

BSE SENSEX 73,158
S&P CNX 22,217



Bloomberg	QUESS IN
Equity Shares (m)	148
M.Cap.(INRb)/(USDb)	79.8 / 1
52-Week Range (INR)	582 / 337
1, 6, 12 Rel. Per (%)	6/19/16
12M Avg Val (INR M)	220

Financials & Valuations (INR b)

Y/E Mar	2024E	2025E	2026E
Sales	192.3	222.7	262.8
EBITDA Margin (%)	3.6	4.4	4.7
Adj. PAT	3.1	5.0	6.9
Adj. EPS (INR)	20.6	33.6	46.4
EPS Gr. (%)	79.4	63.5	38.0
BV/Sh. (INR)	234.1	260.3	302.3

Ratios

RoE (%)	11.8	17.9	21.7
RoCE (%)	13.3	18.5	21.9
Payout (%)	77.8	47.6	34.5
Dividend Yield (%)	3.0	3.0	3.0

Valuations

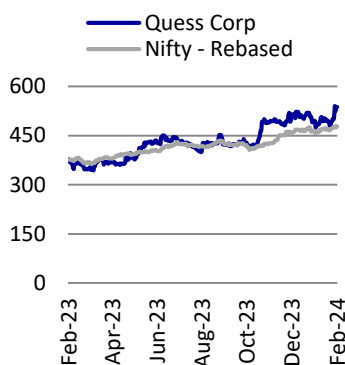
P/E (x)	26.2	16.0	11.6
P/BV (x)	2.3	2.1	1.8
EV/EBITDA (x)	11.7	8.2	6.3
EV/Sales (x)	0.4	0.4	0.3

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	56.7	56.7	51.9
DII	10.7	10.2	8.1
FII	16.3	16.9	21.8
Others	16.4	18.9	18.3

FII Includes depository receipts

Stock performance (one-year)



CMP: INR538 **TP: INR600 (+12%)** **Neutral**

Creation of three distinct entities likely to be value-accretive

The separation process will take time

We attended the Quess Corp (QUESS) investor meet. This was organized to provide more details about the plan to unlock value for investors by splitting the company into three independent and standalone entities – Remain Co (Quess Corp, including the Workforce Management segment), Resulting Co 1 (Digitide, including BPM and Customer Experience) and Resulting Co 2 (Bluspring, including FMS, Industrial Services and Investments). The management also formulated its targets for the three divisions, including improving return on equity (RoE), expanding international presence, and achieving market leadership in all segments. While we await more detailed data on the respective balance sheets, we see clear benefits for QUESS from this focused approach, which should help each division concentrate on its strengths and attract a suitable investor profile. We continue to monitor the progress of the demerger process (to be completed in 12-15 months), and reiterate our Neutral rating on the stock due to the near-term industry headwinds. Following are the key takeaways from the investor meet.

Value unlocking

- The management resource would be dedicated to derive incremental growth and efficiency, which would lead to value unlocking for each of the individual entities.
- The corporate structure would be more simplified and would allocate individual accounting responsibilities.
- Management believes that each of the standalone entities would create more value than the value that the company would generate as a combined entity.

Three-pillar architecture

- The three-way demerger of its diversified business segments would result in three listed entities with a dedicated presence. Each of these entities would have independent senior-level resources with an individual capital allocation policy.
- Management firmly believes that QUESS and Bluspring will derive sustainable organic growth without any meaningful investments, while Digitide will require investment for inorganic growth to achieve the USD1b revenue milestone.
- Foundit (under Bluspring) is treated from an investment perspective, where management expects the capital receipts to happen within the 3-5 year timeframe, while the other two are pure-play architecture entities.

Current valuation remains attractive

- Though QUESS should benefit from the medium-term tailwinds of formalization and labor reforms, the growth has already been factored into its valuations.
- We expect a gradual recovery in margins over FY24 and FY25, which should support earnings.
- We reiterate our Neutral rating on the stock due to its full valuations, taxation concerns, and weak macro. Our TP of INR600 implies 13x FY26E P/E.

