QUESS CORP

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	721
12 month price target (INR)	860
52 Week High/Low	753/398
Market cap (INR bn/USD bn)	107/1.3
Free float (%)	37.2
Avg. daily value traded (INR mn)	269.3

SHAREHOLDING PATTERN

	Mar-23	Dec-22	Sep-22
Promoter	56.64%	56.64%	56.65%
FII	15.93%	15.30%	16.30%
DII	10.95%	10.78%	10.66%
Pledge	0.00%	0.00%	0.00%

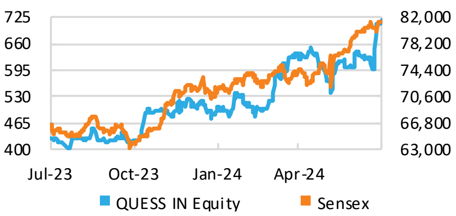
FINANCIALS (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	1,91,001	2,17,341	2,50,601	2,91,315
EBITDA	6,935	8,092	9,392	10,776
Adjusted profit	2,982	3,401	4,351	5,398
Diluted EPS (INR)	20.3	23.1	29.6	36.7
EPS growth (%)	23.8	27.0	23.3	24.1
RoAE (%)	10.4	12.3	14.2	16.2
P/E (x)	35.3	31.0	24.2	19.5
EV/EBITDA (x)	10.4	8.7	7.2	6.0
Dividend yield (%)	1.4	1.7	1.7	1.7

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	2,17,341	2,50,601	0.1	0.2
EBITDA	8,092	9,392	2.7	6.2
Adjusted profit	3,390	4,351	5.3	8.7
Adj. Dil. EPS (INR)	23.1	29.6	5.3	8.7

PRICE PERFORMANCE



March towards excellence

Quess reported an in-line set of Q1FY25 numbers . Revenue grew 1.9% QoQ/8.8% YoY. EBITDA margin contracted 30bp QoQ to 3.7% due to wage inflation, and seasonality in few businesses of OAM and GTS platforms. PAT was INR1,038mn, higher than our estimate of INR845mn. PAT growth was led by exceptional gain due to divestments, reduction in depreciation and interest costs.

We anticipate growth to be led by WFM with steady improvement in general staffing and further growth in specialised staffing. The government initiative to promote hiring shall aid growth. We are tweaking FY25E/26E adjusted EPS by 5.3%/8.7%. We are valuing Quess using DCF, yielding a TP of INR860 (earlier INR760); retain 'BUY'.

Decoding by segment

Revenue grew 8.8% YoY to INR50bn on headcount addition in non-IT businesses. WFM revenue rose 4% QoQ/12% YoY. General staffing growth continues to be strong with 29k-plus employees while specialised saw positive net headcount addition of 300 after falling for many quarters. GCCs now contribute to 70% of domestic IT staffing revenue. It won 91 new WFM contracts with overall ACV of INR5.1bn.

Global Tech Solutions (GTS) grew 1% QoQ/8% YoY. Under GTS, it added 42 new logos during the quarter with an ACV of INR830mn. Operating asset management grew 3% QoQ/6% YoY, led by telecom, infra and industrial. Under OAM, it won 27 new contracts with an ACV of INR690mn — key-wins in public utilities, industrials and healthcare. Product-led business (adjusted ex-Qdigi) grew 1% QoQ/6% YoY.

Margins witness temporary pressure

EBITDA margins dipped 30bp QoQ to 3.7%, led by wage inflation and seasonality in a couple of verticals. GTS platform margin contracted from 18.8% in Q4FY24 to 17.5% in Q1FY25. WFM margins dipped 20bp QoQ to 2.4%. OAM margin contracted 60bp QoQ to 4.8% due to seasonality in food and telecom infra business. PLB EBITDA losses widened from INR10mn to INR50mn. Foundit grew 30% YoY while the burn increased QoQ due to higher marketing spends. Syndicated jobs grew +55% QoQ in overall job postings and profile updates grew +86% QoQ.

