December 22, 2022

Quess Corp Limited: Rating reaffirmed and rated amount enhanced for commercial paper programme

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 (Stable); outstanding
Short-term – Non-fund Based Limits	132.00	132.00	[ICRA]A1+; outstanding
Short-term – Interchangeable Limits	(135.00)	(135.00)	[ICRA]A1+; outstanding
Commercial Paper (CP)	200.00	300.00	[ICRA]A1+; reaffirmed and assigned to enhanced limit
Total	**1,426.50**	**1,526.50**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to consider the diversified business profile of Quess Corp Limited (QCL) supported by organic and inorganic growth over the years, its strong market position as one of the largest manpower outsourcing companies in the country, its established client base comprising large companies across industries and the extensive experience of the promoters in the industry. QCL's comfortable capitalisation and coverage indicators 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 32.8% in H1 FY2023. However, the company's operating margins declined to 3.2% in Q2 FY2023 from 3.9% in Q1 FY2023 due to slowdown in IT hiring leading to creation of a bench strength at QCL, increase in corporate expenses (SG&A cost), and fresh investment towards building a staffing presence in the US in addition to continued loss under its product-led business (PLB). The OPM had declined to 3.9% in Q1 FY2023 from 4.6% in FY2022 due to increase in cash burn in PLB segment, higher core employee salary cost, increased spend on tech tools and decline in margins in the facility management business on account of contract renegotiation with a major customer. Overall, OPMs declined by by 110bps to 3.5% in H1 FY2023 from 4.6% in FY2022. ICRA notes the sizeable decline in margins of the company over the last few years, given the sustained pressure on margins in the work force management (WFM) and operating asset management (OAM) segments even as the global technology solutions (GTS) segment continues to do well. Going forward, incremental investments in the product led business (PLB) segment, investment requirements for the company's US staffing business and intense competition are expected to continue to limit the company's pricing power and scope for margin expansion. Against this backdrop, the trend in margins and debt metrics will be a key rating monitorable for the company.

QCL has high working capital requirements on account of the 30-45-day credit period offered to its customers against upfront payments to employees. Even while the company has improved the proportion of the 'collect-and-pay' model under its general staffing business (77% as on Q2 FY2023), all other segments generally entail a credit period, which results in high utilisation of 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 the WFM and OAM segments towards some Government receivables, the exposure continues to remain. The company's net debt (excluding lease) as on September 30, 2022 was ~Rs. 83 crore over Rs. 68 crore as on March 31, 2022. ICRA expects the company's net debt to remain in line with recent trends, going forward. While the commercial paper programme rated by

ICRA is not carved out of the company's drawing power, ICRA understands that the company will maintain considerable buffer in its drawing power, going forward.

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 its acquired entities and consolidating its various subsidiaries.

ICRA also notes that the Income Tax 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 has previously claimed under section 80JJAA of the Income Tax Act, 1961, a section which incentivises new employment generation. Further, ICRA notes that the Income Tax department disallowed QCL's entire deduction under section 80JJAA in May 2022. QCL has filed its objection to the same in H1 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, GTS and PLB. The company derived 68.9% of its revenues from the WFM segment in Q2 FY2023, followed by 15.2% from the OAM segment, 12.4% from the GTS segment and and the balance 3.5% from the PLB 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. The revenue growth revived post pandemic and stood at 26.3% in FY2022 and 32.8% in H1 FY2023 on a YoY basis, supported by robust growth across segments in addition to incremental revenues from cross-selling initiatives. 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 ~3,76,000 in Q2 FY2023 (YoY growth of 28%). Given its large scale and robust backend operations, the company was able to improve its core-to-associate ratio to a historical high of 430 in Q2 FY2023 from 373 in Q1 FY2022 in the general staffing segment. It is also one of the largest information technology (IT) staffing player in India and Singapore. Under IT staffing and selection business, the company witnessed slowdown in IT hiring impacting the margins. 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, 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, and healthy debt metrics – The company's net debt position (excluding lease) as on September 30, 2022 was Rs. 83 crore over Rs. 68 crore in March 31, 2022 and negative net debt (~Rs. 26.4 crore) as on March 31, 2021. While QCL's debt indicators remain comfortable with gearing and Net Debt/ OPBDITA at 0.4x and 0.9x, respectively, as on September 30, 2022, the same has deteriorated slightly over the 0.4x gearing and 0.6x Net Debt/OPBDITA as on March 31, 2022, given the sequentially lower OPBDITA in H1 FY2023. Going forward, the trend in margins and debt metrics will be a key rating monitorable for the company.