Unlocking value through the demerger

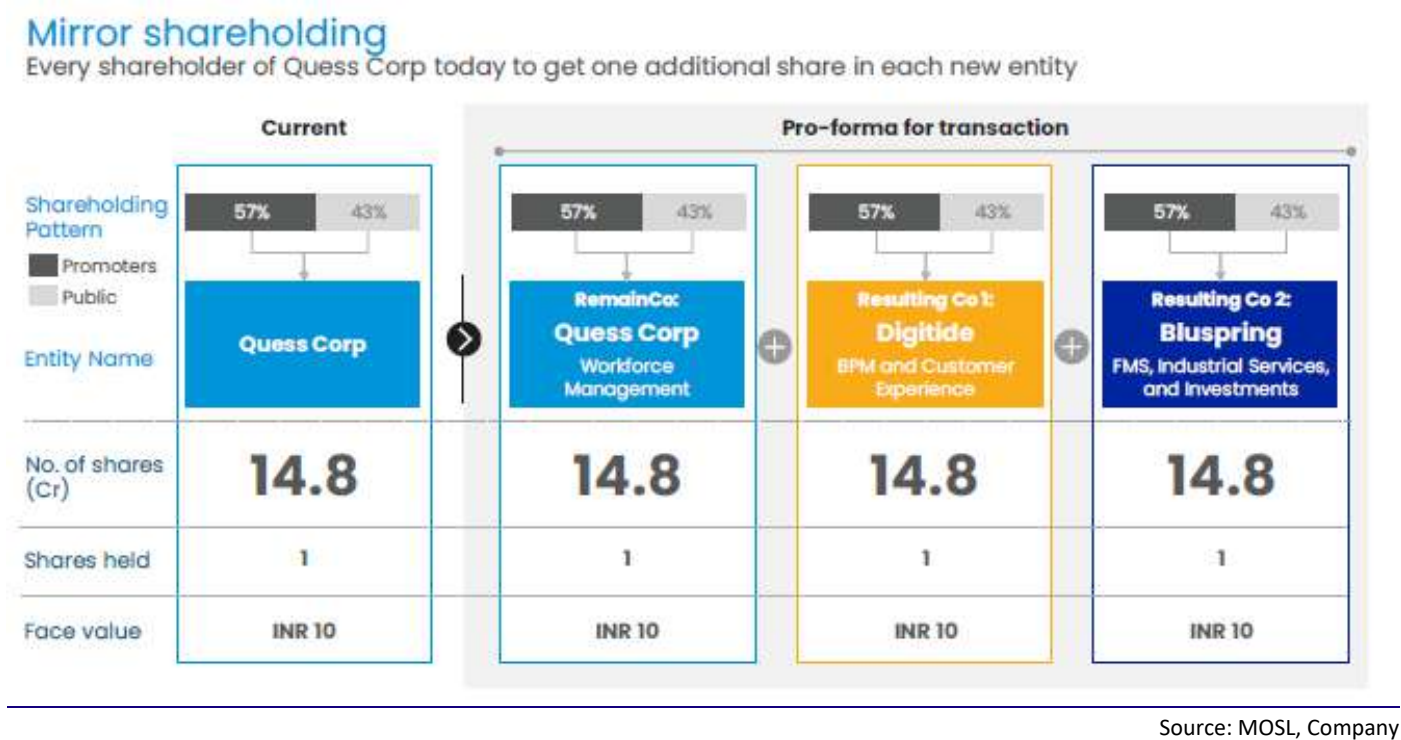
- Management believes that each of the standalone entities would create more value than the value that the company would generate as a combined entity.
- The corporate structure would be more simplified and would allocate individual accounting responsibilities.
- The management resource would be dedicated to derive incremental growth and efficiency, which would lead to value unlocking for each of the individual entities.
- Capital allocation would be at an individual entity level. Digitide would require more capital allocation than the other two entities, as its growth would be supported by bolt-on acquisitions to achieve its aspiration of USD1b revenue milestone. Additionally, the individual entities would have their own dividend payout policy.
- Lastly, the independent entities would provide more clarity to the investors with individual ground to compare on a like-for-like basis.

