Redefining Business
Service

15TH February 2023

To:	To:
BSE Limited (BSE) Corporate Relationship Department Phiroze Jeejeebhoy Towers, 25th Floor, Dalal Street, Mumbai- 400001 BSE Scrip Code: 543996	National Stock Exchange of India Limited (NSE) Listing Department Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai — 400051 NSE Code: UDS

Dear Sir,

Sub: Transcripts of the Earnings Conference Call held on February 12, 2024

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with further reference to our letter dated February 2, 2024, enclosing herewith the transcript of the earnings conference call for the quarter and nine months ended December 31, 2023.

We request you to take the same on record.

This is for your information and records.

Thanking you,

Yours Faithfully,

For Updater Services Limited

SANDHYA Digitally signed by SANDHYA Date: 2024.02.15 19:25:00 +05'30'

Sandhya Saravanan
Company Secretary and Compliance Officer

“Updater Services Limited

Q3 FY '24 Earnings Conference Call”

February 12, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on February 12th, 2024 will prevail

MANAGEMENT:

1. MR. RAGHUNANDANA TANGIRALA – PROMOTER, MANAGING DIRECTOR AND CHAIRMAN – UPDATER SERVICES LIMITED
2. MR. AMITABH JAIPURIA - NON-EXECUTIVE DIRECTOR – UPDATER SERVICES LIMITED
3. MR. PC BALASUBRAMANIAN - EXECUTIVE DIRECTOR – UPDATER SERVICES LIMITED
4. MS. RADHA RAMANUJAN – CHIEF FINANCIAL OFFICER – UPDATER SERVICES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY24 Earnings Conference Call of Updater Services Limited. This conference call may contain forward looking statements about the company which are based on beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Raghunandana Tangirala, Promotor, Managing Director and Chairman from Updater Services Limited. Thank you and over to you sir.

Raghunandana T: Yes, thank you. Good afternoon all of you. Warm welcome to everyone present on this call. I have with me Amitabh Jaipuria, Non-Executive Director, PC Balasubramanian, Executive Director and Radha Ramanujan, who is our CFO. Thank you for having all of you on this call. Hope you all received the investor deck by now and for those who have not had it, you can view them on the stock exchanges or company website.

Just to give you a brief again on UDS, we will evolve today into a leading integrated business services platform present across the country, which has been pan India for the last decade or so and servicing customers across all industries, very diverse industries. We have got a very well experienced professional management team running each of our business verticals. Inall our vertical have been industry leaders in whatever we do, either in the IFM space or in the BSS space.

IFM is the Integrated Facilities Management and the BSS is the Business Support Services. I'll come to that in a moment. During the last quarter, IFM has contributed, which has generally been the trend the last two, three years, about roughly about 65% of revenue and about 35% revenue from the BSS segment is at an overall very high level.

However, when Radha is taking you through the numbers, she'll give you the details. As you know, IFM is basically on the soft services like cleaning and support and the hard services like engineering and electrical, water and energy services. What we do at IFM, just to brief you, is manage these facilities, could be an IT park, could be a hotel, could be an airport, could be a commercial building.

That's what we do in the IFM space. In the BSS space, we have largely sales enablement, employee background verification, audit and assurance, and mailroom management, largely three large business verticals. Okay, in all these spaces, please, whatever services we've done, we are holding market leadership with a market share approximately in both sales enablement and the audit and assurance about 20%.

All of the business are B2B, and that's what we would want to be a B2B services platform. In the mailroom and niche logistics, we have roughly about 18% market share. We maintain 90%-95% customer retention across all businesses.

Coming to the IFM piece, which is largely 65% of the overall revenue, we have had a fairly good uptick in terms of the industry infrastructure going fast, commercial space, and then our office retail space growing at about 50 odd million square feet per year. We see there a large uptick. However, this quarter, it would look a marginal growth of 6% because we had exited certain unviable businesses in the IFM space.

Otherwise, the IFM entire scenario looks good in terms of market growth, and we also wish to grow along that same line. We also have a large manufacturing presence or manufacturing customers in the IFM space, which is largely automobile and other manufacturing. That is also growing at about 15%, 16%.

We try to capitalize there on the manufacturing space in the IFM. Lastly, on the acquisition, we have raised money for acquisition. We haven't done any acquisition as of now, but we are seriously working on that.

We will look at targets which will complement our businesses either directly or add capabilities to our existing service line, which is what we hope to want to do at least this year. This is what is roughly the whole business is today. And I would hand over to Radha, our CFO, to give us the details on the financials. Thank you.

Radha Ramanujan: Thanks, Raghu. Good afternoon, everyone. I first share the highlights of Q3 FY24 and then take you to the nine-month-ended FY24.

The overall revenue from operations grew by 18% year-on-year to INR6,404.54 million. The IFM segment grew 6% year-on-year to INR4,278 million, and BSS segment grew by 55% year-on-year to INR2,288 million. During December 22, we acquired Athena, and the reported number last year has only eight days of revenue.

So hence, excluding Athena for a like-to-like comparison, the BSS segment grew by 33% year-on-year. The revenue split between IFM and BSS segment, so that 65% for IFM, 35% for BSS. Compared to 73% IFM and 27% BSS last year same time.

A BSS segment gives us higher margin compared to IFM segment, and increasing the revenue share is showcasing a strong improvement in a margin. EBITDA grew by 97% to INR393 million, whereas the adjusted EBITDA grew by 69% year-on-year to 446 million. As some of you may be aware, the adjusted EBITDA is excluding certain one-off expenses like ESOP cost, it excludes the fair value changes in liabilities payable and paid during the quarter to the promoters of acquired subsidies.

