

September 22, 2023

IPO Note

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Issue Details

Price Band: ₹ 280 to ₹ 300
Issue Opens on: September 25, 2023
Issue Closes on: September 27, 2023
Lot Size: 50 Shares & in Multiples thereafter

Issue Highlights

Issue Size : ₹ 640 Cr.
No of Shares : 21,333,333
Face Value : ₹ 10

Offer Structure

| Issuance | ₹ in Cr. |
|----------------|------------|
| Fresh Issue | 400 |
| Offer for Sale | 240 |
| Total | 640 |

Issue Breakup

| Reservation for | % of Issue | ₹ in Cr. (at upper band) |
|-----------------|------------|--------------------------|
| QIB | 75 | 480 |
| HNI | 15 | 96 |
| Retail | 10 | 64 |
| Total | 100 | 640 |

Listing

BSE & NSE

Lead Managers

-IIFL Securities Limited.
 -Motilal Oswal Investment advisors Limited
 -SBI Capital markets limited

Registrar

Link Intime India Pvt Ltd.

ANALYST

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COMPANY OVERVIEW

Updater Services Limited commenced business in 1990, are in the business of providing integrated facilities management services ("IFM") and business support services ("BSS") across India. It is the second largest player in the IFM market in India and have the widest service offering in the industry. Within their BSS segment, it offer Audit and Assurance services through their Subsidiary, Matrix. It also offer employee background verification check services through Matrix. In addition, it provides sales enablement services through Subsidiaries Denave and Athena and offer mailroom management services through Subsidiary, Avon.

The company's portfolio of services cater to the needs of diverse customer segments across a range of sectors including FMCG, manufacturing and engineering, banking, financial services and insurance ('BFSI'), healthcare, information technology / information technology enabled services ("IT/ITeS"), automobiles, logistics and warehousing, airports, ports, infrastructure and retail, among others. As on June 30, 2023, it served 2,797 customers across various sectors, including certain marquee global and Indian customers such as P&G, Aditya Birla Fashion and Retail Limited, Microsoft, Hyundai, Saint-Gobain India Private Limited ("Saint-Gobain"), TCS, Honda etc.

As of June 30, 2023 the company has grown with a widespread network consisting of 4,331 locations (excluding staffing locations) managed from 129 points of presence with 116 offices situated in India and 13 offices situated overseas.

HIGHLIGHTS

1. Integrated business services platform, operating across diverse segments
2. Longstanding relationship with customers across diverse sectors leading to recurring business
3. Track record of successful acquisition and integration of high margin business segments
4. Pan India presence with large and efficient workforce coupled with strong recruitment capabilities
5. Technology at the forefront of their current and future business

OBJECTS OF THE ISSUE

1. Repayment and /or prepayment of certain borrowings availed by the Company (₹ 133 Cr.)
2. Funding working capital requirements (₹ 115 Cr.)
3. Pursuing inorganic initiatives (₹ 80 Cr.)
4. General corporate purposes

Offer for Sale of up to 8,000,000 Equity Shares by the Selling Shareholders

OUR VIEW

Updater Services Limited established in November 2013, are in the business of providing integrated facilities management services ("IFM") and business support services ("BSS") across India. The company has also undertaken the acquisition of various businesses over the years where its strategy has been to acquire and integrate businesses that are complementary, thereby creating value addition. As of March 31, 2023, it had 1427 customers under the IFM segment and 1669 customers under the BSS segment.

The sector the company serves is highly labour intensive any spike in the attrition rates or inability to attract and retain skilled manpower could have an adverse impact on the business operations. The gross attrition rate in FY 2023 was as high as 77.6%. The company operates in the industry which highly depends on the quality of the service provided, any deterioration in the quality can have an adverse impact on the company's revenue. The landscape of the service industry is highly competitive and the contracts maybe terminated or failed to be renewed. The company needs to maintain a strong foothold in the quality and also retain skilled manpower.

The revenue CAGR is approximately 32% over the years FY21-23. The company operated on an EBITDA margin of 4.75% and PAT margin of 1.64% for year ended FY23. Generating an ROE and ROCE of 9.4% and 14.17% respectively for FY23. The company is asking for a PE multiple of 44.77x on the upper end of the price band and using diluted EPS for FY 2023 (₹ 6.7), whereas the industry average P/E is around 27, the issue seems to be a little expensive.

However, improvement was seen in topline but bottomline was fluctuating through FY21-23. At the same time, trade receivables of the company doubled which raises a concern. Outsourcing various non-core business activities by companies to third parties is rapidly evolving. Also, it is planning to expand its global presence.

Thus, looking at both opportunities and risks involved in the business, we are neutral on the company.

Brief Financials

| PARTICULARS | FY '23 | FY '22 | ₹ in Million |
|-------------------|-----------|-----------|--------------|
| | | | FY '21 |
| Total Income | 21,120.90 | 14,978.93 | 12,163.51 |
| Total Expenditure | 20,579.02 | 14,269.52 | 11,619.25 |
| EBITDA | 997.71 | 865.36 | 702.24 |
| Profit before Tax | 544.26 | 709.41 | 541.88 |
| Profit after Tax | 475.61 | 573.69 | 346.05 |
| E.P.S. (Diluted) | 8.47 | 10.40 | 6.70 |
| P/E (x) (Diluted) | | - | - |
| RNOW (%) | 9.34 | 16.24 | 15.79 |

PRICE CHART (@ ₹ 300) (Retail Category)

| LOT SIZE | Amount |
|----------|---------|
| 50 | 15,000 |
| 100 | 30,000 |
| 150 | 45,000 |
| 200 | 60,000 |
| 250 | 75,000 |
| 300 | 90,000 |
| 350 | 105,000 |
| 400 | 120,000 |
| 450 | 135,000 |
| 500 | 150,000 |
| 550 | 165,000 |
| 600 | 180,000 |
| 650 | 195,000 |

HNI Payment Chart

| Category | No. of Shares | Minimum Bid Lot Amount(Rs.) |
|--|---------------|-----------------------------|
| Between ₹ 2 to ₹ 10 Lakhs (Minimum Shares) | 700 | 210,000 |
| Between ₹ 2 to ₹ 10 Lakhs (Maximum Shares) | 3,300 | 990,000 |
| Above ₹ 10 Lakhs | 3,350 | 1,005,000 |

Indicative Time Table

| Tentative Events | Indicative Dates |
|---|------------------|
| Finalisation of Basis of Allotment with the Designated Stock Exchange | 04/10/2023 |
| Initiation of refunds/unblocking ASBA Fund | 05/10/2023 |
| Credit of Equity Shares to demat accounts of Allottees | 06/10/2023 |
| Commencement of trading of the Equity Shares on the Stock Exchanges | 09/10/2023 |

For more details, please refer RHP,

(https://www.sebi.gov.in/filings/public-issues/sep-2023/updater-services-limited-rhp_77099.html)

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