Exhibit 1: Sustainable long-term value creation



Source: MOSL, Company

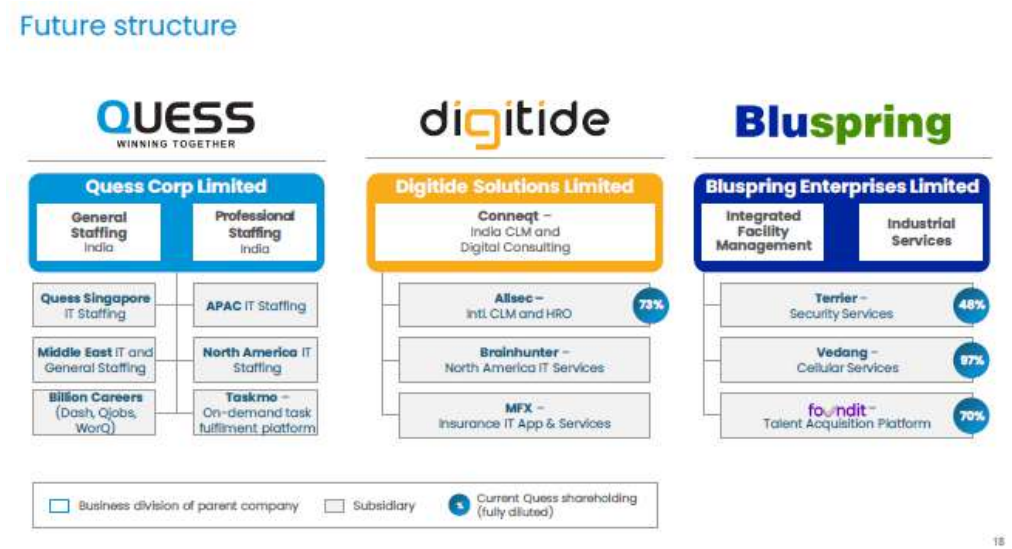
Exhibit 2: Shareholding pattern



Three independent entities with individual resources

- The three-way demerger of QUESS’s diversified business segments would result in three listed entities with a dedicated presence. The three surviving entities will be Quess Corp Ltd (workforce management, 68% of consolidated FY23 revenue), Digitide Solutions (BPM solutions, Insurtech and HRO businesses, 14%) and Bluspring Enterprises (Facility Management, Industrial Services and Investments, 18%). QUESS expects the demerger to take 12-15 months more to receive regulatory clearance.

Exhibit 3: Future structure



- Management aspires to become the largest staffing company globally by headcount and achieve a 30% EBITDA contribution from the international staffing business.
- QUESS aspires to grow its IT staffing business by 2x the growth of the IT services market. Management indicated that India has a strong potential to drive the IT staffing business, where BFSI, Retail, and Manufacturing are aiding the overall growth.
- The increase in urbanization, coupled with a significant movement of workforce from the unorganized to the organized sector, is also expected to support the staffing business.
- QUESS continues to invest in technologies to bring in automation and robotics and drive productivity and efficiency.

Exhibit 4: QUESS – aspiring to become the largest staffing company by headcount



Source: MOSL, Company

Exhibit 5: Digitide to become a USD1b BPM company by revenue



Source: MOSL, Company

- Digitide's business consists of BPM service lines. IT aspires to achieve a USD1b topline (including inorganic) in the long term, and it targets to expand the international revenue share to 20%.
- Despite the aggressive strategy to grow inorganically, the management has been confident of sustaining the EBITDA margin at the current level.
- The major focus is to drive exponential growth of its platform-based HRO services business to 30% annually.

Exhibit 6: Bluspring – aspiring to become a leading FMS company in India



Source: MOSL, Company

- It aspires to become a leading Indian FMS service provider with end-to-end facility management for the manufacturing and industrial sectors. It aims to improve the revenue concentration from these verticals to 25%.
- It expects to grow the FMS revenue by 3-4x of India's GDP growth rate, while improving its EBITDA by 100bp YoY through productivity enhancement and automation.
- The company is aiming to take the FMS revenue share to 20% from 5% currently, while focusing on robotics and automation solutions.

Analyst Meet: the key takeaways

- The staffing business growth is augmented by the shifting of workforce from the informal sector to the formal sector; the business grew 15% YoY in FY23 vs. 9% in FY22. Additionally, formalization and urbanization are equally driving incremental growth; ~9m people are moving from farm jobs to non-farm jobs.
- It aspires to reach USD100m+ ARR for the Foundit business while shifting its revenue model to “platform of outcomes” from “platform of discovery”. The platform has onboarded 90k job candidates, while 6k+ organizations are recruiting or hiring talent on this platform.
- QUESS has built a strong team by acquiring senior resources from digital companies. Foundit is completely AI-driven and provides significant efficiency. In 3QFY24, it has reached quarterly breakeven.
- The smaller GCC is hiring talent at a significant pace despite the structural slowdown, while IT services and internal recruitment have frozen with similar slowdown seen in the ecommerce-led business.
- Within IT staffing, ERP, web-based skills, enterprise, and SaaS skills have a sufficient talent pool in India, while there is a meaningful shortage of Cloud and AI-related skills. The shortage of IT talent is creating an opportunity for QUESS in training and working around institutions to address the scarcity.
- Manufacturing is creating a substantial opportunity, with significant PLI investments flowing into India. These plants are hiring a sizeable number of non-farm employees (5k-10k), and have the potential to scale up the resources to 50k within 10-15 years.
- The margin that is derived from the Staffing business is higher by 40-50bp than the industry average. This margin should continue to outpace the industry average even after the demerger. The digital business is generating 16-18% margin vs. industry average of 15-16%. Within Bluspring, management expects the margin to improve by 100bp YoY.

