"Quess Corp Limited Q1 FY2022 Earnings Conference Call"

August 06, 2021

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Moderator: Ladies and Gentlemen, good day, and welcome to the Q1 FY2022 Earnings Conference Call of Quess Corp Limited hosted by ICCI 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 '*****' and then '**0**' on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Sudheer Guntupalli from ICICI Securities Limited. Thank you, and over to you, Sir!

Sudheer Guntupalli: Thanks, Rituja. On behalf of ICICI Securities, I would like to thank the management team of Quess Corp for giving us the opportunity to host the Q1 FY2022 earnings conference call. We have with us Mr. Suraj Moraje, Managing Director & Group CEO, Ravi Vishwanath, CFO, Guruprasad Srinivasan, COO, Sekhar Garisa, Chief of Emerging Businesses & Corporate Development, Lohit Bhatia, President Workforce Management and Pinaki Kar, President of Global Technology Solutions on the call. We will start with opening remarks on the management of Q1 FY2022 performance and then open up the floor for questions. I will now hand over the proceedings to Girish for the safe harbor statement. Thank you, and over to you Girish.

Girish: Thank you, Sudheer. Good morning everyone, and thank you for joining our earnings call today. Please note that results and presentations are already uploaded to our website. Anything we say, which refers to our outlook for the future, is a forward-looking statement and must be read in conjunction with the risks that the company faces. These uncertainties and risks are included but are not limited to what we have already mentioned in the prospectus filed with SEBI. With that said, I will now hand over the call to our Managing Director and Group CEO, Suraj Moraje; Over to you, Sir!

Suraj Moraje: Thank you, Sudheer, Girish, and all of you for joining us today. We hope you and your families are staying safe as the economy opens up. We also hope that you are vaccinated and safely returning to your offices.

Let me start by giving you a brief update on the business and then hand it over to Ravi to take you through the financials and update you on the recent survey conducted by the IT department, which I am sure is on your mind. We will then be happy to take any questions you have.

Q1 for our business once again weathered a lockdown. This time around, we were better prepared. Our focus for the quarter was to ensure the safety of our employees and their families, given that this wave was more personal for most of us. I am happy to report that around 65% of our frontline workers have been vaccinated at least once. We have received full support from our customers in taking care of our people and the response to the second wave was far more calibrated than observed during the first wave. As a result, the impact of the second wave on our business has been significantly less than the first wave of Q1 FY2021, with several businesses progressing this time, as I am sure you have noticed in our presentation. The recent wave, of course, had some adverse effects on our business, as expected. Our Digicare services and installation business and Excelus training and skill development businesses were unable to operate during the quarter due to lockdown. Sales momentum reflected in headcount growth slowed a bit in the quarter and in this context, the profit growth compensated for less our salary increments than we hoped, which is why you see a marginal increase in our SG&A as a percent of revenue. However, I must say our sustained focus on execution did show through when compared to a 20% QoQ decline in revenues in Q1 2021. In the last quarter, our revenue stayed flat versus Q4, growing 24% year-on-year. While Q1 2021 saw headcount drop by 13% QoQ, the last quarter saw headcount grow by 1.5% QoQ and up 10% YoY. We are happy to report that our OCF to EBITDA also remained strong at 75% and continue to build a formidable revenue pipeline for the coming quarters, acquiring 264 new customers in Q1 versus about 142 in Q4 2021 and 196 a year ago.

