

Updater Services

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR337

TP: INR460 (+36%)

Buy

A steady quarter

Short-term hiccups expected in BSS business

■ Updater Services (UDS) reported revenue growth of 9% YoY/2% QoQ to INR7.0b, below our estimate of ~INR7.5b. Core EBITDA margin came in at 6.7%, up 40bp YoY (vs. est. 6.1%). IFM's PBT margin was up 10bp QoQ at 5.3%. BSS's PBT margin was up 40bp QoQ at 6.2%. Consolidated adj. PAT stood at INR312m (up 52% YoY), above our estimate of INR276m. The company's revenue/EBITDA/PAT grew 11.8%/34.6%/101% in 9MFY25 vs. 9MFY24. We expect revenue/EBITDA/adj. PAT to grow organically by 13.3%/13.8%/14.2% YoY in 4QFY25. We reiterate our BUY rating and a TP of INR460 (premised on 18x Dec'26E EPS).

Our view: IFM drives growth in 3Q

- IFM segment (~65% revenue contribution) saw steady growth, driven by operational improvements and low-margin contract rationalization, with a focus on high-value contracts. IFM margins should improve as the company continues to focus on high-margin contracts. While BSS faced headwinds due to loss of clients in Athena business, we expect slowed momentum for the next couple of quarters. Recent challenges in Athena are expected to ease as new client acquisitions in non-BFSI segments start contributing from 1QFY26.
- We estimate a revenue CAGR of 17% for BSS over FY24-27, underscoring a shift toward higher-margin opportunities to boost revenue growth and profitability. For IFM, we anticipate a 13% CAGR over FY24-27, with improved margins.
- **Margins:** Core EBITDA margin was 6.7% (est. 6.1%). With its strategy to optimize low-margin contracts in IFM and high-margin business in BSS, along with operational leverage, we believe the company can accrue margins by ~20bp/60bp over FY26-27E. We expect operational leverage to improve margins by 20-25bp in FY26E, with contributions from high-margin businesses.

Valuation and changes in our estimates

- We broadly retain our estimates, given solid foothold of UDS in the IFM business and the high-margin BSS business. We expect a CAGR of 15%/26% in revenue/EBITDA over FY24-27. **Reiterate BUY with a TP of INR460 (premised on 18x Dec'26E EPS).** The recent correction in the stock price (down ~23% from peak) makes valuations relatively comfortable. Our TP implies a 36% upside potential.

Miss on revenue and beat on margins

- Revenue grew 9% YoY and 2% QoQ to INR7.0b, below our estimate of ~INR7.5b.
- Revenue growth was aided by 9% YoY growth in IFM, whereas BSS reported a growth of 7% YoY.
- EBITDA margin came in at 6.7%, up 40bp YoY (est. 6.1%). IFM's PBT margin was up 10bp QoQ at 5.3%. BSS's PBT margin was up 40bp QoQ at 6.2%.

Bloomberg	UDS IN
Equity Shares (m)	67
M.Cap.(INRb)/(USDb)	25.7 / 0.3
52-Week Range (INR)	405 / 243
1, 6, 12 Rel. Per (%)	9/17/21
12M Avg Val (INR M)	145

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	27.4	32.2	37.2
EBIT	1.3	1.5	2.0
PAT	1.1	1.4	1.8
Adj PAT	1.2	1.5	1.9
EPS (INR)	16.8	20.9	27.2
Adj EPS (INR)	17.7	21.7	28.0
EPS growth (%)	20%	23%	29%
BV/Sh (INR)	145.9	166.9	194.1
Ratios			
RoE (%)	20.2	16.1	12.4
RoCE (%)	2.3	2.0	1.7
Valuations			
P/E (x)	12.3	13.4	15.1
P/E (x)	10.8	11.1	12.5
P/BV (x)	27.4	32.2	37.2

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	58.9	58.9	58.7
DII	15.0	15.3	15.3
FII	3.1	3.5	7.3
Others	23.0	22.3	18.8

- Consolidated adj. PAT stood at INR312m (est. INR276m), up 52% YoY.
- Adj. RoCE stood at 22.3% on an annualized basis in Dec'24 vs. 23.4% in Mar'24. The company added 95 logos during 3QFY25.
- Long-standing relationships with customers have 95%/93% retention over a five-year window in the IFM/BSS businesses.

