

**CMP: INR 492**

**Rating: BUY**

**Target Price: INR 775**

**Stock Info**

BSE	539978
NSE	QUESS
Bloomberg	QUESS:IN
	Misc.
Sector	Commercial Services
Face Value (INR)	10
Mkt Cap (INR Cr)	7,492
52w H/L (INR)	539/337
Avg Daily Volume (in 000')	419

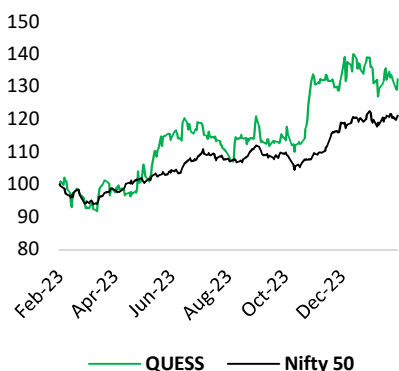
**Shareholding Pattern %**

(As on December, 2023)

Promoters	56.65
Public & Others	43.35

Stock Performance (%)	1m	6m	12m
QUESS	(1.0)	24.2	33.6
NIFTY	2.2	13.8	22.8

**QUESS Vs Nifty**



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**Investment Rationale:**

The company has been focusing on reducing exposure to non-core segments, expanding market reach, and minimizing losses in the platform segment (Foundit expected to breakeven EBITDA level in Q4FY24).

The company has trimmed its exposure to government projects and has not been bidding on new government projects as these usually entail very high DSO days. Overall, the company expects revenue to grow at double digits in the near to medium term (Company faced one time non cash write off in one of its technology business). We expect the consolidated margin to improve from current levels to 5% due to change in portfolio mix, optimization of overhead costs, and breaking even in platform segment. However, this will be a gradual move and not an immediate move. We believe the stock trades at an attractive valuation with better risk-reward ratio. Quess Corp in the past has been trading at an average of 22x one-year forward PE for the past five years. **We have a positive outlook on the stock. At CMP, company trades 18.5x FY25EEPS and 14x FY26EEPS (Bloomberg Est).**

**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. In Q3FY24, the environment was positive in industrial, BFSI, retail, and telecom.

Production Linked Incentive (PLI) scheme, in particular, is anticipated to stimulate hiring in coming years. However in Q3FY24, the Indian IT staffing and collection business remained impacted by global headwinds. Focus continues to be on niche profiles, BFSI, and digital, and on maximizing the market penetration in strategic focus areas.

According to industry reports, more than 60% employers are planning to increase their workforce due to the PLI scheme introduced by the government. Quess Corp has been reporting strong growth at a CAGR of 26% over FY16–23 despite the impact of Covid-19. Similar to industry expectations, management expect its own revenue to at least grow 20% going forward driven by the factors mentioned above. In the international business, the company has expanded its presence beyond Middle East and South Asia by entering North America.

Furthermore, all of the company's product-led businesses have registered robust growth, up 20% in FY23. Foundit, in particular, achieved a growth of 33% in FY23.

**Margins to touch 5% in medium term:** Q3FY24 reported best margin performance in the past 6 quarters, navigating through slowdown in IT India staffing. For FY23, consolidated EBITDA margin stood at 3.4%, largely impacted by losses in product-led business. However, excluding the product-led business, EBITDA margin was 4.1%. Management had earlier guided consolidated EBITDA margin to expand 100 bps to 4.5% in medium term driven by change in business mix but we believe the margins can touch 5% in FY25 itself. 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.

**Valuation Summary:** Quess Corp is on a recovery path which was even displayed in the consolidated margins in Q3FY24. We believe this trajectory will continue in FY25 as well for the factors mentioned above. 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 18.5x FY25EEPS and 14x FY26EEPS (Bloomberg Est). **We have a positive view on the company and will work on detailed numbers soon. We assign 22x multiple to FY26 earnings and arrive at a price target of INR 775 (an upside of 58% from current levels)**

**Quess Corp Q3FY24 Concall Highlights:****Performance Consol:**

- Revenues came in at INR 48.4 Bn (+1.97% QoQ) (8.43% YoY)
- EBITDA margins came in at 3.74% (Vs 3.44% QoQ) (Vs 3.26% YoY)

**Workforce management:**

- Workforce management revenues came in at INR 34.3 Bn (+3% QoQ) (+12% YoY)
- Workforce management EBITDA margins came in at 2.61% (Vs 2.63% QoQ) (Vs 2.8% YoY)
- 87 new contracts added during the quarter with ACV of INR 2.92 Bn
- Revenue growth led by wage increase was 70%, remainder 30% due to sales growth
- General staffing headcount stood at 427,000. General staffing DSO at 25 days
- Key sectors leading to headcount growth: BFSI, Retail & Manufacturing. BFSI and Retail lead the revenue contribution in General staffing
- ITES (Indian IT staffing business) segment still remains impacted.
- Most contracts are flat fee based. 30% clients were first time outsources

**Global Tech Services:**

- Global Tech Services revenues came in at INR 5.88 Bn (+1% QoQ) (+5% YoY)
- Global Tech Services EBITDA margins came in at 18.3% (Vs 17.82% QoQ) (Vs 16.1% YoY)
- Margin expansion due to increase in efficiency.
- Non voice BPM growth driven by collection business growing 25% YoY
- 51 new contracts added with ACV of INR 460 Mn (Digital IT services registered ACV of INR 210 Mn). BFSI accounted for 35% of total annual contract value added
- Allsec processed 4 Mn payslips (4% QoQ growth)
- Revenue per employee grew to INR 117,000 (+3% QoQ) (+8% YoY)
- CLM and Non voice BPO continue to contribute highest. BFSI and IT/ITES together generated 75% of revenues. CLM business saw higher orderbooking from international business compared to domestic business

**Operating Asset management:**

- Operating Asset Management revenues came in at INR 6.95 Bn (-1% QoQ) (+1% YoY)
- Operating Asset Management EBITDA margins came in at 5.24% (Vs 4.98% QoQ) (Vs 4.55% YoY)
- Won 32 new contracts with ACV of INR 820 Mn. Key wins were in Infra, Industrials and Healthcare.
- Rationalization of low margin contracts led to flat revenue growth
- Margin expansion QoQ due to change in business mix (food services and telecom). Telecom Active Infra business delivered best ever 'Q3' on the back of 5G rollout
- Revenue per headcount per month stood at INR 26,000 (flat QoQ) (+4% YoY)
- Security services added headcount of 1,300.

**Platform led business:**

- Platform led business revenues came in at INR 1.29 Bn (-10% QoQ) (-13% YoY)
- Product led business EBITDA margins came in at -7.8% (Vs -14.1% QoQ) (Vs -18.2% YoY)
- FoundIt grew 5% QoQ, 9% YoY. Company has shifted from paid marketing led candidate acquisition to data-driven acquisition. FoundIt expected to breakeven EBITDA level in Q4FY24.
- FoundIt has 21.7 Mn active users (6 month active). New traffic stood at 22.6 Mn for the quarter
- Cash burn in FoundIt down by 50%, largely led by reduction in marketing costs
- Disruptive AI launched for 550+ customers. Initial response is positive

**Outlook:** Total Headcount stood at 557,000 (addition of 10,000). Workforce Management may face margin pressure going forward due to wage increase as company operates on flat fee basis. Foundit to breakeven in EBITDA in Q4FY24. Company faced one time non cash write off in one of its technology business (if excluded, PAT growth was 10% YoY). At CMP, company trades 34.5x TTM EPS.

**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**

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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