August 30, 2021

Quess Corp Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund-based Limits	1,147.00	1,137.00	[ICRA]AA (Stable); reaffirmed
Short Term – Non-fund Based Limits	79.50	89.50	[ICRA]A1+; reaffirmed
Short Term – Interchangeable Limits	(165.00)	(165.00)	[ICRA]A1+; reaffirmed
Commercial Paper (CP)	200.00	200.00	[ICRA]A1+; reaffirmed
Total	**1,426.50**	**1,426.50**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings continues to consider the diversified business profile of Quess Corp Limited (QCL) supported by organic and inorganic growth over the years, its strong market position as the fifth-largest manpower outsourcing company globally, its established client base comprising top companies across industries and the extensive experience of the promoters in the industry. QCL's comfortable capitalisation and coverage indicators aided by a significant reduction in its gross debt (Rs. 515.3 crore as on March 31, 2021 vs. Rs. 1,148.4 crore as on March 31, 2020) in addition to its strong liquidity position further underpin the ratings. QCL is a subsidiary of Fairfax Financial Holdings (Fairfax; rated Baa3 (Stable) by Moody's).

The company's operating margins (adjusted for IndAS 116) declined to 3.0% in FY2021 from 4.9% in FY2020 following substantial upfront investments to revamp Monster, the expansion of its after-sales services business (Qdigi) over the last 24 months along with the continued weak performance of its industrial asset management segment. Further pressure on the margins resulted from the decline in margins in the general staffing business due to the company's focus on acquiring new customers at competitive rates and on reducing the headcount (3.4% decline in FY2021 from FY2020 levels) owing to the Covid-19 pandemic-induced lockdown, which impacted operations across businesses. QCL's revenues de-grew by 1.4% in FY2021 on account of the Covid-19-induced lockdown, which impacted operations across General Staffing, Excelus (training and skill development), IFMS (integrated facility management services) and Qdigi. The ongoing resurgence of the pandemic, resulting in localised lockdowns across several states, is likely to have a further impact on the company's operational and financial profile in the near term. Further, intense competition and steep attrition rates in the general staffing, security services and facility management segments continue to limit the company's pricing power and scope for margin expansion.

QCL's cash flows are impacted by high working capital requirements on account of the 30-45-day credit period offered to its customers against upfront payments made to the employees. Even while the company has improved the proportion of the collect & pay model under its general staffing business (74% as on Q1 FY2022), all other segments generally entail a credit period, which results in peak utilisation of ~60-65% (down from ~85%) of its working capital limits on a regular basis. The company is also exposed to government receivables on account of its presence in the training and smart city segments and income tax refunds. While QCL had cash balance of ~Rs. 540 crore as on June 30, 2021 (major part of which would pertain to collections received during the month end from customers), it also has some pending income tax refunds (to the extent of ~Rs. 130 crore), which as and when received, would support its liquidity position.

On April 16, 2021, QCL acquired the balance stake of 30% in Conneqt Business Solutions Limited (Conneqt; rated [ICRA]A+ (Stable)/ A1+) for a consideration of Rs. 208 crore (paid using internal accruals and cash balance available at QCL and across subsidiaries). Conneqt has now become a 100% subsidiary of the company. While QCL has been active in the inorganic space targeting growth and diversification through acquisitions in the past, ICRA expects that the company will not pursue any sizeable acquisitions in the near to medium term and will focus on stabilising the operations of the acquired entities and consolidating its various subsidiaries.

In Q1 FY2022, the company witnessed revenue growth of ~24% YoY to Rs. 2,986.9 crore primarily on the back of healthy recovery seen in general staffing business and more than 20% growth across all segments. Despite being impacted by Covid-19 2nd wave, the revenues remained largely flat on a QoQ basis due to strong client additions (264 client s added in Q1 FY2022 vs. 144 in Q4 FY2021). The company's OPM contracted by 46 bps YoY to 4.92% sequentially as training and skill development business was affected due to closing of some of the centres amidst Covid-19 2nd wave, additional cost as Monster went through cloud integration, closing of centres in Digicare business among other smaller one offs. The company's net debt increased to ~Rs. 151 crore as on June 30, 2021 from net debt negative status seen as on March 31 ,2021 primarily due to cash outflow of ~Rs. 208 crore towards the balance 30% stake acquisition in Conneqt and dividend payout of ~Rs. 103 crore. ICRA expects, the company's net debt position to improve with improved operating cashflows going forward.

