August 28, 2023

Quess Corp Limited: Ratings reaffirmed; rated amount enhanced

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); reaffirmed
Short-term – Non-fund Based Limits	132.00	132.00	[ICRA]A1+; reaffirmed
Short-term – Interchangeable Limits	(135.00)	(135.00)	[ICRA]A1+; reaffirmed
Commercial Paper (CP)	300.00	400.00	[ICRA]A1+; reaffirmed and assigned to enhanced limit
Total	**1,526.50**	**1,626.50**	

**Instrument details are provided in Annexure-I*

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 of large companies across industries; and the extensive experience of its promoters in the industry. QCL's comfortable capitalisation and coverage indicators further underpin the ratings. ICRA also notes that the company enjoys financial flexibility by virtue of its strong promoter profile, wherein Fairfax Financial Holdings (Fairfax; rated Baa3 (Stable) by Moody's) holds ~34% stake in QCL.

Supported by broad-based healthy growth across segments, the revenue growth for QCL remained healthy at 25.3% in FY2023. However, the company's operating margins declined to 3.4% in FY2023 from 4.6% in FY2022 due to slowdown in IT hiring, decline in margins in the facility management business, investment towards building staffing presence in the US in addition to continued losses and investments under its product-led business (PLB). Further, during Q1 FY2024, while revenue growth remained healthy at 15.6%, OPM declined to 3.3% from 3.9% in Q1 FY2023 (albeit, largely in line with H2 FY2023 trends) due to annual salary hikes, muted growth in permanent hiring (higher margin segment) and increase in cash burn in its product-led business (PLB) and North America staffing segments. ICRA notes the sizeable decline in QCL's margins over the last few years following sustained pressure on margins in the work force management (WFM), PLB and operating asset management (OAM) segments even as the global technology solutions (GTS) segment continues to do well. Going forward, slowdown in IT hiring, incremental investments in the PLB and US staffing business, along with 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.

QCL has 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% in 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 the training and skill development business. While QCL has taken an expected credit loss towards some Government receivables during past few years, the exposure continues to remain. Its net debt (excluding lease) as on June 30, 2023, was Rs. 51 crore over Rs. 68 crore as on March 31, 2022. ICRA expects QCL's net debt to remain in line with recent trends, going forward. QCL had free cash and liquid investments of ~Rs. 471 crore as on June 30, 2023 as well as pending income tax refunds.

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's 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 under section 80JJAA of the Income Tax Act, 1961, which incentivises new employment generation. Further, ICRA notes that the Income Tax department disallowed QCL's deduction under section 80JJAA and depreciation on goodwill for FY2018 and FY2019. 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.

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 70% of its revenues from the WFM segment in Q1 FY2024, followed by 15% from the OAM segment, 12.2% from the GTS segment and the balance 2.7% from the PLB segment. Further, the company generates ~89% of its revenues from India and the balance ~11% from Southeast Asia, North America, West Asia and other geographies. QCL has 63 offices in 34 Indian cities, which leads to wide regional diversification within India as well. Going forward, the company is expected to continue benefitting from its diversified business and geographical profile.

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 has supported its inorganic growth and diversification into complementary segments and geographies, in turn supporting its business prospects. The revenue growth was healthy at 25.3% in FY2023 and 15.6% in Q1 FY2024 on a YoY basis, supported by robust growth across all segments. Going forward, time taken for turnaround of the current loss-making business segments (PLB and North America staffing businesses) and margin trajectory thereon 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 ~4,04,000 in Q1 FY2024 (YoY growth of 15%). Given its large scale and robust backend operations, the company was able to improve its core-to-associate ratio in the general staffing segment to 469 in Q1 FY2024 from 431 in Q1 FY2023. It is also one of the largest IT staffing players in India and Singapore. Under its IT staffing and selection business, the revenues and margins were impacted during FY2023 and Q1 FY2024 due to slowdown witnessed in IT hiring. 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 subsidiaries, Conneqt and Allsec) segments to be key to QCL'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[1] position (excluding lease liabilities) as on June 30, 2023, was Rs. 51 crore over Rs. 18 crore in March 31, 2023. While QCL's debt indicators remain comfortable with Net Debt (including lease liabilities)/OPBDITA at 0.9x, as on March 31, 2023, the same has deteriorated from

[1] *Net debt (excluding lease liabilities) is calculated as gross debt (excluding lease liabilities) minus free cash and liquid investments (excluding earmarked deposits and liquid investments)*

