October 20, 2022

Quess International Services Pvt Ltd: [ICRA]AA(CE) (Stable)/ [ICRA]A1+(CE) withdrawn and fresh rating of [ICRA]AA (Stable)/ [ICRA]A1+ assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT Fund Based CC	24.00	34.00	[ICRA]AA(CE) (Stable) withdrawn and [ICRA]AA (Stable) assigned simultaneously
LT Non-fund based	1.00	-	-
LT Fund based CC (Sublimit)	(5.00)	-	-
LT Non-Fund based (sublimit)	(1.00)	-	-
ST Fund Based	10.00	-	-
ST fund based (sublimit)	(24.00)	(34.00)	[ICRA]A1+(CE) withdrawn and [ICRA]A1+ assigned simultaneously
ST non-fund based (sublimit)	(5.30)	(5.00)	[ICRA]A1+(CE) withdrawn and [ICRA]A1+ assigned simultaneously
ST Fund based (Sublimit)	(10.00)	-	-
ST non-fund based	-	1.00	[ICRA]A1+ assigned
Total	**35.00**	**35.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has withdrawn its ratings of [ICRA]AA(CE) (Stable)/ [ICRA]A1+(CE) for the bank facilities of Quess International Services Pvt Ltd (QISPL) and has simultaneously assigned fresh ratings of [ICRA]AA (Stable)/ [ICRA]A1+ for these facilities.

The withdrawal of the CE ratings is triggered by the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to credit rating agencies on April 22, 2022 and July 26, 2022, respectively, guiding that the benefit of a corporate guarantee that does not meet the evaluation mechanism/criteria defined by the RBI is not to be considered while assigning credit enhanced (CE) ratings[1]. The [ICRA]AA (CE) (Stable)/ [ICRA]A1+(CE) rating drew comfort from the presence of a corporate guarantee extended by Quess Corp Limited (QCL/the company) to the lenders of the rated bank facilities. For assigning the rating, ICRA had assessed the attributes of the guarantee issued by QCL in favour of the rated facility. While the guarantee was legally enforceable, irrevocable, unconditional, covered the entire amount and tenor of the rated facility, and met all the attributes of a strong guarantee, it did not have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA had assigned a rating of [ICRA]AA (CE) (Stable)/ [ICRA]A1+(CE) to the said facility against the unsupported rating of [ICRA]BBB+ / [ICRA]A2.

To align itself with the aforesaid regulatory guidance, ICRA would no longer be considering in its credit assessments the benefit of a guarantee that lacks an invocation and payment mechanism, though such a support represents a relatively stronger expression of commitment on the part of the support provider for the supported facilities in comparison to a support that is only implicit in nature.

[1] *The RBI has permitted the existing (CE) ratings to continue until the residual tenor of the loan. However, for the (CE) ratings outstanding on working capital facilities that are renewed periodically (like cash credit facilities that fall due for renewal at an annual frequency), the residual tenor of these facilities is to be considered as the time remaining until the next due date of renewal.*

Yet the rating level for the bank facilities of QISPL (assigned afresh and being conveyed through this release) remains unchanged because of the change in ICRA's analytical approach. For arriving at the ratings, ICRA has now taken a consolidated view of QISPL along with its parent, QCL.

The change in approach is based on ICRA's view that QISPL is an integral part of QSL and operates like an extended arm of QCL. ICRA also draws comfort from QCL's long track record of support to QISPL and the close business, financial and management linkages between both the entities. ICRA expects the linkages between QCL and QISPL will remain strong on various dimensions, including business ties, financial aspects, and management support—that reinforce the application of the consolidated view approach.

The ratings continue to consider the diversified business profile of 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 of large companies across industries and the extensive experience of the promoters in the industry. QCL's comfortable capitalisation and coverage indicators aided by its strong liquidity position further underpin the ratings. QCL is a subsidiary of Fairfax Financial Holdings (Fairfax; rated Baa3 (Stable) by Moody's).

Supported by healthy growth across segments and a low base, the revenue growth for QCL remained healthy at 26.3% in FY2022. The company's operating margins improved to 4.6% in FY2022 from 4.4% in FY2021 following sequential recovery in all segments of the business. However, the margins remained lower than historic levels. In Q1 FY2023, the revenues witnessed healthy YoY growth of 33.2% while the QoQ growth stood at 4.9%. The healthy YoY growth was primarily driven by general staffing, Conneqt and IT staffing. The OPM declined to 3.9% in Q1 FY2023 from 4.9% in Q1 FY2022 and Q4 FY2022 due to increase in cash burn in its Product Led Business (PLB), higher salary cost, and increased spend on tech tools. The IFM EBITDA margin also declined due to contract renegotiation with a major customer. Going forward, incremental investments in the PLB segment, 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 has 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-and-pay model under its general staffing business (76% as on Q1 FY2023), all other segments generally entail a credit period, which results in high utilisation of its working capital limits on a regular basis. The company is also exposed to Government receivables on account of its presence in Smart City segments and income tax refunds. While the company has taken an expected credit loss in workforce management (WFM) and operating asset management (OAM) segments towards some receivables from the Government, the exposure continues to remain. While QCL had cash balance of ~Rs. 519.7 crore as on March 31, 2022, it also has some pending income tax refunds, which as and when received, would support its liquidity position. The company's net debt (excluding lease) as on June 30, 2022 was Rs. 59 crore over Rs. 68 crore as on March 31, 2022. ICRA expects, the company's net debt to remain minimal, going forward.