ICRA also notes Income Tax department (IT dept.) conducted a survey at QCL and its subsidiary Terrier Security Services (India) Private Limited's offices in July 2021. The key focus of the survey was to verify deductions QCL has previously claimed u/s 80JJAA of Income Tax Act, 1961, a section which incentivizes new employment generation. QCL has stated that it continues to be 100% compliant tax payer and has refuted the allegations of concealment of income and has indicated that the concerns raised by the IT dept. are interpretational in nature and will continue to cooperate with them even though it defends its interpretation. ICRA also notes that the company has not received any claim/ notice from the IT dept. authorities as on date. ICRA will continue to monitor the situation closely and take necessary steps when and where applicable.
The Stable outlook on QCL's [ICRA]AA rating reflects ICRA's opinion that the company will continue to benefit from its diversified business profile, strong market position across businesses, healthy credit metrics and strong promoter profile.

Key rating drivers and their description

Credit strengths

Diversified business profile – QCL is an integrated services company offering a diverse portfolio of services including workforce management (WFM), operating asset management (OAM) and global technology solutions (GTS). The company derived 66.1% of its revenues from the WFM segment in FY2021, followed by 18.4% from the GTS segment and the balance (15.6%) from the OAM segment.

Significant scale-up in business, driven by combination of organic and inorganic growth – ICRA notes that the company's strategy of acquiring entities in adjacent businesses over the last few years has supported its inorganic growth and diversification into complementary segments, which has also resulted in healthy revenue growth. It has also supported QCL's geographical diversification into markets like USA, Canada, Middle East and South-east Asia, etc. That said, the company's organic revenue growth has also been healthy and stood at 26% in FY2020, reflecting its ability to grow its revenues by cross-selling in addition to acquiring new customers. However, the revenues degrew by 1.4% in FY2021 on account of the pandemic-related lockdown, which impacted operations across General Staffing, Excelus, IFMS and Qdigi . This was offset to some extent by the inorganic revenue growth at Terrier (incremental 25% acquisition from Heptagon in Q1 FY2021 classifying Terrier as a subsidiary instead of an associate). In the medium to long term, the turnaround of the currently loss-making entities will remain a key monitorable.

Strong market position in domestic general staffing industry, facility management and BPO/CLM industries – QCL is one of the largest players in the domestic general staffing industry with an associate count of ~2,56,000+ in Q1 FY2022 (QoQ growth of 1.2% and YoY growth of 14.3%). Given its large scale and robust backend operations, the company was able to improve its core-to-associate ratio to a historical high of 350 in Q1 FY2022 from 330 in FY2020 and 181 in FY2016 in the general staffing segment. It is also the largest information technology (IT) staffing player in India and Singapore. Under IT staffing, the company now derives 1/3rd of its revenues from a higher-margin business. QCL is also one of the largest players in the facility management and domestic business process outsourcing (BPO)/customer lifecycle management (CLM) businesses. Going forward, ICRA expects the general staffing, IT staffing, facility management and BPO/CLM (housed under Conneqt) segments to be key to the company's revenue and margin growth, in line with past trends.

Coverage and capitalisation metrics supported by reduction in gross debt – As on March 31, 2021, QCL's gross debt reduced to Rs. 515.3 crore from Rs. 1,148.4 crore as on March 31, 2020 primarily on the back of an improvement in collections during the period accompanied by lower working capital utilisation due to relatively lower revenues. However, as on June 30, 2021, the company's gross debt has increased to ~Rs. 691 crore as the company had cash outflow of ~Rs. 208 crore towards the balance 30% stake acquisition in Conneqt and dividend payout of ~Rs. 103 crore in Q1 FY2022 resulting in higher working capital utilisation. The company had cumulative cash balances of Rs. 540.0 crore as on June 30, 2021 of which the majority was a part of the collections. QCL's debt indicators are comfortable with the gearing and Net Debt/Adj. OPBDITA (excluding impact of IndAS 116) at 0.2x and -0.3x, respectively, as on March 31, 2021 (0.5x and 0.6x, respectively, as on March 31, 2020).