Outlook and Valuation

As the company enters FY25, a gradual uptick in headcount in general staffing and improvement in specialised staffing growth environment should drive a valuation re-rating. Quess offers attractive risk-reward with strong value unlocking triggers. Maintain '**BUY**' with a DCF-based target price of INR860 (earlier INR760).

Financials

Year to March	Q1FY25	Q1FY24	% Change	Q4FY24	% Change
Net Revenue	50,031	46,002	8.8	49,098	1.9
EBITDA	1,838	1,539	19.4	1,952	(5.8)
Adjusted Profit	867	478	81.3	1,001	(13.4)
Diluted EPS (INR)	5.8	3.3	78.2	6.8	(14.9)

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	1,91,001	2,17,341	2,50,601	2,91,315
Cost of revenues	1,70,340	1,94,150	2,24,147	2,61,258
Gross profit	20,662	23,191	26,454	30,057
Other expenses	13,727	15,099	17,062	19,280
EBITDA	6,935	8,092	9,392	10,776
Depreciation	2,832	2,974	3,063	3,155
Less: Interest expense	1,173	1,250	1,300	1,325
Add: Other income	295	300	325	350
Profit before tax	3,224	4,168	5,354	6,647
Prov for tax	148	825	1,017	1,263
Less: Other adjustment	(298)	185	14	14
Reported profit	2,779	3,529	4,351	5,398
Less: Excp.item (net)	203	(128)	0	0
Group adjusted profit	2,982	3,401	4,351	5,398
Diluted shares o/s	147	147	147	147
Adjusted diluted EPS	20	23	30	37
DPS (INR)	10.0	12.0	12.0	12.0
Tax rate (%)	4.6	19.8	19.0	19.0

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	1,485	1,485	1,485	1,485
Reserves	26,505	27,963	30,243	33,570
Shareholders funds	27,990	29,448	31,729	35,056
Minority interest	1,656	1,644	1,632	1,620
Borrowings	3,695	3,495	3,495	3,495
Trade payables	1,176	1,338	1,542	1,793
Other liabs & prov	26,529	29,240	32,662	36,851
Total liabilities	61,046	65,165	71,060	78,815
Net block	6,207	4,734	3,171	1,516
Intangible assets	10,338	10,338	10,338	10,338
Capital WIP	733	733	733	733
Total fixed assets	17,278	15,805	14,242	12,587
Non current inv	367	367	367	367
Cash/cash equivalent	6,015	7,501	9,773	12,834
Sundry debtors	15,388	17,510	20,190	23,470
Loans & advances	7,606	7,606	7,606	7,606
Other assets	14,392	16,377	18,883	21,950
Total assets	61,046	65,165	71,060	78,815

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
EBITDA margin (%)	3.6	3.7	3.7	3.7
EBIT margin (%)	2.1	0	0	0
Net profit margin (%)	1.6	1.6	1.7	1.9
Revenue growth (% YoY)	11.3	13.8	15.3	16.2
EBITDA growth (% YoY)	18.4	16.7	16.1	14.7
PBT growth (% YoY)	39.7	0	0	0
Adj. profit growth (%)	61.7	14.1	27.9	24.1
Asset turnover (X)	5.5	0	0	0

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	2,779	3,529	4,351	5,398
Add: Depreciation	2,832	2,974	3,063	3,155
Interest (net of tax)	786	838	871	888
Others	345	101	92	75
Changes in WC	(1,449)	(1,235)	(1,559)	(1,908)
Operating cash flow	5,293	6,206	6,818	7,607
Less: Capex	(1,012)	(1,500)	(1,500)	(1,500)
Free cash flow	4,280	4,706	5,318	6,107

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.0	6.0	6.0	6.0
Repo rate (%)	4.0	4.0	4.0	4.0
USD/INR (average)	72.0	72.0	72.0	72.0
Staffing growth (%)	14.2	14.2	14.2	14.2
Staffing margin(%)	1.7	1.6	1.6	1.6
Collect & Pay (%)	70.0	70.0	70.0	70.0
FM growth (%)	8.2	13.3	13.3	13.3
Capex	1,012	0	0	0
Net borr. (INR mn)	(2,320)	(4,005)	(6,277)	(9,339)

