

**CMP: INR 501**

**Rating: BUY**

**Target Price: INR 775**

**Stock Info**

BSE	539978
NSE	QUESS
Bloomberg	QUESS:IN Staffing/ Commercial services
Sector	Commercial services
Face Value (INR)	10
Mkt Cap (INR Bn)	74.37
52w H/L (INR)	525/360
Avg Daily Volume (in 000')	683

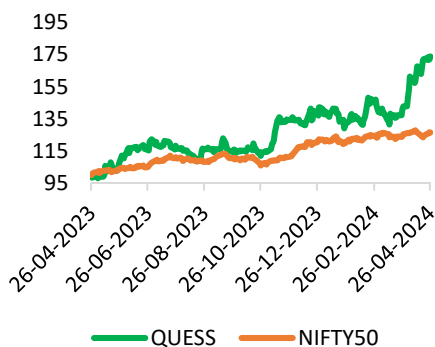
**Shareholding Pattern %  
(As on December, 2023)**

Promoters	56.65
Public & Others	43.35

**Stock Performance (%) 1m 6m 12m**

APOLP	(8.88)	8.62	27.7
NIFTY	(2.4)	5.4	7.1

**QUESS Vs Nifty**



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**Quess Corp has announced a three-way demerger** to unlock value and streamline operations.

On current consolidated basis, Quess Corp housed:

- **Work Force Management** (INR 34.3 Bn revenues in Q3 and 2.6% EBITDA margins)
- **Global Tech Solutions** (INR 5.88 Bn revenues in Q3 and 18.3% EBITDA margins)
- **Operating Asset Management** (INR 6.95 Bn revenues in Q3 and 5.2% EBITDA margins)
- **Product Led Business** (INR 1.29 Bn revenues in Q3 and -4.65% EBITDA margins)

Same for FY23 stood at:

- **Work Force Management** (INR 118.31 Bn revenues and 2.92% EBITDA margins)
- **Global Tech Solutions** (INR 21.68 Bn revenues and 16.28% EBITDA margins)
- **Operating Asset Management** (INR 26.22 Bn revenues and 4.58% EBITDA margins)
- **Product Led Business** (INR 5.38 Bn revenues and -17.66% EBITDA margins)

Through the way of demerger, **Quess Corp will split into three distinct entities: Quess Corp Ltd, Digitide Solutions Ltd and Bluspring Enterprises Ltd.** There will be no economic change in ownership. The existing shareholders will get 1:1 share for each new entity.

Going ahead,

- **Quess Corp** will have the Work Force Management business (general staffing, IT staffing and overseas staffing; operating on annuity-based model)
- **Digitide Solutions Ltd** will have Global Tech Solutions (CLM, Non Voice BPO, Platform services and IT & Infra Services). Allsec and Insurtech business will fall under Digitide
- **Bluspring Enterprises Ltd** will have the Operating Asset Management (including platform business – FoundIt).

The demerger will create three distinct business in different segment of operations.

**Quess Corp also owns 73.39% of Allsec Technologies which will fall under Digitide Solutions.** There is no material impact in Allsec Technologies but the hangover of pending merger will be cleared. The ownership remains the same.

**Outlook:** The merger is an extremely positive news for the entire company as it will streamline & simplify business divisions, facilitate in deeper focus on segmental growth and de-risk inter-business dependency. Quess Corp will generate the largest revenue from the 3 entities but highest margins will be in Digitide. Quess Corp will be benefitted from value unlocking as it will have single core business and compete with other staffing players with improving margins. Key things to watch out for going ahead is how the margins will shape up ahead as unallocated and group level expenses will be distributed at individual company level. Another key thing to study will be the balance sheet distribution from the companies. More clarifications will be received during interaction with the company. **At CMP, company trades 18.5x FY25EEPS and 14x FY26EEPS (Bloomberg Est). We have a positive view on the company. We assign 22x multiple to FY26 earnings and arrive at a price target of INR 775, we would be upgrading our target for value unlocking benefit post analyst meet which has been scheduled on Feb 21.**

Link to our earlier report: <https://bitly.ws/3dnFa>

**Exhibit: Peer Comparison**

Operating Revenues (INR Mn)	FY19	FY20	FY21	FY22	FY23
Quesscorp	85,270	1,09,910	1,08,370	1,39,620	1,71,580
<i>growth</i>		28.90%	-1.40%	28.84%	22.89%
Teamlease	44,480	52,010	48,810	64,800	78,700
<i>growth</i>		16.93%	-6.15%	32.76%	21.45%
SIS Ltd	70,930	84,850	91,270	1,00,590	1,13,460
<i>growth</i>		19.62%	7.57%	10.21%	12.79%

EBITDA Margins	FY19	FY20	FY21	FY22	FY23
Quesscorp	5.38%	5.91%	4.14%	4.56%	3.42%
Teamlease	2.11%	1.79%	1.99%	2.19%	1.55%
SIS Ltd	5.10%	6.10%	5.70%	5.00%	4.30%

PAT Margins	FY19	FY20	FY21	FY22	FY23
Quesscorp	3.01%	-3.93%	0.68%	1.83%	1.30%
Teamlease	2.20%	0.67%	1.60%	0.46%	1.42%
SIS Ltd	3.00%	4.00%	2.10%	2.90%	3.10%