To give a brief, in Q3 FY24, our ESOP cost is INR22 million. The fair value changes in liability on account of the acquired subsidiary is INR32 million. This is primarily interest unwinding with respect to the liability payable to promoters of Denave and Athena.

By FY25, Denave would become a 100% subsidiary of the company, and by FY27, Athena would become 100% subsidiary of the company. Adjusted EBITDA margins stood at 7%, which was 4.9% last year, partly due to the acquisition of Athena also, which is a high margin business. This is in line with the commentary of further scaling margins on account of providing integrated and supply solutions, yielding higher margins.

Adjusted PAT again witnessed a substantial growth at 122% year-on-year. And stood at INR274 million. Cash profit again grew by 110%, at INR408 million.

Coming to 9-month FY24 financial, the total revenue from operations grew by 19%, to INR18,242 million. EBITDA grew by 56%, to INR1,048 million. And adjusted EBITDA grew by 23%, to INR1,251 million.

In the 9-month ended FY24, our total ESOP cost is INR82 million. And we hope to close the year with INR110 million as a fully paid out ESOP cost. Similarly, the 9-month FY24 fair value changes, which is recorded at INR121 million.

Adjusted PAT grew by 6% year-on-year, to INR675 million. And the cash PAT grew by 31% year-on-year, to INR1,073 million. Our adjusted ROCE on an annualized basis stands at 23.2%. We are a net cash positive company. And our debt-to-equity ratio is negative at 0.32x, as on December 23. Now we open the floor for question and answer.

Moderator: Thank you very much. We will now begin the question and answer session. And the first question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Yes, good afternoon, gentlemen. Thanks for updating the presentation. So my question was regarding to have more understanding of our business.

And going through a slide number 36, can you highlight upon and make us understand what is this IFM business model that is in-house, outsource? So what is how it works and what are the potential over that on that vertical?

Raghunandana T: Ah, good, good, good, good question. I'll give you a very small brief. IFM is Integrated Facilities Management Services.

What we do here is to manage facilities. A facility could be a building, could be an airport, could be a hotel, could be a hospital. We do all the backend maintenance of the building, which could be soft services, could be engineering services, could be support, a mailroom services, hygiene services, all these to manage these facilities.

So that's largely the integrated. Why? Because we combine everything and give it as a one-stop solution. This is what we do in the IFM segment. Does that answer your question?

Sanjay Shah: Yes. But what is that in-house we do and what outsource we do? How, what is outsourcing means?

Raghunandana T: We have always been following a model of self-managed, which means everything is in-house. All services or specialized services are done in-house. There nothing we outsource.

Amitabh Jaipuria: So Raghu, may I? I'll just...

Raghunandana T: Yes, please, please Amitabh.

Amitabh Jaipuria: Yes, so you know when we say outsource services, the customers are the ones who are outsourcing these services. So whether they are soft services or cleaning services as Raghu mentioned or the services where we are more strong which is like production support services or engineering services which means that you know we help them maintain their gensets, power systems, lighting systems, HVAC systems and all of those. So and also administer all the annual maintenance contracts the AMCs that they have.

So that is the services that they outsource to us. Now we don't outsource anything almost as Raghu mentioned because we do almost everything in-house. So all the people that are deployed are people that are on our payroll.

All our technology is largely in-house technology and all the processes etcetera that we deploy are all our own. So that is how it works. There are many other companies for example who would outsource parts of their operations.

Maybe even take some people on you know large number of people on subcontracting and those kinds of things or have payroll you know outsource their entire payroll. We don't do any of that.

Sanjay Shah: Yes that's understood correct.

Amitabh Jaipuria: Yes so all the value-add that we do is in-house and we serve you know as you have seen on one of those slides almost 1700 customers now in IFM and almost an equal number of customers also in BSS. So together it's almost 3000 customers plus that we and marquee names as you can see. I hope that helps you understand it.

Sanjay Shah: Very helpful now it's very clear which was creating doubt in our mind. Thank you. My next question was our supporting services in IFM for airports. How many airports right now we are doing and what job we do over there and what is the scope of growth in that vertical?

Amitabh Jaipuria: So we do two things at airports. One is the provision of engineering services. For example we do Delhi Terminal 3. We have been doing for a long time. We do their air services building etcetera. We do many other airports as well. So Goa for example the new terminal is ours. Guwahati is ours. We also do other terminals.

Sanjay Shah: So basically what we do there? There are different many things but what we do?

Amitabh Jaipuria: So similar as we mentioned for the buildings. So we may help maintain their HVAC systems. We help maintain their power systems, their lighting, the entire other equipment that they may have, the AMCs that they have.

We are also now doing some services on the air side as well. So terminal building basically is what we handle largely. So that is what we do for airports.

The other business that we have for airports which is centered around airports is what is called airport ground handling which is what you see separately. Airport ground handling is all the set of services that are provided once an aircraft comes into the gate. So you know once you land, once the aircraft lands it comes to the terminal.

Now once the aircraft stops everything that happens to that aircraft from that point on till the aircraft is ready to take off again is handled by us. So for example the baggage handling, for example the entire provision of ground power of ground air through machines called AHUs and ground power units, GPUs and those kinds of machines including the pushback. Once the aircraft is ready there is something that makes the aircraft go back right.

So that is called the pushback. So including all of that, including the passenger movement, baggage movement, all of these services, these are what is called airport ground handling. So that is the business that we have on the, that is part of BSS. Part of business support.

Sanjay Shah: That comes into BSS right? That is correct. That is correct. Building comes into IFM right?

Amitabh Jaipuria: That is correct. Absolutely correct.

