Stock Note

Quess Corp Ltd.

Nov 25,2024

Quess Corp Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Services	Rs 644.3	Buy in the band of Rs 640-654 and add more on dips to Rs 576.5	Rs 708.5	Rs 805	2-3 quarters

HDFC Scrip Code	QUECOREQNR
BSE Code	539978
NSE Code	QUESS
Bloomberg	QUESS: IN
CMP Nov 22, 2024	644.3
Equity Capital (Rs Cr)	147.7
Face Value (Rs)	10
Equity Share O/S (Cr)	14.77
Market Cap (Rs Cr)	9578
Book Value (Rs)	188
Avg. 52 Wk Volumes	448165
52 Week High	875
52 Week Low	459.5

Share holding Pattern % (Sep, 2024)	
Promoters	56.6
Institutions	26.8
Non Institutions	16.6
Total	100

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Kushal Rughani
kushal.rughani@hdfcsec.com

Our Take:

Quess Corp is the no.1 player in temporary staffing space and amongst top-5 staffing company globally. It has also presence across GTS (Technology Solutions), facility management and industrial asset management services. Quess has a team of ~600,000 employees across India, North America, South America and South-East Asia across all segments and serves over 3000+ clients worldwide.

In general staffing, Quess remains focused on volume growth through new client additions. Faster collections, project closures and reducing capex intensity will be the key objectives in training and development. Management is making encouraging efforts to address investor concerns around areas like governance, capital allocation, etc. Company's core business continues to grow well along with its acquired companies except Monster. Renewed sales engine, focus on new acquisitions, rebuilding/modernizing talent, reinforcing performance culture and digital marketing are the key priorities in Monster.

Earlier, the management had introduced aspirational goal to achieve 25% RoE by FY26. Company guided for strong growth across all verticals along with improvement in overall margin in the medium to long term. Company wants to improve its global business services employer rank by headcount to 3rd by FY26 as against current rank of no.5. Quess aims to have a top-3 presence in every business line by FY26. Given the superior quality of Quess' general staffing business, IT staffing, Facility management and GTS business segments, we feel that the stock deserves better valuations.

Quess Corp has announced a demerger of its business into three separate entities: i) one for workforce management (general & specialized staffing); ii) Digitide Solutions – current GTS segment; iii) Bluspring Enterprises – current segments of Operating Asset Management (FM, Security) and online recruitment portal Foundit (erstwhile Monster). The demerger process is expected to take 9 months, and all the three entities will have a mirror shareholding upon demerger (i.e. Quess shareholders shall get a share each of Digitide and Bluspring).

Quess achieved Rs 700cr cumulative debt repayment and paid out Rs 450cr dividends in the past five years. The priority is to reduce gross debt (Rs 370cr as of end-FY24) and then return the remaining to shareholders in line with the stated dividend policy. We like Quess Corp due to 1) strong growth potential from all of its verticals 2) series of acquisitions and witnessed healthy growth 3) Focus on margin accretive growth and also on free cash generation and 4) demerger of its various business.

Valuation & Recommendation:

Quess has been growing strongly led by both organic and Inorganic routes with about 25 acquisitions since inception. It has acquired companies at reasonable valuations and then turned around well. Company has great advantage of scale in general staffing with largest market share in India. Regulatory easing in the labor markets could result in structural decline in hiring/compliance/workforce management costs in the formal sector. Over the medium to long term, this should translate into higher formality in the labor market. Accordingly, we believe organized players like Quess, TeamLease etc. would be the key beneficiaries of these reforms.
We are positive on the company given an asset-light business model with presence across various business segment where the opportunity size is huge. It is a unique integrated business model with a strong long term growth visibility. 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 margin. Its presence in specialised staffing should lead to improved margin profile going forward.

We estimate 11%/17.5%/27% Revenue/EBITDA/PAT CAGR over FY24-27E. Steady improvement in EBIDTA margin to drive better growth in profitability in the medium term. Management has maintained its thrust on improving cash flows and strengthening the balance sheet. We feel investors can buy Quess in the band of Rs 640-654 and add more on dips to Rs 576.5 (15x FY27E EPS) for base case fair value of Rs 708.5 (18.5x FY27E EPS) and bull case fair value of Rs 805 (21x FY27E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY23	FY24	FY25	FY26E	FY27E
Total Revenues	5179	4748	9.1	5003	3.5	17,158	19,100	21,068	23,490	26,074
EBITDA	196	169	16.0	188	3.8	586	693	836	968	1127
Depreciation	70	70	0.1	69	1.0	275	283	289	313	344
Other Income	4	15	-70.9	10	-56.9	26	29	33	40	49
Interest Cost	28	33	-13.9	28	0.7	107	117	101	84	69
Tax	9	8	2.4	7	23.5	62	15	68	118	163
PAT	92	72	28.5	104	-11.0	224	277	398	472	569
EPS (Rs)						15.1	18.6	26.8	31.8	38.3
RoE (%)						9.0	10.3	13.6	14.8	16.1
P/E (x)						42.6	34.5	24	20.3	16.8
EV/EBITDA (x)						16.2	13.7	11.3	9.8	8.4

(Source: Company, HDFC sec)

Q2FY25 Result Update

Revenue for the quarter grew 9% YoY at Rs 5179.4cr. EBITDA margin improved 22bps YoY at 3.77%. Net profit increased 28.5% YoY at Rs 92.4cr. Other Income declined 71% YoY at Rs 4.4cr.

Workforce Management (WFM) revenue increased 13% YoY at Rs 3747cr. Technology (GTS) revenue grew 7% YoY at Rs 625cr. OAM revenue grew 9% YoY at Rs 768cr. Product led business reported revenue of Rs 39cr.

In the WFM segment, the company derives about 45% revenue from top-10 customers while ~30% from next 40 customers.
In the GTS segment, the company derives about 50% revenue from top-10 customers while ~37% from next 40 customers.

Gross debt stood at Rs 253cr as on Sep-2024. It has reduced debt by Rs 117cr during H1FY25.

