Redefining Business Services

05.11.2024

To: BSE Limited (BSE) Corporate Relationship Department Phiroze Jeejeebhoy Towers, 25th Floor, Dalal Street, Mumbai- 400001 BSE Scrip Code: 543996	To: 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 / Madam,

Sub: Transcripts of Updater Services Limited Q2 & HY1 FY25 Earnings Conference Call – 30.10.2024

With reference to our letter dated 25.09.2024, please find enclosed the Transcripts of Updater Services Limited Q2 & HY1 FY25 Earnings Conference Call held on 30.10.2024.

Kindly take the above information on your records.

Thanking you,

Yours faithfully
For Updater Services Limited

SANDHYA Digitally signed by SANDHYA Date: 2024.11.05 15:11:50 +05'30'

Sandhya Saravanan
Company Secretary and Compliance Officer

"Updater Services Limited

Q2 H1 FY '25 Earnings Conference Call"

October 30, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 30th October 2024 will prevail.

MANAGEMENT:

- MR. RAGHUNANDANA TANGIRALA – MD & CHAIRMAN, UPDATER SERVICES LIMITED
- MR. AMITABH JAIPURIA – NON-EXECUTIVE DIRECTOR, UPDATER SERVICES LIMITED
- MS. RADHA RAMANUJAN – CHIEF FINANCIAL OFFICER, UPDATER SERVICES LIMITED
- MR. SNEHASHISH BHATTACHARJEE- CEO -BUSINESS SUPPORT SEGMENT, MD-DENAVE INDIA P. LTD

Moderator: Ladies and gentlemen, good day and welcome to Updater Services Limited Q2 and H1 FY' 25 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantee of future performances and involves risk 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 and zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Raghunandana Tangirala, MD and Chairman of UDS Ltd. Thank you and over to you, sir.

Raghunanda Tangirala: Yes, thank you. Good afternoon and a warm welcome to all of you present on this call. I have with me Radha Ramanujan, our CFO, Mr. Snehashish Bhattacharjee, our CEO for the BSS segment and Amitabh Jaipuria, who is our Non-Executive Director. Also, we have SGA, our Investor Relations Advisors. I hope you all have received the investor deck by now and for those who have not, you can view them on the stock exchange or the company website. Let me begin with: our company continues to outperform the industry, not only in revenue and growth, but also in profitability.

We have delivered exceptional operating performance and strengthened our market leadership, driven by our diverse range of solutions. For the last four quarters, we have been improving our profits every quarter, quarter-on-quarter. What sets us apart from our peers is our ability to consistently meet high expectations of large customers.

Our commitment to exceptional services has allowed us to expand and enhance our service offerings, addressing to the evolving needs of our customers across multiple sectors. We remain focused on exceeding customer expectations, driving excellence in every area, and solidifying our mission as a trusted partner.

We operate in the B2B services space, which can be classified into two major segments, which is the IFM segment, which is Integrated Facilities Management, and the BSS segment, which is the Business Support Services.

Firstly, let me start with the IFM segment. During the first half of H1 '25, our IFM segment contributed 65% of the total revenue. Within the IFM segment, we offer a comprehensive range of services, such as catering to diverse customer needs, which includes soft and hard services.

Soft services include services like housekeeping, cleaning, pest control, and support services, while the hard services comprise of production support, engineering, MEP, and warehouse management. Our primary focus in the IFM segment is to enhance operational efficiency and drive improvements in operating margins. We've been actively optimizing our contracts, and this strategy will continue to support better margins and performance and capital efficiency.

As informed earlier, we are cautiously exiting some non-viable and not very profitable businesses, and that share has come down to single digits now. I know this is a process which we started a couple of quarters back. It has trickled a little into this quarter, but I think more or less that is over of exiting unviable businesses.

As a result, the revenue growth in the IFM segment has been slightly muted, but this is intentional, and we have prioritized long-term profitability over short-term gains. The benefits of these contract rationalizations have already been witnessed. As our IFM EBITDA margins have improved significantly, rising to 6.1% in H1. As of 30th September '24, we had about 826 customers under the IFM segment, and 26% of our revenues came from our top 10 customers, while 55% of our revenues came from the top 50 customers. We had added a prestigious India International Convention Center, which I'm delighted to mention here, which is one of the largest convention centers in the country. Also, they would be in our top 25 list.

We have taken certain strategic measures and have gone from merging Stanworth, which is our subsidiary, 100% subsidiary, and Tangy Private Limited, which is another 100% subsidiary, into UDS, and have opened up postal ballots, and investors are requested to vote. Details of the same can be shared, and if you still have any doubts, Radha, our CFO, can brief you during the Q&A session on this issue. During H1 ‘25, the IFM segment contributed 54% to the total EBITDA.

EBITDA for the IFM segment grew by 57% on a year-on-year basis. EBITDA margins of the IFM segment stood about 6.1% as of H1 ‘25, which was 4.2% last year, an improvement of about 190 bps. This is due to our focus on higher-quality contracts and our operational efficiency and improved business mix..

We have been consciously focusing on improving PAT margins, as that is what determines what we owe to our investors, and our EPS has moved to Rs. 7.9 compared to Rs. 4.3 during the same period last year. Going forward with the IFM segment, as per the Mordor Intelligence, the outsourced Indian facility management market in 2023 was USD 4.38 billion, and it is expected to reach 7.7 billion at a CAGR of about 10%. Currently, soft services account for 64% and hard and manufacturing industry services 36%.

The IFM industry in India is poised to grow significantly, driven by increasing investment in Indian infrastructure and rapid development of large corporate parks, GCCs, industrial hubs, and manufacturing facilities. As new factories and manufacturing factories and expansive office spaces emerge across the country, the demand for professional facilities management services is rising to ensure sufficient operations and maintenance.

