




Estimate change 
TP change 
Rating change 

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Bloomberg	QUESS IN
Equity Shares (m)	147
M.Cap.(INRb)/(USDb)	103.4 / 1.4
52-Week Range (INR)	807 / 253
1, 6, 12 Rel. Per (%)	5/25/107
12M Avg Val (INR M)	166

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	108.4	132.0	162.5
EBIT Margin (%)	3.2	4.0	4.6
Adj. PAT	2.1	4.5	6.5
EPS (INR)	14.9	31.7	45.7
EPS Gr. (%)	-18.6	113.2	44.3
BV/Sh. (INR)	206.7	246.6	304.2

Ratios

RoE (%)	9.2	17.6	20.9
RoCE (%)	10.6	16.8	19.5
Payout (%)	40.8	31.6	32.8

Valuations

P/E (x)	47.1	22.1	15.3
P/BV (x)	3.4	2.8	2.3
EV/EBITDA (x)	17.1	12.6	9.5
EV/Sales (x)	0.9	0.7	0.6

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	55.2	55.3	54.9
DII	14.5	15.9	16.6
FII	17.3	15.7	14.6
Others	12.9	13.2	13.9

FII Includes depository receipts

CMP: INR 700

TP: INR 820 (+17%)

Buy

Expect growth recovery to continue in FY22

Provisioning impacts 4QFY21 earnings

- Quess Corp (QUESS)'s 4QFY21 results were operationally in line with our expectations, as revenue recovered to 4Q FY20 levels. This was led by recovery in all segments – Workforce Management (-1% YoY), Operating Asset Management (+9% YoY), and Global Technology Solutions (+1% YoY).
- Quess took one-time provisioning of INR1.2b in 4Q (830m in Trimax + 360m in skill development) on account of delay in receivables in government business. Excl. this, EBITDA margin was in line at 5.2%. Adj. PAT – excluding provisions and a one-time deferred tax liability charge on goodwill of INR520m (due to tax law changes) – was INR1.1b (v/s our estimate of INR779m). The beat on PAT was primarily led by tax reversal in 4Q.
- Quess continued its recovery from the impact in 1HFY21 on account of a tough lockdown. YoY improvement is expected in 1QFY22 despite the slowdown due to lockdowns since late March (on account of the second COVID wave). We expect the company to return to sequential growth from 2Q as the economy opens up gradually, aiding the General Staffing business. Continued demand for IT staffing should further aid growth.
- We expect QUESS to deliver 22% revenue growth in FY22E after a flat FY21, partially aided by a low base. It should also see a gradual increase in the EBITDA margin (+50bp YoY in FY22E on improving efficiency and a shift towards the higher margin IT Staffing business) and higher interest income from continued cash additions – this would help the company deliver a 3.4% PAT margin v/s flat adj. growth in FY21.
- We also see the announcement of a new dividend policy – payout of 33% of FCF over three years – as a positive, especially as this indicates the management is comfortable with the cash generation ability. This further strengthens the view on the digestive strategy by Quess (rather than acquisitive) and indicates increased focus on cash flow. The company has also guided for minimum 70% OCF/EBITDA for FY22, along with reiterating its aim to deliver 20% ROE in FY23.
- Over the medium term, we expect QUESS to be a big beneficiary of the recent labor law reforms. Our TP of INR820 per share implies a multiple of 18x FY23E EPS. Reiterate **Buy**.

In-line operating performance; provisioning impact on 4QFY21 PAT

- Revenue was flat YoY at INR30b (in-line). EBITDA fell 7% to INR1.6b (in-line). Adjusted PAT rose 80% YoY to INR1.1b (est. +24%). Revenue / EBITDA / adjusted PAT declined 1.4%/12%/18.5% in FY21.
- Revenue was up 7% QoQ, driven by General Staffing / IFM / Industrials (up 11%/6%/11%). On a YoY basis, revenue remained flat (in-line).

- The adjusted EBITDA margin stood at 5.2% (-20bp QoQ and -40bp YoY; est. 5.3%). This excludes a one-off provision of INR1.2b on account of delay in government contract payments/timelines due to the ensuing COVID lockdown.
- Lockdown-related loss from the Training and Skill Development and Food businesses amounted to INR200m in 4QFY21. Adjusted for this, EBITDA would be up 5% YoY.
- Adjusted PAT increased 80% YoY to INR1.1b (est. INR779m). This was aided by tax reversal of INR251m.
- Headcount in General Staffing grew 13% QoQ, with the core-to-associate ratio at a historical high of 347.
- Gross debt fell to INR5.2b (from INR11.5b) on the back of cash management, improved collections, and income tax refund. The company currently has a net cash position of INR1b.

