

February 27, 2024

Quess Corp Limited: Placed on rating watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits	1,094.50	1,094.50	[ICRA]AA; Placed on Rating Watch with Developing Implications
Short-term – Non-fund Based Limits	132.00	132.00	[ICRA]A1+; Placed on Rating Watch with Developing Implications
Short-term – Interchangeable Limits	(135.00)	(135.00)	[ICRA]A1+; Placed on Rating Watch with Developing Implications
Commercial Paper (CP)	400.00	400.00	[ICRA]A1+; Placed on Rating Watch with Developing Implications
Total	1,626.50	1,626.50	

*Instrument details are provided in Annexure-I

Rationale

Material Event

On February 16, 2024, Quess Corp Limited (QCL/ the company) announced that its board of directors approved a composite scheme of arrangement, providing for the demerger of QCL into three independent entities. The demerger will ultimately result in three separate listed companies, i.e. Quess Corp Ltd. (the remaining company), Digitide Solutions Ltd. (Digitide) and Bluspring Enterprises Ltd. (Bluspring). According to the proposal, the remaining company will continue to operate its workforce management business (WFM), while Digitide will assume control of the global tech solutions business (GTS) and Bluspring will manage the operating asset management (OAM) and product-led business (PLB) of the company. The business being taken over by Digitide had revenues of Rs. 2,486.2 crore in FY2023, representing 14.5% of total consolidated revenues for the year, and the business being taken over by Bluspring had revenues of Rs. 3,134.0 crore in FY2023, representing 18.3% of total consolidated revenues.

There will be no change in the shareholding pattern of the company, as each shareholder of QCL will hold proportionate shareholding in the new companies. The timeline for the demerger to be completed as indicated by the company is 12 to 15 months, subject to requisite statutory and regulatory approvals.

Impact of Material Event

ICRA has placed the company's ratings on Watch with Developing Implications as the above-mentioned development is expected to impact the credit profile of QCL. The extent of the impact will be ascertained over a period of time, given the nascent stage of development and lack of complete information on the financial profile of the remaining company. The proposal seeks to simplify the corporate structure, extend flexibility in corporate strategy to different business divisions and provide better clarity of investment thesis to investors. As GTS, OAM and PLB, along with associated debt and other obligations are proposed to be demerged from QCL, the remaining company's credit profile is expected to undergo change pursuant to the approval and implementation of the above scheme. ICRA will continue to monitor the development in this regard and take appropriate action as and when more clarity emerges.

ICRA notes that the company reported revenues of Rs. 14,190.4 crore in 9M FY2024 with operating profit margins of 3.5% during the same period. The company had a gross debt of ~Rs. 420 crore and had a net cash position as on December 31, 2023. Further, ICRA notes that the Income Tax department disallowed QCL's deduction under section 80JAA and depreciation on goodwill for FY2018, FY2019, FY2020 and FY2021. QCL has appealed against the same at various panels, and the development

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.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities. [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Qess Corp Limited

About the company

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, with India Equity Partners (IEP) acquiring 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 34.5% stake in QCL (as of June 2023).

The company offers end-to-end business solutions such as 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 engaging with QCL, clients have the flexibility to maintain a large employee base throughout the year, enabling them to save on unnecessary manpower costs during the off-season and outsource their non-core activities. At present, QCL operates under four major segments—workforce management, global technology solutions, operating asset management and product-led business. QCL has acquired companies involved in various businesses over the last few years and currently manages various joint ventures and subsidiaries.

Key financial indicators (audited)

QCL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	13,691.8	17,158.4	9,348.6
PAT	252.7	222.8	119.1
OPBDIT/OI	4.6%	3.4%	3.4%
PAT/OI	1.8%	1.3%	1.3%
Total outside liabilities/Tangible net worth (times)	1.1	1.2	1.2
Total debt/OPBDIT (times)	1.4	1.7	1.5
Net debt/OPBDIT (times)	0.6	0.9	0.6
Interest coverage (times)	7.7	5.5	5.7