Sanjay Shah: Good. So my next question was regarding our subsidiary that is acquisition what we have made in Matrix, Denave and even Athena. So now how the valuation will derive when we will achieve up to 100%? So what are our, whenever we acquired, whatever our terms and conditions and what cost will be involved to acquire them?

Amitabh Jaipuria: So great question. I will you know request Raghu and Radha to add color but I will start by telling you that our method of accounting is such that the consolidated value of 100% of the acquisition is baked into the numbers. Because the way we do the accounting, because our share purchase agreement has a 100% commitment to purchase the shares except for Avon which is a very small company.

So in all the others, since there is a 100% commitment to acquire, the overall cost of acquisition is accounted for upfront as a liability. Because these companies are doing very well and they are above the assumptions that we had made when we acquired these companies, that is why you see this adjustment to our EBITDA and to the PATs number that we have talked about because of the fair value change. So supposing, I will give you an example.

Supposing they were supposed to deliver INr100 crores of EBITDA when we bought the company. Right? Now they are delivering INR120 crores of EBITDA. So the way we do the acquisition is that if they do better, then we pay slightly more. And because instead of INR100 crores, they are doing INR120 crores, so obviously you have to pay more. The multiple will apply to the INR20 crores also.

That extra is routed through the P&L which is a good thing for the company and for shareholders because the company is doing better. So now 100% of Matrix is accounted for because as you will see on one of the slides 99.99% of Matrix s already acquired slide 17. And you will see that Denave, we are at 57.52% and Athena, we are at 57%. And Denave, the next tranche will be going now, so we will be at 75%.

And Athena will be, as Radha mentioned, will be 100% owned by us by the time we get to FY27. So but for the derived value that you talked about, 100% of the current value reflects the inherent business, the full acquisition of the inherent business.

Sanjay Shah: Right. Very helpful, sir. Very helpful to understand. So my last question was regarding how we can see this company in the next two, three years after acquiring this all 100%, even airport business growing. I feel, we feel that margins must be better on that side. And which are the other verticals you see opportunities?

Amitabh Jaipuria: Raghu, may I start with that? Or would you like to start?

Raghunandana T: Yes, yes, you can.

Amitabh Jaipuria: Okay. Thanks. So the way we look at the business, our business is tied to a very large extent to the economy. Because what happens is as construction goes up, and we can all see new buildings, new warehouses, new factories coming up all over the place. In fact, a statistic that I have given very often is that 50 million square feet of office space is coming in, almost 50 million square feet of warehousing space is coming in, almost about 7 million to 8 million square feet of, you know, within the top six, seven cities of residential, the thing is coming in. So all in all, a huge amount of constructed space is coming into the market.

Every square foot of constructed space that comes into the market is a potential market for us. Because we have to maintain that building, you know, we have to provide soft services, engineering services, and all of that. And also in industrialization, you can see that our industrial activity is picking up significantly.

Every day we are hearing about new FDI, and about new capital expenditure that is taking place. What that does is that it gives us the opportunity to operate in the market where we are the strongest, which is industrials and production support services and engineering services. Also, we are seeing new airports come up.

Airports is a big part of our business as well. So we are seeing that in fact the government is putting on a lot of statistics where now we have 147 airports, when earlier we used to have only about 60 to 65 airports, just 10 years ago. So therefore, all of these are providing new opportunities for us.

Also on the BSS side, there are some businesses where we have international customers. For example, in Audit and Assurance, we have international customers like P&G. On the Denave side, which is sales enablement, we have customers such as Microsoft, and we have very recently now opened an office in South Korea.

So all of this is sort of talking about new avenues of revenue and growth for the company. At what can we grow at? The historical rates of growth are given in one of the slides. You can see those. And I think it is slide number 25. You can see the historical rates of growth.

We believe that these rates of growth can be higher than what we have achieved in the past. Exact numbers, of course, forward-looking numbers, we will not be able to give you. But we believe that we can grow at roughly about 3x the rate of growth of the economy.

So if the economy grows at 7%, we should be in a position to grow at roughly in the region of about 20%-21%. That is what we are doing our internal modeling on, and we believe we can get it done.

Sanjay Shah: Well explained. Thank you very much. I'll come back in queue for more questions, and good luck to you also.

Moderator: Thank you. The next question is from the line of Balaji from IIFL Securities. Please go ahead.

Balaji: Good afternoon and congrats on a good set of numbers. I had a few quick questions. So the first one is on the IFM revenue growth. You did mention that there were a few unprofitable contracts that you exited and that in the medium term you should revert to something like mid-teens growth level on the revenue front. So how long should one expect fairly modest revenue growth numbers? That is number one.

Number two pertains to the BSS segment. So here I can see that your sales enablement numbers, if I back calculate based on what you have provided in the PPT, it seems to have done a quarterly revenue run rate of close to INR174 crores. So may I know how much of that is Athena and how much of that is Denave? And the related question would be on the recent curbs by RBI on NBFC lending. So do you see any adverse impact potentially coming on Athena from this? So those would be my two questions.

Amitabh Jaipuria: So I'll take the Athena question up front and then I will let Radha handle the breakup between Denave and Athena. That will give us the time to do that number as well. See on Athena, to your question about NBFC curbs and how does that impact our business, that does not impact our business at all.

So our exposure to NBFCs is very, very limited. Our exposure to the financial market is mainly through the banks because we do selling for banks. And therefore, any curbs on lending by NBFCs impacts us to a very small extent. In fact, negligible. Radha, over to you for the breakup between Dinev and Athena.

Radha Ramanujan: In Q3, we had INR135 crores of revenue coming from Denave and INR37 crores of revenue coming from Athena.

Raghunandana T: Yes. And to answer first question, yes, we did come out or consciously exited certain unviable businesses last quarter. So that's why IFM growth will be slightly muted at 6%. We would recover this to the high teens over the next three quarters. So that is the medium-term.

