AJCON GLOBAL

YOUR FRIENDLY FINANCIAL ADVISOR

Top picks and view on Indian equities.. **Sep. 24, 2018**

Bears were in full command last week with massive volatility being witnessed on the last trading day of the week as NBFCs cracked significantly especially Housing Finance Companies witnessing heavy selling pressure which hit market sentiments quite badly. Housing finance company DHFL was knocked down as much as 60 percent intraday after selling of commercial papers worth about Rs 200-300 crore by DSP Mutual Fund recently. On Friday, last week, Sensex witnessed a 1,500-point swing — amid sharp correction in financial stocks — before closing 280 points lower. The trigger for this swing was owing to the uncertainty surrounding the future of IL&FS and tighter liquidity conditions for other NBFCs. NBFCs, largely dependent on wholesale funding, tanked on fears that liquidity conditions are tightening due to crisis at IL&FS and demand for funds. Rising bond yields along with rupee depreciation and surging crude oil prices has been a cause of concern for NBFCs as the cost of funding would rise for them.

A sharp fall in shares of Yes Bank following the Reserve Bank of India’s (RBI’s) directive to its chief, Rana Kapoor, to step down in January also weighed on market sentiment. Shares of Yes Bank, which ended 29 per cent lower, accounted for 60 per cent of the Sensex fall.

In the last week, FIIs sold equities worth Rs. 2,674.12 crore, while domestic institutions bought equities worth of Rs 1,782.63 crore.

India's volatility index (India VIX) was also up 12.28 percent last week. The smallcap index was down 5.54 percent, largecap index ended 3.34 percent lower, while midcap index shed 4.61 percent. The dented market sentiments will present investors great and good Companies at decent valuation which investors can add in their portfolio. The few Companies with long term sustainable and scalable business model with great management which we have selected for investors are as follows:

1) **Quess Corp., CMP: Rs. 890, Target: Rs. 1,230, Upside: 38%**

Quess Corp Limited is India’s leading business services provider. Established in 2007, Quess is headquartered in Bengaluru, India with a market cap of ~Rs. 13,000 crores. Quess Corp is promoted by Fairfax Financial Holdings through its Indian subsidiary, Thomas Cook India Ltd (TCIL) and Mr. Ajit Isaac, Chairman & MD.

The Company is engaged in helping large and emerging companies manage their non—core activities by leveraging its integrated service offerings across industries and geographies which provides significant operational efficiencies to its clients. Quess has a team of over 272,000 employees across India, North America, South America, South East Asia and the Middle East across segments such as Industrials, Facility Management, People Services, Technology Solutions and Internet Business. Quess serves over 1,700+ clients worldwide. The Company’s Industrials segment provides industrial operations and maintenance services and related asset record maintenance services under the Hofincons brand across various industries, including energy, oil & gas, chemicals and ferrous & non-ferrous metal industries, across India and the Middle East. Vedang, its group company, plans, designs and optimizes telecom cell sites and also installs active components on cellular towers and their O&M. Additionally, it also provides managed services and passive infrastructure solutions for telecom companies under the Maxeed brand. The Company has consolidated its offerings in the power sector under EnerQ brand. EnerQ provides a range of services across the value chain in power sector including O&M of power plants and managed services for utilities. Last year we entered into Digital Infrastructure segment under QInfra brand. QInfra focuses on Infrastructure EPC projects in domains like Urban Infra and Transportation.

The Facility Management segment provides an entire range of facility management services including soft services (housekeeping), landscaping services, electromechanical services, corporate catering, pest control and hospitality services. The Company has carved a niche for itself with the ability to deliver cost savings to its clients along with providing multiple support facility maintenance services.

The People Services segment provides comprehensive staffing services and solutions including general staffing, recruitment & executive search, recruitment process outsourcing, as well as payroll, compliance and background verification services under the IKYA and Coachieve brands. Additionally, it provides training and skill development services through over 95 centers spread across 12 states in India, under its Excelus brand in partnership with the Government of India. The Company is authorized to provide training and skill development programs covering 21 trades/sectors, including ITES sector for technical support, logistics sector for warehouse assistance and travel & tourism sector for domestic tour operators. The Company logistics division provides first & last mile delivery solutions for leading e-commerce clients.

The Company’s Technology Solutions segment provides a host of IT/ITeS support services viz. Customer Lifecycle Management, Business Process Management, IT staff augmentation, IT infrastructure managed services, IT products, Digital solutions and After-sales support services. Its comprehensive range of offerings are spread across India, South East Asia and North America.

