



BODHI CAPITAL

An Initiative of ABC | INVESTMENTS 



QUESS
WINNING TOGETHER



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Introduction

- Company: Quesst Corp
- Analysts' Take: Buy
- Current Price (20/08/2020): ₹374.90
- Market Cap: ₹5535 crores

Index

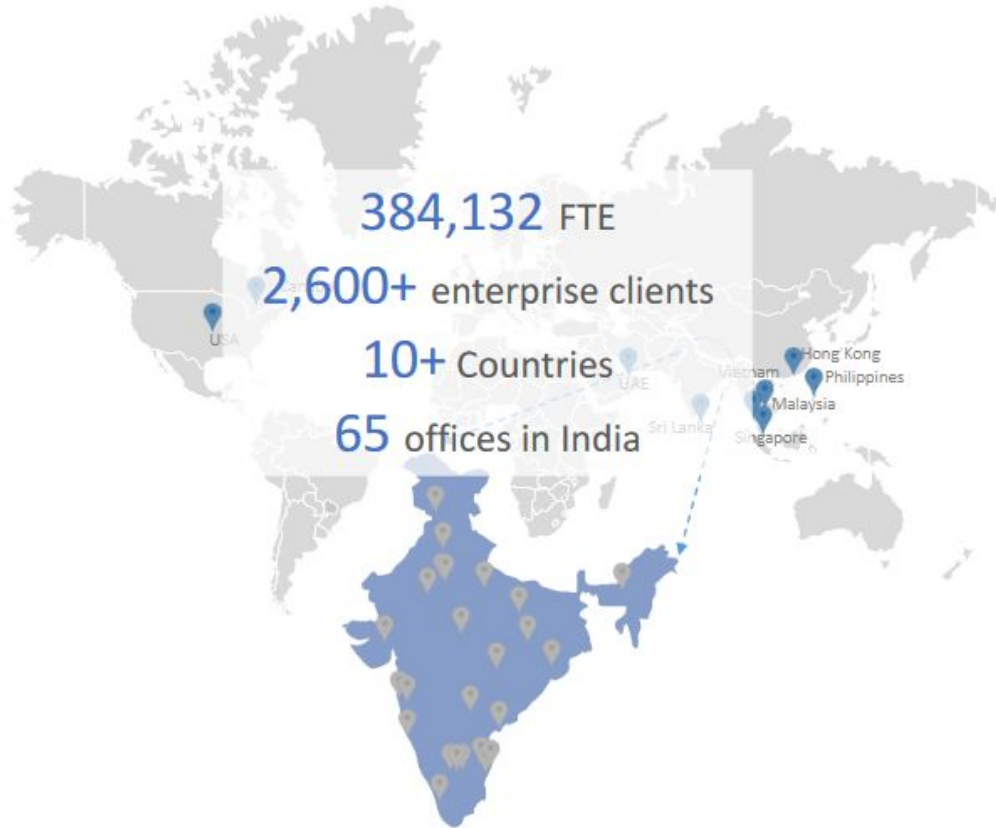
1. Company Overview
2. Business Segments
3. Shareholding Pattern
4. COVID Impact Assessment
5. Management Analysis
6. SWOT Analysis
7. Industry Analysis and Macroeconomic Trends
8. Moats
9. Ratio Analysis
10. Quantitative Analysis
11. Competitors' Analysis
12. DCF and Valuations
13. Summary of Thesis

Company Overview

- India's leading business services provider and largest private-sector employer.
- Fifth-largest manpower outsourcing company globally.
- It offers a host of services to help organizations manage their non-core activities in the areas of
 - **Workforce Management**
 - **Operating Asset Management**
 - **Global Technology Solutions** across industries and geographies.
- Quess serves over 2,700 clients worldwide.
- Established in 2007, Quess is headquartered in Bengaluru, India and has a market cap of approx. ₹5,410 cr as of June 30th, 2020.
- Quess has a team of over 334,139 employees across India, North America, South America, South East Asia and the Middle East

India's Largest Business Services Platform

- World's **#4** Staffing Company
- India's **#1** Gen. Staffing player
- India's **#1** IT Staffing player
- Singapore's **#1** IT staffing player
- **Top 3** Facilities Management player in India



- **Top 3** Domestic BPO Player in India
- India's **#1** HR Payroll provider
- Leading vocational training player: **140,000** students trained and employed
- **Empowering** 470 MW of Energy & 51 MTPA of metal facilities
- Certified **"Great Place to Work"**

Winning Together

Customers | People | Investors



Source: Simply Wall St

Business Segments



WORKFORCE MANAGEMENT

QUEST
Staffing

QUEST
IT Staffing

QUEST
Search and Recruitment

eXcelus
Skilling & Learning Solutions

Simpliance
Digital Compliance Solutions

DEPENDO
Logistics Services

OPERATING ASSET MANAGEMENT

QUEST
IFMS

Hofincons
Industrial Services

TERRIER
Security Services

VEDANG
Telco Network Services

GLOBAL TECHNOLOGY SOLUTIONS

CONNECT
Domestic CLM & BPO

AIISFC TECHNOLOGIES
BUILDING LASTING RELATIONSHIPS
International CLM & Payroll

Mindwire **MFx**
IT Services

Otek Systems
IT Infrastructure Management

heptagon
Digital Transformation Services

monster
First Better™
Online Job Portal

DIGICARE
Break-fix Services



Source: Corporate Deck (June 2020)

Services offered across segments



WE ARE
GREAT PLACE TO WORK - CERTIFIED™
Building and sustaining High-Trust, High-Performance™ Culture

 **Emerging Businesses**
Businesses in Investment Mode

Source: Corporate Deck (June 2020)

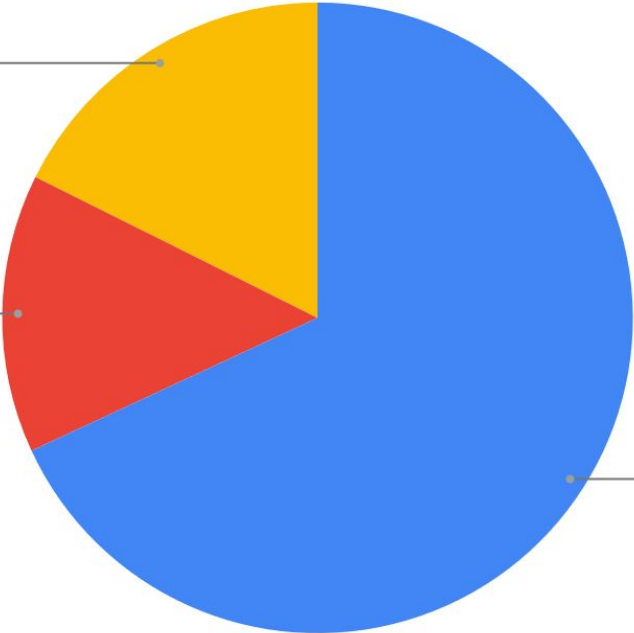
Revenue Mix

Revenue

Global Technology S...
17.6%

Operating Asset Ma...
14.3%

Workforce Manage...
68.1%



Segment Reporting

(in ₹ cr)

