ICRA

January 20, 2017

Quess Corp Limited

Instrument*	Rated Amount (in crore)	Rating Action
Long-Term Fund Based Limits	500.00 (Enhanced from 270.00)	[ICRA]AA- (Stable) / assigned to enhanced limits
Proposed Non-Convertible Debentures	150.00	[ICRA]AA- (Stable)/ assigned
Short-Term Fund based limits	8.00	[ICRA]A1+/ outstanding
Short-Term Non-fund based limits	22.00	[ICRA]A1+/ outstanding
Commercial Paper	30.00	[ICRA]A1+/ outstanding
Total	**710.00**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned the long-term rating of [ICRA]AA- (pronounced ICRA double A minus)[†] to the Rs.500.00 crore (enhanced from Rs.270.00 crore) long term fund based facilities and the Rs.150.00 crore non-convertible debenture programme of Quess Corp Limited (QCL). The outlook on the long-term rating is stable. ICRA also has rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs.8.00 crore short-term fund based facilities, the Rs.22.00 crore short-term non-fund based facilities and the Rs.30.00 crore commercial paper programme of QCL.

Rationale

The ratings continue to factor QCL's strong financial profile characterized by healthy revenue growth of 17% (annualized) during H1 FY2017 and improvement in QCL's debt indicators and liquidity profile following the initial public offering (IPO) during July 2017. In addition to supporting diversification into complementary business segments like Technology Solutions, Facility Management Services and Industrial Asset Management, the inorganic growth strategy adopted by the company over the years has also supported expansion of operating margins at the consolidated level from 4.2% in FY2013 to 5.4% in H1 FY2017. The ratings also continue to factor in QCL's parentage being a 62.55% subsidiary of Thomas Cook India Limited (*TCIL, rated [ICRA] AA (Stable)*), the company's established presence and strong market share in the domestic Human Resource consulting industry which continue to enhance QCL's business prospects.

The ratings also take into account the high competitive intensity in the domestic human resource (HR) consulting industry which continues to remain the largest revenue-generating segment for the company. ICRA also notes that though the company's revenues remain well diversified across segments, QCL derives about 25-30% of its total revenues from its top 10 customers indicating moderately high client concentration. Further, QCL's cash flows are impacted by high working capital requirements on account of the 30 to 45 day - credit period offered to its customers as against upfront payments made by the company to the employees. While the company has been active in the in-organic space targeting growth and diversification through acquisitions in the past, we expect the company to maintain its credit profile through in-organic investments. However, this remains an event risk and would be evaluated on a case by case basis for its impact on the ratings. Going forward, QCL's ability to improve its operating performance and cash flow position will remain key rating sensitivities.

Key rating drivers

Credit Strengths

- Strong financial profile characterized by healthy revenue growth, comfortable debt indicators and liquidity profile following the initial public offering (IPO) of Rs.400 crore by the company during July 2017
- Strong promoter background with extensive experience of more than 20 years in the Human Resource (HR) industry; group support by virtue of being 62.55% subsidiary of TCIL, (rated [ICRA]AA [Stable])
- Established relationships with a wide base of customers across a wide range of industries supporting healthy revenue growth
- Well-integrated business model offering end-to-end solutions to clients looking to outsource their non-core operations
- Improved geographical diversification by way of inorganic investments.

Credit Weakness

- The HR consulting industry is highly competitive and fragmented on account of the presence of some large domestic players as well as major multi-national companies (MNCs); however, the large scale of operations and well-established client base of QCL mitigates this risk to a certain extent.
- Moderately high client concentration with about 25-30% of revenues being derived from the top 10 customers during FY2016
- High working capital requirements on account of the 30 to 45 day - credit period continue to the strain the cash flow position of the company
- QCL has been active in the inorganic space, targeting growth and diversification through acquisitions, thereby exposing it to integration related challenges.

Description of key rating drivers highlighted above:

QCL is one of the large players in the integrated business services offering space. While the company started operations as a human resource consulting services provider, over the years, its revenue mix has changed with inorganic growth and diversification into segments like facility management, industrial asset management and providng technology solutions to company across the world. While the company's growth was funded through the private equity route during the initial years, Thomas Cook (India) Limited (TCIL), India's largest integrated travel company, acquired 74.85% stake in QCL for a consideration of Rs.256 crore during February 2013 thereby providing it further financial flexibility. Multiple acquisitions done by the company over the years coupled with established relationships with its clients have resulted in the company's rapidly improving scale of operations. However, the same has also affected the cash flow position of the company. Further, intense competition under the People & Services segment which is the largest revenue generating segment (56.7% in FY16) continues to restrict QCL's margins in addition to resulting in high working capital requirements.

