“Quess Corp Limited

Q4FY23 & FY23 Earnings Conference Call”

**May 18, 2023**

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**MR. LOHIT BHATIA – PRESIDENT – WORKFORCE MANAGEMENT**
**MR. PINAKI KAR – PRESIDENT – GLOBAL TECHNOLOGY SOLUTIONS**
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**MODERATOR:** **MR. VIDIT SHAH – IIFL SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to Quess Corp Limited Q4FY23 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 Limited. Thank you, and over to you, sir.

**Vidit Shah:** Thank you, Zico. Ladies and gentlemen, good morning and thank you for joining us on the post results conference call for 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 – ED 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 Businesses. We'll begin the call with opening remarks by the management team and thereafter, we'll open the call for a Q&A session.

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

**Rajesh Padmashali:** Thank you, Vidit. Good morning everyone and thank you for joining our Q4 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.

With that safe harbour, I will now hand over to Group CEO, Guruprasad.

**Guruprasad Srinivasan:** Thank you, Rajesh. Good morning everyone and thank you for joining us today for the Q4FY23 results. Let's get started. In FY23, we added 73,000 in headcount, an increase of about 17%. Please note, this number does not include any additional associates who have been processed as full and final during the month, which is about 30,700 by headcount, who are pay rolled in the month of March, but not on our rolls by end of the month.

This is the second consecutive year in which we have added an incremental headcount of 70,000 in a sequence for the last 2 years, signifying our strong sourcing engine and a relentless focus on our sales.

The business environment for the quarter was muted across sectors and key sectors such as IT and retail saw a slowdown in hiring. However, sectors like BFSI and FMCG continue to perform well for us, which led to a total net headcount addition of 7,000 during Q4 across Quess.

Our consolidated Q4 revenue stayed flat on QoQ basis. However, for FY23, we recorded a revenue increase of 25% versus FY22. Our platforms have all continued to demonstrate growth with each of them recording 20%+ revenue growth in FY23. One of our major focus areas for management in the quarter was to reduce the SG&A cost across verticals. As a result, our SG&A

cost has declined to 5.4% of our revenue in Q4 from 5.7% in Q3. Excluding product-led business, our SG&A cost has declined by 10 basis points to 4.2% of revenue in Q4.

The consolidated EBITDA for the quarter was INR 152 crore, a 4% QoQ increase and EBITDA margins improved by 16 basis points, driven by our focus on cost reduction. Q4 was very good from collection perspective. We achieved an OCF of INR 114 crore in Q4, leading to a total collection of INR 294 crore in FY23, which is 71% of our operating EBITDA, thereby achieving our goals of 70%+ OCF-to-EBITDA for the year.

The sales engine continues to perform well. We acquired 175 new customers in Q4, in which the cross-sell engine contributed about 47 wins in FY23 with ACV of INR 353 crore. Kamal, our Group CFO, will walk you through the financial performance in detail after I discuss key updates by business.

To begin with, let's look at Workforce Management. The headcount in our Workforce Management platform reached 387,000, a 22% YoY increase. Consequently, platform revenues grew by 25% and EBITDA by 18%. Coming to specifics in General Staffing business. The business added 239 new customers in FY23, in which 50% of new sign-ups came from manufacturing.

Our focused vertical, Manufacturing and Industrial is now the third largest vertical in staffing. We believe that this vertical has a lot of potential and will continue to strengthen the sourcing capability. 75% of all new deals have come in some form, either through consolidation or either through the local contractors or the first time clients creating additional production capacities.

Value-added services contribution remained stable at 21% gross margin. The per associate per month gross margin profile, which is also known as PAPM, stayed stable and in a range of about 670 to 700. Coming to specific sectors, we are seeing tailwind in auto-engineering, electronics and consumer durable and BFSI segment in coming months. To ensure market-leading growth and to acquire greater market share, our general staffing business will continue to focus and strengthen its digital backbone.

Our investment in cutting-edge technology platforms built over the last few years, which is also a centre of experience for us, which enables faster fulfilment, quality of associate experience, compliance edge and customer satisfaction, we hope will eventually contribute to lower attrition and higher customer stickiness. Specific to IT staffing business, the Indian IT staffing business and selection business stayed flat during the quarter, in-line with market slowdown.

