Quess Corp Limited

February 27, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)[1]	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund Based Limits	500.00	830.00	Upgraded to [ICRA]AA from [ICRA]AA-; outlook changed to Stable from Positive
Non-Convertible Debentures	150.00	150.00	Upgraded to [ICRA]AA from [ICRA]AA-; outlook changed to Stable from Positive
Short-Term Fund based limits	8.00	8.00	[ICRA]A1+; Reaffirmed
Short-Term Non-fund based limits	232.00	102.00	[ICRA]A1+; Reaffirmed
Commercial Paper	200.00	200.00	[ICRA]A1+; Reaffirmed
Total	**1,090.00**	**1,290.00**	

*Instrument details in Annexure - I

Rating action

ICRA has upgraded the long-term rating outstanding on the Rs.830 crore (enhanced from Rs.500.0 crore) long-term fund-based limits and the Rs.150 crore NCD programme of Quess Corp Limited (QCL / the company) to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA- (pronounced ICRA double A minus). The outlook on the long-term rating has been changed to Stable from Positive. 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 commercial paper programme and Rs.102.00 crore (revised from Rs.232.0 crore) short-term non fund-based facilities of QCL.

Rationale

The upgrade in long-term rating considers QCL's healthy revenue growth of 42.9% and 45.7% during FY2018 and 9m FY2019 respectively supported by ramp up across People Services (PS, 46.7% of revenues in FY2018), Technology Solutions (TS, 30.3% of revenues in FY2018) and Facility Management (FM, 16.7% of revenues in FY2018) segments and acquisitions taken up by the company during FY2017 and FY2018. Further, QCL's margins improved to 5.7% in FY2018 from 5.5% in FY2017. This was primarily supported by improvement in margins under its FM segment further to its diversification into margin-accretive segments like healthcare and educational institutions through acquisition of 100% stake in the FM and catering business of Manipal Integrated Services (MIS) during FY2017. Supported by healthy accruals, the company's debt metrics have also improved over the last 18 months with gearing and TD/OPBDITA of the company at 0.3x and 1.9x respectively as on September 30, 2018 as compared to 0.6x and 3.3x respectively as on March 31, 2017. Further, ICRA also notes that the company's liquidity profile continues to remain strong on the back cash and liquid investments of Rs.805.5 crore as on September 30, 2018 supported by both internal accruals and equity raised by the company during an institutional placement programme (IPP) in August 2017.

[1] *100 lakh = 1 crore = 10 million*

The assigned ratings continue to consider QCL's diversified business profile supported by both organic and inorganic growth over the years, and its established market position in the domestic general staffing, IT staffing and facility management segments. The ratings also factor in the company's established relationships with large customers across industries which have supported its revenue growth and provided cross-selling opportunities 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, Middle East and South East Asia etc. which now contribute to ~18% of the company's revenues. QCL is a step-down subsidiary of Fairfax Financial Holdings (Fairfax, *rated Baa3 by Moody's*).

Upfront investments to revamp up its product under the internet business segment and expansion of its after-sales services business under the GTS segment has impacted margins during 9m FY2019. The company's ROCE levels have continuously declined over the last few years following acquisitions in relatively asset-heavy segments like Industrials (6% of revenues in FY2018) in addition to significant consideration (10x EBITDA) being paid out to acquire the FM and catering business from MIS. Further, high competitive intensity in the general staffing, security services and facility management segments continues to limit the company's pricing power and scope for margin expansion. ICRA also notes that over the last two years, cost pressures, industry downturn and limited pricing flexibility has led to a de-growth in margins of the Industrials segment.

While the company's revenues remain well-diversified across segments, it continues to derive about ~54% of its total revenues from top 10 customers indicating 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. Even while the company has improved the proportion of collect & pay model under its general staffing business over the years, all the other segments generally entail a credit period which results in peak utilization of 85-90% of the company's working capital limits every month.

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 with no dependence on borrowings for future acquisitions. Impact of the same on the company will continue to remain a key credit monitorable.

Outlook: Stable

ICRA believes QCL will continue to benefit from its diversified business profile and growth through inorganic acquisitions. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or if debt-funded acquisitions result in liquidity strain or weakening of the company's debt metrics.

Key rating drivers

Credit Strengths

- **Diversified business profile:** QCL is an integrated services company offering a diverse portfolio of services including staffing services, skill development, facility management services, industrial asset management and global technology solutions. During 9m FY2019, QCL derived about 44.5% of its revenues from the PS segment, followed by 33.5% from the TS while the balance was accounted for by the FM, industrials and internet business 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 South-east Asia etc. which now contribute to 18% of the company's revenues. That said, the organic revenue growth of the company has also been healthy and stood at 27% during 9m FY2019 reflecting the company's ability to grow its organic revenues by cross-selling and acquiring new customers.

