"Quess Corp Limited
Q1 FY24 Earnings Conference Call"

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MODERATOR: **MR. VIDIT SHAH – IIFL SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Quess Corp Limited Q1FY24 Earnings Conference Call, hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vidit Shah from IIFL Securities. Thank you and over to you Mr. Shah!

Vidit Shah: Thank you Nirav. Ladies and gentlemen, good morning and thank you for joining us on the post results conference call for Quess Corp. It is my pleasure to introduce the senior management team of Quess who are here with us today to discuss the results. We have Mr. Guruprasad Srinivasan - ED and Group COO, Mr. Kamal Pal Hoda - Group CFO, Mr. Kushal Maheshwari - Head Investor Relations and Strategic Finance, Mr. Lohit Bhatia - President Workforce Management, Mr. Pinaki Kar, President - Global Technology Solutions, and Mr. Sekhar Garisa, President - Product Led Businesses. We will begin the call with opening remarks by the management team and thereafter we will open the call for a Q&A session. I would like to now hand over the call to Mr. Kushal Maheshwari to take proceedings forward. Thank you and over to you Kushal.

Kushal Maheshwari: Thank you Vidit. Good morning everyone and thank you for joining our Q1FY24 earnings call. The information, data and outlook shared by the management during the call is forward looking, but subject to prevailing business conditions and government policy. All forward looking statements are subject to economic growth or other risks faced by the company. Please refer to slide number two of investor presentation for the safe harbor clause. With that safe harbor, I will now hand over the call to our Group CEO Mr. Guruprasad.

Guruprasad Srinivasan: Thank you Kushal. A very good morning to everyone and thanks for joining us today. Our consolidated Q1 revenue stood at INR 4,600 crores which grew by 16% YoY and 4% QoQ. Q1 performance was in-line with our annual operating plan. Global Technology Solution platform had an excellent quarter as it crossed INR 100 Crores EBITDA benchmark. The platform had delivered consistent growth in the past two years with quarterly EBITDA increasing from INR 64 Crores in Q1FY22 to INR 100 crores in Q1FY24. In Q1FY24, we added around 14,800 headcount and closed the quarter with total employee strength of over 5,25,000. This is an increase of about 12% YoY and 3% QoQ. Sourcing contributed to 27% of new hiring signifying our strength in the staffing industry in terms of our sourcing capability. The business environment was varied across sectors with key sector such as IT and FMCG witnessing a slowdown in hiring while sectors like BFSI, Telecom, and Manufacturing are performing well with over 3,000 headcount additions in both the sectors. Our matured platform continued to demonstrate growth with each of them recording double digit revenue growth in Q1. The consolidated EBITDA for the quarter was INR 154 crores which was impacted by the slowdown in permanent hiring. We acquired about 183 new customers in Q1 quarter which would also help us to generate the growth in coming quarters.

Now let me talk in specific about all the platforms. To begin with Workforce Management platform, the headcount in our workforce platform reached 4,04,000 a 15% YoY increase with revenue growth by 17% YoY and 5% QoQ. Coming to specifics, in General Staffing business we added 14,000 headcount during the quarter led by BFSI, Manufacturing and Telecom with addition of about 57 customers in the quarter. Our vertical focus strategy has aided in BFSI crossing 100K benchmark by associate headcount. Manufacturing, one of our focus verticals contributed to 50% of our new sales wins. Manufacturing and Industrial is now the third largest vertical in staffing and to note, it is also more than doubling in headcount in two years to 50k. 70% of all our new deals have come from consolidation in the market either from local contractors or first-time clients creating additional production capacities. The per associate per month gross margin profile also known as PAPM stayed at an average range of about 670 to 700. We have invested in core recruiters to take advantage of upcoming festive season in coming months as we are seeing the mandate push coming up and temporally to that extent our core to associate ratio has had a slight drop. It is at 1:469, so we are getting prepared for an upcoming season.

IT staffing, the Indian IT staffing selection business saw global headwind during the quarter. IT staffing business was able to mitigate the impact of slowdown by focusing on high value segment, however the permanent staffing vertical registered a slowdown with a revenue decline over 30% QoQ and 73% YoY.

In our North American business, we made an investment of INR 11 crores last year while we have ongoing contracts on hand, it is taking longer gestation period than expected to deliver the project results. We are assessing the market condition basis which we will take the decision on changes to be made in our North American office.

Moving on to GTS platform, GTS had an excellent quarter with 21% EBITDA growth YoY and 5% QoQ. This was mainly on account of revenue realization from robust order book generated over prior quarters, deep account mining and intense execution and excellence. The highlights of platform are as follows, Conneqt continues to maintain its momentum with order book of INR 75 crores of ACV closed during the quarter which predicts well to sustain the revenue momentum in coming quarters.

The growth momentum in CLM business of Allsec continues to drive by excellent 29% YoY growth in North America market in Q1. Our Non-Voice BPM business grew by 31%

YoY and collection business grew 33% YoY and F&A transactions, finance and account transaction processing business grew 59% YoY. This is a testament to our continuous investment in digital tools and innovation to solve the customer problem.