Particulars	Quarter ended					Year ended	
	June 2020	Mar 2020	Dec 2019	Sept 2019	June 2019	Mar 2020	Mar 2019
Workforce Management Platform							
Revenue	1,618	2,039	1,959	1,669	1,488	7,154	5,035
EBITDA	60	103	103	91	90	388	309
EBITDA %	3.7%	5.1%	5.3%	5.5%	6.0%	5.4%	6.1%
Operating Asset Management Platform							
Revenue	368	428	448	432	427	1,734	1,702
EBITDA	26	28	33	29	32	122	134
EBITDA %	7.1%	6.6%	7.4%	6.7%	7.5%	7.1%	7.9%
Tech Services Platform							
Revenue	423	528	544	551	480	2,103	1,790
EBITDA	55	58	66	63	46	232	98
EBITDA %	13.0%	10.9%	12.1%	11.5%	9.6%	11.1%	5.5%

Shareholding Pattern

Category of shareholder	No. of shareholders	No. of fully paid up equity shares held	Total no. shares held	Shareholding as a % of total no. of shares (calculated as per SCRR, 1957) As a % of (A+B+C2)	No. of Voting Rights	Total as a % of Total Voting right	No. of Locked in shares		No. of equity shares held in dematerialized form
							No.(a)	As a % of total Shares held(b)	
(A) Promoter & Promoter Group	4	8,15,76,872	8,15,76,872	55.28	8,15,76,872	55.27		0.00	8,15,76,872
(B) Public	96,193	6,60,06,449	6,60,06,449	44.72	6,60,06,821	44.73	7,54,437	1.14	6,55,77,625
(C1) Shares underlying DRs				0.00		0.00		0.00	
(C2) Shares held by Employee Trust				0.00		0.00		0.00	
(C) Non Promoter-Non Public				0.00		0.00		0.00	
Grand Total	96,197	14,75,83,321	14,75,83,321	100.00	14,75,83,693	100.00	7,54,437	0.51	14,71,54,497

Source: BSE Official Website

- Quess Corp. has a very simplified shareholding pattern overall. 55.27% of the stake is under the name of the promoters where 44.73% is held by public.
- Out of the 55.27%, Ajit Isaac and Isaac Enterprise Private Ltd account for 23% whereas Fairbridge Capital Mauritius Limited and Hwic Asia Fund Class A Shares account for the rest 31.76% and 0.51% respectively.

- Talking about the public shareholding of Qness Corp., 44.72% of the company is under the hands on non-promoters.
- Public shareholding of Qness Corp. is majorly divided into two categories: institutions (29.69%) and non-institutions. (15.03%)
- Under the head of institutions, 14.01% stake is taken by foreign portfolio investors, followed by 13.10% taken by the Mutual Funds. Rest 2.58% is taken by Investment Funds, Insurance companies and banks.
- Among mutual funds and Foreign portfolio investors, we notice the names of Aditya Birla Sun Life Trustee, Sundaram Mutual Fund, Franklin India, ICICI Prudential, India capital Fund and Malabar Select fund to hold more than 1% stake in the company
- Amongst individuals, we see the name of Mr. Ashish Dhawan acquiring 1.07% stake in the company.
- Holding of almost 30% of the company under the name of big institutions makes it an overall fundamentally strong company.

COVID Impact Assessment

Q4 FY20 Conference Call Highlights/ COVID Impact

- In FY20 the headcount was up 21%, revenue up 29% and EBITDA up 42%. The company is focused on OCF generation, cross-growth OCF by about 34% on a normalized basis.
- The Company had some **one time non cash impact items**.
- It has one-third of India's Fortune 500 companies amongst its customers. Protected from downside due to limited exposure to tourism, entertainment, airlines, hospitality and no exposure to SMEs.
- Coming into COVID most of its associates were not on seasonal peak demand. They were mostly on perpetually outsourced and frontline tasks, which have been less affected than some other tasks and activities.
- Employee count through April was around 5% down from February number at 365,000 employees. Company expected similar decline in the month of May and June.
- Company expects formalization to set in with the coming in of the new labor laws due to COVID.
- Considers its cash position to be comfortable and feels lucky to have been in the business services industry.

Source: Q4 FY20 Conference Call Transcript

- **Company's measures to reduce costs:**

- served termination notices to 15 of the 58 buildings that they occupied across the country.
- automating a large force of our compliance management.
- negotiating travel expenses and changing policies, so that everyone use Rs. 999 rooms when we travel.
- switching to e-invoicing as a default for all customers, which will save about Rs. 40 lakhs of courier services every quarter.
- **Company's View on the Industry:** globally known to be countercyclical in cash generation. By reducing FTE, the working capital locked in associate salaries comes down and cash is released back to the company. In the last 2 months many of its peers in North America and Europe have gone on buyback sprees, utilizing the cash that's come back and been unlocked from working capital.
- March collections were on track because of customer quality which enabled it to pay salaries to its associates earlier than normal. That is the reason it reported a normalized OCF.

