



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✓

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 700	
Price Target: Rs. 850	↔

↑ Upgrade
↔ Maintain
↓ Downgrade

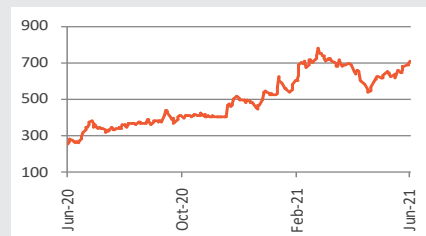
## Company details

Market cap:	Rs. 10,335 cr
52-week high/low:	Rs. 807/253
NSE volume: (No of shares)	3.0 lakh
BSE code:	539978
NSE code:	QUESS
Free float: (No of shares)	6.6 cr

## Shareholding (%)

Promoters	55.2
FII	17.8
DII	14.5
Others	12.5

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	12.9	-3.1	40.5	147.7
Relative to Sensex	4.9	-5.6	25.0	96.1

Sharekhan Research, Bloomberg

## Miscellaneous

## Sharekhan code: QUESS

## Result Update

## Summary

- Quess Corp's performance improved q-o-q with revenues and EBIDTA (excluding one-offs) growing by 7% and 4%; general staffing and industrial businesses grew by 11% each.
- OCF-to-EBIDTA stood at 93% in Q4FY21 versus 33% in Q4FY20. Company is net cash positive at Rs. 99 crore in FY2021 vs Net Debt of Rs. 355 crore in FY2020.
- The management has maintained its target of achieving 20% RoE through double-digit organic revenue growth in FY2023, targets to achieve OCF to EBIDTA ratio of ~70% and reduce gross debt to Rs. 100 crore in the coming quarters.
- Cross selling to existing clients, adding new clients in each business vertical and improve profitability of each remains key earning growth drivers in the near term. We recommend Buy with an unchanged PT of Rs. 850.

Quess Corp's revenues stood at Rs. 3,004.8 crore in Q4FY2021 improved by 7% on a q-o-q basis and remained flat y-o-y. The sequential growth of 7% in revenues was driven by an 11% growth each in the general staffing and industrial business while integrated facility management (IFM) business grew by 6%. EBIDTA margins (excluding one-offs) stood flat at 5.2% q-o-q, while declining marginally by 39 bps y-o-y. Margins were down y-o-y due to lockdown impact (Rs. 20cr) in IFM-food and Excelus. The company had made provisions of Rs. 119.5 crore in relation to the trade receivables and unbilled revenues arising from certain contracts with government customers. Excluding one-offs related to provisioning and lockdown related impact, the consolidated EBIDTA margins stood at 5.9% (EBIDTA grew by ~5% on y-o-y basis). Adjusted PAT excluding one-offs stood at Rs. 84.2 crore during the quarter. For FY2021, Quess Corp's revenues stood flat at Rs. 10,836.9 crore with OPM declining by 70 bps to 5.3% largely on account of lower profitability in businesses such as training & skill development and facility management. However strong recovery in the general staffing and IT staffing verticals led to a strong comeback in H2FY2021. General staffing headcount back to almost pre-COVID levels of 240,000 in H2FY2021 as against 203,000 in H1FY2021. Despite flat revenues, the domestic IT staffing vertical saw EBITDA growing by 54% y-o-y due to improved revenue mix in FY2021. IFM and Security services impacted by work from home culture in IT/ITES & education sectors which contributed 49% of pre-COVID revenues. However, both verticals together saw a 6% growth in revenues in Q4 due to addition of new clients. The highlight of the quarter was a strong improvement in the operating cash flows (OCF) to Rs. 117 crore (OCF/EBIDTA ratio stood at 93% in Q4FY2021 vs. 33% in Q4FY2020). Addition of clients, cross sales of services and improving growth prospects of acquired businesses remains key growth levers in the near term. The collect & pay ratio stayed steady at 73%; receivable days shrunk by 3 days to 54 days. Gross debt on books reduced to Rs. 516 crore in FY2021 from Rs. 1,147 crore in FY2020 on back strong cash management. The management expects gross debt to come to Rs. 100 crore over the next two quarters. The company net cash stood at Rs. 99 crore versus a net debt of Rs. 355 crore in FY2020. The company has maintained its target of growing OCF by 20% and achieve an RoE of 20% by FY2023E. It maintained its focus on simplifying the business by merging some of the key businesses or exiting non-profitable businesses. Further with sustained improvement in cash flows, the company has decided to utilise one third of its free cash flow in rewarding shareholders in the form of dividend or buyback.