In Platform business, the HRO business in Allsec strengthened its market leadership with 3.7 million payslips processed during the quarter which is a strong quarter growth of 3.2% while North America based InsurTech platform business under MSX had an excellent sequential growth QoQ growth of 18% on account of strong order book in preceding quarters as well.

Going forward the focus remains as follows, specific to GTS, sustaining and accelerating the momentum of Non-Voice BPO in Conneqt and operational excellence margin expansion, leveraging on growth momentum in North America market specifically for Allsec CLM business and creating full fledged health care practice around the current anchor clients, launch of new HRO product and platform over the next two quarters to consolidate the market leadership and market expansion.

Coming to our OAM platform we have registered a topline growth of 16% while EBITDA grew by 3% QoQ. The IFM business saw a revenue growth of 16% YoY and 4% QoQ with major section contributing to the growth are Manufacturing, BFSI and Public Infra and IFMS also added about 20 new logos during the quarter.

Our focus continues as follows, Healthcare, Public Infra, and Industrial, these verticals accounted for over 60% of sales in Q1FY24 and we continue to build early wins. Food vertical saw a gross margin improvement of 35% YoY on back of improved operational efficiency, in addition we also added six new contracts with an ACV of INR 30 crores during the quarter. Security business saw marginal decline in headcount in Q1. As we continue to pursue profitable growth, going forward the business will focus more on margin improvement by increasing the market share in the existing cluster with specific focus on top 10 cities. Our Telecom active infra business had good quarter for Vedang through which the revenue growth was 46% and EBITDA growth by 57% compared to Q1FY22 and FY23. As the 5G roll out continues to gain momentum we expect this business to grow well in the coming quarters.

Moving to Product Led Business, Foundit had a flattish growth in revenue during the quarter with most of the customers not actively hiring for the positions. International market which contributes 35% of our business has been much more adversely impacted. Further customer satisfaction metrics like retention rates, CSAT and NPS have improved QoQ by improvement in product and the candidate data. The candidate engagement metrics have shown significant improvement in the quarter. The job postings are up by 56% QoQ, new registrations are up by 42% QoQ and traffic is up by 27% QoQ. Substantial progress has been made in product development with several features launched including the first GenAI driven feature, subscription based skilling program, etc.

Moving up to couple of general updates across Quess. At Quess, we have always believed in driving positive change in society and creating a meaningful difference in lives of our associates. I am happy to report, among the associates that joined us in Q1, 23% were female who came on board and 35% have entered into formal work force for the first time. Medium average age of 25, providing an entry level employment for youth. To improve the associate experience, we continue to invest in centre of excellence, focus on digital onboarding, and digital compliances with capacity to manage large volumes of transaction to support our future growth across the group. Additionally, to provide learning and developmental opportunity for our core employees we have partnered with leading higher learning institutes such as XLRI, ISB and Harvard catering to employee ranging from recruiters to CXO. The executive certification program in recruitment and selections by XLRI, first of its kind of program jointly developed by Quess and XLRI to bolster the country’s recruiting engine. General management and executive program by ISB and Harvard are geared towards building future leadership pipeline and accelerate the transformation of senior executives into the skill leaders, thus ensuring Quess will always have industry-led talent in the leadership position.

I would like to conclude by saying that the revenue and EBITDA improvement in Q1 against the macroeconomic headwinds have once again underlined our all-weather business model and again with my closing comments Q1 overall has been in line to our plan. So with that, I will now hand over to Kamal to brief you on the financials.

Kamal Pal Hoda: Thank you Guru. Good morning everybody and thank you for joining us today. I extend a very warm welcome to everyone who has logged into this call. I hope you have had a chance to look at the investor presentation and financial results for Q1, which is aligned with SEBI’s LODR requirement as reviewed by the statutory auditors. Let me walk you through the quarter’s financial performance. Revenue stands at INR 4,600 crores an increase of 16% YoY and 4% QoQ. Our net headcount increased by 15k QoQ. We saw a healthy growth across all our platforms during the quarter. EBITDA stood at INR 154 crores, a nominal growth of 1.3% and 0.4% YoY and QoQ respectively. A few call outs on dip in margins will be covered in platform-wise update subsequently. Our committed cash management and debt repayment continued in the quarter, and this has resulted in an improvement in our DSO days by 3 days YoY and 1 day QoQ which now stands at 56 days. Correspondingly, our gross debt position has come down by INR 14 crores to INR 517 crores. For this quarter our PAT saw a good increase QoQ by 60% to INR 48 crores which is in line with our AOP. This is on account of volume growth across major businesses, reduction in financial cost due to lower average debt utilization and one-off tax provisions taken in the last quarter. Our PAT saw a reduction by 29% YoY. This is on account of higher finance cost due to rising interest rates throughout last year, slow down in the permanent recruitment space as highlighted by Guru and additional investments in North America.

Moving on to platform wise updates, Workforce Management. The revenue for Workforce Management stands at INR 3,221 crores a strong growth of 17% YoY and 5% QoQ. The corresponding EBITDA stands at INR 83 crores a decline of 12% YoY and 3% QoQ respectively. Margin depletion is on account of the below reasons. Continued slowdown seen in the permanent recruitment space and delays seen in conversion of pipeline accounts in North America.