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

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 (FY2024)				Chronology of rating history for the past 3 years					Date & Rating in FY2021
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022		
					27-Feb-24	28-Aug-23	22-Dec-22	30-Aug-22	30-Aug-21	29-Apr-21	
1	Fund based	Long-term	1094.5	-	[ICRA]AA; Rating Watch with Developing Implications	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
2	Non-Fund based	Short Term	132	-	[ICRA]A1+; Rating Watch with Developing Implications	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
3	Interchangeable	Short Term	-135	-	[ICRA]A1+; Rating Watch with Developing Implications	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4	Commercial paper	Short Term	400	-	[ICRA]A1+; Rating Watch with Developing Implications	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
5	Non-convertible debentures	Short Term	-	-	-	-	-	-	-	[ICRA]AA (Stable); withdrawn	-

Complexity level of the rated instruments

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based	NA	NA	NA	1,094.50	[ICRA]AA; Rating Watch with Developing Implications
NA	Non-fund based	NA	NA	NA	132.00	[ICRA]A1+; Rating Watch with Developing Implications
NA	Interchangeable	NA	NA	NA	(135.00)	[ICRA]A1+; Rating Watch with Developing Implications
INE615P14281	Commercial paper	12-Jan-24	7.65%	10-Apr-24	75.00	[ICRA]A1+; Rating Watch with Developing Implications
INE615P14299	Commercial paper	12-Jan-24	7.70%	28-Mar-24	50.00	[ICRA]A1+; Rating Watch with Developing Implications
Not placed	Commercial paper	NA	NA	NA	275.00	[ICRA]A1+; Rating Watch with Developing Implications

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Excelus Learning Solutions Private Limited	100%	Full consolidation
Monster.com (India) Private Limited	83.12%	Full consolidation
Monster.com.SG PTE Limited	100% by Monster.com (India) Private Limited	Full consolidation
Monster.com HK Limited		Full consolidation
Agensi Pekerjaan Monster Malaysia Sdn. Bhd	49% Monster.com (India) Private Limited	Full consolidation
Qdigi Services Limited	100%	Full consolidation
Vedang Cellular Services Private Limited	96.98%	Full consolidation
Trimax Smart Infraprojects Private Limited	100%	Full consolidation
Quess International Services Private Limited (formerly Golden Star Facilities and Solutions Private Limited)	100%	Full consolidation
Terrier Security Services (India) Private Limited	48.05%	Full consolidation
Allsec Technologies Limited	73.39%	Full consolidation
Allsec Inc., USA	100% by Allsec Technologies Limited	Full consolidation
Allsectech Manila Inc., Philippines		Full consolidation
Billion Careers Private Limited	100%	Full consolidation
Heptagon Technologies Private Limited	60.67%	Full consolidation

Company Name	Ownership	Consolidation Approach
Stellarslog Technovation Private Limited	100%	Full consolidation
Quess (Philippines) Corp.	100%	Full consolidation
Quess Corp Vietnam LLC	100%	Full consolidation
Quess Services Limited	100%	Full consolidation
Quesscorp Holdings Pte Limited	100%	Full consolidation
Quess Corp Lanka (Private) Limited	100% by Quesscorp Holdings Pte Limited	Full consolidation
Quesscorp Singapore Pte Limited		Full consolidation
Quessglobal (Malaysia) SDN.BHD.		Full consolidation
Quess Corp NA LLC		Full consolidation
Quess Selection & Services Pte Limited		Full consolidation
Quesscorp Management Consultancies		Full consolidation
Quesscorp Manpower Supply Services LLC		Full consolidation
Comtelink Sdn.Bhd	100% by Quesscorp Singapore Pte Limited	Full consolidation
Quess Corp. (USA) Inc.	100%	Full consolidation
MFXchange Holdings Inc.	56% by Quess Corp Limited and 44% by Quess Corp. (USA) Inc.	Full consolidation
MFXchange US, Inc.	100% by MFXchange Holdings Inc.	Full consolidation
Brainhunter Systems Limited	81% by MFXchange Holdings Inc. and 19% by Quess Corp Limited	Full consolidation
Mindwire Systems Limited	100% by Brainhunter Systems Limited	Full consolidation
Quess Recruit Inc.	25% by Quess (Philippines) Corp.	Equity method
Agency Pekerjaan Quess Recruit SDN. BHD.	49% by Quessglobal (Malaysia) SDN.BHD.	Equity method
Himmer Industrial Services (M) SDN.BHD.	49% by Quesscorp Holdings Pte Limited	Equity method

Note: Company

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About ICRA Limited:

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Branches



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