Credit challenges

Vulnerability of certain businesses to exogenous shocks – QCL's various businesses were impacted in 9M FY2021 by the pandemic-related lockdown. IFMS (catering and housekeeping business) was impacted due to the closure of IT parks, offices, educational institutions, hostels, the shift to work from home, etc., while Excelus (training and skill development business) was impacted by the closure of training centres, leading to EBITDA losses. The after-sales services business (Qdigi) was also affected by the closure of service centres across locations due to the lockdown. The general staffing, IT staffing and BPO/CLM businesses also witnessed headcount reductions in H1 FY2021 owing to downsizing by customers. However, in H2 FY2021, these businesses witnessed QoQ growth with a pickup in economic activity and the recommencement of offices and educational institutions. The ongoing resurgence of the pandemic, resulting in localised lockdowns, is likely to have a further impact on the company's operational and financial profile in the near term and ICRA continues to monitor the situation closely.

Upfront investments in stabilising acquired entities, weak demand conditions in certain end-user industries, and large acquisitions have impacted QCL's margins and RoCE – The company's operating margins (adjusted for IndAS 116) declined to 3.0% in FY2021 from 5.8% in FY2019 and 4.9% in FY2020 following substantial upfront investments to revamp Monster, the expansion of Qdigi over the last 24 months along with the continued weak performance of its industrial asset management segment. Further pressure on the margins resulted from the decline in margins in the general staffing business, given the company's focus on acquiring new customers at competitive rates and the impact of the lockdown on its operations across businesses. Moreover, in line with the relatively asset-heavy acquisitions and the significant consideration paid for acquisitions over the last few years, the company's core return on capital employed (RoCE) levels declined to 8.7% in FY2021 from 27% in FY2016. ICRA understands that with relatively lower investment requirements in Monster and Qdigi and QCL's plan to avoid sizeable acquisitions in the near to medium term, its ability to improve the RoCE and margins remains a key monitorable.

Stretch in working capital cycle – QCL witnessed peak utilisation of 60-65% (down from the previous peak of 85%) of its working capital limits on a regular basis. ICRA understands that QCL enters into tripartite agreements with clients under which the associates remain on the company's payrolls only as long as the services are availed by the client. However, payouts to its associates in the event of deferral/non-realisation of collections from its clients could stretch the company's working capital cycle.

Intense competition and high attrition rates limit scope for margin expansion – The general staffing industry in India is characterised by the presence of large domestic and international players while the facility management and security services industry are highly fragmented, comprising numerous unorganised players on account of low entry barriers. Consequently, competitive pressures continue to limit the pricing power and scope for margin expansion for the company in these segments.

Liquidity position: Strong

On average, the company utilised 52.7% of its sanctioned working capital limits as of the end of every month during the 12-month period ending January 31, 2021 with utilisation of 34.4% in January 2021. However, peak utilisation of working capital limits is expected to be ~60-65% of the sanctioned limits (down from ~85% in the previous year) as the salaries are paid out during various dates of the month.

In terms of debt repayment, QCL has no debt repayments at the standalone level. However, on a consolidated basis, it has a cumulative debt repayment of Rs. 188.5 crore during FY2022-FY2023. This is comfortable compared to the expected cash accruals. Further, ICRA notes that the company's liquidity profile remains strong on the back of cash balances of ~Rs. 540 crore as on June 30, 2021, healthy buffer available on working capital limits (sanctioned limits of Rs. 1,147 crore), expected income tax refunds of ~Rs. 130 crore and financial flexibility enjoyed by virtue of the strong promoter profile.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant improvement in the RoCE to 20% and a reduction in debtor/receivable days leading to lower working capital requirements on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is a significant decline in the associate headcount, leading to a contraction in the revenues and margins, or any debt-funded acquisition which could lead to higher debt levels. Specific credit metrics which could lead to a downgrade include Net Debt/OPBDITA > 1.0x on a sustained basis. While ICRA notes that QCL's operations might be affected in the near term due to the rising cases of Covid-19 (2nd wave), a longer-than-expected halt in operations or a larger impact on demand in end-user industries shall be a key rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has analysed the consolidated financials of each entity

About the company

Quess Corp Limited (QCL) offers end-to-end business solutions like 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 dealing with QCL, clients have the flexibility to maintain a large employee base throughout the year, thereby allowing them to save on unwanted manpower costs during the off-season and outsource their non-core activities. In February 2018, QCL acquired a 100% stake in Monster Worldwide's entities in India, Singapore, Hong Kong and Malaysia. These entities have operations across India, Singapore, Malaysia, the Philippines, Hong Kong, Vietnam, Thailand, Indonesia, the UAE and the Kingdom of Saudi Arabia and currently operates the same under the internet business segment. QCL currently operates under three major segments – Workforce Management, Global Technology Solutions and Operating Asset Management.

