# Updater Services



**Operator:** Hello and good morning, everyone. This is the first day of the Bharat Connect Conference. I welcome you all to the call of Updater Services Ltd. Today, from management, we have Mr. Amitabh Jaipuria, Senior Executive Director of the company.

Before I hand over the call to management, I will lay out the flow of the event. We will start with brief introductory remarks by management and then move on to the Q&A round. Any participant who would like to ask a question can raise their hand or put it in the chat box. First, we will take questions from participants who have raised their hands and then move on to the chat box. If time permits at the end, we will take questions that I have received from clients who were not able to participate. With this, I now hand over the call to management. Over to you, sir.

**Amitabh Jaipuria – Senior Executive Director:** Thank you very much. Thanks for inviting us to be a part of this conference. We are happy to be here, and I am quite proud to be representing UDS to the investor community.

Before I start, let me express my deep gratitude for the support of the investor community to UDS and for your belief in management to execute its strategy and its plans. With that, let me start very quickly. I am not sure how much the participants know about the company, so I will take 5-6 minutes to talk about the company. Then I will discuss the company's performance a little, and after that we can open the floor to questions. My intention is to give you more time to ask questions rather than give you a detailed presentation. That is why I will not go through a prepared presentation; I will just speak.

Let me talk about the company. This is a 40-year-old company. It was started by our founder, Raghunandana Tangirala, as a housekeeping and facilities management company before this concept really existed in India. In fact, at one point in time, the largest office complex in this country was Tidel, which was in Chennai. It was started as the first IT company or IT campus, and UDS had the privilege of being appointed to manage it. This was 35 years ago—or perhaps not 35, but about 30 years ago.

Since then, the company has evolved. Today, we are a 3,200-3,300 crore revenue company, and we operate in two very broad segments. The first and largest segment is what we call integrated facilities management. This represents roughly two-thirds of our revenue and contributes approximately 55% of our EBITDA.

In this business, we provide soft services, which include housekeeping services. We provide technical services and engineering services. We also provide a lot of production support services, warehousing services, and so on.

We also provide catering services. We have a catering company called Fusion, which has revenue of approximately 140-150 crores and reasonably good, industry-leading EBITDA margins. The other business we have is a specialty business called Washroom Hygiene Concepts. Here, we collect and dispose of used sanitary napkins in a very scientific manner. This is a very profitable business. It is a small business, but it has very strong EBITDA margins. These are the businesses we have under integrated facilities management.

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We are able to provide services across the country, in almost any pin code, because we have been operating for almost 40 years. We have a recruitment and deployment network across the country. Our strongest geographical segment is the South, where we are very strong, particularly within the industrial segment.

Overall, in IFM, there are five core industry segments on the user or customer side. There is industrial, infrastructure, warehousing, commercial, and residential. We are absent from residential. We do not operate in that segment as a matter of principle and strategy. We are not very strong in commercial, but our real strength lies in industrial, warehousing, and infrastructure. That is where we are very strong.

That is the overview of IFM. If you look at the other side of the business, which is the more value-added part of the business—business support services—it contributes roughly one-third of our revenue. This year, for example, business support services will contribute more than 1,000 crores, while IFM will contribute approximately 2,200-2,300 crores.

In business support services, we have two main platforms. The first is called sales enablement. Under sales enablement, we have two companies, Denave and Athena. Denave operates in the B2B space, and its main segment is IT-ITES companies, but these are global customers. We work with a list of global customers, including major companies such as Google, SAP, Lenovo, Xiaomi, and others.

This is a B2B business in which we help companies sell more and realize more revenue.

Athena is our other company in the sales enablement space. We work primarily with BFSI companies, and we are very strong among banks and NBFCs. Our main business model is to work with banks as an extension of their sales operations. We reach out to their customers and sell their own products to them, essentially through upselling. We sell credit cards, personal loans, home loans, auto loans, and similar products to the banks' customers. That is Athena. Sales enablement is one major platform.

The second platform we have under BSS is what we call assurance. Under this platform, we have one company called Matrix. Matrix has two businesses. One is employee assurance, which involves employee background checks. The second is supply chain assurance and back-office processing.

Supply chain assurance involves auditing the warehouses, retail outlets, and so on of FMCG companies, food companies, and similar businesses. Recently, particularly for people who are in Bombay or Maharashtra, there has been a great deal of discussion about the major campaign that the FSSAI has been conducting against many eateries and restaurants and also against major brands.

We are one of the companies that helps those companies maintain market hygiene. For example, we check product expiry in the marketplace, the return of that stock, the destruction of the stock, and so on. That is what supply chain assurance involves.

