"Quess Corp Limited
Q1FY23 Earnings Conference Call"

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MR. LOHIT BHATIA - PRESIDENT (WORKFORCE MANAGEMENT)
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MODERATOR: **MR. AASIM BHARDE - DAM CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Quess Corp Q1FY23 Earnings Conference Call hosted by DAM Capital. 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. Aasim Bharde from DAM Capital. Thank you and over to you, sir.

Aasim Bharde: Hey, thank you Faizan. Good morning, everyone and on behalf of DAM Capital Advisors, I would like to thank you all for taking the time to join us on Quess Corp's Q1 results conference call. From the company's leadership team, we have with us Guruprasad Srinivasan – Executive Director and Group CEO; Ravi Vishwanath – Group CFO; Mr. Lohit Bhatia – President, Workforce Management; Mr. Pinaki Kar – President, Global Technology Solutions; and Mr. Sekhar Garisa – President Product Led Businesses.

As usual, the team would open the call with some opening remarks followed by a Q&A session. I would now like to hand it over to Girish Kumar Sharma – DGM, Investor Relations to take the call forward. Thanks.

Girish Kumar Sharma: Good morning everyone and thank you for joining our earnings call today. Please note that the results and presentations are already uploaded on 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 not limited to what we have already mentioned in the prospectus filed with SEBI. With that said, I will hand over the call to our Executive Director and Group CEO, Mr. Guruprasad Srinivasan, over to you sir.

Guruprasad Srinivasan: Thanks Girish. Good morning and thank you all for joining us today. Let me start by briefly giving you a context to performance of first quarter of this year. The business environment remained positive with service sector driving major headcount addition. All our matured businesses have continued to demonstrate growth, driving our consolidated revenues up by 33% YoY and 5% QoQ basis. The consolidated EBITDA for the quarter was INR 153 crore and the drop in EBITDA has been due to three reasons. First, product led segment reported a negative EBITDA of INR 24 crore, a decline of INR 13 crore against Q4. This has been on account of additional Monster cash burn and ESOP cost associated with the business, and this is in-line to our plan.

SG&A cost increase of approximately INR 20 crore out of which salary cost increase has been INR 14 crore in current quarter due to increase in overall core headcount by 350, across all verticals. The third element to this is contract renegotiation in one of our business, which is asset management business. One of the major customers - we did renegotiation on a contract on going forward basis. Ravi and I will be sharing more details on these cost matters during the course of the call. The headcount addition has been the best so far and the outlook seems to be very positive going forward. We added over 30,000 associates by headcount in Q1 and ended the quarter at 470,000 by the end of Q1. Cash injection continues to be strong and OCF to EBITDA is at 56%. The slight dip from the long term guidance is due to delay in billing from renewed contracts in our BPO business. Our long term consistent OCF to EBITDA conversion target continues to be at 70%.

The sales engine continues to perform well as evident with record headcount addition. We acquired 219 new customers in Q1. The cross-sell engine continues to contribute significantly with 32 wins in the quarter with ACV of INR 164 crore.

Now coming to specific platform, starting with the workforce management, the platform posted a revenue growth of 4% QoQ and 33% YoY. EBITDA from operations grew by 29% YoY and was flat on QoQ basis due to increase in SG&A cost on account of increment and other general expenses like travel and other general expenses. Headcount reached 350,000, an increase of 11% QoQ and 31% YoY. General staffing headcount crosses 300,000 mark with retail, banking financial segment, and telecom being the key driver to this growth.

Workforce management added 100 new customers in the quarter continuing the 100+ client additions streak for five quarters now. Value added services in general staffing continues to be stable at 20% across the general staffing margins. Core to associate ratio stayed almost flat due to strengthening of core team in order to drive the growth for upcoming season.

IT staffing and selection continues to grow at 8% QoQ, EBITDA growth. Associates with greater than 10K gross margin now makes up to 35% of total associate base against 32% a year ago. Moving on to global technology solutions platform – this platform has delivered 29% topline growth and 30% EBITDA growth YoY, after a solid performance in FY22, attesting to the secular growth momentum in both our BPO as well as our digital IT services business. In our customer lifecycle management segment with rapid increase of consumer demand in post-COVID world, our growth momentum has accelerated resulting to 33% growth YoY. Both Conneqt and Allsec had an impressive revenue growth during the quarter with Conneqt crossing the milestone of 40,000 FTEs, that's 40,000 by headcount during Q1. While Conneqt leveraged on demand in the Indian market, Allsec customer life cycle management story was driven by 30% growth YoY in North American market.

