Redefining Business Service

15TH November 2023

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,

Sub: Transcripts of the Earnings Conference Call held on November 8, 2023

In continuation to our letter dated October 31, 2023, please find enclosed the transcripts of the Earnings Conference Call held on November 8, 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

B. Ravishankar
Company Secretary and Compliance Officer

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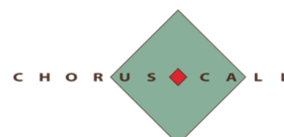
Our Values: happy people I clear purpose I better everyday I do good I balance all

"Updater Services Limited
Q2 FY '24 Results Conference Call"
November 08, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on November 8th, 2023 will prevail



MANAGEMENT:

1. MR. RAGHUNANDANA TANGIRALA -- PROMOTER, MANAGING DIRECTOR AND CHAIRMAN -- UPDATER SERVICES LIMITED
2. MR. BALAJI SWAMINATHAN, CHIEF FINANCIAL OFFICER -- UPDATER SERVICES LIMITED
3. MR. AMITABH JAIPURIA -- NON-EXECUTIVE DIRECTOR -- UPDATER SERVICES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q2 FY24 Earnings Conference Call of Updater Services Limited. 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 touchtone phone. Please note that this conference is being recorded.

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

Raghunandana Tangirala: Thank you. Good morning to all of you and welcome all of you for this conference -- for this call. I'd like to thank the entire investor community for this great support during our IPO and it's a great, proud moment for all of us. We want to convey our sincere appreciation to all the shareholders for entrusting their confidence in us.

I have with me Amitabh Jaipuria, Non-Executive Director on the board of UDS. I have with me Balaji Swaminathan, CFO and the SGA team, our Investor Relations Advisors. I hope you all received the Investor's Deck, if not you can view them on the Stock Exchange or the company website.

I would like to give you a small brief, this is the first time we are having this call, on the company and the plan forward. We started operations way back in 1990 as a piecemeal service provider like housekeeping or plumbing, catering, electrical. That was the humble beginning in 1990 when this industry or this business was not as recognized as it is today. Very few players do this, at least very few organized players, hence we had an opportunity to actually be the pioneers in this space.

Over the years, we have evolved into an integrated business services platform, present across the country in the sense of we could offer our services Pan-India, anywhere, and across industries and businesses and service lines. We were led by a great management team, all the great industry leaders in terms of experience in what we do across all the businesses.

Also here I would want to just mention about over the last two decades, we have also had private equity, probably the first in this space, way back in 2005 or 2006. We had New Vernon, the first private equity those days in 2005 or 2006, and then after that, ICICI Ventures and Motilal after that. It is just these PE investments actually strengthen the company's operations, financial and internal controls, and kind of a great corporate governance and standards for the company.

I want to give you a brief on what IFM does. IFM is the Integrated Facilities Management Services, and then I will go on to the other business services, which is part of the business services platform. IFM basically is soft services, which is basically cleaning and all other soft and support services. Then we have a production support services, which is basically assisting production lines, could be warehousing, could be metal handling, could be line operations.

Then we have engineering services in IFM, which is basically the MEP services, which is the mechanical, electrical, plumbing, and water management. Then we have feminine hygiene services which is for the washrooms, which is basically a safe disposal of used sanitary napkins. We have warehouse management, which is end-to-end management of warehouse sites from goods received to goods out. And then we have food services, which is industrial catering. This is broadly the IFM space, which we service.

In engineering services, I mean, the soft services would apply for any kind of facility, it could be IT park, it could be a manufacturing facility, it could be a stadium, it could be, I mean, any facility where it is soft services. Production support basically is for assisting and support of production services across any industry or any manufacturing.

Engineering services basically is the back-end operations of the entire facility, which is power, power backup, fire systems, water management, access control, all this complete maintenance of our facility at the back-end, which is what we call it as engineering services. Warehouse management, as I told you, is the management of a warehouse where we are accountable from goods in, and then the goods received, so the goods out. Could be breaking bulk, building bulk, or complete management of our warehouse.

Institutional catering is basically we do the food services or production and manufacture of food at the customer's place, largely in the manufacturing segment or in the education segment. This is largely the IFM space which we operate. Today we manage close to about 250 million square feet of space, and we employ in the IFM space about 55,000 odd people. This is the background of what is the IFM is today.

Like I said, we moved into the business services segment. One reason was we wanted to have a larger business services platform which we could offer our customer more than one service. The second and more important was a higher value in terms of profitability. Hence, we moved way back in 2007 into mail room management where we acquired a company called Avon, which were market leaders then, and which are market leaders even today.