FY23 revenue growth for domestic IT staffing business was at 10%. However, I am pleased to inform that Quess Singapore had an exceptional year with 45% revenue growth in FY23 on the back of easing of travel restrictions post COVID. Our IT staffing mandates are down by 80% in volume against Q1FY23.

To improve the margin, we are currently focusing on efficiency ratio, i.e, productivity of margin delivered per recruiter per month. In addition, we see greater opportunity in high and mid margin range of skills rather than junior and entry level.

Moving on to our Global Technology Solutions platform, the segment posted its highest revenue and EBITDA, with revenue growing by 23% YoY and its EBITDA growing by 11%. This enabled GTS to become the largest EBITDA contributor to Quess this year, replacing Workforce Management.

Some of the key highlights of the platform, our order book continues to be strong, and Conneqt had its highest ever order booking with an ACV of INR 121 crore booked during Q4FY23.

The customer lifecycle management business of AllSec grew by an impressive 28% YoY, driven primarily by 6.3% QoQ in North American business. Going forward, in Q1, the focus of this vertical will be: one, accelerate the growth momentum achieved in North America over last year to enable overall margin enhancement; two, build and consolidate on success in healthcare vertical in North American market through Omni channel offerings; three, expansion of global delivery footprint in Manila through enabled margin-rich growth.

In our Non-Voice BPO, the business grew significantly during the quarter, 34% YoY and 13% QoQ due to excellent growth in collection business, which grew 39% YoY and 14% QoQ.

In the current year, we will continue to focus on sustaining our leadership position in collection business through ongoing platform and digital tools. In our platform-based business, pay slips processed in HRO business crossed a mark of 1.2 million pay slips per month, establishing a clear leadership position. In our InsurTech platform, we achieved revenues per FTE of USD 110,000 during FY23, leading to the highest ever quarterly EBITDA in Q4 and highest ever EBITDA margin.

Moving on to our OAM platform. I am happy to inform you that we have registered a robust top line growth of 24% YoY. IFM saw revenue growth of 23% YoY and major sector contributing to the growth are manufacturing, BFSI and public infra.

For coming quarters, the business will focus on following areas: logistics and public infrastructure, such as airports, ports, railways and health care. We are in the process of creating vertical-specific capability in our facility management business. This will enable us to provide customer-specific solutions for leading higher margins.

One of our focus areas in improving is the entire back office efficiencies through technology. This has given us some early wins in terms of our core-to-associate ratio improving to 113 in Q4 from 100 where we were in Q1. Security business continues the headcount addition; we increased by 12% YoY. Going forward, the business will focus more on margin improvement by increasing market share in existing cluster with specific focus on top 10 cities.

Moving on to our Product Led Business. We continue to make significant progress, foundit had another strong quarter of growth in Q4 despite of headwinds in recruitment space registering 36% growth YoY in sales. For full year, we ended a robust revenue growth of 33% YoY. The product enhancement and growth interventions have resulted in crossing 50K recruiters on the platform while maintaining 90% + CSAT throughout the year.

The candidate experience has significantly improved through multiple product features like adaptive registration flow, mobile-first design and contextual career guidance. We have added more than 5 million new candidates to the platform during the year.

Our strategy of doubling down in terms of the candidate services has been validated thoroughly with 4x YoY growth in candidate revenues. Our investment in products such as Zuno and Skillyst has paid off significantly with all new initiatives showing great traction. We are excited about FY24 as the core product continues to grow aggressively and investment in products in last year will start contributing to the revenues in FY24.

We remain focused on ensuring that this growth is sustainable. We will deliver our EBITDA commitments along as we go. Moving on to the corporate updates, our greatest assets are our people, whose welfare has always been our utmost priority. It gives me immense pleasure to inform you that Quess was declared a Great Place to Work for fourth year in a row. This shows our continued commitment towards the well-being of our employees.

So that was an overview on the business. I would like to conclude by saying that last year was a lot of heavy lifting in streamlining our internal processes, investing in new geographies, and creating capacity for future revenues. This process will now enable a greater margin realization and an increase in productivity levels. The results of this investment, we expect to show up in FY24. To hear more about financials, I will now hand over to Kamal. Over to you.

**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. Let me now walk you through the Q4 and FY23 financial performance.

Revenue grew by 25% in FY23 to INR 17,158 crore compared to last year due to strong growth across all platforms. EBITDA dropped by 6% YoY to INR 585 crore. This is largely due to growth investments of INR 95 crore made into Product-Led platform.