We have made several business model innovation in CLM, including taking more solution selling approach to our services, driving digitization, resulting in almost doubling our order book in terms of ACV for FY23 Q1 compared to Q2. In our non-BPO segment, our collection business had a very good Q1 resulting to 35% YoY growth. This is a testament to our solution centric approach resulting in platformization, our collection business using digital tool. This along with the domestic F&A business continues to be a robust pillar of our non-CLM business delivering 29% growth YoY. In platform based business, Allsec HRO in the domestic market grew by 22% YoY, with the number of pay slips processed by Allsec growing 18% YoY. The segment saw a margin decline as salary cost went up by INR 3 crore in BPO business.

Moving on to OAM platform where growth has returned with our topline growing by 24%. To start with the business saw a 25% revenue growth YoY. During the quarter, we saw the muted sectors like IT, ITES and education coming back to an extent, while our focused sectors have continued to increase in demand. The business added 23 new logos during the quarter. There has been a contract renegotiation with one of our top customer in healthcare and education sector in this quarter. While we have extended our relationship for three more years, this comes with our margin marked to market levels during the competition and market dynamics. This has resulted in slight downward in existing margin. The experience however, gained in healthcare and education sector has proved to be invaluable and our foray into these sectors has seen a dramatic increase in revenue with incremental annual revenue of INR 100 crore post such acquisition. IFM continues to make stride on efficiencies; process digitization has taken our core to associate up to 91 in Q1FY23 from 84 a quarter ago. And our cost to serve is down to 4.6% in June'22 from 5% of revenue in June'21.

Our security business continues to grow in Q1 with revenue and headcount growing by 29% and 27% YoY. The business added 15 new customers in Q1. We see a lot of traction in electronic security solution. This enables higher security footprint with greater efficiency to our customers. We foresee the trend catching up from our traditional man guarding towards man tech combined with hybrid security offerings. Let me move on to the product business, where we continue to make significant progress. Monster continues to log impressive numbers with sales and revenue growing up by 57% and 53% YoY.

The candidate traffic and engagement saw significant spur with six-month active candidate base growing by 17% QoQ and traffic on platform growing at 24% QoQ, crossing 35 million in Q1. Customer acquisition continues to be strong with more than 3,000 new customer contracts signed in Q1. We launched a recruiter search in this quarter and the feedback has been overwhelmingly positive with CSAT score of over 95%, as voted by more than 1,100 customers and 71% percent on QoQ basis.

Our new product front, we have done at beta launch for our early career platform Zuno, with 450+ organizations already on board. The platform will help students in getting paid internship, scholarship, access to top companies and core subscriptions. Strategically, it adds a lot of value to our core platform by organically contributing to fresher candidate acquisition. Coming to our blue-collar job platforms, Qjobs saw the total candidate count reaching 5 million in the quarter. The new job openings hosted on the platform increased by exceptional 32% QoQ to 3 million. The NPS continues to be amongst the best in the industry. WorQ won its first direct external customer, a significant milestone in its product journey. The cash burn in this segment is as per our expectation in-line with our prior communication to the investor community.

So, that was an overview of the business. As we move forward, our focus continues to be on adding headcount, driving gross sales, gaining market share in operating asset management segment. Let me close by saying that we are on course to our plan and very optimistic about FY23. On the basis of the feedback from our customers, we will continue to focus on our joint goal of achieving a sustained 20% ROE while growing OCF at 20% CAGR. We thank you, the analyst and investor community, for a great support to us and our institution. Ravi over to you.

Ravi Vishwanath: Thank you Guru. Good morning everybody. I hope you and your families are doing well. Overall performance – our Q1 performance has been on track for most of the quarter across all of our businesses. The past quarter saw us navigating through an uneven operating environment, where hiring in the services segment continued to be high, the IT segment saw slowdown globally. This has had its impact and effect on our number as well. Before I get down to the details, I would like to reiterate that we have changed the reporting segments from Q1FY23. First, Monster and the interest shown by the external investors in some of our other technology led initiatives and with a view to show accurate business performance, we have separated these businesses into a fourth segment called product led businesses. This segment will include erstwhile emerging business with Monster.com, blue collar jobs, Qjobs, and Qdigi. Previously, these businesses were reported under the global technology solution segment. We also used the opportunity to realize some of the other businesses to better represent their activities and reporting segment. Accordingly, the Canadian staffing business, previously reported under global tech solutions, is subsumed under workforce management.

