MOTILAL OSWAL FINANCIAL SERVICES

7 August 2024

1QFY25 Results Update | Sector: Staffing

Updater Services

Estimate change	↓
TP change	↑
Rating change	↔

Bloomberg	UDS IN
Equity Shares (m)	67
M.Cap.(INRb)/(USDb)	21.5 / 0.3
52-Week Range (INR)	385 / 235
1, 6, 12 Rel. Per (%)	5/-20/-
12M Avg Val (INR M)	111

Financials & Valuations (INR b)

Y/E Mar	2024	2025E	2026E
Sales	24.4	28.7	33.6
EBIT	0.8	1.1	1.6
PAT	0.7	1.0	1.5
Adj PAT	0.9	1.2	1.6
EPS (INR)	11.4	15.4	21.8
Adj EPS (INR)	14.7	17.4	24.4
EPS growth (%)	-8%	18%	40%
BV/Sh (INR)	126.4	144.5	166.3
Ratios			
RoE (%)	11.0	11.3	14.0
RoCE (%)	9.2	9.8	11.5
Valuations			
P/E (x)	28.2	20.8	14.7
P/BV (x)	2.5	2.2	1.9

Shareholding pattern (%)

As On	Jun-24	Mar-24
Promoter	58.9	58.6
DII	13.5	14.0
FII	3.9	5.1
Others	23.8	22.3

CMP: INR321 TP: INR400 (+25%) Buy

Focusing on high-margin BSS business

IFM business continues to perform decently; reiterate BUY

- UDS reported revenue growth of 13% YoY/3.2% QoQ to INR6.5b, below our estimate of 18% YoY growth. EBITDA margin came in at 6.3% (est. 4.0%), up 60bp YoY. IFM margin rose 30bp QoQ to 4.0%. BSS margin declined 20bp QoQ to 6.7%. Consolidated adj. PAT stood at INR254m (up 97% YoY), above our estimates.
- UDS is shifting its business mix by increasing its focus on the higher-margin Business Support Services (BSS) segment while leveraging the diverse business lines of its subsidiaries. In 1QFY25, the revenue contribution of IFM/BSS segments stood at ~65%/35% vs. 70%/30% in 1QFY24. The company anticipates organic growth of over 20% in BSS and expects the revenue contribution to rise to 40-42%. We estimate a revenue CAGR of 23% for BSS over FY24-26, indicating a strategic move toward higher-margin opportunities that could drive overall revenue growth and profitability. Meanwhile, we expect the IFM business to clock a 13% CAGR over FY24-26, with PBT margins stabilizing at 4-4.5%.
- Margin inched up in 1Q (+60bp YoY), led by IFM business (+210bp YoY on a low base). The management aims for EBITDA margin by acquiring new customers at par or higher margins while focusing on rationalizing the large tail. Moreover, the maturing airport handling business also positions the company for steady EBITDA margin growth going ahead. We expect overall margins of 6.1%/7.0% in FY25E/FY26E.
- Given a solid foothold in IFM business and high-margin BSS business, we expect a CAGR of 17%/32% in revenue/EBITDA over FY24-26E. **We reiterate our BUY rating and a TP of INR400 (premised on 18x FY26E P/E on adj. EPS).** Our TP implies a 25% upside potential.

Miss on revenue but beat on margin

- Revenue was up 13% YoY and 3.2% QoQ at ~INR6.5b, below our estimate of 18% YoY growth.
- Revenue growth was aided by ~34% YoY growth in BSS, whereas IFM reported a modest growth of ~5% YoY.
- UDS has witnessed a notable shift in its business mix. In 1QFY25, the revenue contribution of IFM/BSS segments stood at ~65%/35%, compared to ~70%/30% in 1QFY24.
- EBITDA margin came in at 6.3% (est. 4.0%), up 60bp YoY. IFM margin was up 30bp QoQ at 4.0%. BSS margin declined 20bp QoQ to 6.7%.
- Consolidated adj. PAT stood at INR254m (up 97% YoY), above our estimate.
- Adj. ROCE stood at 24.2% on annualized basis in Jun'24 vs. 20.7% in Mar'24.
- In 1QFY25, 29/15 logos were added in IFM/BSS businesses.
- Long-standing relationships with customers have 95%/93% retention over a five-year window in IFM/BSS business.
- Launched GenAI-enabled sales Intelligence service with a major global conglomerate.

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Key highlights from the management commentary

- By focusing on high-margin customers and value-added services, the company anticipates a steady increase in profit margins moving forward.
- 2Q/3Q are typically stronger quarters for the company due to seasonal factors.
- UDS projects overall revenue growth of 15-16% going forward.
- In IFM business, the company aims to increase market share by focusing on hard services, which have higher margins. It added 29 new logos in IFM. The business is largely focused on the private sector. Moreover, the washroom hygiene business, although small, has high EBITDA margin of 40%.
- The airport business has turned EBITDA positive, with ground handling operations in 20 airports, 10 of which commenced in Q1FY25.
- The BSS segment's revenue share is expected to grow from 36% to 40-42% in the next few years.