The southern market in the country, market share for us has been around USD 1.6 billion, which is about 36%, and UDS is extremely strong in south and quite positive of garnering a market share here. UDS also has a very strong hold on manufacturing services, and growth in that segment is also expected to grow and add to our market share.

Apart from the industry growth prospects, our increasingly outsourcing facilities management to leverage specialized expertise, allowing them to focus on their core operations while ensuring higher operational efficiency. This shift not only reduces overhead, but also ensures optimized, highly compliant professional management of these facilities, contributing to the growing demand of IFM facilities.

Additionally, with businesses focusing on sustainability and operational efficiency, the IFM sector is becoming an essential partner in managing this large-scale development effectively. This creates a promising growth trajectory for the industry. At UDS, we are committed to providing solution-based services with strong focus on hard services that contribute more to our margins.

IFM offers a sustainable solution with strong R&D profile, making it highly efficient and profitable area of growth going forward. Now moving to the BSS segment, our BSS segment saw strong revenue growth of 27% in H1 FY25. This is despite the challenges we witnessed in sales enablement business.

We expanded into Korea with our own entity set up and our global physical presence has increased to five countries. During the year, we have added AI-enabled services as an offering new direction for services companies and got the first customer in. It is one of the world's largest software companies.

We have started partnering with new customers in manufacturing sector, helping industry players in India towards digital onboarding of their retailers in India. We have also extended our reach in ERC segment, helping mid-market penetration in Indian markets through demand generation services. We have started virtual audits aided by technology in the FMCG and the mobile retail space.

Our sales intelligence initiative through prompt engineering has already helped us get about 15% Q-on-Q growth with our existing five large customers. I would like Snehashish to add on to this, who is our CEO of the BSS segment, just to hint on how the BSS segment has been performing.

Snehashish Bhattacharjee: Sure. Thank you, Raghu. So, on the profitability side, in Q2 of 2025, there was a substantial appreciation in Malaysian ringgit, which affected Denaves margins, and drop in volume from a key customer has affected Athena's growth. Global, our other subsidiary has expanded into 22 airports and turned profitable, and Avon is getting into our INR100 crores run rate.

A good turnaround was witnessed in Matrix. We are seeing strong momentum in the audit assurance business, and a sharp recovery in our EBGC business. Early signs of improvement in IT hiring are also encouraging.

To further mitigate the risk, our endeavor has been to diversify revenue beyond the IT ITES segment and expanding into sectors like finance and financial services. I'm happy to share that we are on track of achieving the same. We remain focused on solution-based offerings, which are high value added in nature.

With the government's push to create jobs, the rapid growth of global capacity centers in India, and rising foreign investments, we are confident in maintaining our growth trajectory going forward, and this is something that we see as an opportunity in at least three of our BSS focus areas, sales enablement, as well as EBGC, as well as audit insurance sector. During H1-FY25, the BSS segment contributed 35% to revenues and contributed 46% to total EBITDA.

EBITDA for the BSS segment grew by 31% on a year-on-year basis, and EBITDA margins on the BSS segment stood at 9.5% as on H1-FY25. As on 30th September 2024, we have about 242 customers under the BSS segment. Now, looking at the way forward for the BSS segment, the BSS market is projected to grow at 15% annually, reaching about INR14,478 crores, to be precise, by FY28. The largest opportunities within this market will be in sales enablement, audit insurance, and employee background verification, all of which are asset-light and capital-efficient in nature.

We expect to achieve over 20% organic growth in the BSS segment, which will further improve our margins. Our ability to successfully acquire and seamlessly integrate margin-accretive business is a key differentiator for us. All our profitable BSS businesses stem from acquisition we have effectively integrated as a group.

We are planning a strategic position in the BSS space. We'll talk about it probably a little more in detail as we concretize the discussion. There are a few organizations, targets, that we've been discussing, primarily in the EBGC or retail and audit insurance business, as well as the sales enablement business.

But nothing is concretized yet, so we'll talk about it as we move forward. With the Denave, Athena and Matrix getting looked into by me individually now, which is coming under one umbrella, there is a larger synergy that we are also able to build between the three associated businesses. Furthermore, we are focusing on increasing cross-sales between our IFM and BSS segments, which will create significant growth opportunities and unlock additional synergies we are looking at, which we've been doing for some timeand we see some early results, leveraging the 2,200, 2,500-odd unique customers that we have between the two segments. I will hand over to Raghu to summarize taking from it. Raghu, over to you, please.

Raghunanda Tangirala: Yes, great. Yes, thanks. I would actually request Amitabh to summarize on the both IFM and the BSS segments overall summary. Amitabh, can you please?

Amitabh Jaipuria: Yes. So, thank you for joining the call, everyone. So, we believe we have delivered a very strong quarter in Q2. And if you look at our H1 results, especially compared to last year, there is growth across both IFM and BSS. IFM is coming out of a cycle where we have been rationalizing our portfolio which we have been talking about for the last quarter as well. And that is reaching its logical conclusion. We see our business poised very strongly, both on the IFM side as well as on the BSS side. And that is why we are watching so cautiously because there are risks in the environment.

Moderator: Sorry to interrupt, sir. Your voice is breaking.

Amitabh Jaipuria: Okay. Is this better?

Moderator: Sir, it's still breaking.

Amitabh Jaipuria: So as I was mentioning that while headwinds remains because of geopolitical risks as well as in many parts in terms of specific sector-specific risks. So, IT is coming back. And Snehashish talked about the fact that EBGC is beginning to look up. And we are cautiously optimistic on that as well. But in all our businesses, whether it is in terms of audit and assurance, whether it is in terms of EBGC, whether it is in terms of sales enablement, the platform for future growth and to capitalize on an overall uptick in the economy clearly exists.