Excluding PLB, EBITDA for Quess grew by 7% on a YoY basis. Q4 revenue stayed flat QoQ due to muted market conditions, especially in the IT sector. However, EBITDA grew by 4% to INR 152 crore mainly on account of cost reduction initiatives started in Q3. OCF for the quarter is at INR 114 crore driven by a reduction of 5 days in our DSO. This takes our full year OCF-to-EBITDA ratio to 71, and this is in-line with our annual guidance of 70%. Further, I am pleased to inform that our gross debt levels had come down by INR 57 crore YoY to INR 531 crore and net cash has increased by INR 66 crore.

For FY23, our PAT is down by 11% to INR 223 crore. This is largely due to 2 reasons: one, growth investments in Product-Led Business of INR 95 crore; and two, increase in depreciation due to additional equipment for INR 21 crore and INR 42 crore towards additional rental space taken. Please note, that the additional investment in rental space is reflective of the growth in the CLM business.

Now moving on to segment-wise updates, starting with Workforce Management. Full year revenue grew by 25% to INR 11,831 crore and corresponding EBITDA grew by 18% to INR

345 crore. The growth is attributable to headcount additions in staffing in India and increased business in Singapore due to easing of travel restrictions post COVID. In North America, we made an investment of about INR 11 crore in FY23. We expect the business to breakeven by H1 FY24.

While the headcount grew by 2% QoQ, platform revenue and EBITDA remained flat as majority of the additions did not account for full quarter revenue. While our General Staffing business grew by 28% for the year, our Collect & Pay ratio of the customers remained constant at 76%, which is in-line with our goals. Our SG&A for the platform dropped to 5.4% from 5.9% last year.

Coming to GTS, full year revenue grew by 23% to INR 2,168 crore and corresponding EBITDA grew by 11% to INR 353 crore, a new milestone achieved by the platform by posting highest EBITDA, mainly driven by steady growth in CLM and Non-Voice BPO business.

While the revenue grew by 2% QoQ to INR 571 crore, EBITDA grew by 5% to INR 95 crore, mainly on account of cost initiatives and customer margin improvements. Our Non-Voice BPO business achieved 34% YoY growth on the back of 39% growth in collection business.

Moving on to Operating Asset Management, full year revenue grew by 24% to INR 2,622 crore. However, EBITDA remained flat YoY. This is because of renegotiation of contract and commercials with 1 of our major customers in IFM business as called out in Q1FY23. Platform headcount, revenue and EBITDA remained flat QoQ because of muted demand in the asset management space. Core-to-associate ratio has improved by 27% to 110. Also, revenue per headcount per month also increased by 10% YoY.

Other financial updates. We recorded INR 30 crore of PAT for the quarter, down by 65% versus Q3. This is mainly because of a few factors, which are as follows: one, we had a onetime gain on sale of Simpliance, an exceptional item in Q3. The tax provision for which was taken in Q4, the effective tax rate for FY23 is at 22%. However, our blended ETR guidance was around 18% and the increase in the ETR is due to the incidence of long-term capital gain on account of our divestment of Simpliance.

Number two, depreciation, and interest has gone up by INR 8 crore attributable to IND AS 116 accounting for new facilities, mainly for our GTS business.

Income tax updates –

As mentioned in our previous quarterly call, for FY 2017-18, we have completed the DRP proceedings. For residual matters in FY 2017-18, our appeal is at ITAT, and hearing dates are expected in mid-June 2023. For FY 2018-19, our matters are at the DRP stage, and we expect the hearings to start soon. Please note that there is no change in the contingent liability of INR 74 crore on account of such proceedings as disclosed in last quarter.

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

**Moderator:** Thank you. Our first question is from the line of Vidit Shah from IIFL Securities Limited. Please go ahead.

**Vidit Shah:** My question is largely around the margin, which have improved on a consolidated basis, but when I look at it on a sequential basis for Q4, a large part of this has come because of lesser burn in the Product-Led Businesses. So just specifically for Workforce Management and Operating Asset Management, what is the size of the cost-cutting measures and efficiency improvements that we are looking at?, because in Workforce Management, we have seen a large improvement in core-to-associate ratio and even then, margins have remained flat. So, could you just like help understand, is there any pressure on PAPM or pricing as such?