Moving onto the specifics, let me start with our WFM platform, as always, showed a 17% EBITDA growth YoY. The general staffing headcount grew 1% QoQ, even during the lockdown, and 15% YoY, leveraging our strong momentum from pre-wave 2. We have added 48 new customers in the quarter, and the growth pipeline for Q2 is very healthy at this point. Our focus on value-added services (VAS) in GS is paying off, with a growth of about 60% YoY. We continue to increase tech adoption in our operation. For example, around 15% of GS recruitment today is now done through Qjobs, even though it's currently present in only four cities, accounting for 50% of our hiring volumes. We also launched specific initiative investments in construction, healthcare, and manufacturing, all three being sectors where we expect strong medium to long-term momentum. Our investment company Taskmo continues to execute that at pace, even though they witnessed temporary disruption in field activities during the lockdown. We are very excited by Taskmo's capabilities, which allow our general staffing business to expand; it's referred SKUs from person-months to person days and even personal tasks. I would like to congratulate the Taskmo team on being selected amongst businesses in the 30 technology disrupters category, and we must say we agree. The domestic IT staffing business continues to be in a demand-rich environment and grew its revenue during the quarter with a continued focus on a higher-margin business. We believe this business will continue to be resilient during COVID-19 and raise its margins over time. At this moment, the focus is on ramping up our delivery capability, leveraging technology assets and sourcing, streamlining onboarding, and deploying candidates. You would have seen that SG&A has gone up in this business marginally over the last quarter and that is because the highest resources that we are hiring, require higher recruiter intensity than that was coming through. Outside of India, while the Middle East business continues to see good growth, our APAC business is witnessing headwinds given the sustained isolation of Singapore's economy and intermittent lockdown in Malaysia and the Philippines. We will continue to talk about the cycling mindset of business and driving sales and synergy across the region. The last part of the workforce margin platform of training and skill development business saw some shutdowns in Q1. We stay committed to running off the high fixed cost, B2G business driving collection and further optimizing productivity while exploring the new B2B business model. Before moving on from WFM, I am pleased to let you know that we have formed a partnership with XLRI Jamshedpur to upskill the next generation of recruiters. We like to play a role in partnering with the education space to drive forward this critical profession, especially at a time when recruiting is becoming such a bottleneck in our country. So that was the WFM platform.

Let me move onto the GTS platform that has four service components. First, platform-based services; there are two platforms through which we offer these services. The HRO platform is under the Indian subsidiary Allsec, and the Insurtech platform is under our MFX subsidiary in the US. The HRO platform delivered by Allsec saw the number of payslip processes per quarter growth 31% year on year. Note that this growth was without the 6% to 7% same customer growth that comes in a typical year, so I am delighted by the pace of customer acquisition and ramp up there. Our Insurtech business also has seen topline growth of 6% quarter on quarter in Q1 with six clients going live in the quarter. We are doubling down on our capability to drive these platform-based services, and you should see continued acceleration going forward.

Second, on CLM, this is the business that has delivered 38% year on year topline growth. 80% of the business was domestic customers, mainly delivered by Conneqt, which has, by the way, the best Q1 ever, and the rest of it is through the North American customer delivery mainly by Allsec. Within CLM, the voice-based CLM has proved remarkably resilient during the second wave as it grew by about 6% QoQ, 54% YoY, which really shows the untapped potential in the Indian voice-based services and better customer services. We also believe this represents the higher shift towards virtual customer services due to the pandemic and the pressure to improve customer service while sustaining cost. The key focus of the CLM business has been to expand beyond voice as the non-voice CLM revenue has grown by about 15% YoY. Our teams are working hard to convert more of our scale and customers to omnichannel users via our unique CLM-in-a-box digital solution. The third part of GTS is our non-voice BPO business. This is largely through Conneqt, with its focus on collection, which we are also currently in the process of converting into a platform. We are actually India's largest professional-run collections company. The collections business was really impacted during this lockdown with a 13%

reduction in topline versus the quarter before. It is still going to be 29% YoY, and the domestic F&A business has seen 23% YoY topline growth, and we will continue to aggressively explore new deals in this growth segment. The fourth part of our GTS platform is our IT services. We offer IT services both in India and Canada. Our domestic IT services business saw revenue of 49% YoY and 7% QoQ with four new customer acquisitions in the quarter. We have a real paucity of quality players in the Indian domestic space and will continue to build our presence by adding new competencies to our existing infrastructure management services and cybersecurity. In the US, our IT services business actually grew 27% YoY, and in Canada, the business has also seen growth, although a bit slower at 11% YoY, and we are seeing how we can invest further to accelerate this. Being in the people business, we think people matter the most. And in this regard, we are grateful that while Quess Corp overall was voted a Great Place to Work, our subsidiary in Canada has been voted amongst Canada 50 greatest places to work, and our Conneqt subsidiary won two awards in the last two quarters - # 92 among India's Best Companies to Work for 2021 (Great Place to Work) and the CII National HR Excellence Award as well.