- **Strong market position in the domestic general staffing industry:** QCL is one of the largest players in the domestic general staffing industry with an associate count of ~1,80,000+. The company's revenue growth in the segment has been supported by its established relationships with large clients like Samsung, Amazon, Reliance, Vodafone India and Bajaj Finance etc. Given its large scale and robust backend operations, the company has been able to improve its core-to-associate ratio to 300 during 9m FY2019 from 181 during FY2016 under the PS segment. Going forward, we expect the PS segment to be a key to the company's revenue and margin growth in line with past trends.

- **Credit metrics supported by healthy debt metrics and sizeable cash balance:** Following the Institutional Placement Programme (IPP) of Rs.874 crore during August 2017 and continued healthy cash accruals, the company's debt indicators are comfortable. Gearing and TD/OPBDITA of the company stood at 0.3x and 1.9x respectively while the company had cash balances of around Rs.805.5 crore as on September 30, 2018.

Credit Weaknesses

- **Upfront investments in stabilizing acquired entities and large acquisitions impacting RoCE:** Following substantial upfront investments to revamp monster.com in the India, Middle East and South-east Asian markets, expansion of its after-sales services business wherein it has expanded from ~80 service centres to ~160 centres over the last 9-12 months and continued weak performance of its Industrials segment, the company's margins have declined to 5.3% in 9m FY2019 from 5.7% in FY2018. Further, in line with relatively asset-heavy acquisitions and significant consideration being paid out towards acquisitions over the last few years, the company's core ROCE levels have declined to 13.8% in 9m FY2019 from 27% in FY2016. That said, the company's operating profit has increased by 48.9% and 35.8% during FY2018 and 9m FY2019 respectively supported by strong revenue growth during the same period.

- **High competitive intensity along with high attrition rates limit scope for margin expansion –** The general staffing industry in India is characterized by large domestic and international players while the facility management and security services industry is highly fragmented, comprising of numerous unorganized players on account of low entry barriers. Consequently, competitive pressures continue to limit the pricing power and scope for margin expansion for the company under these segments. ICRA also notes that over the last two years, cost pressures, industry downturn and limited pricing flexibility has led to a de-growth in margins of the industrial asset management segment.

- **Ability to successfully integrate past and future acquisitions:** Further to making significant investments towards revamping its product under the internet business, QCL is expected to spend towards marketing and branding the new product offering over the next few months. While this is expected to impact the margins in the near term, the same is expected to support the revenues and margins over the next 3-5 years. That said, cash burn and subsequent performance of the internet business (monster.com) will be a key credit monitorable going forward. Further, in line with past trends, QCL is expected to continue acquiring entities in similar lines of business to expand its product portfolio. Integration of these into the existing businesses and deriving synergies from the same would be critical in driving operational efficiencies and margins going forward.

- **Moderately high customer concentration:** Overall at a consolidated level, QCL derives about ~54% of its total revenues from its top 10 customers indicating moderately high client concentration. In PS and FM segments, which account for substantial part of its revenues, QCL derives about 60.6% and 44.8% respectively from its top 10 customers.
- **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. Even while the company has improved the proportion of collect & pay model under its general staffing business over the years, all the other segments generally entail a credit period which results in peak utilization of 85-90% of the company's working capital limits every month.

Liquidity Position:

On an average, the company utilized 75.0% of its sanctioned working capital limits as on every month end during the 12-month period ending December 31, 2018. However, the company's peak utilization of its working capital limits is expected to be ~85-90% of its sanctioned limits given that the salaries are paid out during various dates of the month.

In terms of debt repayment, the company would have to repay long-term loans of ~Rs.30 crore during FY2019 and Rs.150 crore of NCDs and ~Rs.45 crore of long-term loans during FY2020. This is comfortable compared to the expected cash accruals of the company. Further, ICRA also notes that the company's liquidity profile continues to remain strong on the back of cash and liquid investments of Rs.805.5 crore as on September 30, 2018 supported by both internal accruals and equity raised by the company during an institutional placement programme (IPP) in August 2017. While majority of the same is expected to be deployed towards acquiring companies engaged in similar business in the future, the same remains an event risk and would be evaluated on a case-by-case basis by ICRA.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on consolidated financial statements of the company

About the company:

Quess Corp Limited (QCL) is engaged in offering 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 all-round the year thereby allowing them to save on unwanted manpower costs during off-season and outsource their non-core activities. During February 2018, the company acquired 100% stake in Monster Worldwide's India, Singapore, Hong Kong and Malaysia entities during FY2018. These entities have operations across India, Singapore, Malaysia, Philippines, Hong Kong, Vietnam, Thailand, Indonesia, UAE and Kingdom of Saudi Arabia and currently operates the same under the internet business segment. Subsequently, the company currently operates under five major segments – People Services, Technology Solutions, Facility Management, Industrials and Internet Business.