Key highlights from management commentary

- Trimax still owes INR1b at the end of FY21, and the management stated that further provisioning for the same would not be required. In addition to this, total receivables from the government business stand at ~INR2b.
- While near-term pressure due to the second COVID wave led lockdown would impact business in 1Q, the management is confident of a pickup as the economy recovers. The management aims to achieve 20% growth in FY22 in all of the business segments. After hitting the bottom in the Workforce Management segment, the management expects margins to expand as the high-margin business returns to previous levels.

Valuation and view – company-level improvement to drive re-rating

- Given some amount of uncertainty in the economy (due to back-and-forth lockdowns), some of the otherwise permanent roles are likely to be filled through flexi-staffing as employers attempt to keep cost variable. We noticed similar trends in the immediate aftermath of the GFC/demonetization – when staffing companies benefitted from positive hiring trends in certain verticals. Such a trend would likely play out in the near term, benefitting business services firms such as QUESS.
- Over the medium term, as both the center and state governments look to liberalize and formalize the labor markets, QUESS should be among the biggest direct beneficiaries.
- We welcome the corrective steps taken by the new management to address some of the investor concerns. The improvement in cash conversion / RoE should drive a re-rating. Our TP implies 18x FY23E EPS.

Consolidated - Quarterly

(INR m)

Y/E March	FY20				FY21				FY20	FY21	Est. 4Q	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	23,966	26,503	29,500	29,946	24,094	26,151	28,079	30,046	1,09,915	1,08,370	30,109	-0.2
YoY Change (%)	21.8	26.7	35.8	30.5	0.5	-1.3	-4.8	0.3	28.9	-1.4	0.5	-21
Total Expenditure	22,474	24,889	27,706	28,260	22,797	24,753	26,571	28,472	1,03,329	1,02,593	28,513	-0.1
EBITDA	1,492	1,614	1,794	1,686	1,297	1,397	1,508	1,574	6,586	5,777	1,596	-1.4
Margins (%)	6.2	6.1	6.1	5.6	5.4	5.3	5.4	5.2	6.0	5.3	5.3	-6.2
Depreciation	579	652	658	596	594	578	562	551	2,486	2,285	600	-8.2
EBIT	913	962	1,136	1,089	703	820	946	1,023	4,100	3,491	996	2.7
Margins (%)	3.8	3.6	3.9	3.6	2.9	3.1	3.4	3.4	3.7	3.2	3.3	10
Interest	396	461	423	387	379	323	245	166	1,668	1,113	250	-33.5
Other Income	169	159	97	86	76	243	99	34	511	451	150	-77.6
PBT before EO expense	685	660	810	788	399	740	800	890	2,943	2,829	896	-0.6
Recurring Tax	106	-29	51	69	178	318	345	-251	196	590	116	
Rate (%)	15.4	-4.5	6.3	8.7	44.6	42.9	43.1	-28.2	6.6	20.8	13.0	
MI & P/L of Asso. Cos.	-2	39	10	91	107	0	-1	8	138	114	0	
Adjusted PAT	582	650	749	628	114	423	456	1,133	2,609	2,125	779	45.4
Extraordinary items	0	0	0	6,928	-250	-77	0	1,715	6,928	1,388	0	
Reported PAT	582	650	749	-6,299	365	499	456	-582	-4,319	738	779	-174.7
YoY Change (%)	6.9	5.5	15.2	-934.3	-37.3	-23.2	-39.1	-90.8	-268.3	-117.1	-112.4	2,161
Margins (%)	2.4	2.5	2.5	-21.0	1.5	1.9	1.6	-1.9	-3.9	0.7	2.6	-452

Key Perfor. Indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Headcount (k)	357	377	385	384	334	325	333	363	384	363
Segment Revenue (INR m)										
Workforce Management	14,880	16,690	19,590	20,390	16,180	16,860	18,430	20,114	71,550	71,584
Operating Asset Management	4,270	4,320	4,480	4,280	3,680	4,270	4,285	4,651	17,350	16,885
Tech Services	4,800	5,510	5,440	5,280	4,230	5,020	5,360	5,280	21,030	19,891
Adj. EBITDA Margin (%)										
Workforce Management	6.0	5.5	5.3	5.1	3.7	3.7	3.7	3.7	5.4	3.7
Operating Asset Management	7.5	6.7	7.4	6.6	7.1	7.0	6.8	6.7	7.1	6.9
Tech Services	9.6	11.5	12.1	10.9	13.0	13.4	13.9	13.9	11.1	13.6



