

Updater Services

Estimate change	↔
TP change	↓
Rating change	↔

CMP: INR270 TP: INR330 (+22%) Buy

Subdued quarter

Athena challenges drags on BSS segment

- Updater Services (UDS) reported 1QFY26 revenue growth of 7% YoY (down 1% QoQ) to INR7.0b, below our estimate of ~INR7.5b. Core EBITDA margin came in at 5.6% (est. 6.9%), down 70bp YoY. Consolidated adj. PAT stood at INR290m (up 13% YoY), below our estimate of INR343m.
- 1Q revenue/PAT grew 7%/13.1% YoY, whereas EBITDA declined 3.9% YoY. For 2QFY26, we expect its revenue/EBITDA/adj. PAT to grow by 13.2%/4.9%/14.6% YoY. We reiterate our BUY rating and a TP of INR330 (premised on 14x Mar'27E EPS).

Our view: BSS segment to remain soft in 2Q and 3Q

- The IFM segment delivered double-digit growth (~10% YoY) during the quarter. While management indicated this was in line with the business plan, sequential growth was softer due to seasonality in the catering business and subdued spending by non-industrial clients. Additionally, higher year-end billings in the previous quarter had elevated the base. Nevertheless, management remains focused on scaling up profitability through high-value, technical contracts.
- The BSS segment was a major miss, reporting a modest 1% YoY growth. The muted performance was attributed to cautious hiring and spending by the IT sector, along with client-specific challenges in Athena. We expect these headwinds to persist over the next couple of quarters. Additionally, rising client expectations around RoI have begun to impact delivery models, particularly in sales and enablement services. We expect 2Q and 3Q to remain soft for the BSS segment. Accordingly, we build in a modest recovery in this business, expecting single-digit YoY growth in 2Q/3Q.
- Athena continued to witness some clients transitioning previously outsourced operations back in-house. The company is actively working to expand its client base beyond BFSI. Matrix reported a mixed performance. A broader slowdown in the IT sector weighed on volumes in the Employee Background Verification segment, while in Audit and Assurance services, client interest remains encouraging despite pricing pressures.
- **Margins:** EBITDA was impacted by lower revenue growth, revenue decline in Athena (a high-margin business) and merger-related costs. IFM margins were further weighed down by a one-off provision for trade receivables. The company expects to deliver 12-15% PAT growth in FY26.

Valuation and changes to our estimates

- We broadly retain our estimates, given the solid foothold of UDS in the IFM business and the high-margin BSS business. However, we expect the next couple of quarters to be soft for BSS segment. We expect a CAGR of 15%/21% in revenue/EBITDA over FY25-27. **Reiterate BUY with a TP of INR330 (based on 14x Mar'27E EPS). Our TP implies a 22% upside potential.**

Bloomberg	UDS IN
Equity Shares (m)	67
M.Cap.(INRb)/(USD\$)	18.1 / 0.2
52-Week Range (INR)	439 / 252
1, 6, 12 Rel. Per (%)	-3/-28/-16
12M Avg Val (INR M)	145

Financials & Valuations (INR b)

Y/E Mar	FY25	FY26E	FY27E
Sales	27.4	31.1	36.0
EBIT	1.2	1.3	1.7
PAT	1.2	1.3	1.6
Adj PAT	1.2	1.3	1.6
EPS (INR)	17.7	20.4	23.8
EPS growth (%)	20%	15%	17%
BV/Sh (INR)	144.1	164.2	187.6

Ratios

RoE (%)	13.1	13.0	13.3
RoCE (%)	11.9	11.3	11.1

Valuations

P/E (x)	15.2	13.3	11.4
P/BV (x)	1.9	1.6	1.4

Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	58.9	58.9	58.9
DII	12.8	15.4	13.5
FII	3.7	2.7	3.9
Others	24.7	23.0	23.8