**Kamal Pal Hoda:** So, Vidit, we have an organization-wide cost realignment exercise that we have done. And even for Workforce Management and OAM, the IDC costs have been reduced. We had called out that we have reduced the IDC to 5.4%. The reason that you see that the margins have remained flat is because of the additional investment that has happened in North America business and also a bit of muted demand in the IT sector.

**Vidit Shah:** Okay. So, the North America burn is at around INR 11 crore, right, for Q4?

**Kamal Pal Hoda:** It is on a full year basis, its INR 11 crore.

**Vidit Shah:** Okay. How much would it be in this quarter?

**Kamal Pal Hoda:** It will be close to INR 3 crore this quarter.

**Vidit Shah:** Okay. Got it. Any sense that you could provide on any update on the North America venture? How are we doing, last quarter we had started bringing in revenues from 1 customer. So how has that picked up? And where are we at currently?

**Lohit Bhatia:** Good morning Vidit. So, as you know, we started this only in summer of 2022 with U.S. Our long-term and medium-term strategy remains very robust. U.S. has again shown solid growth in the overall staffing market and last year's numbers that we have now from the world bodies is $187 billion.

The good part in those INR 11 crore numbers, though not yet visible and impacting our revenues and EBITDA, is that in the Q4, in the last month, we did start revenue generation. The revenue generation was sub $50,000, but it was our start with our first customer. Secondly, with our current quarter that we've started, which is Q1FY24, we've added another 2 large customers, and these customers are part of the Fortune 500 pack. As I speak with you today in almost the mid of May, our team has already received close to 100 open mandates in U.S.A. itself.

To give you a context, an average open mandate converts into selection and joining at the rate of about 7%. So, hereafter, we would be clocking and wanting to see a strengthening of our portfolio on a month-to-month basis and a quarter-to-quarter basis. So as Guru said in his commentary, we want to achieve our breakeven goal in the first half of this financial year and thereafter, make a strong start and strong moat for ourselves in the American market.

**Vidit Shah:** Okay. understood.

**Guruprasad Srinivasan:** On the margin, two clear contributors. One is, North America investment. Second, IT staffing and selection business, which declined.

**Vidit Shah:** Okay. Understood. And just one last clarification. On the intangible assets, these seem to have reduced by around INR 40 crore when seen against FY22. And consequently, we've also seen a sharp increase in depreciation. So, is there an aggressive amortization happening across these assets? And what is the view on depreciation and amortization going forward?

**Kamal Pal Hoda:** Vidit, there are two things. On intangibles, we have not accelerated any depreciation, and it is in-line with what we've been doing so far. It's a normal amortization of intangibles that we've been doing. The additional depreciation this year as also mentioned during my commentary is on account of the additional investments that we have done in the rental space in our CLM business.

So, the total seats in the CLM business have gone up more by 15% this year, and it's almost touching 20,000 seats. We have hired close to 145,000 square feet of additional office space for the CLM business, and that's visible in the growth that you see in that business in terms of its revenue. What comes from an IND AS 116 accounting is the entire rental costs then get segregated and the lease accounting happens, and a large chunk goes into the depreciation cost. And the depreciation cost is higher in initial years and then the liabilities are amortized, and the interest cost is in charged off the P&L over the period of the lease.

**Moderator:** Our next question is from the line of Vikas Jain from Reliance Securities. Please go ahead.

**Vikas Jain:** My question is the promoters have increased some stake in the last quarter. So, any further plans to acquire something from the existing investors? And the second question is with respect to the PLB business, by what time the Product-Led Business would be profitable?

**Guruprasad Srinivasan:** All right. So, we'll take the second question first, Sekhar, you want to...

**Sekhar Garisa:** The Product-Led Businesses, specifically in foundit, as you know, we have raised some capital last year and all of FY23, we were on an investment mode on product as well as marketing and the business has been growing aggressively inline with whatever expectations we had. We'll continue this path in FY24 as well where our growth plans are aggressive. And as committed earlier, we are looking at breaking even on the business by Q4FY24.

**Guruprasad Srinivasan:** All right. So, on the other question, Vikas, the first question. See, promoter buying is a kind of independent activity, and we will not have much of foresight on that. But yes, there's no specific cause or reason for that.

