 and FY26 each, which translate into 4.2%/4.5% EBIT margin for FY25 and FY26.
- ☑ This should drive PAT CAGR of 18% over FY24-26E.

Exhibit 25: Scenario analysis – Bull case

INR b	FY24E	FY25E	FY26E
Sales	25.2	31.5	39.5
EBIT	0.9	1.7	2.3
PAT	1.0	1.5	2.0
EPS (INR)	14.7	22.2	30.5
EPS growth (%)	116.6	114.8	89.8
RoE (%)	10.9	13.2	16.7
RoCE (%)	8.2	11.1	13.2
Target price (INR)			**549.0**
Upside (%)			**59.1%**

Source: MOFSL, Company

Exhibit 26: Scenario analysis – Bear case

INR b	FY24E	FY25E	FY26E
Sales	25.2	29.0	33.5
EBIT	0.9	1.2	1.5
PAT	1.0	1.1	1.4
EPS (INR)	14.7	16.9	21.3
EPS growth (%)	116.6	63.9	32.8
RoE (%)	10.9	9.4	10.9
RoCE (%)	8.2	7.8	8.5
Target price (INR)			**384**
Upside (%)			**11.3%**

Source: MOFSL, Company

Key management personnel

Raghunandana Tangirala – Promoter, Chairman and MD

- Mr. Tangirala focuses primarily on corporate governance, organizational development, capital allocation, and strategic growth of the company.
- He holds a bachelor's degree in commerce from Faculty of Commerce, University of Madras.

C. R. Saravanan – COO

- Mr. Saravanan handles the pan-Indian business operations. Before he joined UDS, he was associated with AstraZeneca (as the Head – facility management).
- He holds a bachelor's degree in business administration from Annamalai University and professional certificate in management from the Institute of Financial Management and Research.

Radha Ramanujan – CFO

- Radha has 30 years of experience, with 20 years as a CFO. She has proven records of establishing cross-functional partnerships to turn around companies.
- Apart from being a CFO & Company Secretary, Radha headed Supply Chain, Commercial, Procurement, IT, HR, Admin and Legal functions as well.

Amitabh Jaipuria – Non-Executive Director

- He was previously associated with Ziqitza Healthcare Limited as the Managing Director & CEO.
- Mr. Jaipuria holds a bachelor's degree in science from the University of Bombay and a post-graduate diploma in management from XLRI, Jamshedpur.

A strong CSR profile

- **Medical care center:** It contributed medical equipment worth INR2.4m to Anandam Medical Care Centre and Physiotherapy Centre. This contribution included essential medical equipment to enhance the well-being of senior citizens. It spent around INR2.4m in this initiative.
- **Empowering education:** The company donated one smart panel for the 10th students and eight computers for the computer laboratory at P.S. Higher Secondary School, Chennai, in a bid to provide the students with access to modern technology and resources for better education. It spent around INR0.4m in this initiative.
- **Donation to Sri Ramakrishna Math:** UDS provided financial assistance to Sri Ramakrishna Math in Mylapore, Chennai, towards the installation of a 50kW hybrid solar system. The Math has been involved in various humanitarian services, along with spreading Swami Vivekananda’s teachings through publications and preaching for the past 125 years. It spent around INR2.4m in this initiative.

Key Risks

- The market is highly competitive, with a large number of domestic and a few international companies. It is also noted that some big domestic companies with principal businesses in real estate are entering this market by forming subsidiaries, thereby intensifying competition.
- Customers are highly price sensitive, and this has resulted in an increasing preference for FM companies, which are non-compliant with regulations related to the Provident Fund (PF), Employees' State Insurance Scheme (ESIC), etc.
- It faces significant employee-related regulatory risks, and any significant disputes with its employees and/or concerned regulators may adversely affect its business prospects, results of operations, and financial condition.
- It has significant employee benefit expenses, such as workers' compensation, staff welfare expenses, and contributions to provident and other funds. If UDS faces an increase in employee costs that it is unable to pass on to its customers, the company may not maintain its competitive advantage and its profitability may be hurt.
- Its business requires significant amounts of working capital. It may not be able to obtain future financing on favorable terms or at all or furnish bank guarantees in the future.