The changes in the reporting sector have been instituted in order to create a clear demarcation between the mature businesses, which are cash generating, from the businesses that require cash infusion and all of the overseas staffing businesses are now reported under workforce management platform. This is something that we've been alluding to for some time now. Let me now walk you through the financial performance of the company. Our overall revenue in Q1 grew by 5% compared to the previous quarter and grew by 33% on a YoY basis. All the segments posted healthy growth numbers with workforce management, global technology solutions, operating asset management and the product led businesses growing by 33%, 29%, 29% and 109% respectively on a YoY basis.

Our EBITDA from operations in Q1FY23, improved by 4% on a YoY basis to INR 153 crore. The QoQ decline in EBITDA margin, though planned, is due to the following reasons. The product led business vertical has seen an incremental EBITDA drop of INR 13 crore. This was expected and is in-line with our prior communication. Our core headcount has increased by 350 in Q1 against Q4. In addition to the increased costs on this account, salary increments for existing people has been higher than usual as it was low in the previous two years. One major customer contract in the facilities management business, which Guru spoke about, has been renegotiated. The estimated impact on the EBITDA on this account has been about INR 7 crore for the quarter.

Our operating cash flow to operating EBITDA conversion was 56% for Q1, which is slightly lower than our long-term guidance. The YoY drop can be attributed to one of the large subsidiaries where some of the customer contract renewal impacted cash generation. The same is now complete and will be back on track from Q2 onwards. We are confident that we will be able to achieve a 70% target that we have set for ourselves for FY23. Now moving onto the segment-wise updates, starting with workforce management. The workforce management segment has shown a 33% revenue growth driven by general staffing at 34%, but boosted by Comtel, which is our Singapore subsidiary, at 38%. Our IT staffing at 33% and our selection business at over 300%. EBITDA has grown by 29% YoY, largely driven by general staffing, selection business and the Singapore IT staffing business. However, the EBITDA has remained flat on a QoQ basis, mainly due to higher salary costs in Q1.

Coming to global technology solutions – the segment has showed a 29% revenue growth YoY, driven be Conneqt at 33% and bolstered by Allsec at 23%. The segment continues to maintain the momentum that it set for itself over the last couple of years. EBITDA has grown by 30%, largely driven by Conneqt at 33% increase and the Insure Tech platform with over a 90% YoY growth. On a QoQ basis, EBITDA has dropped by 6%, again largely due to the general slowdown in IT and BPO segment that we have seen in the economy and increase in salary cost on account of focal increases. Moving onto the operating asset management vertical, the good news is that revenues have increased 28% on a YoY basis, driven by the integrated facility management and security business. However, Q1FY23 margins have declined both on a QoQ and YoY basis.

The QoQ decline has happened due to the contract renegotiations with the large customer that we spoke about earlier. The contracts have been renegotiated at a market price and the quarterly impact as eluded earlier is around INR 7 crore. The PAT for Q1FY23 is at INR 68 crore, which implies an effective tax rate of about 15%. This is in-line with our guidance of having the effective tax rate between 15% to 18% going forward. Coming to the balance sheet, our trade receivable DSO is at 32 days as opposed to 30 days at the end of Q4 last year, our UBR DSO is also at 27 days versus 26 days, as at last year. Our net debt position is at INR 59 crore versus a net cash of about INR 16 crore and both the DSO and the net debt positions are largely on account of the impacted cash generation, as I spoke about in one of our subsidiaries, which has now been cleared and we hope to get back to the normal level from Q2 onwards.

Corporate structure simplification – this is a matter that's an acute focus at our end constantly. We endeavor to simplify the structures on an ongoing basis. We started with the merger of our wholly owned subsidiaries MFX India, Conneqt and Greenpiece Landscapes in last year and these have now reached the final stages with the National Company Law tribunal in Bangalore. We expect orders in this regard to be passed before the end of the current calendar year.

We also have announced the merger of our subsidiary Allsec, in which we own a 74% stake. And we will also be looking at consolidating and simplifying some of our overseas subsidiaries during the current financial year. Income tax – during the previous call that we had during May, we had spoken about the receipt of a draft assessment order and the draft assessment order has been objected to by us before the dispute resolution panel of the income tax department and the hearing is awaited. And the law – the dispute resolution panel have a nine-month timeframe to pass an order in this regard and that order is expected to be passed before 23rd March'23. The special audits for the subsequent financial year '18–19 is currently ongoing and is in-line similar to what we've seen in the previous years.

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

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Vidit Shah from IIFL Securities. Please go ahead.