Coming to GTS, revenue for this platform stands at INR 563 crores a strong growth of 11% YoY and a dip of 1% QoQ. Corresponding EBITDA stands at INR 100 crores growth of 21% YoY and 5% QoQ respectively. GTS achieving INR 100 crores run rate per quarter is a milestone achieved for the first time. BFSI sector continues to drive growth in Conneqt non-voice business. Margin mix of Allsec business took a positive change in quarter due to growth in DBS International business. International margin in this business now contributes close to 50% from 44% a year ago.

Moving on to Operating Asset Management, revenue stands at INR 690 crores a growth of 16% YoY and 1% QoQ. Correspondingly EBITDA stands at INR 31 crores a growth of 1% YoY and 3% QoQ respectively. EBITDA grew by 3% QoQ despite seasonal drop in Telecom and Food business due to tight control on IDC and operational efficiencies. We have rationalized certain low margin customers across businesses and same is reflected in drop in headcount.

Product Led business, revenue stands at INR 126 crores, a growth of 8% YoY and 3% QoQ. Corresponding negative EBITDA stands at INR 26 crores, further decline of 7% YoY and 27% QoQ. Losses during the quarter attributable mainly towards higher marketing spends and merit inflations. Excluding non-cash ESOP cost, Product Led business losses stands at INR 21 crores.

Moving on to some corporate updates. Merger update on Conneqt, MFX and Greenpiece. As part of board’s approval of scheme of amalgamation dated 7th July 2021, Quess had filed for approval of scheme with NCLT. The honorable NCLT has admitted the petition and next date of hearing is 11th August 2023. We expect this transaction to complete within this financial year.

Income tax updates, there is no change in our position from last quarter. As mentioned in our previous quarterly call, for the year 2017-18 we have completed the DRP proceedings and for residual matters in the year 2017-18 our appeal is at ITAT and the hearings are expected to commence in the current month. For FY18-19 our matters are at DRP stage and hearing is yet to complete. Honorable DRP is expected to pass the order on or before September 2023. Please note that there is no change in the contingent liability of INR 74 crores on account of such proceedings as disclosed in the last quarter. We thank you all for your continued support and I would like to now open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Raghuram from EurIndia Ventures. Please go ahead.

Raghuram N S: Good morning. This is Raghuram here. I wanted to ask a specific question on the Allsec CLM business that you mentioned. If you could give us some ACV numbers on the new contracts won last quarter and this quarter that would help in putting up a perspective on what kind of growth can be possible there.

Guruprasad Srinivasan: Sure, thanks Raghuram this is Guru here. So as part of my speech that I was alluding to, Allsec has delivered a 29% YoY specifically in North America market in Q1. With the new set of leadership change there and the kind of focus that we have put in the sales program, we are seeing a good set of wins coming from healthcare sector in North America and in line to that our delivery center is backed up in Manila, Philippines. We have expanded the number of seats to cater to the center. While we would not call the specific customer play, but largely belongs to the healthcare sector and we had added about almost 500 seaters to substantiate the customer delivery from Manila. Pinaki you want to add in.

Pinaki Kar: Yes sure. Guru has just now told. The first two metrics, one is that we have consistently grown at 29% in the North America business and that is over the last two quarters. From an ACV perspective we can tell that we are well poised that we have almost doubled the capacity of Manila center and that is after getting the business. So you can have sort of a feeler from there, we had increased capacity by another 600 seats, so that 600 seats we are going to consume in the ensuing quarters. And more importantly, the processes that we are handling in that particular anchor client that we are alluding to, is only one part of the value perceived chain. Based on consistent delivery of performance, we get further segments of the value chain.At the same time whatever the momentum that we have created in terms of the percentage growth, we should be able to sustain that.

Raghuram N S: Okay just an additional question on the Non-America CLM, obviously Conneqt you gave some ACV numbers and growing at nearly 30%. Is that something that obviously seems to be a very similar kind of case from a North American perspective, but also in domestic business, having Naozer Dalal coming from Conneqt, is there some sort of an outlook that you can provide there?

Pinaki Kar: So, Naozer Dalal coming for Connect may not have a correlation there because we leading there and it was mainly domestic business, that is why he was doing that. Now he has come to mostly international business and he is doing well here. But strategically what he does is that most of the Conneqt business is domestic by the nature of the business. Whereas in Allsec the business mix is such there are only few customers which we have keep restricted to that instead of the domestic business which we continue to sustain and grow because once we have got these two businesses, it does not make much sense to have like a dual company strategy and confuse the customers in the market place. And from the Allsec perspective if you do a slice and dice in terms of the operating margins that we get it has maximum margin followed by the international CLM business and then comes the domestic CLM business. So, from Naozer Dalal and Allsec perceptive it is also in our interest collectively to push more HRO business and more international business because that is a vehicle for that, without comprising on the clients that we have got in the domestic business. But if you ask in terms of priority, for growing that business to Allsec may not be our strategy priority, that is the priority for Conneqt.

