ICRA

January 08, 2018

Quess Corp Limited

Summary of Rated Instruments

Instrument*	Previously Rated Amount (in crore)	Rated Amount (in crore)	Rating Action
Long-Term Fund Based Limits	500.00	500.00	[ICRA]AA- (Positive) reaffirmed/ Outlook changed from Stable
Non-Convertible Debentures	150.00	150.00	[ICRA]AA- (Positive) reaffirmed/ Outlook changed from Stable
Short-Term Fund based limits	8.00	8.00	[ICRA]A1+ / Reaffirmed
Short-Term Non-fund based limits	22.00	232.00	[ICRA]A1+ / Reaffirmed
Commercial Paper	30.00	200.00	[ICRA]A1+ / Reaffirmed
Total	**710.00**	**1090.00**	

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) outstanding on the Rs.500.0 crore long-term fund based facilities and Rs.150.00 crore NCD programme of Quess Corp Limited (QCL / the company). The outlook on the long term rating has been changed to Positive from Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A One plus) outstanding on the Rs.8.00 crore short-term fund based facilities, 200.00 crore (enhanced from Rs.30.00 crore) commercial paper programme and Rs.232.00 crore (enhanced from Rs.22.0 crore) short-term non fund based facilities of QCL.

Rationale

The revision in outlook to Positive takes into the improvement in QCL’s financial flexibility and liquidity profile on back of the Rs.874 crore institutional placement programme (IPP) during August 2017. While Rs.150.00 crore of the aforesaid proceeds have already been deployed towards reduction in working capital utilization during H1 FY2018, the rest is earmarked for inorganic growth and other strategic initiatives. The company’s margin-accretive acquisitions over the years have supported its inorganic growth and diversification into complementary segments like facility management services, industrial asset management and global technology solutions. QCL’s financial profile had also improved during H1 FY2018 with robust revenue growth of 22.6% aided by ramp up across segments. The company’s operating margins improved to 5.3% in H1 FY2018 from 4.4% in FY2016.

The assigned ratings continue to take into account QCL's diversified business profile, its strong parentage being a 49.02% subsidiary of Thomas Cook (India) Limited (TCIL, *rated [ICRA]AA (Stable))* and a step subsidiary of Fairfax Financial Holdings (Fairfax, *rated Baa3 by Moody's*) and its established market position in the domestic human resource (HR) consulting industry. The ratings also factor in the company's established relationships with customers across industries which have supported the company's organic revenue growth over the years. In addition to capability diversification, QCL's inorganic revenue growth has also supported its geographical diversification into markets like USA, Canada, Sri Lanka, UAE and Singapore etc. ICRA also notes that the recent rollout of Goods and Services Tax (GST) is a long-term positive for QCL as the organized sector is expected to gain market share under this tax regime.

The ratings also take into account the high competitive intensity and limited pricing flexibility of the company in the domestic HR consulting, security services and facility management industries. ICRA also notes that while the company's revenues remain well-diversified across segments, it continues to derive about ~30% of its total revenues from its top 10 customers indicating moderately high client concentration. 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. While the company is cash surplus right now, the funds will soon be deployed in more inorganic acquisitions. Impact of the same on the company is a key credit sensitivity.

Outlook

ICRA believes QCL will continue to benefit from its diversified business profile and growth through inorganic acquisitions. The outlook may be revised to 'Stable' or 'Negative' if cash accruals are lower than expected, or if debt-funded capital expenditure for acquisitions, or stretch in working capital intensity affects the company's liquidity.

Key rating drivers

Credit Strengths

- **Diversified business profile**: QCL is an integrated services company offering a diverse portfolio of services including HR consulting, facility management services, industrial asset management and global technology solutions through its various subsidiaries and joint venture. During H1 FY2018, QCL derived about 52.9% of its revenues from the People & Services (P&S) segment, followed by 31.7% from the Global Technology Solutions (GTS) while the balance was accounted for by the Facility Management Services and Industrial Asset Management segments.
- **Significant scale-up in business driven by combination of both organic and inorganic growth:** ICRA notes that the company's margin-accretive acquisitions over the years have supported its inorganic growth and diversification into complementary segments and thereby its healthy revenue growth. The same has also supported geographical diversification into markets like USA, Canada, Middle East and Singapore etc.
- **Strong market position in the domestic HR consulting industry:** QCL is one of the largest players in the domestic HR consulting industry wherein the company's revenue growth in the segment has been supported by its established relationships with large clients like Samsung, Amazon, Reliance and LG etc. QCL is also expected to benefit from the ongoing shift towards organized players following the recent GST rollout.