We also have another small business called Global Flight Handling, where we provide airport ground-handling services. It is a small business of approximately 60-70 crores, but it is a good

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business to be in. We provide airport ground-handling services at 23 airports across the country. Airport ground handling basically means providing all services to an aircraft while it is on the ground.

For example, we provide ground power, ground air, and air conditioning. We also provide baggage-handling services, aircraft-cleaning services, and other such services. Our customers are the airlines, and we bill them for turning around their aircraft after it lands and before it takes off. That is another business we have.

IFM is our largest and oldest business. It contributes two-thirds of our revenue and approximately 55% of our EBITDA. BSS contributes one-third of our revenue and approximately 45% of our EBITDA. Under BSS, we have two main platforms—sales enablement and assurance—and there is also the small airport ground-handling business. That is what UDS is all about.

Our first quarter has been very good. We declared PAT of approximately 30.3 crores, and we are on a strong trajectory to deliver very good numbers this year. Our second quarter is just about to close, and we are looking good there as well.

This is going to be a year of stabilization for us after some incidents that we experienced in the previous year, and we are now on a strong growth trajectory. This is generally a well-governed company. We have a six-member board, with three strong independent directors and three executive directors.

The executive directors are Raghunandana Tangirala, who is the founder and CMD of the company; myself—I have been associated with UDS for the past 8 years, from 2018 onwards, in one capacity or another; and Ms. Jigyasa Sharma, who is also an executive director on the board.

That is how the company is run. Each of our businesses is headed by a CEO who is a veteran in that space, or by a COO or business head who is a veteran in that space and runs the organization. Our Group CFO is also a very seasoned person, Ram Praveen, who joined us approximately 3 months ago and is doing a great job.

That is the management team and a very brief snapshot of our businesses. I will now open the floor for questions so that we can spend the larger part of the call addressing specific issues or questions that our investors may have. Back to you.

**Operator:** Thank you, sir, for such a brief introduction. We will now move on to the Q&A round. Any participant who would like to ask a question can raise their hand or put it in the chat box. First, we will take questions from participants who have raised their hands, and then we will move on to the chat box. If time permits at the end, we will take questions that I have received from clients who were not able to participate.

Any participant who would like to ask a question can raise their hand. Until then, sir, we have received a few questions from our clients.

How are energy management, such as MEP services and technical maintenance contracts, being introduced?

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**Analyst:** Which new and existing clients can you share as examples?

**Management:** I may not be able to share specific customer logos because we are normally not allowed to do that. However, what I can share with you is that MEP contracts are really at the heart of what we do. Engineering services are a major core strength of the organization, and we are very strong in this area across our customers, especially industrial customers.

We also manage a lot of airports. For example, we have been managing Delhi Airport and Goa Airport for many years. We manage the entire terminal building in terms of technical services for many of these airports.

Our attempt is to introduce these services to more and more customers. Our attempt is to push MEP services to a larger and larger portion of our customer base and reduce the concentration of housekeeping services in our product and revenue mix. That is what we are attempting to do.

**Operator:** We have a question from Raghav Bhutoria. Please go ahead.

**Raghav Bhutoria:** Am I audible, sir?

**Management:** Yes, you are audible.

**Raghav Bhutoria:** Why has our growth rate reduced somewhat over the last couple of years? We used to grow in the range of 18–20%, and that has steadily come down to 10%. Even though we are seeing the kind of construction and industrial growth taking place in the country, the base should be good for growth. Why have we not kept pace?

**Management:** We do believe that, if you look at the industry as a whole, there are only about 7 or 8 really large players in this industry, and we have broadly kept pace with them. Our growth rate has now stabilized at approximately 10–12%, and you will see this accelerating to some extent as we move forward.

There are some factors that we must recognize. We are a very diversified business. That is a great thing in terms of managing stability because if one business declines, another business grows and we are still able to manage. However, when 2 or 3 of these businesses face a downturn, our growth rates do tend to be affected.

Over the last 2 years, 3 of our businesses, especially on the BSS side, have been impacted. We saw the Avon incident last year, which cost us some money and also affected growth because that revenue went away completely when we shut down that division, which was the transport brokerage division.

All of you are also aware that the IT-ITES industry has faced a downturn over the last 2-3 years. As a result, IT hiring completely froze. One of our main businesses on the assurance side, Matrix, has employee background verification as one of its important business lines. That business slowed down dramatically because of the decline in IT hiring.

However, we are seeing green shoots. We have also diversified our customer base away from IT-ITES into other areas, so that growth rate is now coming back.

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We have had a similar challenge in Athena, which is our call-center business for BFSI, where we work with banks and NBFCs. Over the past 2 years, we lost 4 large customers. This was not because of service quality, results, or anything of that nature, but because of their own corporate actions.