We are also improving our play as we go forward in some segments of the IFM market. And including, you all have been asking questions around acquisitions. So, we will speak a little bit more about that as well. So far we are in conversation with three targets, but we have not reached a stage of finalization as yet. We have not issued a term sheet, but we are in close conversations with targets for a potential acquisition. We will be updating, of course, as and when there is concrete progress to report.

But as we have said in our previous calls and we would like to reiterate that we will make an acquisition. But at the same time we are cautious and we will not make an acquisition for the sake of making an acquisition. And therefore, not meeting our financial criteria as well as the criteria of synergy with our other businesses and the meeting of minds between the promoters of any acquisition that we make and the existing management of the company.

Those would be the three most important criteria in terms of synergy with business, in terms of meeting of minds with the promoter and very importantly, meeting our fairly stringent acquisition criteria in terms of financial numbers. When we look at financial criteria, clearly it is margin accretive that is something that we will always look at. The business has to be defensible. We have talked about that and it has to meet our ROCE numbers. Because our ROCE remains strong and any new acquisition has to match or at least aid in the ROCE ambitions that we have. So that is how I would summarize it.

I will not go into specific numbers. I will wait for the questions for the team to then answer. But overall, we are very optimistic that we have the right ingredients and it is reflected in the numbers that we have presented to you and that Raghu spoke about earlier. So I will stop with that and hand it back to you.

Raghunanda Tangirala: Yes. Thank you so much, Amitabh. Now, I would now request Radha to take over and then talk on the actual numbers and how we have performed.

Radha Ramanujan: Thanks, Raghu and good afternoon, everyone. First, I would start with the Q2 FY25 highlights and I will take you through the Q2 . The total revenue from operations grew by 13% year-on-year basis to 6,869 million. IFM segment revenue grew by 10% to 4,486 million and BSS segment grew by 20% to 2,383 million in Q2 FY25. The revenue split between IFM and BSS stood at 65-35 compared to 67-33 same time last year. EBITDA for Q2 FY25 grew by 57% to INR468 million. The EBITDA margin stood at 7.4% versus 5.3% in Q2 FY24, a sharp improvement of 210 basis points.

Excluding other income, which most of you have been asking to report, our EBITDA grew by 66% year-on-year basis to 437 million. And EBITDA margin excluding other income stood at

6.4% which was 4.4% same time last year. Close to 1% of our margin comes from other income, out of which 60% of it is financial income and the balance 40% is primarily the business-related expenses as a scrap sales, provision reversal, other income , etc.

In IFM segment, the EBITDA margin stood at 6.5% while BSS segment EBITDA stood at 9.1%. In both segments, the margins have considerably improved compared to last year and last quarter. Profit After Tax witnessed a growth of 205% and stood at 280 million and cash profit also grew by 18% year-on-year at 414 million.

Now coming to H1 FY25 highlights. The total revenue from operations grew by 14% year-on-year to 13,456 million. In this IFM segment, revenue grew by 7% year-on-year to 8,733 million and BSS segment revenue grew by 27% year-on-year to 4,733 million. And the revenue split between IFM and BSS stood at 65-35 compared to 69-31 same time last year. EBITDA for H1 grew by 44% to 980 million. EBITDA margin stood at 7.3% versus 5.7% in H1 FY24 a 1.6% improvement over last year. And again excluding other income EBITDA grew by 43% year-on-year to 846 million. And the margin of EBITDA excluding other income is at 6.4% which was 5.0% same time last year. IFM segment EBITDA margin stood at 6.1% while BSS segment EBITDA stood at 9.5%. And PAT witnessed a growth of 149% and the PAT was at 537 million. Cash PAT again grew by 20% year-on-year at 797 million. The ROCE on an annualized basis stood at 23% as of September 24, marginally less compared to 23.5% during March 2024. UDS is a net cash company and our net debt-to-equity stood at negative 0.1x as on September 30.

Total headcount of IFM at 53,986 employees and BSS at 14,609 employees and during this H1-25 we added 48 logos in IFM segment and 26 logos in BSS segment. And we keep talking about clients who are more than 5 lakhs as a significant client. So we ignore new logos or clients added if the turnover is less than 5 lakhs and I now I open the floor for questions and answers.

Moderator: Thank you very much ma'am. We will now begin the question and answer session. We have the first question from the line of Deep Shah from B&K Securities. Please go ahead.

Deep Shah: Hi, good morning. Thank you for the opportunity and congrats on a good set of numbers. The first question sir is around sustenance of margins. So I divided in two subparts. First is are these numbers sustainable, is there a one-off and if not then should we expect margins to continue improving as we had guided earlier and second within this would be that what are we doing about the Athena slowdown because we know that there have been some pressures there, but it's a high margin business for us. So how are we combating that? And if, as you said, that other businesses are picking up pace, would it be more than enough to offset that margin compression? That would be my first question.

Amitabh Jaipuria: Okay. Raghu, you want to handle the – Snehashish can handle the Athena piece. But the margin piece, I'll also add a comment later.

Raghunandana Tangirala: Please, please go ahead.

Amitabh Jaipuria: Yes, so the question on margins, are they sustainable? See, a 9% plus margin in BSS and between 5% to 6% margin in IFM is what we have always targeted. And we are happy to see that we are in that range right now. They can fluctuate a little bit. But we believe that these margins are sustainable. Will they keep growing is a different question. And we have always said that a 0.2% to 0.3% improvement in margins year-on-year is what we should be looking forward to on the organic side.

Acquisitions, of course, can change the margin profile. Margins are sustainable. But at the same time, improvement, we are cautious to say that they will keep on improving. But a 0.2% to 0.3% year on year is something that is possible. Snehashish, would you like to add some color on Athena?