**Moderator:** Our next question is from the line of Chirag Shah from White Pine. Please go ahead.

**Chirag Shah:** First question on Workforce Management. Over the last few quarters, you have been indicating an effort to reduce that staffing part of the business, which is low-margin, and hence aggregate margins would see an uptick.

I presume staffing would be around 2% plus/minus kind of a margin business for you, right? So, it doesn't appear to be happening. So, any thoughts from when we can see that effort to start reflecting in numbers?

**Lohit Bhatia:** I think slight misconception; we never said that we are reducing the staffing business. In fact, on return ratios and matrices, it happens to be one of the finest businesses in the platform of Workforce Management. If you look at core-to-FTE ratio, which works at 1:500 plus this time, efficiencies are very high.

If you look at your DSO days, one of the lowest DSO days are in this business because we have 75% to 76% Collect & Pay. It is a negative working capital business and hence, a very high ROE business in many ways. The third thing about this business is that if you look at India, it is going through a massive structural transformation today. From farm to non-farm, from rural to urban, from the informal to formal and from the unorganized to organized. This kind of growth is an once-in-a-lifetime opportunity, and this growth should and will continue for the next couple of decades.

I don't want to say a couple of years because it's clearly visible it will at least continue until 2054, when India continues to have its demographic dividend. So, coming back to your question and why I said there could be a misunderstanding, what we said is the overall percentage of contribution within WFM shall be reducing from the General Staffing space, though General Staffing continues to clip at 20% and more.

**Chirag Shah:** I was referring to the contribution coming, not absolute reduction and my question was that it doesn't seem to be happening. Your staffing seems to be growing at a similar pace as other parts.

**Lohit Bhatia:** So, I think at the same time last year, if you look at the contribution of EBITDA coming from General Staffing was about 54%. Today, it stands at around 48% in the entire WFM. So, it has come down. It has come down because APAC and some of the other assets have done well.

Why you're not seeing it in the Q4 numbers is primarily for what Kamal briefly explained and Guru in his speech explained. The two investments, which were not there same time last year or at the start of previous financial year was: one, the North America business, and we were not in North America and that's an investment of INR 3.5 crore to INR 4 crore every quarter.

The second is, if you look at the EBITDA, which we were getting from our IT business in India was extremely high at the same time last year. You would remember that the IT industry and IT services industry were seeing tailwind about 12 months ago. The tailwind in the last 6 to 9 months converted from tailwind to headwind. So that shrinkage has caused what you see as a Q4 number that, okay, GS is contributing again almost at the 50% mark. But over a period of time, we want to bring this to 40% from General Staffing and 60% from the rest. But that's a long exercise and that's a continued exercise. At no time in our company, will we slow general staffing to achieve that. I hope that answers the question.

**Guruprasad Srinivasan:** Just to add, having said that, it does not mean that General Staffing will slow down its growth. They will continue to grow upward of 20%.

**Moderator:** Our next question is from the line of Vikrant Gupta from ICICI Prudential Life.

**Vikrant Gupta:** Firstly, on the Workforce Management side, given that margins have remained broadly flat on a sequential basis, could you give a sense of what sort of savings you've seen by improving our core-to-associate ratio? If you could give a sense of maybe what are the salaries that you pay to the core employees? and what sort of savings have accrued on that side?

And the second question is on the CLM business. So, I'm just looking at the numbers. The Q4 growth in the CLM business is around 7% or 8% YoY. So, I'm wondering why did we need to increase our seat capacity so dramatically in Manila?

So, is this because the seat capacity was less in the previous years, and this is more a catch up? And then the third question is on the product side. So, if you could talk about what has led to a lower burn in Q4 versus Q3? And do you think, as you have guided that the burn could come down by INR 50 crore in FY24 versus FY23?

**Guruprasad Srinivasan:** Sure, Vikrant. Sekhar, you want to start from the product...

**Sekhar Garisa:** Yes Vikrant, like you rightly pointed out, the first half of FY23 was a bit of high investment across hiring, product and marketing and the business grew quite a lot from Q1 to Q4 in terms of sales. And as some of these investments taper off, we also had a rebranding event in Q3, which consumed some of our incremental marketing expenditure.

In Q4, some of this did not come in. So the business grew, some of the expenses went down. And on the glide path of business growing and expenses remaining constant, which would be the nature of this business, we will continue to see tapering down of losses.