Balaji: Okay, thank you. And I just had a quick follow up. So from the sub-segment wise breakup within BSS, I can see that you have done really well in sales enablement, mailroom management and niche logistics and airport ground handling.

So congratulations on that. But on audit and assurances and employee background verification checks, there seems to be significant Q-o-Q decline. So I'm not very sure what exactly is causing the weakness in the audit and assurance segment. So is it something one off in nature or are we seeing some general slowdown? And when do you see the employee background verification checks to normalize? I do understand that IT hiring is a little bit weak, but when do you see this bottoming out?

Amitabh Jaipuria: Raghu, you want to take that or should I?

Raghunandana T: You can or I can. Either way. Or even Bala can take it.

PC Balasubramanian: It's a good question. And we're all aware that I will first talk about background verification business. This is Bala. It is not slightly down. The IT hiring is massively down. And predominantly for Matrix, the customers are from IT industry, IT and ITES industry. So hopefully, when the employment picks up in that space, the business will automatically grow. And when it grows, it actually grows very significantly.

I don't see such a major problem in the audit and assurance space because actually we have done well in the audit and assurance business this year. So I don't know from where an audit will go. What was that? You can tell me.

Radha Ramanujan: The audit and assurance business is 2.2% growth and employee background 1.7%. The revenue share is very less.

PC Balasubramanian: No, audit and assurance business is better. It's looking better this year. 2% growth over the last quarter. The share of business is always like that. But in terms of absolute growth, audit and assurance business has grown better this year. If you want, maybe we will share that.

Raghunandana T: Audit and assurance business has roughly grown at about 20%, whereas your employee background has degrown by 20%. However, we made a refill with different customers from different segments other than IT.. I think IT hiring will not pick up pace at least in the next two quarters. However, we have just filled that up with non-IT. It will take another two, three quarters to normalize.

PC Balasubramanian: Absolutely. The progress will be towards BFSI and other segments who are still hiring reasonably well. So IT will take another one or two quarters and we are ready to wait for it.

Amitabh Jaipuria: The other way to look at this, if I may add, Bala, Raghu, is also to give perspective to our analyst. We believe that while it will take time to come back, we do believe that we have pretty much hit rock bottom. So the other way of looking at it or asking the same question would be that, do you see further downside?

So we don't see the further downside on IT hiring. But at what pace it recovers, you all will have a better sense because all of you track the IT majors also. So you all will have a good sense of when it will come back. But we do believe that the downside is over and we have hit rock bottom.

PC Balasubramanian: You are absolutely correct. The downside is over, but the upside will progress gradually is what we said.

Balaji: Okay, got it. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Nitin from Investec. Please go ahead.

Nitin: Yes, hi, good afternoon. I had a couple of quick questions. So one is the airport ground handling this quarter, could you give us some sense on how much incremental revenue added on a sequential basis? Because overall it looks like BSS has added some INR30 crores. Just wanted your thoughts on how big a contributor was airport ground handling this quarter?

Amitabh Jaipuria: So Radha will give you the exact number, Nitin, but airport ground handling is not a very major contributor to our revenue right now. And at this particular point in time, it is also a negative EBITDA. So it's not a contributor in that sense. However, we believe that as we go forward, because this year not only will it turn positive, which is what we had also mentioned during our roadshows.

So we are sticking to that deliverable and it will turn positive. However, the contribution to revenue will remain muted because the overall revenue contribution this year in all probability will be somewhere in the region of between INR30 crores to INR40 crores. But the overall revenue of the company, of course, will be way upwards of INR2,400 crores, INR2,500 crores.

Nitin: Right. So for that incremental profitability, there'll be a couple of airport additions, right, is my understanding. So you'd need those revenue additions to drive the EBITDA neutral target. So just broad thoughts on where we are today on that would be helpful. Because it's meaningful from a margin delta perspective, maybe 40, 50 bps, maybe.

Amitabh Jaipuria: Yes. So given the overall size of the EBITDA, frankly, it doesn't contribute meaningfully, but it's an important line of business for us for the future. And just to give you a sense, for example, Ayodhya has started and we are all seeing the surge in the air traffic for Ayodhya. All major airlines are announcing flights to Ayodhya.

On the 22nd of Jan and on the day before the Pran Pratishtha ceremony, there were over 100 charters and the bulk of them were handled by us. So, therefore, the confidence in the business and the fact that these airports are coming online and that we will be close to what we had predicted we will do for airports is there. So the Ayodhya, it will reflect in this quarter, in Q4.

Nitin: Sure. And what is the current gross debt number?

Amitabh Jaipuria: Gross debt? Radha, can you help?

Radha Ramanujan: We have a net cash positive of INR34 million.

Nitin: Yes. But on the gross side, there will be a number somewhere. So September '23.

Radha Ramanujan: September '23, the published balance sheet numbers, we had a nil borrowing compared to March '23, which is 179 million. We have 290, which is the borrowing which is kept for dying down. Overall, with the fixed deposit and borrowing, we have a net cash situation.

Nitin: Yes. No, what I was trying to understand is after paying down INR133 crores, what is the balance gross debt is what I was trying to figure at the end of the current quarter. Because the interest cost is still high. I think there is some room for that to come off. So, if you could just help with the thought process on how the interest cost will evolve considering we have paid down INR133 crores.

Radha Ramanujan: Yes. At this point of time, we still have INR75 crores of borrowing in our book as of December. This will all get closed before 31st March. One will be spilling over. There are some fixed deposits which are maturing in April. As and when the fixed deposit matures, we will close the borrowing.