Raghunanda Tangirala: Before that, I'd like to add -- there are no one-offs. So we believe we will continue to show the same numbers in terms of profitability and growth as we said overall what we guided for the year. We are confident of doing it. Just to answer that specific question, there is no one-off in these margins or in these revenues.

Snehashish Bhattacharjee: Okay, thank you. Coming to the Athena question, yes, there is disruption there. And that disruption is primarily because of some changes in the BFSI segment and one specific customer moving their India plans. However, there are three things that we are doing here. And one of them is already underway. We are going back and looking at expanding within the BFSI segment and increasing customer base.

And while I am not at liberty to name the new sign-up that we have done, we have done a fairly large new sign-up, which is not going to be large today, but over the next two quarters, we expect that to fill a decent part of the gap that has come up in Athena. However, can we cover up what we have lost? Maybe not, but we will gain as we move forward.

The second part that we are also doing, Athena has been fairly focused on the BFSI segment and FMCG. We are now looking at expanding that base. So we are putting in a marketing initiative to increase our reach across larger segments. We see, hopefully, that giving us results over the next two quarters and getting us new customers.

Third, we are looking at a potential synergy between our Denave and Athena offerings outside of India, while that is still an experiment and work in progress. We don't have yet any early indicators of what we can do. But we are looking at can we take the Athena business also outside of India, using the Denave strength that we have outside. So these are the three initiatives we are putting in place to try and cover up, over a period of time, on the Athena drop that we have presented. I hope that answers your question.

Deep Shah: Thank you so much for that detailed response. The second question is actually for Radha ma'am. So Radha ma'am, we saw cash conversion this quarter was 65% of EBITDA OCF conversion. And I think it is a result of that and the payments that we made to promoters that we saw some increase in debt. So is it just a transient issue? Because we have done 100%, 95% and 98% cash conversion in the earlier two years.

So is it a transient issue? What should be the level of cash conversion that we should be thinking as we are now expanding and growing our top line?

Radha Ramanujan: Okay, there are two things. As we stated earlier, the IPO funds were to be used for the acquisition. Last December we paid out some money for Athena shares. And this year we have purchased 100% for Denave. The balance 26% we acquired. And we also acquired another 24% shareholdings from Athena. So we had to shell out the cash for the acquisition.

A small dent in our working capital, the way we planned versus what has happened. We had a large client onboarded. And it took some time for us to stabilize the invoicing, adjust to their way of loading it in their portals. A few things delayed it. And since he was a large client, that also resulted in a minor distraction in our working capital. Beyond that, there is nothing which is different from the normal activities.

Deep Shah: Okay, so if I could just have a follow-up. So say for the full year basis or on a sustainable basis, about 85%-90% kind of cash conversion. And as a result of that, lower debt levels as we go ahead. That would be a fair assumption to make.

Radha Ramanujan: That would be a fair assumption. Unless we have another large acquisition which makes us to borrow.

Deep Shah: Perfect. Thank you so much everyone and all the best.

Moderator: Thank you. We have next questions from the line of Dhvani from Investec. Please go ahead.

Dhvani: Hello, hi. Thank you for the opportunity. I have two questions. Starting with the IFMP, I just want to understand how are the new contracts coming in, in terms of the margins and pricing? Considering this quarter, we saw significant improvement in the margins. Going forward, is that sustainable at the same rate or there will be some dips?

Raghunanda Tangirala: We are confident of maintaining these margins going forward also with our new customers or the new acquisitions.

Amitabh Jaipuria: Yes, so Dhvani, just to add a little bit of color to that. See, when we take orders, right, and when we enter into new contracts, the attempt always, of course, is to see that it meets our margin profiles and criteria. On occasion, however, whether in BSS or whether in IFM, the operating teams may decide to take contracts for strategic reasons and they may be entered into at margins which are maybe a few basis points lower.

So, there is a mix of contracts that we have in terms of margin and that will continue. But as we answered in the previous person who had raised the same question, we are confident that we can maintain these margin levels. Yes.

Dhvani: Okay, thank you. And within BSS, this quarter we saw some major growth because of Athena. And given that you are still targeting a 20% organic growth, the implied growth for the next two quarters will be at least close to 6%. I just want to understand what could be the drivers for the same. And at the same time, can H2 margins be better than H1?

Amitabh Jaipuria: So, H2 margins being better, in many of our businesses we have operational leverage. And therefore, if volumes go up or revenue goes up, margins can improve. Will H2 margins be significantly different from H1? The answer is no. But we would not want to guide for any large improvement in margins in H2.

Dhvani: And just one last question, if I could save it. Could you help us with the contribution from Global Flight for the quarter? From Global?

Amitabh Jaipuria: You are talking about our ground management, right?

Raghunandana Tangirala: Radha, do you want to take that?

Radha Ramanujan: Global gives us about 9% margin. We did a INR12 crores revenue in Q1 for Global with a 10% margin. We have done INR13 crores now and we continue to do it better than this, quarter on quarter. And the margin at EBITDA level is around 8 to 10%.

Dhvani: Okay, got it. Thank you.

Moderator: Thank you, ma'am. We have the next question from the line of Balaji from IIFL. Please go ahead.

Balaji: Good morning. Congrats on a good set of numbers and thanks for taking my questions. I have three questions. I will take them... No, I will ask them one by one. My first question is on the IFM segment. If I see, in general, what I have observed in this industry is that there is a trade-off between revenue growth and margin profile. So, this quarter, you seem to be at a sweet spot where your revenue has also grown by 10% while margins have also expanded. So, assuming that you have to preserve your margins at this level, what revenue growth are you typically looking at?

Amitabh Jaipuria: So, the answer to that would be that yes, you are right. There is a trade-off sometimes. As I alluded to in my previous answer, we may take contracts at below or higher. But to be conscious, intent is not to take very low margin contracts. In fact, we have exited a large number of low margin contracts. So, we are confident that the margin decline will not be because we are taking new contracts at much lower prices.

