March 31, 2020

Quess Corp Limited: Ratings reaffirmed; rated limits enhanced

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)[1]	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund Based Limits	830.00	1,065.50	[ICRA]AA (Stable); Reaffirmed
Non-Convertible Debentures	150.00	75.00	[ICRA]AA (Stable); Reaffirmed
Short-Term Fund based limits	8.00	-	-[2]
Short-Term Non-fund based limits	102.00	89.50	[ICRA]A1+; Reaffirmed
Commercial Paper	200.00	200.00	[ICRA]A1+; Reaffirmed
Total	**1,290.00**	**1,430.00**	

*Instrument details in Annexure - I

Rationale

The reaffirmation in ratings continues to consider QCL's diversified business profile supported by both organic and inorganic growth over the years, strong market position as the fifth-largest manpower outsourcing company globally, established client base comprising of top companies across industries and extensive experience of the promoters in the industry. The ratings also take into account the company's healthy revenue growth of 38.3% and 28.3%during FY2019 and 9m FY2020 supported by ramp up across both workforce management (WFM, 64% of revenues and 40.5% yoy growth during 9m FY2020) and global technology solutions (GTS, 19.7% of revenues and 18.7% yoy growth during 9m FY2020) in addition to various acquisitions done by the company over the last few years. QCL's comfortable capitalization and coverage indicators in addition to a strong liquidity position, further underpin the ratings. QCL is a subsidiary of Fairfax Financial Holdings (Fairfax, rated Baa3 by Moody's).

Following substantial upfront investments to revamp Monster, decline in margins in its India IT staffing segment, expansion of its after-sales services business over the last 12-18 months accompanied by continued weak performance of its industrial asset management (IAM) segment, the company's operating margins (adjusted for IND-AS 116) have declined to 5.0% in 9m FY2020 from 5.7% in FY2019. Further, disruptions caused by the COVID 19-related breakout is expected to affect the company's margins negatively if the lock down gets extended. Further, high competitive intensity 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 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 (72% as on Q3 FY2020), all the other segments generally entail a credit period which results in peak utilization of 85% of the company's working capital limits regularly. The company is also exposed to government receivables on account of its presence in the training and smart

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

[2] *ICRA had rating outstanding of [ICRA]AA (Stable) on Rs. 8.00 crore short-term fund-based limits earlier. This has currently been revised to nil.*

city segments. While QCL has a receivable of Rs. 116 crore from the Smart City Ahmedabad Development Limited, it also has some IT refunds pending, which as and when received, would support the company's liquidity position.
While the company has been active in the in-organic space targeting growth and diversification through acquisitions in the past, ICRA 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.

Key rating drivers

Credit Strengths

Diversified business profile: QCL is an integrated services company offering a diverse portfolio of services including workforce management (WFM), operating asset management (OAM) and global technology solutions (GTS). During 9m FY2020, QCL derived about 64% of its revenues from the WFM segment, followed by 19.7% from the GTS segment while the balance was accounted for by the OAM segments.

Significant scale-up in business driven by combination of both 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, Middle East and South-east Asia etc. which contribute to ~15% of the company's revenues. That said, the organic revenue growth of the company has also been healthy and stood at 25% during 9m FY2020 reflecting the company's ability to grow its revenues by cross-selling in addition to acquiring new customers.

Strong market position in the domestic general staffing, facility management and BPO/CLM industries: QCL is the largest players in the domestic general staffing industry with an associate count of ~2,60,000+ (yoy growth of 34%). 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 333 during 9m FY2020 from 300 in FY2019 and 181 during FY2016 under the general staffing segment. The company is also one of the largest players in the facility management and domestic BPO/CLM businesses. Going forward, ICRA expects the general 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 healthy debt metrics and sizeable cash balance: With gross debt of Rs. 830 crore and cash balances of Rs. 517 crore as on December 31, 2019, the company's debt indicators are comfortable. Gearing and Net Debt/OPBDITA of the company stood at 0.3x and 0.6x respectively as on December 31, 2019.

Credit Weaknesses

Exogenous shocks: Immediate effect of COVID 19 has only been felt in the catering and training businesses of QCL as of now. However, extension of the lockdown period or higher than expected effect of the outbreak on demand in end-user industries is likely to have an adverse impact on the company's operational and financial profile.

Stretch in working capital cycle: QCL witnesses peak utilization of 85% of the company's working capital limits regularly. ICRA understands that QCL enters into tri-partite agreements with clients under which the associates remain on QCL's payrolls only as long as the services are availed by the client. However, payouts to its associates in the event of deferral/non-realization of collections from its clients could result in further stretch of the company's working capital.