Key highlights from management commentary

Workforce Management

- The company won 29 new deals in 4QFY21 and bagged 96 wins during the year. 40% of the customers in the quarter were new.
- IT Staffing enjoys a high demand environment currently, with the company adding 95 customers in FY21.
- FY21 saw 60k gross headcount additions.
- Quess invested significantly in sales capabilities in this segment and would continue to invest in 1QFY22 as well.
- The B2G business is expected to see a setback, and the company intends to close legacy government projects.
- The normalized EBITDA margin seen in 4Q is the minimum expectation from the business going forward. With the Skills business recovering, margins are expected to improve given that this is a higher margin business.

Acquisition performance

- All-sec had 49 wins in FY21 v/s 39 wins in FY20.
- Quess acquired the balance stake in ConnectQ for a lucrative valuation of INR2.1b. Furthermore, reliance on the Top 10 customers was seen declining, and the business continues to do well.
- Monster had a good year, with the business acquiring more customers in 4QFY21 than it has in the past. Quess continues to strengthen the team in this space and has doubled the product and tech teams.

Profitability

- On a normalized basis, EBITDA for the quarter grew 5% YoY.
- Profitability was impacted by high provisions towards government receivables. The management commented that the provisioning did not imply this amount was unrecoverable – it would continue to focus on recovering the money.
- The management alluded that cost management was in good shape; although, it expects employee cost to go up on account of wage hikes and bonuses to employees.

Outlook

- While near-term pressure due to the second COVID wave led lockdown would impact business in 1Q, the management is confident of a pickup as the economy recovers.
- The management aims to achieve 20% growth in FY22 in all of the business segments. After hitting the bottom in the Workforce Management segment, the management expects margins to expand as the high-margin business returns to previous levels.
- The management is on the path to achieving ROE of 20% by 2023.

Other highlights

- Trimax still owed INR1b at the end of FY21; the management stated that further provisioning would not be required for the same.
- Quess closed the year with a net cash position of INR1b. OCF/EBITDA conversion stood at 93% for 4QFY21.
- The management stated its new capital allocation policy would return 33% of FCF to shareholders over the next three years.

Valuation and view – company-level improvement to drive re-rating

- Given some amount of uncertainty in the economy (due to back-and-forth lockdowns), some of the otherwise permanent roles are likely to be filled through flexi-staffing as employers attempt to keep cost variable. We noticed similar trends in the immediate aftermath of the GFC/demonetization – when staffing companies benefitted from positive hiring trends in certain verticals. Such a trend would likely play out in the near term, benefitting business services firms such as QUESS.
- Over the medium term, as both the center and state governments look to liberalize and formalize the labor markets, QUESS should be among the biggest direct beneficiaries.
- We welcome the corrective steps taken by the new management to address some of the investor concerns. The improvement in cash conversion / RoE should drive a re-rating. Our TP implies 18x FY23E EPS.

Exhibit 1: Revisions to our estimates

Change in estimates	Revised			Earlier			Change		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Revenue (m)	1,08,370	1,31,986	1,62,485	1,08,433	1,39,041	1,71,266	-0.1%	-5.1%	-5.1%
Rev. growth (%)	(1.4)	21.8	23.1	(1.3)	28.2	23.2	-6bp	-643bp	-7bp
EBITDA (m)	5,777	7,631	10,074	5,799	8,064	10,618	-0.4%	-5.4%	-5.1%
EBITDA Margin (%)	5.3	5.8	6.2	5.3	5.8	6.2	-2bp	-2bp	0bp
EBIT Margin (%)	3.2	4.0	4.6	3.2	4.1	4.6	3bp	-4bp	0bp
EPS (INR)	14.9	31.7	45.7	12.4	33.3	43.0	20.2	-4.8%	6.2%

Source: Company, MOFSL

Financials and valuation

Consolidated – Income Statement

(INR m)