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	10.4	12.3	14.2	16.2
RoCE (%)	13.3	16.0	18.6	20.7
Receivable days	29	28	27	27
Payable days	2	2	2	2
Cash conversion cycle	27	26	26	25
Working cap (% sales)	8.5	8.0	7.6	7.2
Gross debt/equity (x)	0.1	0.1	0.1	0.1
Net debt/equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Interest coverage (x)	3.5	4.1	4.9	5.8

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	35.3	31.0	24.2	19.5
Price/BV (x)	3.8	3.6	3.3	3.0
EV/EBITDA (x)	10.4	8.7	7.2	6.0
Dividend yield (%)	1.4	1.7	1.7	1.7

Source: Company and Nuvama estimates

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	23.8	27.0	23.3	24.1
RoE (%)	10.4	12.3	14.2	16.2
EBITDA growth (%)	18.4	16.7	16.1	14.7
Payout ratio (%)	53.1	50.2	40.7	32.8

Q1FY25 earnings call highlights

Workforce Management

- Workforce Management (WFM) revenue grew 4% QoQ/12% YoY. International IT markets remained muted especially Singapore geography.
- Added 30k associates during the quarter; 32k associates are serving the notice period.
- Net additions in IT/ITes staffing in India stood at 4,000 associates; moving forward, IT/ITes would remain the key growth driver.
- Domestic IT staffing open mandates stood at 1,500 in Q1FY25 against 1,100 during Q4FY24. IT industry is expected to recover in H2 and witnessing some green shoots in IT hiring.

Global Technology Solutions

- Global Tech Solutions revenue grew 1% QoQ/8% YoY. BFSI and retail segment remains the key growth driver.
- EBITDA margin is in the guided band of 17%-18%.
- Collections witness a little slowdown due to Q4 being seasonally strong quarter.

Operating asset management

- Increased contribution of Telecom infra and Industrial O&M contributed to overall revenue growth.
- Margins grew 30bp YoY due to focus on rationalisation of low margin contracts and accretive margins contribution from telecom contracts.
- Associate to core ratio stood at 98%. Expected to remain in range of 95%-105%.

Product led business

- Product-led business (adjusted ex. Qdigi) grew 1% QoQ/6% YoY.
- The increase in cash burn was due to higher marketing expenses. FY25 target is to reach breakeven.
- Syndicated jobs grew +55% QoQ in overall job postings and profile updates grew +86% QoQ.

Other commentary

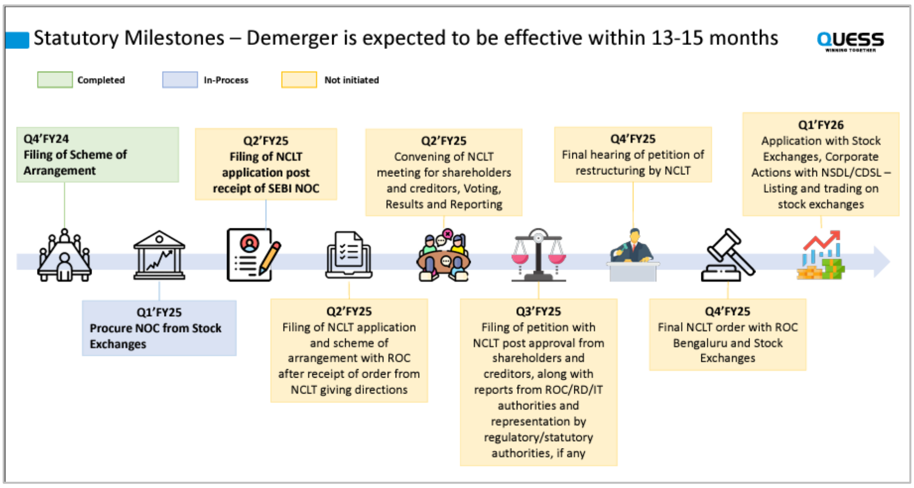
- Historically, Q1 is seasonally weaker; however, this quarter marked a strong growth in revenue as well as headcount addition.
- Expect margins to improve, as the wage hike is fully absorbed in a couple of quarters. Next wage hike is expected in Q3FY25.
- Government focus on jobs and financial aid would give boost to employment generation. Apart from that, strengthening of leadership especially in GTS segment would prove beneficial for driving overall growth.
- Gross margin to EBITDA margin conversion stood at 67% during the quarter.