EPS for the quarter stood at Rs 6.1 and it was at Rs 13.1 for H1FY25.

Company is a leading domestic private sector employer with 6 lakh Headcount and 21% revenue CAGR in last 4 years.

Board had recommended final dividend of Rs 6 per share aggregating to a total of Rs 10 per share for FY24. Management said that similar payout to continue in the medium term.

Conference Call Highlights

- WFM margin got impacted by a weakness in the Singapore business and investments despite the solid traction in GCCs.
- Company eyes WFM EBITDA margin of 2.6% in the medium term while the long term aspiration is ~3%. With H2 being seasonally stronger, overall margin should touch 4% vs. 3.8% seen in H1FY25. Demerger progress remains on track, and it is expected to be closed by Q1FY26 and PLB (mostly Foundit) should achieve EBITDA break-even by Q4FY25.
- WFM: Delayed festive season had an adverse impact. A delayed start to the festive season weighed on 2Q head count additions. Quess has sharpened its sourcing, account management and sales approach. 70% of gross additions came from tier 2 cities and beyond. Manufacturing will be the key driver of headcount growth (70k+ headcount).
- Company has seen some near-term slowdown in the BFSI and manufacturing verticals. Specialised staffing was steady as the weakness in IT (no green shoots yet) was offset by traction in GCCs. GCC contributed 68% to specialised staffing revenue in the quarter. GCC has higher sourcing costs than IT staffing since the recruitment is of higher quality (people with 3-8 years of work-ex).
- International staffing is facing some headwinds in Singapore (due to visa and regulatory issues) even as the Middle East continues to do well.
- Investments are ongoing in manufacturing. While some of these have resulted in a margin hit, these should drive an improvement in the core-to-associate ratio over time. Manufacturing has a lower core-to-associate ratio inherently. It is 400-500 for services, while it is the range of 100-200 for manufacturing.
- 50%/23%/27% WFM EBITDA split from general staffing/international staffing/IT staffing.
- WFM margin is split ~1.8% for generalised staffing, 6-7% EBITDA margin for international staffing, and 9% margin for IT staffing.

Weakness in international staffing has been a drag and has offset the traction in GCC. With international staffing bottoming out, margins should rise going forward.

- GTS
  GTS is growing in high single digits. Contracts with Rs 100cr ACVs have been signed in Q2 FY25. CLM business has continued to do well. Non-voice business was flat YoY, and the company continues to focus on profitability. In the collection business, focus is on margin improvement.
  Gen AI platform deployment (first set to be launched in the coming quarter) can result in 30-40% cost savings.

- OAM
  The Telecom vertical benefited from the 4G and 5G rollouts of telcos.
  In OAM, the decline in margin YoY was due to investments in sales and leadership.
  H2 is expected to be better for margin-accretive business such as F&B and Telecom

- Product led Business (PLB)
  Foundit losses are coming down. This is despite the IT hiring weakness in India and Singapore. Engagement metrics with recruiters and candidates improved. PLB should achieve EBITDA break-even by Q4FY25.
  There has been a change in accounting policy, with interest on Defined Benefit Obligation (DBO) reclassified from employee costs to other finance costs.
  Demerger progress on track; likely to be closed by Q1FY26. The shareholder and creditor meeting is scheduled on Dec 9, with the first motion in NCLT completed. Before the demerger, the company has been making investments to strengthen.

- H2 is expected to be better in terms of margin. H1 FY25 witnessed cyclicality in F&B and telecom businesses. Overall margin should inch toward 4% in H2. Levers for margin improvement include a recovery in international business and volume growth.

- Major reasons for margin stability include: As part of the demerger process: 1) there is significant hiring for the back office; 2) verticalization is driving investments in structure and processes; 3) GCC staffing requires higher-quality recruiters as against IT staffing, and freshers are not hired; 4) International accounts yield higher EBITDA margins, but Singapore is not currently hiring. ν For WFM, long-term margin outlook is 3%, with a medium-term target to get back to 2.5-2.6%.

Other Highlights

- EBITDA margin improved due to operating leverage in OAM business, consistent margin improvement in GTS business and reduction of cash burn on Foundit platform.

- Order book remain robust and management remains focused on signing margin accretive deals.
- In FY25 WFM business EBITDA Margin is expected to improve to 2.8% led by operational efficiencies and medium term aim is to achieve 3% levels.
- Tax rate to remain in range of 12-14% in FY25.
- Workforce management - General Staffing added 78 new logos in Q4, taking the FY24 tally to 274. Total headcount increased 17% YoY at 4.52 lakh. Collect & Pay continues to be at healthy ratio of 78% helping working capital management.
- International business in GTS enjoys better margin than the domestic business.
- In GTS, the focus remains on improving profitability by upselling higher value services coupled with better geographical mix and terminating lower margin contracts.
- Management is focusing on profitable growth across segments. Higher growth in the GTS business shall lead to improvement in the growth trajectory.
- Foundit achieved operational breakeven and launched upgraded 2.0 platform it is expected to witness traffic gain thereby expanding market share.
- Operating margin improvement was led by consistent uptick in margins in GTS platform driven by focus on international geographies and high-margin segments, reduction in Foundit burn, operating leverage in OAM platform. WFM margins remained flat, whereas GTS margin improved 50bps QoQ due to upselling of higher value services to clients. OAM margin remained flat QoQ/80bps YoY. Product led business EBITDA losses contracted and achieved breakeven as cash burn reduced in Foundit.

Demerger update

In Feb-2024, Quess Corp has announced a demerger of its business into three separate entities: i) one for workforce management (general & specialized staffing); ii) Digitide Solutions – current GTS segment; iii) Bluspring Enterprises – current segments of Operating Asset Management (FM, Security) and online recruitment portal Foundit (erstwhile Monster).

The demerger process is expected to be take 12–15 months, and all the three entities will have a mirror shareholding upon demerger (i.e. Quess shareholders shall get a share each of Digitide and Bluspring).