Vidit Shah: Hi. Thanks so much for taking my question. So could you just give some details regarding the cash burn that is happening in Monster and specifically the product led businesses? What are the nature of these expenses that are being incurred and how do we see these trending for this year where we have raised around INR 100 crore to INR 130 crore of cash. So do we see these reversing or stopping in FY24 or do we expect these to continue for the next couple of years?

Sekhar Garisa: Hi, thanks for the question. As we have raised additional capital into Monster last year with $20 million, and this was with explicit intent to spend and invest behind two key areas. Over the last two years, because we have not come up with a new revamped product, we have not invested in marketing as well. So, most of the money is going into product development, where we have a very clear hypothesis on what the future of work and future of recruitment platform should be, and the product development is in-line. We have made one significant improvement in product this quarter and Guru has mentioned about the impact of it. We also launched our nurture portal Zuno, which is a early career platform. So, there is a lot of work happening on the product. We have also started spending money on marketing, mostly from a user acquisition perspective, and our P&L looks very similar to other talent platform P&L that you would see elsewhere too. So what we expect to happen is thar we will continue investing in the manner that we have given guidance of in terms of about INR 110 crore of spend this year that you would see in terms of EBITDA. But all of this money is coming in from the investment that we raised. As per the current plan, we expect that the capital that we have in the bank would suffice. In case we see opportunities going forward to either accelerate the growth or expand the product view, we will go in for further fund raise. But we are extremely comfortable and everything from the product engagement metrics, the financial metrics, as well as plans are in-line with what we have stated about five months back.

Guruprasad Srinivasan: Just to add with this, the indicators are really in the right direction and then we have a plan on how to spend this cash that we have raised. The key indicators are – if you look at revenue, it is growing aggressively at 53%, then our search, if you look at the platform itself, it has gone to about 9.8 million from where we used to be, about 3 million a year before. So definitely the product is turning around and it is going in the right direction at the moment with more such as assessment and career management and et cetera to it. So Sekhar and team are in the right traction there.

Vidit Shah: Got it. Understood. So how much money do we expect to be pumped in to get the product ready and then the balance I'm presuming of the INR 110 crore will go into marketing, right? What I am trying to understand is when does the cash burn start slowing down? I mean, once the product is ready, I'm presuming you'd see that expenditure at least come off from the losses that the segment is with.

Sekhar Garisa: Yes. Vidit, as you know, in terms of SaaS business, there is a threshold revenue beyond which the spend will not go up and you will start seeing significant improvement in EBITDA margin. The product investment, which is majorly in terms of putting the right team together is already in place. So we are going to have a major product release in the next quarter and the subsequent quarter and that pretty much gets us to a point where we believe that we will have a market beating product in place. The marketing spend is going to be around, you also know from our competitors, that the marketing spend will remain to make sure that the candidate engagement and acquisition is healthy, but once we start keeping over a certain revenue point, you can safely assume it will start reflecting the SaaS economics, where the EBITDA margins will go up very sharply. So, so it is all in as suppose the regular business plan that we have submitted. It is tracking as per any SaaS business model that you can think. We are currently in the investment phase in this year, from next year, you will start seeing the benefits of this investment.

Vidit Shah: My second question was on the renegotiation that has happened in the OAM business, like what are the market factors or industry factors which have caused these margins to decline, and thus, we have to take M2M hit while we renegotiate these contracts. And are any of these contracts further up for renewal, where we can see further downwards renegotiation in terms of margins of contracts going forward?

Guruprasad Srinivasan: Sure. So let me take this. This is specific to a large strategic contract that we had signed three years ago. It was a very strategic trend, in terms of healthcare and education that we had signed and the constitute of this agreement was that we will have a lock-in period of three years and after three years it will be opened, and there are some level of commitment in terms of gross margin that we will achieve in three years as part of this contract. March 31st 2022 is when we came out of the lock-in period and as part of the commitment, we have realized 86% of the commitment, which has been structured as part of the deal and we have a balance of 16% to go. With this, what happens is the deal will be open to mark to market kind of pricing. We have to participate in RFP and run through it to renegotiate and rebid. So when this happened, of course we run in-line to the market operating prices. So, we have renegotiated the contract and got a lock-in for next three years with the revised pricing. So, that's now going to run for next three years and then slowly we continue to mine more subsidiaries of the same customer going forward. So, in a way it will not change further, but this is specific to a strategy contract that we had.

Vidit Shah: Could you just shed some light on the factors that have led to declining margins? Or is there increased competition than there was three years back, given that, my understanding was that during COVID, we would have seen a lot of smaller fragmented players going out the industry and margins to be then less competitive.

