Quess Corp Limited

Q3FY23 Earnings Conference Call

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MR. KAMAL PAL HODA – GROUP CFO
MR. LOHIT BHATIA – PRESIDENT – WORKFORCE MANAGEMENT
MR. PINAKI KAR – PRESIDENT – GLOBAL TECHNOLOGY SOLUTIONS
MR. SEKHAR GARISA – PRESIDENT – PRODUCT-LED BUSINESSES

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

Moderator: Ladies and gentlemen, good day, and welcome to Quess Corp Limited Q3FY23 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 the 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 of Quess Corp. It's my pleasure to introduce the senior management team of Quess, who are here with us today to discuss the results. We have with us Mr. Guruprasad Srinivasan – Executive Director and Group CEO, Mr. Kamal Pal Hoda – Group CFO, Mr. Lohit Bhatia – President, Workforce Management, Mr. Pinaki Kar – President, Global Technology Solutions, and Mr. Sekhar Garisa – President, Product-Led Business. We will begin the call with opening remarks by the management team and after we'll open the call for a Q&A session.

I would now like to hand over the call to Mr. Rajesh Padmashali to take proceedings forward. Thank you, and over to you, Rajesh.

Rajesh Padmashali: Thanks, Vidit. Good morning everyone and thank you for joining our earnings call today. The information and data shared by the management during the call could be forward-looking, but subject to prevailing business conditions and government policy. All forward-looking statements must be read in conjunction with the risks faced by the company.

I will now hand the call over to Group CEO, Guruprasad Srinivasan.

Guruprasad Srinivasan: Thank you, Rajesh. A very good morning to you all, thank you for joining us today. The business environment for the quarter was muted across all sectors, with exception in segments like BFSI, Manufacturing, and FMCG & FMCD where we continue to see some traction. We added over 80,000 headcount on YoY basis, a 20% increase. Please note this number does not include an additional 35,700 FTEs, who are payrolled in the month of December, who are not on our roles by the end of the month.

The backfills made during tough market environment in Q3 has again demonstrated our capability on solid hiring process that we have built over the years. At Quess, our major focus was on SG&A reduction across verticals. As a result, our SG&A declined to 5.7% of revenue from 6.2% of revenue in Q2FY23. Even though, the overall headcount stayed flat on QoQ basis, Operating Asset Management saw a headcount increase of 3%. All our matured businesses have continued to demonstrate growth, driving our consolidated revenues up by 21% YoY and 4% QoQ basis.

The consolidated EBITDA for the quarter was INR 145 crore, an 8% QoQ increase. EBITDA margin increased by 10 bps, driven by focus on cost reduction. This contributed to margin improvement across all three platforms. OCF to EBITDA ratio was at 45% for the quarter and 60% for 9MFY23. We expect to achieve 70% OCF to EBITDA for FY23 on back of strong collections in Q4.

The sales engine continues to perform well. We acquired 203 new customers in Q3. The cross-sell engine continues to hum with 45 wins in Q3 and with an annual contract value of INR 349 crore. For 9MFY23, cross-sell team has won a total of 70 contracts, with an annual contract value of INR 532 crore, which is what we added in entire FY22. Quess has also partnered with Boston Consulting Group to work on few strategic review and planning exercises with the goal of sharpening our business and capital allocation priorities.

Now coming to platform-specific updates, Workforce Management. The platform posted a revenue growth of 4% QoQ and 21% YoY. Workforce Management added over 100 new clients in the quarter, continuing the 100-plus customers addition streak for seven quarters in a row. The demonstration of sales capability of our team in this challenging environment is quite commendable. Workforce Management headcount reached 379k, an increase of 25% YoY, driven by over 50k headcount additions in H1FY23.

GS revenue, the General Staffing revenue grew by 7% QoQ and 25% YoY. The business added 56 new logos in this quarter taking the 9M new client addition to 179. The per associate per month gross margin profile stayed stable around INR 690 per person range. Value-added services in general staffing contributed 21% of general staffing gross revenue margin against 19% in Q2FY23. EBITDA from operations grew by 6% YoY and 9% QoQ. The EBITDA margin saw an improvement of 11 bps QoQ. This is largely attributable to the efficiency improvement in general staffing, which achieved its highest ever associate to core ratio of 1:459.

In IT staffing, unlike Q2, we have not carried a bench. In addition, IT staffing business also saw a reduction in SG&A to revenue ratio by 200 bps versus Q2. This has contributed to the margin improvement. We will continue to focus on efficiency and building upon the margin gains made in Q3.

Moving on to Global Technology Solutions platform. This segment posted its highest revenue and EBITDA, revenue growing by 20% YoY and 6% QoQ, while EBITDA grew by 3% YoY and 7% QoQ. Conneqt had highest-ever quarterly revenue at INR 364 crore and Allsec crossed INR 100 crore quarterly revenue landmark for the first time. Associate headcount across GTS crossed a milestone of 50,000. The Customer Lifecycle Management business in Allsec grew by an impressive 22% YoY, based on the enhanced account mining and new logo addition across North America and India.