Q4FY20 Highlights



Financial

- Strong Headcount growth, up **21% YoY** to cross **384k**
- **P&L statement:**
 - Strong Revenue growth, up **30% YoY** from ₹ 2,295cr to ₹ 2,995cr
 - EBIDTA increased **28% YoY** from ₹ 132cr to ₹ 169cr
 - Operating PAT reduced **5% YoY** to ₹ 72cr, due to reduction in other income by ₹ 20cr
- **Balance Sheet:**
 - Strong collection focus with **Total DSO** improving to **57 days**, from **63 days** in Q4FY19
 - **Goodwill impairment** of ₹ 506cr of certain CGU's - IFM, AllSec, Vedang, Trimax & MFXchange
 - **Impairment of intangibles** of ₹ 134cr of IFM, AllSec and Vedang.
 - **Reversal of Deferred tax liability** of ₹ 105cr on the impairment of goodwill/intangibles
 - **Move to the new tax regime** – one time write off of MAT credit and deferred tax is ₹ 140cr



Corporate

- Corporate initiatives are on track with significant improvements in business operations & corporate structure
- **Mr. Suraj Moraje** took over as Group CEO & Executive Director on April 1, 2020
- **Key Management additions:**
 - Mr. Sekhar Garisa - Chief of Emerging Businesses and Corporate Development
 - Mr. Joy Kurien – Group Chief Technology Officer
- **Cross selling focus:** Out of the top 30 clients, more than 50% work with more than one business entity
- **Qess Stock Ownership Plan** was approved by the board and a total of **~2.6 mn options** have been issued to more than 60 key employees
- Board approved **cash-neutral increase of stake in Terrier Security Services** from 49% to 74%
- Board approved the merger of **4 wholly-owned subsidiaries** with Qess – Goldenstar, Greenpiece, MFX India and Trimax Smart Infra
- Termination of JV between QEBC and East Bengal Football club with effect from May 31, 2020
- In Ahmedabad Smart City Project, out of the total project cost of ₹ 230cr, ₹ 97.5cr was collected till Q4' 20



Platform

- **Workforce Management:**
 - WFM associate headcount up 30% YoY to 262k. Robust growth in GS, including 1 new large deal
 - IT Staffing focus on improved productivity and growth in high-margin segments
 - Training & Skill Development expanded B2B and B2C capability
 - Overall, greater focus on digitally-enabled VAS and back-end automation
- **Operating Asset Management:**
 - IFM revenue grew 5% YoY, flat QoQ due to COVID lockdown impact on Food business (₹ 4 cr)
 - Terrier Security revenues grew 14% YoY with focus on integrated man-tech solutions
 - Industrial business continued planned decline, while added several new customers in focus areas of power, metal and ONG O&M
- **Technology services & Emerging businesses:**
 - Revenue up 14% YoY, EBITDA up 190% YoY primarily backed by Allsec acquisition
 - Expansion of offerings in ITS and BPO with deepened service lines for digitization and analytics

Workforce Management Platform:

- **General Staffing** won 27 new logos, including a large retail deal. Headcount growth dampened by a slowdown in general rehiring. Increased cross sell penetration – more than 50% of customers work with >1 vertical
- **IT Staffing** improved productivity (e.g., fitments per recruiter, invoicing time), enhanced sourcing from 6 to 12 channels, increased focus on high margin segments, and introduced training services
- **Training & Skill Development** expanded B2B segment sales while transitioning in B2C capability from TCIL. Focus on digitization of content
- **Overall emphasis on digitisation**, with greater focus on digitally-enabled VAS, back-end RPA implemented for 500+ clients covering 80K+ associates

Tech Services:

- **IT Services business** delivered a strong quarter in NA and India, invested in growth
- **HRO business** grew topline 7% YoY in India and internationally, processing highest volume in Q4. Focus on further strengthening technology platform
- **CLM/BPM business** acquired 6 clients in Q4. Revenue and EBITDA lower QoQ due to lockdown impact

Operating Asset Management Platform:

- **IFM** top line flat QoQ largely due to lockdown impact on food business. YoY margin expansion by 1.5 percentage points through higher share of comprehensive contracts. Expanded sales team and deepened focus on verticalization for growth push in FY 21
- **Terrier Security** continued rapid growth with healthy customer acquisition and focus on integrated man tech solutions with a common digital platform. Improved collections performance and expanded training capabilities to facilitate rapid scale-up
- **Industrial business** restructured, adding several new customers in focus verticals (power, metal and ONG O&M) and dunning unprofitable services

Q4FY20 Financial Performance

Revenue:

- Up 30% YoY (27% organic) & 2% QoQ (all organic)
- YoY Organic growth was driven by growth in General Staffing (up 67%), IFM (up 5%) and CLM (Conneqt - up 5%). Our first year of ownership in Allsec saw the asset grow 7%

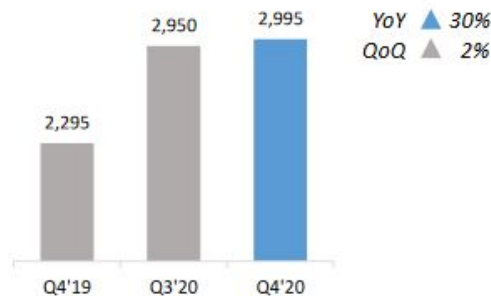
Profitability:

- EBITDA up 28% YoY & down 6% QoQ on account of COVID impact on call center and food businesses
- Operating PAT down 5% YoY due to reduction in other income of ₹ 20cr, and down 9% QoQ mainly on account of COVID impact
- Q4 PAT includes one off exceptional items on account of Goodwill/intangibles impairment and change in tax regime

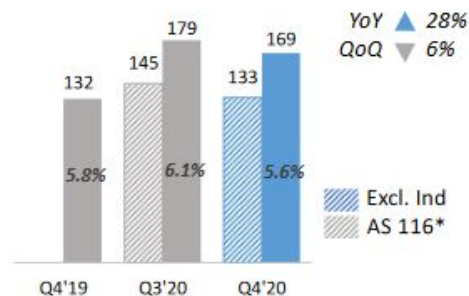
Cash Generation:

- Improvement in cash position due to continuous focus on collections - combined DSO improved to 57 days from 63 days in Q4FY19 and 59 days in Q3FY20
- Due to COVID lockdown, we pre-released associate salaries and associated expenses to the tune of ₹ 37cr in the last week of March, reducing OCF in the quarter by 44% YoY. OCF conversion for the quarter adjusted for pre-released expenses would have been 51%

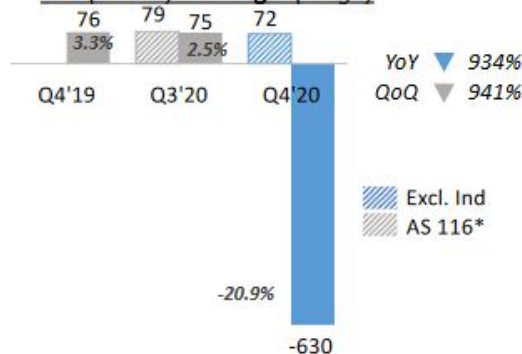
Revenue (in ₹ cr)