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.

ICRA also notes that the Income Tax (IT) Department 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 had previously claimed u/s 80JJAA of Income Tax Act, 1961, a section which incentivises new employment generation. Further, ICRA notes that the income tax (IT) department disallowed QCL's entire deduction under section 80JJAA in May 2022. QCL has filed its objection to the same in Q1 FY2023 before the Dispute Resolution Panel. The developments in this regard will be a key rating monitorable. Any large potential obligation arising from it will need to be assessed when more information is available.
The Stable outlook on QCL's 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 WFM, OAM and global technology solutions (GTS). The company derived 67.1% of its revenues from the WFM segment in FY2022, followed by 17.4% from the GTS segment and the balance (15.4%) 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, West Asia and South East Asia, etc. That said, the company's the revenues de-grew 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). However, revenue growth revived and stood at 26.3% in FY2022 supported by robust growth across segments and also its ability to grow its revenues by cross-selling in addition to acquiring new customers. In the medium to long-term, the turnaround of the currently loss-making entities will remain a key monitorable.

Strong market position across segments – QCL is one of the largest players in the domestic general staffing industry with an associate count of ~3,00,000 in Q1 FY2023 (YoY growth of 31%). Given its large scale and robust backend operations, the company was able to improve its core-to-associate ratio to a historical high of 431 in Q1 FY2023 from 373 in Q1 FY2022 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 one-third 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.

Credit metrics supported by low net debt levels, healthy debt metrics and sizeable cash balance – The company's net debt position (excluding lease) as on March 31, 2022 was Rs. 68 crore as against negative net debt as on March 31, 2021, primarily due to cash outflow of Rs. 208 crore towards the balance 30% stake acquisition in Conneqt and dividend pay-out of ~Rs. 186.8 crore. Despite the same, QCL's debt indicators are comfortable with gearing and Net Debt/OPBDITA at 0.4x and 0.6x, respectively, as on March 31, 2022 (0.3x and 0.5x, respectively, as on March 31, 2020). Further, the company also has undrawn limits of ~Rs. 374 crore against DP as on July 2022.

Credit challenges

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 stood at 4.6% in FY2022, which was lower than most past years. This was mainly due to the company's upfront investments to revamp Monster, the expansion of Qdigi along with the continued weak performance of its industrial asset management segment in addition to the expected credit loss of ~Rs. 44 crore taken under OAM and WFM segments. The margins in the WFM segment have also declined in the last few years, following the company's focus on acquiring new customers at competitive rates. Margins declined further to 3.9% in Q1 FY2023 on account of increase in cash burn in PLB and investments in digitalisation and backend process improvement, increase in employee expenses on account of sizeable hikes given to the core employees and a contract renegotiation with a major customer impacting the margins under the OAM segment. 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 RoCE levels declined to 13.2% in FY2022 from 27% in FY2016. ICRA understands that the company will continue to invest heavily in Monster in FY2023 and that majority of the same will be funded through its stake dilution in the entity and the consequent fund inflow. Given the stated intent of the management to avoid sizeable acquisitions in the near to medium term, the company's ability to improve the RoCE and margins remains a key monitorable.

High competitive intensity along with high attrition rates continue to impact margin – 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.

Vulnerability of certain businesses to exogenous shocks – QCL's various businesses were impacted in FY2021 and to a certain extent in FY2022 by the pandemic-related lockdown. IFMS (catering and housekeeping business) was impacted due to the closure of IT parks, offices, educational institutions, hostels, and the shift to work from home, while Excelus (training and skill development business) was impacted adversely by the closure of training centres, leading to sizeable expected credit loss under the segment. 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. While these businesses witnessed growth in the subsequent period with a pickup in economic activity and the recommencement of offices and educational institutions, the company's operations continue to remain exposed to such exogenous shocks.

Liquidity position: Strong

On average, the company utilised 46.6% and 68.0% of its sanctioned working capital limits and drawing power, respectively, as of the end of every month during the 12-month period ending July 2022. However, peak utilisation of working capital limits is expected to be relatively higher than the aforementioned numbers 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. 30-40 crore over FY2023-FY2025. ICRA notes that the company's liquidity profile remains strong on the back of cash balances of ~Rs. 522 crore as on June 2022, healthy buffer available on working capital limits of ~Rs. 524 crore as on July 2022, expected income tax refunds of ~Rs. 125 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 that could lead to higher debt levels. Specific credit metrics, which could lead to a downgrade include Net Debt/OPBDITA more than 1.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on withdrawal of credit ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of QCL.