Miss on revenues and margins; 14 new logos added

- Revenue was up 7% YoY and down 1% QoQ at INR7.0b, below our est. of ~INR7.5b.
- Revenue growth was aided by 10% YoY growth in IFM, whereas BSS reported 1% YoY growth.
- EBITDA margin came in at 5.6% (est. 6.9%), down 70bp YoY. IFM's PBT margin was up 30bp YoY at 4.5%. BSS' PBT margin was down 180bp QoQ at 4.8%.
- Consolidated adj. PAT stood at INR290m (up 13% YoY), below our estimate of INR343m.
- RoCE stood at 17.9% on an annualized basis in Jun'25 vs. 22.1% in Mar'25. The company added 14 logos in 1QFY26. Head count stood at 73,129, up 9% YoY.
- UDS has long-standing relationships with customers having 95% retention over a five-year window in the both businesses.

Key highlights from the management commentary

- Global uncertainties, including rising tariffs, have led to cautious hiring and spending by large MNCs and IT companies, resulting in muted performance in the BSS segment during the quarter.
- Consolidated growth is expected to stabilize in the 13-15% range for FY26.
- IFM reported 10% YoY growth, in line with the business plan. However, seasonality in the catering business and modest spending by non-industrial clients contributed to lower QoQ growth.
- IFM growth is expected to outpace BSS growth going forward.
- **In IFM**, UDS completed contract rationalization and is now focusing on streamlining operations. The aspiration is to grow at 3x the GDP growth rate, supported by the expansion of co-working spaces and growth in automotive factories.
- **In BSS**, delivery models saw moderation, and clients have raised expectations on RoI. As a result, the next couple of quarters are expected to be flat in terms of sales and enablement services.
- **Denave:** 85% of revenue comes from clients with 7+ years of relationship.
- **Athena:** Revenue and profitability were impacted by some clients continuing to transition previously outsourced operations back in-house. These are the same clients that began this transition in the previous quarter; no new clients were lost in 1Q.
- The company expects 12-15% growth in profitability in FY26.

Valuation and view

- We believe UDS will benefit from the long-term trend of outsourcing non-core business operations for greater efficiency and service quality. With continued momentum in the IFM space and an inorganic growth engine in the high-margin BSS vertical, we expect UDS to deliver sustainable and profitable growth.
- However, we expect the next couple of quarters to be soft for BSS segment. We expect a CAGR of 15%/21% in revenue/EBITDA over FY25-27. **Reiterate BUY with a TP of INR330 (premised on 14x Mar'27E EPS). Our TP implies a 22% upside potential.**

Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY25				FY26E				FY25	FY26E	Est.	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QFY26	(%/bp)
Gross Sales	6,522	6,800	6,949	7,090	7,002	7,695	8,005	8,399	27,361	31,101	7,535	-7.1
YoY Change (%)	13.1	13.3	9.3	12.2	7.4	13.2	15.2	18.5	11.9	13.7	15.5	-820bp
Total Expenditure	6,112	6,363	6,487	6,733	6,609	7,241	7,509	7,861	25,695	29,220	7,015	-5.8
Core EBITDA	409	437	462	357	393	454	496	538	1,665	1,881	520	-24.4
Margins (%)	6.3	6.4	6.7	5.0	5.6	5.9	6.2	6.4	6.1	6.0	6.9	-130bp
ESOP cost	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA
Fair value changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
EBITDA	409	437	462	357	393	454	496	538	1,665	1,881	520	-24.4
Margins (%)	6.3	6.4	6.7	5.0	5.6	5.9	6.2	6.4	6.1	6.0	6.9	-130bp
Depreciation	115	123	121	113	112	139	144	151	471.3	545.6	151	-25.8
Interest	34	29	20	20	21	19	20	21	103.5	81.4	19	12.5
Other Income, net	65	69	57	166	51	77	80	76	357	283	68	-25.5
PBT	326	354	378	390	311	373	412	441	1,447	1,537	418	-25.7
Tax	69	74	67	48	21	52	58	62	257.5	192.3	75	-72.6
Rate (%)	21.3	20.8	17.7	12.3	6.6	14.0	14.0	14.0	17.8	12.5	18.0	-1,140bp
Minority Interest & Profit/Loss of Asso. Cos.	3	-1	3	-3	4	0	0	0	2	4	0	
Adjusted PAT	256	280	312	342	290	321	355	379	1,190	1,345	343	-15.5
YoY Change (%)	27.2	41.8	13.5	76.1	13.1	14.6	13.8	10.9	34.5	13.0	33.8	
Margins (%)	3.9	4.1	4.5	4.8	4.1	4.2	4.4	4.5	4.3	4.3	4.6	-40bp