So, that is one thing that we are clear about. On the other piece, we have a target range of our margin, both in BSS as well as in IFM, that we operate with internally. But we have also talked about externally the fact that IFM margins will be in the higher range. In fact, we are confident of maintaining.

Moderator: Sorry for interrupting, sir. Your line is getting muffled.

Amitabh Jaipuria: So, what I had mentioned was that as we move forward, we are confident that we will maintain margins in our target zone. But there may be minor fluctuations of a few basis points here or there, depending on the kind of business mix that we have for that particular month or for that particular quarter. Revenue growth range of between 10% to 15%, or closer to 15%, is something that we have always guided, at least informally, not a formal guidance. And we are confident that we will maintain that as far as the IFM business is concerned.

Balaji: Okay, thanks. My second question is on the three potential M&A opportunities that you are evaluating. So, while you discussed the criteria, what areas would these be in? You did mention that it would be complementary or synergistic with your existing businesses. But what areas will they be? Will they be in India? Are these in India or overseas? And what exactly are they into? Any color on that would be helpful.

Amitabh Jaipuria: So, we have always said that we will buy synergistic businesses. So, when we look at a business, it has to be in areas which we are already in, or which adds a new area which we feel comfortable with, in terms of adjacency. So, between India and overseas, preference is for India. But if we get, and the proposals keep coming to us. So, if we get a good proposal for an acquisition in a country which we are comfortable with, in terms of its regulatory environment, and in terms of our ability to manage that business, then we may look at it. Our preference is for India.

And in the past, we have also said that most of our acquisitions will be in the BSS arena. And that continues as our area of focus, because we are value-added services. But the other aspect that we must also keep in mind is that even within IFM, the landscape is changing. And there may be value-added service opportunities that may come up. And if they do, then we will look at those as well. But our financial criteria remains the same.

Balaji: Okay, that is quite helpful. My final question would be, you know, housekeeping in nature. So, first of all, thanks for disclosing the EBITDA margins and EBITDA for IFM and BSS. So, could you provide the IFM and BSS EBITDA for FY24, full-year FY24? I can see that 1-H number, but full-year number would be helpful if you have it.

Amitabh Jaipuria: Radha, would we have that?

Radha Ramanujan: Yes. You want full-year FY24, is it?

Amitabh Jaipuria: Yes, for IFM and BSS separately is what he wants.

Raghunanda Tangirala: You want full-year FY25.

Radha Ramanujan: Okay, full-year FY25 expectation.

Balaji: Not expectation will be good, but the historical also will be helpful, FY24?

Amitabh Jaipuria: Radha, FY24.

Radha Ramanujan: Okay, FY24 the EBITDA margin for IFM. Just a minute. Give me a minute

Amitabh Jaipuria: Radha, if you don't have it handy, we can lock the question and then revert.

Radha Ramanujan: I will answer the question at the end of the session. While if you have any other question, I have the number. I will just get back.

Balaji: Sure, thanks. That is good. So, thanks a lot for taking my questions. Happy Diwali and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Heet Vora from Guardian Capital Partners. Please go ahead.

Heet Vora: Thank you for the opportunity and congratulations on a good set of numbers. So, my question is largely on some of the BSS segments. First is Denave you had some pressure in the margins last year. So, how are they evolving and could you give a bit more light on those, please?

Snehashish Bhattacharjee: Sure. Amitabh Should I take the question?

Amitabh Jaipuria: Yes, please. Thank you.

Snehashish Bhattacharjee: Okay. So, the margin pressures were primarily because of two reasons. One, there was an AI led disruption happening in the market because of which customers were looking at higher productivity, lower turnaround time and obviously better cost. So, the way we are addressing that is we are right now evolving some of our delivery models, primarily in the high margin businesses, the Sales Enablement businesses. We have already rolled that out for a couple of our existing customers and we see early recent results. The impact of that we probably feel over the next quarter or two.

Second part that we are doing is we've added certain disruption appropriate services, namely one of them is sales intelligence. We've talked about in our deck already which is aimed at leveraging AI platform and generative AI specifically to help improve better conversion for sales processes and we bring in the knowledge depository for that to help improve and we've seen some good early results. We've already acquired one of the largest software companies the customer and a decent increase in that.

Will it make a huge difference in the margin in the existing quarter? Maybe not. Over the next couple of quarters, we will definitely see a larger impact on improving the margins there for that. The third area that we are obviously also focusing on is leveraging the marketing automation platform, the AI-enabled marketing automation platforms to improve our demand generation services. We are not yet very strongly progressed on that. It is still work in progress and we expect that impact to also be felt probably by the JFM quarter. I hope I have been able to answer your query unless you have anything specific that you would like to know.

Heet Vora: That was really helpful. Just one more thing is that both the measures that we've taken, do we see our margins going back to the normal margin say a few quarters down the line or do we see some sort of impact which will stay on the margin that could help with that?

Snehashish Bhattacharjee: A little early to state, the expectation is that we should be able to improve and go back to the same level. At this point of time, we do see an improvement day by day, but we are not yet able to assess will I be able to cross my earlier margins or will I be able to reach that margin? But the expectation and the plan is to reach and go beyond.

Amitabh Jaipuria: I'll also just add a little bit of color to what Snehashish just talked about which is that see in our business model the BSS business margins are pegged in the region of 9% to 10%, 10.5%, 11% in that ballpark, maybe slightly better. So in that as we execute that business model, if we find that maybe Denave margins are under pressure and we see a longer term impact, then within the BSS business we will figure out other business lines or product lines or service lines and other areas where we can bring the margin back.

So, individual businesses may have a few fluctuations, but the strength of the UDS business model is that there are countervailing forces that are available to enable us to stay track as far as the overall UDS business model is concerned. I hope that helps, add a little bit of color.