Nitin: Got it. Perfect. And see, there has been some rehash on this cost of services between employee cost and other expenses. And if you look at the -- it will be great if you could give us some comparables for the previous quarter because that will be helpful.

The second is on the -- there is some difference in the other expenses and employee cost. If you look at the PPT versus the Ind AS numbers, it is a reclass somewhere. I think you have split certain numbers between other expenses, employee costs and other income. So, just wanted some clarity there. As and when possible, even an email is fine.

And yes, so those are the broad things. And if you could give us a breakup on the other operating income for the quarter, that also would be helpful because it is a move from INR1.8 crores to INR5.3 crores. So that was another thing. Thank you.

Radha Ramanujan: Okay. I can also say that based on the cost of services, ideally what happened is cost of services has two elements. Some of them are direct employee costs, which we see with one of our subsidiary companies, Denave, used to engage subcontractors.

But now, KPMG suggested that though it is through subcontractor, it is in the position of payment for manpower. So, it got classified into employee benefits. And the cost of service also had some elements of marketing services. So, that got reclassified into other operating expenses.

Amitabh Jaipuria: And Radha, since he has requested for this thing on email, maybe we could also sort of whatever is publicly available, we could help with the analysis perhaps.

Nitin: Thanks.

Radha Ramanujan: Okay. I can -- yes, I will just give you the breakup as well, how much got reclassified.

Amitabh Jaipuria: Yes. Basically a comparison between these two classes of expenditure lines, between other expenses and employee benefits, because we've seen that go up from INR60 crores to INR140 crores. And therefore, the belief that there is a reclassification. We have already explained that for Denave that there was a difference. But if there is more detail that we could share, then we can share it offline.

Radha Ramanujan: I can share it offline while at the end of the call also I will be able to pull it out and then share it.

Amitabh Jaipuria: Perfect.

Nitin: The last one was on the other income breakup, other operating income breakup rather. It moved up quite a bit on a B2C basis, excluding the finance income, just the pure other operating income.

Radha Ramanujan: Okay. like in the last quarter also, the provisions which got reversed, which they no longer require to include is about INR5 crores. And interest income is around INR4.5 crores.

Nitin: Perfect. Thank you so much and all the very best.

Amitabh Jaipuria: Thank you.

Moderator: Thank you. The next question is from the line of Shubham Jain from NV Alpha Fund. Please go ahead.

Shubham Jain: Hi. Thank you for the opportunity. I just had one bookkeeping question. So we look at your depreciation trend. It's been at the INR12.5 crores number ex of amortization that we do for the investment. This seems a little higher on the fixed asset base that we have. Just wanted to get a break up of what all constitutes depreciation expense?

Radha Ramanujan: Can you please repeat what all constitutes, which expense?

Amitabh Jaipuria: The depreciation expense, Radha. So he wants to understand the depreciation expenditure. And largely, of course, it is related to the global equipment. But you could explain that.

Radha Ramanujan: Yes, the depreciation predominantly coming out of the equipment that we are having, which is leased out to global site handling system.

Amitabh Jaipuria: So as you can see, the increase is from the time that we started investing in the airports and we won the newer airports. That is why the investment in equipment and therefore the depreciation line.

Radha Ramanujan: As we keep adding airports and then we keep buying more assets, it adds to the depreciation.

Amitabh Jaipuria: Yes, but by and large, the investment cycle is done. We will need a little bit more for the smaller airports that we won. Some of that is also done. Another INR20 crores, INR25 crores of investment is probably what is going to happen. No more than that.

Radha Ramanujan: And I would also like to clarify another element of 71 million and that is an account of the right to use the asset that's intangible, which we are depreciating, amortizing over a period of time.

Shubham Jain: Just one follow up on that. I'm assuming these are lease liabilities, which is why they're getting routed through the depreciation and some more might be through the finance cost. So what is the amount that is attributable to the airport handling, ground handling business and what is attributable to the rest of the business? If you could just help me with that number.

Radha Ramanujan: At the high level, I can say around 56 million is on account of the airport's flight handling. And there is another 71 million. Part of it is the [In audible] and part of it is an account of the other assets.

Shubham Jain: And is there a quarterly level or a monthly?

Radha Ramanujan: The lease, what they meant is for…

Raghunandana T: Total depreciation is how much?

Radha Ramanujan: Total depreciation is 140 million.

Raghunandana T: So INR14 crores for the quarter. And about INR10 crores would be -- on account of the equipment, it would be INR10 crores and INR4 crores will be other.

Shubham Jain: Got it. So INR10 crores is attributable to…

Raghunandana T: Approximately, it could be between INR8 crores to INR10 crores. Airport's ground handling.

Shubham Jain: Yes. Got it. Understood. The second question that I had was, you know, in the IFM business, we've done a 6% growth because of rationalization of certain accounts. What would have been the growth X of this rationalization?

Raghunandana T: It could be in the region of what, 16%, between 15%-16%.

Shubham Jain: Got it. Okay. No other questions. Thank you so much for your time. Good luck.

Moderator: Thank you. The next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Yes, a couple of questions. First is, what's your revenue mix between domestic and international?

Raghunandana T: About INR200-odd-crores in the overall revenue could be forex. And that's also because of one company Denave which roughly they have 50% of their revenue.

Radha Ramanujan: INR120 crores. Out of INR450 crores, INR120 crores is coming out of forex.

Lakshminarayanan: On a consolidated basis, on a full year basis, how much it will be as a percentage?

Radha Ramanujan: Around INR125 crores on INR2,450 crores.

Amitabh Jaipuria: About 5%.

Radha Ramanujan: Yes, 5%.