What we do is the management of mail for a customer and the client in-house, complete the management of it in terms of courier, in terms of parcels, in terms of it. We have marquee customers there, and we have close to about 11% of market share in this space. Then we have the food services which we acquired, a Fusion Food Services, where they do industrial catering.

Then we have Matrix, I'm sorry, food services going to IFM space, which I've already covered. In the business services space, we have a Matrix where they have two lines of business. One is the employee background verification services, which is straightforward verification of employee's background and systems in terms of past employment, criminal records, court records, education, all the different kinds of background checks for an employee. And also we have another line of business in matrix, which is the audit and assurance business. Basically, it's a supply chain or stock audit up to a retail audit. This is what we do in matrix.

Then we have global flight handling, ground handling, which does the ground handling services today operational in five airports, including: Pune, Vizag, Patna, Raipur, and Surat. We have another 14 airports, which we have won the concession. This airport ground handling is a 10-year concession, which we started last year. The other 14 would get operational in the next one, two quarters. In that, 14 airports, which are smaller airports, we have very high potential and

very interesting airports like Ayodhya and Tirupati. All these will come into operation in the next one or two quarters.

The last piece is we have a sales enablement business in the business services space, which is one acquisition with Denave, which does B2B sales and sales lead generation for clients. In some cases, they complete the lead and in some cases, they pass on the lead. Their largest customer is Microsoft, and we have another piece, which is Athena, which actually acts as a sales arm, largely for the BFSI segment, where they do the B2B2C sales on the bank's database or the client's database, and then fulfill the sales lead. This is largely the sales enablement piece.

I want to mention here in all the business segments I mentioned, which is the mailroom airport ground handling, the audit assurance, employee background verification and sales enablement, in all these segments, we are either number one, two, or three, when we acquired and also what we are today. So we've been market leaders in this space from the day we started. In the IFM space, we are number two, according to the industry report, in terms of as market leaders there. This is largely the business.

I'd already mentioned about over the last two decades, we've had PE investment, which is actually has great internal controls and great corporate governance. Now, going forward, I would want to share what kind of plans we have. I'm constrained to give numbers, but I would definitely give you a kind of understanding of where we are and where we're going.

One core plan or the strategy is to retain our existing customers and grow the customer base, and also sell and service more customer, more service lines or more business lines to the existing customers. And then the new products and new services which we have within the group is what we would want to cross sell, because today between all the group companies, we have close to what, 2,000, 2,500 our customers. So this, I would think, is a great opportunity for us to cross sell.

And then also we would want to, as per what we have given in the prospectus, do an inorganic growth. Though we would not rush into doing something just for the sake of building bulk, but we definitely would do the inorganic growth along with what we want to grow our business organically.

On the IPO funds, what we have done, we have repaid -- we had actually collected INR400 odd crores, and we had repaid debt, which is about INR133 crores, as of today is what was the debt. And this would help us reduce our finance cost going forward. So this is largely the business, and I put in a nutshell. I'm happy to answer whenever the Q&A starts and any of the doubts or clarifications you have.

Just to conclude, I want to assure you that we are in a great business space, which has got high retention, high growth, and especially in general, that it is about 6 to 7%. And especially in

manufacturing, we have Make in India, then China Plus One. We see some immense opportunity in this space where we are.

I would like to conclude now and then hand over to Balaji, who's our CFO, on the numbers for Q2 and H1.

Balaji Swaminathan: Thanks, Raghu sir. So good morning, everyone. I'm Balaji here. I am the CFO for the UDS. So first, I will speak about the Q2 FY24 financials and the comparison that I'm mentioning is on year on year basis and consolidated basis. So total revenue from operations grew by 17% to INR6019 million.

And adjusted EBITDA grew by 4% to 403 million. And when we say adjusted EBITDA, it excludes the ESOP cost and the fair value changes, which is basically a net, because in the results that we have published, the fair value changes are appearing in two places. The gain is shown as part of the income, which is there on the top. And the expense is shown as part of the expenses below. All right, so these are the two adjustments that are done to the adjusted EBITDA.

In Q2 FY24, ESOP cost is 32 million. And for the year, we expect this to be closer to 110 million. And in Q2 FY24, fair value changes in liability payable or paid to promoters of acquired subsidiary is 57 million, which is net. So at a gross level, expense is about 89.83 million. And there is a gain of 32.63 million. The differential is 57.2 million. So that is what is the net impact because of the fair value change.

