

10TH OCTOBER 2024

UPDATER SERVICES LTD– BUY

CMP :Rs.384
Target Price :Rs. 465
Upside : 20%+
Stop Loss :Rs.330(Closing basis)

Investment Thesis

- Updater Services Limited (UDS) stands out as the second largest player in the Integrated Facilities Management (IFM) sector in India, with a significant market share and a diverse service portfolio.
- A key strength of UDS is its long-standing relationships with clients, boasting an impressive 93% retention rate over five years. This high level of customer loyalty is indicative of the company's commitment to service quality and client satisfaction, which is critical in the highly competitive IFM market.
- The management plans for the BSS segment's revenue share to increase to 40%-42% within the next 1-2 years through strategic acquisitions and cross-selling opportunities between IFM and BSS segments. Currently, 75% of revenues are generated from the top 50 customers, key clients are Microsoft, TCS, P&G, and Tata Communications.
- The integration of artificial intelligence into its operations processes is expected to enhance operational efficiency and improve EBITDA margins. The management emphasizes that leveraging technology is essential for improving service delivery and customer interactions, positioning UDS favorably for future growth.
- The demand for integrated facilities management is increasing as businesses seek to outsource operations to focus on core competencies. UDS is well-positioned to capitalize on this trend, with projections indicating that the outsourced IFM market will reach ₹80,000 crores by FY28, growing at a CAGR of approximately 17%.
- The management anticipates that the BSS segment will contribute significantly to revenue growth, aiming for an increase in its share from 35% to 40%-42% over the next couple of years through strategic acquisitions and cross-selling opportunities and expresses confidence in achieving a growth rate of three times the nominal GDP of India, supported by favorable government initiatives for employment generation.

Financials

- UDS's revenue has shown a consistent growth trajectory, increasing from Rs. 1,483 crore in FY22 to Rs. 2,444 crore in FY24 and further estimating it to grow to Rs. 3,972 crore in FY26E. This growth can be attributed to several factors, including the company's strategic focus on expanding its client base across diverse sectors and regions, which has helped mitigate risks associated with sectoral downturns. The strong performance of its Business Support Services (BSS) segment, which grew by 32% in FY23, has also significantly contributed to overall revenue growth.

Consl. (Rs.Cr)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,483	2,099	2,444	3,055	3,972
EBITDA	90	110	231	300	420
EBITDA Margin (%)	6.1%	5.2%	9.5%	9.8%	10.6%
PAT	57	35	66	84	101
EPS (Rs.)	10.8	6.6	9.9	12.6	13.6
P/E (x)	35.7	58.1	39.0	36.5	34.19
RoE (%)	16.7%	9.2%	7.9%	8.8%	9.3%

Stock Data

Market Cap (Rs. Cr)	2,567
Market Cap (\$ Cr)	30.57
Shares O/S (in Cr)	6.69
Avg. Volume (3 month)	14,85,516
52-Week Range (Rs.)	405/ 235

Shareholding Pattern

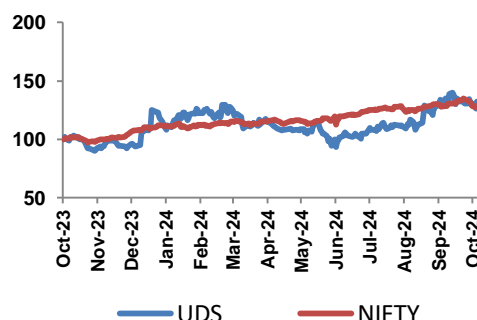
Promoters	58.88%
FIIIs	3.54%
Institutions	15.26%
Others (incl. body corporate)	22.31%

Key Ratios

Div Yield	0.00%
TTM PE	39.0x
ROE	22.6%
TTM EPS (Rs.)	9.9/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	1.4	19.5	30.5
NIFTY 500	0.6	9.9	27.0



- EBITDA has risen from Rs. 90 crore in FY22 to Rs. 231 crore in FY24, with projections of reaching Rs. 420 crore by FY26E. This increase reflects UDS's effective cost management strategies and a focus on higher-margin contracts, particularly within its Integrated Facility Management (IFM) services.
- The EBITDA margin has improved from 6.1% in FY22 to an estimated 10.6% in FY26E. This upward trend indicates UDS's commitment to operational efficiency and margin enhancement strategies, such as optimizing service delivery and reducing costs associated with low-margin contracts.
- Profit After Tax (PAT) has fluctuated, showing a decrease from Rs. 57 crore in FY22 to Rs. 35 crore in FY23, before rebounding to an estimated Rs. 101 crore by FY26E. The initial dip in PAT was primarily due to increased operational costs and investments in growth initiatives. However, as revenue scales up and operational efficiencies improve, PAT is expected to stabilize and grow steadily over the forecast period.
- The Price-to-Earnings (P/E) ratio has varied significantly, moving from 35x in FY22 to an estimated 34.19x by FY26E. This decline suggests that while UDS's earnings have faced short-term pressures, the market is optimistic about future growth potential as reflected in the lower P/E ratio over time, indicating a more favorable valuation as earnings improve.