Guruprasad Srinivasan: You are right. In fact, if you look at our headcount in OAM, while we have renegotiated one contract in terms of the pricing re-correction there, our headcount is at 87,000 almost. So, which means we are gaining lot of programs, a lot of projects from the smaller and regional partners as well. So that's a kind of consolidation that is happening in this segment. So that benefit will also start coming in from the subsequent quarters to us.

Vidit Shah: Okay. Just one last question on, how do you see the market in the big general staffing business in terms of growth, headcount growth? We have added around 48,000 headcount in WFM, could you just break that down into how much have we added in general staffing and is such strong growth likely to continue amidst the current challenging economic environment.

Guruprasad Srinivasan: Sure. I'll kick start and get Lohit to add more to it. So, workforce in overall had a fantastic quarter and that's our kind of signature platform as well. Teams are quite aggressive there to convert more, sign more deals and more transactions happening. In the quarter, we added almost about 90,000+ associates on board and out of which there is also attrition and the net add has been close to about 30,000. So that's the kind of number the platform added, which also reinforces the kind of capacity that we have built in terms of the hiring program across, that's one of the key element as far as staffing is concerned. And coming back to the outlook, India will definitely remain the fastest growing economy with the way things are going on and the movement from informal to formal which is expected to move from a 20% to 30% by 2025. So, there are good indicators which we are still seeing. While there are interest rates going up and the other parameters around, as far as until Q2 and Q3 is concerned, we are still quite positive and optimistic. Lohit, you may want to add to this.

Lohit Bhatia: Thank you Guru. Vidit, I think that's a great question. The trajectory was starting to be built last year itself. You would remember in the last two to three quarterly calls, we have been saying that we are deeply investing in construction, manufacturing, and apprenticeship program, and overall general staffing along with the technology enabled tools that we have. This investment almost has been in the last 12 months to doubling our sourcing team, also to double our sales team. That is clearly visible by 97 new customers, which have been added just in this single one quarter. Secondly, to your point on 48,000 people getting added, the slight change there is that 18,000 of those are F&F. Last financial year, we had taken a decision not to report F&F with our quarterly numbers. After almost a year, we've studied entire global and Indian staffing markets and felt that there is no change as far as the industry reporting is concerned. Industry takes the F&F also while reporting headcount. So, this year we added that back. Like to like, if you see, our growth on net addition basis has been close to 30,000, including F&F it is 48,000. So that is one point I think you must keep in mind. At 30,000 also, that makes us the one of the fastest growing ever in our 15-year history and I think the important aspect is the digital processes that we put into place, whether it is POP, whether it is Qjobs, whether it is work application, along with the size and scale of our physical operations, together has given us this kind of a trajectory and growth.

Vidit Shah: Okay. Understood. That seems very promising. Just one last data point out of the 30,000 headcount. How much would have general staffing added?

Lohit Bhatia: Total is about 31,500 of which general staffing alone has added around 30,000. So 95% has come from general staffing.

Moderator: Thank you. The next question is from the line of Sandesh Shetty from Jamnalal Bajaj Institute of Management Studies. Please go ahead.

Sandesh Shetty: Congratulations on a good set of numbers. Sir, I just wanted to ask you on Trimax. So, any update on Trimax or are we done with it or how is it?

Guruprasad Srinivasan: As we communicated earlier, we novated the contract in Q3 last year to Quess and the way we are currently is – we are in the O&M phase and the project comes to an end in July 2023. And we are currently managing the O&M. Our implementation phase is completed and we also have good track on our collections with the account. So, we should come out of this by end of Q1 of next year.

Sandesh Shetty: Okay. And one more thing on the training business. We were planning to scale down on the government business – what is the status on that and the strategy going forward with the training business now that businesses are opening up and there might be an opportunity there.

Guruprasad Srinivasan: We continue to focus on the same commentary what we had said. We are working and just to give you little numbers – we had 92 centres by early mid-March and we have closed down 42 centres in Q1, we are left with 50 centres now out of which we have planned closure between Q2 and Q3. There are two strings to this – one is, wherever we have completed the obligations, we are bringing those centres down completely. So, A) it adds back to our cost and that's a planned activity as we committed, we are doing, and wherever there are obligations to be met there, we will to fulfill and that will continue to run. I think between '23 and '24, that financial year is when slowly will start coming completely out of it. But it is a top priority for us and there is a clear monthly drive on this, that we do internally.