Guruprasad Srinivasan: Just to add Raghuram, we strongly believe in creating the leadership within and there would be more such movements in future as the developed leaders enter and it doesn't mean that the definition of that entity would change. So they will still continue to focus what that entity is supposed to be aligning to their plan, but it will create more synergy.

Pinaki Kar: That is what I told, so based on the entity the strategic plan is that for that entity. Irrespective of the leader who is there he will focus on strategy for that particular entity, what it is good for and the three or five years plan we have for that entity. Aand the internal movement of the leadership that we do, it is to create leadership bench and giving opportunity to increase internal leaders based on the performance and obviously the growth that we have shown even if they move to adjacent to it obviously they will bring that flavor but they will do what is right for the strategy for that particular entity without any overhang of what they have done in the past.

Moderator: Thank you. The next question is from the line of Arvind Dureja from Bright Financial Management Services Private Limited. Please go ahead.

Arvind Dureja: Good morning Sir. Thank you for giving the opportunity. My question is regarding your target of achieving 20% ROE by FY25. How do you plan to achieve this because from what I see, it seems to be a distant reality, so what are your plans?

Kamal Pal Hoda: Thanks Arvind. Kamal this side. Thanks for this question. So, 20% ROE for FY25 was an aspiration that we had set for ourselves prior to when COVID had hit us. From where we are right now, we have two to three businesses which have to fire full throttle for us to achieve that target. So this year is a very important year for us from Foundit perspective where we are expecting this business to come to a breakeven space by the exit of this financial year. We have very similar expectations of becoming breakeven and then turning EBITDA positive within this financial year for our North America investments. So these two businesses should give us an upside in terms of both our EBITDA as well as the ROE and we need to take next two to two and a half years to reach to that number that we had set as target for ourselves.

Arvind Dureja: Thank you and the second question is, you had guided from this quarter onwards your losses in platform business will start coming down, but if I compare from quarter-to-quarter the EBITDA losses have increased so what is the reason?

Kamal Pal Hoda: So, the guidance Arvind was to exit this financial year with a breakeven in the Product Led business and we continue to stand with that guidance. The increase in the burn in the current quarter is as per the plan, so we are spending on marketing, we are spending on product and we are spending on the right fit for business. To the specific question on the Product Led business, I will ask Sekhar to answer.

Sekhar Garisa: Thanks Kamal. Like Kamal articulated the plan is firmly in place to be able to achieve breakeven by the time we exit this financial year. Despite the external circumstances we are sticking to the plan and the Q1 performance has been very much in line with the plan. So, from here onwards we would see the numbers playing out in the subsequent quarters where the EBITDA burn would come down and leading to a breakeven in Q4 that obviously has significant impact on the group financials. As of now, we are firmly within the plan and the plan takes us to breakeven by the end of the year.

Arvind Dureja: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Abhishek Nayak from Hexagon Asset Management Co. Limited. Please go ahead.

Abhishek Nayak: Thank you for the opportunity. My questions are pertaining to the Workforce Management segment, first is a bookkeeping question? Could you just tell me the EBITDA contribution from the general staffing segment and secondly on the North America staffing, you had mentioned that you wanted to breakeven by first half of FY24 and you mentioned also that there is a pipeline delay in that. So what is your opinion on that? Will you be able to achieve that target?

Kushal Maheshwari: Thank you Abhishek, for your question I will just guide you to Lohit our President for workforce management. He will give you an answer on that. Lohit over to you.

Lohit Bhatia: Yes, good morning Abhishek and thanks for the question. The first part of your question is what is the contribution in this from the General Staffing India business that hovers around the 55% mark. General staffing during this period has done slightly better and obviously the North America burn has contributed to a slight decline in the international contribution and hence general staffing from a near 50% contribution in EBITDA has inched upwards to about 55%, so that is your first part of the question. To your second part of the question as we had said in the previous calls as well and the previous quarters as well, we want to guide towards a breakeven by the time we are exiting first half of the year and as Guru also explained in his commentary and so did Kamal, by the time we are in the Q3 we should start seeing some positive trend. Just to give you some snippets of where we have reached in North America, we have eight active large clients we are working with, we have 18 mandates and positions which are already with us and these are margin accretive positions all of them, we have five on boards which are already with the team as far as the US operations are concerned and we are gearing up our delivery and our sales in such a manner that we are able to consistently add to that kitty of onboards and performance on a month to month basis.

Abhishek Nayak: Okay thank that is very helpful. Thank you so much and just a general question, so you have mentioned in the presentation that you expect to give away 33% of your FCF back to the shareholders. So do you have an internal target for FCF for this financial year that you might be able to share with us.

Kamal Pal Hoda: Yes Abhishek so we have in the past also guided that we will be able to do 70% OCF from all our businesses on a consolidated basis and then there is a stated dividend policy which you just mentioned which we have not changed, so we will continue to be guided by the same policy.

Abhishek Nayak: Alright. Thank you so much.

Moderator: Thank you. The next question is from the line of Mohit Mehra from Guardian Capital Investment Advisors Private Limited. Please go ahead.