Financials and valuation

Consolidated Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	85,270	1,09,896	1,08,370	1,36,918	1,71,584	1,92,295	2,22,720	2,62,791
Change (%)	38.3	28.9	-1.4	26.3	25.3	12.1	15.8	18.0
Cost of services	2,624	2,671	2,007	2,787	4,794	5,373	6,223	7,343
Employees Cost	67,132	90,632	92,968	1,16,870	1,46,595	1,64,290	1,90,284	2,24,520
Other Expenses	10,868	10,027	7,617	10,743	14,336	15,657	16,413	18,577
Total Expenditure	80,624	1,03,329	1,02,593	1,30,400	1,65,726	1,85,320	2,12,920	2,50,440
As a percentage of Sales	94.6	94.0	94.7	95.2	96.6	96.4	95.6	95.3
EBITDA	4,646	6,567	5,777	6,518	5,858	6,975	9,800	12,351
Margin (%)	5.4	6.0	5.3	4.8	3.4	3.6	4.4	4.7
Depreciation	1,232	2,486	2,285	2,120	2,746	2,788	3,118	3,416
EBIT	3,414	4,081	3,491	4,397	3,112	4,186	6,682	8,935
Int. and Finance Charges	1,144	1,668	1,113	792	1,066	1,250	1,336	1,445
Other Income	712	511	451	198	263	481	557	657
PBT bef. EO Exp.	2,983	2,924	2,829	3,803	2,309	3,417	5,902	8,147
EO Items	0	6,641	1,388	0	-535	0	0	0
PBT after EO Exp.	2,983	-3,717	1,442	3,803	2,844	3,417	5,902	8,147
Total Tax	329	483	590	1,066	615	358	885	1,222
Tax Rate (%)	11.0	-13.0	40.9	28.0	21.6	10.5	15.0	15.0
Minority Interest	88	138	114	98	-16	-9	0	0
Adjusted PAT	2,565	2,609	2,125	2,640	1,710	3,068	5,017	6,925
Change (%)	-17.2	1.7	-18.5	24.2	-35.2	79.4	63.5	38.0
Margin (%)	3.0	2.4	2.0	1.9	1.0	1.6	2.3	2.6

Consolidated Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	1,461	1,475	1,477	1,480	1,482	1,482	1,482	1,482
Total Reserves	25,795	21,284	21,954	22,898	24,205	25,050	28,023	32,779
Net Worth	27,256	22,759	23,431	24,378	25,688	26,532	29,505	34,261
Minority Interest	31	769	939	1,310	1,621	1,611	1,611	1,611
Total Loans	7,502	9,976	4,514	5,877	5,311	5,301	5,293	5,285
Deferred Tax Liabilities	-5,046	-6,166	-4,061	-3,983	-5,275	-5,275	-5,275	-5,275
Capital Employed	29,742	27,339	24,823	27,582	27,343	28,169	31,134	35,882
Gross Block	8,152	9,295	10,857	13,806	16,160	18,360	21,560	24,760
Less: Accum. Deprn.	3,357	5,843	8,129	10,249	12,995	15,687	18,583	21,999
Net Fixed Assets	4,795	3,451	2,728	3,557	3,165	2,673	2,977	2,761
Goodwill on Consolidation	11,769	8,358	9,890	10,096	10,427	10,427	10,427	10,427
Capital WIP	147	46	309	153	181	200	220	240
Total Investments	820	725	41	17	17	17	17	17
Curr. Assets, Loans, and Adv.	27,540	34,439	30,173	35,904	41,429	48,911	56,150	67,325
Inventory	221	284	290	275	282	282	282	282
Account Receivables	9,132	9,982	8,945	23,323	26,886	34,244	39,662	46,798
Cash and Bank Balance	5,855	7,587	5,646	4,105	4,376	3,815	4,989	8,177
Loans and Advances	12,333	16,586	15,292	8,201	9,886	10,571	11,217	12,068
Curr. Liability and Prov.	15,328	19,681	18,317	22,145	27,876	34,059	38,658	44,888
Account Payables	1,729	1,633	1,212	1,154	1,249	4,570	5,250	6,175
Other Current Liabilities	12,351	16,494	14,983	18,258	23,546	25,930	29,289	33,855
Provisions	1,248	1,554	2,122	2,733	3,080	3,559	4,119	4,858
Net Current Assets	12,212	14,759	11,856	13,759	13,554	14,853	17,492	22,437
Appl. of Funds	29,742	27,339	24,823	27,582	27,343	28,169	31,134	35,882