Sandesh Shetty: Okay. Thank you sir. One last question, sir, on the tax issue. So for the current year, are you able to get the tax credit that you were getting earlier, or has it been stopped or if you can use some color on that.

Ravi Vishwanath: We continue to take the tax benefits for the current year as well. There has been no change in our stand, so we will continue to get the benefits of it. We continue to take the benefits of 80JJAA as we have done in the past.

Moderator: Thank you. The next question is from the line of Nikhil Gada from Abakkus Asset Manager. Please go ahead.

Nikhil Gada: Hi, thanks for the opportunity, sir. So for my first question is regarding this impact on the OAM because of this contract renegotiation. So firstly, could you quantify what would have been the impact on the margins because of this?

Guruprasad Srinivasan: Sure. So just to give you a construct, this particular contract used to give us a topline of INR 382 crore and post renegotiation and volume drop in some places, in few of the locations, the revised number is going to be about INR 270 crore, for the financial year. So that's the revenue drop and by EBITDA, it drops from INR 56 crore to INR 27 crore, which is INR 7 crore per quarter, that's the kind of impact. These are absolute numbers.

Nikhil Gada: I understood, sir. So in terms of understanding the rational for the contractor, as well as for us, is it because of the COVID or has something been an issue from the contractor side that we had to renegotiate at a lower pricing?

Guruprasad Srinivasan: Not really. No, because the deal was structured in such a way that we had a lock-in for three years and then it was open for negotiation. So that's how we had structured the deal. The other way round Nikhil, we did enjoy a higher benefit for the first three years.

Nikhil Gada: So just in terms of, now the trajectory in OAM – we used to do good decent margins of close to 7%-8% few years back and now we are just slowly going down to close to 5%. And with this revision do we see this 5% to be the sustainable margin, or we see going back to the 6%-7%, because now things are opening up and healthcare and education sector should come back. So how do we see this now?

Guruprasad Srinivasan: Sure. So good question. So of course we are currently is at 5% and can it get better from here, of course, yes. There are multiple things that we are doing in the segment. A) As I said, this segment has been little in and out for last eight quarters and this is the time when slowly the economy is opening up, the sectors are opening up and we are geared up to sign more contracts. We have done a little more restructuring on the delivery team and kind of specialization into specific verticals to get bucket traction and get more contracts in. So definitely yes, with regard to the margin, can it inch up a bit? Yes. In a short run we would see slowly, by end of Q4 somewhere coming closer to about 5.6% to 5.7%. So that's the kind of estimation that I can put across based on the order book that we have.

Nikhil Gada: Got it. Secondly, my question on the Monster business – now that we are sort of seeing a burn rate of close to INR 25 crore on a quarterly basis and INR 110 crore is something that we have marked for this particular year. For '24, as you said that the business will start throwing some cash, what kind of burn rate do we expect in '24 for Monster.

Sekhar Garisa: As for the plan, the burn rate is going to come down substantially next year for the current level of business growth that we have assumed and shared and committed to our Board. However, as you know, this is an area which is growing very rapidly, and we are seeing a lot of tailwinds and green shoots. So we should always be open to say, if we have to make further investments to go after a much larger opportunity, we will make that decision next year. But as per the current plan, the burn will go down substantially next year and we will continue to grow.

Nikhil Gada: Got it. Just lastly on the WFM and the general staffing business – we have seen now achieving a certain level of scale especially in terms of the additions that we are doing on a QoQ basis. Just on the margin front, I know it optically varies a lot but do you see these margins sort of being sustainable or we can once again sort of go back to 4% - 4.5% from here?

Guruprasad Srinivasan: My only submission for this particular business is, general staffing has to be seen based on the platform delivering a kind of higher ROE than focusing them on margin, because margin is an element of the wage increase and fluctuation in salaries and all of that. So, when it fluctuates wherever we have flat fee, our markup does not go up and we have very limited control on that. But the way we drive and look at this business is – how can it deliver better and more ROE? I think that's the best measure for this business and we are doing extremely well on that front. Margin would continue to fluctuate, it's seasonal.

Moderator: The next question is from the line of Madhu from Canara HSBC. Please go ahead.

Madhu: Now that it's consolidating general staffing in favor of and TeamLease in a big way. So is there a chance to increase that flat mark-up because even TeamLease has been showing a bit softer margins this quarter and second on the hiring – at such a large number of gross hiring. So can you give us some more view on how it is being handled, how we are leveraging Qjobs etc. for this large amount of hiring we are doing?