Y/E March	2015	2016	2017	2018	2019	2020	2021	2022E	FY23E
Total Income from Operations	25,671	34,350	43,149	61,673	85,270	1,09,915	1,08,370	1,31,986	1,62,485
Change (%)	155.2	33.8	25.6	42.9	38.3	28.9	-1.4	21.8	23.1
Cost of services	717	481	714	1,422	2,624	3,382	3,335	4,062	5,000
Employees Cost	22,684	30,069	36,339	50,793	67,132	86,535	85,318	1,03,911	1,27,923
Other Expenses	965	2,289	3,718	5,914	10,868	13,420	13,940	16,383	19,488
Total Expenditure	24,366	32,839	40,771	58,129	80,624	1,03,337	1,02,593	1,24,356	1,52,411
% of Sales	94.9	95.6	94.5	94.3	94.6	94.0	94.7	94.2	93.8
EBITDA	1,305	1,511	2,378	3,544	4,646	6,578	5,777	7,631	10,074
Margin (%)	5.1	4.4	5.5	5.7	5.4	6.0	5.3	5.8	6.2
Depreciation	101	144	275	747	1,232	2,486	2,285	2,300	2,600
EBIT	1,203	1,367	2,103	2,796	3,414	4,092	3,491	5,331	7,474
Int. and Finance Charges	218	310	471	755	1,144	1,668	1,113	600	366
Other Income	57	91	154	569	712	511	451	600	769
PBT bef. EO Exp.	1,042	1,147	1,787	2,611	2,983	2,935	2,829	5,331	7,878
EO Items	0	0	0	0	0	6,641	-327	0	0
PBT after EO Exp.	1,042	1,147	1,787	2,611	2,983	-3,706	3,156	5,331	7,878
Total Tax	370	335	534	-483	329	474	590	800	1,339
Tax Rate (%)	35.5	29.2	29.9	-18.5	11.0	-12.8	18.7	15.0	17.0
Minority Interest	0	0	-1	-4	88	138	114	0	0
Reported PAT	672	812	1,254	3,098	2,565	-4,318	2,452	4,531	6,538
Adjusted PAT	672	812	1,254	3,098	2,565	2,609	2,125	4,531	6,538
Change (%)	276.3	20.8	54.5	147.0	-17.2	1.7	-18.5	113.2	44.3
Margin (%)	2.6	2.4	2.9	5.0	3.0	2.4	2.0	3.4	4.0

Consolidated – Balance Sheet

(INR m)

Y/E March	2015	2016	2017	2018	2019	2020	2021	2022E	FY23E
Equity Share Capital	258	1,133	1,268	1,455	1,461	1,475	1,477	1,477	1,477
Total Reserves	2,267	2,433	11,780	23,153	25,795	21,284	21,954	26,475	32,999
Net Worth	2,525	3,566	13,048	24,608	27,256	22,759	23,431	27,952	34,475
Minority Interest	0	0	9	16	31	769	939	939	939
Total Loans	2,170	3,783	7,440	9,662	7,502	9,976	4,514	4,063	3,657
Deferred Tax Liabilities	-35	-1,345	-1,633	-3,647	-5,046	-6,166	-4,061	-4,061	-4,061
Capital Employed	4,660	6,005	18,864	30,638	29,742	27,339	24,823	28,893	35,010
Gross Block	604	1,043	3,504	7,485	8,152	9,295	10,857	13,857	16,007
Less: Accum. Deprn.	415	541	976	2,126	3,357	5,843	8,129	10,429	13,028
Net Fixed Assets	189	502	2,529	5,359	4,795	3,451	2,728	3,428	2,978
Goodwill on Consolidation	1,104	2,020	9,187	10,959	11,769	8,358	9,890	9,890	9,890
Capital WIP	0	24	77	22	147	46	309	329	349
Total Investments	0	37	776	888	820	725	41	41	41
Curr. Assets, Loans&Adv.	5,869	8,573	14,433	28,111	27,540	34,439	30,173	38,494	49,434
Inventory	4	18	71	85	221	284	290	290	290
Account Receivables	2,755	6,926	8,966	13,936	16,164	18,795	17,995	23,504	31,162
Cash and Bank Balance	818	1,094	3,039	5,661	5,855	7,587	5,646	7,690	8,384
Loans and Advances	2,292	536	2,357	8,430	5,300	7,773	6,242	7,009	9,598
Curr. Liability & Prov.	2,502	5,151	8,138	14,701	15,328	19,681	18,317	23,288	27,682
Account Payables	414	674	778	1,481	1,729	1,633	1,212	2,385	2,923
Other Current Liabilities	1,941	4,138	6,825	12,166	12,351	16,494	14,983	18,184	21,413
Provisions	147	339	536	1,054	1,248	1,554	2,122	2,719	3,346
Net Current Assets	3,367	3,423	6,294	13,411	12,212	14,759	11,856	15,205	21,752
Appl. of Funds	4,660	6,005	18,864	30,638	29,742	27,339	24,823	28,893	35,010