Non-voice BPO vertical grew by 29% YoY. The highlight of this segment was 37% YoY growth in the collection business, which is a validation to our investment in creating a solution-centric business leveraging our digital tools. In platform-based business, that's our HRO platform, Allsec business grew by 16.5% YoY as we processed 3.5mn pay slips during the quarter. Our North American platform business under MFX grew by 10% QoQ, leading to an impressive margin expansion.

Moving on to OAM platform, OAM registered a robust topline growth of 19% YoY and 6% QoQ. IFMS, that's the facility management business, saw a revenue growth of 19% YoY and 6% QoQ, while EBITDA grew by 17% QoQ. This increase was driven by 22 new logo additions.

Number of meals served, in our food business continues to move up, registering around 7.5% QoQ growth after growing by 5% QoQ in Q2. This resulted in 12% QoQ growth in Q3. The continued focus on efficiency improvement through technology, combined with economies of scale, have seen our associate-to-core ratio in our facility management business moving up from 95 to 100 in Q2.

Terrier continues to ramp-up the headcount. The headcount addition stands at 22,000 with an increase of 5% QoQ. As a result of this, the business achieved a revenue growth of 5% QoQ. Terrier now holds PSARA licenses in 23 states and our application is under process in 3 states. Our India presence will drive growth in this business.

Vedang, our telecom platform, which focuses on active infra services business has had its best quarter in terms of revenue and EBITDA, achieving 9% increase in revenue and 4% increase in EBITDA on QoQ basis. We expect the strong trend to continue on the back of 5G rollout.

Moving onto Product-Led Businesses, where we continue to make significant process. We rebranded Monster to foundit to reflect our vision of transformation from Job Board to complete Talent Platform. The new brand identity was received very well by all stakeholders. Monster continues to log impressive number with sales crossing INR 40 crore milestone, sales and revenue growing by 40% and 23% YoY, respectively. Sales grew by 35% QoQ sequentially, showing a robust growth even as the hiring scenario slowed down.

The candidate traffic and engagement continues to be strong with six months active candidate base almost touching 18 million for the first time. Customer acquisition continues to be healthy, with over 2,000 new customer contracts for six quarters in a row. New product development has seen significant progress with launch of key AI-driven features on the product as well as the launch of our assistance platform, Skillist. Qjobs saw an external customer count growth of 15% QoQ and the NPS continues to be strong and best in the industry. The cash burn in this segment is as per our expectation and in-line to the prior communication.

Coming to corporate updates, we closed Simpliance sale transaction. The transaction valued Simpliance at an enterprise value of INR 120 crore against our original investment of INR 4.5 crore for a 53% stake. This has contributed about INR 53.5 crore to the profit before taxes in Q3. In line with our capital allocation policy, we have paid interim dividend of INR 8 per share for FY23.

So that was an overview of business and now I'll pass on to Kamal. Kamal, over to you.

Kamal Pal Hoda: Thank you, Guru. I extend a very warm welcome to everyone who have logged on for my maiden analyst call. Let me now walk you through the Q3 financial performance.

Our revenue in Q3 grew 4% compared to previous quarter and grew 21% on YoY basis. All the segments posted a decent topline growth. Our EBITDA in Q3 was down by 19% on a YoY basis to INR 145 crore. This decline is due to the following reasons: Product-Led Business burn of INR 30 crore, which is in line with our previous guidance; increase in SG&A cost by INR 7 crore; contract renegotiation in IFMS business at the start of this financial year, impacting INR 5 crore; and investment in US staffing business of INR 3 crore. Our EBITDA in Q3 has grown by 8% on QoQ basis, mainly due to growth in GTS and WFM segments.

Now to segment-wise updates, starting with WFM. Segment revenue has grown by 4% QoQ and 21% YoY, driven majorly by General Staffing. GS business has added 56 new clients this quarter. As mentioned by Guru, Manufacturing has been a bright spot, with 50% of new clients coming from this sector. While the stress on IT staffing continues, cost control measures, coupled with productivity push and volume growth had the platform EBITDA grow by 8% QoQ.

Coming to GTS, it has been the star performer this quarter. The segment has shown 6% revenue growth QoQ and 20% YoY, mainly coming from BFSI and IT & ITES. EBITDA for this segment has grown by 7% QoQ and 3% YoY basis. Stable growth and healthy EBITDA margins from this platform reemphasizes our vision of being a full-fledged business services company.