The three-way demerger of Quess's diversified business segments would result in three listed entities with a dedicated presence. The entities will be Quess Corp (workforce management, 68% of consolidated FY23 revenue), Digitide Solutions (BPM solutions, Insurtech and HRO businesses, 14%) and Bluspring Enterprises (Facility Management, Industrial Services and Investments, 18%). Company expects the demerger to take 12-15 months more to receive regulatory clearance.

The corporate structure would be more simplified and would allocate individual accounting responsibilities. The management resource would be dedicated to derive incremental growth and efficiency, which would lead to value unlocking for each of the individual entities.
Capital allocation would be at an individual entity level. Digitide would require more capital allocation than the other two entities, as its growth would be supported by inorganic route to achieve its aspiration of US$ 1bn revenue milestone. Additionally, the individual entities would have their own dividend payout policy.

Management believes that each of the standalone entities would create more value than the value that the company would generate as a combined entity.

Key Highlights from FY24
FY24 saw focus on profitable growth aided by a number of initiatives. Each of the last seven quarters witnessed QoQ EBITDA margin expansion. GTS platform (including healthy traction in the higher margin international revenue), operating leverage in OAM segment and lower losses in foundit were the key drivers.

WFM – Manufacturing a key vertical; room for margin expansion
Within WFM, retail, manufacturing and telecom verticals drove general staffing segment. There were 78/274 new logos added in 4Q/FY24. 30% of these have outsourced staffing for the first time. BFSI, retail, manufacturing and telecom each has 50k+ associates. Manufacturing vertical saw 47% growth to 70k+ associates (double in 2 years).
Manufacturing is a key focus area going forward with the overall thrust on this vertical by the government. Large manufacturing facilities have come up; manufacturing was traditionally dominated by SMEs. There are 500+ field recruiters. This results in lower unit economics vs. other verticals in the initial period but economics to improve over a longer period.
WFM margin should inch up by 20bps to 2.8% as US staffing related burn is eliminated. Medium-term margin target is to achieve 3%.

GTS segment
In the GTS segment, higher value-added services (transaction processing and collection) and improved geographical mix aided profitable growth. The margin drivers are structural in nature.
International business now accounts for 74% of Customer Experience Management (CXM) business vs. 69% in FY23. New bookings are also skewed towards international geographies. BFSI, manufacturing and retail verticals did well.

It aims to grow revenue in double digits while operating margin should be in the 17-18% range.

OAM

OAM saw healthcare, retail and BFSI verticals doing well. Food business and telecom witnessed healthy gross margin expansion. On the revenue front, the company targets to grow better than 7% seen in FY24.

FMS

Quess aspires to become a leading Indian FMS service provider with end-to-end facility management for the manufacturing and industrial sectors. It aims to improve the revenue concentration from these verticals to 25%.
Company expects to grow FMS revenue by 3-4x of India's GDP growth rate, while improving its EBITDA by 100bps YoY through productivity enhancement and automation.
Company aims to take the FMS revenue share to 20% from 5% currently, while focusing on robotics and automation solutions.

Foundit – EBITDA loss reduced in FY24; break-even likey in FY25

Foundit saw 13% QoQ growth. While IT hiring remains weak, the company also focuses on non-IT hiring. AI-based platform Foundit 2.0 is being rolled out with clients, which should drive higher wallet share. Foundit EBITDA loss was at Rs 55cr in FY24 vs. Rs 95cr in FY23.

Healthy FCF generation

70% of WFM is collect-and-pay. GTS and OAM segments have higher WC cycle. WC improvement is sustainable and the company endeavours to keep a tight control on WC.
Quess achieved Rs 700cr cumulative debt repayment and paid out Rs 450cr dividends in the past five years. The priority is to reduce gross debt (Rs 370cr as of end-FY24) and then return the remaining to shareholders in line with the stated dividend policy.

Business and segments

Quess group is one of the largest business services companies in India offering diverse services including staffing solutions, training, catering, facility management, security services and technological services. Quess enjoys leadership position in the domestic general staffing and IT staffing businesses and is also one of the largest players in the Integrated Facilities Management (IFM) and is a leading human resources (HR) payroll services provider in India. The associate base in the general staffing business also increased substantially over the years, supported by geographical expansion into Tier-2/3 cities and steady addition of clientele. Company continues to maintain its market position as a leading private sector employer with more than 5.7 lakh full-time equivalent (FTE) employees in India.

Quess has mainly three business segments 1) Workforce Management (70% of revenue and 39% of EBITDA in H1FY25) 2) Global Technology Solutions (GTS) (12% of revenue and 46% of EBITDA) 3) Operating Asset Management (15% of revenue and 15.5% of EBITDA) and 4) Product

led business (currently in EBITDA loss).
As on Sep-2024, the company has 600,000 associates across all segments. With a geographic presence and scale, and more than 96 locations across India, South East Asia, North America, and the Middle East. With over 3,000 partner clients, Quess Corp is one of the largest private sector employers in India and one of the Top-5 staffing companies globally by headcount.

Further, large and reputed customer base spread across diverse sectors (such as banking, financial services and insurance, information technology (IT)/IT-enabled services, retail, telecom, fast moving consumer goods, industrials, healthcare & education and logistics sectors) results in relatively low revenue concentration risk and helps overcome the risk of slowdown in any particular industry.

Workforce Management
Quess Corp is the leader in the Indian workforce management space with a presence across Asia Pacific and Middle East offering multiple services including General Staffing, IT staffing, RPO, MSP and Permanent Recruitment. It has a network of 73 offices in India and an additional 23 offices spanning APAC, ME, North America, and Canada.
Quess is amongst Top-25 global staffing companies in terms of revenue. Presently, the company has around 7000+ associates deployed outside India.
Out of total US$ 500bn global staffing market, India is around US$ 12bn market. Quess has ~10% share in India at ~US$ 1.5bn. While global peers are posting around 5% CAGR revenue growth, the company is growing at around 15-18% CAGR. Moreover, Quess aims to improve its margin to 3-3.5% which is upper band of global peers.

