

**Quess Corp Ltd. : - "SUBSCRIBE"**

28th June, 2016

Quess Corp Limited ("Quess Corp") was incorporated as IRIS Human Capital Solutions Private Limited on September 19, 2007 at Bengaluru, Karnataka as a private limited company. On May 14, 2013, the company was converted into a public limited company and the name of the company changed to IKYA Human Capital Solutions Limited. Thereafter, on December 4, 2014, the Company's name changed to Quess Corp Limited. Quess Corp is one of India's leading integrated business services providers (Source: F&S Report 2016) focused on emerging as the preferred partner for handling end-to-end business functions of its clients. Offering comprehensive solutions including recruitment, temporary staffing, technology staffing, IT products and solutions, skill development, payroll, compliance management, integrated facility management and industrial asset management services. Service and product offerings include four broad operational segments: Global Technology Solutions ("GTS"), People and Services ("P&S"), Integrated Facility Management ("IFM") and Industrial Asset Management ("IAM").

The Chairman and Managing Director and CEO, Ajit Isaac, has extensive experience in this industry and has contributed to the organic and inorganic growth as well as international expansion. Senior management has a cumulative experience of more than 150 years. Thomas Cook India Ltd., company's majority shareholder and corporate Promoter, is a listed company in India with a history of more than 130 years of operations. Fairbridge Capital (Mauritius) Limited is the promoter of TCIL, which is a part of the Fairfax group. Fairfax Financial Holdings Limited is the ultimate holding company of our corporate Promoter, TCIL. The natural person who is the ultimate beneficial owner of TCIL is Mr. V. Prem Watsa.

As of February 29, 2016, it employed more than 120,000 employees and as of March 31, 2016, it served 1300+ clients. Its key clients include some of the world's largest, reputable organizations, including 20 Companies ranked in the 2015 Fortune Global 500 list. Quess Corp includes clients whose revenue meets one of the following criteria a) the client is a top 10 client in terms of revenue in a business segment, or b) the client contributes a minimum of 1.5% of the respective business segment revenue.

Quess has a pan-India presence with 47 offices across 26 cities, as well as operations in North America, the Middle East and South East Asia. In FY16, 85.7% of revenue was derived from India and 12.6% from North America. Over the period FY12-16, Quess Corp's revenue has witnessed a buoyant surge of more than 5x and net profit by more than 10x driven by entry into new businesses, expansion of service lines, increasing penetration of offerings and regional expansion.

Quess Corp is among the industry leaders in each of their key business services:

- The Largest IT Staff Augmentation Provider and The Third Largest General Staffing Company in India based on number of employees.
- The Leading Industrial Asset Management Service Providers in India.
- The Largest Integrated Facility Management Service Providers in India and the Largest Training and Skill Development Partner for the Ministry of Rural Development based on approved project cost.

**Investment Rationale and Recommendation**

At the upper end of the price band of Rs. 317, the IPO is valued at 45x at FY16 Post issue P/E which is at a premium owing to robust growth track record. With due consideration to factors like a) track record of successful inorganic growth with improved financial performance, b) improved

Issue date	June 29 - July 01, 2016
Issue size	Rs. 4,000 mn. at upper end of the price band
Type of issue	Fresh Issue: Rs. 4 bn (12.6 -12.9 mn equity shares) – Bookbuilding
Face Value	Rs. 10
Price Band	Rs. 310 – Rs. 317 per share
Lot size	45 equity Shares & multiple of 45 equity shares thereafter
No. of shares at cut off	630
Max amount to be paid	Rs. 199,710
Issue structure	QIB: 75%, Retail: 10% Non – Institutional: 15%
Post issue market cap	Rs. 40 bn at upper price band
Book Running Lead Managers	Axis Capital, ICICI Sec., IIFL Holdings, Yes Securities
Registrar to the issue	Link Intime India Pvt. Ltd.
Major Shareholders	TCIL – 78,823,496 shares – 69.55% holding Ajit Isaac – 18,585,960 shares – 16.40% holding

Y/e 31 Mar (Rs. mn)	FY16	15MFY15	9mFY14	FY13
Total Income	34,424	25,728	10,081	10,044
EBITDA	1,641	1,305	398	431
OPM (%)	4.8	5.1	4.0	4.3
PAT	885	672	179	121
PAT (%)	2.57	2.61	1.78	1.20
Equity Capital	1133.35	257.74	961.76	299.89
Post issue EPS (Rs.)	7.02	5.33	1.42	0.96
Networth (Rs. mn)	3455.75	2519.20	1845.33	682.44
Book Value (Rs.)	30.5	27.3	28.4	12.9
Debtor days	45	48	33	57
P/E (x)	45	59	223	330
P/BV(x)	10	12	11	25
RoE (%)	25.6	26.7	9.7	17.7

Source: RHP, Ajcon Research

operating efficiencies and margins through business cycles, c) robust recruitment capability; d) lean balance sheet with favorable Debt/Equity, strong ROEs, f) debtors Cycle at 45 days, we recommend investors to "SUBSCRIBE" the issue.