Key Performance Indicators

Y/E March	FY25				FY26	FY25
	1Q	2Q	3Q	4Q	1Q	
Segment Revenue (INR m)						
Integrated Facility Management Services	4,363	4,594	4,669	4,958	4,768	18,585
Business Support Services	2,343	2,387	2,441	2,365	2,376	9,535
PBT Margin (%)						
Integrated Facility Management Services	4.2	5.2	5.3	10.3	4.5	6.3
Business Support Services	6.6	5.8	6.2	5.6	4.8	6.0



Key highlights from the management commentary

Quarterly performance and outlook

- Revenue stood at INR7.0b, up 7% YoY and down 3% QoQ. The QoQ decline was attributed to year-end incentive billings in 4QFY25, which led to a revenue spike. A similar spike is expected in 4QFY26.
- Global uncertainties, including rising tariffs, have led to cautious hiring and spending by large MNCs and IT companies, resulting in muted performance in the BSS segment during the quarter.
- Consolidated growth is expected to stabilize in the 13–15% range for FY26.
- The revenue split stands at 66:34 between IFM and BSS.
- **IFM:** The company added five large marquee clients during the quarter.
- Continued investments are being made in training and upskilling employees.
- IFM reported 10% YoY growth, in line with the business plan. However, seasonality in the catering business and modest spending by non-industrial clients contributed to lower QoQ growth.
- The business is focused on scaling up profitability by targeting high-value, technically complex contracts.
- IFM growth is expected to outpace BSS growth going forward.
- **BSS:** Delivery models saw moderation, and clients have raised expectations on RoI. As a result, the next couple of quarters are expected to be flat in terms of sales and enablement services.

- UDS faced an impact of around INR1,000m (about 15% of overall business) due to global macroeconomic factors, particularly affecting Athena and Denave. The company remains confident in the rest of the BSS business.
- Denave: Secured new client wins, including Palo Alto and Lenovo, for post-sales services, and SAP for digital services. All group companies are working to optimize operations through AI, although the implementation is still ongoing.
- Due to a cautious macro environment, client spending has reduced, causing a marginal drop in margins.
- Margins are expected to remain under pressure over the next couple of quarters due to ongoing investments.
- **Athena:** Revenue and profitability were impacted by some clients continuing to transition previously outsourced operations back in-house. These are the same clients that began this transition in the previous quarter; no new clients were lost in 1Q.
- Athena is actively expanding its client base beyond BFSI, with marquee additions like Lodha and Bajaj Electricals during the quarter. Its revenue run rate is expected to normalize over the coming quarters.
- Margins are currently around 20%, down from the earlier 25-27% range. These are expected to remain stable but are unlikely to return to previous highs. The business appears to have bottomed out on the revenue headwind.
- **Matrix:** In audit and assurance services, despite pricing competition, client interest remains strong. The focus is on building domain expertise in retail and apparel sectors—where inventory management is complex—to improve margins. In the Employee Background Verification segment, a broader slowdown in IT and related hiring sectors is affecting volumes.
- Avon continues to deliver margin improvement, supported by a favorable sales mix with a higher proportion of high-margin contracts. The launch of PTL Logistics in 2Q is expected to further enhance margins.
- Global business reported double-digit revenue growth, driven by a gradual increase in travel volumes. Rising demand for outsourced aviation training is expected to be a key growth driver.
- Global business reported a positive PAT in 1QFY26 from a loss in 1QFY25.
- EBITDA margin stood at 5.6%, down 70bp YoY.
- IFM margins were flat YoY, impacted by a one-off provision for receivables amounting to INR60m.
- Athena, being a high-margin business, contributes significantly to EBITDA; hence, its revenue decline had a material impact on overall BSS profitability.
- Merger-related cost absorption slightly impacted EBITDA margins but contributed meaningfully to tax optimization.
- The company expects 12-15% growth in profitability in FY26.