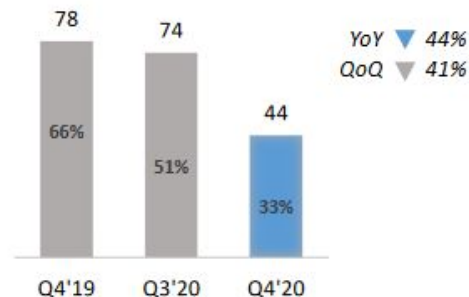
EBITDA (in ₹ cr) & margin (%age)



PAT (in ₹ cr) & margin (%age)



OCF (in ₹ cr) & %age**



- Management change: Mr. Suraj Moraje took over as Group CEO & Executive Director on April 1, 2020.
- Stake purchase: Board approved cash-neutral increase of stake in Terrier Security Services from 49% to 74%.
- Optimization of Group Structure: Board approved the merger of 4 wholly owned subsidiaries with Qess –Goldenstar, Greenpiece, MFX India and Trimax Smart Infra
- Improvement in cash position due to continuous focus on collections -combined DSO improved to 57 days from 63 days in Q4FY19 and 59 days in Q3FY20.
- QOQ Net Debt increased by ₹ ~41cr to ₹~354cr, primarily on account of ₹100 crores precautionary working capital lines drawn in March 2020 due to COVID impact. However, Gross debt / EBITDA levels remained largely flat.

Q1 FY21 Conference Call Highlights/ COVID Impact

- Management Indicated 'optimism' on the hiring demand for the rest of the ongoing fiscal as major cities open up with a decline in Covid-19 daily infections and clients prepare for the festive season ahead.
- Revenue decline (~20% QoQ) was in line with estimates. Sequentially, revenue decline was led by General Staffing (22%), BPO (25%), and Facilities Management (21%).
- Notably, despite the sharp decline in General Staffing revenue, the company did not lose any major customer in this segment.
- From Mar'20 levels, indirect costs were stated to have declined by ~20%
- Over the medium term, QUESS is expected to be the biggest beneficiary of the recently announced labor law reforms(May 2020)

- Management indicated guidance for reaching 20% ROE by 2023 remains unchanged. In addition, the company expects 20% YoY growth in cash flows.
- It continues to focus on cross-selling its services. Customers using two or more services across the portfolio now contribute 68% to sales.
- Even as the situation remains uncertain, the company believes the worst related to COVID-19 was behind by 1QFY21. July has witnessed a 2x increase in the number of open positions (v/s June). Open positions in July are at 60% of preCOVID-19 levels. Management expects recovery to be driven by the impending festive season.
- While margins are expected to remain under pressure in the near term, the company expects an improvement over the medium term.
- Headcount reduction in General Staffing was largely driven by headcount rightsizing in the Retail and BFSI verticals.
- Management does not expect any bad debt or receivables issue in the share of working capital-funded clients.
-



Financial

- **Headcount** – COVID impacted HC by (13%) to **334k**, better than guidance
- **P&L statement:**
 - Revenue flat YoY at ₹ **2,409cr**
 - EBITDA decreased 12% YoY to ₹ **130cr**, including:
 - One-time **COVID related costs** of ₹ 6cr
 - **Lockdown-related losses** in Excelus and Digicare businesses of ₹ 21cr
 - PAT decreased 36% YoY, at ₹ **36cr**
- **Balance Sheet:**
 - **OCF / EBITDA at 152%**
 - **Strong collections** reducing total receivables from ₹ 998cr to ₹ 921cr. No material client defaults to date
 - Due to reduction in revenue base, DSO increased from 57 to 68 days
 - **Net debt reduced by ₹ 100cr** to ₹ 254cr from ₹ 355cr in Q4'20. Gross debt reduced to ₹ 977cr from ₹ 1,147cr by ₹ 170cr



Corporate

- Corporate initiatives on track with significant improvements in business operations
 - **Indirect costs** reduced by 20% over Q4'20 run rate
 - **Continued focus on cross sales and multi-tower deals**, customers with 2 or more service lines accounted for 68% of revenues in Q1'21 vs 64% in Q1'20.
 - Sales efforts resulted in **~200 new customer introductions**, on existing and new service lines
- Completed the **increase of stake in Terrier Security Services** from 49% to 74%
- Scheme of Amalgamation of Qess with **4 wholly-owned subsidiaries** – Goldenstar, Greenpiece, MFX India and Trimax Smart Infra filed with the Stock Exchanges on June 29, 2020. No of entities reduced/in process - 13
- Termination of JV between QEBC and East Bengal Football club signed off on July 16th, 2020



Platform

- **Workforce Management:**
 - **WFM associate headcount** down 6% YoY from **237k** to **224k**, primarily in BFSI and Retail verticals. Strong client acquisition with 59 new clients acquired in the quarter
 - IT Staffing on business plan, with focus on growth in **high-margin digital skills**
- **Operating Asset Management:**
 - **IFM revenue** dropped 13% YoY. 13% reduction in HC in Q1 vs Q4 due to lockdown of client premises. 75 new logos introduced with new sterifumigation service line in Q1
 - **Terrier Security** revenue dropped 4% YoY due to **HC pressure in IT services vertical**. Mid-term outlook remains robust, with focus on integrated man-tech solutions
- **Technology services & Emerging businesses:**
 - **HRO** business revenues up by **14% YoY**
 - CLM and BPM revenues down 22% QoQ and 4% YoY. Domestic impacted more than international. International business recovering, with domestic catching up

Q1FY21 Financial Performance

Revenue:

- Flat YoY & down 20% QoQ
- QoQ revenue drop mainly in General Staffing (down 22%), Conneqt (down 25%) and IFM (down 21%)

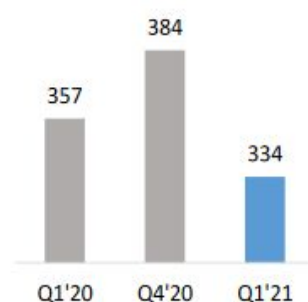
Profitability:

- EBITDA down 12% YoY & 23% QoQ
- EBITDA impact in Excelus and Digicare of ₹ 21cr and COVID-related costs of ₹ 6cr
- Q1 PAT includes ₹ 25cr of exceptional item pertaining to fair value gain on Terrier consolidation.
- In addition, Q1 PAT includes equity pick up loss of Terrier and QEBFC of ₹11cr

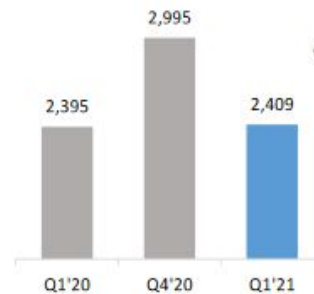
Cash Generation:

- OCF conversion at 152%, higher QoQ by 239%
- Total receivables reduced from ₹ 998cr to ₹ 921cr. Due to reduction in revenue, DSO increased from 57 to 68 days
- Net debt reduced to ₹ 254cr from ₹ 355cr in Q4'20. Net debt to EBITDA flat QoQ at 2.1x

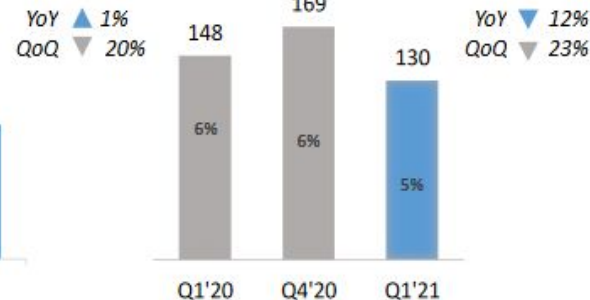
Headcount ('000s)#



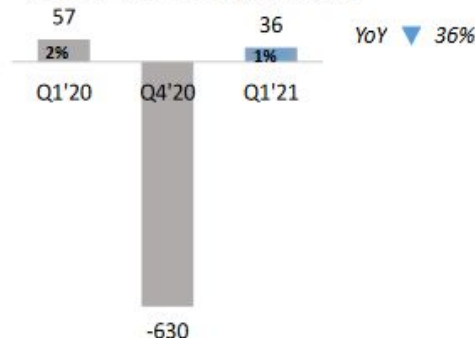
Revenue (in ₹ cr)



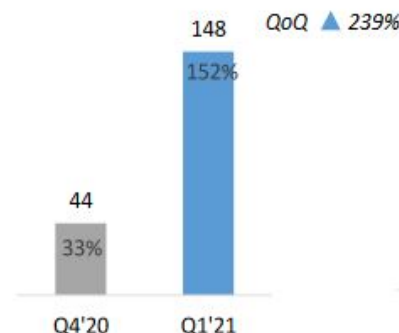
EBITDA (in ₹ cr) & margin (%age)



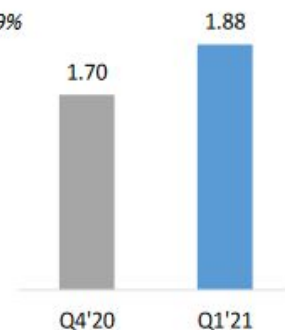
PAT (in ₹ cr) & margin (%age)



OCF (in ₹ cr) & %age*



Gross Debt/EBITDA (x)



* OCF and OCF Conversion % are computed excluding the impact of IndAS 116. Operational EBITDA for Q1'20 is ₹ 98cr and ₹ 135cr for Q4'20

- Excellus witnessed sharp revenue and EBITDA impact due to the closure of training facilities. Even as the government assured the coverage of fixed costs, the company had already recognized costs. Management expects cost reversals as and when reimbursements come in from the government
- Closure of educational campuses and IT offices impacted Facility Management and Terrier Security Services.
- The HRO segment within Allsec Technologies has been a rare bright spot. Slowdown in hiring activity led to a significant drop in search activity and the revenue of Monster during the quarter.
-

- Over the medium term, QUESS is expected to be the biggest beneficiary of the recently announced labor law reforms(May 2020)
- Revenue decline (~20% QoQ) was in line with estimates. Sequentially, revenue decline was led by General Staffing (22%), BPO (25%), and Facilities Management (21%).
- Notably, despite the sharp decline in General Staffing revenue, the company did not lose any major customer in this segment.
- Closure of IT offices during the quarter led to a strong impact on the Facility Management and Security Services businesses.
- From Mar'20 levels, indirect costs were stated to have declined by ~20%
- Businesses such as training and development (Excelus) and break-and-fix (Digi Care) remained an overhang on reported EBITDA for the quarter.
- Despite the bench costs incurred in some parts of the business, sequential EBITDA margin expansion in Tech Services and Operating Asset Management happened.
- Net debt reduction by INR1b to INR2.5b and gross debt reduction by INR1.7b to INR9.8b were a key positive.

- Cash conversion (OCF/Ind-AS adjusted EBITDA) was healthy at ~152%, supported by prompt collections, release of working capital, and refunds.
- Reported PAT included a one-off exceptional item of INR250m. This relates to fair value gains on the Terrier consolidation. Adjusted for this, PAT for the quarter (INR221m) was in line with our estimates.
- As Terrier Security becomes a subsidiary (hitherto associate), the total implied purchase consideration stands at INR1.5b. Provisionally, almost the entire amount was recognized as goodwill on consolidation.
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Management Analysis

- Ajit Issac - He is the Chairman & Managing Director of Quess Corporation. He is a part of Quess Corp. since the foundation of the company i. e. **2008** and is credited with building Quess Corp into India's largest business services provider within a span of 10 years.
- Subrata Kumar Naag - He is the Group CEO & Executive Director of the Company. A finance professional with over three decades of experience, he has been associated with Quess since **2008**. He is also a qualified member of the Institute of Company Secretaries of India (ICSI).
- Chandran Ratnaswami - He is a Non-Executive Director of the Company. Apart from this , he is also a Director and CEO of Fairfax India Holdings Corporation, the Managing Director of Hamblin Watsa Investment Counsel and serves as a director of many insurance and non-insurance companies. With **27 years** of experience in the field of investment management, he has been a part of the company since **2016**.

- Madhavan Menon - He is a Non-Executive Director of the Company. He has over **36 years** of experience in the fields of banking, finance and foreign exchange management and has been a Director at Quess since May **2013**.
- Pravir Kumar Vohra - He is an Independent Director of the Company. He has over **40 years** of experience in the fields of banking and information technology and is been a part of Quess Corp since **2015**. He is also holding various leadership positions at SBI.
- Pratip Chaudhuri - He is an Independent Director of the Company. He has over **40 years** of experience in the field of banking and is a part of Quess Corp. since **2015**. He is also an independent director in various other companies.
- Revathy Ashok - She is an Independent Director of the Company. She has over **30 years** of experience in the field of finance and is a part of Quess Corp. since **2015**.
- Sanjay Anandaram - He is an Independent Director of the Company. He has over **30 years** of Indian and international experience as a corporate executive, entrepreneur, investor, teacher and advisor to funds and entrepreneurs and is a part of Quess Corp. since **2015**.