- **Credit metrics supported by reduction in leverage post equity infusion and sizeable cash balance**: Following the initial public offering (IPO) of Rs.400 crore by the company during July 2016 and Institutional Placement Programme (IPP) of Rs.875 crore during August 2017, the company's debt indicators remain comfortable. QCL had cash balances of around Rs.1,043.9 crore as on September 30, 2017. While part of the same has been utilized to acquire stake in Tata Business Support Services Limited (TBSS, *rated [ICRA]A+ &*[1], *A1+*), Vedang Cellular Services Private Limited etc., the cash balances continue to remain strong, and will shortly be deployed in more aquisitions**.**

Credit Weaknesses

- **Most business verticals are highly fragmented and competitive which along with high attrition rates limit scope for margin expansion –** The HR consulting industry in India is characterized by presence of large domestic and international players while the facility management and security services industries are highly fragmented, comprising of numerous unorganized players on account of the low entry barriers. Consequently, competitive pressures continue to limit the pricing power and scope for margin expansion for the company under these segments.
- **Ability to successfully integrate recent and ongoing acquisitions**: Over the previous and current fiscals, QCL had done some large acquisitions like Terrier Security Services (India) Private Limited, facility management business of Manipal Integrated Services and TBSS in India. Integration of these into the existing businesses and deriving synergies from the same would be critical in driving operational efficiencies going forward, particularly given that the company continues to scout for new acquisitions.
- **Moderately high customer concentration**: In P&S and GTS segments, which are its largest revenue generators, QCL derives about 51.1% and 42.5% respectively from its top 10 customers. Overall at a consolidated level, QCL derives about ~30% of its total revenues from its top 10 customers indicating moderately high client concentration.
- **Higher working capital requirements**: QCL's cash flows continue to be 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.

Analytical approach: ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria

[Corporate Credit Rating Methodology]

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.

[1] Indicates ratings on watch with developing implications

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. As on date, TCIL has a stake of about 49.02% in QCL subsequent to various stake dilutions over the years.

QCL has acquired other companies involved 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 over 2,12,500 associated employees under payrolls provising services to ~1,700 clients . 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 through 65 offices located in 34 cities in 9 countries like India, USA, Canada, Sri Lanka, UAE, India, Malaysia, Philippines, Singapore and Vietnam.

Key Financial Indicators of QCL

	FY2016	**FY2017**
Operating income (Rs.Crore)	3435.0	4157.4
PAT (Rs.Crore)	85.0	108.3
OPBDITA/ OI (%)	4.4%	5.5%
RoCE (%)	24.6%	17.8%
Total Debt/ TNW (times)	1.1	0.9
Total Debt/ OPBDITA (times)	2.6	3.4
Interest coverage (times)	4.8	4.8
NWC/ OI (%)	9.2%	10.0%

Source: company annual reports, ICRA Research; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortization; PAT: Profit after Tax; NWC: Net Working Capital; TNW: Tangible Net Worth; RoCE; Return on Capital Employed; OI: Operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

S. No	Name of Instrument	Current Rating FY2018				Chronology of Rating History for the past 3 years				
		Type	Rated amount (Rs. Crore)	Outstanding amount as on March 31, 2017 (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY2017			Month-year & Rating in FY2016	Month-year & Rating in FY2014
					January 2018	January 2017	July 2016	June 2016	May 2015	December 2013
1	Fund based facilities	Long Term	500.0	424.8	[ICRA] AA- (Positive)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ (Positive)	[ICRA] A+ (Stable)	[ICRA] A- (Stable)
2	Non Convertible Debentures	Long Term	150.0	150.0	[ICRA] AA- (Positive)	[ICRA]AA- (Stable)	-	-	-	-
3	Fund based facilities	Short Term	8.0	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A2+
4	Non-fund based facilities	Short Term	232.0	-	[ICRA] A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	-	-
5	Commercial Paper Programme	Short Term	200.0	-	[ICRA] A1+	[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

Instrument Details

Name of the instrument	Date of Issuance / Sanction	Coupon rate	Maturity	Size of the issue (Rs. crore)	Current Rating and Outlook
Fund based facilities	2017	-	-	500.00	[ICRA]AA- (Positive)
Non Convertible Debentures	2017	8.25%	January 2022	148.3	[ICRA]AA- (Positive)
Fund based facilities	2017	-	-	8.00	[ICRA]A1+
Non-fund based facilities	2017	-	-	232.00	[ICRA]A1+
Proposed Commercial Paper Programme	-			200.00	[ICRA]A1+

Source: Quess Corp Limited

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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.
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