## Key positives

- General Staffing revenue up 11% q-o-q with 29 new clients; Headcount up 13% q-o-q
- IT staffing domestic business EBIDTA grew by 54% led by strong improvement in the revenue mix.
- Revenues and EBIDTA of operating asset management (OAM) business grew by 9% and 11% y-o-y in Q4 led by strong recovery in the industrial business.
- Interest cost was lower by 57% y-o-y in Q4 due to Rs. 630 crore reduction in debt on y-o-y basis.

## Key negatives

- OPM decreased by 39 bps on y-o-y basis to 5.2%.

## Our Call

**View: Recommend Buy with an unchanged PT of Rs. 850:** We have broadly maintained our earnings estimates for FY2022 and FY2023. Quess Corp has maintained its target of achieving double-digit revenue and EBIDTA growth and RoE of 20% by FY2023. New client addition in the WFM business, cross selling of other services in the existing clients and better performance by operating asset management business would help to achieve double-digit organic growth. Better revenue mix and operating leverage would help margins to improve in the coming years. Sustained reduction in debt, prudent capital allocation and improving cash flows would help RoE improve consistently. The stock is currently trading at 16.1x/12.6x its FY2022/23E EV/EBIDTA. Continuous strengthening of balance sheet and improvement in corporate governance remains key re-rating trigger for the stock. We recommend Buy on the stock with an unchanged price target of Rs. 850.

## Key Risks

Any reduction in the headcounts in the coming quarters or slowdown in the key business verticals would act as a key risk to our earnings estimates.

## Valuation (consolidated)

Particulars	FY20	FY21	FY22E	FY23E
Revenue	10,991	10,837	12,550	14,636
OPM (%)	6.0	5.3	5.6	6.0
Adjusted PAT	246	232	298	442
% YoY growth	-7.4	-5.7	28.6	48.3
Adjusted EPS (Rs.)	16.7	15.7	20.2	29.9
P/E (x)	42.1	44.7	34.7	23.4
P/B (x)	4.5	4.4	4.1	3.6
EV/EBIDTA (x)	18.0	19.9	16.1	12.6
RoNW (%)	9.8	10.0	12.2	16.4
RoCE (%)	10.1	9.1	11.2	14.5

Source: Company; Sharekhan estimates

**Revenue and EBITDA grew by 7% and 4% QoQ:** Quess Corp revenues grew by 7% q-o-q to Rs. 3004.5 crore driven by sequential growth of 11% in general staffing business, growth of 6% in the facility management business and 11% in the industrial business. Revenues stood flat on y-o-y basis. EBITDA margins excluding one-off registered marginal decline of 39 bps y-o-y to 5.2%. It stood flat compared to 5.4% in Q3FY2021. The company had made provisions of Rs. 119.5 crore in relation to the trade receivables and unbilled revenues arising from certain contracts with government customers. Lockdown related EBITDA impact (-)Rs. 20 crore. Excluding it the EBITDA margins would have stood at 5.9%. EBITDA would have grown by 5% y-o-y. Lower interest cost, lower depreciation and lower tax led to PAT standing at Rs. 84.2 crore in Q4FY2021 as against PAT of Rs. 45.5 crore in Q3FY2021 and Rs. 43.3 crore in Q4FY2020.