Margin mix of WFM – there are three categories of businesses in WFM – General staffing is low single digit margin, some business (outside India) which are high single digit, and regions like MEA, Philippines and IT/ITES which are double digit EBITDA margin. Non general staffing businesses are growing faster and will help with margin expansion strategy.
Quess wants to add 50000 or more people every year, while keeping cost to serve on a lower side and further improve margin by providing value added services. There is huge potential for growth around Logistics, 5G and PLI.
Mr. Guruprasad, who has led Quess Corp's general staffing business since its inception, attributed the company's success versus the competition to a strong focus on building sourcing and hiring capabilities right from the outset. Payroll processing is not a differentiating factor, but ability to source people in tier-2/3/4 towns remains a differentiator for Quess. Management expects WFM segment margin to move up to around 3-3.5% over the long term through a combination of scale benefits and addition of value-added services. Implementation of the new labour codes should also accelerate growth. During FY21-23, the company used to have margin of around 3-3.3% in the segment, however due to competitive intensity it contracted gradually and stood at 2.6% for FY24.

Implementation of the new labour codes is progressing slower than planned. Some of the key benefits expected would be -
They will increase formalisation in the labour market. The addressable market opportunity for workforce staffing is ~200mn employees,

whereas personnel under formal staffing are only 5mn at present.
The principal employer will be held responsible for payment of wages, again leading to increasing formalisation, in turn leading to timely and full payment of wages.
Ease of doing business will improve, as the number of registrations required by businesses will reduce.
There will be more forms of employment, which would include not only full-time, but also fixed-term, gig work and apprenticeship.
There are also some challenges, such as increase in base wage rates in a few states, which may impact the employer's profitability.
During the year, General Staffing crossed 4,00,000 headcount milestone, adding 60,000 associates during the year. Quess' General Staffing is among the top 5 global staffing companies by head-count. General staffing industry provides manpower services by helping to match qualified candidates with companies that have job openings across sectors like e-commerce, retail, telecom, manufacturing etc. They provide services across blue collar, grey collar and entry-level white-collar jobs. India has emerged as one of the largest countries for flexi staffing in the world with a market size of US$ 12 billion. Temporary staffing could account for ~10% of India's formal employment by 2026.

GTS segment

Global Technology Solutions (GTS) platform offers a diverse array of services ranging from customer lifecycle management to platform-based solutions, non-voice BPO solutions, and IT services. Over the past four years, structural transformations within the GTS platform have driven sustained margin enhancement. There has been a significant increase in the share of international business, particularly in CXM (Customer Experience Management) includes digital business services, and EXM (Employee Experience Management). GTS has prioritized higher value services and transitioned towards software-as-a-service platforms.

In FY24, the GTS platform's revenue contribution was 12% of the group's revenue, with its highest-ever EBITDA contribution of Rs 425 crore. GTS operating margin expanded ~200 bps to 18.2% in FY24. The GTS platform generates 78% of business from India and 22% from North America, with CLM, Non- voice BPO, IT services and Platform business accounting for 47%, 28%, 10% and 15% of the business, respectively. EBITDA for all business has almost doubled in last 7-8 quarters due to increased digitalization and improved cost structure. IT-BPM is a high growth industry and with a rise in the number of companies embracing digital technology, it is likely to increase the demand for tech talent. The BPM industry is diversified across verticals such BFSI, telecom, retail and healthcare. A large portion of the customer work is done in India through omni-channel model and involves higher end expertise with technology and automation already built into the processes. The creation of BPM sector jobs in India in the past three-four years is attributable to automation and robotic process automation.

The global payroll outsourcing market was valued at $9.9 billion in 2021, and is projected to reach $19.5 billion by 2031, growing at a CAGR of ~7% in the same period. The payroll outsourcing market will continue to grow in the medium term as employment increases in the formal sector & growing number of organisations continue to outsource their payroll enabling them to focus on their core business, achieve cost savings & enhance compliance/employee experience.

Global Technology (GTS) is performing very well with the help of sectorial tailwinds. There is a huge market potential and the company operates in just a small percentage of overall market. Global BPM market is expected to reach US$ 336bn by 2025 and India Technology Market Size may reach to US$ 227bn by 2025. The company has also made investments in UI/EX (Digital Apps), which would contribute in the coming years.

Operating Asset Management

OAM offers a range of asset maintenance solutions, from manpower based to managed services, across industry segments. The service offerings include Soft Services, Hard Services, Security Solutions and Industrial asset maintenance. The integrated services and deep domain expertise offered under one roof simplify vendor management for the customers and allow the business to undertake more SLA-based projects. OAM platform's revenue grew 7% YoY and now contributes 15% to overall group's revenue. Topline growth was lower on account of rationalization of loss making and lower margin contracts, non-linear margin expansion were primarily led by business mix change, led by Food services & Telecom biz and consistent focus on cost to serve. For the full-year, EBITDA margin expanded to 5%, a rise of ~50bps during the year.

About 58% of revenue was derived from Facility Management (FM), 19% from security, 14% and 9% respectively from Industrial and telecom segment. Company has good presence of security in south and plans to expand it to other areas. Expect security to grow around 30-35%.

Industrial O&M will benefit from formalization while telecom will get benefited from 5G.

Facility Management

Integrated Facilities Management (IFM) refers to a coordinated effort involving space and people to maintain buildings and properties. Facility Management Services Market in India is estimated to grow at a CAGR of ~15% between 2022 and 2027 and increase by $16.32 billion. In 2021, the industry was estimated to be worth US$ 20-21 billion. Facilities management consists of soft services such as housekeeping, catering and security services and hard services such as heating, ventilation and air-conditioning, plumbing and fire protection. With the hybrid work model still being active, the facility management business has more headroom to grow. Strong macroeconomic growth fundamentals are contributing to a steady growth in the Integrated Facility Management Market in India.

The industries ranging from banking and aviation to pharmaceuticals and IT, and India has attracted large multinational companies with its business-friendly climate. The rise of organised retail developments in India have also contributed to the built environment, thereby driving the demand for Facility Management services.

Security Services

From offering Manned Guarding, Asset Management, Video Analytics, and Command Centre-led Business Solutions to Perimeter Intrusion Detection Systems, the company provides security services specifically designed to meet client requirements.