For example, Citibank sold its business to Axis. Axis has a very different way of doing things. Standard Chartered shut its retail book completely, which was also very different. ICICI Securities took away a lot of work when it undertook its corporate action with ICICI Bank, and that affected us to an extent.

All of that is behind us now. We have steadied the ship in Athena as well, and we are getting back on the growth runway.

We have had issues, and that is absolutely correct. Coming to your specific question, Raghav, about construction, you are absolutely right that a lot of construction is taking place. A lot of it is residential, and we are completely absent from residential. A significant portion is also in commercial spaces, including GCCs and similar facilities.

Most of the new A and A-plus grade office buildings are being absorbed by these GCCs. Approximately 30-35% of new office space, according to the latest statistics, is being consumed by GCCs alone across the country, in centers such as Bangalore and Pune.

Most of these GCCs tend to work with IPCs, which are property consultants, including global property consultants such as JLL and CBRE. These consultants then subcontract specific portions of the work to other companies, such as technical services or housekeeping. Margins tend to be very low in that business, and payment cycles tend to be very long.

We do not participate in that market, Raghav. Even though we keep hearing a lot about it, we are not in that segment because we are not a subcontractor.

The growth in industrial spaces is affecting us very positively. We are seeing our industrial business pick up quite nicely because that is a core strength for us. Whether it is industrial or infrastructure, these are areas where growth is affecting us positively. I hope that answers your question.

**Raghav Bhutoria:** Thank you for that. My second question is regarding one of our competitors who has taken a 10% stake in our company. Is there any discussion about an acquisition, or is it purely an investment?

**Management:** We are genuinely unaware of the specific motivations that SIS may have for acquiring this stake in our company. We believe that any investment in our shares is a great investment and should yield a very good return. We think that perhaps this is also what they believe, and that is why they made the investment.

Raghunandan Tangirala and his family own almost 60% of the company. Therefore, there is absolutely zero chance of a hostile takeover or hostile M&A action because that is simply impossible.

His buying is there; it is 10%. So far, there has been no contact from them, and I can confirm that there is no corporate-side action from our side regarding this investment.

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**Raghav Bhutoria:** Thank you.

**Operator:** Thank you, sir. We have our next question from Deepak Juneja. Please go ahead.

**Deepak Juneja:** Deepak, you can unmute yourself and ask the question.

**Deepak Juneja:** Sir, I wanted to know your guidance for this year's revenue and EBITDA, and whether there are any changes.

**Management:** We are not making—

**Management:** Sir, can you hear me now?

**Deepak Juneja:** Yes, I can hear you. I can hear you.

**Management:** Yes, I can hear you, Deepak. I heard your question. Can you hear me? Hello? Am I audible to you, Deepak? Hello?

**Operator:** Sir, you are audible.

**Deepak Juneja:** Yes, sir, I can hear you.

**Management:** You can hear me? Yes? Okay, then I can answer your question. Hello?

**Deepak Juneja:** Yes, sir, I can hear you.

**Management:** Deepak, we do not give, or are not giving, formal guidance in terms of earnings and revenue. However, our first-quarter results are in front of you. In the first quarter, we declared PAT of 30.3 crores. You can see that, as well as revenue of 764 crores.

If you extrapolate that, you will arrive at a number, and we are hoping to beat that number. That is what I can tell you right now.

You will see my second-quarter results in 2-3 weeks because this quarter is ending in another 2 days. You will see that this lends credence to the broad idea that you can use my Q1 number and the Q2 number that I will declare, and extrapolate them to determine what the year might look like.

What you will see is significant growth over last year's reported numbers. Even if you normalize last year's numbers, you will arrive at approximately 104 crores of PAT. If you simply multiply my first-quarter number by 4, you will arrive at approximately 121 crores.

You can therefore see that there will be fairly significant growth over last year. We are hoping to beat 121 crores, but we make no commitments and are not giving formal guidance.

**Deepak Juneja:** Thank you, sir. One more question: are we looking for any new partnerships or new sectors to enter?

**Management:** Deepak, we are an acquisitive company in the sense that we have made 3 very large acquisitions—very large in our context—and almost 8 acquisitions overall, including 5 smaller acquisitions over our history.

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We use inorganic growth as one lever of growth, and we will continue to do so and continue to look for opportunities. However, we have fairly strict and clear guardrails in terms of strategic fit, people fit, financial fit, and our ability to manage the risk of the new company.

We are currently in discussions with some targets, but there is nothing reportable at this stage that I can report to you in terms of a new acquisition target.