And just to give an understanding on fair value change, so this is more the way the acquisitions that are done and we do a tranched acquisition. And when we do the acquisition, at that date of the acquisition, we take the majority stake and the balance stake is acquired over the next two to three years in multiple tranches.

And we assess the value on the date of the acquisition based on the estimates how the business would do. And the liability is already taken care in the financial statements. If the subsidiaries tend to perform better or otherwise, then there would be a fair value change that would come in, and that has to necessarily pass to the P&L. And that is the reason why we see this year and this being relating to the acquisition related nature and not operational. So we are adding this amount.

And by FY25, so today we have two subsidiaries where we have the commitment to acquire over the next couple of years. So Denave, we are at 77.7% today, including the holding through one of our subsidiaries as well, right? And this Denave would become 100% subsidiary by FY25. And Athena is the other subsidiary where we own 57% today, and we have a commitment to buy the balance. And that would become 100% subsidiary by FY27.

Adjusted PAT for Q2 FY24 stood at 197 million. And cash PAT grew by 2% to 318 million. And coming to H1 FY24 financials, total revenue from operations grew by 19% to 11,796 million. Adjusted EBITDA grew by 7% to 804 million. In H1 FY24, ESOP cost, which is an adjustment as I mentioned earlier, is 60 million. And the H1 FY24 fair value change is 89

million, right? So this is the net number that I'm talking. And similarly, the adjusted PAT stood at 399 million in H1 FY24. And cash PAT grew by 1% to 632 million in H1 FY24.

Adjusted ROCE on an annualized basis stood at 24.4%. And at present, including because on 30th September, we have done the allotment of shares. And because of which, the whatever money that has come in from the public issue has been recognized and the payables have also been recognized in the same way.

And we are a net cash company as of 30th September including the IPO funds that have come in. So the net debt to equity stood at negative 0.44X as on 30th September, 2023.

So with this, I think we can open the floor for question and answer session.

Raghunandana Tangirala: We have Amitabh to sum it up by then Amitabh, could you please stay on?

Amitabh Jaipuria: Yes, So thank you very much to all our investors for their support during the IPO, as Raghu mentioned. And for now on this investor call, and we hope over the next few quarters, you will see that your faith that you have reposed in the UDS management and in the company is very well placed. And we expect to exceed your expectations in the next few quarters.

On this, as Balaji mentioned, the basic highlights really are the revenue growth. And especially in IFM, we will see the numbers. The IFM revenue growth is quite substantial. And that's one of the segments, one of the major segments that we operate in. So that's a very, very good news number. And also there is growth in terms of EBITDA and in terms of PAT. There are, of course, the issues around ESOPs valuation and the charge to the P&L and the fair value change that Balaji explained.

So but operationally, we are in a very strong place. But there are some headwinds in two businesses, which we will speak more in detail. As we are all aware, there is headwinds in the IT space, IT, ITES. Hiring has slowed down dramatically in these two spaces. And what we are also seeing is that there are reports now which say that the IT majors will end the year flat over last year with zero addition to headcount. This is an unprecedented situation. And our EBGC business, which is the employee background verification business, has a direct linkage to IT hiring.

And we will see and we'll present to you what mitigation plans we have to reduce our dependence on the IT space. So in the EBGC space, there has been a slowdown, which has impacted our H1 numbers to an extent.

The other place, which is also linked to the tapering of COVID, and which we had explained to many of you who attended our IPO roadshows, that there was a unique opportunity to create some revenue and EBITDA during the COVID period and during the tapering off of the COVID period in our Avon business, and which also now has fully played out. And therefore, now what we have is our Avon business is also a steady state business.

So between these two, but if you exclude these two lines of business, which are not very material, but they have impacted our results, the other lines of business have done well. And we will explain that as we get asked questions.

So glad to be here and open for questions now. Thank you.

Moderator: We have a first question from the line of Ashwini Agarwal from Demeter Advisors, LLP. Please go ahead.

Ashwini Agarwal: Good morning, team. Thank you for the opening remarks, which were quite useful for us to get a complete understanding of what these businesses are all about. The question I had was that when I look at cost of services and other raw material lines, which is on page seven of your presentation, on a year-on-year basis, that line has gone up by 40%, whereas your revenue growth is just 17%.