Moving on to OAM, the platform registered a topline growth of 19% YoY and 6% QoQ due to continued demand in a few key sectors like BFSI, Healthcare and Manufacturing. Food business continues to grow as the education sector has opened up fully, reflecting growth in QoQ. EBITDA YoY dip is due to key client contract renegotiation at the start of the financial year. In Product-Led Business, in Q3, Monster was rebranded as foundit. This platform continues its cash burn as per our previous guidance. The sales for foundit is up 40% on YoY basis.

Moving on, OCF stands at 47% of EBITDA, lower compared to previous quarter on account of few key collections moving into January due to year-end holidays in December. We see OCF coming back to our guidance of 70% on a full year basis. During the current financial year, our gross debt has increased by 7% and is presently at INR 632 crore. Our DSO has increased by one day during the quarter. Finance cost has gone up by 10% QoQ on account of increased debt and rising interest rate scenario. We are confident of bringing this down in Q4 by reducing our average debt levels.

Depreciation has gone up 3% QoQ due to increase in lease rentals, classified as depreciation under Ind AS 116. As part of corporate structure simplification, our divestment in Simpliance Technologies was completed in October 2022. Consolidated net profit of INR 86 crore includes profit on sale of these investments to the tune of INR 53 crore.

Income tax update: During the month of December 2022, the objections filed by us against the draft assessment order passed by the Income Tax department, who are heard by Dispute Resolution Panel, DRP, and the same was disposed off. In-line with the directives of the DRP, a final assessment order was passed by the Assessing Officer as on 30th January 2023 for FY 2017-18. As an outcome of the order, we've received tax adjustments to the tune of INR 198 crore, on which a tax liability of INR 68 crore has been computed, which mainly pertains to two matters, i.e., 80JJAA deduction claim and depreciation on goodwill. Both these are industry-wide issues, not specific only to Quess and we intend to vigorously contest our position and we believe we can strongly defend through the legal process as defined under the Act.

We are partnering with BCG to do a strategic review and planning exercise with a goal of sharpening our business and capital allocation priorities in order to drive strong and sustainable long-term value creation. We expect this assignment to continue through the upcoming Q4 and Q1 of next year. Our focus for the next two quarters is going to be around reducing our SG&A cost, enhancing collections, and bringing down the DSO days, and reducing our debt levels.

We thank you all for your continued support and I would now like to open the floor for questions.

Moderator: The first question is from the line of Vidit Shah from IIFL Securities.

Vidit Shah: Just one clarification on your opening comments. What was the growth in General Staffing headcount, did you mention?

Guruprasad Srinivasan: General Staffing has increased by 25% YoY. It stands at 379k as of 31st December.

Vidit Shah: So just a follow-up to that is, we continue to grow very significantly despite a high base compared to some of our competitors and this has been observed quarter-after-quarter. So just wanted to understand what stands us out versus the industry, in the sense, are we able to price lower and win higher business given higher operating efficiencies in terms of core to associate and all of that or is it just a better recruitment reach that allows us to grow much faster than the rest of the industry despite the marketing?

Guruprasad Srinivasan: Sure, Vidit. So multiple things. One is of course the underlining for all of this is the kind of efficiency in hiring that we have built, the multiple channels that we have built over a period of time. And Q3 was the slowest quarter compared to last six quarters. And even in such a situation, we were able to backfill about 36,000 people across the group.

The sheer capability comes in the kind of investments that we have made on our hiring platforms. So whether it is channels that we have built or the efficiency and speed that we have built in hiring people, plus the sheer reach of Quess across the geography, throughout India. So that definitely plays a role. And how quicker and faster we can hire and onboard is something we are definitely ahead than anybody else in this segment. So that sets us apart.

Having said that, pricing is not always – to answer your question, it is not all about undermining the pricing. It's the capability that we have built in terms of hiring, how we are able to differentiate ourselves in the market.

Lohit Bhatia: Guru, if I may just add to that, the question, which came in from Vidit. This is Lohit here. So, you ask a very pertinent question, and this has been on every investor's mind for the last I think couple of years now, since the last 5-6 years, when our General Staffing team became the number 1 in this segment and continues to grow. I think there are few investments over the years, which

Quess has made, and we continue to sharpen on that investment as far as our General Staffing India business is concerned.

One clearly pointed out by Guru and Kamal also is sales. If you look at the number of sales, new wins in this year itself is 230. In Q3 itself, there has been 56 sales wins. Number two, every 2-3 years, we've looked at an industry segment, which would make us the market leader in the next 2-3 years. All of you being old-time investors and tracking Quess would remember, till 2017, it used to be Retail and Consumer. In 2017, we had taken a very clear focus to be the number 1 in BFSI and today BFSI is over 100,000 people for us and our largest segment. And in the last 12 months, we've clearly focused on Manufacturing and EMPI. Our growth in Manufacturing segment and EMPI itself is 67% YTD in the last nine months and one of the fastest across all the segments that we work. So sales clearly is one.