Financials and valuation

Consolidated - Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	**13,149**	**12,100**	**14,836**	**21,061**	**25,166**	**29,528**	**35,661**
Change (%)	21.1	-8.0	22.6	42.0	19.5	17.3	20.8
Cost of services	444	306	1,348	3,469	2,684	1,299	1,533
Employees Cost	10,543	9,817	10,682	13,802	16,559	19,636	23,786
Other Expenses	1,577	1,309	2,032	2,792	4,428	6,635	7,837
Total Expenditure	**12,564**	**11,432**	**14,062**	**20,063**	**23,671**	**27,570**	**33,157**
% of Sales	95.6	94.5	94.8	95.3	94.1	93.4	93.0
EBITDA	**585**	**668**	**774**	**998**	**1,495**	**1,958**	**2,504**
Margin (%)	4.4	5.5	5.2	4.7	5.9	6.6	7.0
Depreciation	162	150	165	370	566	650	749
EBIT	**423**	**518**	**609**	**627**	**929**	**1,308**	**1,755**
Int. and Finance Charges	76	30	51	146	176	59	36
Other Income	19	63	144	60	151	177	214
PBT bef. EO Exp.	**366**	**552**	**702**	**542**	**904**	**1,426**	**1,934**
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	**366**	**552**	**702**	**542**	**904**	**1,426**	**1,934**
Total Tax	36	69	136	196	217	357	483
Tax Rate (%)	9.8	12.5	19.4	36.1	24.0	25.0	25.0
Minority Interest	-1	25	21	-12	-19	0	0
Net Income - post NCI	**331**	**458**	**545**	**358**	**705**	**1,070**	**1,450**
Net Income (ESOP adj)	**359**	**523**	**786**	**851**	**977**	**1,324**	**1,726**
Change (%)	-6.4	38.2	19.0	-34.3	97.1	51.6	35.6
Margin (%)	2.5	3.8	3.7	1.7	2.8	3.6	4.1

Consolidated - Balance Sheet

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	528	528	528	530	660	660	660
Total Reserves	1,910	2,393	2,929	3,349	8,060	9,129	10,579
Net Worth	**2,438**	**2,921**	**3,457**	**3,878**	**8,719**	**9,789**	**11,239**
Minority Interest	0	0	0	0	0	0	0
Total Loans	1,399	563	1,958	3,727	3,165	2,612	3,103
Deferred Tax Liabilities	31	26	108	158	158	158	158
Capital Employed	**3,868**	**3,510**	**5,523**	**7,763**	**12,041**	**12,559**	**14,499**
Net Fixed Assets	**372**	**283**	**678**	**1,232**	**1,375**	**1,347**	**1,480**
Goodwill on Consolidation	601	577	1,591	2,384	2,159	2,109	2,059
Other Assets	902	1,019	1,423	1,536	1,117	1,226	1,380
Total Investments	**15**	**40**	**0**	**38**	**38**	**38**	**38**
Curr. Assets, Loans&Adv.	**4,156**	**3,875**	**5,053**	**6,980**	**12,187**	**13,159**	**15,860**
Inventory	66	50	63	70	77	85	93
Account Receivables	3,342	2,689	3,475	4,277	5,447	6,391	7,718
Cash and Bank Balance	173	446	573	1,147	5,515	5,336	6,421
Bank Balance	74	192	137	504	0	0	0
Loans and Advances	501	498	805	982	1,148	1,348	1,627
Curr. Liability & Prov.	**2,177**	**2,284**	**3,222**	**4,406**	**4,837**	**5,324**	**6,320**
Account Payables	369	319	457	793	1,034	1,133	1,270
Other Current Liabilities	1,808	1,965	2,765	3,613	3,803	4,191	5,050
Provisions	0	0	0	0	0	0	0
Net Current Assets	**1,979**	**1,591**	**1,831**	**2,574**	**7,350**	**7,835**	**9,540**
Appl. of Funds	**3,869**	**3,510**	**5,523**	**7,764**	**12,039**	**12,556**	**14,497**