Mohit Mehra: Thank you for this opportunity. Sir I think the previous participant kind of hopped on this but what exactly is the plan for the Product Led business, because I was also under the impression that losses would go down sequentially. So how much losses are we are comfortable underwriting and let us say we are not able to breakeven by the end of this year what happens then?

Kushal Maheshwari: Thanks Mohit for your question. I will ask Sekhar to answer that.

Sekhar Garisa: With respect to Product Led business specifically on Foundit, the cost structure remains more or less constant now. The revenue growth will be the one which will be contributing to us breaking even. In terms of what you see between Q4 and Q1 the business has a cyclicality built into it. From Q1 to Q4 over the last three years we typically see business going up by 70%. So while you see that sequentially, it is remaining where it was compared to last quarter. Compared to last year same quarter we did grew by more than 30% and that growth rate will continue, which will through the quarter going forward will bring the losses down, all the way down to Q4 when we are expecting to breakeven. So as per plan the cost structure has more or less stabilized. The revenue is the one that is going to go up in the subsequent quarters which will result in breakeven. The other good part is now given the growth over the last couple of years where we grew on a CAGR basis more than 50%, the revenue is now at a place where even if there are short term fits in terms of externality we will be able to absorb. We are a company with more than $23 million to $25 million of revenue now so we should be able to absorb any short term external shocks that we might be able to see even in the next few quarters.

Mohit Mehra: Can you give any numbers how much loss are you comfortable underwriting and for example, even if the revenues go up but the marketing expenses go up more sharply and then it is costing us to burn cash. any numbers on this?

Sekhar Garisa: So the guidance we have laid out for the quarter from Q1 to Q4 which is in the range of about INR 50 crores to INR 60 crores and we are firmly within that range for the entire Product Led business as a vertical. And in terms of your question around will the marketing cost vary, the cost structure like I said is more or less stabilized. The only variation you would see is whether we will grow revenue or not and we are firmly on the track like I said year-on-year between last year's Q1 and this year's Q1 we have seen more than 30% even in this market and we expect this to only become better.

Mohit Mehra: Okay thank you.

Moderator: Thank you. The next question is from the line of Rishikesh Oza from RoboCapital. Please go ahead.

Rishikesh Oza: Thank you for the opportunity. Sir my first question is with respect to the Workforce Management business. Sir could you give any outlook on what EBITDA margins can we see going ahead, they have gone down this quarter?

Kushal Maheshwari: Lohit would you take this question.

Lohit Bhatia: Good morning. So, if you notice for the last four quarters we have been trending between the 2.6% to 2.8% of the margin profile as far as Workforce Management is concerned. If you look between the Q4 to Q1, the decline has primarily come from the merit increases that we have given to 90% of our staff on 1st of April, that has contributed about INR 2 crores. But decline in the recruitment business which both Kamal and Guru alluded to we know what is happening with the IT services and its impact, it used to be a high margin business, the permanent recruitment business in IT that is another INR 2 crores odd, the US operations negative INR 1 crores to INR 1.5 crores to that extent. If you add of all this up and you factor for the growth in the General Staffing business which is just a shade under a 2% EBITDA margin business GS has contributed INR 5 crores positive on QoQ. So the above line items have given the decline, GS has given the addition but GS comes at a lower EBITDA margin profile. It definitely gives better cash positions because it is a 77% collect and pay business and we continue to grow there. Now how does this change, there are three things which change. One merit increases have already happened so that stays. The recruitment solutions has already declined and come to a flat trajectory. Hereafter while we do not see a marked improvement in the IT services part of the economy for the next one to two quarters, we do not see any further decline whatsoever impacting our margins any which ways. US the current burn is at its highest point, the start of the year generally has a high burn because you also have to take care of the medical insurances and the benefits for the employees which are deployed there for the entire financial year and hereafter as I was explaining in the first question that we are also seeing revenue increase so that burn goes down. We should first come back to our original trajectory of 2.8 where we were and then inch upwards to a 3 and as US and the other assets start to perform, which is IT starts to perform we should be able to cross above the 3% mark. At every stage we are very clear what needs to be done to get that additional 20 basis point upwards and that is the plan the entire leadership team and the management team have.

Guruprasad Srinivasan: In addition to that Rishikesh, we are also taking a hard stab on cost side setting up our center of excellence, making it much more robust to bring our cost to serve down, so many initiatives on cost side as well. So combination of both, it should lead us to come back to 2.8 level first and then marching towards 3% across workforce.

Rishikesh Oza: Would it be fair to say this would take like couple of quarters more to go back to 2.8% and then 3%?

Guruprasad Srinivasan: That is right. Yes. It would take at least about 2 quarters to get back to 2.8%.

Rishikesh Oza: Also for your Product Led business are we saying that from next quarter onwards our EBITDA losses should now trend down?

Sekhar Garisa: Yes. It will start trimming down from this quarter onwards like I said there is a glide path for the losses to go down from Q2 all the way to Q4 where we expect to breakeven.

Rishikesh Oza: And by Q4, it should breakeven is what we expect, right?

Sekhar Garisa: That is right.

Rishikesh Oza: Okay. Thank you for answering sir. Thank you.

