QUESS CORP

RESULT UPDATE

nuvama institutional equities

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	338
12 month price target (INR)	400
52 Week High/Low	428/255
Market cap (INR bn/USD bn)	50/0.6
Free float (%)	36.4
Avg. daily value traded (INR mn)	274.1

SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	56.99%	56.56%	56.60%
FII	14.82%	15.24%	15.81%
DII	9.77%	10.45%	10.96%
Pledge	0.00%	0.00%	0.00%

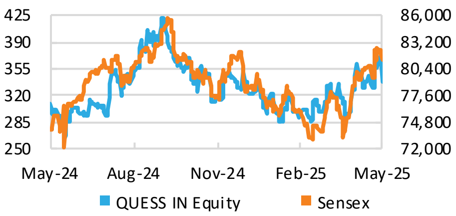
FINANCIALS (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	1,36,951	1,49,672	1,57,459	1,75,537
EBITDA	2,343	2,623	2,783	3,158
Adjusted profit	1,339	2,101	2,205	2,638
Diluted EPS (INR)	9.0	14.1	14.8	17.7
EPS growth (%)	0	(83.5)	381.3	19.6
RoAE (%)	9.9	2.4	19.8	22.4
P/E (x)	37.7	24.0	25.0	20.9
EV/EBITDA (x)	20.5	18.2	16.9	14.8
Dividend yield (%)	0	0.6	3.0	3.5

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	1,57,459	1,75,537	(35.5)	(37.9)
EBITDA	2,783	3,158	(68.6)	(69.2)
Adjusted profit	2,205	2,638	(47.6)	(51.0)
Diluted EPS (INR)	14.8	17.7	(48.4)	(51.7)

PRICE PERFORMANCE



Growth hurt by NBFC headwinds

Quess reported a weak set of Q4FY25 numbers with revenue at INR36.6bn (-9.0% QoQ/+3.4% YoY), lowest in the last 15 quarters. EBITDA margin came in at 1.8% (+29bp QoQ/+15bp YoY). Adjusted PAT was INR625mn (+30.8% QoQ/+48.6% YoY). Quess has completed a three-way demerger of Staffing, BPM and facility management business.

General Staffing faced headwinds from ramp down in NBFC clients due to regulatory guidelines. Overall impact shall be limited to Q4FY25 and Q1FY26. We reckon growth shall bounce back Q2FY26 onwards in General Staffing. We value Quess using DCF, yielding a TP of INR400; maintain 'BUY'.

Breakdown by segment

Revenue declined -9.0% QoQ/+3.4% YoY to INR36.6bn. General staffing fell -10.3% QoQ/+2.9% YoY to INR31.5bn affected by macro headwinds and ramp-down in NBFC due to internal sourcing. Professional staffing revenue grew +0.3% QoQ/+25.6% YoY to INR2.2bn driven by deepening relations with GCCs and targeting niche technology roles. GCCs contributed ~70% to revenue (~67% in Q3FY25). Overseas business revenue decreased -0.7% QoQ/-5.0% YoY to INR2.9bn. Singapore continues to face visa-related headwinds while Middle East, Malaysia and Philippines logged demand traction. Digital platforms grew +229% QoQ to INR21mn on the back of a low base. Headcount declined to ~459k (-11% QoQ/-2% YoY).

Margins to improve gradually

EBITDA margins came in at 1.8% (+29bps QoQ/+3.4% YoY), supported by shedding of low margin contracts. General staffing and overseas business margins expanded to 1.37%/6.10% from 1.30%/5.55% in Q3FY25 while professional staffing margins contracted to 9.20% from 9.28% in Q3FY25. Management guided EBITDA margins to remain at ~1.8%. They are targeting an exit rate EBITDA margin of 2% in FY26. Furthermore, management has revised its capital return policy to return up to ~75% of FCF to shareholders over three years. Quess reported exceptional expenses totalling INR1.64bn, comprising INR1.19bn in credit loss allowances on trade receivables as it decided to discontinue non-core projects, impairment of goodwill of INR260mn and demerger-related expenses of INR190mn.

We forecast NBFC challenges shall be limited to Q4FY25 and Q1FY26. Growth to bounce back H2FY26 onwards. Margins are likely to improve gradually, driven by a change in contract mix and cost optimisation initiatives. Change in estimates are high due to demerger of BPM and Facility management business; maintain '**BUY**'.