Financials and valuation

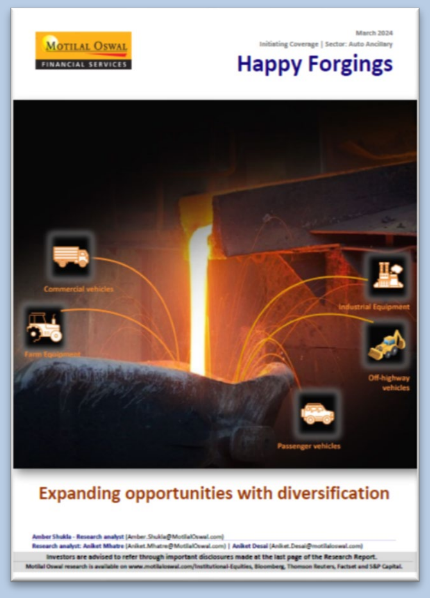
Ratios

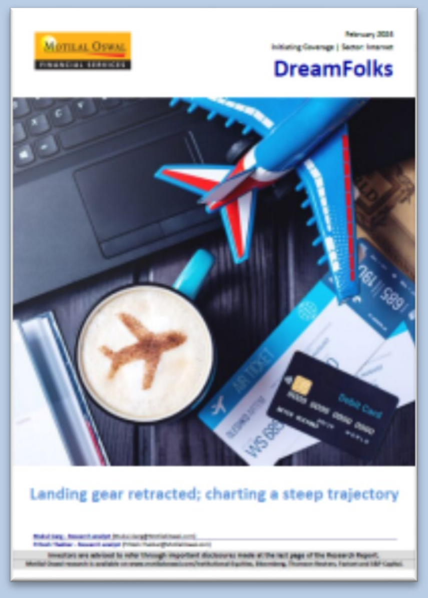
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
EPS	**6.3**	**8.5**	**10.5**	**6.8**	**10.6**	**16.1**	**21.8**
Cash EPS	9.4	11.3	13.7	13.8	19.1	25.8	33.0
BV/Share	46.2	55.3	65.5	73.2	132.2	148.4	170.4
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)							
P/E	54.8	40.6	32.9	51.0	32.6	21.5	15.8
Cash P/E	36.8	30.6	25.2	25.0	18.1	13.4	10.4
P/BV	7.5	6.2	5.3	4.7	2.6	2.3	2.0
EV/Sales	1.5	1.5	1.3	1.0	0.8	0.7	0.6
EV/EBITDA	33.1	28.0	24.9	20.9	13.8	10.3	7.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-12.0	22.6	-5.2	-3.2	11.0	8.6	17.9
Return Ratios (%)							
RoE	13.6	17.1	17.1	9.8	11.2	11.6	13.8
RoCE	20.8	13.9	13.6	6.7	8.4	9.2	11.0
RoIC	27.5	19.0	17.8	9.4	13.6	17.3	20.9
Working Capital Ratios							
Asset Turnover (x)	3.4	3.4	2.7	2.7	2.1	2.4	2.5
Debtor (Days)	93	81	85	74	79	79	79
Creditor (Days)	10	10	11	14	15	14	13
Leverage Ratio (x)							
Net Debt/Equity	0.5	0.0	0.4	0.7	-0.3	-0.3	-0.3

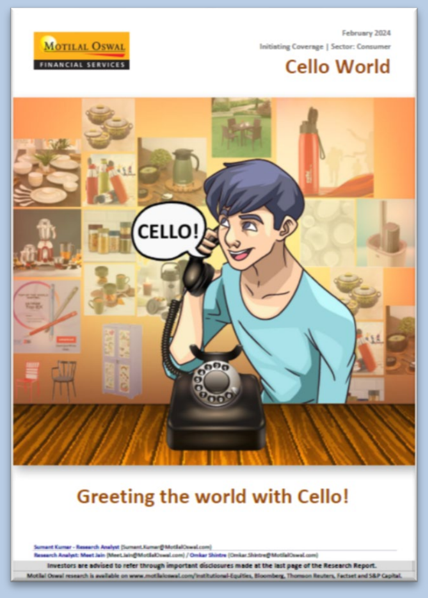
Consolidated - Cash Flow Statement (INR m)

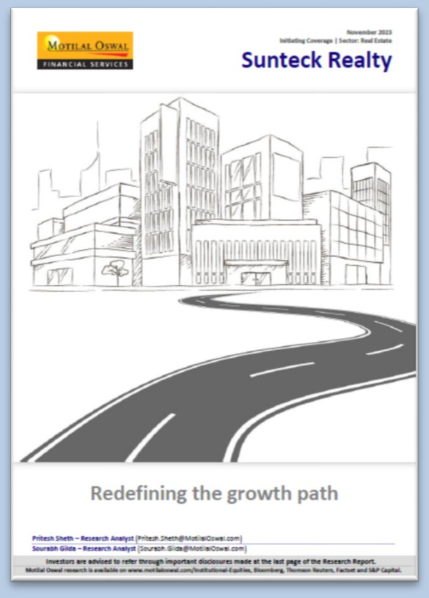
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	367	544	709	542	904	1,426	1,934
Depreciation	162	150	165	370	566	650	749
Interest & Finance Charges	217	86	220	538	151	103	107
Direct Taxes Paid	-245	-125	-214	-204	-217	-357	-483
(Inc)/Dec in WC	-446	630	-571	-98	-321	-619	-344
CF from Operations	**55**	**1,285**	**309**	**1,148**	**1,083**	**1,204**	**1,962**
Others	0	0	0	0	0	0	0
CF from Operating incl EO	**55**	**1,285**	**309**	**1,148**	**1,083**	**1,204**	**1,962**
(Inc)/Dec in FA	-685	-68	-578	-1,315	-354	-629	-770
Free Cash Flow	**-630**	**1,217**	**-269**	**-168**	**729**	**575**	**1,192**
(Pur)/Sale of Investments	73	-115	59	-251	0	0	0
Others	10	18	47	37	505	-103	-107
CF from Investments	**-602**	**-165**	**-472**	**-1,530**	**151**	**-733**	**-877**
Issue of Shares	0	0	0	0	4,000	0	0
Inc/(Dec) in Debt	612	-783	429	428	-865	-650	0
Interest Paid	-36	-38	-95	652	0	0	0
Dividend Paid	0	0	0	0	0	0	0
Others	-14	-25	-45	-125	0	0	0
CF from Fin. Activity	562	-846	289	956	3,135	-650	0
Inc/Dec of Cash	**15**	**274**	**126**	**574**	**4,369**	**-178**	**1,085**
Opening Balance	160	173	446	572	1,146	5,515	5,336
Closing Balance	**175**	**447**	**572**	**1,146**	**5,515**	**5,336**	**6,421**

RECENT INITIATING COVERAGE REPORTS









NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
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