That was GTS; next, moving onto the OAM platform. Of all of our businesses, I would say that the facility and security service business has been the most impacted by the pandemic, given that the IT and education sector accounted for 49% of pre-COVID revenues and these sectors are yet to return to the workplace. While Q4 has seen some limited upside in this sector, Q1 again for demand reduction by existing customers and the related transition to new clients. Despite this, our IFM business saw revenue go up 4% QoQ and 5% YoY, driven by some very aggressive customer acquisition in the past quarter. New customer acquisitions continue to remain healthy, with about 53% growth in the last quarter versus 26% in the same quarter last year. The Pest and Disinfection business also is up in terms of revenue with 68% YoY. Our security business has not fared as well in the second wave, with Q1 seeing a slide versus the recovery made in Q3 and Q4. Revenues were down 3%, with the main reduction being in retail and infrastructure verticals were some customers have once again downsized requirements, so again, here customer acquisition momentum remains strong. We strongly believe that the IFM and security businesses have the potential to grow at least 20% YoY, and we will take a cycle view of these businesses. We hope that towards the end of the year, as businesses return to work from the offices, we will start to see a strong recovery.

The industrial business continues to see strong momentum, with revenue up 31% YoY, as the market shift from local contractors to O&M experts. We have won five new clients in the quarter. We also mobilised manpower for our first win in the fertilizers industry and we commenced the meeting in Haryana that added about 1.2 million meters to our portfolio. I am also happy to say that we have completed the renovation of the Ahmedabad Smart City project, allowing faster project execution and better collections.

Let me move to our emerging businesses. Monster continues to execute promisingly, with both revenue and new customer sales showing a positive trend QoQ despite periods of non-operation in sales due to lockdown and a lower renewal base typical of Q1 versus Q4. Sales grew by 69% YoY, although admittedly of a smaller base in Q1 last year. Across the board, Monster's product performance metrics continue to improve as we implement our transition to being India's leading talent ecosystem. Q1 saw further growth in operational metrics like candidate acquisition and job postings, which you will see in our presentation. Key customers satisfaction metrics like retention rate and order size have also witnessed an upward trend QoQ. I am also happy to report that we have been making significant strides in Southeast Asia, with a new business growth of 17% QoQ and 128% YoY. Qjobs also continued its march towards being India's most efficient platform for recruiters and job seekers in the grey collar space. With new candidate registration up 81% QoQ, third-party users up 53% QoQ, and active job openings up 65% QoQ across four cities, both recruiters and seekers at this point are raving about the app's unique ability to credentialize talent and match it with opportunities. In fact, our third-party customers gave us an NPS score of 50%, which is still growing. Finally, our installation business Digicare saw losses in Q1 again due to lockdown, although volumes have now rapidly recovered. We will continue to remain focused on service excellence in Digicare and on building a B2C business for product and services through extended warranty and beyond. So that was view of our platforms.

On the operational side, we remain watchful of cost and collection even as we launch new initiatives to drive recruiter productivity and optimize our internal operating structure. I am happy to say that the new S4 implementation is live, and we are working now on progressively improving the effectiveness. Further, across our businesses, we continue to focus on digitizing, how we manage our associates through digital training, digital workflow management, and digital HR. We are also continuing to focus on cross-sell with a set of new programs and internal targets. In fact, Q1 saw 24 wins with an ACV of about INR 75 Crores versus about INR 270 Crores of ACV from cross-selling all of last year. As India unlocks, we are more focused than ever on the growth opportunities ahead of us. With our unmatched service capabilities, technology assets, and talents, we are distinctly positioned to benefit from the growth to come, and we would like to reemphasize our determination to achieve our twin goals of 20% ROE and 20% OCF CAGR by FY2023. We thank you, the analyst and investor community, for your support to us and our institution. And with this, let me hand it over to Ravi. Over to you, Ravi.