Key highlights from the management commentary

- The company is focusing on increasing cross-sales between the IFM and BSS segments to enhance synergies.
- UDS is confident of achieving 2.5-3x higher growth than the economic growth rate (between 15-20% organically) without compromising margins.
- Growth acceleration is expected, particularly in the global airport handling business.
- **In IFM**, its focus on operational excellence and the optimization of low-margin contracts has started yielding positive results, though there are opportunities to further optimize low-margin contracts.
- **Denave** remains at the forefront of technological innovation for the group. Despite some churn in sales enablement due to technology, new client acquisitions are anticipated, and remote agent adoption efforts are expected to yield results. Margins are expected to stabilize.
- **Athena** experienced the loss of key clients in 9MFY25, resulting in flat revenue. One client closed operation in India, and another underwent restructuring.
- Athena is adding clients in the non-BFSI segment, with positive results anticipated from 1QFY26. Full-year revenue is expected to remain flat at ~INR1,350m.
- The company expects operational leverage to boost margins by 20-25bp YoY, with contributions from higher-margin businesses.

Valuation and view

- We believe the company will 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 and an inorganic growth engine in the high-margin BSS vertical, we expect UDS to deliver sustainable and profitable growth.
- We expect a CAGR of 15%/26% in revenue/EBITDA over FY24-27. **Reiterate BUY with a TP of INR460 (premised on 18x Dec'26E EPS)**. The recent correction in the stock price (down ~23% from peak) makes valuations relatively comfortable. Our TP implies a 36% upside potential.

Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY24				FY25E				FY24	FY25E	Est.	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Gross Sales	5,764	6,001	6,361	6,318	6,522	6,800	6,949	7,159	24,444	27,429	7,464	-6.9
YoY Change (%)	20.3	16.7	17.3	10.5	13.1	13.3	9.3	13.3	16.0	12.2	17.4	-810bp
Total Expenditure	5,404	5,616	5,959	5,944	6,112	6,363	6,487	6,701	22,923	25,663	7,009	-7.5
Core EBITDA	360	385	401	374	409	437	462	458	1,520	1,767	455	1.5
Margins (%)	6.3	6.4	6.3	5.9	6.3	6.4	6.7	6.4	6.2	6.4	6.1	60bp
ESOP cost	0.0	31.7	21.7	18.9	0.0	0.0	0.0	0.0	72.3	0.0	0.0	NA
Fair value changes	31.8	57.2	31.8	-47.4	0.0	0.0	0.0	0.0	105.9	0.0	0.0	
EBITDA	329	296	348	403	409	437	462	458	1,342	1,767	455	1.5
Margins (%)	5.7	4.9	5.5	6.4	6.3	6.4	6.7	6.4	5.5	6.4	6.1	60bp
Depreciation	131	137	149	123	115	123	121	143	539.6	501.7	149	-19.1
Interest	56	63	42	31	34	29	20	21	192.8	104.7	26	-24.0
Other Income, net	27	27	93	56	65	69	57	43	236	234	45	26.6
PBT	169	123	250	305	326	354	378	336	846	1,394	325	16.5
Tax	45	31	44	63	69	74	67	61	183.2	270.3	49	37.2
Rate (%)	26.7	25.2	17.7	20.7	21.3	20.8	17.7	18.0	21.7	19.4	15.0	270bp
Minority Interest & Profit/Loss of Asso. Cos.	-5	-8	-3	-17	3	-1	3	0	-17	4	0	
Adjusted PAT	202	197	275	194	256	280	312	276	885	1,186	276	-95.1
YoY Change (%)	-22.6	-19.8	114.2	-10.3	27.2	41.8	13.5	42.1	137.9	34.0	0.5	
Margins (%)	3.5	3.3	4.3	3.1	3.9	4.1	4.5	3.9	3.6	4.3	3.7	80bp