QCL was incorporated in October 2007 in Bangalore and is promoted 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 48.82% in QCL subsequent to various stake dilutions over the years.

During April 2018, the Board of Directors of QCL had approved the scheme of arrangement whereby the HR business of Thomas Cook India Limited (TCIL) (including shares in QCL held by TCIL) will be demerged to QCL through an NCLT process and the shareholders of TCIL will receive shares of QCL. This is subject to regulatory approvals. Pursuant to this scheme, TCIL shareholders will receive 1,886 shares of QCL (Rs.10 each) for every 10,000 equity shares (Rs.1 each) held in QCL. This arrangement will lead to overall public shareholding in QCL increasing from ~28% at present to ~45%. Further, existing the promoter of TCIL, Fairbridge Capital Mauritius Limited, would be classified as the promoter of QCL going forward.

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 over ~2,92,000+ associated employees under payrolls providing services to ~1,900+ clients. QCL provides services to clients operating across domains such as Retail, Information technology (IT), IT enabled services (ITeS), Consumer Durables, Telecom, Pharmaceuticals, Entertainment, FMCG etc.

Key financial indicators (audited) - Consolidated

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	4,314.9	6,167.3
PAT (Rs. crore)	121.8	309.4
OPBDITA/ OI (%)	5.5%	5.7%
RoCE (%)	15.6%	12.1%
Total Debt/ TNW (times)	0.6	0.4
Total Debt/ OPBDITA (times)	3.3	2.8
Interest coverage (times)	5.0	4.7

Source: the company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs.crore)	Amount Outstanding as on March 31, 2018 (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017			Date & Rating in FY2016
					February 2019	January 2018	January 2017	July 2016	June 2016	May 2015
1	Fund based facilities	Long Term	830.0	666.22	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)
2	Non-Convertible Debentures	Long Term	150.0	148.6	[ICRA]AA (Stable)	[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]A1+
4	Non-fund based facilities	Short Term	102.0	49.0	[ICRA]A1+	[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]A1+

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

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Long-Term Fund Based Limits	FY2018/ FY2019	-	-	830.00	[ICRA]AA (Stable)
Non-Convertible Debentures	-	8.25%	FY2020	150.00	[ICRA]AA (Stable)
Short-Term Fund based limits	-	-	-	8.00	[ICRA]A1+
Short-Term Non fund-based limits	FY2018/ FY2019	-	-	102.00	[ICRA]A1+
Commercial Paper	-	-	-	200.00	[ICRA]A1+

Source: the company

Annexure-2: List of entities considered for consolidated analysis – as on March 31, 2018

Company Name	Ownership	Consolidation Approach
Coachieve Solutions Private Limited	100%	Full consolidation
MFX Infotech Private Limited	100%	Full consolidation
Aravon Services Private Limited	100%	Full consolidation
Brainhunter Systems Limited	100%	Full consolidation
Mindwire Systems Limited	100%	Full consolidation
Brainhunter Companies LLC, USA	100%	Full consolidation
Quess (Philippines) Corp.	100%	Full consolidation
Quess Corp. (USA) Inc.	100%	Full consolidation
Quesscorp Holdings Pte Limited	100%	Full consolidation
Quessglobal (Malaysia) SDN.BHD.	100%	Full consolidation
Quess Corp Lanka (Private) Limited	100%	Full consolidation
Ikya Business Services (Private) Limited	100%	Full consolidation
MFXchange Holdings Inc.	100%	Full consolidation
MFXchange US, Inc.	100%	Full consolidation
MFXchange (Ireland) Limited	100%	Full consolidation
Dependo Logistics Solutions Private Limited	100%	Full consolidation
CenterQ Business Solutions Private Limited	100%	Full consolidation
Inticore VJP Advanced Solutions Private Limited	73.95%	Full consolidation
Comtel Solutions Pte Limited	64%	Full consolidation
ConnectQ Business Services Private Limited	51%	Full consolidation
Vedang Cellular Services Private Limited	70%	Full consolidation
Master Staffing Solutions Private Limited	100%	Full consolidation
Golden Star Facilities and Solutions Private Limited	70%	Full consolidation
Comtelpro Pte. Limited	51%	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
Monster.com.HK Limited	100%	Full consolidation
Monster Malaysia SDN.BHD	49%	Full consolidation
Quess Corp Vietnam LLC	-	Full consolidation
MFX Chile SpA	-	Full consolidation
Trimax Smart Infraprojects Private Limited	51%	Equity method

Company Name	Ownership	Consolidation Approach
Terrier Security Services (India) Private Limited	49%	Equity method
Simpliance Technologies Private Limited	45%	Equity method
Heptagon Technologies Private Limited	46%	Equity method
Quess Recruit Inc.	25%	Equity method
Himmer Industrial Services (M) SDN.BHD	49%	Equity method

Source: the company

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About ICRA Limited:

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For more information, visit www.icra.in

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