Lakshminarayanan: Got it. And second question is that, if you break your business into existing customer, old services, existing customer, new services, and new customers, how much of your business comes from existing customer? And what is your repeat customer rate?

Amitabh Jaipuria: So our repeat -- so almost 75% to 80% of our revenue growth year-on-year comes from existing customers this happens in two, three different ways. Either they give us new services to deliver to them, right? So for example, if we are doing soft services, they may give us hard services. If we are already doing engineering services, they may give us production support services, etcetera. So that is one area of growth from existing customers.

The other very important source of growth from existing customers is if they open a new facility, they might ask us to do that. So with Bosch, for example, we started with one facility. Today, if memory serves me right, we are doing close to six or seven facilities for Bosch. So that is another avenue of growth.

Third is if we are doing, for example, a production support services, they may also ask us to do warehousing services. So that's another avenue of growth with existing customers. Last is the traditional way of growth of existing customers, which is that today, if we are doing billing of INR3 crores per month, they may say, give us -- the scope may increase.

Because their production activity is going up, they may say, instead of doing A, B, C, D, number of people, we need more number of people or we need additional scope of services. So that is how existing customers contribute to growth. Our persistence of customers is very, very high.

During the roadshows, I'm not sure if you had the opportunity of attending one of them when we did the IPO. At that particular point in time also we were talking about the fact that there are many, many customers that we have who have been with us for almost decades. And the larger customers, in fact, have been with us, almost all of them have been with us for more than seven, eight years.

So this is how they grow, we grow with them. Your other question was, what would new customers contribute? So new customers who contribute roughly about 25% to 30% of our growth year-on-year. So if we grow INR500 crores in revenue, about 25% of that growth would come from new customers.

Lakshminarayanan: And how seasonal is your business? Is it like quarter-on-quarter, it sequentially grows or it's like bumped in one quarter?

Amitabh Jaipuria: So we don't have too much of seasonality. You will see that from our quarter-on-quarter numbers. Of course, right now, , because of the adjusted PATs, or the adjusted EBITDA, that trend may not be apparent. But we have also said this earlier in an earlier earnings call, that we are not subject to too much seasonality. We do have seasonality in some businesses, but not really in too many others.

For example, in retail, our exposure to retail business, they undergo a peak during the festive season. So therefore, their activity picks up, some of our activity also will pick up. But by and large, not too much of seasonality. There is also a little bit of seasonality during the festive season because of bonus payments, which is where we receive a little bit of a revenue bump. But that's about the only other thing.

Lakshminarayanan: I have one question related to HR. I just want to understand what's your total employee base and what's the kind of attrition you have? And another question related to the balance sheet, where I want to know, what is the days of sales outstanding? What is the kind of receivable cycles you actually have? And what's the taxation that actually one should look for on a steady state basis?

Amitabh Jaipuria: So I'll answer the attrition question. I'll look to Radha for the question on the other things that you asked. Yes. So on the attrition side, we believe we are below market and our attrition is below market. But in the frontline, in many of these businesses, especially on the IFM side, there is attrition. There is no doubt about that.

Right. So we probably will suffer close to about 6%-7% per month kind of an attrition, which is lower than what we believe industry is at. Industry, some of these companies are close to 7%-8%-9%. Some are even at 10% monthly. You can see that also from some of the other companies that are listed in this space.

And the attrition numbers that they talk about. Yes.

Radha Ramanujan: With respect to the DSO, we were at 80 and we are at 75 now.

Lakshminarayanan: Okay. And usually what's the band you operate in terms of DSO?

Amitabh Jaipuria: So this is the rough band. See, everybody has a term of close to two months credit. And by the time the invoice is submitted, they process it, we get paid. That's why it comes to roughly about 70 days. So we have reduced the DSO and we are trying to tighten it even further. Our ideal range would be below 70, but this is a business where approximately 60 days of credit is expected in almost every line of business that we have, except Athena, where our cycles are faster.

Lakshminarayanan: And usually do you see write-offs in this business because you have so many customers? And is it in your industry? What's your cumulative write-off over the last maybe several years? How do you look at it?

Amitabh Jaipuria: So our write-offs are very low. And over the years, we have clearly culled the quality of customers that we deal with. And Radha, if you can just help with the exact number of write-offs that we have had in the first nine months.

Raghunandana T: It should be roughly 1%-2%.

Lakshminarayanan: I didn't get a clear answer.

Raghunandana T: The write-off, if you look at the overall revenue, the write-off will be maybe 0.2%-0.3%.

Radha Ramanujan: Around 5 million, we can say. It won't be 1 to 1… It will be around approximately 5 million. So these are also not write-off. Actually, there could be disputes on calculations and reversals and other things. And rounding off and stuff.

Amitabh Jaipuria: Yes. So which means really 50 lakhs, even if you assume 60-70 lakhs for the year, that's what really we are looking at on a revenue base of close to INR2,500 crores.

Radha Ramanujan: Unless there are issues which are different, but a pure write-off that could be different.

Lakshminarayanan: Yes. And taxation? -- And one question related to the taxation, average tax on a steady state basis?

Radha Ramanujan: It's working out to 16% for us.

Lakshminarayanan: On a three-year or a five-year basis, what's the taxation assumption investors have to assume?

Amitabh Jaipuria: Yes. One moment. Radha, are you there? The question is, what is the tax rate that investors should assume? While Radha answers that, I just want to add one small color to your question. So the 80JJAA exposure for our company is negligible. Yes, so that's something that we do want to clearly state.

And unlike some of the other companies which are mainly into staffing, our exposure to staffing is very, very little. And therefore, the adjustment to our tax rate because of 80JJAA benefit is negligible. Radha, you can give him the exact number of tax rates right now.