Number two, which Guru again alluded to is our sourcing efficiency and the size of sourcing. See, Quess has 96 offices across the country. It completely takes anybody else by storm when you have 450 recruiters out there and 96 offices. You couple that with the technology investments under our Product-Led Business, namely the Qjobs, the WorQ and the Dash, as they layer with our associates and our customers, we get a first mover advantage and we get a massive addition to our operating size and our sourcing.

And last but not the least, I think the processes. We spoke about five years ago that we made a small investment through Heptagon in a process called POP, Paperless Onboarding Process. Today that has defined the entire industry itself. In less than seven minutes anybody in any of the remote corners of the country gets on-boarded to Quess and we don't have dropout ratios because of that efficiency and that technology. And that is how we are able to add about 30,000 people and more every month as a gross add. So I think these are the things which will continue to set us apart. Our teams continue to make these investments. As long as we keep bagging new customers, we'll keep investing in technology, sourcing, and sales.

Vidit Shah: The second question I had was on Monster. If you could just clarify, out of the EBITDA loss of INR 27 crore in 3Q in the Product-Led Businesses segment, how much of this could be attributed to Monster?

Kamal Pal Hoda: Kamal here, I will take this one. So out of INR 27 crore, INR 25 crore pertains to foundit / Monster.

Vidit Shah: So now that we've burnt a significant chunk of our externally raised money in foundit, it's been 3.5 odd quarters that we've been doing this. What's the sense going forward? Are we close to raising more capital or is this likely to come to an end in the next couple of quarters and then are we expecting it to breakeven soon?

Sekhar Garisa: Vidit, this is Sekhar here. We are well within our plan in terms of the operational burn on foundit. However, I would like to correct you that whatever external capital we've raised, we still have significant amount of capital in the bank and it is in-line. We are well capitalized with what we have in the bank for at least the next 18 months. And the operational plan both in terms of growth in sales and revenue as well as the burn is in-line with what we have shared earlier. And as per the guidance shared earlier, we are expecting to breakeven by Q4 of next year.

Vidit Shah: So it's fair to assume that this 25-odd EBITDA loss or maybe a little lesser in cash burn due to ESOPs and all of that would continue for most of next year as well?

Sekhar Garisa: Would continue to go down and taper down to becoming a breakeven point by Q4 of next year.

Vidit Shah: And just one last point on the exceptional item and the tax claim that we've had. You mentioned the INR 68 crore tax claim. Is it possible to break this down between how much is on account of the 80JJAA disallowance and how much on account of the depreciation on goodwill?

Kamal Pal Hoda: Sure. Kamal again. So thanks for the question. And let me answer this holistically because there's also a question around contingent liability and the disclosure that we have done. So this is for FY 2017-18 where we had gone through the DRP process. And as explained in my speech, what we are left now is only these two principal matters, which are again not specific to Quess. So all matters pertaining to Quess got disposed off during the DRP hearing.

The breakup of INR 198 crore is INR 68 crore on 80JJAA and INR 121 crore, which is on depreciation of goodwill and the tax liability on that comes to INR 68 crore. Against that, we're sitting on a MAT credit of close to INR 41 crore. So our contingent liability for this financial year comes to INR 27 crore, which as per our previous guidance and as advised by our tax advisors, we had mentioned INR 17 crore. So the INR 17 crore from a contingent liability disclosed earlier goes up to INR 27 crore.

What we disclosed in the financial statement is the contingent liability of INR 74 crore, which includes contingent liability for FY 2017-18, and FY 2018-19 for which the DRP hearings are yet to commence. But going by the orders that we have received for FY 2017-18, we assume to continue to get the similar order for the next financial year. The contingent liability for the subsequent year is now INR 47 crore. So both put together is of INR 74 crore, which we have disclosed in the financial statements.

Vidit Shah: And what's the sense that you get for the subsequent financial years – FY 2020-21, FY 2021-22, and even FY 2022-23? I mean, if this assessment were to be upheld and even in higher levels of court, what's the tax outflow and maybe an expense to the P&L that one could likely see in the upcoming year?

Kamal Pal Hoda: Sure. This is Kamal again. So, see, for all subsequent financial years, as of now, since the assessments have not been done, we will not be able to quantify as to what we will get from the Income Tax department. However, the settlements in our country is actually a multistage process. So we've gone through the Assessing Officer. We've gone through the DRP. The next stage for us, for this financial year for which we've got the final order is, we're going to go through the Tribunal process.

The two positions, one of them is a settled Supreme Court position and we are very confident of receiving a positive order in the subsequent stage. And the 80JJAA matter is, again, something which is an industry-wide matter and we believe that, and as per the advice from our tax consultants, we have a strong merit in what positions we have taken.

To your question on cash outflow, we do not have any outflow exposure, because considering the contingent liability as well as the refunds that are outstanding with the department, even if for all subsequent years, going up to the last financial year, FY 2021-22, the entire 80JJAA as well as depreciation of goodwill if were to get disallowed, we still have sufficient MAT credit and refunds pending. So from a cash outflow perspective, we have zero exposure.