Industrial Services
The company provides services for industrial and telecom sector. It includes Steel plants, Oil & Gas, tech & consulting services and telecom tower installation and network planning etc. Company acquired 8 customers across power, petrochemicals, agrochemicals.

Product led business
This portfolio includes Monster (talent management); Qjobs, WorQ, Dash (Talent platform for distributed field workforce) and QDigi (customer service platform). All of these are technology led initiatives. Frequent job changes, career advancement opportunities and work flexibility would help grow faster in the coming years. Work from home/ Gig jobs seeing growth along with rising demand for technical talent. Ad-tech is another area where there are huge opportunities. Company is trying to source candidate information from multiple sources to supplement resume. The quality of data will be key differentiator and the focus remains on efficiency and matching.

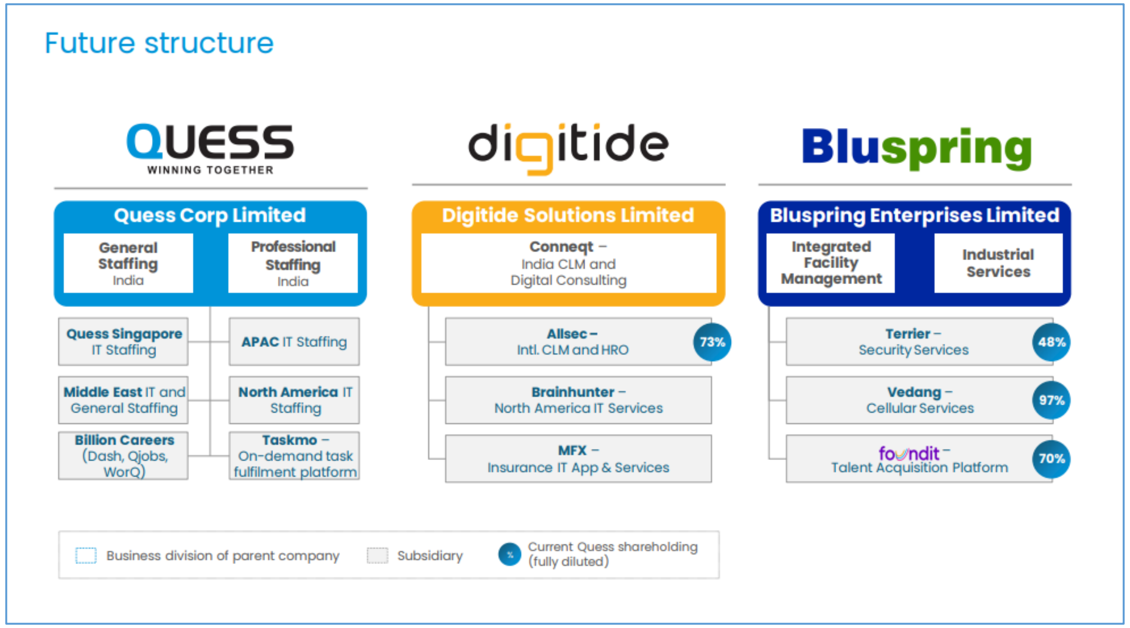
In the product-led business platform, Quess has invested in digital platforms with a view to increase efficiencies, drive productivity and optimize key business processes, offering comprehensive tech solutions for large and mid-size companies to accelerate their workforce hiring, management, engagement, and non-compensation benefit needs. Among the product-led businesses, foundit (formerly Monster APAC & ME) delivered a strong allround performance with healthy sales growth and optimization in cash burn. Moreover, in-line with corporate structure simplification, Quess Corp completed its divestment in Qdigi.

Foundit: During the year, the business successfully launched its disruptive AI product foundit 2.0 for SEA and Asian market and successfully migrated 100% of single geography user customer to foundit 2.0 enabling the existing customer base to experience the new product. With access to talent on and off the market, enriched candidate profiles with smart insights, AI-powered contextual search and outreach personalized by organization, foundit 2.0 offers a comprehensive solution for recruiters to be more agile and efficient.
Post the relaunch, the foundit job portal witnessed healthy traction accompanied by double-digit sales growth for the year. Operational EBITDA also reduced to Rs 56 crore in FY24 from Rs 91 crore in FY23. In H1FY25, the segment reported revenue of Rs 78cr with EBITDA loss of Rs 16cr.

Segment Results

Particulars (In ₹ Cr)	Quarter ended				
	Sept-23	Dec-23	Mar-24	Jun-24	Sept-24
Workforce Management					
Revenue	3,315	3,430	3,476	3,622	**3,747**
EBITDA	87	90	91	89	**92**
EBITDA %	2.6%	2.6%	2.6%	2.4%	**2.4%**
Global Technology Services					
Revenue	584	588	604	610	**625**
EBITDA	104	108	113	107	**109**
EBITDA %	17.8%	18.3%	18.8%	17.5%	**17.5%**
Operating Asset Management					
Revenue	705	695	710	733	**768**
EBITDA	35	36	39	35	**37**
EBITDA %	5.0%	5.2%	5.4%	4.8%	**4.8%**
Product Led Business (ex-Qdigi)					
Revenue	35	36	38	39	**39**
EBITDA	(23)	(14)	(5)	(8)	**(8)**
EBITDA %	(65.8%)	(37.9%)	(12.0%)	(21.8)%	**(19.2)%**

Demerger of its businesses



(Source: Company, HDFC sec)

Quess Corp had acquired 61% stake for Rs 271cr in Allsec Technologies

Allsec Technologies (now Alldigi Tech) is the second largest Payroll Service Provider in India. The acquisition got concluded in Sep-2019 and Quess through Conneqt Business Solutions holds ~73% stake in the company. Through this transaction, Quess has been able to leverage Allsec's global presence as well as their deep domain expertise in the HRO business to further deepen client relationships to drive growth and profitability for both Tata Business Solutions (Conneqt) and Allsec. It has been the goal for the company to increase the revenue share of the customer life cycle management platform because it is a high margin business.