QCL was incorporated in October 2007 in Bengaluru and is promoted by Mr. Ajit Isaac. The company received an initial round of private equity funding in February 2008 wherein India Equity Partners (IEP) acquired a stake in QCL for an investment of Rs. 21.3 crore. In May 2013, Thomas Cook (India) Limited (TCIL), India's largest integrated travel company, acquired a 74.85% stake in QCL for a consideration of Rs. 256 crore. IEP had also exited QCL by selling its shares to TCIL as a part of this deal. In FY2020, QCL was demerged from TCIL resulting in Fairfax currently holding a 32.29% stake in QCL.

QCL has acquired companies engaged in a variety of businesses over the last few years and currently operates various joint ventures and subsidiaries. On a consolidated basis, the company currently has ~3,69,000+ associate employees under payrolls providing services to ~3,000+ clients across 10 countries. QCL provides services to clients operating in domains such as retail, information technology (IT), IT enabled services (ITeS), consumer durables, telecom, pharmaceuticals, entertainment, FMCG, etc. Headquartered in Bengaluru, QCL operates through 65 offices located in various parts of the world.

Key financial indicators (audited)

Quess (consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	10,991.5	10,839.9
PAT (Rs. crore)	-418.0	85.1
OPBDIT/OI (%)	6.3%	4.2%
PAT/OI (%)	-3.8%	0.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	0.9
Total Debt/Adj. OPBDIT (times)	2.1	1.6
Interest Coverage (times)	4.1	4.1

Source: *Company, ICRA research;* ***Note:*** *Amount in Rs. crore; All calculations are as per ICRA research; Adj. OPBDIT excludes the impact of IndAS 116 in FY2020 and FY2021;*
PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31 , 2021 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Aug 30, 2021	Apr 29, 2021	--	Mar 31, 2020	Apr 30, 2019	Feb 27, 2019
1	Fund based	Long Term	1,137.00	--	[ICRA]AA (Stable)	[ICRA]AA (Stable)	--	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-fund based	Short Term	89.50	--	[ICRA]A1+	[ICRA]A1+	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Interchangeable	Short Term	(165.00)	--	[ICRA]A1+	[ICRA]A1+	--	[ICRA]A1+	--	--
4	Commercial paper	Short Term	200.00	--	[ICRA]A1+	[ICRA]A1+	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Non-convertible debentures	Long Term	--	--	--	[ICRA]AA (Stable); withdrawn	--	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	Fund based	Short Term	--	--	--	--	--	--	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund Based – Working Capital	Simple
Short-term Non-fund Based – Working Capital	Very Simple
Short-term interchangeable limits – Working Capital	Simple
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ banker name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Axis Bank	Fund based/ CC	FY2021	5.25% - 6.6%	NA	105.00	[ICRA]AA (Stable)
Yes Bank	Fund based/ CC	FY2021		NA	131.00	[ICRA]AA (Stable)
Citi Bank	Fund based/ CC	FY2021		NA	32.00	[ICRA]AA (Stable)
Kotak Mahindra Bank	Fund based/ CC	FY2021		NA	50.00	[ICRA]AA (Stable)
Bank of Nova Scotia	Fund based/ CC	FY2021		NA	0.00	[ICRA]AA (Stable)
State Bank of India	Fund based/ CC	FY2021		NA	104.00	[ICRA]AA (Stable)
Standard Chartered Bank	Fund based/ CC	FY2021		NA	125.00	[ICRA]AA (Stable)
Federal Bank	Fund based/ CC	FY2021		NA	25.00	[ICRA]AA (Stable)
ICICI Bank	Fund based/ CC	FY2021		NA	125.00	[ICRA]AA (Stable)
HDFC Bank	Fund based/ CC	FY2021		NA	200.00	[ICRA]AA (Stable)
HSBC	Fund based/ CC	FY2021		NA	100.00	[ICRA]AA (Stable)
Proposed	Fund based/ CC	NA	NA	NA	140.00	[ICRA]AA (Stable)
Axis Bank	Non-fund based	FY2021	NA	NA	10.00	[ICRA]A1+
Yes Bank	Non-fund based	FY2021	NA	NA	66.00	[ICRA]A1+
State Bank of India	Non-fund based	FY2021	NA	NA	6.00	[ICRA]A1+
Standard Chartered Bank	Non-fund based	FY2021	NA	NA	7.50	[ICRA]A1+
Kotak Mahindra Bank	Interchangeable	FY2021	NA	NA	(10.00)	[ICRA]A1+
HDFC Bank	Interchangeable	FY2021	NA	NA	(55.00)	[ICRA]A1+
Citibank	Interchangeable	FY2021	NA	NA	(5.00)	[ICRA]A1+
IDFC First Bank	Interchangeable	FY2021	NA	NA	(45.00)	[ICRA]A1+
HSBC Bank	Interchangeable	FY2021	NA	NA	(50.00)	[ICRA]A1+
NA	Commercial paper	NA	NA	NA	200.00	[ICRA]A1+