Moderator: The next question is from the line of Darren from Firth Investment Management.

Darren Ng: I'm Darren from Firth Investment. I have two questions. It's mainly on the GTS segment. For GTS, what are the key drivers that led to the improvement in EBITDA margin for this quarter? And second question is, what is the management outlook for the GTS EBITDA margin in FY 2023-24 and FY 2024-25 and the assumptions behind it?

Guruprasad Srinivasan: Darren, can you please repeat the question?

Darren Ng: First question is regarding the GTS segment, so what are the key drivers that led to the improvement in EBITDA margin for this quarter?

Guruprasad Srinivasan: GTS, as a platform, our EBITDA margin is at 16%. That's where we are currently, at aggregate platform level. And the question is, what are the drivers? Of course, under GTS, we have three platforms. The first one is Conneqt business services, which is customer lifecycle management, domestic, and then we have non-voice BPO and we have HRO platforms. So these are three businesses, which are stacked under GTS. Domestic business operates at an average EBITDA margin of about 14% to 15% and continues to have a fantastic outlook in terms of our order book.

We command second rank in the business in the country. Our volume have been substantially high. The growth in this business – we are able to command at least about 20% YoY growth and sustain at that level. When it comes specific to non-voice BPO, we focus on the collection business, which is a kind of hybrid between digital and the physical collections of outstanding for various fintech institutes. There we have been seeing a fantastic growth, about 29% YoY. And the third platform is HRO, where we do payroll processing and outsourcing of payroll. The number of payslips that we process is growing at 16.5% YoY. So again, a high-margin business contributes close to about 20%+ EBITDA margin. So combination of all these three averages at 16% in terms of contribution.

Pinaki Kar: Hi Darren, this is Pinaki. Just to add a color to that. If you see the contribution of the GTS business like this quarter INR 560 crore-odd, out of that platform business is around INR 90 - 91 crore, which is essentially higher margin, because there we have the marginal cost principle. So more the volume increases, because due to the platform nature of the thing, the incremental margin increases with incremental revenue. So that can range from a high of 35% EBITDA for the HRO business to 25% to 28% for the insured tech platform.

Whereas the composition of the CLM business, currently we do around INR 230 crore of essentially voice business and rest are non-voice BPO, which are at higher margin levels. So on the voice, it's more of an efficiency game, 14%-15%-16% within that range we keep depending on domestic versus international. International comes at, the North America business comes at 20%+, whereas the domestic comes at that kind of a range to give a blended number of that.

So the bigger drivers here, to your question is, the more the volume in the platform business increases, obviously the margin percentage goes up. The more from the F&A outsourcing or collection on the non-voice side of business increases, the operating margin goes up, whereas the voice is more of an efficiency game where we are actually the cost leaders in the industry now. So overall we get that blend. And you have seen over the last 8 to 10 quarters, you have continuous increased margins ranging 16% to 18% at the higher end.

So that is the play that we have based on the composition that we take. And some quarter-wise fluctuation obviously is there, based on, like this quarter we had a 37% YoY growth in the collections business whereas rest of the business grew at 20% to 22% range. So some fluctuation happens obviously in the margin based on that. Whereas in HRO platform, we had a 16.5% growth. In the quarter where HRO grows 25%, obviously the margin grows to that extent. Those are the main levers that are there.

Darren Ng: Just one final question on the WFM segment, I understand that Quess has been investing in the US staffing business. I was wondering when is the management looking to breakeven in that business segment and start contributing as well as for the US Staffing business will start contributing to the margin?

Lohit Bhatia: Hi, this is Lohit here. So the US staffing market was started by us in the summer of 2022. We've just had a little over two quarters of performance there. In the initial stage, up until the numbers that are in front of you, which is for the October, November, December, Q3FY23, there is no revenue, which is booked and there is no revenue which has proceeded into these numbers. However, as we have come into Q4, some of the customers, which we had bagged in the last three months have started to convert into open orders and demand.

Our delivery units in India and Philippines have started to deliver against those and glad to report to you that the first set of invoicing and billing has begun. But this would all fall into our results and our numbers for the Q4 period. Like we mentioned in our last quarterly call, we are looking at a breakeven from this unit between this and the coming quarter, which would be the time by when our US operations would have seen one year. So they see one year of operations around June of 2023. Before that we would attain our breakeven.

You would know and we have spoken about this last time as well, the US staffing market for WFM's growth strategy is very-very integral and important for the medium term, which is 3 to 5 years ahead of us, because not only it gives us large volume and revenue and topline, it also gives us a very healthy margin profile at the bottom line. So we would start to see changing color in the new financial year as US starts to contribute to revenue streams. I hope that answers.

