

**CMP: INR 534**

**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)	79.3
52w H/L (INR)	540/360
Avg Daily Volume (in 000')	683

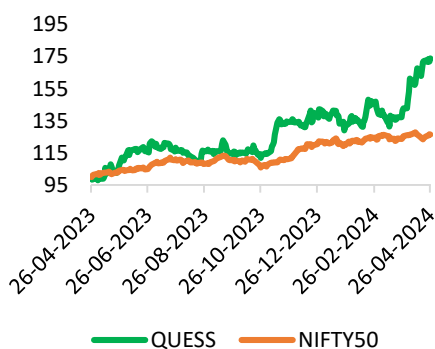
**Shareholding Pattern %  
(As on December, 2023)**

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**



Quess Corp held an investor meet to discuss the details surrounding the demerger. Following are the key highlights:

**Quess Corp:**

will have the Work Force Management business (general staffing, IT staffing and overseas staffing; operating on annuity-based model). 70% of the contracts are adjusted for cost inflation.

The business is expected to clock revenues of INR 13.2 Bn in FY24E (9M revenues at INR 99.7 Bn) and EBITDA of INR 3.2-3.5 Bn

Company will remain as one of the top 5 staffing company by headcount. Industry size stood at USD 15-18 Bn in FY23. This is expected to grow at 10-13% till FY28E (reaching 23-28 Bn USD). The growth will mainly be driven by increase in penetration of services sector (from 1% to 5%) as GDP touches USD 5 Tn.

GCC is growing faster than IT staffing. In the short term, company aims to generate 30% EBITDA contribution from international staffing which will uplift the margins from current ~2%. Company also intends to grow the IT staffing at 2x rate of IT services market growth while BFSI, Retail and Manufacturing will assist the overall growth.

**Digitide Solutions Ltd**

will have Global Tech Solutions (CLM, Non Voice BPO, Platform services and IT & Infra Services).

Allsec - Global Customer Lifecycle Management (CLM) and Human Resources Outsourcing (HRO) solutions provider.

Brainhunter - Leading provider of IT services in North America, specializing in Information Technology solutions.

MFx - Premier provider of Insurance Information Technology Applications and Services.

The business is expected to clock revenues of INR 27 Bn in FY24E (9M revenues at INR 17.35 Bn) and EBITDA of INR 4.2-4.5 Bn

Business will have Insurtech, Allsec and Brainhunter. Allsec processes 1.4 Mn payslips per month and Insurtech platform processed \$3.3 Bn gross premiums

Insurtech will contribute 1/6<sup>th</sup> of the topline, remainder will be BPM and HRO.

Total addressable market for GTS will be USD 300 Bn globally and USD 3-4 Bn in India (both growing at CAGR of 7-8% annually. Main benefit is the cost arbitrage that is available for outsourcing to India.

Digitide will require investment for inorganic growth to achieve the USD1b revenue milestone (in the long term aided by inorganic expansion). Company intends to increase international revenue share to 20% and deliver 30% growth in platform based HRO service.

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**Bluspring Enterprises Ltd**

will have the Operating Asset Management (including platform business – FoundIT).

The business is expected to clock revenues of INR 29 Bn in FY24E and EBITDA of INR 1.2-1.5 Bn. This is excluding FoundIT. FoundIT is expected to clock revenues of INR 5 Bn in FY24 and EBITDA loss of INR 600-700 Mn. Q4 to be EBITDA breakeven for the company.

On Operating asset management, company manages 360 Mn sqft of space. Lot of business with low profitability was churned out over past few months Industrial and telecom account for 20% of the revenues, remainder by securities and facility management. Company aims to hyperscale food services business 4-5x in the long term and increase share from manufacturing segment to 25% Total addressable market in India stood at USD 6-7 bn in FY23 which is expected to grow at 17-19% till FY28E

Company expects FMS segment to grow at 3-4x of GDP growth while improving its EBITDA by 100bps YoY through productivity enhancement and automation.

**Outlook:** The company has efficiently split three separate entities where there is ample of scaling opportunities available. As per our understanding, the three companies will have equal split of book value. The debt will be split between Quess Corp and Bluspring, Digitide will be debt free company. The corporate costs (~INR 1.6 Bn) will be split between the three companies where Quess Corp will be allocated higher cost. Going ahead, company aims to monetize their investments in FoundIT (which will lead to more cash generation at Bluspring). Digitide will have some inorganic growth as well. Goss debt of the entity now stands at INR 4.18 Bn. Company does not need to raise capital now due to low levels of debt. We feel the debt will be completely paid off by FY26E.

Currently, business services sector accounts only 1% in GDP but as India touches \$5Tn GDP, the penetration will reach 5%. The Indian staffing industry is \$ 23-28 Bn in size while company’s revenues are \$2-2.2 Bn.

The total time period for completion of demerger is expected to be 12-15 months. NOC will be filed soon. We had recently covered the stock with a BUY rating and target price of INR 775. We continue to maintain the same. At CMP, company trades 15.2x FY26E EPS (Vs our target multiple of 22x) We will revise our numbers post breakdown of balance sheet which will happen during the NCLT approval.

**Exhibit: Segmental Data**

Segmenal 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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