Moderator: Thank you. The next question is from the line of Vidit Shah from IIFL Securities. Please go ahead.

Vidit Shah: Hi thanks for the opportunity. My first question was just a clarification on the North America burn, did you say it was about INR 4.5 crores?

Kamal Pal Hoda: That is right Vidit. For the current quarter it is close to INR 4.5 crores.

Vidit Shah: So let say it is INR 3 crores in the previous quarter which has gone up by 1.5 Crores despite us starting to build and winning about 8 large customers, so what is really increased on the cost side and just I wanted to understand the dynamics of the business there.

Lohit Bhatia: So Kamal if I could come in, Vidit it was about 3.8 last quarter and it is close to the high 4s this time, so it is a delta of about INR 1 crores difference right there. This difference as I was just explaining in the previous question at the start of the year you see a bullet payment which goes towards insurance and the burden costing you US ranges between 16 to 19%, that has to be taken at the start of the year itself though for the rest of the year you will have your payroll cost for your core employees and everything. This is not just employees it is also the employee's medical plan and family plan. Now in the case of new business this is more evident and more visible because it is a new business, it is small revenue stream. To your point on revenue, yes you are absolutely right, the eight customers and the 80 positions and the five onboards that I was talking about in the question prior to that, that yes has started yielding revenues which you will start seeing from the Q2 and Q3 onwards as that revenue picks up pace and this cost does not repeat in the second quarter, you will see this trending downwards and downwards quarter-on-quarter.

Vidit Shah: Got it. How much will you have been doing in North America?

Lohit Bhatia: At the moment about under $20,000.

Vidit Shah: Understood. Alright, and the second one was you know we have added our core recruiting team for the upcoming festive season, so just if you could give outlook on what you expect in the upcoming festive season given that there is slowdown in IT and FMCG, do you expect this to cover or do you just expect a boost in Retail, Telecom and BFSI.

Lohit Bhatia: Thank you for asking that question and thanks for bringing the focus back from just one business that we are investing in from WFM which is North America and yes, while I agree INR 4 crores, INR 5 crores burn in quarter does not augur well for our kind of margin profile but that is a medium to long-term strategy for which we are investing. But coming back to core business in WFM which are today doing well, I will just take couple of very key points which should not get lost in all the communication that we are doing. One we crossed the 4,00,000 mark, no staffing company ever in India has achieved this milestone. We are again the first to accomplish this milestone. The second is that we continued to grow at about 54,000 for the last one year and close to about 15,000 for this year. Our general staffing business alone has added 57 logos and IT has added over 13 logos. The kind of business that we are doing with both the vertical strategy as well as the margin strategy today BFSI is 1,00,000, Retail is over 80,000, M&I over 50,000 and Telecom is very close to 50,000. So, what we are looking at is Q1 always starts slow and then you build for Q2 and Q3. At this stage we have a conscious call do we continue to invest in our systems, our process our technology, and governance and compliances for the future, readying ourselves to become half a million and eventually a million by workforce in years to come or do we pause just to deliver 20 basis or 25 basis point higher. We feel we still have a lot of market share and lot of opportunity in the market to capture. Guru alluded to again one point which should not get lost in translation. He said in the last 12 months we have added 1,77,000 people who got a UAN for the first time, so as the largest in this industry we are also seeing the formalization of the economy take place and many large projects and large customers asking for mandates and customers. The workforce management business within that GS business itself has delivered a healthy EBITDA growth QoQ as well as YoY, so we feel that this is the right time for us to continue investing in that business and I hope that answers and very specific point on what do we feel for the next six months, Retail definitely is one that we are betting on, Manufacturing and Industrial continues to be a bet for not just a quarter or a season it will be for next three to five years. We definitely expect Telecom and Banking Financial services where obviously NBFCs equally join the growth during the season. So those are the industry segment. On IT, IT services is slow, but I must tell you and report to you that our staffing business under digital consulting products GCC's and financial services is actually doing fairly well and the high margin, high ticket niche mandates are coming from there. So, IT services is the only one where we feel that the pain could continue for some more time.

Vidit Shah: Just a clarification on that. Given that there has been this year the season has delayed by a month or so. Would we expect Q2 margins remain at these levels and will pick up only from Q3 in the general staffing India business or should we start expecting recovery in the standalone general staffing business from the next quarters?

Lohit Bhatia: General staffing per se margin profile does not really change. What happens with general staffing is that you have higher EBITDA per se EBIT contribution but not so much of EBITDA margin contribution. What you are absolutely right, last year both the share value was October this time Diwali is in mid of November or so. The conversations for ramp up has definitely delayed by two weeks, earlier those conversations and onboard start from July end, this time we are expecting them to start from the extended weekend of Independence Day and thereafter. At the same time we also we feel that we might get an extended one month of the season itself. Last year the season sharply truncated on 31st October with both Dussehra and Diwali happening in the same month. This time Dussehra is in October and Diwali is in November so hopefully we should get an extended one month of the season as well. So it is a mix bag. Margins may not change because of general staffing, margins have to change because of US, because of international and because of professional staffing. I hope that clarifies the two dynamics.