Financials and valuation

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021	2022E	FY23E
Basic (INR)									
EPS	5.9	7.0	10.1	21.8	17.5	18.3	14.9	31.7	45.7
Cash EPS	6.8	8.3	12.3	27.1	25.9	35.7	30.8	47.8	63.9
BV/Share	22.3	31.5	115.1	217.1	240.5	200.8	206.7	246.6	304.2
DPS	0.0	0.0	0.0	0.0	0.0	0.0	7.0	10.0	15.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	40.8	31.6	32.8
Valuation (x)									
P/E	118.3	99.6	69.2	32.1	40.0	38.3	47.1	22.1	15.3
Cash P/E	102.8	84.6	56.8	25.8	27.0	19.6	22.7	14.7	11.0
P/BV	31.4	22.2	6.1	3.2	2.9	3.5	3.4	2.8	2.3
EV/Sales	3.1	2.4	2.1	1.7	1.2	0.9	0.9	0.7	0.6
EV/EBITDA	62.0	55.3	38.3	29.2	22.4	15.6	17.1	12.6	9.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.4	2.1
FCF per share	-1.1	-6.2	2.4	1.1	7.2	21.3	45.7	17.5	5.0
Return Ratios (%)									
RoE	30.8	26.7	15.1	16.5	9.9	10.4	9.2	17.6	20.9
RoCE	22.6	17.1	11.4	14.6	10.6	15.4	10.6	16.8	19.5
RoIC	25.9	22.3	14.9	17.0	12.9	22.0	15.0	22.8	26.4
Working Capital Ratios									
Asset Turnover (x)	5.5	5.7	2.3	2.0	2.9	4.0	4.4	4.6	4.6
Debtor (Days)	39	74	76	82	69	62	61	65	70
Creditor (Days)	6	7	7	9	7	5	4	7	7
Leverage Ratio (x)									
Net Debt/Equity	0.5	0.7	0.3	0.1	0.0	0.1	-0.1	-0.1	-0.1

Consolidated – Cash Flow Statement

(INR m)

Y/E March	2015	2016	2017	2018	2019	2020	2021	2022E	FY23E
OP/(Loss) before Tax	1,049	1,147	1,723	2,615	2,566	-4,319	737	5,331	7,878
Depreciation	101	144	333	747	3	2,486	2,285	2,300	2,600
Interest & Finance Charges	218	310	479	755	1,144	1,668	1,113	600	366
Direct Taxes Paid	-412	-482	-839	-744	-1,750	-1,449	1,648	-800	-1,339
(Inc)/Dec in WC	-942	-1,622	-941	-1,858	-1,248	-1,933	-464	-1,306	-5,852
CF from Operations	15	-503	755	1,515	714	-3,547	5,319	6,125	3,651
Others	9	8	-71	-428	1,302	7,157	1,835	-600	-769
CF from Operating incl EO	24	-495	684	1,087	2,016	3,611	7,154	5,525	2,882
(Inc)/Dec in FA	-145	-226	-383	-928	-957	-570	-613	-3,020	-2,170
Free Cash Flow	-120	-721	301	159	1,058	3,041	6,540	2,505	712
(Pur)/Sale of Investments	-525	0	0	-1,808	-117	732	-144	0	0
Others	375	129	-5,434	-5,333	2,898	-1,865	-295	0	0
CF from Investments	-295	-97	-5,817	-8,069	1,823	-1,703	-1,052	-3,020	-2,170
Issue of Shares	0	34	3,693	8,485	5	478	2	0	0
Inc/(Dec) in Debt	1,015	1,137	3,816	1,785	-74	2,197	-6,312	-451	-406
Interest Paid	-217	-304	-443	-665	-865	-1,158	-737	-600	-366
Dividend Paid	0	0	0	0	0	-144	0	-10	-15
Others	0	0	13	0	-2,706	-1,244	-997	891	752
CF from Fin. Activity	798	867	7,079	9,605	-3,640	129	-8,045	-170	-35
Inc/Dec of Cash	527	275	1,946	2,622	199	2,037	-1,943	2,335	677
Closing Balance	818	1,093	3,039	5,661	5,860	7,589	5,646	7,690	8,384

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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