Guruprasad Srinivasan: I think there are two parts to your question, first let me take the Qjobs one. See the major key driver for staffing is to get the right resourcing at the right time and for that the digital penetration is most important. We have got Qjobs where we have called out the kind of numbers where Qjob could fall. It took one year for us to get the first million download, and currently on an average of every 60 days, we are having almost a million download happening on the application. So, if you want to accelerate and the kind of hiring capacity that we want to create, there has to be a digital backbone and we have invested on that, I think at the right time, and we have great set of team driving that. So that's going to accelerate our hiring. Having said that we are currently present in few cities and few locations. We are now looking at how do we expand this particular reach across the country and that's one channel of hiring, and that's a focused drive that we are doing. The second one is to have our own streams in terms of having the recruiters and as you know Q2 and Q3 are generally season specific drives that happens. During this time, we hire more process delivery team, which is recruiters or onboarding or any specific related to the search that we get. And this would be kind of an interim, as in, when the season comes down, we will taper down. So coming back to your first part of the question, when we hire these set of people, that adds to our SG&A and hence the margin also slightly fluctuates there because it's going to add to our SG&A cost for an interim. However, it delivers exponential result to us as our hiring volume quantum goes up during the season. So does that answer your question?

Madhu: Yes.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: So the question was around margin. Do you think that the overall margin that we have today is sort of the bottom and it can only increase from here on now? The reason I ask this is because even if I look at workforce management, considering we have anyway doubled the sales force and our core costs have all gone up, there should be an operating leverage on going forward basis and also salary increases – as you have revenue growth, you don't have any further admin, so it should sort of cover up. Second on the GTS business as well, if you could tell in terms of how you expect margins to sort of pull through from here on, so both alluding to the same point that do you think margins are sort of bottomed out from an annual perspective for this year?

Ravi Vishwanath: Thanks for the question. You are right that the margins for Q1 have actually dropped largely account of the focal increases that that kicked in from April 1 onwards and the benefit of this will be seen through the rest of the year. I mean, you are absolutely right. We will start seeing clawbacks in margin, across all the three segments. I'm not talking about the product led business right now, but across workforce management, operating asset management and global tech solutions, we will start seeing margin reaching upwards. As Guru alluded to this fact earlier, we will also see an upward shift in the margins of the operating asset management vertical, by Q4 and the same applies to global tech solutions as well. Our margins have been impacted due to the focal increases and we will see the benefit of this between now and the rest of the year, because Q1 is a year where typically the margins actually drop compared to the previous quarter, which is Q4. Q4 is one of the better quarters in the GTS segment with some of the collections and tax processing, et cetera, kicking in and giving us higher margins. So, we will see better margins across all the three operating segments of workforce management, operating asset management and global tech solutions going forward.

Nitin Padmanabhan: I have just two quick ones, if I may. The second one is on the products business. Do you think the current run rate in terms of burn sort of continues for the rest of the year, or do you think they could be some sort of scale up for the other platforms as well and that should sort of in the interim maybe sort of dampen down overall margin at least in the short term, but do you think that there'll be volatility or there should be a steady run rate from here on?

Guruprasad Srinivasan: At the moment, I think it will be at a study run rate. We are not anticipating anything major deviation at the moment.

Nitin Padmanabhan: Right. And the last one was on the IT staffing business. So you alluded to some weakness there, so just wanted your sense in terms of what exactly are you seeing in the market and how you see that sort of evolving on a going forward basis for that business?

Guruprasad Srinivasan: So, again two aspects, one demand has been there, definitely, because our exposure to startups is very low and since we work with product & engineering and product services companies, our demand has been quite stable. If I were to say we are doing little portfolio reshuffle there, in terms of churning down the low margin and bringing in the high margin, which is where the impact of headcount is not coming in, but at the same time, our EBITDA growth between QoQ is extremely high. It is growing at almost at 8%. Just to give you, for example >10K per person margin for us - it covers almost about 35%, unlike it used to be about 32% a year ago. So, A) rebalancing, second working on higher mandate plus our professional staffing in international is doing really well. Singapore has turned around in Q1 after long, couple of quarters it was quite stable. Now, it has turned around extremely good. Demand is coming in and we are quite we are quite confident the way it is going on and it will continue probably for next two quarters.