And you know, while we adjusted EBITDA etc., it's fine. This is the line which is causing a significant pressure on what I would call the operating adjusted EBITDA number. And this is in spite of the fact that your BSS revenues on a year-on-year basis for the quarter have grown quite well. And that is apparently, you know, the more profitable business. So obviously there some things I'm not getting there. So if you could help me understand this, that would be very good?

Balaji Swaminathan: So this is Balaji here. So the cost of services is more related to the sales enablement business, the Denave business that we acquired, right? So for them, because considering the nature of the business, the employee cost, the supervision cost that is required to handle that business is shown as part of cost of services, right?

So that is the reason when you look at it year-on-year, because Denave was a full year consolidation in FY23. And that's a business which is significantly growing as well, right? So that is the reason why you see that increase. That should be seen in relation only to the Denave business. So if I look at Denave numbers, so it has moved from INR94 crores in Q1 FY24, right, to INR111 crores. So that is a significant jump.

And in relation to that, the cost of services has also gone up, right? So in that sense, I do not see that impacting the profitability, but it should be more seen towards that particular business.

Ashwini Agarwal: So are you telling me Denave numbers are not there in this Q2 FY23 base number?

Balaji Swaminathan: Base number, it is there. So basically, we acquired them in October 21, right? So historically, if you look at it, prior to FY22, we will not have cost of services being reported separately. And from FY22, for the partial year that we consolidated and full year of FY23, we have Denave numbers. So growth in that business is also significant. So that is the reason why you are seeing the kind of increase in the numbers as well.

Ashwini Agarwal: What is the EBITDA margin for the Denave business?

Balaji Swaminathan: Denave business EBITDA margin will be closer to about 8% to 9%.

Ashwini Agarwal: No, but that does not make sense. Because if you are saying that your revenue grew 17%, right? But your cost of services grew by 40%. And in the base period, you have Denave and in the current period, you have Denave. And Denave is a higher margin business and this cost increase doesn't make sense?

Amitabh Jaipuria: May I step in here? Denave has a set of businesses, right? A set of products, rather. So they have some products which are more cost intensive. And there are some products where the margins are higher. So the Denave margin that you see that Balaji is referring to, which is the 8% to 9%, that's at the aggregated Denave company entity level. But there are product lines in there. So the product mix has shifted a bit. And that is why you see the difference.

We do expect that as we go forward, it will revert to what we had earlier, because this is a seasonal shift. What tends to happen is that in the festive season, etcetera, the more cost intensive lines of businesses, the products, they tend to peak a little bit. So that is what has happened.

So going forward, we do expect the mix to shift back a little bit, may not fully, but we do expect it to shift back. I hope that explains.

Ashwini Agarwal: So which lines of business are festive oriented?

Amitabh Jaipuria: So I'll explain. So there is one line of business, which is the field marketing services, where we basically provide retail manpower to people for their retail activation, as it is called. So here, the margins are slimmer. On the other hand, the kind of services we provide to Microsoft, and to Lenovo, and to many of the others, those are not field activation services, but they are more tilted towards the lead generation, tele sales, and those kinds of activities, which are the much higher margin products. So the more manpower intensive products are really where the cost of service is higher in relation to revenue.

Ashwini Agarwal: Okay, so you're telling me that because of the festive season, in Q2, fiscal 24, you had a lot more of field activation activity, which is why the Denave margins have gone down on a year-on-year basis, Q2 fiscal 24 over Q2 fiscal 23?

Amitabh Jaipuria: The product mix has shifted. Yes, product mix has shifted. The festive piece is one part of the reason. There are other shifts as well. But basically, there are five products that we have over there. One of them is the retail activation piece. So when the retail activation piece goes up, then what tends to happen is that the cost of service tends to increase.

Ashwini Agarwal: My second question is on ESOPs. You said that the ESOP cost for fiscal 24 is going to be about INR11 crores. Could you just guide us as to what this number is going to be for fiscal 25-26?

Balaji Swaminathan: 25-26, this number should come down because the way the ESOP accounting is, it gets front-ended because all the tranches will have to spread from day one. So from a number perspective, this should be closer to about INR6 crores, INR7 crores in FY25.

Ashwini Agarwal: And further lower in fiscal 26?

Balaji Swaminathan: That's right. And the current scheme ends there. And of course, ESOP is something that we also need to look at as a strategy for the employee retention. So that is one of the tools that we utilize as well. So for the current tranches that we have, this is the kind of charge that would come into the P&L.

Ashwini Agarwal: And may I ask, what could be the ESOP pricing strategy for future issuance? Would that be closer to market price or that would also be at par? What are you thinking?

