

CMP: INR 719

Rating: BUY

Target Price: INR 882

Stock Info

BSE	539978
NSE	QUESS
Bloomberg	QUESS:IN
Sector	Staffing
Face Value (INR)	10
Mkt Cap (INR Bn)	106.7
52w H/L (INR)	753/398
Avg Daily Volume (in 000')	1641

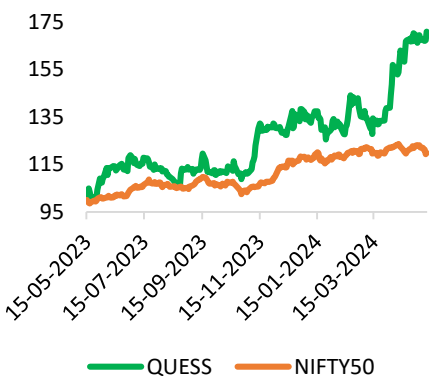
**Shareholding Pattern %
(As on June, 2024)**

Promoters	56.64
Public & Others	43.36

Stock Performance (%)

	1m	6m	12m
QUESS	13.3	42.6	67.8
NIFTY	3.3	14.8	26.2

Quess Vs Nifty



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Performance (Consol):

Revenues came in at INR 50.03 Bn (+1.9% QoQ) (+8.8% YoY) (+0.95% Vs our estimates)

EBITDA came in at INR 1.84 Bn (-5.8% QoQ) (+19.4% YoY) (+4.45% Vs our estimates)

EBITDA margins came in at 3.67% (Vs 3.98% QoQ) (Vs 3.35% YoY) (Vs 3.55% our estimates)

PAT came in at INR 1.12 Bn (+14.15% QoQ) (+132% YoY)

Controlling Interest PAT came in at INR 1.04 Bn (+10% QoQ) (+117% YoY)

PAT Margins came in at 2.07% (Vs 1.92% QoQ) (Vs 1.04% YoY)

Segmental Highlights:

Workforce Management revenues came in at INR 36.2 Bn (+4.19% QoQ) (+12.5% YoY) (+2% Vs our estimates). **EBITDA margins** came in at 2.4% (Vs 2.62% QoQ) (Vs 2.6% YoY) (Vs our estimates of 2.24%)

Global Tech Solutions revenues came in at INR 6.1 Bn (+0.9% QoQ) (+8.3% YoY) (-1.5% Vs our estimates). **EBITDA margins** came in at 17.54% (Vs 18.76% QoQ) (Vs 17.8% YoY) (Vs our estimates of 17.9%)

Operating Asset Management revenues came in at INR 7.33 Bn (+3.12% QoQ) (+6.18% YoY) (-1% Vs our estimates). **EBITDA margins** came in at 5.74% (Vs 5.49% QoQ) (Vs 4.5% YoY) (Vs our estimates of 4.32%)

Product led business revenues came in at INR 386 Mn (-67.5% QoQ) (-69.5% YoY) (-16.8% Vs our estimates). **EBITDA margins** came in at -20.7% (Vs -2.53% QoQ) (Vs -20.3% YoY) (Vs our estimates of -10%)

Margins to touch 5% in medium to long term: Company reported best Q1 performance (with revenues touching INR 50 Bn), navigating through slowdown in IT India staffing. Company has sold off Qdigi in the Platform business due to which the EBITDA in platform business was negative. One of the major focus area is to reduce SG&A cost across verticals through back office automation. This reduction in SG&A costs(excluding the product-led business) and reduction of cash burn in Foundit is expected to contribute to the expansion in margins

Earning visibility to remain strong with double digit growth momentum:

The staffing industry is expected to maintain its revenue momentum due to factors such as: formalization of the sector, market share gains, and government incentives aimed at driving the labor force. Production Linked Incentive (PLI) scheme, in particular, is anticipated to stimulate hiring in coming years. Focus continues to be on niche profiles, BFSI, and digital, and on maximizing the market penetration in strategic focus areas.

Outlook: Strong performance in a seasonally weak quarter, beat on our estimates. Management expects QoQ margin improvements, particularly in the WFM platform, and is confident of achieving over 25% top-line growth in the PLB segment.

The company will grow in double digits (topline) while expanding in margins. At CMP, company trades 21.3x FY26EEPS (Bloomberg Est). **We have a positive view on the company and will work on detailed numbers soon. We maintain our target multiple to 25x FY26 earnings and arrive at a price target of INR 882**

Quess Corp- Q1FY25 Concall Highlights

Outlook: Management expects QoQ margin improvements, particularly in the WFM platform, and is confident of achieving over 25% top-line growth in the PLB segment. The company reduced its debt by INR 1000 Mn, bringing gross debt to <INR 3000 Mn. IT staffing is expected to recover in H2 FY25, with initial signs already seen in Q1. The company added 30k associates, reaching a total headcount of 597k, and secured 160 new client wins with an ACV of INR 6600 Mn.