### All businesses performed well sequentially

- ♦ **Workforce management (WFM) business' revenues grew by 9% QoQ:** General Staffing revenue up 11% q-o-q with 29 new clients on boarded. Headcounts up by 13% q-o-q to 2,53,000 members. IT Staffing Domestic business EBITDA up by strong 54% y-o-y in FY2021. The company acquired 95 new customers during FY21 by leveraging newer models such as Hire Train & Deploy, MSP and RPO to increase share in GICs. The core to associates ratio stood at 347 on sequential basis. The training & skill development business' operating EBITDA broke-even with operations at a 50% capacity. A one off provision for non-receiving of Rs. 37 crore towards trade receivable or unbilled revenues arising from government skill & training projects affected the profitability. The company has decided not to enter into any new government contracts in the near future. General staffing and IT staffing head counts is expected to grow with addition of new clients. Around 40% of headcount is outsourced. Sectors such as IT and BFSI are performing well while retail and hospitality is seeing gradual recovery.
- ♦ **Revenue of Global Technology services (GTS) stood flat y-o-y:** Revenues stood at Rs. 459 crore Integrated Insurtech GTM in the US business resulted in 10 contract wins in FY2021 vs. 4 in FY2020, ~\$100,000 / FTE revenue for FY2021. HRO platform business had 44 new client wins in FY2021 vs. 39 in FY2020, payslips processed grew from 2.1 million in Q4 FY2020 to 2.6 million in Q4 FY2021. Domestic IT Services at Rs. . 60 crore revenue, acquiring 16 new customers in FY 21. Managed IT services business introduced in Q1 in Canada to augment existing IT Consulting portfolio, contributes ~10% of Canada gross margin. Despite flat revenues y-o-y, EBITDA margins of the business improved by 260 bps to 16.1% on back of better revenue mix.
- ♦ **Revenue of the operating asset management(OAM) business grew by 9% Q-o-Q to Rs. 465 crore:** Revenue of IFM vertical increased by 6% q-o-q, with 11 client wins across the healthcare, pharmaceutical, manufacturing, e-commerce and aviation sectors. Cross-selling strategy would fuel growth in FY2022. Terrier security business was up by 5% a sequential basis with 11 major clients in the security service space and 4 key clients for man tech projects. Industrial segment revenues grew by 11% on QoQ basis. It added 15 new clients in Q4. Overall EBITDA margins of the business stood flat on QoQ basis at 6.7% during the quarter. Industrial segment is expected to see sustained additions in clients as the customers are shifting to large players to operate and maintain assets from small contractors.
- ♦ **Emerging business:** Monster job posting doubled to 194,000 in Q4 from 124,000 in Q3 and 64000 in Q1. Improvement in customer acquisition & retention metrics – Highest ever new customer acquisitions over the last 12 quarters. Digicare business volumes are improving on Q-o-Q basis. Percentage of profitable centres have gone up to 77% in FY2021 from 54% in FY2020. Continued uptrend in call volume with Q4FY21 growing 6.6% over Q4FY20

### Concall highlights

- ♦ The second wave of COVID-19 will impact businesses such as Digicare (due to shutdown of stores); Excelus (due to closer of training centres) and Monster (might see impact in SME segment). However, the management is confident that the overall impact would be much lesser than first wave as general staffing, IT staffing and services and industrial asset management segments will continue to perform well.

- ♦ The company had made provisions of Rs. 119.5 crore in relation to the trade receivables and unbilled revenues arising from certain contracts with government customers. It includes Rs. 83 crore provisioning related to Trimax and Rs. 37 crore related to provision for government skill & staffing projects. About Rs. 100 crore (including the provision amount of Rs. 83 crore) is to be recovered from Trimax.
- ♦ Penetration of the flexi-staffing industry in India is low at 0.7% as on 2018 with 3.3million employees under the flexi workforce management (grew by 16.3% over FY2015-18). Recent reforms such as implementation of GST, the Skill India initiative and fixed-term contract reforms will help the flexi-staffing industry to achieve strong of 20% in the coming years. E-commerce, retail, automotive and logistics and transport are expected to see a 28-54% growth in flexi workforce during 2019-21. IT/ITeS, E-commerce and BFSI 12.5%, 11.9% and 9.1% has more than 9% penetration in flexi-staffing adoption. The demand for IT talent is expected to gain momentum in 2021 and see a 10-12% growth backed by positive demand.
- ♦ The domestic IT staffing business has seen absolute EBITDA grew by 54%y-o-y and EBITDA margins expanded in FY2021, with about 1/3 of our headcount now engaged in higher margin areas. With growing demand for technology skills, especially around 5G, technology and others, both from domestic companies and global companies there'll be continued tailwinds in this business.
- ♦ Quess Corp acquired the remaining 30% stake in Conneqt Business Solutions with Tata Sons fulfilling its put option for Rs. 208 crore. The company completed the acquisition at less than 4x EV/EBIDTA. Conneqt is a market leader in the domestic BPO space. About 70% of revenues come from CLM, 20% from collections and 10% from SME and back office processes. Post acquiring controlling stake in FY2018, Conneqt's revenues and EBIDTA grew at CAGR of 14% and 19% in last three years. Top 10 client concentration has come down from 75% to 54%.
- ♦ Quess Corp is strengthening the individual business effort through continued cross-sell initiatives. It has cross-sold services to 55 existing clients with a potential annual contract value of about Rs. 250 crore. Further it implemented portfolio improvements, including shift away from legacy government milestone based projects in security and Industrial, sale of logistics business, and ramp down of Selection business.
- ♦ Gross debt reduced to Rs. 516 crore in FY2021 from Rs. 1147 crore in FY2020 led by strong cash management, improved collections and income tax refunds. The company aims to cut gross debt down to Rs. 100 crore by end of H1FY2022.
- ♦ Tax rate is expected to be at 15-20% over the next two years.
- ♦ The company targets revenues to grow by 18-20% in the coming years with all business expected to perform well. Better operating efficiencies and improved mix would help margins to improve in the coming years. This along with increased cash flows would help return ratios to improve in the coming years (RoE target to reach 20% in FY2023).