Upfront investments in stabilizing acquired entities, weak demand conditions in certain end-user industries, and large acquisitions have impacted the company's margins and RoCE: Following substantial upfront investments to revamp

Monster, expansion of its after-sales services business over the last 12-18 months, decline in margins in its India IT staffing segment accompanied by continued weak performance of its industrial asset segment, the company's operating margins (adjusted for IND-AS 116) have declined to 5.0% in 9m FY2020 from 5.7% in FY2019. 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 13.5% in H1 FY2020 from 27% in FY2016.

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.

Liquidity Position: Strong

On an average, the company utilized ~78% of its sanctioned working capital limits as on every month end during the 12-month period ending January 31, 2019. However, the company's peak utilization of its working capital limits is expected to be ~85% of its sanctioned limits given that the salaries are paid out during various dates of the month.

In terms of debt repayment, after the Rs. 75 crore repayment of NCD during FY2020, the company would have to repay another NCD of ~Rs. 75 crore during FY2022. in addition to this, the company also has minimal debt repayments in the range of Rs. 30-50 crore every fiscal over the next three fiscals. 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 balances of Rs. 517 crore as on December 31, 2019.

Rating sensitivities

Positive triggers – The rating could be upgraded if there is a significant improvement in ROCE to 20% and reduction in debtor/receivable days leading to lower working capital requirements on a sustained basis.

Negative triggers – Negative pressure on the ratings could arise if there is a significant decline in associate headcount leading to contraction in revenues and margins or any debt-funded acquisition which could lead to increase in debt levels of the company. Specific credit metrics which could lead to a downgrade are Net Debt/OPBDITA>1.0x on a sustained basis. Further, eextension of the ongoing lockdown period or higher than expected effect of the outbreak on demand in end-user industries and effect of the same on QCL's operational and financial profile, including its working capital cycle will be a key rating monitorable.

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 three major segments – Workforce Management, Global Technology Solutions and Operating Asset Management.

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. During FY2020, QCL was demerged from TCIL resulting on Fairfax currently holding ~32.29% in QCL.

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 ~3,85,000+ associate employees under payrolls providing services to ~2,650+ clients across 644 cities across the world. 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. QCL, head quartered in Bangalore, operates through 65 offices located in various parts of the world.

Key financial indicators (audited) - Consolidated

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	6,167.3	8,527.0
PAT (Rs. crore)	309.8	256.5
OPBDITA/ OI (%)	5.9%	5.7%
RoCE (%)	12.2%	11.7%
Total Debt/ TNW (times)	0.4	0.3
Total Debt/ OPBDITA (times)	2.8	1.6
Interest coverage (times)	4.7	4.2

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 (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2019 (Rs Crore) (Standalone)	Date & Rating March 31, 2020	Chronology of Rating History for the past 3 years: Date & Rating in FY2020 April 30, 2019	Date & Rating in FY2019 February 27, 2019	Date & Rating in FY2018 January 08, 2018	Date & Rating in FY2017 January 20, 2017	July 26, 2016	June 13, 2016
1	Fund based facilities	Long Term	1,065.5	471.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)
2	Non-Convertible Debentures	Long Term	75.0	149.1	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	-	-
3	Non-fund- based facilities	Short Term	89.5	62.8	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper Programme	Short Term	200.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Fund based facilities	Short Term	8.0	-	-	[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	FY2019 /FY2020	-	-	1,065.50	[ICRA]AA (Stable)
Non-Convertible Debentures	Jan 2017	8.5%	FY2022	75.00	[ICRA]AA (Stable)
Short-Term Non-fund-based limits	FY2019 /FY2020	-	-	89.50	[ICRA]A1+
Commercial Paper	-	-	-	200.00	[ICRA]A1+

Source: the company

Annexure-2: List of entities considered for consolidated analysis – as on December 31, 2019

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
Comtel Solutions Pte Limited	100%	Full consolidation
Excelus Learning Solutions Private Limited	100.0%	Full consolidation
Connect Business Services Private Limited	70%	Full consolidation
Vedang Cellular Services Private Limited	89%	Full consolidation
Master Staffing Solutions Private Limited	100%	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	99.99%	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 Servcies LLC	100%	Full consolidation
Qdigi Services Limited	100%	Full consolidation
Greenpiece Landscapes India Private Limited	100%	Full consolidation
Quess Corp Vietnam LLC	100%	Full consolidation
MFX Chile SpA	100%	Full consolidation
Trimax Smart Infraprojects Private Limited	100%	Full consolidation
Terrier Security Services (India) Private Limited	49%	Equity method
Simpliance Technologies Private Limited	53%	Full consolidation
Heptagon Technologies Private Limited	49%	Equity method
Quess East Bengal FC Private Limited	70%	Equity method
Agency Pekerjaan Quess Recruit Sdn. Bhd	49%	Equity method
Quess Recruit Inc.	25%	Equity method
Himmer Industrial Services (M) SDN.BHD	49%	Equity method

Source: the company

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

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

Mythri Macherla
+91 44 43326407
mythri.macherla@icraindia.com

RELATIONSHIP CONTACT

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

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999