Ravi Vishwanath: Thank you, Suraj. Good morning everybody! Hope all of you are doing well and have been vaccinated too. Let me talk about the overall performance first. A quick walk through the financial performance of the company shows that our overall revenues in Q1 remains flat as compared to the immediate previous quarter, and we grew about 24% on a YoY basis. All segments of our business posted healthy growth numbers with workforce management, technology solutions, and operating asset management platforms growing by 24%, 22%, and 26%, respectively, on a YoY basis. Consequently, EBITDA in Q1 2022 improved by 13% on a YoY basis to INR 147 Crores against INR 130 Crores in Q1 of FY2021. However, normalised EBITDA declined by 6% on a QoQ basis due to the seasonality factor in some businesses such as Conneqt and the second wave of the COVID-19 pandemic. Segment-wise on workforce management, the staffing business continues to grow by over 20% on a YoY basis. Professional staffing business also performed exceptionally well, growing by 15% QoQ, and training and skill development business continue to remain subdued due to centers being shut down during the second wave. Global technology solutions continue to perform well in Q1, with Conneqt achieving the highest ever Q1 revenue and EBITDA this quarter on the back of growing CLM business. Collections business took a hit during the lockdown that it was able to grow substantially on an annual basis. Monster saw a slight negative EBITDA on account of increased investment in products and the second wave of the pandemic.

Operating asset management and facility management businesses grew by 5% YoY, with topline remaining flat on a QoQ basis. Both facility management and security business continued to see headwinds as IT & ITES companies and education facilities remained closed in Q1. SG&A costs overall saw a marginal uptick due to increase in salary cost; monthly SG&A recurring cost Q1 was INR 56 Crores as against INR 51 Crores in Q4 FY2021. We expect SG&A costs to normalise at these levels; however, while we continue to focus on trying to reduce these costs further, a clearer picture will emerge once offices reopen and people get back to offices. The reported PAT in Q1 FY2022 is INR 45 Crores, an increase of 22% YoY.

I would like to take a moment to talk about the recent tax survey and reduction under section 80-JJAA of the Income Tax Act. The Income Tax Department conducted the survey at the registered office of Quess and Terrier Security Services on July 8, 2021, July 9, 2021, and July 10, 2021. We extended full cooperation to the department, including providing complete information in a timely manner, and have not received any claims to date. We have been very conservative in our accounting of section 80-JJAA benefit. We have not claimed benefits for eligible candidates who have completed 240 days with the orientation but were not on payroll on March 31, 2021, in the given year. That income concealment of INR 880 Crores, as mentioned in the press release, is higher than the overall PAT during the years under survey, and we still do not have a clear picture as to how these numbers have been arrived at. We have taken advice from eminent experts and are fully confident of the position we have adopted in our claim.

Balance sheet related updates: Focusing on the balance sheet after the purchase of the remaining 30% in Conneqt for INR 208 Crores and the dividend payout, we currently have a net debt of INR 151 Crores on the balance sheet as against a net cash position of INR 99 Crores in Q4 2021. However, as discussed during the previous calls, we assure you that we will bring the gross debt down to our net cash position over the next couple of quarters. Our continued focus on cash conversion has seen Q1 2022 delivering an OCF to EBITDA conversion of 75% against 93% in Q4 2021. This is important because this reflects true business performance. On the corporate structure front, we continue to simplify our structure; the board has given the approval to amalgamate three wholly-owned subsidiaries namely, MFX, Greenpiece and Conneqt, and that process is currently underway. We will continue on simplification of the organization structure through the year. We also increased our stake in Taskmo to 33%, the second investment of INR 3.2 Crores during July. Once again, we would like to thank you for your continued support during these unprecedented times, 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 Sudheer Guntupalli from ICICI Securities. Please, go ahead.

Sudheer Guntupalli: Suraj, my first question to you is on Allsec Technologies. So it has been quite some time since we have acquired this entity; any thoughts on a potential merger or amalgamation with Quess going forward?

Suraj Moraje: Thanks, Sudheer. I think the answer is that there are no updates right now. I think these are both listed companies, so merging them will have complexity around it and there is a steady requirement around it in terms of process. At this point, we are not seeing a pressing need to execute a merger, so I think both companies are executing well individually. We are extracting whatever synergies we need to, and the reality is if we were to go ahead with the merger, it would have to be after taking both the Quess and Allsec shareholder interest into account. We got to make sure that it makes sense for both of them, including our own goal of 20% ROE. So it is not that we have ruled it out, we are looking at it, but I think at this point, we are not seeing a pressing need. There is obviously cash at Allsec, and its board has now put in place a dividend policy, so we have to see what dividend payout there as well and when and how, but really no update on the merger, Sudheer.