0.6x as on March 31, 2022, given the lower OPBDITA in 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 new business segments and weak demand conditions in certain end-user industries impacted QCL's margins – The company's operating margins declined to 3.3% in Q1 FY2024 and 3.4% in FY2023 from 4.6% in FY2022. This was mainly due to the slowdown in IT sector hiring, investment in the US for building staffing presence, its upfront investments in PLB along with the increase in employee expenses on account of sizeable annual hikes given to its core employees. The company witnessed decline in margins in the facility management business on account of contract renegotiation with a major customer. 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, QCL's return on capital employed (RoCE) levels declined to 10.8% in FY2023 over 13.2% in FY2022. ICRA understands that to the company will continue to invest in PLB in FY2024; however, this will mainly be funded through available funds raised in the last round of fund-raising during December 2021. That said, the company is expected to witness OPBDITA breakeven in its PLB and US staffing segments by end of Q4 FY2024, which remains one of the key monitorables. 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 margins – The general staffing industry in India is characterised 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 QCL in these segments.

Vulnerability of certain businesses to exogenous shocks – The margins under the company's WFM segment were impacted owing to slowdown in the IT staffing and selection business from Q2 FY2023. Also, the company's margins under its OAM segment continue to remain low 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.

Environment and social risk

Environmental considerations – The exposure to environmental risk is low for the company. It has a responsible procurement policy, with the usage of recycled paper as far as possible. It is also endeavoring to reduce, reuse and recycle paper & e-waste, further the company has an aspiration to reduce its carbon emissions by ~20% by FY2025.

Social considerations – Exposure to social risk is moderate for the manpower outsourcing industry where QCL operates. These include changes in the regulatory environment and employee management, which are important for players like QCL. However, the organised sector's focus on compliance and streamlining of labour codes would support the company's operations. Any political/ economic situation could also impact the industry.

Liquidity position: Adequate

The company's liquidity profile remains adequate on the back of free cash and liquid investments of ~Rs. 471 crore, buffer of ~Rs. 630 crore in its working capital limits (excluding CP limits) and financial flexibility enjoyed by virtue of its strong promoter profile. The company utilised 44% and 48% of its sanctioned working capital limits and drawing power, respectively, as of the end of every month during the 12-month period ending June 2023. However, peak utilisation of working capital limits remained 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. 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 material reduction in debtor/ receivable days in addition to improvement in its margins leading to significant improvement in its debt metrics and liquidity position on a sustained basis. Specific credit metric that could lead to a rating upgrade is improvement in ROCE to 20% 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	For arriving at the ratings, ICRA has considered the consolidated financials of Quess.

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 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 34% stake in QCL (as of June 2023).

The company 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. At present, QCL operates under four major segments—Workforce Management, Global Technology Solutions, Operating Asset Management and Product Led Business. 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 5,25,000 associate employees under payrolls providing services to over 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.

Key financial indicators (audited)

QCL Consolidated	FY2021	FY2022	FY2023
Operating income	10,836.9	13,691.8	17,158.4
PAT	85.1	252.7	222.8
OPBDIT/OI	4.4%	4.6%	3.4%
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
Net debt/OPBDIT (times)	0.5	0.6	0.9
Interest coverage (times)	4.2	7.7	5.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore; All amounts as per ICRA calculations

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 4 years				
		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		Date & Rating in FY2021
					Aug 28, 2023	Dec 22, 2022	Aug 30, 2022	Aug 30, 2021	Apr 29, 2021	--
1	Fund based	Long Term	1,094.50	--	[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+	--
3	Interchangeable	Short Term	(135.00)	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	--
4	Commercial paper	Short Term	400.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	--
5	Non-convertible debentures	Long 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(Stable)
NA	Non-fund based	NA	NA	NA	132.00	[ICRA]A1+
NA	Interchangeable	NA	NA	NA	(135.00)	[ICRA]A1+
INE615P14240	Commercial paper	07/08/2023	NA	27/09/2023	50.00	[ICRA]A1+
INE615P14232	Commercial paper	07/07/2023	NA	05/10/2023	75.00	[ICRA]A1+
Not Placed	Commercial paper	NA	NA	NA	275.00	[ICRA]A1+

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
MFX Infotech Private Limited	100%	Full consolidation
Quess East Bengal FC Private Limited	100%	Full consolidation
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
Greenpiece Landscapes India Private Limited	100%	Full consolidation
Vedang Cellular Services Private Limited	92.00%	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
Conneqt Business Services Private Limited	100%	Full consolidation
Allsec Technologies Limited	73.00%	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
Stellarslog Technovation Private Limited	53.91%	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 Quesscorp Holdings Pte 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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 5328
shamsherd@icraindia.com

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

Mythri Macherla
+91 22 6114 3435
mythri.macherla@icraindia.com

Seetha Pillai
+91 80 4332 6411
seetha.pillai@icraindia.com

Akshit Goel
+91 9821564274
akshit.goel@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6169 3304
shivakumar@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