Key Performance Indicators

Y/E March	FY24			FY25			FY24
	1Q	2Q	3Q	4Q	1Q	2Q	
Segment Revenue (INR m)							
Integrated Facility Management Services	4,050	4,297	4,181	4,282	4,363	4,594	16,809
Business Support Services	1,744	1,993	2,283	2,091	2,343	2,387	8,112
PBT Margin (%)							
Integrated Facility Management Services	1.9	2.8	3.0	3.7	4.2	5.2	3.1
Business Support Services	6.0	5.1	6.2	6.9	6.6	5.8	6.0



Key highlights from the management commentary

Quarterly performance and outlook

- Revenue grew 9% YoY and 2% QoQ to INR7.0 b, below our estimate of INR7.5b.
- The company is focusing on increasing cross-sales between the IFM and BSS segments to enhance synergies. The revenue split between IFM and BSS remained at 65% and 35%, respectively.
- The company is confident of achieving 2.5-3x higher growth than the economic growth rate (between 15-20% organically) without compromising margins.
- Growth acceleration is expected, particularly in the global airport handling business.
- **IFM:** Its focus on operational excellence and optimizing low-margin contracts has started yielding positive results, though there are opportunities for contract optimization.
- Revenue growth has been lower than initially anticipated, but the company is prioritizing high-value, high-margin business.
- The outsourced IFM market is projected to grow at a 10% CAGR by FY29, and UDS aims to grow three times the nominal GDP growth rate in this segment.
- Vendor consolidation continues to favor the company.
- **In BSS,** the company successfully implemented generative AI sales services, which should help customers close deals faster and improve conversion rates.

- Leadership is expanding across platforms, with a focus on regional customer expansion.
- **Denave** remains at the forefront of technological innovation for the group. Despite some churn in sales enablement due to technology, new client acquisitions are anticipated, and remote agent adoption efforts are expected to yield results. Margins are expected to stabilize.
- **Athena** experienced the loss of key clients in 9MFY25, resulting in flat revenue. One client closed operations in India, and another underwent restructuring.
- Athena is adding clients in the non-BFSI segment, with positive results anticipated from 1QFY26. Full-year revenue is expected to remain flat at ~INR1,350m.
- 3Q revenue declined by 12% QoQ. However, diversification into retail and education sectors is underway.
- Lead cycle is 2-3 quarters for business clients. The company remains confident that Athena will rebound in the next few quarters.
- Growth is seen in demand for employer background verification services.
- Audit and assurance services are experiencing growth due to increased focus on corporate governance.
- The supply chain and logistics solutions segment showed improved efficiency and margins. Avon Solutions aims to be a holistic player in supply chain and warehouse management.
- The company currently operates in 22 airports, with 6-7 not yet fully operational. Air India Express has added operations at seven airports, contributing positively to profitability.
- The company anticipates achieving 3x GDP growth in the BSS segment, along with improved margins.
- The company expects operational leverage to boost margins by 20-25bp YoY, with contributions from higher-margin businesses.
- The cash position stands at INR1,270m.

Valuation and view

- We see the company benefitting from the long-term trend of outsourcing non-core business operations for greater efficiency and service quality. With continued momentum in the IFM space and an inorganic growth engine in the high-margin BSS vertical, we expect UDS to deliver sustainable and profitable growth.
- We expect a CAGR of 15%/26% in revenue/EBITDA over FY24-27. **Reiterate BUY with a TP of INR460 (premised on 18x Dec'26E EPS).** The recent correction in the stock price (down ~23% from peak) makes valuations relatively comfortable. Our TP implies a 36% upside potential.