Exhibit 1: Financial snapshot

Year to March	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ	FY24	FY25E	FY26E	FY27E
Revenues	50,031	46,002	8.8	49,098	1.9	1,91,001	2,17,341	2,50,601	2,91,315
Total expenditure	48,193	44,463	8.4	47,146	2.2	1,84,066	2,09,249	2,41,209	2,80,538
EBITDA	1,838	1,539	19.4	1,952	(5.8)	6,935	8,092	9,392	10,776
Depreciation	690	686	0.6	731	(5.7)	2,832	2,974	3,063	3,155
EBIT	1,148	853	34.6	1,220	(5.9)	4,103	5,118	6,329	7,622
Interest	235	272	(13.7)	266	(11.5)	1,173	1,250	1,300	1,325
Other income	102	41	149.3	50	101.2	295	300	325	350
Add: Exceptional items	171	0		-57					
Profit Before Tax	1,186	621	90.8	948	25.1	3,224	4,168	5,354	6,647
Less: Provision for Tax	69	140	(51.0)	-30	(326.4)	148	792	1,017	1,263
Less: Minority Interest	79	3	NA	35	127.6	25	-12	-12	-12
Add: Share of profit from associates	0	0		0		-1	2	2	2
Reported profit	1,038	478	117.1	944	10.0	2,779	3,390	4,351	5,398
Adjusted Profit (for non cash + others)	867	478	81.3	1,001	(13.4)	2,982	3,390	4,351	5,398
No. of Diluted shares outstanding (mn)	150	147		147		147	147	147	147
As % of net revenues	0	0	0	0	0	0	0	0	0
Raw material	63.5	72.0		59.5		89.2	89.3	89.4	89.7
Staff expenses	36.5	28.0		40.5		10.8	10.7	10.6	10.3
Other expenses	6.5	6.4		4.9		7.2	6.9	6.8	6.6
EBITDA margin (%)	3.7	3.3		4.0		3.6	3.7	3.7	3.7
Adjusted net profit	1.7	1.0		2.0		1.6	1.6	1.7	1.9

Source: Company, Nuvama Research

Exhibit 2: Demerger pipeline



Source: Company, Nuvama Research

Company Description

Quess Corp (Quess), India's leading integrated business services provider, was established in 2007. Headquartered in Bengaluru, the company has pan-India presence with overseas footprint in North America, the Middle East and Southeast Asia. The company serves over 2,600 plus customers. Quess employs over 384,000 personnel (including Terrier Security Services) across its three platforms namely, Workforce Management, Operating Asset Management and Global Technology Solutions.

Investment Theme

The company enjoys huge advantage of scale in general staffing in India (largest in India) as we believe that the larger players benefit from both market share gains and higher margins. Further, Quess's presence in specialised staffing should lead to improved margin profile going forward. Facility management is a high growth sector and the company is focusing on ramping this up sharply. We believe Quess has an eclectic portfolio of services that offers an attractive growth mix. The company's three areas of exposure, viz., general staffing, specialised staffing and facility management are expected to almost triple by FY30, in our view, led by strong domestic structural drivers. Ergo, Quess is an exciting integrated play on the burgeoning growth opportunity in business services in India.