Moderator: Next question is from the line of Amit Khetan from Laburnum Capital.

Amit Khetan: Just two questions. One is on the workforce management. Would it be possible to share the EBITDA split between the General Staffing, IT staffing, and overseas staffing like you have for revenues say for the nine-month period?

Lohit Bhatia: Amit, we can send you the details over a one-on-one. However, having said that, at an EBITDA aggregate level, the General Staffing India business currently contributes 50% to the overall EBITDA of WFM, while the balance 50% coming from Professional Staffing India, Professional Staffing International, and others. Within International and India, at the moment, as you know, India IT is reeling under some degree of pressure. Hence, they are half of the contribution which is coming from international.

I must also add, at this moment, we are seeing a bit of a negative as we just explained in the last question, because of the investments made in US. US is yet to get to the point of breakeven. As that happens, international should further grow. And like it has been mentioned in the last couple of calls, our focus at Quess and within WFM leadership team is that over a period of time, on a healthy growing General Staffing, we should have General Staffing come down to about 40%, whereas Professional Staffing and International Staffing take over the balance 60%, which is how the margin mix of WFM would change.

Amit Khetan: Second question was, wanted a clarification on the IT issue. So, if I look at your listed competitor TeamLease, their income tax is pending only for FY22, while we have assessments pending from FY 2017-18 and which have been disallowed. Given that we are basically contesting on the same issues, why is it that our matter has been disallowed while theirs has gone through?

Kamal Pal Hoda: Kamal here. See, from an income tax point, comparing two companies and even sometimes comparing two assessment years becomes difficult, because in income tax each assessment year is seen separately. We've gone through, like I explained in my previous answer also, we've gone through a multistage process here. So for one of the years, the assessment is completed and we are going through the tribunal. For the second year, which is FY 2018-19 we are into DRP and we expect the hearings to happen over a period of next six months. And for FY 2019-20 the assessment from the department itself has to get closed. I do not think that it is something to do with differentiation between how a competitor vis-à-vis, it's just basis the queue that a department takes each assessment year one after another.

Amit Khetan: I was just wondering because we have the same issue, section 80JJAA. And I understand if the goodwill part is a little different, but at least for this issue, we should have got a resolution like that.

Kamal Pal Hoda: Yes. So depreciation of goodwill again is something, which is very clearly there in the law. The section allows depreciation of goodwill as a deductible expenditure up to FY21, which is where we have claimed it up to that year and subsequently, there was an amendment in the law, which disallowed claiming this as a deduction, which we've also done as an organization. The dispute here is for the periods prior, where department is trying to do a retrospective application of an amendment, which came in FY21. And as explained, we are confident, because there are certain judicial precedence going up to the Honorable Supreme Court level where such deductions have been allowed.

Moderator: Next question is from the line of Mukul Garg from Motilal Oswal.

Mukul Garg: So I had two questions. First for Guru and Lohit. Guru, in your initial commentary you mentioned the demand environment kind of being a bit weaker. Can you do a bit of crystal ball gazing in terms of how do you see the overall, especially for general staffing demand outlook in the very near term, next three to six months? Will things continue to be a bit more muted or are you seeing signs of demand pickup or increased general staffing kind of setup being used by corporates across the country?

Guruprasad Srinivasan: As you know, generally the peak season for staffing starts somewhere in the month of June and ends slightly later part of Diwali. Last year, if you were to compare Diwali fell sometime in second week or first week of November. And this time, Diwali was early. So that contributed to little more quicker offloading for Q3. So that's one of the elements which impacted the demand to come down.

Second, the natural downsizing and the kind of hiring environment in itself, sentiment itself was down. So, again, the active industries were specifically called out, BFSI, we did a good set of hiring. Manufacturing, our headcount is almost crossing about 50,000 compared to previous year. FMCG and FMCD continue to grow. So these were the segments which really contributed to the kind of backfill of 35,000 headcount that we saw being offloaded and we were able to fulfill that through the backfills.

Having said that, Q4, the few segments which I called out continue to stay active i.e., manufacturing and BFSI. With Budget again reinforcing and reorienting investment into infrastructure, we see this particular segment continue to stay strong for coming years. The large manufacturing centers which are being set up, we are having early-stage conversation with few set of customers. So we are seeing a good set of activity happening there.

Barring that, logistic and supply chain was bit of a disappointment compared to Q1. The multiple ways of delivery and outsourcing that these companies are thinking and the captive last mile delivery is slightly reducing. More of deployment are into warehouses and sort centers. So that's bit of a low demand which is coming in too.

Telecom, of course, I think we will see getting active a little more because 5G is going all over. So that's going to be another addition in the next two quarters. Lohit, you want to add anything?