Valuation and view

- We believe the company will benefit from the long-term trend of outsourcing non-core business operations for greater efficiency and service quality. With continued momentum in the IFM space and an inorganic growth engine in the high-margin BSS vertical, we expect UDS to deliver sustainable and profitable growth.
- However, we expect the next couple of quarters to be soft for BSS segment. We expect a CAGR of 15%/21% in revenue/EBITDA over FY25-27. **Reiterate BUY with a TP of INR330 (premised on 14x Mar'27E EPS). Our TP implies a 22% upside potential.**

Exhibit 1: Summary of our revised estimates

	Revised		Earlier		Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue (INR m)	31,101	35,993	32,234	37,354	-3.5%	-3.6%
Growth (%)	13.7	15.7	17.8	15.9	-410bps	-20bps
EBITDA (INR m)	1,881	2,450	2,148	2,588	-12.5%	-5.3%
EBITDA Margin (%)	6.0	6.8	6.7	6.9	-60bps	-10bps
PAT (INR m)	1,345	1,568	1,405	1,657	-4.3%	-5.4%
EPS (INR)	20.4	23.8	21.3	25.1	-4.4%	-5.4%

Source: Company, MOFSL

Financials and valuation

Consolidated - Income Statement

(INR m)

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Total Income from Operations	12,100	14,836	21,061	24,444	27,361	31,101	35,993
Change (%)	-8.0	22.6	42.0	16.1	11.9	13.7	15.7
Cost of services	306	1,348	3,469	1,020	911	1,111	1,296
Employees Cost	9,817	10,682	13,802	18,084	20,403	23,569	27,011
Other Expenses	1,309	2,032	2,792	3,998	4,381	4,541	5,235
Total Expenditure	11,432	14,062	20,063	23,101	25,695	29,220	33,542
% of Sales	94.5	94.8	95.3	94.5	93.9	94.0	93.2
EBITDA	668	774	998	1,342	1,665	1,881	2,450
Margin (%)	5.5	5.2	4.7	5.5	6.1	6.0	6.8
Depreciation	150	165	370	540	471	546	730
EBIT	518	609	627	803	1,194	1,335	1,720
Int. and Finance Charges	30	51	146	193	103	81	72
Other Income	63	144	60	236	357	283	288
PBT bef. EO Exp.	552	702	542	846	1,447	1,537	1,936
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	552	702	542	846	1,447	1,537	1,936
Total Tax	69	136	196	183	258	192	368
Tax Rate (%)	12.5	19.4	36.1	21.7	17.8	12.5	19.0
Minority Interest	25	21	-12	-17	2	4	0
Net Income - post NCI	458	545	358	679	1,188	1,341	1,568
Net Income (ESOP adj)	523	786	851	885	1,190	1,345	1,568
Change (%)	38.2	19.0	-34.3	89.8	74.8	12.8	17.0
Margin (%)	3.8	3.7	1.7	2.8	4.3	4.3	4.4

Consolidated - Balance Sheet

(INR m)

