QUESS CORP

nuvama institutional equities

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	664
12 month price target (INR)	830
52 Week High/Low	875/416
Market cap (INR bn/USD bn)	99/1.2
Free float (%)	37.3
Avg. daily value traded (INR mn)	434.4

SHAREHOLDING PATTERN

	Sep-24	Jun-24	Mar-24
Promoter	56.59%	56.64%	56.64%
FII	15.81%	15.93%	15.3%
DII	10.98%	10.95%	10.78%
Pledge	0%	0%	0%

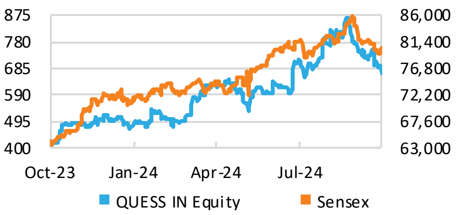
FINANCIALS (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	1,91,001	2,11,395	2,42,499	2,80,672
EBITDA	6,935	8,135	9,201	10,608
Adjusted profit	2,982	3,486	4,620	5,880
Diluted EPS (INR)	20.3	23.7	31.4	40.0
EPS growth (%)	23.8	30.2	27.8	27.3
RoAE (%)	10.4	12.6	15.0	17.3
P/E (x)	34.3	29.4	22.1	17.4
EV/EBITDA (x)	10.4	8.7	7.5	6.3
Dividend yield (%)	1.4	1.7	1.7	1.7

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	2,11,395	2,42,499	(2.7)	(3.2)
EBITDA	8,135	9,201	0.5	(2.0)
Reported profit	3,617	4,620	6.7	6.2
Diluted EPS (INR)	24.6	31.4	6.7	6.2

PRICE PERFORMANCE



Growth to pick up in H2FY25

Quess reported decent Q2FY25 numbers. Revenue stood at INR51.8bn (+3.5% QoQ/+9.1% YoY), in line with consensus estimate of INR51.8bn. EBITDA margin expanded 10bp QoQ to 3.8%. PAT came in at INR924mn, in line with estimate of INR942mn. Quess added 12k employee in Q2FY25.

We continue to expect strong growth in WFM despite lower headcount addition due to a delay in festive hiring. We reckon some improvement in specialised staffing in H2 while most of the benefit will come in FY26. We are tweaking FY25E/26E adjusted EPS by +6.7%/+6.2% to account for lower interest expense. We are valuing Quess using DCF, yielding a TP of INR830 (earlier INR860); retain 'BUY'.

Segmental breakdown

Revenue expanded 9.1% YoY to INR51.8bn backed by headcount addition in non-IT businesses. WFM revenue grew 3% QoQ/13% YoY. General staffing growth continues to be strong with ~15k net employees while company level headcount addition stood at 12k-plus net employees in Q2FY25. Headcount addition in WFM was lower, as the festive hiring that typically begins in early August started in mid-September this year. GCCs now contribute to 68% of domestic IT staffing revenue. It won 128 new WFM contracts out of which 74 were added in General Staffing. Global Tech Solutions (GTS) grew 2% QoQ/7% YoY. Under GTS, it added 53 new logos during the quarter with an ACV of INR1170mn. Operating asset management grew 5% QoQ/9% YoY, led by telecom, infra and industrial. Product-led business (adjusted ex-Qdigi) grew 2% QoQ/12% YoY.

Margin expansion starts gaining momentum

EBITDA margins expanded 10bp QoQ to 3.8%. Quess has changed its accounting policy for reporting net interest cost on defined benefit obligation from employee benefits expense to finance cost. WFM/GTS margins remained flat QoQ at 2.4%/17.5%. OAM margin sequentially grew 4bp QoQ led by a pickup in F&B and Telecom active infra segments. PLB EBITDA losses remained flattish QoQ at INR80mn (adjusted ex-Qdigi). FoundIT revenue grew 11% YoY. Job posting grew 41% QoQ/141% YoY to 879k jobs.

Story remains intact; maintain 'BUY'

We reckon headcount addition thereby revenue growth shall be strong in H2 especially in WFM business on the back of strong addition during Sep-24 as well as expected revival in specialised staffing; maintain '**BUY**' with a DCF-based TP of INR830 (earlier INR860).