Lohit Bhatia: Sure Guru. Mukul, good question and just to give you a color and Guru rightly explained, I think the highest point that we've seen during this year was in the month of August and September. At that point, the demand for just the General Staffing India business had reached 36,000 open positions from all our customers put together. That kind of a demand we have never seen. Obviously, you too also agree that we are adding 300 customers every year. So obviously demand will keep growing.

Having said that, it has tapered after that and like Guru rightly explained for October, November, December, I don't want to repeat that. As we come into Q4 and we look at, January and the other months, we are looking at an open demand position of about 24,000-25,000. So if you were to say that where is it from a crystal ball for Q4, it's about 30%- 35% lower than the highest ever. However, it continues to remain at historical highs, if this itself continues to remain as an open position with us. That's point number one.

Point number two, and I think Guru very rightly mentioned about the Budget and the capex spend again increased by 33%. The large mega manufacturing setups which are coming in India and in those setups, we are expecting consolidated deals to be signed. You must appreciate and I'm sure all of you agree to the fact that Quess is truly a business services entity. We can have people in a plant from the front gate with security services, manned guarding, surveillance security, we can get food services, we can provide janitorial services, we can provide assembly-line workers, we can provide IT workers, we can provide all the HVAC and engineering support services and all.

Today, the kind of conversations that our OAM and WFM teams are jointly doing are to bring customers which want mega suppliers and mega business services companies. And all of these services can be given under one situation. I think the medium term we are going to see a very different kind of deal flows happening which is what we are within WFM, OAM, and the other portfolio working extremely hard. At the right time, we would also let you know we are tailor-making these into product suites itself. But we would like to win a few deals before we start those announcements.

Mukul Garg: My second question was to Sekhar. Sekhar, a two-part question. First on the business side. This quarter, most of your reported metrics were down versus last quarter, while your sales were up. How should we read them, given that obviously the demand side has weakened considerably while supply side has obviously continued to ramp-up as people are let go. Should we expect a bit of a moderation in sales over the next few quarter, which down the line will have an impact on revenues or was the weakening kind of queries or visits this quarter a one-off?

Sekhar Garisa: Thanks for the question. I'll address it in two parts. In terms of sales, we had a very good quarter. We grew by more than 40% YoY and more than 30% QoQ. So if the situation externally was better, we could have done even higher numbers, but that said, we have very-very aggressive numbers that we've achieved in this quarter. The impact of the slowdown is in some sectors and some sectors are still hiring robustly. The procurement cycles have become a little longer. That's the only impact we are seeing as of now. But we fully expect based on what we see going forward as well that the sales momentum will continue.

On the candidate acquisition momentum, our six month candidate active base, which is the primary metric that the recruiters see before they buy, continues to grow QoQ. We had an impact because of the rebranding because whatever organic strength you would have accumulated over years of running the domains will take two to three months to bounce back. So that's a bit of a lull that you would have seen in some of the candidate traffic metrics. But the candidate active metric still continues to grow. We are closing on 18 million for six month active which is the highest ever.

Going forward, we don't expect the sales momentum to go down. All of our estimates in terms of sales growth as well as our costs are still very much in line with the guidance that we have provided. And if anything, we are doing much-much better, because as cost pressure come into the companies, they will look to divert some of their spends from agency-based hiring to tool-based hiring, which in fact should help some of our sales processes. So for us, simply from a foundit perspective, we don't expect too much of a deviation from what we have put out so far.

On top of that, we also expect companies to look for more fresher hiring as well as more skill-based verifiable hiring. On both the fronts we've launched our platform called Zuno, which is doing very well. We've got 500 companies already using the platform and we also launched assessment platform Skillist. So from a product roadmap perspective, it's very robust and all is good on foundit.

Mukul Garg: And then just to kind of dig a bit deeper into the cash burn expectations we have internally. How much of the fund which you initially raised both from Quess as well as external investors is there right now, which you kind of expect to last till Q4 of next fiscal? Were there any commitments which we made to the investor while raising funds in terms of secondary follow-on fund raise or a public listing, which obviously is written into our agreement?

Sekhar Garisa: Yes. So as you remember, we have raised close to $20 million in the last round. At the end of the quarter, we still have more than INR 100 crore left in the bank. You may also understand that this is a negative working capital business, it's a prepaid business. So as the sales numbers go up QoQ, which is what has been happening for three quarters in succession, our cash position will also be very positive and healthy. So we have more than INR 100 crore still left in the bank, which in our current business plan projections is more than adequate for the next 18 months of operation and beyond as well, because starting Q4 of next year, we would be breaking even and at a positive EBITDA space. So from that perspective, we're extremely comfortable on cash. The decision on how we move on capitalization from here is completely dependent on what we want to do from accelerating our growth perspective, but not mandated by any requirements from operational cash for which we are adequately covered.

Mukul Garg: So there is no requirement for fund raise in terms of timing?

Sekhar Garisa: Not really. Based on what we have in the bank currently, we are comfortably placed.