Margin: Expect margins to recover as the situation improves. The margin decline observed in Q1 was due to seasonality and wage hikes. Recovery is expected from Q2 FY25 onwards. OAM margin improvement is expected through higher contributions from telecom and infra businesses, with continued focus on cost reduction and productivity improvement initiatives.

CEO: Gurmeet Chachal has joined as CEO of Quess GTS Platform and will lead a digitized entity.

Income tax refund of INR 1070 Mn for FY19 and is progressing with its demerger plans, with NCLT proceedings expected to commence soon.

Platform: Headcount reached 485,000 (including 32k on notice period) with 30,796 associates added in Q1FY25. Revenue growth was 12% YoY, but EBITDA margin declined to 2.4% due to a strong addition from the general staffing business, while broadest growth came from IT staffing and overseas staffing. The platform added 91 new contracts in Q1FY25, with an annual contract value of INR 5100 Mn.

Manufacturing: This has been robust in hiring, with collective efforts capitalizing on this momentum.

IT staffing: Hiring in the IT sector slowed down in Q1 FY25, with only 4k net additions due to the general elections. With a strong open mandate and internal capability, the IT sector will be a key focus as the company moves forward.

Domestic IT staffing gained momentum with focused sales and strengthened presence in GCC (69% of revenue); 1,500 open mandates.

IT staffing is expected to recover in H2 FY25, with initial signs already seen in Q1.

GTS showed 1% QoQ growth, with seasonally largest Q4 base in connect and outside business. The CLM business saw 20% YoY and 7% QoQ growth, led by a domestic and international mix.

ALLSEC: The Allsec CXM vertical delivered strong top-line growth and higher international business salience.

The non-white BPM business saw a dip in Q1 FY25. The collection business peaked in Q4, followed by a seasonal slowdown in Q1 FY25.

The **EXM vertical** in platform services experienced a sequential decline due to year-end one-time poaching activity in Q4. Overall, the EXM business remained strong with 4.1 mn pay-picks processed in Q1FY25, translating to 10% YoY growth.

Orderbook: The platform closed the order book at almost INR 820 Mn ACV, adding 42 new logos. The BFSI and retail segments continue to be key drivers.

The OEM platform grew 9% despite seasonal slowdowns in food, beverage, and telecom network maintenance businesses.

The platform recorded a YoY margin improvement of 30bps with increased contributions from telecom, infra, industrial, and OEM businesses. However, there was a sequential dip in margin due to seasonality and a slowdown in the telecom business.

Operational metrics and job postings are up, CSAT remains healthy, and the company expects 25%+ top-line growth, benefiting from strengthened leadership and organizational optimization ahead of the demerger.

Found it: 30% YoY sales and EBITDA negative 80 Mn, while on a YoY, there is a steep improvement in cash burn levels owing to strong sales growth and optimized marketing spend in found it.

Capex created many employment opportunities in the formal sector. Also, positive on the budget initiatives towards accelerating India formal job creation

Strong working capital improvement with low DSO at 25 days (GS business), combining general + IT staffing, with 15 billed days and 10 unbilled days

Added 30k headcount, with healthy collections and strong gross margin to EBITDA conversion.

Focus: Completely focused on formal employment; budget is aligned with this goal.

Transformation: Quess is transitioning from informal to formal employment.

Exhibit: Peer Comparison

Operating Revenues (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24
Quesscorp	85,270	1,09,910	1,08,370	1,39,620	1,71,580	1,91,000
<i>growth</i>		28.90%	-1.40%	28.84%	22.89%	11.32%
Teamlease	44,480	52,010	48,810	64,800	78,700	93,220
<i>growth</i>		16.93%	-6.15%	32.76%	21.45%	18.45%
SIS Ltd	70,930	84,850	91,270	1,00,590	1,13,460	1,22,610
<i>growth</i>		19.62%	7.57%	10.21%	12.79%	8.06%

EBITDA Margins	FY19	FY20	FY21	FY22	FY23	FY24
Quesscorp	5.38%	5.91%	4.14%	4.56%	3.42%	3.63%
Teamlease	2.11%	1.79%	1.99%	2.19%	1.55%	1.41%
SIS Ltd	5.10%	6.10%	5.70%	5.00%	4.30%	4.23%

PAT Margins	FY19	FY20	FY21	FY22	FY23	FY24
Quesscorp	3.01%	-3.93%	0.68%	1.83%	1.30%	1.47%
Teamlease	2.20%	0.67%	1.60%	0.46%	1.42%	1.21%
SIS Ltd	3.00%	4.00%	2.10%	2.90%	3.10%	1.54%

ROE	FY19	FY20	FY21	FY22	FY23	FY24
Quesscorp	9.90%	10.40%	9.20%	11%	6.80%	11.20%
Teamlease	20%	15%	14.40%	16.30%	14.90%	13.60%
SIS Ltd	19%	26%	12.00%	14.80%	15.70%	7.90%

ROCE	FY19	FY20	FY21	FY22	FY23	FY24
Quesscorp	10.60%	15.40%	7.70%	11.40%	8.60%	11.70%
Teamlease	18.60%	5.80%	11.50%	12.70%	12.50%	13.60%
SIS Ltd	17.20%	21.70%	9.80%	11.80%	13.10%	10.30%