Allsec is into mainly two segments 1) Human Resources Operations (HRO) and 2) Digital Business Services (DBS). Company derived 65% revenue from DBS while the balance from HRO. Company had headcount of 4500 as on Mar-2022.

Alldigi Technologies

Alldigi Technologies Ltd. (Erstwhile Allsec) is one of the leading providers of outsourced solutions in customer engagement, human resource operations, sales and retention and quality assurance for businesses across varied industries with vast expertise in providing business process solutions across various industry verticals. The company operates two segments globally i.e. Employee Experience Management (EXM) covering HRMS, payroll services, time and attendance management and Customer Experience Management (CXM) which

encompasses lead generation, customer retention and relationship management comprising both voice and non-voice processes. Both EXM and CXM businesses support domestic and international customers.
It has an extensive presence in the business and long-term association with its key customers, has enabled revenue stability. Besides, the company has also been able to expand its business at a steady pace across geographies in India as well as in the exports market, which has enabled it to further scale up of operations.
Company has strong global footprint and expending its services across the sectors by ~5,600 full time equivalent (FTE) workforce, seats capacity stood at 4300 in India location (Chennai-HQ, Bangalore, Noida) and ~1200 at Manila (Philippines). This includes 4731 FTE in CXM and 865 in EXM.

The company took various measures to rationalise costs like lower discretionary spend and other cost efficiencies. Going forward, we believe cost pressures of the past to be offset and absorbed by digital transformation which will enable better margin and profitability.
Consequently, we expect EBITDA margin at 24.5-25.5% and PAT margin in the range of 14.5-16% over FY24-26E.

For FY24, Alldigi had reported 20% YoY growth in revenue at Rs 469cr. EBITDA/PAT increased 30% YoY at Rs 116cr/Rs 64cr. For H1FY25, Alldigi had reported 18.5% YoY growth in revenue at Rs 261cr. EBITDA/PAT increased 23.3% and 37.5% at Rs 62cr/Rs 44cr.

Flexi-staffing offers an interesting proposition for both employees as well as employers
While employees have the option to work as and when they feel like, companies have an option to recruit 'on a need' basis, rather than on a permanent basis. Also, companies can hire extra employees according to their requirement and employees also gain much needed experience and training within short periods. Recruitment and replacement also becomes easier with temporary staffing solutions.
The demand for emerging technology such as Artificial Intelligence, Machine Learning and Big Data is quite high in the IT industry. Based on project requirements, companies can hire flexi-staffing staff to meet varied requirements. A flexi-workforce also allows a company to retain its competitive edge. E-commerce companies also prefer flexi-staff to meet their seasonal requirements. Labour reforms are likely to aid the staffing sector and bolster growth. Labour reforms like the New Wage Code and the National Floor Minimum Wages are expected to be introduced in the short term and it is expected to favour people bound by contractual employment terms [like abolishing The Contract Labour (Regulation & Abolition) Act, 1970]. It will also increase the adoption of flexi-staffing. Although, many companies are now apprehensive about the flexi-staffing culture, new laws and labour reforms are likely to make the process transparent and simple.

IT Flexi Staffing Industry
With more companies reducing their bench strength, removing people who are not working on ongoing projects, the Indian IT industry is renewing its push towards flexi staffing. Growth in flexi workforce is helping to deliver projects faster and is also shifting the trend beyond legacy businesses, thereby prompting automation across ranks and employee operation levels.
People with skills in artificial intelligence, machine learning and other emerging skills want to be a part of the gig economy and companies

are also seeking faster deployment for certain niche skills. Enterprises have realised that the future of work will be much more technology driven. Flexi staffing is becoming a way of life for many organisations, both in technology and non-technology sectors. Demand for niche skills is rising as the challenge to find the right talent becomes quite difficult. Given the changing industry dynamics, businesses that adopt subcontract and flexi hiring models will be at an advantage.

Fairfax and Quess Corp commit up to Rs 300cr to set up a 350 bed Speciality Paediatric Centre at CMC Vellore

Fairfax Financial Holdings Limited (Fairfax) along with Quess Corp, announces signing of a MoA with Christian Medical College (CMC), Vellore, to set up a paediatric specialty centre at its Kannigapuram campus. The proposed centre, which will be called the 'CMC Vellore Paediatric Specialty Centre', will have 350 beds covering a range of paediatric specialties.

Fairfax and Quess have pledged up to Rs 300cr towards setting up this centre, with the vision to provide leading paediatric medical and surgical services. In addition to treatment, the centre will also focus on education, training and research. CMC, a renowned medical college of international repute, attracts patients from all economic backgrounds and plays a pivotal role in providing access to affordable quality healthcare. The Fairfax-Quess partnership aims to support CMC's culture of caring for the poor and vulnerable and maintaining a fine balance between providing quality treatment while being inclusive and minimizing the financial burden on patients. The centre, upon completion, will be located in a building named the 'Fairfax-Quess Block' and will add to the existing capacity of the well-renowned multi-specialty medical institution in Vellore.

80JJAA deductions

About 18 months back, Quess and TeamLease reported that income tax authorities contested their eligibility of claiming 80JJAA deductions. The claim made by the authorities was that the employees (with regard to whom the deduction is being claimed) work outside the premises of

the company and the staffing company does not have full responsibility of the work done by the employees. Management of both these companies believe that this could be an industry issue,

should the stance taken by the income tax authorities hold. The contention made by both Quess and TeamLease is that the staffing company is responsible for all the statutory compliances for these employees and, thus, it should be regarded as the employer when it comes to availing benefits of the 80JJAA deductions.

The benefits that the government gets from formalisation of the workforce and increased job creation outweighs the tax benefits provided to these companies. However, should the benefits be withdrawn going forward, there could be impact of ~20% in profitability.