Credit challenges

Upfront investments in stabilising acquired entities and weak demand conditions in certain end-user industries recently impacted QCL's margins – The company's operating margins have declined to 3.2% in Q2 FY2023 and 3.5% in H1 FY2023 from 4.6% in FY2022. This was majorly due to the slowdown in IT sector hiring, investment in the US for building staffing presence, increase in corporate expenses (SG&A cost), company's upfront investments in PLB along with the continued weak performance of its industrial asset management segment in addition to increase in employee expenses on account of sizeable hikes given to its core employees and a contract renegotiation with a major customer impacting its margins in the OAM segment. Margins in the WFM segment have also declined in the last few years following QCL's focus on acquiring new customers at competitive rates. Moreover, in line with decline in margins, the company's core return on capital employed (RoCE) levels declined to 9.9% in H1 FY2023 compared to 13.2% in FY2022 and 27% in FY2016. ICRA understands that to 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, QCL's ability to improve the RoCE and margins remains a key monitorable.

High competitive intensity along with high attrition rates continue to impact the company's margin – The general staffing industry in India is peopled by large domestic and international players, while the facility management and security services industry are highly fragmented with 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 – During Q2 FY2023, margins under the company's WFM segment were impacted owing to slowdown in the IT staffing and selection business. The deferment in the onboarding of the associates QCL had already recruited resulted in creation of bench strength during H1 FY2023 which is expected to be absorbed by IT companies in Q3 FY2023. Also, the company's margins under its OAM segment continue to remain weak owing to slow transition to the back-to-office trend in IT/ITeS companies impacting its facility management business. QCL's various businesses were impacted in FY2021 and to a certain extent in FY2022 by the pandemic-related lockdown. While these businesses witnessed growth in the subsequent period with a pick-up in economic activity as well as recommencement of offices and educational institutions, the company's operations continue to remain exposed to such exogenous shocks.

Liquidity position: Adequate

On average, The company utilised 47.3% and 62.6% of its sanctioned working capital limits and drawing power, respectively, as of end of every month during the 12-month period ending November, 2022. However, peak utilisation of working capital limits is expected to be higher than the aforementioned numbers as the salaries and GST payments are paid out during various dates of the month. On a consolidated basis, debt repayments remain minimal compared to the company's accruals. ICRA notes that the company's liquidity profile remains adequate on the back of cash balances of ~Rs. 598.0 crore, buffer of ~Rs. 346 crore in its working capital limits and financial flexibility enjoyed by virtue of its strong promoter profile. While the liquidity buffer is expected to have reduced to a certain extent following dividend payout in Q3 FY2023, the same is expected to steadily improve, going forward. While the commercial paper programme rated by ICRA is not carved out of the company's drawing power, ICRA understands that the company will maintain considerable buffer in its drawing power, going forward.

Rating sensitivities

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

Negative factors – 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 that could lead to material increase in debt levels. Specific credit metrics that could lead to a rating downgrade are Net Debt/OPBDITA above 1.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has analysed 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 the Kingdom of Saudi Arabia; and currently operates the same under the internet business segment. At present, QCL operates under three major segments—Workforce Management, Global Technology Solutions and Operating Asset Management.

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 holds a 29.63% stake in QCL (as of 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 has ~5,00,000 associate employees under payrolls providing services to ~3,000 clients across 10 countries. QCL provides services to clients in domains such as retail, IT/ITeS, consumer durables, telecom, pharmaceuticals, entertainment, and FMCG, among others. Headquartered in Bengaluru, QCL operates through 65 offices across the world.

Key financial indicators (audited)

Quess (consolidated)	FY2021	FY2022	H1 FY2023
Operating Income (Rs. crore)	10,836.9	13,691.8	8,252.6
PAT (Rs. crore)	85.1	252.7	107.4
OPBDIT/OI (%)	4.4%	4.6%	3.5%
PAT/OI (%)	0.8%	1.8%	1.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.1	1.2
Total Debt/ OPBDIT (times)	1.7	1.4	1.7
Interest Coverage (times)	4.2	7.7	6.2

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	Current Rating (FY2023)					Chronology of Rating History for the past 4 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Dec 22, 2022	Aug 30,2022	Aug 30, 2021	Apr 29, 2021	--	Mar 31, 2020	Apr 30, 2019	Feb 27, 2019
1	Fund based	Long Term	1,094.50	--	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	--	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-fund based	Short Term	132.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Interchangeable	Short Term	(135.00)	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	--	[ICRA]A1+	--	--
4	Commercial paper	Short Term	300.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Non-convertible debentures	Long Term	--	--	--	--	--	[ICRA]AA (Stable); withdrawn	--	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
6	Fund based	Short Term	--	--	--	--	--	--	--	--	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

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-1: 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	5.7% - 8.0%	NA	1,094.50	[ICRA]AA(Stable)
NA	Non-fund based	NA	NA	NA	132.00	[ICRA]A1+
NA	Interchangeable	NA	NA	NA	(135.00)	[ICRA]A1+
Not Placed	Commercial paper	NA	NA	NA	300.00	[ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

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
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

Company Name	Quess Ownership	Consolidation Approach
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*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@craindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Animesh Patil
+91 90 8257 4503
animesh.patil@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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.