**Deepak Juneja:** Thank you, sir.

**Management:** Thank you, Deepak.

**Operator:** Thank you, sir. We have our next question from Raghav Bhutoria. Please go ahead.

**Raghav Bhutoria:** Hello, sir.

**Management:** Yes.

**Raghav Bhutoria:** We have been hearing about revisions to minimum-wage guidance in many states, potentially to the extent of 40-50% in the foreseeable future. Are our contracts insulated from this? Will we be able to pass these increases on? How will our margins behave if this happens?

**Management:** Yes, Raghav, most of our contracts—in fact, all our contracts—are insulated, and wage increases are a pass-through for us. We do not take any wage-related risk for the people we deploy at our customer sites. We are very clear about that.

In places where there are unreasonable wage increases—unreasonable in the sense that the increases are very large—and we are unable to pass them on, we terminate those contracts. We also take other actions to mitigate costs because nobody can absorb such increases. This is a business in which you cannot absorb such wage increases.

To answer your specific question, almost all my contracts have built-in wage protection, and I am not exposed to that risk at all. For the small portion, perhaps 0.5% of my contracts, where there is some risk, we take other actions, such as spreading the work across other states.

**Raghav Bhutoria:** Thank you.

**Operator:** Thank you, sir. Any participant who would like to ask a question can raise their hand or put it in the chat box. We have our next question from Anupam Jain. Please go ahead.

**Management:** Yes.

**Operator:** Anupam, you can unmute yourself and ask the question.

**Anupam Jain:** Hello? Sir, can you hear me?

**Management:** Yes, Anupam, I can hear you.

**Anupam Jain:** Sir, you just gave a normal guidance of 121 crores that you expect to beat. That is what you are thinking. What is the reason? Is it that the Athena pain is over? Will Matrix bounce back? What is the thought process behind these numbers?

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**Management:** I am not giving formal guidance, Anupam. I did say that you can multiply the number by 4 and arrive at a number.

We do believe that we have reached the point where the downward trajectory in 2 or 3 of our businesses is over, and we have stabilized. That has happened for Athena, Avon, and our employee assurance business in Matrix.

The IFM business is keeping pace with the industry. In fact, in the industrial space, we are well ahead. We therefore believe that the Q1 number can be used as a guide to arrive at our annual number. There is also some seasonality that occurs in Q3. In some cases, the seasonality works in reverse, such as in Denave, where Q4 is lower. Overall, we believe that the Q1 number can be used as a guide to arrive at our annual number.

**Anupam Jain:** No, my question is specifically about what has changed in our customer-service business and our Matrix business. The trend is not good. The IT trend is not good, and even the AI trend is not good for our customer-service business. That is my main question. What has changed that gives us the confidence that this business will bounce back or will not fall further?

**Management:** There are 2 things. The Athena business declined only because we lost those 4 customers. That pain is behind us. We have lost no further customers; in fact, we are gaining customers. That issue is therefore resolved.

As far as AI is concerned, there is a lot of noise, and everybody is talking about it. We are conducting our own experiments. In fact, we have 4 AI customers, or 4 AI services, in Athena ourselves. Therefore, we believe that we are on top of that situation.

As far as IT hiring is concerned—

**Management:** As far as IT hiring and Matrix are concerned, IT hiring has returned to some extent, although it has also been replaced somewhat by GCC hiring. We have also diversified our customer base. Therefore, we are confident that we will meet the numbers we have planned for the year.

Specifically, for Athena, the pain is behind us and the AI risk is being managed. For Matrix, there are some green shoots in IT hiring, but other customers are making up the gap, and we are aggressively pursuing other industries. Those are the 2 specific areas you asked about.

**Anupam Jain:** In Athena, you mentioned 4 new customers for AI. Can you tell me the use case that you are currently providing for AI, on both the outbound and inbound sides?

**Management:** Anupam, we only conduct outbound calling. We do not handle inbound service, and we do not handle outbound collection calling. We only conduct outbound, revenue-generating calling.

Within that, we have also started an experiment on the inbound side with AI bots and agentic AI. This is proving quite successful, customers are responding positively to it, and we will hopefully scale it up as well.

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On the outbound side, we are using AI to help improve conversations and conversion. That is the use case. Banks and NBFCs are very careful about allowing agentic AI to have direct access to customers. They will not allow that because AI is still very unreliable. It can hallucinate and do all kinds of things, so we have to be very careful, especially in highly regulated industries.

**Anupam Jain:** Thank you, sir.

**Management:** Yes.

**Operator:** Thank you, sir. Any participant who would like to ask a question can raise their hand or put it in the chat box. We have our next question from Suruchi Parmar. Please go ahead.

**Suruchi Parmar:** Thank you for the opportunity. I hope I am audible.

**Management:** Yes, Suruchi, you are audible.

**Suruchi Parmar:** I want to know about your growth. Can you talk about the growth in the airport-services business segment and the margins in that segment?