Sudheer Guntupalli: Okay, Suraj and Ravi, on the query raised by the income tax department, since it has been months and no claim or update was received from them so far, is it fair to assume that they are satisfied with your response or interpretation of section 80-JJAA and the issue is completely behind?

Ravi Vishwanath: I would not like to think so. I think they are probably currently working, and we will not hear back from them on this particular matter within the next 30-45 days, is what we believe. So this is actually more of an industry issue, Sudheer. I do not think the issue can be isolated to Quess because I am sure most companies in the industry would have followed similar metrics in arriving at the claim, so this is something that we as an industry will have to face. I do not think the issue is behind us yet and we will wait to hear from them. But we have done our homework in terms of the backend analysis and calculations and do believe that we are ready with answers should they come back with whatever questions they have.

Sudheer Guntupalli: Sure, Ravi, and just one follow-up. Is there any precedent for which we would have done due diligence; let us say some company where this issue would have been raised and was sorted out either in court or out of court?

Ravi Vishwanath: Of the three matters that income tax issues were raised for 80-JJ AA, let me quickly just talk about it. One is on the determination of salary below INR 25000 per month. The second is to consider reimbursement as part of the salary, and the third one is which employee is to be on the payroll of the company for the succeeding two years. We do have the judicial pronouncements for two out of the three, which is reimbursement and employee having to continue on our roll in the subsequent two years. There is judicial precedence available and both of judicial high court and jurisdiction tribunal, while we do not have judicial precedence for the first one.

Sudheer Guntupalli: Sure Ravi, on the outcome, is it in favor of the company or how exactly it looks?

Ravi Vishwanath: Both decisions are in favor of the tax payer.

Sudheer Guntupalli: Got it Ravi, and one last question from my side. Maybe Guru or Lohit can answer. Actually, we have been seeing a very strong pickup in hiring across both white-collar space and blue-collar space in the industry and this is a broad-based phenomenon across sectors. Let’s say maybe some of the sectors like e-commerce, BFSI, we are seeing a very strong pickup and few other sectors also, we have seen, it is not very strong, maybe a strong pickup and some of your competitors, if I look at their commentary, it has been very upbeat in this quarter, but your commentary seems to be little more calibrated and balanced at this juncture. Should we read it as a bit of extra caution, or should we read it as you know any other potential headwind that you might be looking at this juncture?

Guruprasad Srinivasan: First and foremost, yes, the fact is true that we are also talking about being open-minded coming in, and those discussions are definitely happening in the logistics and supply chain space, which is the most sought after these days. Definitely, they are coming in, but some wait and watch on the third wave around here. So either the hiring is getting slightly deferred, or that is what we are currently experiencing. But coming specifically back to the white-color segment, I mean, you can see how technology staffing is doing, and they are really doing well, and it is quite visible in our results, so I would say that we wait and watch for the logistics and supply chain.

Suraj Moraje: Sudheer maybe just a couple of things I want to add. I think that at this point, if you look at the current phase of recovery, the current trajectory, I think we are headed towards our best as an economy, our best in Q3 ever, let me be very clear about that. I think the calibration response is just that we were all for further best Q4 ever. Also, I think we do not know the shape and form of COVID, and it is unknown to us, so that is where they are getting recalibrated. But I think how we see the opening of mandates now are we see, at the moment, the answer is absolutely on the IT side. For example, we had our headcount grow significantly in the quarter, plus we have had a higher value headcount for all of that is happening. I think the reality is most of corporate India, as we see, is keeping one eye on the timing, depth, and synchronicity of wave three. I think the hope is that even if it comes, it’s not going to be synchronous across states, and therefore as an economy, we will be able to weather it better, what I think. One cannot ignore the presence of COVID at this point, and I do not think that would be prudent at all.

Sudheer Guntupalli: Got it, Sir! Thanks, and I will join back in the queue.

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

Mukul Garg: I have one for Suraj and Ravi each. Suraj on the GTS side, this quarter was flat on the topline side, very marginal growth while your domestic IT service business grew quite smart. You have highlighted Conneqt, but was there a bit of softness on QoQ basis in the international business as well, and what was the reason behind that?