Balaji Swaminathan: No, historically, we have been using for the current tranche that we are talking is also closer to the market price is at that time based on the valuation that we have done is done. So we have not given a par to go forward also, I think the similar strategy we could do, but what kind of a discount that we need to give it to the employees from the market price is something that we would take a call through the NRC and the board at that point of time.

Amitabh Jaipuria: See, if I can, again, just add a comment here. There are two things that are happening here. One is that in general, the idea is that the management compensation in ESOP is a part of management compensation should be aligned with -- the incentives should be aligned with our investor incentives. So therefore, the kind of discounts that have been given to employees in this largest round of ESOPs is actually zero, because we issued shares at INR300. The ESOP pricing is very, very close to that.

So and going forward also incentives will be aligned because we believe that's part of ethical governance. The other part is that in some cases to attract talent, if there is a different scheme that is announced, then there will be a clear rational and in any case, all shareholders vote on ESOP plans. So but our theory in general has been to align incentives with all stakeholders, which primarily includes my investors.

Moderator: We have our next question from the line of Kirti Jain from Bandhan AMC.

Kirti Jain: My question is with regard to over the next three years, what is the kind of growth do you see for our company? And what is the sort of mission you have for our company? If you can enlighten investor community, that would be great.

Raghunandana Tangirala: I think that like what we've been doing in the roadshows, I'm a little constrained to give you real numbers. But we are certainwe would grow across top line revenue and PAT at about 20%. That's the plan over the next two years. And that's what we've done as you compare to last year to this year on the reported numbers.

Amitabh Jaipuria: I can just add to that, you know, we have a good mix of businesses. And therefore we are able to manage our risk. So if there is a downturn, like we have seen in the EBGC business this year, you know, in H1 we are seeing that and to an extent in Avon. But what this means is that the other businesses have taken up the slack and we have still delivered the kind of growth that Raghu has talked about. So that's part of our portfolio management of the businesses that we have. So the number that Raghu has indicated is the number that we feel reasonably comfortable.

Moderator: We have our next question from the line of Atul Mehra from Motilal Oswal Asset Management.

Atul Mehra: Yes, good morning and thanks for the opportunity. So just extending on the previous question. So basically, we did about INR80 crores, INR85 crores of adjusted PAT last year. So would we be confident of doing 20% plus growth on that for the current financial year, given what you just said?

Raghunandana Tangirala: Yes, that would be close to INR100 odd crores?

Atul Mehra: So basically, for the current year, we can look at about INR100 crores of adjusted profits.

Raghunandana Tangirala: Yes, that's for March 24.

Atul Mehra: March 24. And, sir, given these adjustments that we have on Plain Value and ESOP, so on a reported basis, this can lead to basically about INR20 crores, INR25 crores of in terms of difference between adjusted and reported back?

Raghunandana Tangirala: Yes, it could be closer to INR70 crores of reported PAT and INR100 odd crores of adjusted PAT.

Amitabh Jaipuria: I do want to say that this is not formal guidance that we are issuing. So that is something that we should clearly align on. This is not formal guidance. But yes, this is indicative because we have just listed. So formal guidance, we will start issuing at a later date, not in this call.

Raghunandana Tangirala: No, absolutely. I'm just going by whatever we have numbers for H1. And we're just extrapolating that. You are absolutely right. It's not a formal guidance. But we are confident of these numbers because we are almost at the end of Q3.

Atul Mehra: And, sir, secondly, going forward to the next financial year, given we have the IPO proceeds and so on and so forth, and I would expect there would be a margin improvement as well in the next financial year. So next financial year, should we be closer to INR140 crores, INR150 crores in terms of adjusted PAT?

Amitabh Jaipuria: Those are your numbers.

Raghunandana Tangirala: No, I think they are your numbers. But definitely that's our plan. Probably even exceed that. But they are your numbers. But definitely that is the plan.

Atul Mehra: Right. And just on the similar note, in terms of first half, we have seen a margin deterioration. So what are the signs that you're seeing on the margin front currently? Are you seeing any signs you're already seeing margin improvement happening in the second half of the year? If you can guide a little bit on the margin front?

Raghunandana Tangirala: Yes, Balaji, margin will definitely going to cross. That's why H1, H2 would be…

Balaji Swaminathan: When we look at H1, FY23 versus H1, FY22 on adjusted basis, on 7.6% adjusted EBITDA has come to 6.8%. Right? So this is primarily, I think, two things that Amitabh mentioned earlier. So one is the matrix impact that is having and similarly, the Avon, which was there at that time.