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 17%/32% in revenue/EBITDA over FY24-26E. With visibility of healthy earnings growth over the medium term and strong value from BSS business, **we reiterate a BUY rating and a TP of INR400 (premised on 18x FY26E P/E on adj. EPS).** Our TP implies a 25% upside potential.

Consolidated - Quarterly performance (INR m)

Y/E March	FY24				FY25E				FY24	FY25E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QFY25	(%/bp)
Gross Sales	**5,764**	**6,001**	**6,361**	**6,318**	**6,522**	**7,149**	**7,579**	**7,453**	**24,444**	**28,703**	**6,809**	**-4.2**
YoY Change (%)	20.3	16.7	17.3	10.5	13.1	19.1	19.1	18.0	16.0	17.4	17.9	**-470bp**
Total Expenditure	5,404	5,616	5,959	5,944	6,112	6,692	7,094	6,976	22,923	26,874	6,509	-6.1
Core EBITDA	**360**	**385**	**401**	**374**	**409**	**458**	**485**	**477**	**1,520**	**1,829**	**300**	**36.6**
Margins (%)	6.3	6.4	6.3	5.9	6.3	6.4	6.4	6.4	6.2	6.4	4.4	190bp
ESOP cost	0.0	31.7	21.7	18.9	0.0	28.6	30.3	29.8	72.3	88.7	27.2	-100.0
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**	**429**	**455**	**447**	**1,342**	**1,740**	**272**	**50.3**
Margins (%)	5.7	4.9	5.5	6.4	6.3	6.0	6.0	6.0	5.5	6.1	4.0	230bp
Depreciation	131	137	149	123	115	164	174	171	539.6	624.7	150	-23.5
Interest	56	63	42	31	34	14	15	15	192.8	78.3	14	149.2
Other Income, net	27	27	93	56	65	43	45	45	236	198	41	58.7
PBT	**169**	**123**	**250**	**305**	**326**	**293**	**311**	**306**	**846**	**1,235**	**150**	**117.4**
Tax	45	31	44	63	69	44	47	46	183.2	205.6	30	131.0
Rate (%)	26.7	25.2	17.7	20.7	21.3	15.0	15.0	15.0	21.7	16.6	20.0	130bp
Minority Interest & Profit/Loss of Asso. Cos.	-5	-8	-3	-17	3	0	0	0	-17	3	0	
Adjusted PAT	**129**	**99**	**208**	**258**	**254**	**249**	**264**	**260**	**679**	**1,027**	**120**	**111.7**
YoY Change (%)	25.0	-0.4	213.8	151.7	96.5	150.7	26.8	0.5	82.6	51.1	-7.1	
Margins (%)	2.2	1.7	3.3	4.1	3.9	3.5	3.5	3.5	2.8	3.6	1.8	210bp

Key Performance Indicators

Y/E March	FY24				FY25	FY24
	1Q	2Q	3Q	4Q	1Q	
Segment Revenue (INR m)						
Integrated Facility Management Services	4,050	4,139	4,181	4,282	4,246	16,651
Business Support Services	1,744	1,978	2,283	2,091	2,340	8,097
PBT Margin (%)						
Integrated Facility Management Services	1.9	2.9	3.0	3.7	4.0	3.1
Business Support Services	6.0	5.1	6.2	6.9	6.7	6.0