Heet Vora: Yes and just one more follow up on the M&A that you had talked about. What we've seen in the past is that UDS has been able to acquire companies at very attractive valuations. So the three M&As that the discussions are going on, will these be in a similar sort of valuation or because there has been some improvement in the market environment, are these expected to be a bit more expensive?

Amitabh Jaipuria: So our attempt is to acquire at fair value and because promoters continue to stay engaged with UDS even after they have sold majority in the first tranche. So it is in our interest also to see that they get fair value and they stay motivated. The way we do the acquisitions is that we pay for performance and so therefore the opportunity to earn more as the performance improves always exists for the promoter. Specifically, will we be able to repeat what we have done in terms of our margins?

The answer is slightly complicated. Because as the secondary markets do well in India the expectation of promoters for the valuation of their businesses keeps going up. So therefore the recent run up, the bull run that we have had in the markets has definitely pushed up expectations that promoters have. But we are clear in our minds that we will not overpay. So if we have to walk away from a deal because of valuation, we will because in this sense, we are value conscious acquirers and that philosophy will remain.

Heet Vora: Got it. Thank you so much. That was my last question.

Moderator: Thank you very much. Next question we have is from the line of Nihal Shah from Prudent Corporate Advisory. Please go ahead.

Nihal Shah: Hello. Thank you for the opportunity and congratulations for the great set of numbers. So my question was on the IFM side. So we have exited a lot of contracts and entered many in these first quarters. So are those new contracts that we had running at full-fledged now or still we are ramping up our operations there?

Raghunanda Tangirala: I wouldn't say they are at full-fledged right now, but I'm sure in the next couple of quarters, the next quarter and the next quarter they will be fully firing.

Nihal Shah: Okay. So from the next quarter onwards we can expect a kind of a 10% growth from the IFM business if they ramp up?

Raghunanda Tangirala: Overall for the year or overall for H2 we will do that same number. Overall for the year, we will do between 10%, to 11%.

Amitabh Jaipuria: Yes, but please do not take it as formal guidance. But yes, we do expect to be in that range.

Nihal Shah: Okay and from the BSS side we have seen a significant 40 basis point jump in the margins, EBITDA margins. So what would be the reason for that and why will they increase around 20, 30 basis point more that we are informally guiding for in the coming years?

Amitabh Jaipuria: So why have they increased? I will leave to my colleague Radha, but this 20, 30 basis points improvement we have said in the past as well is basically because of more operational leverage and better service mix. It is not because of price because we never factor price. If we get price that's great, but we never factor price because it's a comparative market. So it's product mix, service mix, that's one aspect. Operational leverage is the second aspect. And we're clearly seeing operational leverage play out. Radha, you want to give some color on the improvement of margins in BSS.

Radha Ramanujan: Yes. BSS, we are not aiming at a 30-bit improvement in margin. Like we said in IFM segment, we are gunning for a higher improvement in margin. BSS is improvement on top line. BSS we will grow more than 20% while IFM we said we will be between 10% and 15% range. Earlier, Balaji asked what was the last year number? We had 5.3% EBITDA reported for IFM and 9.7% reported for BSS. This year, we will be aiming more in terms of IFM going upwards of 6%. We are aiming for that , primarily from the operational synergies which are kicking in now and from the unviable contracts which we exited. Yes, it dented our volumes in the first quarter, but we hope what we are doing now, we will maintain in IFM. BSS margins will not go substantially high. BSS margin will also continue to grow in the same range. Volumes will keep growing.

Nihal Shah: Okay. So this quarter, we have done around – in the first half itself we have done around 6.1% in the EBITDA margins for IFM. We expect the contracts to ramp up in the second half. So, 6% we have already done. Can it go up to 6.5%? Because many of those contracts will be giving us a larger chunk of the revenue in the second half?

Amitabh Jaipuria: We will not be able to give such precise numbers. Because you know, -- we are constantly working on improvement is all we can say, yes.

Nihal Shah: Thank you, very much.

Raghunanda Tangirala: Now, this 6% is with other income, right? Radha?

Radha Ramanujan: Yes. And since Q1 was 5.7% and this quarter we reported 6.5%, we will continue to at least hope this. I said we will be upwards of 6% by the end of the year, definitely.

Amitabh Jaipuria: Again, not formal guidance, please. This is not formal guidance.

Nihal Shah: Yes. Okay.

Moderator: Thank you, ma'am. Thank you, sir. We will take the next question from the line of Manoj Jethwa from KSA Shares & Securities.

Manoj Jethwa: Good afternoon, ma'am, to all at UDS team, thank you for giving the opportunity. And greetings for Diwali and have a prosperous New Year. My first question pertains to BSS. As you have recently mentioned in the con-call, that we are looking for the three targets. And our main focus would be on the value creation. Sir, what would be the normal ticket size would be looking for three targeted opportunities in BSS segment?

Amitabh Jaipuria: So, across segments, whether BSS or whether value-added IFM, across segments. When we look at acquisitions, the ticket sizes vary. Because there may be a strap-on or a tuck-in acquisition, which could be -- the ticket size could be low as well. But our sweet spot, we have always said, is in the enterprise valuation of roughly about between INR200 crores to INR300 crores is our sweet spot.

But depending on the opportunity that presents itself. So, if there is a smaller revenue business, but which has great margins and a fit with our other businesses, we could look at that. But it's unlikely that we will look at a very large acquisition. So, for example, it's unlikely that I will ever look at a INR600 crores-INR700 crores enterprise valuation kind of an acquisition. That appears unlikely.

Manoj Jethwa: So, my second question would be pertaining to IFM segment and that also to production, hard services and all that. Currently, the government of India is very gung-ho about the Atma Nirbhar Bharat, Make in India. And there are a lot of PLI schemes and all that. So, do we see a good growth opportunity in hard services as far as the manufacturing sector of India is concerned?