Key Risks

We expect sector headcount for flexi-staffing to grow by at least 11-12% annually. Quess, being a market leader, should be able to deliver at least this level of growth, which is also our base case headcount assumption. Any shortfall in this will pose downside risk to our estimates and target price. Inability of the company to consistently improve margins will pose a downside risk to our investment thesis. Higher than expected competitive pressure leading to lower headcount growth or loss of market share is a downside risk. Any unreasonable acquisition or failure to efficiently manage any acquired business could pose downside risks

Additional Data

Management

CEO	Guruprasad Srinivasan
CFO	Kamal Pal Hoda
COO	
Other	Ajit Issac (Chairman)
Auditor	Deloitte

Holdings – Top 10*

	% Holding		% Holding
Fairfax Financi	33.99	Ellipsis Partne	2.46
Issac Ajit	11.80	IDFC Mutual Fun	2.26
ISAAC Enterpris	10.35	Vanguard Group	1.77
Dhawan Ashish	3.95	India Capital F	1.51
Tata AMC	2.53	ICICI Prudentia	1.50

**Latest public data*

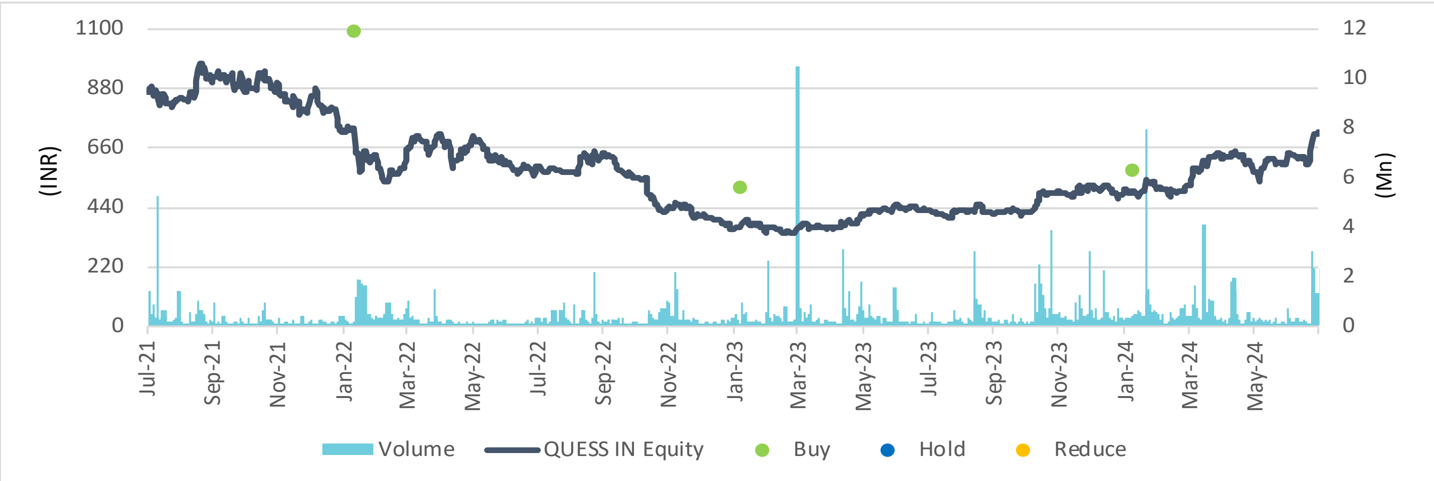
Recent Company Research

Date	Title	Price	Reco
10-May-24	Paving the way ahead ; *Result Update*	641	Buy
17-Feb-24	Demerger: Value unlocking unleashed; *Nuvama Flash*	501	Buy
05-Feb-24	Improvement continues; *Result Update*	503	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
25-Jul-24	SIS India	SXP international affects performance; *Result Update*
22-May-24	Teamlease Services	General and HR Services hold the fort; *Result Update*
02-May-24	SIS India	Margins feeling the squeeze once more; *Result Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	216
Hold	<15% and >-5%	62
Reduce	<-5%	25

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