**Management:** Our airport business is growing. It grew very well last year in revenue terms. This year, we are seeing some stabilization in that business.

Let me explain the airport business in some detail, Suruchi. To give you context, out of the first-quarter revenue of 764 crores, the airport business contributed only approximately 15 crores. For the full year, you will see the airport business contribute between 60 and 70 crores. This is just to give you context. It is a small business.

We operate at 23 airports. The growth rate will not come from adding more airports because this is a tender-based business. We have won the 23 airports, and new airports are not currently being tendered.

We have consciously decided not to operate at larger airports such as Bombay and Delhi because of 2 reasons. First, the investments are very high. As a matter of philosophy, we are a low-asset-based, low-investment, low-fixed-asset kind of company, and that is where we want to remain. We therefore have a very asset-light business model.

By remaining asset-light, we will stay with our 23 airports. Here, the growth rate depends on the number of flights that increase because we essentially turn around flights.

More flights need to operate. As you know, because of the West Asia conflict, fuel prices have increased dramatically, and therefore the schedules declared by all the leading operators are lower than they were earlier. If you look at the overall number of flights taking off or landing, the number of flights is actually declining.

That is a stabilization factor at present. We will grow this year, although perhaps not as much as we grew last year. The main point is that we will become profitable because the gestation period for the investment is over.

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Over the long term, we believe that this is a great business to be in because there are not many people who can offer this service. This is a tendered service, and at some of these airports we are the only company that can provide these services. Otherwise, there is only 1 other player that can offer them.

We are also talking to the companies that undertake self-handling, which is IndiGo, to come on board, and we are making good progress there as well.

**Suruchi Parmar:** Are there any new customer wins in the first half of this financial year?

**Management:** In the airport business, Suruchi?

**Suruchi Parmar:** Overall.

**Management:** We have hundreds of new logos. Across our businesses—whether IFM, the sales enablement business, particularly Denave, or the Matrix assurance business—we have hundreds of new logos.

On average, we add approximately 100 new logos, so we are well positioned in that regard.

**Suruchi Parmar:** You mean you have added 100 new logos in the first half of the year?

**Management:** Yes. It is an approximate number, including both large and small customers.

**Suruchi Parmar:** Can you talk about growth guidance for both segments? Is there an opportunity for further margin improvement in both segments?

**Management:** That is a great question, Suruchi. If I look at growth this year, you should think about a growth rate of between 10% and 12% for us. As I mentioned earlier, this is a year of stabilization for us. That is what you should use in your calculations and in your own model.

As far as margin expansion is concerned, there are basically 2 sources of value addition or margin addition in this business. The first is scale. As you become larger, your fixed costs decline as a percentage of the total, and therefore your margins improve. That is one way to improve margins in this business.

The second way to improve margins is through mix. More value-added products are sold, and higher-margin products are sold in greater quantities, so their proportion in the overall mix increases. That is how overall consolidated margins improve. That is the second way margins improve in this business.

The third way, which is common in other industries, is pricing. Pricing is not a lever in this business. Almost no company in this space will claim, or can claim, that its margins are improving dramatically through pricing. We do try to improve our margins through pricing, but pricing is not actually a lever in this space.

Therefore, margin growth will come from 2 things, as I said: scale and mix.

**Suruchi Parmar:** Thank you very much.

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**Management:** You are welcome, Suruchi. Thank you.

**Operator:** Thank you. We have our next question from Sunil Jha. Please go ahead.

**Sunil Jha:** I have just unmuted myself. I hope I am audible now.

**Management:** Yes, Sunil, you are audible.

**Sunil Jha:** My question is about customer stickiness and our ability to increase wallet share from the same customer.

For our FY26 top line, what percentage of revenue, or what number of customers, would have been with us for more than 3 or 5 years? My thought is that if customers have been with us for 3 or 5 years, we have established ourselves with them, and we can then provide more services and increase our wallet share. Can you give us some sense of this?

**Management:** Many of our contracts are formally for between 1 and 3 years. However, they are always renewed. In some cases, there may be an RFP.

Let me give you some broad, macro-level statistics, particularly for the IFM business, which is the larger part of our business. In the IFM business, we lose approximately 5% of our business every year, while 95% rolls over. That should give you a very good idea of customer stickiness.

There are many customers whom we have continued to serve for decades, both on the industrial side and on the commercial side. Customer stickiness is therefore very high in this space.

If you ask how much revenue comes from customers who have been with us for more than 5 years, I would say—I do not have that statistic readily available, so I may be somewhat off—that approximately 70-80% of our business probably comes from customers whom we have been serving for more than 5 years.