Key Risks

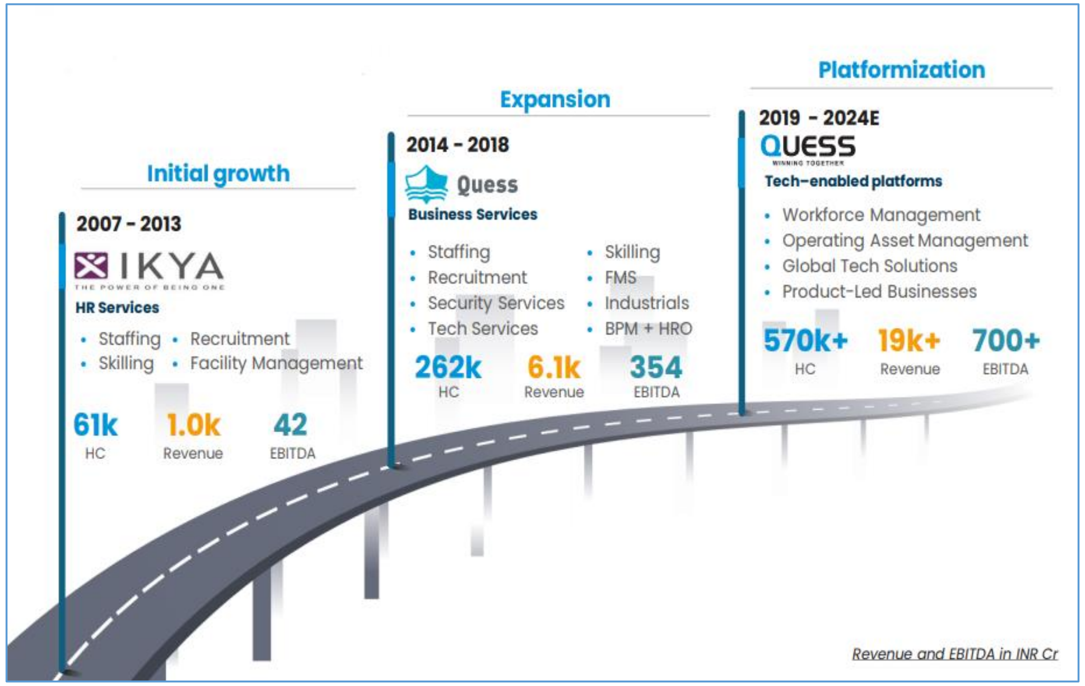
- Demand for staffing and other business services is subject to the state of the overall economy. Pronounced softness in the economy in India or in Quess' focused markets could dampen demand for the company's services. The staffing industry is a play on employment, which has a correlation with the economic conditions of any country. Any economic downturn in the country could impact the demand for staffing services as many companies reduce their use of temporary employees.

- In case the acquired companies do not show continuous improvement in their performance, Quess will have to impair Goodwill and also write off intangibles and that may put pressure on profitability and networth.
- Delay in payment from key clients would affect working capital management and cash flows going ahead.
- Higher than expected competitive pressure may lead to lower headcount growth or loss of market share is a downside risk. Inability of the company to consistently improve margin would lead to lower cash flows and profitability.
- Inability to consistently improve margin would dampen growth in profitability. Over long term, with higher scale and size, if the company is unable to expand its margins, it can have a downside risk to overall earnings trajectory.
- Future competition from higher use of artificial intelligence in services and robotics in manufacturing sector can pose a threat to incremental demand for staffing solutions.
- Quess as a market leader in the industry, should be able to deliver faster growth than industry. Any shortfall could pose downside risk to estimates.
- 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 acquired business could pose downside risks.

Company Background

Quess was founded by Ajit Abraham Isaac in 2007. Company has divided its operations in the three segments: a) Workforce Management (WFM) b) Operating Asset Management (OAM) and c) Global Technology Solutions (GTS). Quess has a team of ~422,000 employees across India, North America, South America and South-East Asia across all segments. Quess serves over 3000+ clients worldwide. Quess is No.1 in Indian general staffing market and IT Staffing segment, No.1 in Singapore IT staffing space, and Top 3 facility management services provider in India. In the past few years, company has made around 25+ acquisitions and investments and turned them around well. The acquisition has been done largely at attractive valuations, and then turned them around successfully. Quess is 4th largest staffing company in the world and amongst top 3 domestic BPO players in India.

Company offers end-to-end business solutions such as general staffing, professional staffing, technology staffing, IT products and solutions, skill development, payroll, compliance management, integrated facility management and industrial asset management services to corporate clients operating across sectors. By engaging with the company, its clients have the flexibility to maintain a large employee base throughout the year, enabling them to save on unnecessary manpower costs during the off-season and outsource their non-core activities. Company has acquired companies involved in various businesses over the last few years and currently manages various joint ventures and subsidiaries.



(Source: Company, HDFC sec)

Income Statement

(Rs Cr)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	13692	17158	19100	21068	23490	26074
Growth (%)	26.3	25.3	11.3	10.3	11.5	11.0
Operating Expenses	13068	16573	18407	20232	22523	24948
EBITDA	**623**	**586**	**693**	**836**	**968**	**1127**
Growth (%)	36.0	-6.0	18.3	20.6	15.8	16.4
EBITDA Margin (%)	4.6	3.4	3.6	4.0	4.1	4.3
Depreciation	212	275	283	289	313	344
EBIT	411	311	410	547	655	783
Other Income	20	26	29	33	40	49
Interest expenses	79	107	117	101	84	69
PBT	357	284	295	480	611	762
Tax	107	62	15	68	118	163
RPAT	**241**	**224**	**277**	**398**	**472**	**569**
Growth (%)	316.4	-7.0	23.4	43.9	18.5	20.6
EPS	16.3	15.1	18.6	26.8	31.8	38.3