Financials

Year to March	Q2FY25	Q2FY24	% Change	Q1FY25	% Change
Net Revenue	51,794	47,483	9.1	50,031	3.5
EBITDA	1,956	1,636	19.6	1,838	6.4
Adjusted Profit	921	735	25.3	867	6.2
Diluted EPS (INR)	6.1	5.0	21.6	5.8	4.9

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	1,91,001	2,11,395	2,42,499	2,80,672
Cost of revenues	1,70,340	1,88,161	2,16,236	2,50,784
Gross profit	20,662	23,234	26,264	29,888
Other expenses	13,727	15,099	17,062	19,280
EBITDA	6,935	8,135	9,201	10,608
Depreciation	2,832	3,115	2,959	2,888
Less: Interest expense	1,173	1,032	893	823
Add: Other income	295	286	338	346
Profit before tax	3,224	4,273	5,687	7,242
Prov for tax	148	845	1,080	1,376
Less: Other adjustment	(298)	188	14	14
Reported profit	2,779	3,617	4,620	5,880
Less: Excp.item (net)	203	(130)	0	0
Group adjusted profit	2,982	3,486	4,620	5,880
Diluted shares o/s	147	147	147	147
Adjusted diluted EPS	20	24	31	40
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	28,050	30,600	34,409
Shareholders funds	27,990	29,536	32,085	35,894
Minority interest	1,656	1,644	1,632	1,620
Borrowings	3,695	2,195	1,695	1,195
Trade payables	1,176	1,301	1,493	1,727
Other liabs & prov	26,529	28,628	31,828	35,756
Total liabilities	61,046	63,304	68,733	76,193
Net block	6,207	5,592	5,133	4,744
Intangible assets	10,338	10,338	10,338	10,338
Capital WIP	733	733	733	733
Total fixed assets	17,278	16,663	16,204	15,815
Non current inv	367	367	367	367
Cash/cash equivalent	6,015	5,708	6,747	8,643
Sundry debtors	15,388	17,031	19,537	22,613
Loans & advances	7,606	7,606	7,606	7,606
Other assets	14,392	15,929	18,272	21,149
Total assets	61,046	63,304	68,733	76,193

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
EBITDA margin (%)	3.6	3.8	3.8	3.8
EBIT margin (%)	2.1	2.4	2.6	2.8
Net profit margin (%)	1.6	1.6	1.9	2.1
Revenue growth (% YoY)	11.3	10.7	14.7	15.7
EBITDA growth (% YoY)	18.4	17.3	13.1	15.3
PBT growth (% YoY)	39.7	32.5	33.1	27.4
Adj. profit growth (%)	61.7	16.9	32.5	27.3
Asset turnover (X)	5.5	6.0	6.7	7.2

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	2,779	3,617	4,620	5,880
Add: Depreciation	2,832	3,115	2,959	2,888
Interest (net of tax)	786	692	599	552
Others	345	43	(55)	(86)
Changes in WC	(1,449)	(956)	(1,458)	(1,789)
Operating cash flow	5,293	6,510	6,665	7,444
Less: Capex	(1,012)	(2,500)	(2,500)	(2,500)
Free cash flow	4,280	4,010	4,165	4,944

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	2,500	2,500	2,500
Net borr. (INR mn)	(2,320)	(3,513)	(5,052)	(7,448)

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	10.4	12.6	15.0	17.3
RoCE (%)	13.3	15.9	19.1	21.8
Receivable days	29	28	28	27
Payable days	2	2	2	2
Cash conversion cycle	27	26	26	25
Working cap (% sales)	8.5	8.1	7.7	7.3
Gross debt/equity (x)	0.1	0.1	0.1	0
Net debt/equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Interest coverage (x)	3.5	4.9	7.0	9.4

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	34.3	29.4	22.1	17.4
Price/BV (x)	3.7	3.5	3.2	2.9
EV/EBITDA (x)	10.4	8.7	7.5	6.3
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	30.2	27.8	27.3
RoE (%)	10.4	12.6	15.0	17.3
EBITDA growth (%)	18.4	17.3	13.1	15.3
Payout ratio (%)	53.1	48.9	38.3	30.1

Q2FY25 conference call highlights

Workforce management

- Added 15k employees during the period with ~40k employees serving notice period.
- Revenue growth driven by general staffing. GS added 15k associates led by demand from BFSI, logistics, retail and BFSI.
- Pace of headcount addition was slower due to seasonality. Generally, hiring starts in August but this time got pushed to middle of September.
- Not witnessing any green shoots from IT staffing and, hence, management continues to focus on GCC and niche hiring for margin expansion.

