

Business services

Springboards on job market rebound and regulatory tailwinds

Business services stocks like Quess > Teamlease remained our high-conviction BUY ideas over the previous ~6 months and SIS for around a month. In line with our expectations, these stocks delivered stellar returns over the respective horizons (up to ~3x returns over 6M vs ~48%-59% benchmark return; up to 25% over 1M vs 12%-13% benchmark return). Partly, this was led by the strong comeback in the job market. After dismal months of April-May, which witnessed significant job losses, employment staged a steady rebound. Net payroll additions in Sep'20 were significantly higher (43%-115%) vs both pre-Covid and Sep'19 levels. Other key positives are the regulatory tailwinds including: 1) PF subsidy ([link](#)), 2) easing of gig work / overtime rules, and 3) broader labour law reforms. The mentioned companies should continue to be springboards of the tailwinds. Given the: 1) 6M relative price performances, 2) expected benefits of some of the regulatory tailwinds (e.g. PF subsidy, overtime), and 3) idiosyncratic value creation scope, we change our pecking order to Quess > SIS > Teamlease.

► **The strong comeback in job market.** Post the dismal performance in April and May due to lockdown, EPFO payroll additions over the subsequent few months hint at a strong and steady comeback. Job additions in Sep'20 (latest available data) are significantly higher (43% and 115%) vs both pre-Covid and Sep'19 levels. This robustness may be the result of a combination of factors including: 1) unwinding of lockdown impact, and 2) formalisation of a few hitherto informal jobs. However, these lofty job growth levels in the economy may not sustain over the medium term.

Even as the broader job growth may decelerate in the subsequent months (post Sep'20), we expect headcount addition for business services companies to remain robust. Our confidence is driven by channel checks across key verticals like retail, consumer durables, e-commerce, financial services etc. Hiring trends here are currently strong due to factors like festive demand, revenge spending and end of moratorium in Aug'20 (relevant for roles like recovery agents) etc.

► **Regulatory tailwinds further strengthened the business case.** We had written in detail ([link](#)) about some of the regulatory tailwinds for the industry including: 1) PF subsidy, 2) easing of gig employment / overtime rules and 3) broader labour law reforms. These should drive second order benefits like new job creation and / or formalisation of hitherto informal jobs. Empirical evidence from certain geographies (e.g. Delhi, Maharashtra) and verticals (e.g. IT, ITES, e-commerce) with high share of formal workforce hints at a structurally higher demand for flexi-staffing services.

Subject to successful execution, the broader labour law reforms should be a key positive for all the mentioned companies over the longer term. Other tailwinds like PF subsidy and easing of overtime rules should accrue a higher quantum of benefits for companies like SIS given their relevance to services like security.

► **We change our pecking order to Quess > SIS > Teamlease.** Business services stocks like Quess > Teamlease remained our high-conviction BUY ideas over the previous ~6 months and SIS for around a month. We preferred Quess over Teamlease given the scope for incremental value creation led by idiosyncratic improvement (e.g. balance sheet, cash flows, return ratios). In line with our expectations, these stocks delivered stellar returns over the respective horizons (up to ~3x returns over 6M vs ~48%-59% benchmark return; up to 25% return over 1M vs 12%-13% benchmark return). The mentioned companies should continue to be springboards of the tailwinds. We change our pecking order given the: 1) relative share price performances over 6M, 2) expected benefits of some of the regulatory tailwinds, and 3) scope for idiosyncratic value creation.

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Business Services

Sector update

Stocks covered

- Quess Corp
- Teamlease
- SIS Security

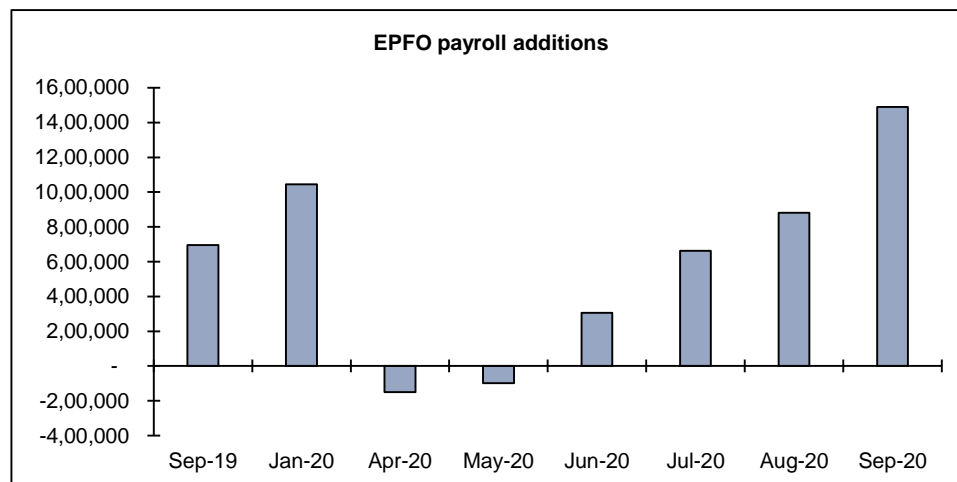
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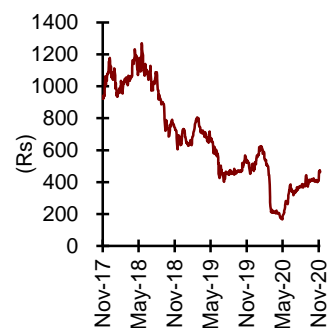
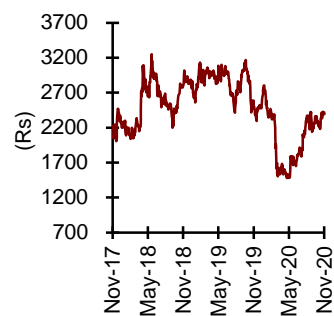
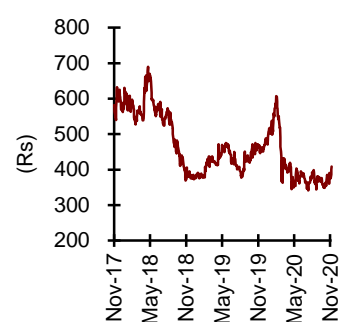
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Chart 1: Strong and steady comeback in the formal job market

Source: EPFO, I-Sec Research

Chart 2: Our channel checks suggest increased hiring activity

Source: A Domino's store in Mumbai, I-Sec Research

Price charts**Qess Corp****TeamLease****SIS Security**

Source: Bloomberg

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