We are quite excited by this new generation business model. We are very bullish and structurally very positive on this Company with a great management. The Company’s business model is well suited for new India which we believe will pan out well in the future and can give multibagger returns if a patient investor holds it for atleast 5 years. Recommend investors to have a slice of it in the long term portfolio. The Company’s financial performance has been quite robust with gross revenue CAGR of 44 percent over FY13-18 to Rs. 6167 crores, EBITDA CAGR of 50 percent over FY13-18 to Rs. 354 crores in FY18 and PAT CAGR of 79 percent over FY13-18 to Rs. 310 crores in FY18. Low Debt/Equity ratio of 0.41x in FY18.

The Company expects to compound it's EBITDA by 20% p.a., over the long term. While the Company grows organically and through friendly acquisitions, its focus will be long-term institution-building and not quarterly earnings. The Company will work to keep its debt to EBITDA geared at around 2x. On an asset-light model, it will continue to develop innovative products and service lines. In the past, the Company has done around 22 acquisitions and turned around those businesses quite successfully.

During FY18, the Company closed a number of acquisitions and investments across segments from, active Telecom Infrastructure Management to Customer Lifecycle Management. The financial consolidation of Manipal Integrated Services has established its position as a leading player in the integrated facility management space. The Company forayed into the promising area of Customer Lifecycle Management through the acquisition of Conneqt Business Solutions Limited (formerly known as Tata Business Support Services). The acquisition of Vedang Cellular Services Private Limited, led by Ashish Kapoor marked its entry into active infrastructure management in the Telecom space with a strong annuity business potential. The year also saw the Company entering into the high growth area of Online Career and Recruitment space through the acquisition of Monster India and its business in South East Asia and the Middle East. The strategic intent behind acquiring Monster was to secure an online platform through which it could offer HR services and eventually go on to build a workflow management platform. The recent acquisition of QDigi Services (Branded as DigiCare) gave the Company a strategic entry into the mobile and consumer durable break-fix and repairs market across India and it compellingly fits into its customer lifecycle management business that it has initiated through the acquisition of Conneqt Business Solutions. The acquisition of Greenpiece Landscapes expanded its offerings spectrum in the Facility Management vertical. This investment brought in the much-needed institutional approach to the growing landscaping segment.

In Q1FY19, The Company's employee headcount as on June 30, 2018 was over 272,000 compared to 195,000 employees in the corresponding quarter of last year, registering a growth of 39%. Revenue grew 52% YoY to €1,968 or with an Organic growth contribution of 28%. EBITDA Margin stood at 5.21% as against 5.80% in Q1' FY18 YoY. The reduction in margin is primarily due to the following reasons: - Impact of seasonality in the business operations of recently acquired entities such as Conneqt Business Solutions and Manipal Integrated Services; and - Impact of ongoing strategic investments in Technology, Sales and Operations at Monster and DigiCare. Benefits from these investments are expected to be seen from FY19.

At CMP of Rs. 890 the Company is valued at 41x on FY18 diluted EPS of Rs. 21.8. We recommend investors to "BUY" with a target of Rs. 1,230 (41x of estimated FY19 EPS of Rs. 30) by FY19 end implying an upside of 38 percent and believe it can give big returns over a period of 5 years.

2) BSE Ltd. CMP: Rs. 717, Target: Not given

The Company owns and operates the BSE exchange platform (formerly, the Bombay Stock Exchange), the first stock exchange in Asia, which was formed on July 9, 1875. BSE is Asia's oldest exchange, and boasts of the largest number of listed securities in the world. As the operator of the BSE, the Company regulates listed issuers and provide a market for listing and trading in various types of securities as may be allowed by SEBI from time to time. The Company operates in three primary lines of business, namely:

1. the listing business, which consists of the primary market, which relates to the issuance of new securities;

2. the market business, which consists of (i) the secondary market, which relates to the purchase and sales of previously-issued securities, (ii) BSE StAR MF ("BSE StAR"), our online platform for the placement of orders and redemptions of units in mutual funds, (iii) NDS-RST, its platform for the reporting of over-the-counter corporate bond trading, (iv) membership, which includes membership in the Exchange, membership in our clearing corporation ICCL, and membership of depository participants in our depository CDSL, and (v) post-trade services, namely the clearing corporation and depository; and

3. the data business, which consists of the sale and licensing of information products.

In addition to its primary lines of business, the Company also has supporting businesses, including (i) providing IT services and solutions, (ii) licensing index products such as the S&P BSE SENSEX, (iii) providing financial and capital markets training and (iv) operating its corporate and social responsibility portal. Moreover, it has an active treasury function focused on managing its cash, including both its own funds as well as funds that it holds on behalf of third parties (such as margins placed by clearing members).