While the company already had operations in Srilanka, Canada and USA by virtue of past acquisitions, the company's international presence would be further strengthened by the recent acquisition of 64% stake in Comtel Solutions Pte. Limited which is engaged in the technology staffing domain primarily for financial services companies in Singapore for a total consideration of SGD 27.5 million. Additionally, during December 2016, QCL has completed the acquisition of 49% stake in Terrier Security Services (India) Private Limited for a total consideration Rs.72 crore. This marks its entry into the manned guarding and security solutions business in India. Further, QCL has also invested Rs.220 crore in Compulsorily Convertible Preference Shares (CCPS) of Manipal Integrated Services (MIS) to acquire its facility management services (FMS) and catering business. In due course, these segments will be hived off from MIS and merged into QCL. Post merger and regulatory approvals, Manipal Education & Management Group (MEMG) which holds MIS will receive a 5% stake in QCL. (share entitlement ratio is 165 shares of QCL for every 280 shares of MIS). While the aforementioned acquisitions are expected to strengthen the company's basket of offerings and client portfolio which in turn is expected to aid healthy revenue growth and margin expansion going forward, QCL plans to fund these acquisitions through a mix of internal accruals, proceeds from the IPO and some term loans at Quesscorp Holdings Pte. Ltd which is the company's subsidiary in Singapore, Additionally, QCL is also proposing to raise NCDs to the tune of Rs.150.00 crore to fund its incremental working capital requirements to support the larger scale of operations.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of QCL and its subsidiaries.

Links to applicable Criteria
http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf

About the Company:
Quess Corp Limited (QCL) is engaged in offering end-to-end business solutions like recruitment, temporary 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 all-round the year thereby allowing them to save on unwanted manpower costs during off-season and outsource their non-core activities.

QCL was incorporated in October 2007 in Bangalore by Mr. Ajit Isaac. The company received initial round of private equity funding during February 2008 wherein India Equity Partners (IEP) acquired a stake in QCL for an investment of Rs.21.3 crore. During 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 during February 2013. IEP had also exited QCL by selling its shares to TCIL as a part of this deal.

Over the years, QCL had acquired other companies involved in a variety of businesses and consolidated its operations during FY2015. On a consolidated basis, the company currently has over 1,80,000 associated employees under payrolls with about 4,000 employees forming part of its core staff. QCL provides services to clients operating across domains such as information technology (IT), IT enabled services (ITeS), Consumer Durables, Telecom, Pharmaceuticals, Entertainment, FMCG etc. QCL, head quartered in Bangalore, operates in more than 25 cities in India and has presence across North America, Middle East and Southeast Asia.

The company reported an operating income of Rs.3,435.0 crore with a profit after tax (PAT) of Rs.89.7 crore during FY2016 as against an operating income of Rs.2,567.1 crore with a PAT of Rs.68.9 crore during the 15-month period ending March 2015. The company also reported an operating income of Rs.2,008.7 crore with a PAT of Rs.52.7 crore during H1 FY2017.
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2017		Month-year & Rating in FY2016	Month-year & Rating in FY2014
				January 2017	July 2016	June 2016	May 2015	December 2013
1	Fund based facilities	Long Term	500.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A- (Stable)
2	Proposed Non-Convertible Debentures	Long Term	150.00	[ICRA]AA- (Stable)	-	-	-	-
3	Fund based limits	Short Term	8.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A2+
4	Non-fund based limits	Short Term	22.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A2+
5	Commercial Paper	Short Term	30.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A2+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit Facilities	-	-	-	374.00	[ICRA]AA- (Stable)
Invoice Discounting	-	-	-	119.00	[ICRA]AA- (Stable)
PCFC	-	-	-	7.00	[ICRA]AA- (Stable)
Proposed Non-Convertible Debentures	-	-	5 years from date of issuance	150.00	[ICRA]AA- (Stable)
Proposed Short-Term Fund based limits	-	-	-	8.00	[ICRA]A1+
Bank Guarantee	-	-	-	22.00	[ICRA]A1+
Commercial Paper	-	-	-	30.00	[ICRA]A1+

Source: Quess Corp Limited

Name and Contact Details of the Rating Analyst(s):

Analyst Contacts

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	

About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

ICRA

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
For more information, visit **www.icra.in**

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	