Quess Corp Limited

April 30, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)[1]	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-Term Fund Based Limits	830.00	830.00	[ICRA]AA (stable)
Non-Convertible Debentures	150.00	150.00	[ICRA]AA (stable)
Short-Term Fund based limits	8.00	8.00	[ICRA]A1+
Short-Term Non-fund based limits	102.00	102.00	[ICRA]A1+
Commercial Paper	200.00	200.00	[ICRA]A1+
Total	**1,290.00**	**1,290.00**	

Material Event

Quess Corp Limited (QCSL / the company) had notified the stock exchanges on April 17, 2019 that:

- Conneqt Business Solutions Limited (Conneqt, rated [ICRA]A+ (Stable)/A1+), QCL's 51% subsidiary has signed definitive agreements to acquire upto 61.35% of the total share capital of Allsec Technologies Limited (Allsec, rated [ICRA]BBB %[2]/A3+%). The transaction involves Conneqt purchasing 35.35% of Allsec's shareolding from Allsec's promoters, 26% from First Carlyle Ventures Mauritius, thereby acquiring a majority control of 61.35%. In accordance with SEBI Regulations, Conneqt will also make an open offer to the public shareholders of Allsec to purchase up to 26% of shareholding. The transaction is conditional to the fulfilment of customary closing conditions and required statutory approvals. The cumulative consideration for the aforesaid transaction is expected to be between Rs.271 crore to Rs.398 crore (depending on the subscription in the open offer)
- QCL will make an additional investment of Rs.193.1 crore by way of subscription to equity shares to be issued and allotted by Conneqt (consequent to which QCL's shareholding in Conneqt would increase to 70% from 51%) and invest an additional amount not exceeding Rs.210 crore by way of subscription to compulsorily convertible debentures (CCDs) to be issued and allotted by Conneqt. These funds would in turn be used by Conneqt to acquire Allsec.

About Allsec

Founded in 1998, Allsec Technologies Limited began as an integrated contact center for businesses intending to outsource their support processes. With over two decades of experience, Allsec has rapidly expanded with acquisitions across geographies and has extended its expertise to a wide gamut of processes that augment and support businesses. Allsec has three subsidiaries namely Allsectech Inc, USA, Allsectech Manila Inc., Philippines and Retreat Capital Management, USA.

Allsec operates two segments globally viz., Human Resources Operation (HRO) covering HRMS, Statutory Compliances, payroll services, time and attendance management; Customer Lifecycle Management (CLM) which encompasses lead

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

[2] *% indicates that ratings are on watch with positive implications*

generation, customer retention and relationship management comprising both voice and non-voice processes. The HRO services and CLM services are delivered from India and the subsidiary in Philippines while AML services are provided by the US subsidiary. In India, the CLM business supports both international (CLM International business) and domestic (CLM domestic business) customers and the HRO business supports both International and domestic customers. Allsec's shares are listed on both BSE and NSE.

Impact of the Material Event

Conneqt operates largely in the domestic voice dominated Customer Life Cycle Management (CLM) business. Allsec's acquisition provides it with an opportunity to diversify its client base both in terms of non-voice CLM business (Allsec's operations under its CLM division are approximately split as 52% voice and 48% non-voice) and relatively margins-accretive dollar-denominated international client base. ICRA also expects Conneqt to leverage Allsec's existing delivery centers in Philippines and the US in addition to Allsec's domestic CLM business. Further, QCL is also expected to leverage Allsec's established Human Resources Outsourcing (HRO) business serving marquee clients by cross-selling the same to its clients. Overall, given the relatively higher margin profile of Allsec compared to both Conneqt and QCL, Allsec's acquisition is expected to be margin-accretive at a consolidated level for QCL.

The valuation of Allsec as per the above transaction structure is ~Rs.455 crore, which includes total cash on Allsec's books of Rs.150 crore (as on FY2019 end). With a consideration of up to Rs.398 crore to be paid if the open offer is fully subscribed, total cash in QCL's consolidated books will reduce by ~Rs.250 crore after factoring cash on Allsec's books.

The previous rating rationale on the company is available at the following link:

https://www.icra.in/Rationale/ShowRationaleReport/?Id=78041

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About ICRA Limited:

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