So when you look at quarter on quarter, it is more or less similar, 6.9 and 6.7. And either, I would say the marginal decline of 0.2 is mainly because of the IPO expenses to the extent of about 80 lakhs which have been debited into Q2, which we have not called out as an adjustment, which is just part of the numbers that are reported.

So that way, I think the 7% is something which would continue to further. It will not go down. And of course, there is only an upside when the IT's recruitment goes up.

Atul Mehra: Got it. And one final question in terms of whether inorganic, what are the spaces that you are looking at, at this point in time? Will it be more in the sales enablement or if you can talk a little bit about what are the target areas from an organic perspective going forward?

Amitabh Jaipuria: So, you know, like we said during the IPO, we have three basic platforms, right? And we have three niche businesses. So the three basic platforms are IFM, they are Audit and Assurance and they are Sales Enablement. So Sales Enablement and Audit and Assurance clearly is part of the BSS vertical. And that is where we expect most of our acquisitions to happen. The IFM is not an acquisition-led platform. IFM is a platform that we have built from scratch. And we expect that to continue. We do not need any acquisitions in that space.

As far as the Sales Enablement and Audit and Assurance spaces are concerned, we like those spaces. Margins are good in many product lines over there. They are more tech-oriented and they are far more defensible because the kind of relationships and the value that you add to customers is far, far higher. So those are the spaces that interest us.

Within Audit and Assurance, the areas of certification, testing, those kinds of areas which are pure value-add services, those are the kind of areas that interest us. So margin-accretive is what we have said. We have also talked about our model of acquisition and the theory that underlines that. And that is exactly what we will continue to pursue. So they will have to be margin-accretive. They will have to be synergistic to what we do. They will have to be such that we are able to cross-sell to our existing customer base.

And they are something where we are very comfortable with the promoter who runs those businesses because our model is that the promoter then becomes part of the UDS management

family and basically helps run the group. So those are the aspects that we will continue to look at.

Moderator: We have a question from the line of Rahul Bangaria from Lucky Investment Managers.

Rahul Bangaria: Thank you for taking my question, sir. This question has already been kind of partly discussed and addressed before. But we have multiple businesses, multiple moving parts, quarterly volatility within those businesses. So while we have seen our top line grow over the last five, six quarters, the adjusted EBITDA number is around that INR40 crore mark plus minus 5%. Where do you see, as a management, where do you see this EBITDA margin go over the next, let's say, one to two years, maybe even three years? How do you look at it?

Amitabh Jaipuria: Raghu, Balaji, you all want to go first? I have some thoughts which I will share.

Raghunandana Tangirala: I think Amitabh will do that and then I'll add on to that.

Amitabh Jaipuria: Okay. So see, the way we are looking at it is that Balaji has already talked about the fact that our margins, we expect they have, you know, stabilized and they can only go up from here, right, both in terms of product mix, business mix, as well as in terms of overall cost management. So these three levers will ensure that.

So now if you're growing revenue at 20% plus, right, or strong revenue growth, that will translate to strong EBITDA growth as well. And as far as the translation is concerned, the adjustments that have been there, which is this INR20 crores, INR25 crores that's been the adjustment because of ESOPs and because of fair value accounting, both of those forces are sort of running their course. So therefore, these are not longer term forces that are going to keep appearing.

And because going forward also our acquisitions now, as part of the objects, we have talked about the fact that we have INR80 crores odd, right, for acquisitions. So we don't expect the acquisitions to be, very, very large acquisitions, which then become difficult, etc. So that's anyway not part of our strategy, right?

So therefore, margins will improve, that is we have talked about. We've also talked about the fact that revenues growth will be strong. And therefore, we believe that translation will happen.

Raghunandana Tangirala: Right. Yes. Just to add to that, this is what I answered earlier. We would definitely target plan and are confident to do a 20% year on year since you asked what we'll be looking at the next two years. 20% and what we have done in March 23, we will do a 20% across PAT or across revenue over the next two years. That's the plan.

Amitabh Jaipuria: Again, not formal guidance.

Moderator: We have a question from the line of Aasim from DAM Capital Advisors. Please go ahead.

Aasim: Yes, congratulations on your IPO and successful listing. I have two related questions. So firstly, can you just talk about how the receivable cycle will trend from current levels over the next two years and what that should do the ROCE level? And also, if you can break down the receivables and ROCE profile for both IFM and the business services segments?