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	528	528	530	669	670	670	670
Total Reserves	2,393	2,929	3,349	7,791	8,977	10,321	11,889
Net Worth	2,921	3,457	3,878	8,461	9,646	10,991	12,559
Minority Interest	0	0	0	0	0	0	0
Total Loans	563	1,958	3,727	1,663	1,703	2,738	3,129
Deferred Tax Liabilities	26	108	158	117	96	96	96
Capital Employed	3,510	5,523	7,763	10,241	11,445	13,825	15,784
Net Fixed Assets	283	678	1,232	933	959	1,671	1,818
Goodwill on Consolidation	577	1,591	2,384	2,503	2,437	2,387	2,337
Other Assets	1,019	1,423	1,536	2,049	2,324	1,309	1,431
Total Investments	40	0	38	16	351	351	351
Curr. Assets, Loans&Adv.	3,875	5,053	6,980	9,846	9,804	13,646	16,148
Inventory	50	63	70	70	79	87	95
Account Receivables	2,689	3,475	4,277	5,039	6,082	6,731	7,790
Cash and Bank Balance	446	573	1,147	836	1,185	4,263	5,474
Bank Balance	192	137	504	671	1,146	1,146	1,146
Loans and Advances	498	805	982	3,230	1,313	1,419	1,643
Curr. Liability & Prov.	2,284	3,222	4,406	5,107	4,431	5,540	6,301
Account Payables	319	457	793	793	895	1,108	1,183
Other Current Liabilities	1,965	2,765	3,613	4,315	3,536	4,433	5,117
Provisions	0	0	0	0	0	0	0
Net Current Assets	1,591	1,831	2,574	4,739	5,374	8,106	9,847
Appl. of Funds	3,510	5,523	7,764	10,241	11,445	13,825	15,784

Financials and valuation

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Basic (INR)							
EPS	8.5	10.5	6.8	11.4	17.7	20.3	23.8
Cash EPS	11.3	13.7	13.8	20.4	24.8	28.6	34.8
BV/Share	55.3	65.5	73.2	126.4	144.1	164.2	187.6
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)							
P/E	31.8	25.7	39.9	23.8	15.2	13.3	11.4
Cash P/E	23.9	19.7	19.6	13.2	10.9	9.5	7.8
P/BV	4.9	4.1	3.7	2.1	1.9	1.6	1.4
EV/Sales	1.2	1.0	0.8	0.7	0.7	0.5	0.4
EV/EBITDA	21.9	19.9	16.9	12.6	11.2	8.7	6.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	22.6	-5.2	-3.2	-2.5	-13.4	50.2	18.3
Return Ratios (%)							
RoE	17.1	17.1	9.8	11.0	13.1	13.0	13.3
RoCE	13.9	13.6	6.7	9.2	11.9	11.3	11.1
RoIC	19.0	17.8	9.4	10.2	13.2	15.1	17.0
Working Capital Ratios							
Asset Turnover (x)	3.4	2.7	2.7	2.4	2.4	2.2	2.3
Debtor (Days)	81	85	74	75	81	79	79
Creditor (Days)	10	11	14	12	12	13	12
Leverage Ratio (x)							
Net Debt/Equity	0.0	0.4	0.7	0.1	0.0	-0.2	-0.2

Consolidated - Cash Flow Statement

(InR m)

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
OP/(Loss) before Tax	544	709	542	846	1,447	1,537	1,936
Depreciation	150	165	370	540	540	546	730
Interest & Finance Charges	86	220	538	274	-131	0	0
Direct Taxes Paid	-125	-214	-204	-415	-468	-192	-368
(Inc)/Dec in WC	630	-571	-98	-218	-879	2,621	-310
CF from Operations	1,285	309	1,148	1,026	508	4,511	1,989
Others	0	0	0	0	0	0	0
CF from Operating incl EO	1,285	309	1,148	1,026	508	4,511	1,989
(Inc)/Dec in FA	-68	-578	-1,315	-1,175	-1,404	-1,199	-778
Free Cash Flow	1,217	-269	-168	-149	-895	3,313	1,211
(Pur)/Sale of Investments	-115	59	-251	-2,315	1,446	0	0
Others	18	47	37	-74	144	0	0
CF from Investments	-165	-472	-1,530	-3,564	186	-1,199	-778
Issue of Shares	0	0	0	3,851	2	0	0
Inc/(Dec) in Debt	-783	429	428	-1,228	-45	-234	0
Interest Paid	-38	-95	652	-246	-257	0	0
Dividend Paid	0	0	0	0	0	0	0
Others	-25	-45	-125	-150	-46	0	0
CF from Fin. Activity	-846	289	956	2,227	-345	-234	0
Inc/Dec of Cash	274	126	574	-311	349	3,078	1,211
Opening Balance	173	446	572	1,146	836	1,185	4,263
Closing Balance	447	572	1,146	835	1,185	4,263	5,474

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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