Global Technology Solutions

- 74% of business is coming from the international market.
- Voice services clocked growth of 14% YoY led by demand from BFSI clients.
- Non-voice BPO remained flattish YoY, but grew 8% QoQ due to lower base in Q1FY25 (seasonally weak).

Operating asset management

- OAM growth was driven by educational and IT/ITeS business. Start of academic calendar helped drive growth.
- Margins dipped 14bp YoY due to investment in sales and leadership to focus on high margin and growth sectors.
- Signed 48 new contracts with ACV of INR440mn. Key verticals include industrials, healthcare and IT/ITeS.

Product led business

- Recruiters are gaining more confidence in job listing platform (FoundIT) and registered highest ever job posting at 900,000 jobs.
- CSAT score remains healthy at 90%-plus on candidates' front.
- FY24 cash burn was ~INR5bn, which has currently reduced and expects to breakeven by Q4FY25.

Other commentary

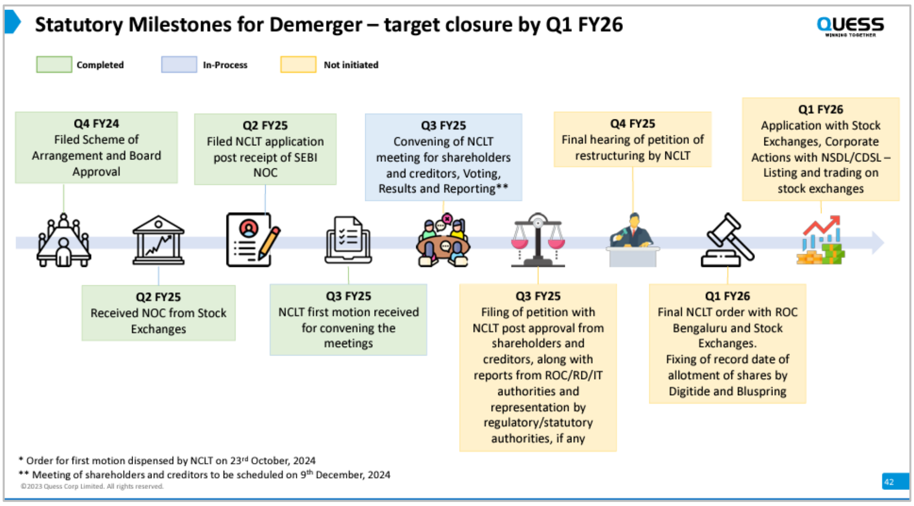
- Singapore business witnessed headwinds, which led to muted employee addition, partially offset by strong growth in the Middle-East business.
- Management focus remains on margin expansion, which led to non-linear growth in profitability.
- EBITDA margins expanded on account of control on cash burn in FoundIT and overall operation efficiencies.
- In H1, a few platforms witness seasonality however, margins bounce back in H2.
- OCF/EBITDA conversion remained healthy at 86%.
- Meeting of shareholders and creditors scheduled on December 9, 2024 to discuss further on demerger. Management expects complete demerger by Q1FY26.