**Guruprasad Srinivasan:** The second question that you had, Vikrant was on the Workforce Management, specific to the Workforce Management margin. Lohit, do you want to comment on that?

**Lohit Bhatia:** So let me give a bit of a context there, Vikrant. There are a couple of moving parts when you look at a core-to-FTE ratio. When the core-to-FTE ratio goes up, it simply means that for every 1 core employee dedicated within the organization, primarily here, we are talking about the General Staffing India business, looks after 'n' number of associated employees and today, that's greater than 500 as is available from the investor deck. That automatically brings costs down. To your question on what an average core employee costs. Today, an average of the core employee, including the management layer for the business is close to about INR 40,000+ per month and that's about sub INR 5 lakh per annum - that's an average employee cost. Having said that, you must also see that last year, we've added about 71,000 associate headcount, including YoY growth over last year. And like Guru in his speech also mentioned, if you do not add the exit employees or the F&F employees, we actually grew 58,000 net addition in our GS India business.

So, when we do core-to-FTE ratios, there are 2 things that we have to do. One, we have to take care of these additional 58,000 people that have got added or 71,000 if you include F&F also that we've managed. The second, we have to invest for the future because it's very important to understand on the aspect of the structural shift of the economy in India and the macro economy. At 387,000, we are still starting as far as India and General Staffing and capturing the market is concerned.

This is not the end point. This is not where we can stop all investments in technology or in people or in processes and then say that we will continue to grow for decades to come. So, I hope you keep both this in mind when you look at why an immediate incidental shift in core-to-FTE ratio does not give a direct bottom line increase. To the last point, yes, you've been right that we have been now at sub 3% of EBITDA, but flattened out as far as WFM is concerned, we would like to get back to the 3% mark first and then look at contribution from the rest of the world to take us beyond that. I hope that answers.

**Guruprasad Srinivasan:** Thanks. Vikrant, the third question that you had was largely on the CLM business and specific to AllSec. AllSec actually grew 28% YoY, specifically the international CLM business and 6.3% QoQ. What we do there is we support all the U.S. customers, and it is delivered from Manila.

We have signed good set of new accounts based in U.S., which will be delivered from Manila. So, there is an expansion of roughly about 200 seats that we have implemented in between Q3 and Q4. I would call Pinaki to add more light to this.

**Pinaki Kar:** As Guru said, the CLM here in question is for AllSec, which has got delivery centre in Manila, which was at a certain seat capacity for a long time. But over the past year, specifically and those are reported numbers, last year, the CLM number for AllSec was INR 53.7 crore in the same quarter. This year it is INR 69 crore, which is actually 30% around growth.

If you take specifically North America, which Guru was alluding to, for which the delivery happens out of Manila, the growth has been 30%+. And more importantly, Q3 and Q4, the order booking was the highest ever in Q4 for the U.S. business.

There is a huge pent-up demand based on the scalability, which we are expecting, at least in the next two quarters based on the committed headcount growth that is coming from the existing portfolio of clients. So that's why actually we just made that investment on-time, not even ahead of the curve because even currently the investment that we have made, that capacity will be fulfilled over the next six months itself. So, we are trying to keep it flexible on a completely variable costing model, the growth and the capacity increases we keep it increased. Hope it clarifies the data points and it correlates to what you are looking for.

**Vikrant Gupta:** Understood. So, the incremental depreciation number is largely on account of the rents for the seating capacity, the number which has moved up from INR 70 crore to INR 76 crore.

**Guruprasad Srinivasan:** That's right.

**Moderator:** Our next question is from the line of Raj Bhanushali from Motilal Oswal Financial Services.

**Raj Bhanushali:** First, on Product-Led Business, what's impacted this quarter? And I just wanted to understand if there is any seasonality there? Secondly, on OAM, it was weak sequentially. So, what is causing weakness there?

**Sekhar Garisa:** So, on the Product Led Business, we do grow QoQ as the year progresses. The same trend has been up in FY22 and FY23 and we have significant growth of about 40%, 45% from Q1 to Q4 consistently. So, there's a bit of seasonality in Q4 as corporates tend to close their next year contracts, we do tend to get some of our larger orders there.

If your question was around EBITDA, I answered earlier in terms of the cost going down slightly because of some onetime rebranding costs in Q3. Hope that answers the question.