Amitabh Jaipuria: Absolutely. So, we are seeing already that manufacturing is growing. And we are strong there. And we see good opportunities there. We also see good opportunities there. We also see good opportunities in other sectors of -- because we have all heard about the stories of real estate doing very well, commercial real estate, warehousing doing very well, infrastructure doing very well. So, these are all segments, especially warehousing, infrastructure and industrial.

These are areas where we are very strong. And therefore, any improvement here is a good augury for us.

Manoj Jethwa: I appreciate to add some colors on the improvement or for the improving margins, areas of improvement where UDS should think to harp on it as far as BSS is concerned.

Amitabh Jaipuria: Yes. So, I think margins, we have sort of talked about that as our response and our answer to many questions today. I would reiterate that, which is that our model is clear. And we expect to maintain these margins and improve marginally. But variations are always possible from contract-to-contract. I mean, I think that really is where we are on margins, because more specific colour at this point, we may not have.

But the broad assurance that margins are the most important metric that we look at. And the model is clear in terms of BSS margin target and IFM margin targets.

Manoj Jethwa: So, my last question would be regarding the synergies of large mobile manufacturers, which you did mention in Q1. So, could you please add some colour on it, sir?

Amitabh Jaipuria: So, these manufacturing units, whether it's for mobile phones or whether it's for any other, is part of the overall industrialization and the growth in industrial base. And any such new opportunity that comes up is an opportunity which we look at very closely. But specifically, I mean, we don't have a service or a product which is targeted only at mobile phone manufacturers. But we consider that as part of our general manufacturing customer database.

Manoj Jethwa: Yes, I'm talking about the sales enablement services for the particular mobile manufacturer?

Amitabh Jaipuria: Okay, that. Snehashish, you want to take that? Sales enablement for mobile phone manufacturers.

Snehashish Bhattacharjee: Yes. So, there are basically already existing two line of services that we provide them from a sales enablement perspective. One is in the Denave side. The other one is in the EBGC and the audits and assurance side. On the sales enablement side, we work on helping them activate their sales at the counter by increasing productivity. And there, we have an SSM model, sales marketing service model, using which we deploy salespeople for these upcoming and growing.

So, some of our customers are growing telecom manufacturers, telecom handset manufacturers. And we are growing the market along with them by enabling the sales out of the store. That is the first part. The second part that we also do is improving their ability to quickly understand their marketing visibility through virtual audit and leveraging technology there. That's a new service line that we've added.

And we are now not only working with the telecom players, we are also moving into the manufacturing segment with that service line. The third area that we are working with, which is on the audits and assurance side, where we help them understand the supply chain transaction through claim processing, partner processing, and also some level of internal audit from our audits and assurance business side.

So, these are the three areas that we are focusing on and we do see a large opportunity in front of us on these two areas with the telecom manufacturers. However, it is an ongoing play. At one point of time, someone does invest more. At the other point of time, someone else invests more and they keep on shifting market share with them. We try and keep track of that and then move along with the market accordingly. I hope that answers your question.

Manoj Jethwa: Thank you, sir. It's really helpful.

Moderator: Thank you very much. We have next question from the line of Naitik Mohata from Sequent Investments. Please go ahead.

Naitik Mohata: Good afternoon, sir. Thank you for the opportunity and I'm very happy Diwali to the team. So, my question is on the guidance that we have given for both IFM and BSS. So, we are looking at 15% growth in IFM segment and almost a 20% growth in BSS segment for this year. While from the numbers that are given in your presentation, in H1, we have done almost 8% for IFM and 27% for BSS.

So, when just from a back of the envelope calculation, you will realize almost a 20%-22% growth in the IFM segment in the second half and almost a moderate 16%-17% growth in BSS. So, is that understanding correct or basically BSS, we do not see this curtailment of revenue?

Amitabh Jaipuria: Radha, I'm not clear where these numbers are coming from. Can you please shed light because I don't see where he's got the number of 27% for IFM growth for H2.

Radha Ramanujan: No, What he is asking about is, you have mentioned 8% as of H1. And if you have to do close to 20%, then you may have to grow 27% in H2. IFM, we will not get into 20%. IFM, we will be around 10%-15% growth. BSS, we are at 24% and we will continue to grow 20% in the next two quarters also.

Naitik Mohata: BSS, I understand ma'am, but just in the IFM segment, so we have done almost 8% growth in the first half. And just to maintain the 15% mark, not the 20% mark, we will have to grow from more than 20%-22% in the second half.

Radha Ramanujan: Yes, that is what the overall year, we said we will not do 20% for IFM. The guidance given is 10%-15% for overall year. So, that means in the next two quarters, we may have to grow 13%.

Naitik Mohata: Okay, Thank you, ma'am. That was very helpful.

Moderator: We will take next question from Rushal Spiralkar from Pink Wealth. Please go ahead.

Rushal Spiralkar: Congratulations, sir, for the great numbers. My question is that in the sales enabled services, are we paid if the sales happen from the customer side or like we are probably paid based on the services?

Snehashish Bhattacharjee: Sorry, I didn't understand the question. Could you repeat that?

Rushal Spiralkar: Yes, in sales enabled services, the segment, are we paid like - generally we help the customers to generate the leads or to help them to grow their sales. So, like, how is the nature of the context?

Are we paid like if customers say, let's say, if I happen to do this much sales, I'll be paying you based on that or it's a fixed contract like, based on the pure services only we'll be paying - we will get paid.

Snehashish Bhattacharjee: Okay, 90% of our contracts are fixed contracts where we have a predefined number and we have a month-on-month fixed payment. There could be variable components on top of that, but they are all fixed contracts. There are approximately about 7% to 8% which are part fixed and part variable where the mix could be between 80% to 20%, 80% fixed and 20% variable.