Exhibit 1: Financial snapshot

Year to March	Q2FY25	Q2FY24	YoY	Q1FY25	QoQ	FY24	FY25E	FY26E	FY27E
Revenues	51,794	47,483	9.1	50,031	3.5	1,91,001	2,11,395	2,42,499	2,80,672
Total expenditure	49,838	45,848	8.7	48,193	3.4	1,84,066	2,03,260	2,33,298	2,70,064
EBITDA	1,956	1,636	19.6	1,838	6.4	6,935	8,135	9,201	10,608
Depreciation	697	697	0.1	690	1.1	2,832	3,115	2,959	2,888
EBIT	1,259	939	34.0	1,148	9.6	4,103	5,020	6,242	7,719
Interest	284	281	1.0	235	20.8	1,173	1,032	893	823
Other income	44	151	(71.0)	102	(56.8)	295	286	338	346
Add: Exceptional items	3	-16		171					
Profit Before Tax	1,021	793	28.8	1,186	(13.9)	3,224	4,273	5,687	7,242
Less: Provision for Tax	85	83	2.1	69	23.6	148	845	1,080	1,376
Less: Minority Interest	12	-10	NA	79	(84.3)	25	-12	-12	-12
Add: Share of profit from associates	0	-0		0		-1	2	2	2
Reported profit	924	719	28.5	1,038	(11.0)	2,779	3,617	4,620	5,880
Adjusted Profit (for non cash + others)	921	735	25.3	867	6.2	2,982	3,486	4,620	5,880
No. of Diluted shares outstanding (mn)	151	147		150		147	147	147	147
As % of net revenues									
Raw material	61.4	69.7		58.4		89.2	89.0	89.2	89.4
Staff expenses	38.6	30.3		41.6		10.8	11.0	10.8	10.6
Other expenses	6.3	6.2		4.8		7.2	7.1	7.0	6.9
EBITDA margin (%)	3.8	3.4		3.7		3.6	3.8	3.8	3.8
Adjusted net profit	1.8	1.5		1.7		1.6	1.6	1.9	2.1

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	33.96	Ellipsis Partne	2.46
Issac Ajit	11.79	IDFC Mutual Fun	2.11
ISAAC Enterpris	10.34	Vanguard Group	1.79
Dhawan Ashish	3.94	Union MF	1.18
Tata AMC	2.83	ICICI Prudentia	1.15

Latest public data

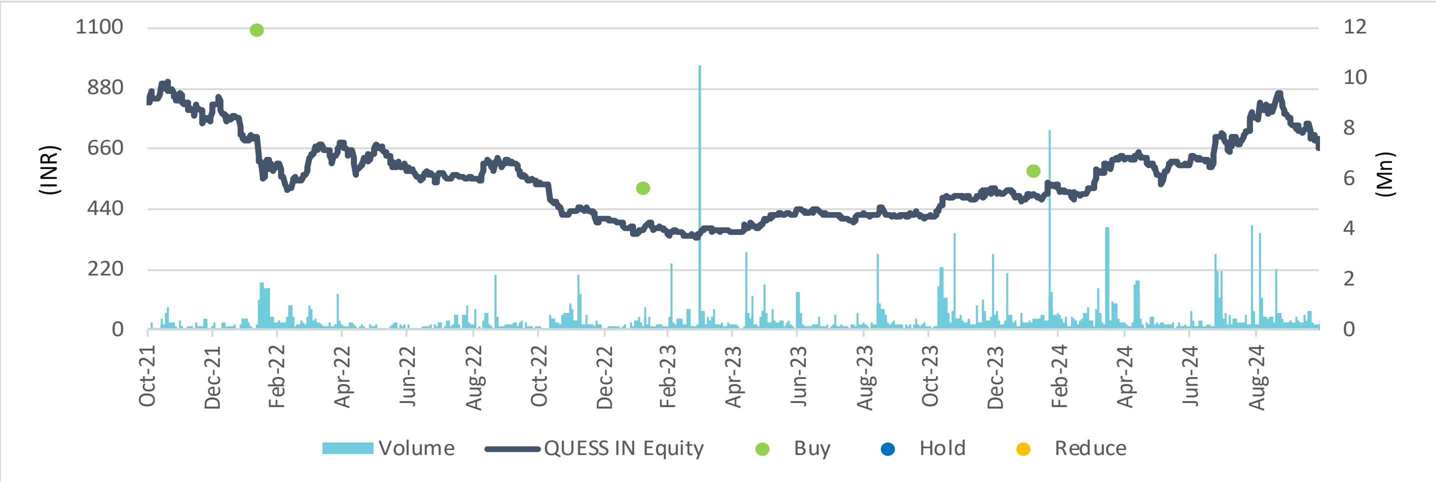
Recent Company Research

Date	Title	Price	Reco
30-Jul-24	March towards excellence; *Result Update*	721	Buy
10-May-24	Paving the way ahead ; *Result Update*	642	Buy
17-Feb-24	Demerger: Value unlocking unleashed; *Nuvama Flash*	501	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
31-Jul-24	Teamlease Services	Growth strong; margin dips; *Result Update*
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*

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%	223
Hold	<15% and >-5%	65
Reduce	<-5%	23

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