About the company

Quess Corp Limited 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 Saudi Arabia, and currently operates the same under the internet business segment. QCL currently operates under three major segments, WFM, GTS and OAM.

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. At present, Fairfax currently holds a 29.63% stake in QCL as on June 2022.

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 ~4,37,000 associate employees under payrolls providing services to ~3,000 clients across 10 countries. QCL provides services to clients operating in domains such as retail, IT/ITeS, consumer durables, telecom, pharmaceuticals, entertainment, FMCG, etc. Headquartered in Bengaluru, QCL operates through 65 offices in various parts of the world.

Quess International Services Pvt Ltd (formerly known as Golden Star Facilities and Services Private Limited), incorporated in 2008, was started initially by Ms. Anita Verghese in 1998 as a proprietorship concern, but at present is entirely owned by QISPL, provides facility management services. Under facility management services, they provide housekeeping services, carpet shampooing, façade cleaning, pest control, plotted plants, etc.

Key financial indicators

Quess (consolidated)	FY2021	FY2022
Operating Income (Rs. crore)	10,836.9	13,691.8
PAT (Rs. crore)	85.1	252.7
OPBDIT/OI (%)	4.4%	4.6%
PAT/OI (%)	0.8%	1.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.1
Total Debt/ OPBDIT (times)	1.7	1.4
Interest Coverage (times)	4.2	7.7

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 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	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Current Rating (FY2023) Date & Rating in	Chronology of Rating History for the past 3 years: Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Oct 20, 2022	Jul 1, 2021	Apr 06, 2020	Apr 04, 2019	Mar 01, 2019
1	Cash Credit	Long Term	34.00	0.00	[ICRA]AA(CE) (Stable) withdrawn and [ICRA]AA (Stable) assigned simultaneously	[ICRA]AA(CE) (Stable)	[ICRA]AA(CE) (Stable)	[ICRA]AA(SO) (Stable)	[ICRA]AA(SO) (Stable)
2	WCDL	Short Term	(34.00)	-	[ICRA]A1+(CE) withdrawn and [ICRA]A1+ assigned simultaneously	[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)
3	Bank Guarantee	Short Term	(5.00)	-		[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	[ICRA]A1+ (SO)	[ICRA]A1+ (SO)
4	WCDL	Short Term	-		-	[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	[ICRA]A1+ (SO)	
5	Cash Credit (Sublimit)	Long Term	-		-	[ICRA]AA(CE) (Stable)	[ICRA]AA(CE) (Stable)	[ICRA]AA(SO) (Stable)	
6	WCDL (Sublimit)	Short Term	-		-	[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	[ICRA]A1+ (SO)	
7	Bank Guarantee	Long Term	-		-	[ICRA]AA(CE) (Stable)	[ICRA]AA(CE) (Stable)	[ICRA]AA(SO) (Stable)	
8	BG(Sublimit)	Long Term	-		-	[ICRA]AA(CE) (Stable)	[ICRA]AA(CE) (Stable)	[ICRA]AA(SO) (Stable)	
9	BG	Short Term	1.00	0.00	[ICRA]A1+ assigned	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
LT Fund Based CC	Simple
ST fund based (sublimit)	Simple
ST non-fund based (sublimit)	Very Simple
ST Non-Fund Based	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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long Term Fund Based-Cash Credit	Mar-2022	7.25	Jan-2023	34.0	[ICRA]AA(CE) (Stable) withdrawn and [ICRA]AA (Stable) assigned simultaneously
NA	ST fund based (sublimit)	Mar-2022	NA	Jan-2023	(34.0)	[ICRA]A1+(CE) withdrawn and [ICRA]A1+ assigned simultaneously
NA	ST non-fund based (sublimit)	Mar-2022	NA	Jan-2023	(5.0)	
NA	ST Non-Fund Based	Mar-2022	NA	Jan-2023	1.0	[ICRA]A1+ assigned

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis as on March 31, 2022

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	90.57%	Full consolidation
Monster.com.SG PTE Limited	100%	Full consolidation
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

Company Name	Quess Ownership	Consolidation Approach
Allsectech Manila Inc., Philippines	73.38%	Full consolidation
Trimax Smart Infraprojects Private Limited	100%	Full consolidation
Terrier Security Services (India) Private Limited*	41.57%	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
Stellarslog Technovation Private Limited	49%	Equity method
Himmer Industrial Services (M) SDN.BHD.	49%	Equity method

Source: *Company financials*

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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.

For more information, visit www.icra.in

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