Exhibit 1: Summary of our revised estimates

	Revised			Earlier			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue (INR m)	27,429	32,247	37,204	28,220	33,322	38,250	-2.8%	-3.2%	-2.7%
Growth (%)	12.2	17.6	15.4	15.4	18.1	14.8	-320bps	-50bps	60bps
EBITDA (INR m)	1,767	2,129	2,720	1,777	2,217	2,827	-0.6%	-4.0%	-3.8%
EBITDA Margin (%)	6.4	6.6	7.3	6.3	6.7	7.4	10bps	-10bps	-10bps
PAT (INR m)	1,124	1,400	1,825	1,106	1,431	1,882	1.6%	-2.2%	-3.1%
EPS (INR)	16.7	20.8	27.1	16.5	21.3	28.1	1.5%	-2.5%	-3.3%

Source: Company, MOFSL

Financials and valuation

Consolidated - Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	13,149	12,100	14,836	21,061	24,444	27,429	32,247	37,204
Change (%)	21.1	-8.0	22.6	42.0	16.1	12.2	17.6	15.4
Cost of services	444	306	1,348	3,469	1,020	969	1,161	1,339
Employees Cost	10,543	9,817	10,682	13,802	18,084	20,496	24,243	27,921
Other Expenses	1,577	1,309	2,032	2,792	3,998	4,198	4,714	5,224
Total Expenditure	12,564	11,432	14,062	20,063	23,101	25,663	30,118	34,484
% of Sales	95.6	94.5	94.8	95.3	94.5	93.6	93.4	92.7
EBITDA	585	668	774	998	1,342	1,767	2,129	2,720
Margin (%)	4.4	5.5	5.2	4.7	5.5	6.4	6.6	7.3
Depreciation	162	150	165	370	540	502	645	744
EBIT	423	518	609	627	803	1,265	1,484	1,975
Int. and Finance Charges	76	30	51	146	193	105	64	74
Other Income	19	63	144	60	236	234	258	298
PBT bef. EO Exp.	366	552	702	542	846	1,394	1,677	2,199
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	366	552	702	542	846	1,394	1,677	2,199
Total Tax	36	69	136	196	183	270	277	374
Tax Rate (%)	9.8	12.5	19.4	36.1	21.7	19.4	16.5	17.0
Minority Interest	-1	25	21	-12	-17	4	0	0
Net Income - post NCI	331	458	545	358	679	1,120	1,400	1,825
Net Income (ESOP adj)	359	523	786	851	885	1,186	1,462	1,887
Change (%)	-6.4	38.2	19.0	-34.3	89.8	64.8	25.0	30.4
Margin (%)	2.5	3.8	3.7	1.7	2.8	4.1	4.3	4.9

Consolidated - Balance Sheet

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	528	528	528	530	669	669	669	669
Total Reserves	1,910	2,393	2,929	3,349	7,791	9,101	10,501	12,326
Net Worth	2,438	2,921	3,457	3,878	8,461	9,771	11,171	12,995
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	1,399	563	1,958	3,727	1,663	2,444	2,830	3,226
Deferred Tax Liabilities	31	26	108	158	117	117	117	117
Capital Employed	3,868	3,510	5,523	7,763	10,241	12,332	14,117	16,339
Net Fixed Assets	372	283	678	1,232	933	1,436	1,581	1,742
Goodwill on Consolidation	601	577	1,591	2,384	2,503	2,453	2,403	2,353
Other Assets	902	1,019	1,423	1,536	2,049	1,160	1,281	1,405
Total Investments	15	40	0	38	16	16	16	16
Curr. Assets, Loans&Adv.	4,156	3,875	5,053	6,980	9,846	12,238	14,579	17,334
Inventory	66	50	63	70	70	77	85	93
Account Receivables	3,342	2,689	3,475	4,277	5,039	5,937	6,979	8,052
Cash and Bank Balance	173	446	573	1,147	836	4,973	6,043	7,491
Bank Balance	74	192	137	504	671	0	0	0
Loans and Advances	501	498	805	982	3,230	1,252	1,472	1,698
Curr. Liability & Prov.	2,177	2,284	3,222	4,406	5,107	4,972	5,743	6,511
Account Payables	369	319	457	793	793	1,052	1,149	1,223
Other Current Liabilities	1,808	1,965	2,765	3,613	4,315	3,920	4,594	5,288
Provisions	0	0	0	0	0	0	0	0
Net Current Assets	1,979	1,591	1,831	2,574	4,739	7,266	8,836	10,822
Appl. of Funds	3,869	3,510	5,523	7,764	10,241	12,332	14,117	16,339