Moderator: Next question is from the line of Alok Deshpande from Nuvama.

Alok Deshpande: Two questions. One, if you could give some sense on how is IT staffing environment currently. We know from what we hear from IT companies is it is sort of quite subdued. But your sense on how IT staffing will probably pan out over the next couple of quarters, three quarters, that is one. And secondly, Lohit, about the US business, what do you think in a couple of years or three years' time, where can we potentially reach in terms of revenue or EBITDA there?

Lohit Bhatia: As far as the IT business is concerned, Alok, what you've been reading and what is being reported in the press is exactly what the scenario and the situation is there. As far as we watch our portfolio, the IT services business is down by about 60%. Now, IT services business only impacts big time in our RPO business and our permanent recruitment business. IT services in itself is not a very large play for us when it comes to our contract management and Quess IT staffing solutions business. So there the portfolio stability is very well hedged.

Now for the recruitment solutions, which is the permanent recruitment, as well as RPO as well, you would remember, in the last two quarters, we were saying that as we were getting the signs of a bit of a slowdown of lateral hires in the IT services companies, we had also started putting our efforts in non-IT, as well as within IT, non-IT services. So glad to report to you that, from the bottom of where we were in IT services, we are probably inched up by about 5% to 10%. When I say bottom, we were down 60%. So we've just climbed 5% or 10% on that.

However, our non-IT business which at that point of time was barely 9% contribution to the entire business today contributes about 26% of the business. So non-IT is quickly galloping and taking space within the IT services. We feel going ahead for two more quarters, which is Q4 and Q1, we should be watching this space very-very closely and continue to do what we are doing in the non-IT piece and strengthening our overall portfolio. So that will continue to happen.

Guru and Kamal both mentioned on something related to cost. I think, across the WFM portfolio, we are trying to see how can we become more cost efficient and competitive. While we are one of the most cost competitive and efficient organizations in this business, however, we would like to increase our efficiencies and productivity even further. So across the entire portfolio that homework is also going on, which will also see some degree of improvements in Q4 and Q1.

Coming back to your question on US and where could we be 3 years from today, I'll just give you a broad context. It's very difficult to define what EBITDA might come 3 years from today while our plans are for 3-5 years, and which is why we've entered the market. So India's staffing industry is now hovering around the 0.9% kind of penetration. It has inched up from 0.6% in the last 6 years to 0.9%. I think the latest reports coming out of all the federations is hovering around this mark. It's a $14 billion industry. The US market is a $160bn industry. While India is growing at 21%, US is growing at 9% to 10%. So US at single digits still continues to add one India staffing in its market every year.

The second data point, while lot of job losses are being spoken about and some of the large brands are also asking people to leave and it's there in the public domain, the jobs open for every American who is qualified and is a white collar IT worker is 1.8x. That means for the number of candidates available in US to the number of jobs available, the number of jobs are still 2x of that.

The third data point is that the business that we are getting into would do a revenue PAPM of around $12,000 to $13,000 per associate per month and the market there does a gross margin of about 20%. So if we are able to do between the 2,000 to 2,500 gross margin, I think you can very well anticipate and see what kind of numbers, both in terms of topline revenue and bottom line accretive it could be towards the WFM platform.

I hope that helps with what was in your mind, Alok. Otherwise we can have a more in-depth one-on-one as well on this.

Guruprasad Srinivasan: Just to add, Alok, I think you also had a question on where is the demand that is coming from. Specific industry to call out, it's from auto, engineering, digital, and 5G telecom. So these are the key active areas where we are doing technology hiring currently.

Alok Deshpande: Thanks, Lohit. Thanks Guru. This is very detailed indeed. Lohit, just one clarification. You mentioned this part is down 60%. Now if you see the new, I mean, the way the businesses are classified now under various segments, so this 60% fall would come under the Professional Staffing sort of sub-segment or somewhere else?

Lohit Bhatia: So the 60% would come under the Professional Staffing India's sub-sub-segment, which is recruitment services, which is lateral hirings. It's a permanent recruitment business, not the contract IT staffing business. Contact IT staffing business, as I mentioned, does not have a very high IT services exposure, that continues to be reasonably well placed.

Alok Deshpande: So this is a small part of the 20% of the WFM, if I read this correctly, right?

Lohit Bhatia: That is right. But Alok, permanent recruitment is a high margin business. It's a 30% gross margin business. So when it shrinks, it creates a bit of an issue across the margin profile. So we've seen the worst of that. Now we are rising from there.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Guruprasad Srinivasan: Thanks. So I take this opportunity to thank you all, this community, for your continued support and to us, for our institution across. Going forward, our focus, as always, will continue to be on growth, we'll not take our eyes off, driving cost optimization across all platforms, corporate structure simplification and debt reduction. So these are top priorities for us. And thank you for joining this call. Look forward to interact with you all soon.

Moderator: Thank you very much. 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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