Financials

Year to March	Q4FY25	Q4FY24	% Change	Q3FY25	% Change
Net Revenue	36,564	35,369	3.4	40,191	(9.0)
EBITDA	674	598	12.6	625	7.9
Adjusted Profit	625	386	61.8	478	30.8
Diluted EPS (INR)	4.2	2.6	62.7	3.2	31.4

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Total operating income	1,36,951	1,49,672	1,57,459	1,75,537
Cost of revenues	1,28,048	1,40,516	1,47,490	1,64,475
Gross profit	8,903	9,156	9,969	11,062
Other expenses	6,560	6,533	7,186	7,905
EBITDA	2,343	2,623	2,783	3,158
Depreciation	581	412	368	318
Less: Interest expense	572	386	302	302
Add: Other income	148	236	285	331
Profit before tax	1,340	2,061	2,397	2,868
Prov for tax	(25)	(41)	192	229
Less: Other adjustment	1,414	(1,644)	(1)	(1)
Reported profit	2,778	458	2,205	2,638
Less: Excp.item (net)	(1,439)	1,643	0	0
Group adjusted profit	1,339	2,101	2,205	2,638
Diluted shares o/s	149	149	149	149
Adjusted diluted EPS	9	14	15	18
DPS (INR)	0	2.2	11.0	13.0
Tax rate (%)	1.9	2.0	8.0	8.0

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Share capital	1,485	1,489	1,489	1,489
Reserves	26,505	9,359	9,928	10,633
Shareholders funds	27,990	10,849	11,417	12,122
Minority interest	1,656	11	12	13
Borrowings	3,695	121	0	0
Trade payables	1,176	586	617	688
Other liabs & prov	26,529	15,199	15,882	17,470
Total liabilities	61,046	26,766	27,929	30,292
Net block	6,207	1,009	841	722
Intangible assets	10,338	2,362	2,362	2,362
Capital WIP	733	36	36	36
Total fixed assets	17,278	3,407	3,239	3,120
Non current inv	367	0	0	0
Cash/cash equivalent	6,015	2,669	3,154	3,670
Sundry debtors	15,388	8,498	8,940	9,966
Loans & advances	7,606	4,410	4,410	4,410
Other assets	14,392	7,782	8,186	9,126
Total assets	61,046	26,766	27,929	30,292

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
EBITDA margin (%)	1.7	1.8	1.8	1.8
EBIT margin (%)	1.3	1.5	1.5	1.6
Net profit margin (%)	1.0	1.4	1.4	1.5
Revenue growth (% YoY)	NA	9.3	5.2	11.5
EBITDA growth (% YoY)	NA	11.9	6.1	13.5
PBT growth (% YoY)	NA	53.9	16.3	19.6
Adj. profit growth (%)	NA	56.9	4.9	19.6
Asset turnover (X)	3.9	6.3	12.9	13.7

Free Cash Flow (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Reported profit	2,778	458	2,205	2,638
Add: Depreciation	581	412	368	318
Interest (net of tax)	383	259	203	203
Others	3,000	3,404	(184)	(231)
Changes in WC	(1,449)	(728)	(133)	(308)
Operating cash flow	5,293	3,805	2,458	2,620
Less: Capex	(1,012)	(17)	(200)	(200)
Free cash flow	4,280	3,788	2,258	2,420

Assumptions (%)

Year to March	FY24A	FY25A	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	17	200	200
Net borr. (INR mn)	(2,320)	(2,549)	(3,154)	(3,670)

Key Ratios

Year to March	FY24A	FY25A	FY26E	FY27E
RoE (%)	9.9	2.4	19.8	22.4
RoCE (%)	11.5	11.0	24.1	26.9
Receivable days	21	29	20	20
Payable days	2	2	1	1
Cash conversion cycle	19	27	19	18
Working cap (% sales)	11.8	4.6	4.5	4.2
Gross debt/equity (x)	0.1	0	0	0
Net debt/equity (x)	(0.1)	(0.2)	(0.3)	(0.3)
Interest coverage (x)	3.1	5.7	8.0	9.4

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted P/E (x)	37.7	24.0	25.0	20.9
Price/BV (x)	1.8	4.6	4.8	4.5
EV/EBITDA (x)	20.5	18.2	(1.1)	(1.2)
Dividend yield (%)	NA	0.6	3.0	3.5

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	NA	(83.5)	381.3	19.6
RoE (%)	9.9	2.4	19.8	22.4
EBITDA growth (%)	NA	11.9	6.1	13.5
Payout ratio (%)	NA	70.8	74.2	73.3