SWOT Analysis

Strengths

- **Diversified business profile:** Quess is an integrated services company offering a diverse portfolio of services including workforce management (WFM), operating asset management (OAM) and global technology solutions(GTS).
- Quess has **one-third of India's Fortune 500 companies amongst its customers**. It is protected from downside due to limited exposure to tourism, entertainment, airlines, hospitality and no exposure to SMEs.
- **Significant scale-up in business driven by combination of both organic and inorganic growth:** the company's strategy of acquiring entities in adjacent businesses has supported its inorganic growth and diversification into complementary segments resulting in healthy revenue growth. It has also supported Quess' geographical diversification into markets like USA, Canada, Middle East and South-east Asia etc. which contribute to ~15% of the company's revenues. That said, the organic revenue growth of the company has also been healthy and stood at 25% during 9m FY 2020 reflecting the company's ability to grow its revenues by cross-selling in addition to acquiring new customers.

Weaknesses

- **Stretch in working capital cycle:** Quess witnesses peak utilization of 85% of the company's working capital limits regularly. Quess enters into tripartite agreements with clients under which the associates remain on Quess' payrolls only as long as the services are availed by the client. However, payouts to its associates in the event of deferral/non-realization of collections from its clients could result in further stretch of the company's working capital.
- **High competitive intensity along with high attrition rates limit scope for margin expansion** –The general staffing industry in India is characterized by large domestic and international players while the facility management and security services industry is highly fragmented, comprising of numerous unorganized players on account of low entry barriers. Consequently, competitive pressures continue to limit the pricing power and scope for margin expansion for the company under these segments.

Opportunities

- **Bullish about OAM business:** Companies are paying much more attention to quality of sanitation. They are coming to realize that larger players deliver better and this accelerated formalization and flight to quality.
- **Growth in steri fumigation segment:** About 120 new clients came in through steri fumigation across hospitals, banks, oil and gas and eminent education institutions. Qness has brought in additional sales capacity, organizational capacity to drive this on priority.

Threats

- Excelus revenue fell to 0 in April, as training centers shut during the lockdown.
- **Exogenous shocks:** Immediate effect of COVID 19 has only been felt mostly in the catering and training businesses of QCL. However, higher than expected effect of the outbreak on demand in end-user industries is likely to have an adverse impact on the company's operational and financial profile.

Industry Analysis and Macroeconomic Trends

1. Covid may cause slowdown in business services and IT industry growth from 8% to 6.5% in 2020. Still the future for general staffing is positive because of the rise of gig economy and unemployment in the country.
2. Porter's 5 forces -
 - i) Bargaining power of supplier - low
 - ii) Bargaining power of Buyers - high
 - iii) Threat of new entrants - Medium
 - iv) Threat of substitutes - Medium
 - v) Industry Rivalry - Medium
3. The industry has shown good margin stability with a overall decrease of ~0.4% during the covid crisis.

Moats

1. There are no expensive regulatory barriers stopping new players to enter the industry. The general cost to set up a staffing company in india is not more than 25,000 rupees.
2. Company has shown a consistent growth of profit from operations. No heavy structural costs in the business but the company has been performing better than the peers in this metric.
3. Existing business relations with companies like Amazon, Samsung, Vodafone India will help increase business through the projected rise of gig economy in the post covid world.

Quantitative Analysis





Profit and Loss Statement

QUESS CORP LTD									
Narration	Jan-00	Mar-12	Mar-13	Dec-13	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Sales	-	637.00	1,001.15	1,006.01	2,567.06	3,435.01	4,314.93	6,167.26	8,526.99
Expenses	-	609.82	957.85	965.83	2,435.71	3,283.53	4,075.22	5,805.57	8,054.70
Operating Profit	-	27.18	43.30	40.18	131.35	151.48	239.71	361.69	472.29
Other Income	-	2.43	3.20	2.14	5.70	9.05	14.66	51.02	57.70
Depreciation	-	3.69	4.39	4.24	10.14	14.39	33.30	74.74	123.15
Interest	-	12.84	17.82	9.18	22.70	31.44	48.76	76.51	117.39
Profit before tax	-	13.08	24.29	28.90	104.21	114.70	172.31	261.46	289.45
Tax	-	4.78	7.18	9.73	36.99	33.52	50.44	-48.31	32.89
Net profit	-	6.22	12.07	17.86	67.22	81.18	121.90	310.99	256.74
EPS	-	5.14	9.98	9.40	26.05	7.17	9.61	21.37	17.57
Price to earning	-	-	-	-	-	-	69.46	46.52	41.10
Price	-	-	-	-	-	-	667.73	994.25	722.23

Balance Sheet

QUESS CORP LTD										
Narration	Mar-12	Mar-13	Dec-13	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19		
Equity Share Capital	12.06	12.06	19.00	25.77	113.34	126.79	145.48	146.08		
Reserves	23.11	38.26	88.36	226.15	243.29	1,177.98	2,315.28	2,579.50		
Borrowings	55.67	87.94	64.22	223.58	393.30	778.55	1,166.36	831.19		
Other Liabilities	163.36	192.65	226.61	243.60	500.11	780.19	1,271.29	1,454.81		
Total	254.20	330.91	398.19	719.10	1,250.04	2,863.51	4,898.41	5,011.58		
Net Block	32.38	33.44	85.19	129.30	252.17	1,171.58	1,631.63	1,656.36		
Capital Work in Progress	-	-	-	-	2.39	7.72	2.35	14.72		
Investments	-	-	-	-	3.66	77.64	286.17	128.45		
Other Assets	221.82	297.47	313.00	589.80	991.82	1,606.57	2,978.26	3,212.05		
Total	254.20	330.91	398.19	719.10	1,250.04	2,863.51	4,898.41	5,011.58		
Working Capital	58.46	104.82	86.39	346.20	491.71	826.38	1,706.97	1,757.24		
Debtors	117.75	158.00	124.48	274.59	405.28	509.40	920.68	913.19		
Inventory	0.13	0.38	0.44	0.44	1.83	7.09	8.49	22.08		

Cash Flow Statement

QUESS CORP LTD								
Narration	Mar-13	Dec-13	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	
Cash from Operating Activity	-16.12	15.31	38.46	-49.52	68.37	108.67	201.58	
Cash from Investing Activity	-4.14	-65.98	-69.19	-9.56	-574.42	-793.65	182.33	
Cash from Financing Activity	14.84	63.84	79.78	85.85	706.81	947.54	-445.25	
Net Cash Flow	-5.42	13.17	49.04	26.76	200.77	262.56	-61.34	