These are therefore long-term, sticky customers. As I said, we lose approximately 5% every year for various reasons. We lose very few customers because of service, but we do lose customers because a customer may be undertaking price discovery or running an RFP process, or because a competitor may have quoted a very unreasonable price.

This happens repeatedly. To win a contract from us, a competitor may quote a ridiculously low price, which we will refuse because we do not want to do business at a loss. That customer then comes back to us after a year because the competitor that took the business is unable to run it. We have seen major examples of this as well.

The key numbers to remember are that we lose approximately 5% each year, and there are many customers whom we have been serving for decades. If we look at customers with a relationship of more than 5 years, I do not have the exact statistic, but it is probably around 60-70%.

**Sunil Jha:** How about the competitive landscape? This is a reasonably good, growth-oriented business. Is competition also increasing significantly, or how is it developing?

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**Management:** Competition in the housekeeping business has always been very severe, and it continues to be severe. However, our strategic attempt is to reduce housekeeping in our overall mix and increase technical services, engineering services, production support services, warehousing, and similar offerings—the more value-added parts of our work.

That has been our broad objective. However, competitive pressures are present.

There is some consolidation taking place in this industry. If you look at companies with revenue of 1,500–1,600 crores and above, or approximately 2,000 crores, you will see about 6 or 7 players in the country. We do not see many new players entering that bracket, but there are 6–8 players, and I think that will remain the case.

**Sunil Jha:** Fine. Thank you for answering all these questions.

**Management:** You are welcome. Thank you very much, Sunil.

**Operator:** Thank you, sir. We have our next question from Hitendra Pradhan. Please go ahead.

**Hitendra Pradhan:** Hi, sir. I hope I am audible.

**Management:** Yes, Hitendra.

**Hitendra Pradhan:** My question is on IFM. We are currently catering mostly to the industrial and infrastructure segments, and not as much to the commercial segment. Are we catering to GCCs and these office spaces? There are many operators there who do these things in-house. Are we currently catering to them, and is that an opportunity?

**Management:** As I mentioned, that is a good question. A lot of these GCCs tend to use what is called the IPC model. IPCs are international property consultants such as JLL, CBRE, Cushman & Wakefield, Knight Frank, and others.

These companies have global relationships. GCCs are, by definition, global capability centers that come into the country from elsewhere, with headquarters in Europe, the US, or other advanced countries.

Suppose a company is entering India but has a relationship with CBRE in another country. I am only using CBRE as an example. The company gives CBRE the mandate in India. CBRE then becomes the IPC and wants to subcontract specific parts or services, such as housekeeping and technical services, to other players.

This results in 2 things. First, margins decline because we become a subcontractor. Second, payment cycles become much longer because IPCs tend to pay in 3, 4, or 5 months.

This makes the business unviable. Therefore, we consciously will not work as a subcontractor except in very few cases. We are independently trying to enter the GCC segment and some of these other customer segments.

**Hitendra Pradhan:** Will the majority of our focus therefore remain on expanding value-added services for our industrial clients? Would that be a correct assessment?

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**Management:** That is absolutely correct, Hitendra. Absolutely correct.

**Hitendra Pradhan:** We discussed the labor code and the transition to outcome-based contracts in previous quarterly calls. How would that affect our margins and payment cycles?

**Management:** As I mentioned, we do not take any wage-code-related risks because we simply cannot afford to with the margins in this business.

Approximately 99.9% of my contracts are pass-through contracts. If there is an increase due to a wage-code increase, a minimum-wage increase, or any other such factor, it is passed through to the customer. The customer pays, and we then pay the people involved.

There is some impact on people who are part of our staff and are not directly working at customer sites. Looking at last year's results, we took a 5 crore charge for labor-code compliance. This related to people who were not what we call billable resources in this industry, meaning people whom we bill directly to the customer.

There are obviously non-billable employees, including top management, staff, and support functions such as finance, HR, IT, legal, and others. There is a certain operating cost associated with these people. We took a 5 crore charge last year, but this is not a recurring charge.

**Hitendra Pradhan:** In the medium term, should labor-code compliance norms help us, at least in terms of payment cycles and industry consolidation? Would that be a fair assessment?

**Management:** That is a good insight, Hitendra. It will definitely support what we call the 3 tailwinds in this industry: greater formalization, more outsourcing, and greater consolidation. It will definitely help.

It will not affect payment cycles because payment cycles are what they are. They are determined more by customer requirements, the mutual contract we have with them, and the competitive pressures that exist.

Payment cycles will therefore not be affected. However, formalization, greater outsourcing, and greater consolidation will not only remain valid themes but will become stronger. You are absolutely correct.

