

CMP: INR 641

Rating: BUY

Target Price: INR 882

Stock Info

| | |
|----------------------------|----------|
| BSE | 539978 |
| NSE | QUESS |
| Bloomberg | QUESS:IN |
| Sector | Staffing |
| Face Value (INR) | 10 |
| Mkt Cap (INR Mn) | 95,247 |
| 52w H/L (INR) | 658/370 |
| Avg Daily Volume (in 000') | 80 |

Shareholding Pattern %

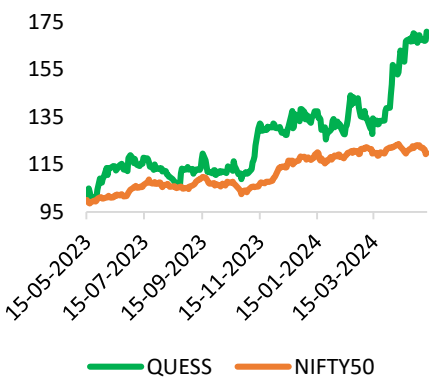
(As on March, 2024)

| | |
|-----------------|-------|
| Promoters | 56.64 |
| Public & Others | 43.36 |

Stock Performance (%) 1m 6m 12m

| | | | |
|-------|--------|------|------|
| QUESS | (8.88) | 8.62 | 27.7 |
| NIFTY | (2.4) | 5.4 | 7.1 |

Quess Vs Nifty



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Overview: Beat on all counts, exceptional growth led by GTS segment Performance (Consol):

- Revenues came in at INR 49.1 Bn (+1.4% QoQ) (+10.6% YoY) (+0.42% Vs our estimates)
- EBITDA came in at INR 1.83 Bn (+7.82% QoQ) (+28.43% YoY) (+7.6% Vs our estimates)
- EBITDA margins came in at 3.98% (Vs 3.74% QoQ) (Vs 3.42% YoY) (Vs 3.71% our estimates)
- PAT came in at INR 978.37 Mn (+53.71% QoQ) (+226.25% YoY) (+39.81% Vs our estimates)
- PAT Margins came in at 1.99% (Vs 1.31% QoQ) (Vs 0.67% YoY) (Vs 1.43% our estimates)

Segmental Highlights:

- WFM EBITDA margins came in at 2.62% (Vs 2.62% QoQ) (Vs 2.81% YoY)
- GTS EBITDA margins came in at 18.76% (Vs 18.4% QoQ) (Vs 16.64% YoY)
- OAM EBITDA margins came in at 5.49% (Vs 5.17% QoQ) (Vs 4.39% YoY)
- FoundIT EBITDA came in at -30 Mn (Vs -60 Mn QoQ) (Vs -180 Mn YoY)

Margins to touch 5% in medium to long term: Q4FY24 reported best margin performance ever, navigating through slowdown in IT India staffing. In Q4FY24, company guided for 35-40 bps margin expansion going forward. 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: Company has delivered a strong set of results and maintained strong guidance in terms of opportunity available. GTS margins to be sustainable in 17-18%. WFM - Company has guided for improvement in margins towards 2.8% in medium term and 3% in long term. On consol basis, company is confident of improving 30-35 bps annually in margins.

We believe the growth trajectory will continue in FY25. Quess Corp has been trading at an average of 22x one-year forward P/E for the past five years. The company will grow in double digits (topline) while expanding in margins. At CMP, company trades 18.2x FY26EEPS (Bloomberg Est). **We have a positive view on the company and will work on detailed numbers soon. We raise our target multiple to 25x FY26 earnings and arrive at a price target of INR 882 (an upside of 37% from current levels)**

Key Highlights of the call:

- Total headcount stood at 567,000
- No material updates on tax dispute, hearing for FY17 & FY18 in July, FY20 hearing in May
- Tax rate for FY25 to be 10-11%

Workforce management:

- Associate headcount stood at 452,000 with core headcount at 425,000.
- Collect and Pay model stood at 78%. Margins will increase with rise in Collect and Pay model.
- Higher collect and pay model reflects in better DSO days, seen in current quarter as well
- Total 398 new contracts added in FY24, ACV of INR 1.5 Bn
- General staffing headcount was driven by Retail, BFSI and manufacturing
- Manufacturing added 22,000 associates and BFSI added 20,000 associates
- Company aims to grow their market share in Global Capability Centres (GCC)
- Strength of manufacturing segment is at 70,000 (up from 33,000) showing strong growth in segment. Manufacturing segment staffing will grow at 2-3x of GDP
- Company lost business of INR 170 Mn in IT staffing in 1 year
- Company has guided for improvement in margins from 2.8% in medium term and 3% in long term

Global Tech Solutions:

- Growth in revenue and margins assisted overall margins. Higher share of international business resulted in higher margins. International business attracts 30% EBITDA margins
- Company has received better high value contracts which also aided margins.
- 9 new logos were added in Q4 in BFSI, manufacturing sectors. Strong orderbook with ACV of INR 640 Mn
- 59% of new business came from international orders (Vs 37% in Q4FY23)
- International business accounted for 74% of CXM revenues (Vs 69% Last year). CXM business of Allsec grew 29% YoY
- Allsec payroll business also achieving close to 30% margins (EBITDA). Domestic business of Conneqt achieving 18.5% margins which has 95% domestic business.
- Going ahead, margins to be sustainable in 17-18%
- Qdigi contributed INR 3.7 Bn in FY24 revenues which will not reflect in FY25 onwards

Operating Asset Management:

- Added 14 new customers with ACV of INR 300 Mn during Q4 mainly in Healthcare, public utility and BFSI
- Security services added 26 new contracts with ACV of INR 230 Mn
- Telecom active infra business closed the year with best-ever revenue
- Food and telecom business demand is robust

FoundIT:

- Launched AI for FoundIT 2.0. Operational metrics on both candidate and recruiter aspect remain positive, consumption up by 18%, NRR above 100%.
- Advance collection model has helped overall DSO come down (along with divestment of Qdigi which had higher DSO days)
- Hiring has come down in some sectors. Cash burn come down fast. Expect breakeven on EBITDA level in FoundIT
- Largely hiring from IT, followed by BFSI, retail, manufacturing. Costing depends on sector and geography

Other Highlights:

- WFM added 92 new contracts with ACV of INR 1.51 Bn. Collect and pay at 78%
- GTS added 27 new logos with ACV of INR 400 Mn while OAM added 25 new logos with ACV of INR 400 Mn. DSO in OAM saw a reduction of 10+ days
- Headcount stood at 567,000
- Exceptional items include gain on sale of investment and impairment
- Company declared dividend of INR 6 per share
- Company observed non-linear growth in EBITDA due to operating leverage in GTS & OAM platform
- WFM added 92 new contracts with ACV of INR 1.51 Bn. Collect and pay at 78%
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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 | Q4FY24 |
|---------------------------------|---------|---------|---------|---------|---------|---------|--------|--------|
| Headcount ('000) | 470 | 504 | 505 | 511 | 525 | 547 | 557 | 567 |
| Segment Revenue (INR Mn) | | | | | | | | |
| Workforce Management | 27,579 | 29,428 | 30,683 | 30,618 | 32,206 | 33,153 | 34,302 | 34,762 |
| Operating Asset Management | 5,967 | 6,515 | 6,891 | 6,843 | 6,899 | 7,055 | 6,950 | 7,103 |
| Global Technology Solutions | 5,074 | 5,287 | 5,607 | 5,710 | 5,633 | 5,843 | 5,880 | 6,045 |
| Product-led business | 1,174 | 1,502 | 1,474 | 1,231 | 1,264 | 1,433 | 1,287 | 1,187 |
| EBITDA Margin (%) | | | | | | | | |
| Workforce Management | 3.40% | 2.70% | 2.80% | 2.80% | 2.60% | 2.60% | 2.60% | 2.62% |
| Operating Asset Management | 5.10% | 4.30% | 4.50% | 4.40% | 4.50% | 5.00% | 5.20% | 5.49% |
| Global Technology Solutions | 16.30% | 16.00% | 16.10% | 16.70% | 17.80% | 17.80% | 18.30% | 18.76% |
| Product Led business | -20.40% | -15.90% | -18.20% | -16.40% | -20.30% | -14.10% | -7.80% | -2.53% |

Exhibit: Consolidated Income Statement

| Consol Income Statement | | | | | | | | |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| INR Mn | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 |
| Net Sales | 39,793 | 42,733 | 44,656 | 44,402 | 46,002 | 47,483 | 48,418 | 49,098 |
| Total Expenditure | 38,259 | 41,386 | 43,200 | 42,882 | 44,463 | 45,848 | 46,608 | 47,146 |
| EBITDA | 1,534 | 1,347 | 1,456 | 1,520 | 1,539 | 1,635 | 1,810 | 1,952 |
| Margin (%) | 3.85% | 3.15% | 3.26% | 3.42% | 3.35% | 3.44% | 3.74% | 3.98% |
| Depreciation | 610 | 676 | 695 | 765 | 686 | 697 | 718 | 731 |
| Interest | 204 | 263 | 290 | 309 | 272 | 281 | 354 | 266 |
| Other Income | 72 | 88 | 67 | 36 | 41 | 151 | 52 | 50 |
| PBT | 792 | 496 | 538 | 483 | 621 | 809 | 790 | 1,005 |
| Recurring Tax | 115 | 100 | 217 | 183 | 140 | 83 | -45 | -30 |
| MI and P/L of Asso. Cos. | 64 | -24 | -24 | -31 | 3 | -10 | -2 | 35 |
| Extraordinary items | | | -535 | | | 16 | 199 | 57 |
| Reported PAT | 613 | 421 | 880 | 331 | 478 | 719 | 639 | 944 |
| YoY Change (%) | 32% | 12% | 5% | -55% | -22% | 71% | -27% | 185% |
| Margin (%) | 1.54% | 0.98% | 1.97% | 0.74% | 1.04% | 1.51% | 1.32% | 1.92% |

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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