Vidit Shah: Sorry I meant the core to associate efficiency will start improving given full season and that is why.

Lohit Bhatia: Yes. Absolutely right. That is absolutely right.

Vidit Shah: Okay just one last from me on the Product Led businesses. I understand Foundit has been flattish for the last couple of quarters, that is just 25% of the overall revenue we have Digicare in there which also has not really showed any growth in revenue or margins. So could you share your view on that business, what is the strategy here?

Guruprasad Srinivasan: Sure. So Digicare has been almost flat and our strategy is as part of the portfolio restructuring, we are putting more management bandwidth to do a deeper review with the business and we are seeing a kind of, this is season, Q2 is the season generally. Q2 and Q3 if you look the Digicare business performs extremely well and it is more of a cyclic business. So we are seeing the kind of uptick coming in for Q2 and Q3 for this business.

Vidit Shah: Ok Thanks, I will get back in queue.

Moderator: Thank you. The next question is from the line of Vikrant Gupta from ICICI Prudential Life Insurance Co. Ltd. Please go ahead.

Vikrant Gupta: Good morning. Am I audible.

Guruprasad Srinivasan: Yes, Vikrant.

Vikrant Gupta: I had a question on the general staffing business within our workforce management vertical. Slightly longer term, so over the last 4 or 5 years with the staffing account has moved from 1,90,000 today almost 4,00,000 and over the same period we have also seen our core to associate ratio move from 300 to 500 almost. So, good headcount growth and efficiency gains as well, so could you provide a sense of what has been our general staffing, EBITDA specifically over this four to five year period how is this, because on a consolidated level the number is probably INR 300 crores four or five years back and today it is around INR 345 crores and that obviously has IT staffing as well. So I just wanted a sense of how the general staffing EBITDA has moved towards the last four to five years given the strong headcount growth and the efficiency gains that you have achieved.

Guruprasad Srinivasan: Sure. Vikrant I will give high level note on this and maybe I think for a long term the kind off planning that we have, we are happy to take it offline as well. Just to give you little background, I think this the business which has been consistently delivering fantastic CAGR for us, around 77% of our accounts are collected pay our cash flows are far superior in this business. The way it is evolved over a period of time slowly, we are having large vertical focus that it is getting in to, so as I alluded in my speech BFSI alone crossed 1,00,000 by headcount, Manufacturing and Industries have crossed almost about 50,000 by headcount and we have FMCD and FMCG growing close to about 80,000 by headcount. So while we have all this marching towards 1,00,000, at a point Quess in itself was was about when we went for IPO we were share over 1,00,000. So the way we are, every strategy for each of this platform has to change. For example, it starts from the way we hire, the way we structure, the way we onboard, so we are building those digital framework and technology platform to assist each of this. For example, sourcing for BFSI is very different than sourcing for manufacturing, so there is much bigger plan we are building for ourselves to gear up. When we touch 2,00,000, we were thinking how do we handle 4,00,000, so there is a deep thought process that we have put against each of these platform. It is going to be more of a vertical focus that would come into over a period time. So, with that note, I will get Lohit to add some more points, but I would prefer this to take it offline and take it forward.

Lohit Bhatia: So Vikrant that is a good question and like Guru explained I think we will have to take you through the numbers in detail but just to let you know between Q119 to Q124 that we are reporting today, the EBITDA from the GS business alone has grown about 225% and we are almost 180% higher than the nearest next competitor on a QoQ basis as far as EBITDA from this business is concerned. I think it is clearly reflective in the overall numbers, what has not changed for this industry and I think we have to be cognizant of that fact is that the gross margin at a PAPM continues to remain in that 700 plus minus INR 20 or INR 25 on either side. The headline number has not changed, but what has changed for us is volume, what has changed for us is our cost which we kept it under check and the GS business delivers close to two third EBITDA from the overall gross margin that it makes. So at that run rate of delivering two third of EBITDA from the gross margin that it makes increasing growth margin even while at this moment the industry is not ready to accept a higher price, per unit price, I think we are still able to deliver higher EBITDA QoQ and YoY. Now the other question on anybody's mind could be that will this industry ever accept a higher price? I think as long as consolidation does not completely take place in this industry, as long as more players do not become formal and when I say formal the reporting standards have to be same like or as good as a listed company, the audits, the governance, the compliances and everything has to become as good as any of the listed company and I think that is where probably the industry will start to see a slight bit of a price increase and eventually should start seeing improvement in that ratio as well. But today if you were to ask me a question do I plan based on higher gross margin PAPM, no, plans are not based on that, plans are based on everything else, but if that comes that will come as a windfall gain whenever that starts to happen in our industry.

Vikrant Gupta: Thank you. This is very helpful.

Moderator: Thank you. The next question is from the line of Mukul Garg from Motilal Oswal. Please go ahead.