Raghunandana T: Historically, it's in the range of 20%. So last year, it was 22%, I mean, nine months, right?

Radha Ramanujan: Nine months ended, it is 22%. But this quarter, it is 18%.

Raghunandana T: So historically, it's been about between 20% and 22%.

Amitabh Jaipuria: Yes. That's what I had instinctively said, 22%. Yes. So...

Lakshminarayanan: I mean, on a three to five year basis, investors can assume around 22%, right?

Amitabh Jaipuria: Yes. Between 20% and 22%. Yes. Okay.

Lakshminarayanan: This is very helpful. Thank you so much for your details. Thank you for your details.

Moderator: Thank you. The next question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Yes. Hi. I think great quarter management, especially on the margin side. We just want to understand a bit more on the margin improvement we have seen versus last quarter. Was most of the profitability improvement driven by the mixed change between BSS and IFM or given that you guys are trying to get rid of some of the low margin kind of clients? Are you seeing underlying profitability in the IFM space also improve? If you can just help quantify some bit of it.

Radha Ramanujan: One change for the substantial improvement in profitability is the contribution from Athena. This is a very margin lucrative business, giving 23% EBITDA margin and close to 16% on the PAT margin. Like in our profit contribution, nearly 21% of the profit contribution comes from Athena.

So that is also helping substantially growth compared to last December to this year, the contribution from Athena. From the business side also, the additional volumes have helped us close to 1% improvement in the operating margin. So both together has helped the substantial margin improvement.

Amitabh Jaipuria: So Mukul, just to add color to that, if you recall at the time of our roadshows as well, we had clearly talked about the fact that this is a business of scale. And as revenues grow, costs do not grow at the same pace. And therefore, there is operating cost leverage that kicks in. We had mentioned at that time that we have budgeted for a very, very modest 0.2% to 0.3% improvement in margins because of operating cost leverage year-on-year.

And we are clearly seeing that thesis play out. And we are executing to that, in fact, better than that, because she talked about 1%. But it's not 1% that will stay for the long term. But we will definitely be better than the 0.2, 0.3 that we had talked about in terms of improvement on operating cost leverage.

Mukul Garg: Right. And specifically on the IFM side, if we compare our journey throughout FY24 from Q1 to Q3, because growth has been impacted because of client rationalization, has that helped us deliver better profitability in this segment? Or is that something which has remained stable? And most of the value generation has happened on the mixed side?

Raghunandana T: No, that's largely true. It has happened because of the mix. And that was consciously -- we wanted to go towards there, right? We wanted to be in the higher margin businesses. So it is growth has happened in terms of the bottom line because of the mix. IFM has had its own kind of a churn. In terms of we have moved out some certain customers or certain unviable business that's been happening just after COVID and also little before COVID.

That's why you didn't see any large growth. But now we are now clearly hit like where we want to be. So now onward, we should have a high double digit growth. That's what the IFM says. But overall profitability will also keep increasing at a higher pace because of the mix of the BSS and IFM.

Mukul Garg: Understood. I think that that was clear. Thanks for answering my question. I'll get back into the queue.

Moderator: Thank you. The next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: Hi, sir. Good afternoon. In the BSS segment, so you said that segment is a higher margin business compared to IFM. So within that segment, which particular verticals are more margin accretive? And then the share of the business is 35% as of now. So where do you see it going next year or in two years or so?

Amitabh Jaipuria: Raghu, may I answer that?

Raghunandana T: Yes, yes, please.

Amitabh Jaipuria: So two things there. You asked, I'll take the second one first. You said, where can it go in terms of the proportion between BSS and IFM? We've maintained that IFM will also grow in the approximate region of 18%, 19%. And we have also been saying that BSS will grow slightly faster. And therefore, the ratio will keep getting better, but it will not be dramatically better. So right now, you see it as 65, 35.

Unless we make an acquisition on the BSS side, I mean, all our acquisitions have only been on the BSS side, and that will continue. So an acquisition led rebalancing of that number could take it to 40, 60, or something like that, depending on the kind of acquisition that we make and the size of the acquisition that we make. But organically, we believe that both businesses will grow at roughly similar pace.

And that's what we are seeing. So therefore, organically, that ratio will not change too much. Your second question was in terms of the margins within BSS. Within BSS, we have talked about the fact that airport ground handling will see breakeven and starting to contribute. And of course, in the long run, it will be a profitable business. So right now, its contribution is zero.

The Athena, Radha already explained, is a high margin business. And so that is a significant contributor. The other high margin business actually used to be employee background verification. It continues to be a good margin, but the margin there could have exceeded 30%, 35%. But that has been tempered down because of the volume that has come down.

The rest of our businesses are in the 10, 11, 12, 15 kind of percent range, which will be mailroom management, which will be audit and assurance, and which will be sales enablement. Those three major businesses. So Athena is profitable. Employee background verification is profitable, highly profitable, rather.

They're all profitable, but highly profitable. And on the IFM side, you have washroom hygiene concepts, WHC, which again is very, very highly profitable.

Rahil Shah: Okay. And just lastly, in terms of consolidated numbers, then any outlook for growth guidance, like what do you expect to end the year with in terms of revenue and then margins, what are steady state margins? And also if you could guide us in terms of growth rate next year. Thank you.

Amitabh Jaipuria: So we've been publicly talked about the fact that we should grow in the 18%, 19%, 20%, 21% kind of a region in terms of revenue. And that is something that we we continue to maintain. As I said, roughly 3x economy is what you should take as approximate growth rates. These are all approximate numbers. And please do not construe this as forward-looking statements.