Source: *Company; Commercial paper is yet to be placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Quess Ownership	Consolidation Approach
MFX Infotech Private Limited	100%	Full consolidation
Brainhunter Systems Limited	100%	Full consolidation
Mindwire Systems Limited	100%	Full consolidation
Quess (Philippines) Corp.	100%	Full consolidation
Quess Corp. (USA) Inc.	100%	Full consolidation
Quesscorp Holdings Pte Limited	100%	Full consolidation
Quess Corp Vietnam LLC	100%	Full consolidation
Quessglobal (Malaysia) SDN.BHD.	100%	Full consolidation
Quess Corp Lanka (Private) Limited	100%	Full consolidation
Comtel Solutions Pte Limited	100%	Full consolidation
MFXchange Holdings Inc.	100%	Full consolidation
MFXchange US, Inc.	100%	Full consolidation
MFX Chile SpA	100%	Full consolidation
Excelus Learning Solutions Private Limited	100%	Full consolidation
Connect Business Services Private Limited*	100%	Full consolidation
Vedang Cellular Services Private Limited*	92.47%	Full consolidation
Golden Star Facilities and Solutions Private Limited	100%	Full consolidation
Comtelpro Pte. Limited	100%	Full consolidation
Comtelink Sdn.Bhd	100%	Full consolidation
Monster.com (India) Private Limited	99.99%	Full consolidation
Monster.com.SG PTE Limited	100%	Full consolidation

Company Name	Quess Ownership	Consolidation Approach
Monster.com HK Limited	100%	Full consolidation
Agensi Pekerjaan Monster Malaysia Sdn. Bhd	49%	Full consolidation
Quesscorp Management Consultancies	100%	Full consolidation
Quesscorp Manpower Supply Services LLC	100%	Full consolidation
Qdigi Services Limited	100%	Full consolidation
Greenpiece Landscapes India Private Limited	100%	Full consolidation
Simpliance Technologies Private Limited	53%	Full consolidation
Allsec Technologies Limited	73.38%	Full consolidation
Allsec Inc., USA	73.38%	Full consolidation
Allsectech Manila Inc., Philippines	73.38%	Full consolidation
Retreat Capital Management Inc., USA	73.38%	Full consolidation
Trimax Smart Infraprojects Private Limited	100%	Full consolidation
Terrier Security Services (India) Private Limited*	74%	Full consolidation
Quess East Bengal FC Private Limited*	100%	Full consolidation
Heptagon Technologies Private Limited	49%	Equity method
Quess Recruit Inc.	25%	Equity method
Agency Pekerjaan Quess Recruit SDN. BHD.	49%	Equity method
Himmer Industrial Services (M) SDN.BHD.	49%	Equity method

Source: *Company annual report (FY2020) and subsequent press releases*

Note: *Dependo Logistics Solutions Private Solutions (100% subsidiary) was sold in Q2 FY2021; hence not included in the above exhibit*

**Updated shareholding as of date due to incremental stake purchases done by Quess; Terrier was classified as associate in FY2020 with a 49% stake while it has been classified as subsidiary from Q2 FY2021 due to incremental stake acquisition of 25% resulting in a total stake of 74%; Conneqt shareholding increased to 100% as on April 16, 2021 from 70%*

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