Quess Corp Limited
Registered Office: Quess House, 3/3/2, Bellandur Gate, Sarjapur Road, Bengaluru 560 103;
CIN No. L74140KA2007PLC043909

Consolidated Statement of Cash flows for the year ended 31 March 2020

(INR in millions)

Particulars	For the year ended	
	31 March 2020	31 March 2019
Cash flows from operating activities		
Profit/(loss) after tax	(4,318.78)	2,565.49
Operating cash flow before working capital changes	7,929.76	(549.65)
Net cash flows from operating activities (A)	3,610.98	2,015.84
Net cash (used in)/from in investing activities (B)	(1,879.85)	1,801.92
Net cash from/(used in) in financing activities (C)	278.65	(4,452.54)
Net increase/(decrease) in cash and cash equivalents (A+B+C)	2,009.78	(634.78)
Cash and cash equivalents at the beginning of the year	5,047.74	5,661.12
Effect of exchange rate fluctuations on cash and cash equivalents	33.72	21.40
Cash and cash equivalents at the end of the year	7,091.24	5,047.74

Components of cash and cash equivalents

(INR in millions)

Particulars	As at	As at
	31 March 2020	31 March 2019
Cash and cash equivalents		
Cash in hand	7.87	5.54
Balances with banks		
In current accounts	6,784.89	4,964.34
In EEFC accounts	238.65	5.31
In deposit accounts (with original maturity of less than 3 months)	59.83	72.56
Cash and cash equivalents in consolidated balance sheet	7,091.24	5,047.74

Ratio Analysis

Ratios					
Return Ratios (%)	FY 17	FY 18	FY 19	FY 20	
Return on Equity	9.34%	8.66%	8.67%	-18.08%	
Return on Capital Employed	11.75%	9.56%	10.86%	14.56%	
Return on Assets	4.26%	4.35%	4.71%	-7.74%	
Y/E March	FY 17	FY 18	FY 19	FY 20	
Standalone Basic EPS (Rs)					
Consolidated Basic EPS (Rs)	9.59	21.82	17.61	-30.20	
Consolidated Cash EPS (Rs)	10.16	26.96	26.04	-13.35	
Book Value Per Share (Rs)	22.22	169.15	186.68	154.30	
Dividend Per Share (Rs)	0.00	0.00	0.00	0.00	
Dividend Payout %	0.00%	0.00%	0.00%	0.00%	
Market Price (Rs)	690.40	1,019.45	745.60	367.70	
Dividend Yield %	0.00%	0.00%	0.00%	0.00%	
Face Value (Rs)	10.00	10.00	10.00	10.00	
No. of Shares (Crores)	58.71	14.55	14.60	14.75	
Market Capitalisation (Crores)	40,532.69	14,830.96	10,885.76	5,423.58	
Enterprise Value (Crores)	40,810.68	15,024.76	10,796.36	5,249.38	
Valuation (x)	FY 17	FY 18	FY 19	FY 20	
P/E	71.99	46.72	42.34	-12.18	
Cash P/E	67.97	37.82	28.63	-27.55	
ROI (EBITDA/EV)	0.58%	2.36%	4.30%	12.53%	
P/BV	31.07	6.03	3.99	2.38	
EV/Sales	9.46	2.44	1.27	0.48	
Market Cap/Sales	9.39	2.40	1.28	0.49	
Other Ratios	FY 17	FY 18	FY 19	FY 20	
Debtor (Days)	43	54	39	33	
Inventory (Days)	1	1	1	1	
Debt/Equity	0.33	0.19	0.15	0.24	
Interest Coverage Ratio	4.28	3.71	2.98	2.45	
Cash Flow Statement	FY 17	FY 18	FY 19	FY 20	
Cash from Operations					
Less: CAPEX					
Free Cash Flow	0	0	0	0	
FCF/Net Profit	0.00%	0.00%	0.00%	0.00%	

Competitors' Analysis

- Since Qess Corp is a very diversified company, there is no single main competitor. It has multiple competitors in each of its segments.

Information Technology Products & Information Technology Services

PEER NAME	MARKET CAP. ↓
Qess Corp Limited	₹5,532 Cr.
Infibeam Avenues Limited	₹4,936 Cr.
Polaris Consulting & Services Limit...	₹4,888 Cr.
Carborundum Universal Limited	₹4,814 Cr.

Software Services

PEER NAME	MARKET CAP. ↓
Tata Elxsi Limited	₹6,573 Cr.
Qess Corp Limited	₹5,532 Cr.
KPIT Technologies Limited	₹4,768 Cr.
Redington (India) Limited	₹4,650 Cr.

Recruitment

PEER NAME	MARKET CAP. ↓
Info Edge (India) Limited	₹42,347 Cr.
Qess Corp Limited	₹5,532 Cr.
TEAMLEASE SERVICES Limited	₹3,750 Cr.
Thomas Cook (India) Limited	₹1,403 Cr.

Engineering & Capital Goods

PEER NAME	MARKET CAP. ↓
Grindwell Norton Limited	₹6,066 Cr.
Qess Corp Limited	₹5,532 Cr.
Bajaj Electricals Limited	₹5,336 Cr.
Rail Vikas Nigam Limited	₹4,775 Cr.

	Amount in crores	
	Qness Corp	Teamlease
Revenue	10,991	5201
Sales Growth	36.57%	19.58%
ROE	6.87%	6.30%
ROCE	12.48%	15.31%
Net Profit	-445	-29
Employee Benefit Expenses	9063.438	4,936.48
Debt to Equity Ratio	0.24	1.19
Operating Profit Margin	5%	1%
Net Profit Margin	-3.74%	0.67%
Return on Net Worth (2019-20)	-18%	6.11%
Return on Net Worth (2018-19)	9%	18%
Debtor Days	33	21