The other piece in terms of margins, we have talked about the fact that our margins should improve in the region of 0.2%, 0.3% because of cost leverage. We have talked about the fact that margins should improve in the region of another 0.2%, 0.3% because of mix. So about half percent, but in this business, the margins also in the traditional businesses it's not as if this is going to continue to improve in infinity.

So, I mean, this is not going to become a 30% margin business. That's not going to happen. Right. So keep that in mind. But we are doing better than peers, better than all our listed peers. Our margin profile is better. Our margin profile is also much more resilient because we have a variety of businesses that we operate.

And so if there is a business cycle, for example, in the employee background verification, right now there is a downturn because of IT hiring. But that, as you can see in the results, BSS has still done very well. That is because other businesses have made up because even without the impact of Athena, we are still growing 33%.

So that growth has come basically from other businesses that have made up. So it's a resilient margin percentage, and it's better than peers. Those are the two takeaways to my mind.

Rahil Shah: Sure. Sure. Thank you, sir. Very helpful. Thank you for explaining. All the best.

Amitabh Jaipuria: Thank you.

Moderator: Thank you. The next question is from the line of Parikshit Kabra from PKeday Advisors. Please go ahead.

Parikshit Kabra: Hi. Thank you for taking the question. I wanted to discuss the IFM growth. You just now said that you're expecting overall growth to be at about 20%-21%, not expecting, but you're hoping. And I think earlier question was asked about what would have been the growth of the IFM business if we exclude the churn. And that was also said to be about 16%.

In the presentation, you have said that IFM has getting two big pushes, right? Or three big pushes. One is that the total number of infrastructure spaces are increasing.

Number two is that you're moving from in-house to outsourcing. And number three is that within outsourcing, also you're going from unorganized to organized. So one would think that the IFM organized market size, which is your relevant market size, would be growing exponentially. So why are we only growing at 16%?

Amitabh Jaipuria: So I'll take that. And Raghu has seen this business for 35-40 years. So I'm sure he'll add a lot of color to how he sees growth.

But in our view, what tends to happen is that these movements are slow and subtle, as you can see in the industry report that is also there on our website. You can see the rate at which the outsourcing change happens and the move from unorganized to organized happens. There is competition also in this space, which we acknowledge and respect.

We believe, of course, our offerings are far better. And that's why customers prefer us and stay with us for many, many years. And that's borne out by the data that we have.

And that's also borne out by the fact that a lot of our growth comes from existing customers. We do believe that growth will accelerate. But at this particular point in time, we do not want to overpromise to any of our shareholders or potential shareholders.

And we have maintained that we will grow in the region of between 18% and 21%. I think that's something which is a fair assumption. And we are looking forward to bettering that.

Raghunandana T: Absolutely right. And also, yes, the infrastructure is growing. All that is right. We're getting 50 million square feet. Now, that is very true. We could grow much higher, but we would want to be a little bit more conservative and not grow at 25%. So we want to keep it between 18 and 20.

Parikshit Kabra: Yes. Okay. All right. And my second question was that, with the new projects, new infrastructure buildings coming up, and when you are going to pitch for new business, as you said, it is a very competitive environment. And with your existing customers, you obviously have got good relationships and you have maintained them. But with new customers, how do you go and pitch?

What is your right to win versus one of the more, not one of the more, but one of the other sophisticated players? Not a smaller player, but I mean a sophisticated player. What is your right to win against them?

Amitabh Jaipuria: See, our right to win, and that's a great question, right. So our right to win remains satisfied customers. And today, given our customer base, we have references available from almost across the spectrum.

The second right to win is the fact that I'm a listed company now, so that's added a huge boost, right? Because people and customers believe, rightly so, that we are a company that is scrutinized and that is open to far more stringent regulation because of the fact that we are listed. And therefore, the quality of disclosures and the quality of numbers and the fact that we are accountable to a varied set of people outside, whether it is financial regulators, whether it is the market in terms of the stock exchanges, whether it is people like you who hold us accountable quarter on quarter.

So we believe that this is what many customers, especially the multinational customers, definitely give us points for this fact. The third is that as we grow bigger, there is consolidation and one right to grow and one right to win customers is the fact that we are large. So that is another right.

The other piece that you will see is the variety of services that we have. So that is another right because there, one of the forces that we have listed for growth is the fact that customers are also consolidating the number of services that they have with vendors. So earlier, if they had one vendor for every microservice category, today they do not or at least they prefer not to.

And the fact that I can offer services across the spectrum is also a huge benefit. So the range of services that I have, the number and the size of customers and their referral value that I have, the competitiveness that I am able to bring about without dropping margins, because we have talked about the fact that this is a business of scale. And as you grow bigger, your ability to offer competitive pricing without compromising margins actually goes up because your base costs are comparable to any other company, but your volumes are much higher, right?

So that is another factor that plays in and the range of services that we offer is another factor that plays in. Hope that answers it.

Parikshit Kabra: Yes, perfect. Thank you. Thanks a lot.

Moderator: Thank you. As that was the last question, I would now like to hand the conference over to management for closing comments.

Radha Ramanujan: Before the closing comments, there was one question on reclassification of cost of service between employed benefits and other expenses. INR30 crores has been reclassified from cost of service to employed benefits and around INR60 crores to other expenses. Over to Raghu for a closing comment.

Raghunandana T: Yes, thank you. It's been a great interaction. Thank you all of you. I hope to meet you on the next investors call and probably even give you better numbers. So thank you all of you.

Amitabh Jaipuria: Thank you, everyone. And thank you for your interest in our company. And we hope to continue meeting your expectations as we go forward. And the most important thing for us is that it's a company that we believe is an extremely well governed company. And we hope to continue that track record and improve even further. So thank you.

Radha Ramanujan: Thank you, everyone.

Moderator: Thank you. On behalf of Updater Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.