Suraj Moraje: Sure, I think the international business in GTS is doing just fine. As I mentioned in WFM, WFM does have international business around APAC and Singapore, and I think there the impact of COVID has actually been, in a sense, higher now than it was a year ago, but GTS, no. I think two impacts on GTS, Mukul. One is just collections which is a fair part of what we do at Conneqt, like I mentioned. The field activity was locked for a couple of months and usually, Q4 is anyway far better than Q1 because there is a strong push by the banks to collect as many NPAs as they can before the end of the year, so Q1 there is seasonality there, and then there is a lockdown effect on the collection. Q4 is always an extraordinary quarter for the HRO business in Allsec because we do the Form-16 A processing, which is highly profitable and incremental business there, so those are the two things I would say from a business perspective. If you are looking at the segment reporting on the last page where we have GTS and emerging businesses, then I would add from an EBITDA perspective two additional impacts, Mukul, one will be our Digicare business which was under lockdown and that is in the back page segment reporting as part of GTS and the second is that Monster went through a cloud migration in the quarter, so we got double burned on the cloud for part of the quarter. So the Monster burn was about INR 2.5 Crores higher than the quarter before that and should come down over the coming quarters.

Mukul Garg: Ravi, on the margin side, if we take out the provision reversal this quarter, you guys had a fairly sharp dip in margins at 4.4. If you can just help us do a margin walk of the pulls and pushes there and how should we see profitability for the near to medium term, like how you mentioned that SG&A will normalise at an elevated level. So if you can just help us, how should we think about the margins going forward?

Ravi Vishwanath: So I would say that this is probably on the lowest margins, in the current year, barring unforeseen circumstances you can take these as the baseline margin for the year. We have been impacted, like I said. We had an impact on the Conneqt business, and we had an impact on Excelus. We had an impact on cost, which is actually payroll kind of cost increase; and Digicare which has been shut actually contributed to almost about INR 4.5 Crores in losses in the current quarter. And of course, Suraj had alluded to the extra cost in Monster that we had to bear, so overall I think, but for the one-off items, our margins would have certainly been much higher. And like I said, we would be the lowest that we can probably think of for the coming year, which will get better from here, Mukul.

Mukul Garg: Just to follow up on this, what would be the impact of the one-off in the quarter on margin? And if you take out of the wage hike and Monster losses, these issues would have been there a year ago as well, whereas your margins are down almost 100 basis points from the same quarter last year, so that way is there some incremental cost pressure coming on the wayside which is leading to lower profitability?

Ravi Vishwanath: Not really, because Monster has actually been up in Q1 2021 as opposed to Q1 FY2022. Monster was actually up in Q1 FY2021, and you will also remember that we had salary cuts in Q1 of last year vs. an increment in the current year. Not just an extra cost which we had, it’s increased salary cost compared to Q4 itself, so I think the YoY comparison probably is not right. I will be happy to walk you through these things a little more in detail, but it is largely on account of Excelus, Digicare, and Monster in the current quarter and the Conneqt business slightly dipping on the collection part for Q1.

Suraj Moraje: And you could also remember Q1 last year, we did not give increments which we have given before, and we had salary cut as well. There is a difference there. The other thing I would say on Monster, because if you recall, Q1 last year was a very low quarter from a sales perspective, and given this is a SaaS business, you will see a bit of lag effect on that also. So for Monster specifically increase in sales was seen now, and we should actually hit the bottom line in the coming quarters if there is no lag there.

Mukul Garg: Fair enough, and thanks for answering my question, and I will get back in the queue.

Suraj Moraje: Mukul, there is one more point I do want to make which is against last quarter versus this quarter. If you look at WFM, this quarter, last year, a lot of bonuses and incentives given to our associates were cut, and people did not pay. Whereas, like I alluded to, this time, I think the humanitarian response was just better. For us, those bonuses and incentives often tend to pass through, so they increase the top line but not the bottom line. And that also can effectively moderate the margin of the GS business without reduction in the pricing per se, so you will see that the top line of GS has gone up QoQ substantially.

Mukul Garg: So Suraj, sorry, just on this, can you quantify what would have been the margin impact from all of these?

Suraj Moraje: Bonus pass-through was there in this quarter versus a year ago that was INR 120 Crores of top line.