Raghunandana Tangirala: Yes, sure. Balaji can you just take on the ROCE and the receivable? What is the current and what will be like next year?

Balaji Swaminathan: Yes, the receivable profile, if you look at it pretty much on both IFM and BSS, it remains more or less similar, barring one or two businesses where the collection is slightly much earlier. When we look at the sales enablement part. Overall, we expect the receivables to be closer to about 85, 86 days kind of a number that we have. And similarly, what we have given the prospectors also how it is going to move forward.

With the business going in, we would expect a decline of about maybe about three or four days that we could save on the receivable part. So, that is where we see an efficiency that would come in. But again, most of the clients now, we do not have unlike other businesses like staffing, we do not have collection phase. So, it's all pay and collect that we follow. So, that is on the receivable part.

Coming on to the ROCE, so we look at ROCE at a total level because the capital employed also includes the money that we have paid for the acquisitions. So, that way, splitting it into two separate businesses and looking at it might be different from what I have paid for acquisition because there is a lot of intangible that is also sitting which is forming part of the capital employed that I need to allocate and then look at it. So, then it would vitiate.

Either, what I should do without having these acquisitions, I should look at pure on an operational basis, but that may not be the right way to look at it because capital has been employed towards that. So, at a company level -- so for H2 annualized, if you look at it, we are at 24.4% is the ROCE that we have reported.

Aasim: Got it. So, I saw the H1 ROCE in the presentation that adjusted for ESOP cost, ESOP and the M&A fair value thing.

Balaji Swaminathan: That's right.

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

Mukul Garg: Thank you so much. So, I just wanted to ask about the current environment in the facility management business. Two of your peers have reported over the past few weeks, both indicated that they are kind of doing account rationalization to improve profitability in the space. And hence, the growth has moderated a bit.

Even your growth this quarter was in single digits. So, can you just help us understand what is really going on in the space? Should we expect growth to accelerate as especially technology companies see people come back to office? And how should we look at the profitability in the facility management business this year?

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

Raghunandana Tangirala: You can.

Amitabh Jaipuria: Yes. So, Mukul, great question. So, there are two things that are happening here and they're slightly contradictory forces that we are seeing. But so, one clearly is that people are getting back to office, there is a strong demand for office space. In fact, it's accelerating as we are seeing from the realty numbers that get published by the industry.

So, and there is strong absorption of realty. You're also seeing the GCCs that are coming in. So, even though there is a slowdown in the IT sector in terms of hiring, but the demand for A-grade office space continues to be very strong. Demand for warehousing space and industrial space is accelerating. Those are the areas that we are strongest in.

So, one is that there is strong demand. So, therefore, we expect that the facility management business should continue to grow. That is one part of it in terms of volume. The other part of it in terms of account rationalization that some of our peers may have, you know, may have announced.

See, I mean, each one of us follows, of course, our own strategy, but our customer portfolio, right, is a balanced portfolio. So, we have some very large customers. You know, we've talked about our customer concentration numbers. They are available, right? So, we have some very large customers like Microsoft, like P&G and some of the others. We also have customers that are smaller. So, we balance the two because they are required, because the smaller customers actually get grown, right? They have the maximum potential to grow. So, that is one part of it.

Second part of it is that many smaller customers also tend to be slightly higher margin businesses, upfront. Of course, there is a cost of service, but they tend to be slightly higher margin. So, there is a balance that you do in terms of what you can service profitably and what you cannot service profitably. We constantly do this.

So, we don't do this on an annual basis or whatever. This is a constant exercise that the team does in terms of balancing its customer portfolio from the perspective of profitability and from the perspective of our ability to serve that customer. So, I hope that answers your question.

Mukul Garg: Right. So, Amitabh, just to follow up on that, when you look at the growth this quarter in IFM, it kind of felt a bit muted. Was it something, which we should kind of think about for the year ahead or was there some seasonality?

Amitabh Jaipuria: So, I wouldn't extrapolate this to the year, you know, and I would wait for two quarters to see if it actually solidifies into a bit of a trend. Right now, we don't see reasons to believe that it's a longer-term trend.

Raghunandana Tangirala: Amitabh, I just want to add here that this question is very specific for Q1, Q2. We have taken a conscious call. We had at the beginning of this year, close to about 6% of our business or revenue top line was from government business, in the sense, directly government business, which was close to about 6%.