Exhibit: Segmental Data

Segmental Data	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Headcount ('000)	470	504	505	511	525	547	557	567	567
Segment Revenue (INR Mn)									
Workforce Management	27,579	29,428	30,683	30,618	32,206	33,153	34,302.00	34,762	36,219
Operating Asset Management	5,967	6,515	6,891	6,843	6,899	7,055	6,950.00	7,103	7,325
Global Technology Solutions	5,074	5,287	5,607	5,710	5,633	5,843	5,880.00	6,045	6,101
Product-led business	1,174	1,502	1,474	1,231	1,264	1,433	1,287.00	1,187	386
EBITDA Margin (%)									
Workforce Management	3.40%	2.70%	2.80%	2.80%	2.60%	2.60%	2.60%	2.62%	2.45%
Operating Asset Management	5.10%	4.30%	4.50%	4.40%	4.50%	5.00%	5.20%	5.49%	5.74%
Global Technology Solutions	16.30%	16.00%	16.10%	16.70%	17.80%	17.80%	18.30%	18.76%	17.54%
Product Led business	-20.40%	-15.90%	-18.20%	-16.40%	-20.30%	-14.10%	-7.80%	-2.53%	-20.72%

Exhibit: Consolidated Income Statement

Consol Income Statement									
INR Mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Sales	39,793	42,733	44,656	44,402	46,002	47,483	48,418	49,098	50,031
QoQ		7.39%	4.50%	-0.57%	3.60%	3.22%	1.97%	1.40%	1.90%
YoY Change (%)					15.60%	11.12%	8.42%	10.58%	8.76%
Total Expenditure	38,259	41,386	43,200	42,882	44,463	45,848	46,608	47,146	48,193
EBITDA	1,534	1,347	1,456	1,520	1,539	1,635	1,810	1,952	1,838
QoQ		-12.19%	8.09%	4.40%	1.25%	6.24%	10.70%	7.83%	-5.84%
YoY Change (%)					0.33%	21.38%	24.31%	28.40%	19.41%
Margin (%)	3.85%	3.15%	3.26%	3.42%	3.35%	3.44%	3.74%	3.98%	3.67%
Depreciation	610	676	695	765	686	697	718	731	690
Interest	204	263	290	309	272	281	354	266	235
Other Income	72	88	67	36	41	151	52	50	102
PBT	792	496	538	483	621	809	790	1,005	1,014
Recurring Tax	115	100	217	183	140	83	-45	-30	69
MI and P/L of Asso. Cos.	64	-24	-24	-31	3	-10	-2	35	79
Extraordinary items			-535			16	199	57	-171
Controlling Int PAT	613	421	880	331	478	719	639	944	1,038
QOQ		-31.32%	109.03%	-62.39%	44.41%	50.42%	-11.13%	47.70%	9.99%
YoY Change (%)	32%	12%	5%	-55%	-22%	71%	-27%	185%	117%
Margin (%)	1.54%	0.98%	1.97%	0.74%	1.04%	1.51%	1.32%	1.92%	2.07%

Exhibit: Consolidated Balance Sheet

Consolidated Balance Sheet						
INR Mn	FY19	FY20	FY21	FY22	FY23	FY24
Equity Share Capital	1,461	1,475	1,477	1,480	1,482	1,485
Total Reserves	25,795	21,284	21,954	22,898	24,205	26,505
Net Worth	27,256	22,759	23,431	24,378	25,688	27,990
Minority Interest	31	769	939	1,310	1,621	1,656
Total Loans	7,502	9,976	4,514	5,877	5,311	3,695
Deferred Tax Liabilities	-5,046	-6,166	-4,061	-3,983	-5,275	205
Total	29,742	27,339	24,823	27,582	27,343	33,546
Account Payables	1,729	1,633	1,212	1,154	1,249	1,176
Other Current Liabilities	12,351	16,494	14,983	18,258	23,546	20,848
Provisions	1,248	1,554	2,122	2,733	3,080	3,696
Curr. Liability and Prov.	15,328	19,681	18,317	22,145	27,876	25,720
Total Liabilities and Equities	45,070	47,020	43,140	49,727	55,219	59,266
Net Fixed Assets	4,795	3,451	2,728	3,557	3,165	2,719
Goodwill	11,769	8,358	9,890	10,096	10,427	10,039
Capital WIP	147	46	309	153	181	300
Total Investments	820	725	41	17	17	367
Total	17,531	12,580	12,968	13,823	13,790	13,424
Inventory	221	284	290	275	282	71
Account Receivables	9,132	9,982	8,945	23,323	26,886	27,721
Cash and Bank Balance	5,855	7,587	5,646	4,105	4,376	5,453
Loans and Advances	12,333	16,586	15,292	8,201	9,886	4,413
Total	27,540	34,439	30,173	35,904	41,429	41,429
Total Assets	45,071	47,019	43,141	49,727	55,219	54,853

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Stock Rating Scale

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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