Mukul Garg: Okay, thanks for answering my questions.

Moderator: Thank you! The next question is from the line of Jonas Bhutta from PhillipCapital. Please, go ahead.

Jonas Bhutta: Congratulations on a decent set of numbers despite the challenges! A couple of questions, Sir. Firstly, more bookkeeping kind of questions, where if Ravi can explain why tax rate, particularly in the subsidiary when the net of consolidated minus standalone look so abnormally high at about INR 28 Crores odd is first one and followed up the other two?

Ravi Vishwanath: When we declare a dividend from Allsec Manila to Allsec India, there was a dividend distribution tax of INR 16 Crores that we had to incur. So this tax has been considered as the current tax in the quarterly reporting. The benefit of this tax is available and to be set off against the income that we earned during the year, so this is really a one-time cash cost that we have actually incurred in Q1. And when Allsec moved towards 25% tax, they were under MAT until last year. They will move into a 25% tax rate for the current year, and so we will get the benefit of this over the year. So that is what has actually spiked the current tax rates to higher than what you would normally see.

Jonas Bhutta: So what would your full-year tax rate assumption be for the Quess consolidated entity, keeping in mind the Q1 impact?

Ravi Vishwanath: Overall, I think for the year, we will probably be coming at about 17%-18% of the effective tax rate as a company.

Jonas Bhutta: Understood. The second question was, where you sort of touched upon, how you see the margin trajectory progressive on both GTS and WFM? So wanted to pick your brain on OAM because that business at least has shown a multi-quarter high kind of margins. Is there some one-off embedded within that or is this now back to the normal margins kind of scenario that we should build in for the remainder of the year?

Ravi Vishwanath: I think 7%, anything between 7% and 7.2%, would be more or less like steady-state margins in the operational asset management business. There are some one-time collections that have been made in the current quarter, but by and large, I think 7% would be a steady-state margin in the operating asset management, and we have actually done some backend improvement as far as facility management business is concerned. The benefits from all of those should start playing out once the office reopens and people get back to offices. We should probably start seeing better productivity of our people when the office reopens in the facility management business.

Jonas Bhutta: Understood. And the last one: So basically for WFM, could we at least assume that you get to what you did in FY2021 because you are at 3.5 while Suraj highlighted that there was INR 120 Crores impact of the bonus increment that actually did not flow down to EBITDA but at least 3.7% which you did for the full year FY2021 is something that we should build in?

Ravi Vishwanath: Absolutely, without a doubt.

Jonas Bhutta: Understood. Got it! Thank you, and I will get back in the queue.

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

Vidit Shah: Just to clarify the point you made on the increased tax rate due to dividend distribution in Allsec from the Philippines to India. Are you saying that this tax will be set up against any tax liability that Allsec has going forward or how does this work?

Ravi Vishwanath: You are right! India has a tax treaty with the Philippines, and this tax would be available in the set-off under a double tax avoidance agreement.

Vidit Shah: Okay, so will this all be set off this quarter itself?

Ravi Vishwanath: We will have to compute it for the whole year and then do a set-off.

Vidit Shah: All right, understood, and secondly, just trying to understand the scaling and skill development business. The revenues have been kind of flat QoQ, so what is the level of capacity operations that the business is operating at currently, and where can these revenues go when they operate at full capacity?

Ravi Vishwanath: So we were operating at about 50% capacity in Q4 and that was when we opened up some of the centers. I mean, we operate about 120 centers across 20 states where we conduct the training programs, and we were operating at about 50% capacity in Q4, and at full capacity, our revenues would be in the range of about INR 50 Crores to INR 60 Crores a year. And currently again in Q1, we are operating at about maybe less than 5%, so we do expect that these will start reopening over time, and by about Q3, we expect, if the third wave is not very severe, to get back to at least about 75%, with all the centers being opened by Q4.

Vidit Shah: Alright, and that would drive significant margin improvement within the WFM segment.

Ravi Vishwanath: That is right.

Vidit Shah: Alright, one last clarification on provisions that were made last quarter for the Excelus and Trimax business. Is there any update on if anything has been received? Have you reversed any?