Financials and valuation

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	17.5	18.3	14.9	17.7	11.5	20.6	33.6	46.4
Cash EPS	25.9	35.7	30.8	31.9	29.9	39.2	54.5	69.3
BV/Share	240.5	200.8	206.7	215.1	226.7	234.1	260.3	302.3
DPS	0.0	0.0	7.0	8.0	8.0	16.0	16.0	16.0
Payout (%)	0.0	0.0	135.7	45.2	53.2	77.8	47.6	34.5
Valuation (x)								
P/E	30.7	29.5	36.2	30.4	47.0	26.2	16.0	11.6
Cash P/E	20.8	15.1	17.4	16.8	18.0	13.7	9.9	7.8
P/BV	2.2	2.7	2.6	2.5	2.4	2.3	2.1	1.8
EV/Sales	0.9	0.7	0.7	0.6	0.5	0.4	0.4	0.3
EV/EBITDA	17.3	12.1	13.1	12.6	13.9	11.7	8.2	6.3
Dividend Yield (%)	0.0	0.0	1.3	1.5	1.5	3.0	3.0	3.0
FCF per share	7.2	21.3	45.7	31.6	24.6	16.0	27.3	40.2
Return Ratios (%)								
RoE	9.9	10.4	9.2	11.0	6.8	11.8	17.9	21.7
RoCE	10.6	15.4	7.7	11.4	8.6	13.3	18.5	21.9
RoIC	12.9	22.0	10.9	15.0	10.6	16.0	22.7	28.5
Working Capital Ratios								
Asset Turnover (x)	2.9	4.0	4.4	5.0	6.3	6.8	7.2	7.3
Debtor (Days)	39	33	30	62	57	65	65	65
Creditor (Days)	7	5	4	3	3	9	9	9
Leverage Ratio (x)								
Net Debt/Equity ratio	0.0	0.1	-0.1	0.1	0.0	0.1	0.0	-0.1

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	2,566	-4,319	737	2,510	2,229	3,741	6,397	8,516
Depreciation	3	2,486	2,285	2,120	2,746	2,692	2,895	3,416
Interest and Finance Charges	1,144	1,668	1,113	550	1,066	848	794	793
Direct Taxes Paid	-1,750	-1,449	1,648	-869	-1,994	-358	-885	-1,222
(Inc.)/Dec. in WC	-1,248	-1,933	-464	-307	-231	-1,859	-1,466	-1,757
CF from Operations	714	-3,547	5,319	4,004	3,816	5,064	7,735	9,746
Others	1,302	7,157	1,835	1,538	846	-456	-436	-524
CF from Operations incl. EO	2,016	3,611	7,154	5,542	4,663	4,608	7,299	9,222
(Inc.)/Dec. in FA	-957	-570	-613	-833	-987	-2,220	-3,220	-3,220
Free Cash Flow	1,058	3,041	6,540	4,709	3,676	2,388	4,079	6,002
(Pur.)/Sale of Investments	-117	732	-144	-390	485	0	0	0
Others	2,898	-1,865	-295	-653	543	0	0	0
CF from Investments	1,823	-1,703	-1,052	-1,876	41	-2,220	-3,220	-3,220
Issue of Shares	5	478	2	628	352	-9	0	0
Inc./(Dec.) in Debt	-74	2,197	-6,312	720	-567	-9	-9	-8
Interest Paid	-865	-1,158	-737	-553	-640	-848	-794	-793
Dividend Paid	0	-144	0	-1,868	-1,855	-2,388	-2,388	-2,388
Others	-2,706	-1,244	-997	-3,842	-2,530	-501	-521	-433
CF from Fin. Activity	-3,640	129	-8,045	-4,916	-5,239	-3,756	-3,712	-3,622
Inc./Dec. in Cash	199	2,037	-1,943	-1,250	-536	-1,368	367	2,381
Closing Balance	5,860	7,589	5,646	4,105	4,376	3,815	4,989	8,177

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
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Quess Corp

No

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