Key Business Highlights

- UDS holds a significant position in the highly fragmented Integrated Facility Management (IFM) and Business Support Services (BSS) industry, serving approximately 700 clients. This strong market presence is bolstered by its ability to attract customers across various sectors and regions, reducing vulnerability to sector-specific downturns.
- The ability to pivot and adapt services to meet the evolving needs of different industries positions UDS favorably against competitors that may be more niche-focused.
- By venturing into verification services and sales enablement, UDS is diversifying its service portfolio, which can lead to new revenue streams and reduced dependency on traditional IFM services.
- UDS's extensive training programs ensure that employees are well-equipped with the necessary skills, leading to improved service delivery and operational efficiency. The company's operational model is designed for scalability, allowing it to efficiently manage increased workloads without compromising service quality.

Valuation

While the stock is trading at TTM P/E of 39.0x with an EPS of Rs.9.9. Revenue is expected to grow on back of developments in BSS segment through strategic acquisitions and cross-selling opportunities between IFM and BSS segments.

We expect it to trade around 34.19xP/E with an FY26 EPS of Rs.13.6.

We are assing a BUY rating for with a Target Price of Rs. 465, translating into an upside of 20%.

Risk & Concern

- While UDS operates across 24 regions in India, approximately 57% of its revenues are derived from South India. This moderate geographical concentration poses some risk but is somewhat mitigated by high client retention rates.
- Over-reliance on specific suppliers or service providers may expose UDS to supply chain disruptions. Any issues with key suppliers could affect service delivery and operational efficiency.

Graphs & Charts

Figure 1: Net Sales Trend

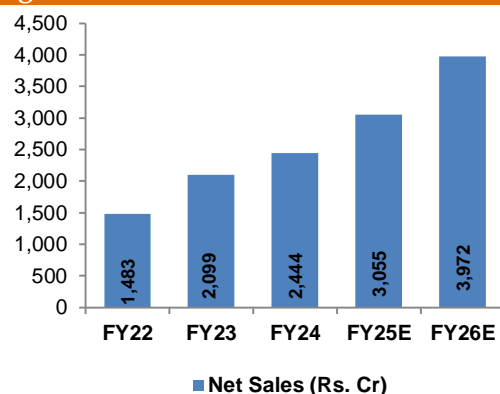


Figure 2: EBITDA & EBITDA Margin Trend

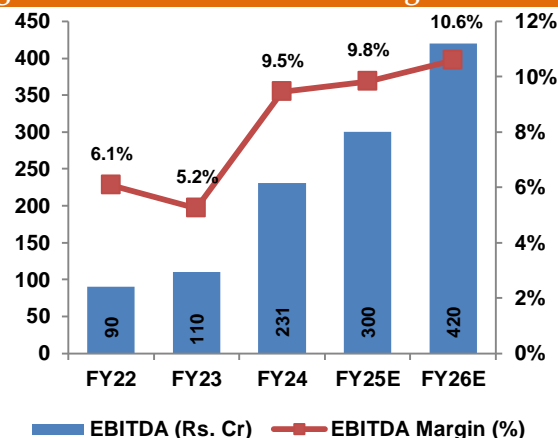


Figure 3: PAT Trend

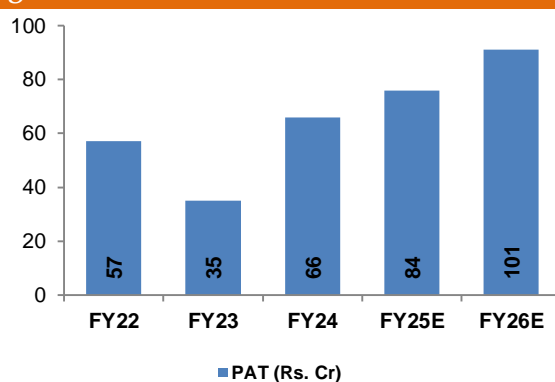
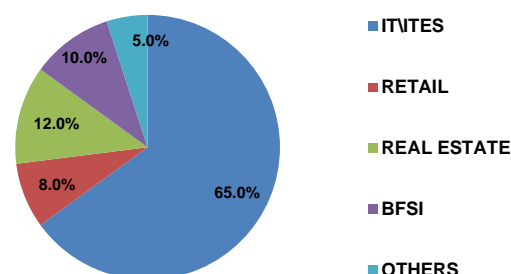


Figure 4: SEGMENT WISE BREAKUP(Q1FY25)



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