**Raj Bhanushali:** Yes.

**Guruprasad Srinivasan:** All right. On the other question, specific to OAM, this business went through a good headwind between FY21 and FY22 because our exposure to IT, ITES was almost about 35%, and most of these offices are not completely resumed even today, right?

So, we have to navigate in terms of restructuring our sales team. Our focus moved away from IT and ITES, in the sense of dependency and we wanted to move towards manufacturing and retail and other segment. So, we did invest in terms of sales and strengthening our sales around this and that has resulted in revenue growth of about 24% in FY23.

The other clear call out here is our food business has almost now contributed to 71% growth in FY23. So, this is in a way, helping us to recoup the entire platform to its best. Plus, we have invested substantial time in terms of cost optimization and productivity.

Our core-to-associate, which used to be as low as 86 in previous year, that is now about 110 in terms of the optimization of cost. The other part under OAM is the security business. Even security business has started moving up and we see a 12% revenue increase YoY. And the other piece here is telecom. On back of 5G rollout, this business is phenomenally doing well. We have done about 46%, 47% growth YoY. So, on an aggregate, it is contributing to overall upliftment of this particular platform, OAM.

**Moderator:** Our next question is from the line of Alok Deshpande from Nuvama Institutional Equities.

**Alok Deshpande:** My first question is on the Product-Led Businesses. Now Q3 and Q4, we have looking at about INR 25 crore, INR 30 crore of net loss coming from that part of the business.

I was just wondering if you could share some road map as we go into FY24, how are we looking in terms of profitability there? That's my first question.

And my second question is on the General Staffing. Given that this year has started slowly, are we targeting a similar quantum of headcount addition? Or is that even possible this year, given the general softness everywhere? What are the initial indications that we're getting in April and May on that front?

**Sekhar Garisa:** Sure, I'll take the question on the Product-Led Businesses. As you have seen in the past two years, we went through a period of high growth because we've invested in product and marketing as well as the team. We've had more than 50% growth if you see on a CAGR basis over the last two quarters, and we'll continue the growth trend going into FY24.

The nature of these businesses is that the cost structure after a point becomes more or less constant, except for a marginal cost of sales growth. So, from that perspective, as the business grows significantly, the margin profile changes. So, as we get into FY24 and grow as per our committed growth rates, we expect the EBITDA loss to, taper down all the way to Q4 where we are expecting the business to break-even.

So, it's a bit of the business growing fast and the cost structure remaining more or less constant that will take us to breakeven as we enter Q4.

**Lohit Bhatia:** Alok, I'll take the question on General Staffing that you asked. So, I think it's a very valid question and it's a good question. This was our best year ever. We said that in the year prior to that as well. And we continue to always enter the year with a lot of synergy, a lot of strategy, people, processes, and technology. We want to obviously repeat the kind of performance that we've done in the past, or better.

Having said that, you asked a specific question as to how is the colour of the year looking. And I just wanted to give that context to everybody. Same time last year, we had over 33,000 open mandates. These open mandates after ending the first half of the financial year gone by, actually dropped almost 33% and came down to as low as 21,000 open mandates as we were exiting out of Diwali.

And we were talking about this in our Q3 and subsequent to that period as well. It has since then again risen by another 35% to 40% but continues to trail almost 20% over last year. So that's the first part. The second part is each segment is behaving very differently.

Like I mentioned, there's a structural shift in the economy. Infrastructure, manufacturing, BFSI, healthcare are definitely doing better than some other elements of the economy. You know the government's push on infrastructure over INR 10 lakh crore now. You know the PLI scheme, which keeps getting expanded and new FDI, which is coming there.

That clearly also synergized with our own investments in the M&I portfolio. You also know that Quess today has General Staffing people deployed in over 6,400 towns and cities. So, customers in BFSI and customers in NBFCs are expanding to the new space.

Having said that, I think we must be appreciative of the fact that we are constantly dealing with tailwind and headwind in different parts of the economy, and we will continue to watch this space very closely and each of our team has their action and their task cut out.

**Alok Deshpande:** Thanks, Lohit, for that detailed answer. Just one clarification. This Product-Led Businesses breakeven, is this EBITDA breakeven or PAT breakeven by Q4?