Source: Company and Nuvama estimates

Q4FY25 earnings call: Key highlights

- General staffing growth was hurt by ramp down by one of NBFC clients due to RBI circular for mandate on internal sourcing.
- Internal sourcing led to impact of 7% on top line and ~4% on margins.
- Professional staffing growth was driven by deepening relations with GCCs and targeting high margin niche technology roles.
- GCC contributed ~70% to revenue while added 45 new clients during the quarter.
- Singapore continues to face visa-related headwinds while in Middle East demand remains healthy. Malaysia witnessed IT hiring supported by government demand.
- In the overseas segment, margins have been trending downwards for a couple of years now due to cap imposed on visa issued by Singapore government.
- Headcount reduced by ~7k YoY during FY25 (-2.0%) due to demerger of business segments.
- During Q4FY25, the company onboarded ~87k associates. However, a ramp down by an NBFC client of ~38k affected revenue growth. Adjusted for this associate net adds were at ~40k for the quarter.
- 323 logos with an ACV value of ~INR7.2bn were signed during FY25.
- The Impact of discontinued projects was to extent of ~INR1.2bn. These were long gestation projects mainly in areas of utilities and skill development. Currently, working on collections of dues from these clients. Discontinued projects should have contributed ~INR3bn of annual revenue
- ~85% of contracts are on collect and pay hence not adversely affecting DSO.

Management guidance

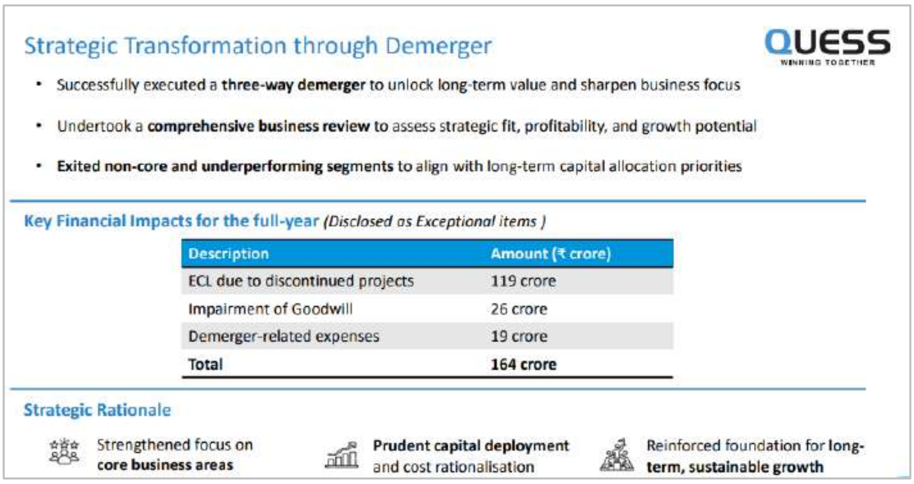
- The board has adopted and approved new dividend policy of returning up to ~75% of FCF back to shareholders in ways of dividends, buybacks or bonus shares over three years.
- We expect the top line to remain under pressure due to continued impact of ramp down from one of the NBFC clients.
- Professional staffing margins have crossed the sustainable mark of 9% levels.
- Would be able to offset headcount loss in a couple of quarters that happened due to this onetime NBFC event.
- Margins would remain in broad range of 1.8% while expecting slight improvement, hurt by corporate expenses. Exit rate for FY26E should be ~2%.
- Margin improvement will be driven by improvement in operational efficiencies change in mix from high margin contracts and constant control over costs.
- Exceptional items were one time and these should not continue in the coming quarters.

Exhibit 1: Financial snapshot (INR mn)

Year to March	Q4FY25	Q4FY24	YoY	Q3FY25	QoQ	FY24	FY25	FY26E	FY27E
Revenues	36,564	35,369	3.4	40,191	(9.0)	1,36,951	1,49,672	1,57,459	1,75,537
Gross Profit	2,023	2,180	(7.2)	2,546	(20.5)	8,903	9,156	9,969	11,062
Total expenditure	35,891	34,771	3.2	39,567	(9.3)	1,34,608	1,47,049	1,54,676	1,72,380
EBITDA	674	598	12.6	625	7.9	2,343	2,623	2,783	3,158
Depreciation	102	151	(32.6)	99	2.4	581	412	368	318
EBIT	572	447	27.8	525	8.9	1,763	2,211	2,415	2,839
Interest	91	82	11.0	92	(1.8)	572	386	302	302
Other income	109	1	8,653.6	49	122.7	148	236	285	331
Add: Exceptional items	-1,580	-25		-61		-11	-1,643	0	0
Profit Before Tax	-989	342	(389.3)	421	(334.8)	1,329	418	2,397	2,868
Less: Provision for Tax	-35	-54	(35.3)	4	(963.8)	-25	-41	192	229
Less: Minority Interest	0	35	NA	0	2.3	25	1	1	1
Add: Share of profit from associates	0	583		0		1,450	0	0	0
Reported profit	-955	944	(201.2)	417	(329.1)	2,778	458	2,205	2,638
Adjusted Profit (for non cash + others)	625	386	61.8	478	30.8	1,339	2,101	2,205	2,638
No. of Diluted shares outstanding (mn)	149	150		149		149	149	149	149
As % of net revenues									
EBITDA margin (%)	1.8	1.7		1.6		1.7	1.8	1.8	1.8
Adjusted net profit	1.7	1.1		1.2		1.0	1.4	1.4	1.5