ROE	FY19	FY20	FY21	FY22	FY23
Quesscorp	9.90%	10.40%	9.20%	11%	6.80%
Teamlease	20%	15%	14.40%	16.30%	14.90%
SIS Ltd	19%	26%	12.00%	14.80%	15.70%

ROCE	FY19	FY20	FY21	FY22	FY23
Quesscorp	10.60%	15.40%	7.70%	11.40%	8.60%
Teamlease	18.60%	5.80%	11.50%	12.70%	12.50%
SIS Ltd	17.20%	21.70%	9.80%	11.80%	13.10%

**Exhibit: Segmental Data**

Segmental Data	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Headcount ('000)	470	504	505	511	525	547	557
<b>Segment Revenue (INR Mn)</b>							
Workforce Management	27,579	29,428	30,683	30,618	32,206	33,153	34,302
Operating Asset Management	5,967	6,515	6,891	6,843	6,899	7,055	6,950
Global Technology Solutions	5,074	5,287	5,607	5,710	5,633	5,843	5,880
Product-led business	1,174	1,502	1,474	1,231	1,264	1,433	1,287
<b>EBITDA Margin (%)</b>							
Workforce Management	3.40%	2.70%	2.80%	2.80%	2.60%	2.60%	2.60%
Operating Asset Management	5.10%	4.30%	4.50%	4.40%	4.50%	5.00%	5.20%
Global Technology Solutions	16.30%	16.00%	16.10%	16.70%	17.80%	17.80%	18.30%
Product Led business	-20.40%	-15.90%	-18.20%	-16.40%	-20.30%	-14.10%	-7.80%

**Exhibit: Consolidated Income Statement**

Consol Income Statement							
INR Mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Net Sales</b>	39,793	42,733	44,656	44,402	46,002	47,483	48,418
Total Expenditure	38,259	41,386	43,200	42,882	44,463	45,848	46,608
<b>EBITDA</b>	1,534	1,347	1,456	1,520	1,539	1,635	1,810
Margin (%)	3.85%	3.15%	3.26%	3.42%	3.35%	3.44%	3.74%
Depreciation	610	676	695	765	686	697	718
Interest	204	263	290	309	272	281	354
Other Income	72	88	67	36	41	151	52
<b>PBT</b>	<b>792</b>	<b>496</b>	<b>538</b>	<b>483</b>	<b>621</b>	<b>809</b>	<b>790</b>
Recurring Tax	115	100	217	183	140	83	-45
MI and P/L of Asso. Cos.	64	-24	-24	-31	3	-10	-2
Extraordinary items			-535			16	199
<b>Reported PAT</b>	<b>613</b>	<b>421</b>	<b>880</b>	<b>331</b>	<b>478</b>	<b>719</b>	<b>639</b>
YoY Change (%)	32%	12%	5%	-55%	-22%	71%	-27%
Margin (%)	1.54%	0.98%	1.97%	0.74%	1.04%	1.51%	1.32%

**Exhibit: Consolidated Balance Sheet**

Consolidated Balance Sheet					
INR Mn	FY19	FY20	FY21	FY22	FY23
Equity Share Capital	1,461	1,475	1,477	1,480	1,482
Total Reserves	25,795	21,284	21,954	22,898	24,205
<b>Net Worth</b>	<b>27,256</b>	<b>22,759</b>	<b>23,431</b>	<b>24,378</b>	<b>25,688</b>
Minority Interest	31	769	939	1,310	1,621
Total Loans	7,502	9,976	4,514	5,877	5,311
Deferred Tax Liabilities	-5,046	-6,166	-4,061	-3,983	-5,275
<b>Total</b>	<b>29,742</b>	<b>27,339</b>	<b>24,823</b>	<b>27,582</b>	<b>27,343</b>
Account Payables	1,729	1,633	1,212	1,154	1,249
Other Current Liabilities	12,351	16,494	14,983	18,258	23,546
Provisions	1,248	1,554	2,122	2,733	3,080
<b>Curr. Liability and Prov.</b>	<b>15,328</b>	<b>19,681</b>	<b>18,317</b>	<b>22,145</b>	<b>27,876</b>
<b>Total Liabilities and Equities</b>	<b>45,070</b>	<b>47,020</b>	<b>43,140</b>	<b>49,727</b>	<b>55,219</b>
Net Fixed Assets	4,795	3,451	2,728	3,557	3,165
Goodwill	11,769	8,358	9,890	10,096	10,427
Capital WIP	147	46	309	153	181
<b>Total Investments</b>	<b>820</b>	<b>725</b>	<b>41</b>	<b>17</b>	<b>17</b>
<b>Total</b>	<b>17,531</b>	<b>12,580</b>	<b>12,968</b>	<b>13,823</b>	<b>13,790</b>
Inventory	221	284	290	275	282
Account Receivables	9,132	9,982	8,945	23,323	26,886
Cash and Bank Balance	5,855	7,587	5,646	4,105	4,376
Loans and Advances	12,333	16,586	15,292	8,201	9,886
<b>Total</b>	<b>27,540</b>	<b>34,439</b>	<b>30,173</b>	<b>35,904</b>	<b>41,429</b>
<b>Total Assets</b>	<b>45,071</b>	<b>47,019</b>	<b>43,141</b>	<b>49,727</b>	<b>55,219</b>

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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