As on Q1FY19, BSE had 1,344 Equity cash members and 535 Currency Derivative Members.

The Company is engaged in extensive monitoring of its members, of listed companies and of market activities in order to minimize the risk of default, promote market transparency and integrity. By doing so, the Company along with other Indian stock exchanges contribute to the growth of the Indian capital markets and stimulate innovation and competition across market segments.

BSE has highly developed electronic systems for entry, trading, clearing and settlement and depository services and continually seeks to improve its core IT capabilities, the reliability and consistency of which help it to maintain its competitive position. Examples of its electronic systems include (i) BOLT+, which is its fully automated, online trading system, (ii) low latency co-location services for algorithmic traders and (iii) a realtime risk management system, which conducts real time calculations of members' margins and limits.

To have an edge in technology, BSE has entered into strategic technology alliance with Eurex in Mar 2013, so as to deploy the Eurex new generation trading system, the T7, for trading in various segments. BSE is the fastest Exchange in the world with a speed of 6 microseconds.

Moreover, to continue to improve its product and service offering, it has entered into a number of strategic partnerships and joint ventures. BSE is a member of the BRICS Exchange Alliance, whereby leading exchanges in Brazil, Russia, India, China and South Africa cross-list futures products based on the flagship indices of each of the exchanges, and ICCL entered into an agreement with Clearstream whereby members in its clearing corporation can manage their margin requirements by placing collateral with Clearstream's Global Liquidity Hub ("GLH").

BSE has India's first exchange to be recognized as a Designated Offshore Securities Market by the US SEC. DOSM status allows sale of securities to US investors through the trading venue of BSE without registration of such securities with the US SEC and thus eases the trades by US investors in India.

In Q1FY19, the Company reported decent set of numbers. Q1FY19 revenue from operations witnessed a rise of ~5.9% on yoy basis to Rs. 116. EBITDA (including investment income) declined by 8.2% on yoy basis to Rs. 56.79 crores. EBITDA margin declined to 36.4% in Q1FY19 from 40.8% in Q1FY18. However, Q1FY19 PAT jumped by 3.6% yoy to Rs. 51.5 crores.

The Company's Currency Derivative Segment average daily turnover rose by 73% to Rs. 31,418 crores for Q1FY19. Monthly orders processed in Mutual Fund Segment witnessed a whopping rise of 152% to 70 lakh for Q1FY19 from 28 lakh in Q1FY18. Average daily turnover in India International Exchange Ltd., BSE's wholly owned subsidiary at GIFT City, Gandhinagar was USD 447 million for Q1FY19 from USD 37 million for Q1FY18.

BSE is transforming itself quite well under new the management. The Company is constantly improving and innovating itself. BSE is focusing on next gen products for emerging India to keep competition at bay. The Company is making its presence in newer segments like Currency and Interest Rate Derivatives, MF platform, SME platform, new bond raising market as well as GIFT city which can scale up in a good manner in a decade's time. Its MF platform contributed over 50% of the net MF inflow in equity funds in June 2018. BSE StAR MF crossed 10000 MFD registration; adding over 1500 new Distributors per month; overall distribution network of over 2 lakh in over 3000 towns across India.

During Q1FY19, BSE has entered into an agreement with Bombay Metal Exchange for the growth and systematic development of commodity derivatives markets in the Non Ferrous Metals complex. BSE recently conducted mock trading session in live environment (for commodity derivatives segment). The exchange would launch trading in the commodity derivatives segment from October 1, and to start with, it will focus on non-agri products. To tap the huge opportunity in India's Insurance sector, BSE and EBIX have set up a joint venture, BSE EBIX Insurance Broking Private Ltd. to develop a pioneering insurance distribution network in India with the goal of revolutionizing end-to-end sales and processing of Insurance in the country. BSE also introduced cross currency derivatives (future and options) on pairs such as Euro (EUR)-US Dollar (USD), Pound Sterling (GBP)-USD and USD-Japanese Yen (JPY) and options on EUR-INR. GBP-INR and JPY-INR in addition to existing USDINR Options which will allow entities like corporates, foreign portfolio investors and nonresident Indians to participate and to take positions in the exchange traded currency derivatives markets.

The exchange successfully completed buyback on July 9, and the issued equity share capital now stands reduced by 3.70 percent to Rs 10.51 crore. At CMP of Rs. 717 (Face value: Rs. 2), the Company is cheaply valued at a P/E of 16x and P/BV of 1.09x. We advise investors to add this Company in their long term portfolio and keep on accumulating this Company on every declines. We do not have a price target for this

Company as there is immense opportunity for the Company over the next 10 years. We are confident that this Company can become a strong wealth creation story in years to come.

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