And there would be about 3 to 4% of our overall contracts which would be 100% variable where we are fairly confident of what we can drive and we see a big opportunity or that can also be a strategic opportunity to move out competition. We leverage that for that. So, that's the competition. About 90% is fixed contracts, predefined. About 7% to 8% is a mix, 80/20. And about 2 to 3% are where we do 100% variable. I hope I've been able to answer your question.

Rushal Spiralkar: Yes, sir. And so, what is the duration of those contracts? Like, generally, for how many years we entered into a contract with the client?

Snehashish Bhattacharjee: So, on an average, 80% to 85% of our contracts are annual contracts renewed every year. There are certain service lines which is in the marketing services, which is also in the retail and also in our insurance services. Then we have quarterly contracts or project-driven contracts as well.

And then there are some services like the intelligent database services which are very instance-based contracts. But about 80% to 85% of our contracts are annual recurring contracts. As of now, there are certain industries. We are also getting into 3-year and 5-year agreements with PO's getting renewed every year.

Rushal Spiralkar: And, sir, we have all the international clients under this segment.

Snehashish Bhattacharjee: If you look at all the 5 entities within BSS, not all of them are looking at International, but the sales enablement part under Denave. We have about, I would say, 90% of our customers are MNCs, but working with us in the markets that we are presenting, which is India, which is APAC, and which is Europe.

Rushal Spiralkar: And, sir, just one question, what gives them confidence to outsource those services to us? And are we able to find those skilled persons, who help them in generating the leads? So, why don't they do directly and why they come to us? And is it because there is a lack of skilled people, who are good in generating sales? Or, how it works? Like, what is the arbitrage? Just wanted to understand that.

Snehashish Bhattacharjee: Good question. I will give it probably a more simplified answer to that. It is like asking Apple to also sell Google Adverts, while Apple has the technology power to do what Google is doing. But is it their core expertise? Not. So, that is where we come into play. Sales now has become a process-defined methodology. And with the AI intervention happening, it is also becoming a very platform-enabled methodology. So, an organization that is good at creating a product needs the sales support, but they may not be very good at creating that themselves.

And that is where we come in. We have been doing this for the last 25 years. And I think we have established ourselves as a credible player, and this is why we get customers coming to us. We have active demand generation engines of ours. We use our own methods for our own sales to create customer outreach and collect customers from there. And I think the background and the credibility enables us to get those contracts. I hope I have been able to answer your question.

Rushal Spiralkar: And, sir, just a follow-up question that if let say that if India is focusing more on manufacturing, and more foreign players also set up their manufacturing facilities here, so do we see that great opportunity in sales-enabled services as well plus as well as in hard services both can be cross-sold?

Snehashish Bhattacharjee: Yes, we do see that. While I think you would have already got the answer from both Raghu and Amitabh, from our sales-enabled part. As we talk, we are also getting very strongly into the – not strongly, we are just getting into the manufacturing segment. Like I talked about the telecom operators already, the telecom handset manufacturers already. We also are talking to – I mean working with certain manufacturing organizations where we are helping them digitally onboard their partners and then keep track of that so that a process of enabling their sales process that we are working with them on. And also, like we said, the virtual audits. So, we do see that as an opportunity.

Rushal Spiralkar: Okay. And, sir, one last question regarding the Soft Services. Like we are saying that commercial space, you know, is going healthy. So, are we seeing that good traction in the Soft Services in the commercial space? And can we see those growth in the next few years as the sector is doing really well?

Amitabh Jaipuria: So, it will be an area of focus. But, our strengths lie more in industrial infrastructure and warehousing. But clearly, given the growth in the commercial sector and in commercial buildings, that will be an area of some work and focus for us.

Rushal Spiralkar: And, sir, in order and assurance segment under the BSS, so do we see any growth opportunities there since we help them? If my understanding is right, we help them, doing an audit of the raw materials, all of the goods, how much they have, whether we tally, whether that much supply has happened or not. So, do we see there also a good opportunity since we must be giving hard services also to them? But under BSS segment, do we see there also good growth segment there?

Snehashish Bhattacharjee: So, the opportunity is definitely there. We need to work on it to make it land for us. So, like Amitabh said, it is something that we see as a potential, but we need to land our capability, capacity, and ability to convert the customer to focus on that.

Amitabh Jaipuria: Yes, because also, see, what happens is, the buyers are different in some cases for these services. So, therefore, while cross-sell remains an opportunity, but it's not one of the most important parts of our strategy. It is a part of our strategy, but not one of the most important.

Rushal Spiralkar: So, sir, how big opportunity we see in this audit and assurance segment?

Amitabh Jaipuria: See, audit and assurance. Yes, I'm sorry. Go ahead Snehashish

Snehashish Bhattacharjee: So, are you asking about the market potential? Are you asking about our growth potential?

Moderator: Sorry for interrupting, sir. I believe the line from his side got disconnected. Okay. Ladies and gentlemen, this was the last question for the day. I now hand the conference over to management for closing comments.

Raghunanda Tangirala: I thought the question was still on. He has dropped, is it?

Amitabh Jaipuria: No, we've ended the call, I think, Raghu.

Raghunanda Tangirala: Oh, okay. Right. So, Yes, thank you, everybody, on this call, and thank you for joining us. I hope we've been able to answer all your queries. We look forward to such interactions in the future. In case you have further details or further queries, you may contact Devan of SGA, our Investor Relations Advisor.

Moderator: Thank you, everybody. Thank you for joining this call.

Amitabh Jaipuria: Thank you, everyone, and I wish everyone a very, very Happy Diwali.

Raghunanda Tangirala: Very Happy Diwali to all of you.

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