Ravi Vishwanath: One, as far as Trimax is concerned, we had the contract novated. While we had made provisions on one side, we discussed internally when the government came back to us with their proposal to novate the contract on some new terms. We discussed whether we should go ahead or just back off from the project, and then we took a call in the larger interest of the business. We took a call that it will be in our best interest, especially after having come thus far, to go ahead and have the contracts completed and try and collect as much money as possible. And in the current month, we have recovered about INR 23 Crores of past dues on GST from the government. There is nothing much as far as GST is concerned, but this is the update for Trimax.

Vidit Shah: Alright!

Ravi Vishwanath: We do expect to receive some more over the next few weeks or months.

Vidit Shah: Alright, that is helpful. I will get back in the queue.

Moderator: Thank you! The next question is from the line of Raghuram N S from Eurindia Funds Management. Please, go ahead.

Raghuram N S: Hi, I was an investor with Allsec and have been tracking how Quess has been managing the investment. This is regarding the comments made by Ajit Isaac during the AGM of Allsec, where it was very clearly mentioned that a merger with Conneqt or Quess itself would be considered and taken at the right time. I obviously heard your first comment to the first question that both companies seem to be going along at their own pace and won't immediately do anything about it. But it always was something that we at Allsec investors who remained wanted some clarity on. What was the thinking behind continuing these two companies as separate now that Conneqt has also been merged into the main company, but this remains as a separate entity. Obviously, there is no clarity on how the process would evolve over the next few quarters itself, so if you can please clarify as to whether a decision is going to be taken at all or is it just going to be continuing like this for a long period of time?

Suraj Moraje: Sure Raghuram, thank you for your question. I appreciate where you are coming from on this. I think the reality is these are rapidly evolving business environments, and at the end of the day, we are also getting to understand Allsec capabilities better. It is not that we are not looking at it. We are still looking at it; you have seen that we have moved to merge Conneqt with Quess, so we are doing the right things at the right time. At this point, we are not seeing a need to do this. Also, you would have seen as an Allsec investor the performance has gone up I think. Quess is doing whatever we can to use our global tech solutions platform to open doors for Allsec and improve its pace of customer acquisition. In India, our general staffing business is helping them cross-sell to general staffing customers, so a lot of those issues are being worked through anyway operationally. As far as the merger goes, I think there are many considerations in the mixture, and we are working through all those considerations to figure out, given we are both public listed companies, what is the right way and what is the right thing going forward. It will evolve when we are looking at it, but I am sure you will appreciate that I cannot make a specific comment on this at this point.

Raghuram N S: I understand and appreciate the fact that both of these are listed companies, so there are very clear processes and sensitivities that need to be handled here. But it would always be much more helpful for shareholders that unless these conditions are met, we will continue as separate companies or have some kind of plan to do something together over the next six months? There is no real timeline for any decision.

Suraj Moraje: Unfortunately, with two public listed companies, it is impractical, possibly even illegal to put it in place. I hear you, and let us take this. We will take this as a point and we will chew on this one. Thank you for the comment.

Raghuram N S: Thank you so much!

Moderator: Thank you! Ladies and Gentlemen, that was the last question for today. I would now like to hand the conference over to Suraj Moraje for the closing comments.

Suraj Moraje: I just wanted to start again by thanking ICICI Securities and Sudheer for hosting the call, really appreciate it. We want to thank all of you for being here today. Q1 was a tough environment. We are very pleased with how the business has, while still focusing on the humanitarian side, weathered through it. With 24% revenue growth, 22% PAT growth staying flat QoQ, and increasing headcount, we are looking forward to the quarters to come. I think there is very strong momentum in the business. We are committed to staying very focused on that and hope you see the results and the purposes coming through on these calls. We are continuing to invest in our sales delivery capabilities. We believe the Quess platform is getting more and more differentiated over time from our competitors, driving our cross-sell and driving our demand. Our tech assets are doing very well, Monster, Qjobs, and others. So I think overall the outlook is positive, and I would like to say thank you again. We look forward to speaking to you again in a quarter. In the meantime, stay safe, and please, if you are not vaccinated, get vaccinated. And most importantly, go back to your offices, it is good for you, and it is good for us. Thanks very much!

Moderator: Thank you on behalf of ICICI Securities! And that concludes this conference. Thank you for joining us, and you may now disconnect your lines.