**Result (consolidated)**

				Rs cr	
Particulars	Q4FY21	Q4FY20	Y-o-Y (%)	Q3FY21	Q-o-Q (%)
Total revenues	3004.5	2994.6	0.3	2807.9	7.0
Total expenditure	2847.2	2826.0	0.8	2657.1	7.2
Operating profit	157.3	168.6	-6.7	150.8	4.3
Other income	3.4	8.7	-61.3	9.9	-66.0
Interest expenses	16.6	38.7	-57.1	24.5	-32.0
Depreciation	55.1	59.6	-7.6	56.2	-2.0
Profit Before Tax	88.9	78.9	12.7	80.0	11.1
Tax	4.8	35.6	-86.6	34.5	-86.2
PAT before minority interest	84.2	43.3	94.3	45.5	84.9
Minority interest	-0.8	-9.1	-	0.7	-
Extraordinary item	-141.6	-664		0	
Reported PAT	-58.3	-629.8	-90.7	46.2	-226.1
EPS (Rs. )	-4.0	-42.9	-90.7	3.1	-226.1
			bps		bps
GPM (%)	98.1	98.0	10	98.0	11
OPM (%)	5.2	5.6	-39	5.4	-14

Source: Company; Sharekhan Research

**Business-wise performance**

				Rs cr	
Particulars	Q4FY21	Q4FY20	Y-o-Y (%)	Q3FY21	Q-o-Q (%)
Revenue					
Workforce Management	2011.0	2039.0	-1.4	1843.0	9.1
Operating Asset Management	465.0	428.0	8.6	428.0	8.6
Tech Services	528.0	528.0	0.0	536.0	-1.5
EBITDA Margin (%)			bps		Bps
Workforce Management	3.7	5.9	-222	3.7	-1
Operating Asset Management	6.7	7.7	-103	6.8	-11
Tech Services	14.0	12.0	202	13.8	21

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Better times for IT sector, new labour laws bode well for staffing business

The global staffing market was worth ~\$498 billion in 2019, of which 45% was generated by top 100 firms. Indian IT services sector's growth to accelerate in the next few years led by - (1) emergence of new operating models, (2) building operational resiliency, (3) reimagining customer experience, (4) faster adoption of cloud and digital transformation at workplace, (5) acceleration in core modernisation, and (6) captive takeout/carve-outs initiatives. This will drive the growth in the IT staffing segment in the coming years. The new Indian labor laws will improve ease of doing business, provide more impetus to flexible staffing and drive formalization. Further flexi staffing business penetration is lower at 50% compared to other countries which provide huge opportunity for player like Qess Corp to grow in the coming years.

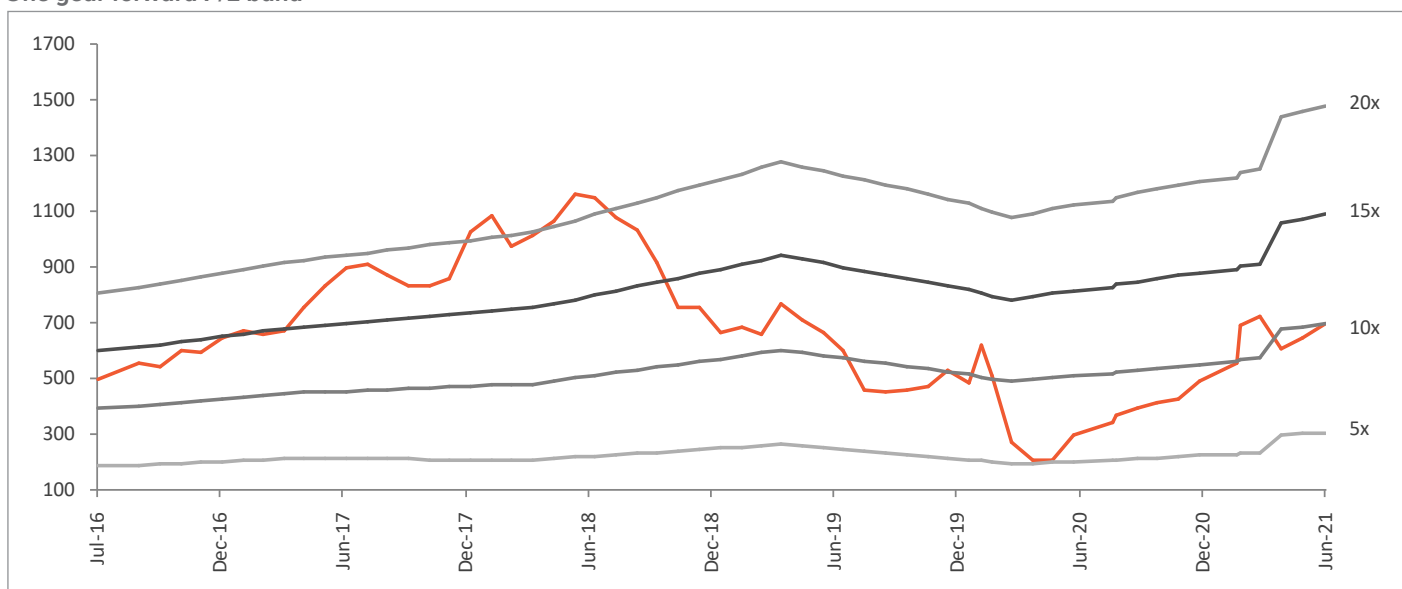
### ■ Company outlook - FY2022 and FY2023 to see double digit revenue growth