**Sekhar Garisa:** EBITDA breakeven.

**Alok Deshpande:** Okay. And Lohit, just an extension on this. Any colour now we can give you are put in about INR 11 crore of investment in North America. We are going by a similar run rate; I'm guessing for this year also. So, two-three years out, what is the sort of potential revenue we are looking at? Any colour you have in mind? And how should we look at it?

**Lohit Bhatia:** Alok, we would be happy to take this offline because the 3-year plan is definitely there in our mind when we walked into it. We have an immediate goal. We have a medium-term and then a long-term goal. Having said that, I'll just leave some thoughts with you. For every one resource gross margin added in the American business because we are doing professional staffing and IT staffing there, it compares to about 20 people's gross margin added in the India IT staffing business and close to 350 people's gross margin added in general staffing in India. So that's the size and scale and complexity and differentiation of margins between the American IT market versus the Indian IT market and the Indian general staffing market.

Like I said, we have an immediate term goal, which Guru also called it out, which is to get the breakeven this year. Our medium-term goal is to steadily go beyond a few hundred deployed resources and then there is a long-term goal as well. But happy to take you through more details away from the call.

**Alok Deshpande:** Sure, sure. That will be helpful. I'll reach out to you separately.

**Moderator:** Thank you. Our next question is from the line of Amit Khetan from Laburnum Capital. Please go ahead.

**Amit Khetan:** So, if I look at your annual report, we had about lease expenses of INR 130 crore last year in FY22, which was split between, depreciation and interest. Could you share that number for FY23? And how that broadly fits between the 3 or 4 segments, rather?

**Kamal Pal Hoda:** The ROU depreciation number, was INR 105 crore last year. It is INR 148 crore this year. So, there is a INR 40 crore to INR 43 crore increase as far as ROU depreciation is concerned.

Similarly, the lease component in the finance cost was close to INR 24 crore last year. This is INR 44 crore this year. So, there is INR 20 crore increase in the interest cost as well. So cumulatively, both put together is close to around INR 62 crore of further increase in the P&L cost. In terms of segment segregation question, majority of this is in the GTS platform.

**Amit Khetan:** Got it. By majority, you mean what, like 80% plus?

**Kamal Pal Hoda:** Almost 90%.

**Moderator:** Thank you. Our last question for today's question-and-answer session is from the line of Mohit Mehra from Guardian Capital. Please go ahead.

**Mohit Mehra:** Are there any updates on the tax dispute? Or have we appealed to the ITAT? What is going on there?

**Kamal Pal Hoda:** We had called out in the last quarter, so there are two separate years, 2017-18, for which we had a DRP ruling in the last quarter, for which we are going into ITAT. Our first hearing is scheduled by end of this month.

And for 2018-19, the DRP proceedings are yet to commence. So, we understand that the first hearing would be in the first week of June. So that is the status on the income tax matter. In terms of the overall exposure towards contingent liability, no change since the previous quarter, INR 74 crore is what we had reported in the previous quarter. So, we remain on the same amount because there have been no hearings that have happened in the last quarter.

**Mohit Mehra:** Got it. And how should I look at margins going ahead? So, I know that cash burn in Monster is at INR 20-odd crore in this quarter, that will go up as well as the cash burn in U.S., which was around INR 3 crore to INR 4 crore, that will also go up. But is there any other further lever in the core business. So, can that margin improve? Or will it stay the same?

**Kamal Pal Hoda:** So, this has been a year of investments, Mohit, you have pointed it out, Product-Led Business investments, the rental space investments that I just explained and also the North America investment. And we've also explained during this call that we are expecting to break-even next year in Monster, we are expecting to break-even in North America.

And in terms of overall margin increase, we are also very in a methodological and detailed manner working with each platform president to look at the IDC and the salary structure and the associate-to-core ratio, which also we had brought it out in our presentation, as is at all-time best levels.

So, these steps, we believe should give us a margin uptick as we move into the next financial year.

**Moderator:** That was the last question for our question-and-answer session for today. I now hand the conference over to the management for closing comments.

**Guruprasad Srinivasan:** Sure. Thank you. And I take this opportunity to thank each one of you for your continued support. I would like to reiterate again, the investments that we've made during FY23, whether it is North America, Product-Led, as a management, we are quite confident in the way it is going to result out for us in FY24.

For FY24, our focus will remain on growth, driving cost optimization across all platforms and debt reduction. So, these are the key areas that we will focus on. And I again take this opportunity to thank each one of you for your continued support. Thank you.

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

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