Balance Sheet

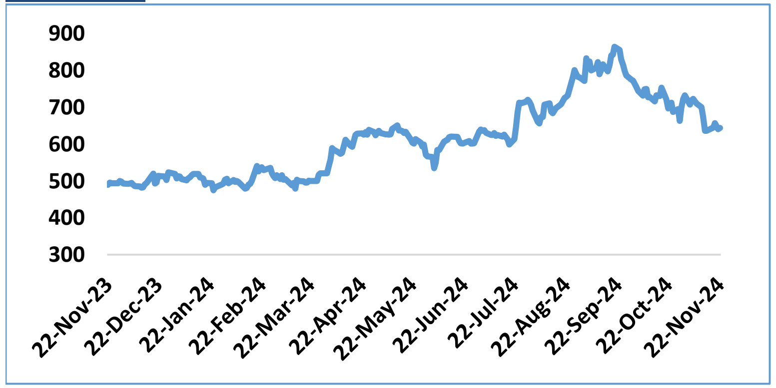
As at March	FY22	FY23	FY24	FY25E	FY26E	FY27E
SOURCE OF FUNDS						
Share Capital	147.7	148.2	148.5	148.5	148.5	148.5
Reserves	2290	2421	2650	2894	3196	3588
Shareholders' Funds	**2437**	**2568**	**2798**	**3043**	**3344**	**3736**
Long Term Debt	24	10	2	13	18	21
Net Deferred Taxes	-396	-596	-661	-658	-655	-652
Long Term Provisions & Others	458	612	660	700	752	793
Minority Interest	131	162	166	166	166	166
Total Source of Funds	**2653**	**2756**	**2966**	**3264**	**3623**	**4064**
APPLICATION OF FUNDS						
Net Block	498	646	621	477	355	230
Intangible Assets	1174	1168	1107	1052	1007	965
Non-Current Investments	11	3	37	41	50	100
Long Term Loans & Advances	169	196	248	259	278	298
Total Non-Current Assets	**1852**	**2013**	**2013**	**1830**	**1690**	**1594**
Current Investments	92	102	56	67	106	154
Inventories	28	28	7	29	33	46
Trade Receivables	2332	2688	2772	3117	3488	3840
Short term Loans & Advances	27	22	10	14	22	32
Cash & Equivalents	512	566	545	746	888	1027
Other Current Assets	130	104	189	211	258	344
Total Current Assets	**3120**	**3510**	**3580**	**4184**	**4794**	**5442**
Short-Term Borrowings	650	522	368	304	263	213
Trade Payables	115	125	118	136	159	178
Other Current Liab & Provisions	1520	2085	2106	2270	2390	2519
Short-Term Provisions	34	35	35	41	49	63
Total Current Liabilities	**2319**	**2767**	**2627**	**2750**	**2861**	**2972**
Net Current Assets	801	743	953	1435	1933	2470
Total Application of Funds	**2653**	**2756**	**2966**	**3264**	**3623**	**4064**

(Source: Company, HDFC sec)

Cash Flow Statement

(Rs Cr)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	357	284	295	480	611	762
Non-operating & EO items	-20	-26	-29	-33	-40	-49
Interest Expenses	79	107	117	101	84	69
Depreciation	212	275	283	289	313	344
Working Capital Change	13	26	8	-280	-359	-398
Tax Paid	-87	-199	-144	-68	-118	-163
OPERATING CASH FLOW (a)	**554**	**466**	**530**	**488**	**491**	**566**
Capex	-83	-99	-98	-130	-180	-208
Free Cash Flow	471	368	432	358	311	358
Investments	-125	70	118	25	7	-39
Non-operating income	20	26	29	33	40	49
INVESTING CASH FLOW (b)	**-188**	**-2**	**49**	**-72**	**-133**	**-198**
Debt Issuance / (Repaid)	-213	-183	-312	54	59	48
Interest Expenses	-79	-107	-117	-101	-84	-69
FCFE	179	79	2	310	286	337
Share Capital	37	31	4	0	0	0
Dividend	-186	-185	-71	-167	-192	-208
FINANCING CASH FLOW (c)	**-442**	**-443**	**-497**	**-215**	**-216**	**-228**
NET CASH FLOW (a+b+c)	**-76**	**21**	**82**	**201**	**141**	**139**

Price chart



Key Ratios

	FY22	FY23	FY24	FY25E	FY26E	FY27E
Profitability (%)						
EBITDA Margin	4.6	3.4	3.6	4.0	4.1	4.3
EBIT Margin	3.0	1.8	2.1	2.6	2.8	3.0
APAT Margin	1.8	1.3	1.5	2.0	2.1	2.3
RoE	10.1	9.0	10.3	13.6	14.8	16.1
RoCE	13.5	9.3	11.3	13.9	15.3	16.6
Solvency Ratio (x)						
Net Debt/EBITDA	0.1	-0.2	-0.3	-0.6	-0.7	-0.8
D/E	0.3	0.2	0.1	0.1	0.1	0.1
Net D/E	0.0	-0.1	-0.1	-0.2	-0.2	-0.3
PER SHARE DATA (Rs)						
EPS	16.3	15.1	18.6	26.8	31.8	38.3
CEPS	30.7	33.7	37.7	46.3	52.9	61.5
BV	165	173	188	205	225	252
Dividend	4.0	8.0	10.0	11.0	12.5	13.5
Turnover Ratios						
Debtor days	62	57	53	54	54	54
Inventory days	1	1	0	1	1	1
Creditors days	43	33	32	35	37	37
VALUATION (x)						
P/E	39.4	42.6	34.5	24	20.3	16.8
P/BV	3.9	3.7	3.4	3.1	2.9	2.6
EV/EBITDA	15.2	16.2	13.7	11.3	9.8	8.4
EV / Revenues	0.7	0.6	0.5	0.4	0.4	0.4
Dividend Payout (%)	0.6	1.2	1.6	1.7	1.9	2.1
Dividend Payout	24.5	52.9	53.6	41	39.3	35.2

(Source: Company, HDFC sec)

Kushal Mahendra Rughani

Digitally signed by Kushal Mahendra Rughani
Date: 2024.11.25 08:05:10 +05'30'

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions.
These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

I, **Kushal Rughani, Research Analyst, MBA**, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.
Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does not have any material conflict of interest.
Any holding in stock - No
HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.
This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.
If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.
Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.
HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.
HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.
HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.
HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.
HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.
Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

Please note that HDFC Securities has a proprietary trading desk. This desk maintains an arm’s length distance with the Research team and all its activities are segregated from Research activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600
For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400
HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.
Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.
Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.