**Hitendra Pradhan:** What is the overall working-capital cycle in the IFM segment?

**Management:** Approximately 70 days, or 70-72 days.

**Hitendra Pradhan:** On BSS, where we consolidate all our acquisitions and have a mix of different businesses, I am not very familiar with the BSS segment. Historically, margins have declined. You mentioned one or a few one-offs last year, but overall margins have declined somewhat. They are still better than our IFM margins, but can you provide some color on how to think about this? Is it due to acquisitions and the subsequent consolidation impact, or is something else happening in that segment?

**Management:** We are always trying to balance 2 things: revenue growth and margin growth. If you are willing to compromise on margins, revenue growth becomes easier.

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However, we have always believed that in the BSS segment we should focus more on margins, and that has been our objective. We have faced some headwinds in certain businesses, as I have already mentioned. We now see those businesses stabilizing.

Going forward, we hope to deliver steady results and a steady improvement in margins. This will be driven by many cost-side and productivity-related actions that we have taken, greater adoption of AI within the company for our own work, and other such initiatives. These are the areas that will yield results.

**Hitendra Pradhan:** Can margins move up to double digits?

**Management:** No, Hitendra. They will not—

**Hitendra Pradhan:** High single digits?

**Management:** That is our objective. Margins will not reach double digits in the near term because this is a business where improvement takes time. You will not see sudden, dramatic changes.

For example, if my margin is 6%, the 6 will not suddenly become 9 tomorrow. The 6 will become 6.5, then 7; 7 will become 7.5, then 8, and so on. That is the kind of trajectory you should expect.

I do not want to overpromise because I would rather set the right expectations. We are a steady company in a good space. You should think of our company as a cash compounder because we generate cash.

I am currently sitting on 400 crores of cash, and we generate approximately 80-90 crores of cash every year. That will only accelerate. We are a cash compounder, and we will always generate cash. We are a zero-debt company. We do not believe in taking on debt because we do not need it.

You should therefore view the company through the lens of prudent capital allocation.

**Hitendra Pradhan:** Understood, sir. All the best.

**Management:** Thank you, Hitendra.

**Operator:** Thank you, sir. We have our next follow-up question from Anupam Jain. Please go ahead.

**Anupam Jain:** Hello, sir. Am I audible?

**Management:** Yes.

**Anupam Jain:** I have some follow-up questions on the financials. I was looking at your numbers. Your trade receivables over 6 months are 43 crores. Can you explain what this relates to?

**Management:** Which period are you referring to, Anupam?

**Anupam Jain:** Last year.

**Management:** Last year's trade receivables. Are you referring to the overall consolidated number or the standalone number? I do not have the exact P&L in front of me.

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**Anupam Jain:** The number over 6 months.

**Management:** Sorry, I did not hear you, Anupam. Can you repeat that for me?

**Anupam Jain:** The consolidated number over 6 months.

**Management:** Anupam, I do not have an answer for you, and I do not want to give you a wrong answer. I will request the conference organizers to let me have that. Actually, just give me one moment. I do have some numbers here in front of me.

Give me one moment. You are referring to the consolidated figures, correct? And you are referring to trade receivables. Give me 1 minute, and I will see if I can answer that for you.

As of March 31, {? 2,006 ?}, the trade receivables number that I am seeing here is actually more than that.

**Anupam Jain:** Trade receivables are bifurcated. When you bifurcate them, receivables under 6 months are 590 crores and receivables over 6 months are 43 crores. The total is 633 crores.

**Management:** Okay. Exactly. So the total is {? 603 crores ?}.

**Anupam Jain:** I am asking about the amount over 6 months.

**Management:** Okay, I can answer that. Trade receivables are receivables from customers to whom we provide services, and there are a few contracts where the payment cycles are very long.

Some of these are government customers. As I have mentioned in my commentary over the past several quarters, we have gradually reduced our exposure to government customers. There are still 2 or 3 customers where the payment cycles are very long. One of them is not a government customer but is quasi-government.

These 2 or 3 contracts have resulted in this slightly larger number of receivables outstanding for more than 6 months.

We follow a conservative policy, so all expected credit losses are provided for in accordance with ICAI guidelines and accounting standards. You will therefore see that this is fully reflected in my accounts. Whatever needs to be reflected is fully reflected in the accounts.

That is the reason for the balance. We are continuously working to reduce receivables outstanding for more than 6 months from our customers.

**Anupam Jain:** So, essentially, this money will come back, but it will take its own time.

**Management:** Yes, that is the belief. Every year, I do have some credit loss for which we provide, but the objective is obviously to ensure that we have zero credit loss.