Source: Company, Nuvama Research

Exhibit 2: Strategic transformation through demerger



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	Sushant Pai
Non-Exe - Non-Independent Director	Chandran Ratnaswami
Chairperson	Ajit Issac
Auditor	Deloitte Haskins & Sells LLP

Holdings – Top 10*

	% Holding		% Holding
Fairfax Financi	34.14	Ellipsis Partne	2.78
Issac Ajit	12.02	Vanguard Group	1.82
ISAAC Enterpris	10.32	IDFC Mutual Fun	1.19
Dhawan Ashish	4.09	Union MF	1.08
Tata AMC	2.82	Blackrock Inc	0.92

**Latest public data*

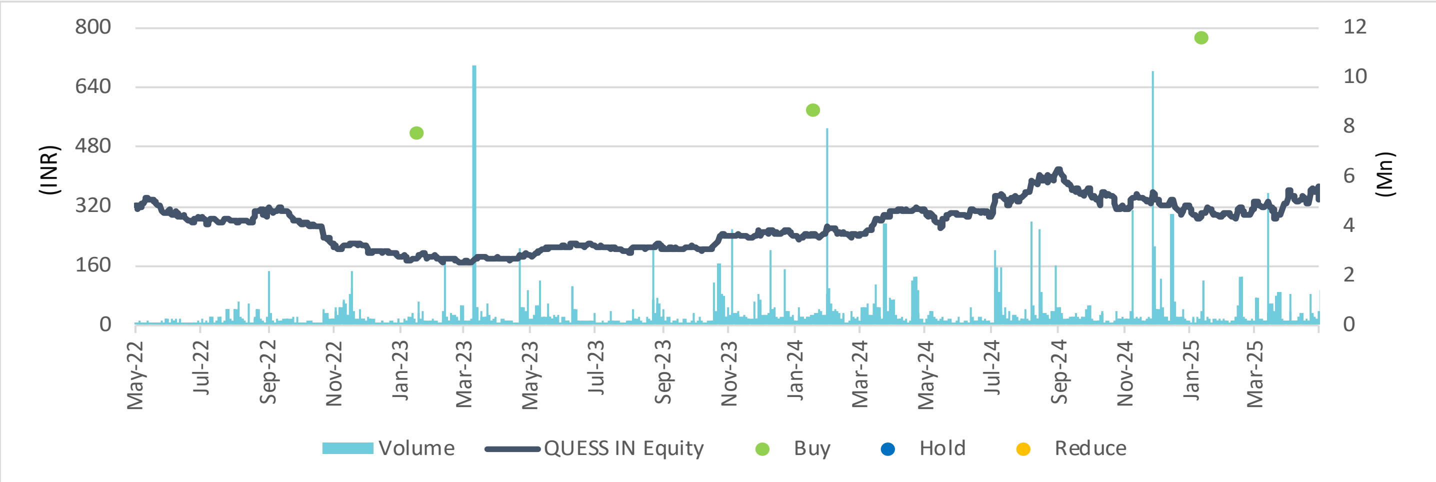
Recent Company Research

Date	Title	Price	Reco
30-Jan-25	Margins under pressure; BFSI headwind; *Result Update*	638	Buy
29-Oct-24	Growth to pick up in H2FY25; *Result Update*	664	Buy
30-Jul-24	March towards excellence; *Result Update*	721	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
01-May-25	SIS India	Focus remains on margin expansion; *Result Update*
29-Jan-25	SIS India	Margin improvement efforts paying off; *Result Update*
29-Jan-25	Teamlease Services	Quarter broadly in-line; BFSI headwind; *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%	205
Hold	<15% and >-5%	63
Reduce	<-5%	34

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