CONFERENCE CALL

Key highlights from the management commentary

Quarterly performance and outlook

- The company's focus on high-margin customers and value-added services should lead to a steady increase in profit margin going forward.
- 2Q/3Q are typically stronger quarters for the company due to seasonal factors. UDS expects 15-16% overall revenue growth going ahead.
- **IFM:** The company aims to increase its market share by focusing on hard services, which have higher margins. It added 29 new logos in IFM.
- EBITDA margin for IFM is now at 5.7%, up from 5.3% in 4QFY24 and 4.2% in 1QFY24.
- UDS expects 13-14% growth going forward.
- Margins are expected to stabilize at 4-4.5% seasonally in 2Q-3Q. The business is largely focused on the private sector. Soft services, including cleaning and production support services, represent a significant portion of revenue. Staffing accounts for 10%, institutional catering for 10%, engineering and soft services for 30%, and product support services for 20%.
- The washroom hygiene business, although small, has high EBITDA margin of 40%.
- **BSS** accounts for 36% of revenue, with strong traction in the auditor and insurance space. The airport business has turned EBITDA positive, with ground handling operations in 20 airports (10 commenced in 1Q). UDS plans to add one more airport. On the other hand, new airlines will keep coming in, and discussion is going on with airlines.
- After the gestation period, every airport is profitable. The ground handling business, with a near-monopoly, has a 10-year concession with customers and has completed its 2.5-3 year gestation period. It is now expected to contribute meaningfully to profit going ahead.
- Key clients include Microsoft, Aditya Birla, Spice Jet, Tata Communication, and Hershey.
- The company is planning strategic acquisitions in the BSS segment, targeting margin-accretive prospects.
- Organic growth of 20% is expected to further improve margins, with its expansion into Korea anticipated to be a significant revenue and EBITDA contributor in 2-3 years.
- The company sees better opportunities in employee background checks, audit, and insurance space.
- Added 600 employees in Field Marketing Services for a prestigious mobile manufacturer.
- Added 15 new logos in 1QFY25. Further, the BSS segment's revenue share is expected to grow from 36% to 40-42% in the next few years.
- EBITDA margin in BSS was 9.0% in 4QFY24 and is now 9.9%, with expectations for further margin improvement as revenue grows and cost arbitration takes effect.
- The ground handling business, with a near-monopoly, has a 10-year concession with customers and has completed its 2.5-3 year gestation period. It is expected to contribute to profits.

- The plan is to add new customers at par or higher margins from current levels while focusing on rationalizing the large tail.
- ETR is roughly 15%, with an expectation of 15-16% ETR going forward (not-dependent of 80JJAA).
- The cost of ESOPs is INR11m in 1Q. UDS expects an annual cost of INR50m.

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 IFM 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 17%/32% in revenue/EBITDA over FY24-26E. With visibility of healthy earnings growth over the medium term and strong value from the BSS business, **we reiterate our BUY rating with a TP of INR400 (premised on 18x FY26E P/E on adj. EPS).** Our TP implies a 25% upside potential.

Financials and valuation

Consolidated - Income Statement							(INR m)
Y/E March	**2020**	**2021**	**2022**	**2,023**	**2,024**	**2025E**	**2026E**
Total Income from Operations	**13,149**	**12,100**	**14,836**	**21,061**	**24,444**	**28,703**	**33,597**
Change (%)	21.1	-8.0	22.6	42.0	16.1	17.4	17.1
Cost of services	444	306	1,348	3,469	1,020	1,007	1,209
Employees Cost	10,543	9,817	10,682	13,802	18,084	21,505	25,197
Other Expenses	1,577	1,309	2,032	2,792	3,998	4,451	4,838
Total Expenditure	**12,564**	**11,432**	**14,062**	**20,063**	**23,101**	**26,962**	**31,245**
% of Sales	95.6	94.5	94.8	95.3	94.5	93.9	93.0
EBITDA	**585**	**668**	**774**	**998**	**1,342**	**1,740**	**2,352**
Margin (%)	4.4	5.5	5.2	4.7	5.5	6.1	7.0
Depreciation	162	150	165	370	540	625	773
EBIT	**423**	**518**	**609**	**627**	**803**	**1,115**	**1,579**
Int. and Finance Charges	76	30	51	146	193	78	67
Other Income	19	63	144	60	236	198	202
PBT bef. EO Exp.	**366**	**552**	**702**	**542**	**846**	**1,235**	**1,713**
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	**366**	**552**	**702**	**542**	**846**	**1,235**	**1,713**
Total Tax	36	69	136	196	183	206	257
Tax Rate (%)	9.8	12.5	19.4	36.1	21.7	16.6	15.0
Minority Interest	-1	25	21	-12	-17	3	0
Net Income - post NCI	**331**	**458**	**545**	**358**	**679**	**1,027**	**1,456**
Net Income (ESOP adj)	**359**	**523**	**786**	**851**	**885**	**1,165**	**1,633**
Change (%)	-6.4	38.2	19.0	-34.3	89.8	51.1	41.9
Margin (%)	2.5	3.8	3.7	1.7	2.8	3.6	4.3