**Anupam Jain:** My second question is on capital allocation. You have approximately 250-plus crore rupees of cash.

**Management:** It is actually much more now.

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**Anupam Jain:** You said 400 crores, but I was looking at cash equivalents of 250-plus crores. This is the first time that you have declared a dividend.

**Management:** Yes.

**Anupam Jain:** You went public 2 or 3 years ago. Apart from dividends, what are you looking at? Are you planning to redeploy this cash somewhere, given that you have followed more of an acquisition-led strategy?

**Management:** That is a great question, Anupam, and it gives me an opportunity to discuss our capital-allocation strategy. Thank you for that.

There are 3 main uses of this capital. First, we can always return it to shareholders through dividends, share buybacks, or any other method that the board may consider. The exact quantum, method, and timing are matters for the board, and I should not go beyond that. However, returning capital is certainly on the table.

By paying the first dividend, we wanted to signal to the market that we believe there is steady cash generation and that we will return some amount of capital to shareholders because they have waited for 2 years.

I do not know whether this will meet shareholders' expectations because shareholders will obviously want more, and we understand that. However, we believe that the best way to fulfill the confidence that shareholders have placed in management is to grow the company and make it more profitable.

The 2 other uses of cash are relevant to that objective. One is inorganic growth, as you correctly pointed out, and the second is organic growth.

We are investing in technology, people, and new capabilities to enter new and more profitable segments. Greenfield investment is inorganic, while organic growth is broadly brownfield, involving the improvement of our own capabilities.

The 3 uses are therefore returning capital to shareholders, inorganic growth, and organic growth. All 3 are being actively considered at this point. I will not be able to share the exact ratios of how much will go toward each of these 3 strategic pillars, but each of the 3 will receive attention and capital.

**Anupam Jain:** I have 2 more follow-up questions. In dividends and share buybacks—

**Operator:** Anupam, I am sorry to interrupt. Please note that we will take the last question at 10:55 p.m.

**Anupam Jain:** Okay.

**Management:** Go ahead, Anupam.

**Anupam Jain:** In terms of organic growth, which sectors are you looking at to build capabilities within the organization? In terms of inorganic growth, what is your threshold?

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We did have a setback when we acquired Athena. That was the last acquisition. Our previous acquisitions went very well. What are the internal thresholds, and what are we looking for? These are my only 2 questions.

**Management:** For inorganic growth, our thresholds are clear. Financially, the acquisition should be growth-accretive, EBITDA-percentage or margin-accretive, and ROCE-accretive. Those are my 3 thresholds.

**Anupam Jain:** In the target?

**Management:** Yes, those criteria are very clear.

In terms of size, we are conservative acquirers. If someone wants a very high multiple, we do not pursue that opportunity. We also never buy a distressed company or a turnaround company. That is also very clear.

We do not want to make very small acquisitions, Anupam. I do not want to make an acquisition of a company with revenue of 20 or 30 crores because the effort involved in making the acquisition and integrating it into a company like ours becomes very significant.

We would generally look at companies with revenue above 100 crores. If a company with revenue below 100 crores has a very strong strategic fit and is highly profitable, we may still consider it. However, in general, we will look at companies with revenue above 100 crores.

On your other question regarding internal capabilities, our objective is to develop capabilities to enter new segments such as GCCs and data centers, which are growing areas.

The green economy is another area where we are exploring how we can participate more meaningfully. The energy transition, the broader green economy, and the green transition are areas that we are examining in order to build capabilities.

That is from the segment perspective. From the product and service perspective, our objective is very clear: we want to build expertise in higher-margin areas such as technical services, engineering services, production support services, and similar offerings. That is what we are aiming to do.

**Anupam Jain:** In inorganic growth, which capabilities are you adding? You did not specify that.

**Management:** In inorganic growth, we have always said that we have 3 verticals: IFM as the core vertical, sales enablement, and assurance.

Inorganic acquisitions will also be used to add to these 3 platforms. We may also enter other contiguous areas. We are also looking at some other ideas in terms of developing the talent value chain and determining how we can participate in that.

These are some of the new ideas we are considering. We will be able to communicate them once they start to crystallize.

**Anupam Jain:** Thank you, sir. I wish you and the company all the best.

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**Management:** Thank you, Anupam.

**Operator:** Thank you, sir. Due to time constraints, we will take this as the last question. I would like to thank management on behalf of Arihant Capital for sparing time and sharing insights about the company.

If participants have any further questions, they can get in touch with the team at Arihant Capital. Thank you, sir.

**Management:** Thank you very much. I am deeply grateful, as I said, to have been invited, and I am deeply grateful to all the callers and investors, both potential and existing.

I would like to assure you that this is a well-governed company, and we hope to fulfill the confidence you have placed in us. Thank you very much.

**Operator:** Thank you.

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Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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