Print Coverage

‘Valuation Gap Vs Peers may Make Quess IPO Attractive’

Publication: The Economic Times
Date: June 28, 2016

KEY NUMBER At higher end of price band & based on diluted equity, it will trade at 45x FY16 earnings vs Team Lease's 57x

Valuation Gap Vs Peers may Make Quess IPO Attractive

IPO WATCH

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ET Intelligence Group: Investors may subscribe to Quess Corp's initial public offer (IPO) since it has higher operating margins and lower valuation compared with its peer Team Lease. At the higher end of the price band and based on diluted equity, the stock will be trading at 45 times FY16 earnings as compared with Team Lease's valuation of 57 times. Quess is in staffing business, where revenue is cyclical and linked to general economic environment.

Business Model
Quess Corp provides general staffing, IT staffing, facility management and industrial management services. General staffing and IT staffing (under global technological solution) account 83% of the revenue. Industrial management services fetch margins of 11%, the highest among all business verticals.

Financials
Revenues grew at compounded annual rate (CAGR) of 52% to ₹3,442 crore between FY12 and FY16, while the profit grew at CAGR of 81%. The total number of associates rose at a 28% CAGR to 1.15 lakh.
It has a debt of ₹421 crore with debt-to-equity ratio of 2.2 times. In FY16, top 10 clients accounted for 30.4% of its total revenues. The firm has made 11 acquisition in various verticals to supplement growth.

Risk Factors
Quess has a negative cash flow of ₹441 crore. It lost cash due to growing working capital needs backed by revenues. Continued negative cash flow will have an adverse impact in the near term. Another risk is that, unlike in the past, it may not be able turn around acquired companies in the future. This may make its inorganic strategy futile.

New Kid on the Block

IPO Detail
Price Band:
₹310-317
IPO Size: Upto
₹400 cr
by issuing fresh shares
Expected Market Cap:
₹3,902 -3,992
on diluted equity

Issue open: June 29, close: July 1

Post IPO, Thomas Cook (India's) stake in the co to come down from 69.5% to 62.6%

Quess Corp: Financial Matrix

	FY13	FY14	FY15	FY16
Revenue (₹ cr)	1004	1008	2572	3442
EBITDA (₹ cr)	46.3	42	136.2	171.6
EBITDA margin (%)	4.61	4.17	5.30	4.99
Profit (₹ cr)	17.2	19.2	67.2	88.5

RISKS INVOLVED

Co's negative cash flow of ₹441 cr may have an adverse impact on groeth in near term