



Quess Corp Ltd

BSE SENSEX
26403

S&P CNX
8095

Price Band: INR 310 - 317

ISSUE SUMMARY

Issue Opens	29-Jun-16
Issue Closes	1-Jul-16
Offer Price (INR per share)	310 - 317
Bid Lot	45 shares
Pre Issue Shares Outstanding (cr)	11.33
Shares being issued (cr) (Fresh Issue)	1.26
Post Issue Shares Outstanding (cr)	12.60
Issue Size (INR cr)	400
QIB	75%
Non-institutional	15%
Retail	10%

POST ISSUE DETAILS

Mcap @ INR 317/share (INR cr)	3,993
P/E FY16	45x

Shareholding pattern

Promoter	62.6%
Promoter Group	26.9%
Others	10.5%

Introduction : QCL is one of India's leading integrated business service providers with a clear focus on emerging as a preferred partner for handling end-to-end business functions of its clients. The company offers comprehensive solutions, such as recruitment, temporary staffing, technology staffing, IT products & solutions, skill development, payroll, compliance management, integrated facility management and industrial asset management services. As on March 31, 2016, its key clients included some of the world's largest organisations, including 20 Fortune 500 companies.

About the issue: QCL is raising INR 400cr from fresh issue of shares largely to fund future working capital requirements, inorganic growth initiatives and debt repayment. The post issue market cap of the company would be INR 3,993cr

Business Mix: QCL's service and product offerings include four broad operational segments:

1. Global Technology Solutions [IT Staffing] ("GTS") ~ 27% of sales
2. People & Services [General Staffing] ("P&S") ~ 57% of sales
3. Integrated Facility Management ("IFM") ~ 10% of sales
4. Industrial Asset Management ("IAM") ~ 6% of sales

View: The company is reasonable valued at a diluted P/E of 45x its FY16 EPS which is at a discount to its listed peer Team Lease which trades at 58x FY16 inspite of QCL's better growth track record and superior return ratios.

Y/E March (INR cr)	FY12	FY13	FY14 (9M)	FY15 (15M)	FY16
Revenue	637	1001	1006	2567	3435
Growth		57%	0%	155%	34%
EBITDA	28	43	40	130	164
EBITDA Margin	4.4%	4.3%	4.0%	5.1%	4.8%
PAT	8	17	19	67	89
Growth		113%	12%	253%	32%
Diluted EPS	0.6	1.3	1.5	5.3	7.0
ROE	15%	25%	10%	27%	26%
ROCE	24%	27%	15%	27%	22%

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Competitive strengths

Leading integrated business services provider in diversified business segments: The company is the largest IT staff augmentation provider in India and the third largest general staffing company in India based on number of employees. It is among the leading IAM service provider, among the largest IFM service providers in India, and among the largest training & skill development partner for the Ministry of Rural Development (based on approved project cost). As of March 31, 2016, the company had over 1,300 clients and had employed 120,000+ employees (3,400+ Core Employees and 117,000+ Associate Employees).

Successful track record of growth through inorganic route: QCL has a proven track record of successfully integrating the acquired entities, which were bought with an aim to diversify its revenue stream and further strengthen its service portfolio. Since 2008, the company has successfully completed around 11 acquisitions in various regions as well as verticals to supplement the growth of its existing business verticals. QCL has successfully implemented strategies for better operational efficiencies and growth in these acquired entities, helping it to improve operating margin and revenue. For instance, QCL has significantly grown the business and improved the financial performance of Magna Infotech and Avon post their acquisitions.

Focus on margin improvement: QCL is focusing on improving its operating margin through change in the mix of its service portfolio and active investment in high-margin businesses. The company continues to focus on growing its high-margin businesses such as IT staffing, IT product solutions & services, IFM and IAM. Also, QCL continuously strives to improve its operating margin in its four core operational verticals through a range of initiatives, such as: setting up recruitment centres in tier II cities, moving away from "personnel and material" billing contracts to SLA-based contracts, greater focus on niche high-margin businesses in the IFM segment and shifting focus from only O&M contracts to entire industrial asset life cycle contracts in the IAM segment. Further, the comprehensive range of business services will enable QCL to successfully cross sell its various managed business solutions, thereby improving operating efficiencies and operating margins.

Capitalise on B2C opportunities (e-commerce supply chain): QCL provides managed services to e-commerce clients in India, including Amazon and Urban Ladder, deploying around 12,500 Associate Employees. The company is gradually shifting towards SLA-based contracts by providing last-mile delivery services under the Dependo brand. QCL provides last-mile delivery services across seven cities in India. Also, the company continues to leverage its comprehensive IFM service portfolio (electrical repair, carpentry, plumbing, cleaning, electronic appliance repair and HVAC repair) to identify high-margin B2C opportunities. In September 2015, QCL entered into an agreement with Helpr (an online home services marketplace) to provide trained and certified personnel. There are significant growth opportunities in the B2C segment given the scarcity of trained and certified service personnel.

Robust earnings growth and strong return ratios: The company's profits have grown at a CAGR of 73% over the last three years. The company has demonstrated capital efficiency by generating an average ROCE of 21% over the last three years.

CONCERN - Negative cash flows : QCL had negative operating cash flows of INR 44cr in FY16, primarily due to growing working capital requirements fueled by revenue growth. The working capital requirement is largely funded through debt. Continued negative cash flows will have an adverse impact on the company's business and its growth plans in the near term.

Company	Revenue	EBITDA Margin	PAT	ROCE	P/E
Team Lease	2468	1.1%	25	11%	58x
Quess Corp	3435	4.8%	89	22%	45x

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