Addition of new clients, cross sales of services and improving growth prospects of acquired businesses remains key growth levers in the near term. The company expects to reduce further through improving cash flows. We expect Qess Corp's revenues and PAT to clock a CAGR of 17% and 46% over FY2021-23 driven by improved performance by segments, gradual improvement in the EBITDA margins and sustained reduction in the interest cost due to reduction in debt. Thus, the strengthening of balance sheet and simplification of corporate structure will be a key positive trigger for the company.

### ■ Valuation - Maintain Buy with an unchanged TP of Rs. 850

We have broadly maintained our earnings estimates for FY2022 and FY2023. Qess Corp has maintained its target of achieving double-digit revenue and EBITDA growth and RoE of 20% by FY2023. New client addition in the WFM business, cross selling of other services in the existing clients and better performance by operating asset management business would help to achieve double-digit organic growth. Better revenue mix and operating leverage would help margins to improve in the coming years. Sustained reduction in debt, prudent capital allocation and improving cash flows would help RoE improve consistently. The stock is currently trading at 16.1x/12.6x its FY2022/23E EV/EBITDA. Continuous strengthening of balance sheet and improvement in corporate governance remains key re-rating trigger for the stock. We recommend Buy on the stock with the price target of Rs. 850.

#### One year forward P/E band



Source: Company, Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY21	FY22	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Teamlease Services	63.5	40.7	30.2	61.2	38.3	28.5	13.8	15.9	17.2
Qess Corp	44.7	34.7	23.4	19.9	16.1	12.6	9.1	11.2	14.5

Source: Company, Sharekhan estimates

## About company

Quess Corp is one of India's leading integrated business services providers that focuses on emerging as the preferred partner for handling end-to-end business functions of its clients. The company offers comprehensive solutions, including recruitment, temporary staffing, technology staffing, IT products and solutions, skill development, payroll, compliance management, integrated facility management and industrial asset management services. The company has a team of over ~3,34,000 employees across India, North America, South America, South East Asia, and the Middle East across various business verticals. Quess Corp has more than 2,450 clients across 10 countries and has 65 offices in India.

## Investment theme

With a strong focus on cross-selling under various businesses, adding new clients and increasing headcount, Quess Corp is well poised to achieve strong double-digit revenue growth in the near to medium term (except for FY2021). Further, focus on strategic acquisition improves growth prospects in the long run. Any substantial improvement in EBITDA margin would be a key lever for the stock in the near term. Management has maintained its thrust on improving cash flows and strengthening the balance sheet in the near to medium term.

## Key Risks

- ♦ Non-recovery of loans to subsidiaries/associates would be a key risk to the balance sheet going ahead.
- ♦ Slowdown in performance of key business verticals will affect earnings growth in the near term.
- ♦ Any delay in payment from key clients would affect working capital management and cash flows going ahead.

## Additional Data

### Key management personnel

Ajit Isaac	Chairman and Managing Director
Suraj Moraje	Group CEO and Executive Director
Ravi Vishwanath	Chief Financial Officer
Kundan K Lal	Company Secretary & Compliance officer

Source: Company

### Top shareholders

Sr. No.	Holder Name	Holding (%)
1	Aditya Birla Sun Life Asset Management	6.5
2	Sundaram Asset Management Co Ltd	3.5
3	Steadview Capital Mauritius Ltd	2.6
4	India Capital Fund Ltd	2.2
5	Royal Bank of Canada	2
6	Aditya Birla Sun Life Trustee Co Pvt Ltd	1.4
7	ICICI Prudential Asset Management Co Ltd	1.2
8	Vanguard Group Inc	1.2

Source: Bloomberg (Old data)

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research



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