The net profit of Qness is having impact of one time write off by Rs 664 crores

DCF and Valuations

EBIT	204.70	279.62	341.10	452.80	493.58	650.15	828.19	1291.56	1615.69	1944.83
Interest Expenses	47.86	75.45	114.40	166.80	170.14	173.54	177.01	180.55	184.16	187.84
Total expenses	4158.16	5963.09	8300.00	10705.40	10503.13	13586.43	17334.71	21896.58	27316.70	32736.89
<i>Total exps/ Sales</i>	<i>0.96</i>	<i>0.97</i>	<i>0.97</i>	<i>0.97</i>	<i>0.97</i>	<i>0.97</i>	<i>0.96</i>	<i>0.95</i>	<i>0.95</i>	<i>0.95</i>
Profit before tax and excep	172.26	261.09	297.96	337.08	323.44	476.61	651.19	1111.01	1431.53	1756.99
Share in profit/loss of Assoc	0.12	0.36	-8.80	-13.8	-8.00	5.00	6.00	7.00	8.00	10.00
Exceptional Items		0.00	0.00	-664.00	0	0	0	0	0	0
Profit before tax	172.38	261.45	289.16	-340.72	315.44	481.61	657.19	1118.01	1439.53	1766.99
Tax expense										
Current tax	50.43	48.3	32.8	47.40						
Deferred tax	0	0	0	0.00						
Short provision for tax relatin	0	0								
Total tax expense	50.43	48.30	32.80	47.40	91.86	140.25	191.37	325.56	419.19	514.55
<i>Tax expense/Sales</i>	<i>0.29</i>	<i>0.18</i>	<i>0.11</i>	<i>-0.14</i>	<i>0.29</i>	<i>0.29</i>	<i>0.29</i>	<i>0.29</i>	<i>0.29</i>	<i>0.29</i>
Net Operating Profit(NOP) :	154.27	231.32	308.30	405.40	401.72	509.91	636.82	965.99	1196.50	1430.29
Profit for the year	169.69	288.24	379.56	-207.52	223.59	341.37	465.81	792.44	1020.34	1252.44
Profit(%) Y-o-Y		0.70	0.32	-1.55	-2.08	0.53	0.36	0.70	0.29	0.23
PAT to sales	0.04	0.05	0.04	-0.02	0.021	0.024	0.026	0.035	0.036	0.036
Paid up equity share capital	126.79	145.48	146	147.50	28.26	28.26	28.26	28.26	28.26	28.26
Weighted average number c	12.68	13.61	14.57	14.68	14.13	14.13	14.13	14.13	14.13	14.13
Reserves excluding revaluat	709.38	2315.27	2579.5	2128.40						
Earnings per equity share										
Basic earnings per share (i	13.38	21.17	26.04	-14.14	15.82	24.16	32.97	56.08	72.21	88.64
Diluted earnings per share	13.38	20.40	26.86	-14.69	15.82	24.16	32.97	56.08	72.21	88.64

Consolidated Balance Sheet											Assumptions
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21E	Mar-22E	Mar-23E	Mar-24E	Mar-25E	Mar-26E	
Assets											
Property, Plant and Equipment	55.99	232.49	235.40	207.00	200.00	220.00	260.00	300.00	350.00	400.00	<i>PPE has been forecasted on the basis on historical Sales/PPE trends.</i>
Sales	4315.0	6167.3	8526.7	10991.4	10771.6	14003.0	17923.9	22942.6	28678.2	34413.9	
Sales/PPE	77.07	26.53	36.22	53.10	53.86	63.65	68.94	76.48	81.94	86.03	
Change in PPE	11.56	176.50	2.91	-28.40	-7.00	20.00	40.00	40.00	50.00	50.00	
COGS	4077.01	5812.90	8062.45	10333.60	10232.99	13302.89	17027.70	21566.03	26957.54	32349.05	
Inventories	7.08	8.49	22	22	28.32	36.25	45.91	57.39	68.87	68.87	
Inventories/COGS	0.2%	0.1%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	
Inventory DOH at COGS	0.63	0.53	1.00	0.78	0.78	0.78	0.78	0.78	0.78	0.78	
Trade receivables	509.4	920.67	913.1	998.2	1292.59	1540.33	1792.39	2064.83	2581.04	3097.25	
Trade Receivables/ Sales	0.12	0.15	0.11	0.09	0.12	0.11	0.1	0.09	0.09	0.09	
Total assets	2863.5	4898.6	5,011.60	5318.5							
Trade payables	77.70	148.10	172.90	163.20	204.66	266.06	340.55	431.32	539.15	646.98	
Total equity and liabilities	2863.5	4898.6	5,011.60	5318.5							

Table of Free Cash Flows		Amount in crores								
	2018	2019	2020	2021	2022	2023	2024	2025	2026	
Net Operating Profit (NOP)	231.32	308.30	405.40	401.72	509.91	636.82	965.99	1196.50	1430.29	
Change in net PPE	177	3	(28)	(7)	20	40	40	50	50	
Change in NOWC calculation										
<u>Operating current Assets</u>										
Accounts Receivable	921	913	998	1293	1540	1792	2065	2581	3097	
+ Inventories	8	22	22	28	36	46	57	69	69	
= Operating Current Assets	929	935	1,020	1,321	1,577	1,838	2,122	2,650	3,166	
<u>Operating current liabilities</u>										
Accounts Payable	148	173	163	205	266	341	431	539	647	
= Operating current liabilities	148	173	163	205	266	341	431	539	647	
NOWC (current ass - current liab)	781	762	857	1,116	1,311	1,498	1,691	2,111	2,519	
Change in NOWC		(19)	95	259	194	187	193	420	408	
FCF calculation										
FCF	55	324	339	149	296	410	733	727	972	

	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	Residual Value of firm
Discounted FCF	133.54	235.98	292.11	466.94	413.66	494.32	6,484.91
PV of residual value	3,298.25						
Sum of PVs of Future Cash Flows	5,334.80						
Add Cash and Current Investments	792						
FCFF =	6,126.80						
FCFE = FCFF – Int(1 – Tax rate) + Net borrowing							
FCFE =	6,371.57						
Weighted Avg Number of Shares	14.68						
Value per share	434.18	Rs					
CMP	374.9	Rs					
Rating	BUY						

Technical



Summary of Thesis

- As the economy unlocks gradually and enterprises look to dodge supply disruption, we believe the company/sector has already passed the peak of uncertainty. Encouraging rebound in the unemployment situation and the hiring outlook corroborate our view.
- The stock is still ~26% lower than pre-COVID-19 levels on concerns of severe impact on: (a) General Staffing and collections/receivables, (b) liquidity position, and (c) potential legal liabilities in outcome-based businesses in the event of massive employee layoffs.
- However, these concerns were exaggerated as the business / cash collections (both markup- and outcome-based) did not witness any major dislocation over Mar–Jun'20. In fact, it was impressive to note very healthy cash conversion in 1QFY21 (OCF/Ind-AS adj. EBITDA = 152%).
- We give Quess Corp a BUY rating at value per share being Rs 434, while the current market price is Rs 374.