## Objects of the issue

Fresh Issue - Rs. 4000 mn

Repayment of Debt availed by the Company	Rs. 500 mn
Funding capital expenditure requirements of the Company and its subsidiary, MFX US;	Rs. 717 mn
Funding incremental working capital requirements of the Company	Rs. 1,579 mn
Acquisitions and other strategic initiatives	Rs. 800 mn
General Corporate Purposes	-

Source: RHP

## Promoter's background

Thomas Cook (India) Limited ("TCIL") is the majority shareholder and corporate Promoter of the company. TCIL is in turn majority owned by Fairbridge Capital (Mauritius) Limited which is a part of Fairfax, a private equity and investment firm with a track record of successful investments in the service industry. The relationship with the Fairfax group has enabled Quess to streamline their business operations to global best practices of corporate governance, internal controls and evaluation of inorganic growth opportunities, as well as enhanced the access to international business opportunities and global capital. Today, Quess Corp is one of India's leading integrated business services provider, emerging as the preferred partner for handling end-to-end business functions of the clients. They offer comprehensive solutions including Recruitment, Temporary Staffing, Technology Staffing, IT Products and Solutions, Skill Development, Payroll, Compliance Management, Integrated Facility Management and Industrial Asset Management Services.

Ajit Isaac (Chairman Managing Director and CEO) – Holds a masters degree in Arts in Social Work from the University of Madras and has completed the Managers for Leadership Course from the University of Leeds, United Kingdom. He is responsible for the daily operations and takes strategic decisions for our Company. – He was nominated for the Forbes India Leadership Awards, 2011 under the category of "Outstanding Startup" and for the CII Regional Emerging Entrepreneur Awards, 2011. – He has 25 years of experience in the field of human resources and corporate management. Prior to joining the Company, he was the country manager for India and Middle East of Adecco Peopleone India Limited.

## Business Strategy

### ***Expand the service portfolio and operations globally through strategic acquisitions***

The company intends to continue the strategic expansion plans through inorganic growth opportunities in underserved markets and geographies that complement the existing operations. The company intends to pursue strategic opportunities in complementary service offerings, among others, in payroll and compliance management services, IT staffing, facility management, asset management, safety and quality audit, financial analysis and planning, and background verification services, to offer a comprehensive range of business and managed service offerings to their clients.

### ***Continue to improve operating margins***

Quess Corp continue to improve their operating margins through a gradual shift of their service portfolio towards higher margin businesses and actively investing in developing such businesses. Also, they continue to focus on further growing their higher margin businesses such as IT staffing, IT product solutions and services, facility management and industrial asset management. The comprehensive range of business service offerings will enable Quess Corp to successfully cross sell their various managed business solutions, thereby increasing operating efficiencies and further improve operating margins. The GTS business has significant growth opportunities in India given their market leader position and the low level of IT staffing penetration in India compared to mature IT industry markets. In the GTS business, the company has acquired Brainhunter, focused on IT staffing in North America, as well as MFX, focused on IT products and solutions for property & casualty ("P&C") insurance industry. These acquired businesses provide strong business synergies with the existing operations.

### ***Capitalize on the rapid growth of e-commerce in India and pursue other B2C opportunities***

The company intends to capitalize on the rapid growth of the e-commerce ecosystem in India. The company provides managed services to a number of leading e-commerce players in India including Amazon and Urban Ladder, and as of February 29, 2016, about 12,500 Associate Employees were deployed with e-commerce clients. The company continue to move away from "personnel and material" contracts to SLA



based contracts, in particular providing last mile delivery services under the *Dependo* brand. As of March 31, 2016 they operated last mile delivery services across seven cities.

***Focus on domain depth and operational excellence***

In recent years, the company has streamlined their sales and client delivery teams according to specific business verticals and industry segments. This will result in increased domain knowledge, higher client focus, and industry specific skillsets for their Associate Employees, client account managers and recruitment personnel.



## Disclaimer

Ajcon Global Services Ltd. is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Ltd. research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Ltd. is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Ltd. or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Ltd. or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Ltd. and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Ltd. While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Ltd. is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Ltd. from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Ltd. will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Ltd. accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Ltd. or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Ltd. encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Ltd. or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Ltd. nor Research Analysts have any material conflict of interest at the time of publication of this report.



**STOCK BROKING, INVESTMENT BANKING, CORPORATE ADVISORY & INSURANCE**

It is confirmed that Akash Jain – MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Ltd. or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Akash Jain – MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Ltd. may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Neither the Research Analysts nor Ajcon Global Services Ltd. have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Ltd. by any Regulatory Authority impacting Equity Research Analysis activities.

**Analyst Certification**

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.



**For research related queries contact:**

Mr. Akash Jain – Vice President (Research) at [research@ajcon.net](mailto:research@ajcon.net), 022-67160431 (D)

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

**Website:** [www.ajcononline.com](http://www.ajcononline.com)

**Corporate and Broking Division**

408 - (4<sup>th</sup> Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

**Registered Office:**

101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40