Mukul Garg: I had two questions. Guru first wanted to understand a bit on the Operating Asset Management side, there the growth has continuously being moderating from a pie of 30% plus in the mid of last year, now you as are in mid-teens, is most of the growth moderation in OAM coming because of the cost rationalization which was doing for lower margin customer or is there something which is also impacting the industry growth visibility and if you can just kind of dwell down on whether it is something which is coming from soft service, hard service or security or is it across the board. And second is, Sekhar wanted to just get a little bit more sense on Foundit. Your revenues have not been kind of inching up, but if I look at the job postings they have jumped quite dramatically this quarter but the consumption has shrunk 8%. So exactly what is happening there and if you can also share your sense of how gradually can the loss reduction happened there?

Guruprasad Srinivasan: Sure. So let see the overall OAM platform and then followed by Foundit. So, Mukul if you look at overall platform has delivered about 16% YoY growth. Last year couple of call outs, we had announced in Q1 that we partially exited a large key contract and we have taken that impact during the year. The second area is specific to the security business. The way we are focusing on margin expansion in our IT staffing business where headcount came down, but total absolute EBITDA contribution went up, it is the same strategy that we are adopting in our security business. We are letting go few contracts which are really not rightly priced or rightly profitable. We are realigning while we have got our headcount down, we have recalibrated that during the year and we are now at a steady state stable EBITDA contribution that is coming across the OAM, if you look at. We are on an average hovering around 30, 31 plus or minus is the impact that we have taken between the quarters. There were few contracts like Infrastructure, the smart city project which was also giving some losses in between, so that has been concluded and 31st August is when we will be completing handing over the project this year. So all these had some kind of impact in one or the other quarter which brought in some level of instability, but now if you look at it is at steady state. Telecom business there is also phenomenally doing well for us about 46% growth YoY backed on 5G push that is happening around the country. So, with all of this where we are today I can tell you we are passed with all the variabilities that we had in the platform, it is very steady state revenue and it should now start giving you the uptick. Now coming back to the margin, we are about 4.4%, the platform is delivering about 4.4%. We strongly believe and there are also benchmarks that this platform can go up 100 basis points, so it can deliver about 5.5% EBITDA. We are working towards that now in terms of cost optimization. If you look at the core to associate ratio is about 107, anything about 100 is good in this segment. We have done lot of work there to bring our cost to serve. We are focusing more on productivity and better sweating of our assets that we have put there. Plus, the sales team in itself we have added almost about 43 logos in Q1. So, sales focus, coming out of all cost variabilities that we had plus the focus on cost reduction should now definitely take us moving upward in this particular segment, so any question further, happy to take on OAM.

Mukul Garg: That is quite helpful.

Kushal Maheshwari: I will ask Sekhar to give some color on Foundit business.

Sekhar Garisa: With respect to Foundit your question has two parts to it. One was around operating metrics and possibly you are looking for linkage from operating metrics to how the revenues are playing out. As you know where two-sided market plays, which has candidates on one side and recruiters on the other side. We track metrics on both sides, some of those metrics are important from an engagement perspective, but the revenue is impacted disproportionately by other metrics. What we are going to as an economy, where the job has softened down a bit and therefore you would see that the consumption of inventory which is essentially what recruiters are doing on the platform, which is in correlation with the hiring activity has come down. However, we also have to make sure that the candidates are engaged on the platform despite lesser search which is being done by the recruiters. Therefore, we run a specific program which bring in jobs into the platform from other sources as well. This is purely from an engagement for candidates' perspective and that is the number that you see because we went out of our way to get jobs on to the platform, now job increments on the platform do not directly reflect in revenue because more than 90% of the recruiter's revenues actually come from our database product which is as per the industry standard. So that is why you can correlate the increase in jobs to revenues, what is happening across the industry is that the candidate metrics are showing improvement because more and more candidates are looking for suitable opportunities therefore those numbers are going up and we are also trying to cash in on the trend by making sure that we are giving more reasons to be active on our platform. On the recruiter side the action is a little soften because the hiring activity is muted, that is what you see getting reflected in terms of reduction in search volume, it is a recruiter's search volume. Specifically, your question around how would this play out over the next two to three quarters, boiling down to the breakeven target that you have taken, the cost structure like I said more or less is constant. The revenues would follow sales. Sales numbers still seem healthy, like I said compared to the last quarter of the same year we have grown about 32% and we expect the same to continue and in fact become better over the next three quarters have those sales numbers transferred into revenue over the next three quarters with the constant cost structure, we should be able to trim down the EBITDA as per the plan boiling down to break in. We also have some very significant product launches lined up towards the end of this quarter beginning of next quarter through which also we see a significant revenue uptick happening. So, all in all Q1 is as per plan, the revenues will go up while the cost remains constant leading to breakeven in Q4.

Mukul Garg: Understood, that is very helpful Sekhar. Thank you.

Moderator: Thank you very much. Ladies and gentleman we will take that as the last question. I now hand the conference over to Mr. Guruprasad Srinivasan for closing comments.

Guruprasad Srinivasan: Thank you. I take this opportunity to thank each one of you for this interactive session. As I said our Q1 went on by the plan that we had made and we are really geared up for our Q2, so look forward. In case if you have any questions do reach out to our investor relation team and we look forward to stay in touch. Thank you so much for joining us today.

Moderator: Thank you. On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

(This document has been edited for readability purpose)

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