Financials and valuation

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	6.3	8.5	10.5	6.8	11.4	16.7	20.9	27.2
Cash EPS	9.4	11.3	13.7	13.8	20.4	24.2	30.5	38.3
BV/Share	46.2	55.3	65.5	73.2	126.4	145.9	166.9	194.1
DPS	0.0	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	0.0
Valuation (x)								
P/E	53.5	39.6	32.1	49.8	29.7	20.2	16.1	12.4
Cash P/E	35.9	29.9	24.6	24.5	16.5	13.9	11.0	8.8
P/BV	7.3	6.1	5.1	4.6	2.7	2.3	2.0	1.7
EV/Sales	1.4	1.5	1.3	1.0	0.9	0.7	0.6	0.5
EV/EBITDA	32.4	27.3	24.4	20.4	15.6	11.3	9.1	6.7
Dividend Yield (%)	0.0	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	-2.5	66.0	16.0	21.6
Return Ratios (%)								
RoE	13.6	17.1	17.1	9.8	11.0	12.3	13.4	15.1
RoCE	20.8	13.9	13.6	6.7	9.2	10.8	11.1	12.5
RoIC	27.5	19.0	17.8	9.4	10.2	15.1	19.1	23.1
Working Capital Ratios								
Asset Turnover (x)	3.4	3.4	2.7	2.7	2.4	2.2	2.3	2.3
Debtor (Days)	93	81	85	74	75	79	79	79
Creditor (Days)	10	10	11	14	12	14	13	12
Leverage Ratio (x)								
Net Debt/Equity	0.5	0.0	0.4	0.7	0.1	-0.3	-0.3	-0.3

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	367	544	709	542	846	1,394	1,677	2,199
Depreciation	162	150	165	370	540	502	645	744
Interest & Finance Charges	217	86	220	538	274	858	0	0
Direct Taxes Paid	-245	-125	-214	-204	-415	-270	-277	-374
(Inc)/Dec in WC	-446	630	-571	-98	-218	2,840	-283	-316
CF from Operations	55	1,285	309	1,148	1,026	5,323	1,762	2,253
Others	0	0	0	0	0	0	0	0
CF from Operating incl EO	55	1,285	309	1,148	1,026	5,323	1,762	2,253
(Inc)/Dec in FA	-685	-68	-578	-1,315	-1,175	-907	-692	-806
Free Cash Flow	-630	1,217	-269	-168	-149	4,416	1,071	1,447
(Pur)/Sale of Investments	73	-115	59	-251	-2,315	0	0	0
Others	10	18	47	37	-74	0	0	0
CF from Investments	-602	-165	-472	-1,530	-3,564	-907	-692	-806
Issue of Shares	0	0	0	0	3,851	0	0	0
Inc/(Dec) in Debt	612	-783	429	428	-1,228	-279	0	0
Interest Paid	-36	-38	-95	652	-246	0	0	0
Dividend Paid	0	0	0	0	0	0	0	0
Others	-14	-25	-45	-125	-150	0	0	0
CF from Fin. Activity	562	-846	289	956	2,227	-279	0	0
Inc/Dec of Cash	15	274	126	574	-311	4,137	1,071	1,447
Opening Balance	160	173	446	572	1,146	835	4,973	6,043
Closing Balance	175	447	572	1,146	835	4,973	6,043	7,491

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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

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