This last quarter, I mean, partially and the second quarter partially, we have exited those government business. Today, our government business stands at about 3% or less than 3%. So, our strategy is to completely be out of government business. So, these two quarters, the growth is almost negligible or less than 1%. But going forward, the next two quarters, we will catch up and overall year growth, if you look at last year, that is FY23 to FY24, we would still flop close to that 17%, 18% growth.

Overall, I'm doing FY23 to FY24, we do have 16%, 17%. Whereas our target is 20%, but that 20% is across all businesses, which we will do that. So, this is specifically us, we have exited certain businesses in Q1 and Q2, partially in Q1, partially in Q2. So, this will make it up, but at the end of the year, so this is something which you should look at it as a small aberration for these two quarters. But if you look at FY23 to FY24 revenue-wise, we will do that 17%. And we will maintain that between 4.5% to 5% of EBITDA.

Amitabh Jaipuria: So, Mukul, to your point, our account rationalization is in a different direction, as Raghu just mentioned, which is more of government piece of it, but not related to a slowdown in the overall FM Market. At least that's not the case.

Mukul Garg: But ideally, the outcome would be a better profitability, I'm assuming, like your peers have also indicated. So, that would ideally help you report a better margin profile going forward?

Amitabh Jaipuria: That depends on specific accounts. So, but yes, that could be an expectation. But that would depend on specific accounts, because some government accounts are not necessarily low margin. We exit them because of other reasons also.

Raghunandana Tangirala: That's right. I think what we will do is to look at H1 as a standalone IFM, since you're asking standalone IFM. I think we did about 4.5%, or between 4.25% to 4.5% -- 4.9%. So, we maintain between 4.5% to 5% for the full year. If you can look at H1 numbers, we would continue or slightly improve on that.

Now, if you compare that with peers, which you said already in the beginning, I don't know how they will fare. But we still think we are industry leaders in this IFM space in terms of profitability, and in terms of, I mean, in terms of profitability, at least.

Mukul Garg: Sure. No, that's really helpful. You know, coming to BSS, it would be great if you can just give some color of the different moving parts there, and how you are seeing the key businesses play out in the near term?

Balaji Swaminathan: Yes, okay. I'll go first. So, Mukul, we see IFM continuing on its positive note, and we have talked about the fact that we see market growing, and we see our business growing. So, that's on a positive piece. Our other main platform, sales enablement, there again, we are confident that we are seeing good momentum, both in customer acquisition, as well as in terms of customer retention and our volume growth. There is a product shift, of course, that we spoke about earlier.

The third platform that we have, A&A is doing very well, and strong customer acquisitions and strong growth in the accounts. So, A&A is doing very well. Then that brings us to our three niche businesses. Employee background verification is a niche business. And in that business, we have already talked about the fact that there are headwinds. What we are doing there is to shift our focus from the IT, ITES, to also the BFSI segment, which is a large employer of people as well.

So, and we expect that move to start paying off even as the IT industry starts recovering a bit in terms of hiring. So, we do believe that we have probably hit rock bottom as far as the EBGC business is concerned, because the hiring has probably hit rock bottom. It can only go up from here. So, that's on EBGC.

The other niche business that we have is the airport ground handling business. There, Raghu has already given commentary in the beginning to say that our newer airports should come online. And as they start coming online, the revenue and the profit margins, the EBITDA margins will clearly start looking up. So, that's the second niche business that we have.

The third niche business that we have is the mailroom management business, Avon. And there again, the bump that we got because of the COVID asset movement business, that has tapered off. We are now at a level which we believe is a sustainable level, but this is not going to be a high growth area for us. So, the higher growth areas are the three core platforms, which is IFM as a platform, Auditor Assurance as a platform, Sales Enablement as a platform. Those are the three core platforms in the business. And that's the commentary around each of those six. These three platforms plus these three niche businesses.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Raghunandana Tangirala: Thank you, all of you. Really been a great pleasure talking to all of you. This has been our first call since about a month back. I'm really grateful to all of you for participating and look forward to your support. Amitabh, I would request you to close it.

Amitabh Jaipuria: Thank you, Raghu. So, thank you very much to all the investors for being on the call today. And we are deeply appreciative of your faith in us and in the management's capability to execute this

strategy, which we have articulated. We believe that faith is very, very well placed and we expect that we will not only meet but expect to surpass your expectations. And we will continue to govern the company with the highest ethical standards of governance that we have displayed in the past and that we expect to continue to display well into the future. Thank you very much.

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.