Consolidated - Balance Sheet							(INR m)
Y/E March	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**
Equity Share Capital	528	528	528	530	669	669	669
Total Reserves	1,910	2,393	2,929	3,349	7,791	9,007	10,463
Net Worth	**2,438**	**2,921**	**3,457**	**3,878**	**8,461**	**9,676**	**11,133**
Minority Interest	0	0	0	0	0	0	0
Total Loans	1,399	563	1,958	3,727	1,663	2,546	2,938
Deferred Tax Liabilities	31	26	108	158	117	117	117
Capital Employed	**3,868**	**3,510**	**5,523**	**7,763**	**10,241**	**12,339**	**14,187**
Net Fixed Assets	**372**	**283**	**678**	**1,232**	**933**	**1,355**	**1,404**
Goodwill on Consolidation	601	577	1,591	2,384	2,503	2,453	2,403
Other Assets	902	1,019	1,423	1,536	2,049	1,192	1,314
Total Investments	**15**	**40**	**0**	**38**	**16**	**16**	**16**
Curr. Assets, Loans&Adv.	**4,156**	**3,875**	**5,053**	**6,980**	**9,846**	**12,522**	**15,029**
Inventory	66	50	63	70	70	77	85
Account Receivables	3,342	2,689	3,475	4,277	5,039	6,212	7,272
Cash and Bank Balance	173	446	573	1,147	836	4,923	6,140
Bank Balance	74	192	137	504	671	0	0
Loans and Advances	501	498	805	982	3,230	1,310	1,533
Curr. Liability & Prov.	**2,177**	**2,284**	**3,222**	**4,406**	**5,107**	**5,199**	**5,980**
Account Payables	369	319	457	793	793	1,101	1,197
Other Current Liabilities	1,808	1,965	2,765	3,613	4,315	4,098	4,783
Provisions	0	0	0	0	0	0	0
Net Current Assets	**1,979**	**1,591**	**1,831**	**2,574**	**4,739**	**7,323**	**9,049**
Appl. of Funds	**3,869**	**3,510**	**5,523**	**7,764**	**10,241**	**12,339**	**14,187**

Financials and valuation

Ratios

Y/E March	2020	2021	2022	2023	2024	2025E	2026E
Basic (INR)							
EPS	**6.3**	**8.5**	**10.5**	**6.8**	**11.4**	**15.3**	**21.8**
Cash EPS	9.4	11.3	13.7	13.8	20.4	24.7	33.3
BV/Share	46.2	55.3	65.5	73.2	126.4	144.5	166.3
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	50.8	37.6	30.5	47.2	28.2	20.8	14.7
Cash P/E	34.1	28.3	23.4	23.2	15.7	13.0	9.6
P/BV	6.9	5.8	4.9	4.4	2.5	2.2	1.9
EV/Sales	1.4	1.4	1.2	0.9	0.8	0.7	0.5
EV/EBITDA	30.8	25.9	23.2	19.5	14.9	10.9	7.7
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	-2.5	65.2	18.2
Return Ratios (%)							
RoE	13.6	17.1	17.1	9.8	11.0	11.3	14.0
RoCE	20.8	13.9	13.6	6.7	9.2	9.8	11.5
RoIC	27.5	19.0	17.8	9.4	10.2	13.7	20.8
Working Capital Ratios							
Asset Turnover (x)	3.4	3.4	2.7	2.7	2.4	2.3	2.4
Debtor (Days)	93	81	85	74	75	79	79
Creditor (Days)	10	10	11	14	12	14	13
Leverage Ratio (x)							
Net Debt/Equity	0.5	0.0	0.4	0.7	0.1	-0.2	-0.3

Consolidated - Cash Flow Statement **(INR m)**

Y/E March	2020	2021	2022	2023	2024	2025E	2026E
OP/(Loss) before Tax	367	544	709	542	846	1,235	1,713
Depreciation	162	150	165	370	540	625	773
Interest & Finance Charges	217	86	220	538	274	858	0
Direct Taxes Paid	-245	-125	-214	-204	-415	-206	-257
(Inc)/Dec in WC	-446	630	-571	-98	-218	2,791	-289
CF from Operations	**55**	**1,285**	**309**	**1,148**	**1,026**	**5,303**	**1,940**
Others	0	0	0	0	0	0	0
CF from Operating incl EO	**55**	**1,285**	**309**	**1,148**	**1,026**	**5,303**	**1,940**
(Inc)/Dec in FA	-685	-68	-578	-1,315	-1,175	-936	-723
Free Cash Flow	**-630**	**1,217**	**-269**	**-168**	**-149**	**4,366**	**1,217**
(Pur)/Sale of Investments	73	-115	59	-251	-2,315	0	0
Others	10	18	47	37	-74	0	0
CF from Investments	**-602**	**-165**	**-472**	**-1,530**	**-3,564**	**-936**	**-723**
Issue of Shares	0	0	0	0	3,851	0	0
Inc/(Dec) in Debt	612	-783	429	428	-1,228	-279	0
Interest Paid	-36	-38	-95	652	-246	0	0
Dividend Paid	0	0	0	0	0	0	0
Others	-14	-25	-45	-125	-150	0	0
CF from Fin. Activity	562	-846	289	956	2,227	-279	0
Inc/Dec of Cash	**15**	**274**	**126**	**574**	**-311**	**4,087**	**1,217**
Opening Balance	160	173	446	572	1,146	835	4,923
Closing Balance	**175**	**447**	**572**	**1,146**	**835**	**4,923**	**6,140**

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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