Lohit Bhatia: If I made add to that, so if you really look at the situation in the IT business, what Guru has rightly mentioned is that the noise has only been coming from the startup space. There are about 15,000 jobs, which are lost but India has between the IT industry itself has about 5 million people. So that's just a drop in the ocean from that standpoint, we don't have too much of exposure there. Within the services segment there has been, and

Ravi eluded to that, the margin pressure on the services company has also been showing in Q1 because of their wage increases and other SG&A cost going up. However, our portfolio today is very vast. We do in the IT close to 2,000 fitments a month. Now, off that, today 60% of the fitments are going into the permanent IT recruitments and 40% are going into the staffing. And that mix that we carry in our professional staffing India business of being able to provide talent, both for staffing, as well as talent for permanent recruitment, actually places us very beautifully in front of a customer because irrespective of their requirement, we can offer for both stages of employment. Also, the EBITDA from that business, the professional staffing India business today contributes 30% of the overall EBITDA of WFM and has just doubled in the last 12 months. So, we are pretty bullish. We will continue to invest in that. You will continue to hear more things which are happening and like Guru said that with Singapore and APAC also contributing much better than where they were during COVID, there should be better times ahead.

Moderator: Next question is from the line of Aasim Bharde from DAM Capital. Please go ahead.

Aasim Bharde: Hi. Just a couple of questions. So firstly, you did talk about that you've done core hirings in Q1. Just wanted to understand would there be more of that in the coming quarter? So, there could be some overhang on margins to an extent, or is that all behind? What I was asking is I think one of the reasons for the margin drop has been that you made some more hires in your core team across segments, and of course there's salary increments as well. I guess the reasoning for core hiring is to broad base your sales and sourcing efforts. Is there more on the hiring part on the core side? That's what I wanted to know, that we can expect in the quarter side.

Guruprasad Srinivasan: I think one important element for us in terms of the growth is adding the right layer at the right level. So, we did hire a lot of resources for a couple of businesses at a leadership level and we are strengthening sales. We are strengthening operations, we are strengthening on our technology. So, these are few, I would say have been little on the higher end hiring that we have done to ensure that we get the right support to grow as we move on into the financial year. And the second set of hiring are for frontline, such as recruiters and the support and back office and et cetera. So, these hirings have been done and it may not largely increase in coming quarters, but there could be some hiring that we will continue to do, but it will not be to that quantum. So that's the kind of outlook on hiring.

Aasim Bharde: So basically whatever hiring we still do, it should not really temper your margins. That's the read through.

Guruprasad Srinivasan: It should not. Second thing that we did – also, I must call out, generally April is our performance appraisal cycle and in-line to earlier two years, i.e. '21 and '22 where the overall increments and sentiments around increments were slightly low, because of the environment around, we have been little more - we were not liberal, but we were happily liberal to give good hike to our own employees and good variable payouts. And probably we also recast a few thresholds because it was a tough situation that everybody supported us to work and deliver what we had to deliver, despite of being tough times around. So, we took that call to do that and that has come in and I'm sure that will stabilize plus the hiring. So with regard to hiring, there are no major hiring. We are almost done.

Aasim Bharde: Got it. Secondly, just want to get your comments on this slowdown in the IT hiring space globally and in India. Should that ideally drive higher demand for temp staffers, so ideally for Quess, it should not exactly be a negative.

Lohit Bhatia: So as far as IT demand is concerned; as an organization we sit on three times our monthly capacity to hire. So I don't think so currently from that standpoint that we can say that there is an issue. Having said that I think what you rightly mentioned of US, right now we don't have a very large practice there as far as US IT is concerned, but you must also note this from us – a very interesting data point which is coming out that the tech talent and the niche segment hiring, the talent shortages still continue to be there. So, while companies may be saying that they are cooling off on some of the hires and numbers that they have, at the same time they're also reporting that the talent that they need is not easily available for the new segment. So, I think it's a bit of a paradoxical situation at the moment. Not so worried about Asia Pac and India at all, because like I said, we sit anywhere between two and a half to three months of our hiring capacity at the moment, as open mandates.

Aasim Bharde: Got it. That is actually good to know that that kind of a pipeline, you guys are having. And just lastly, maybe just a question to Ravi, so just a follow up on the tax thing. You did say that you will be taking the benefit of 80JJAA this year. Just curious that have you received any tax certificate from the IT department allowing you that deduction?

Ravi Vishwanath: See, if you go back and look at the first year when the section was actually introduced, which was, say the financial year '16-17 was the first year. Our case was picked up for scrutiny during those years and the assessments were completed by the tax authorities, allowing this deduction. It's only for the subsequent years that they woke up and have raised some objections. So, we see no reason why these deductions should not be allowed. And to answer your question, yes, the fact that they have completed a scrutiny assessment where this deduction has been allowed is a validation of the claim that was made by us for the first year, when this section was actually brought into - when the benefits of the section were actually passed onto the service sector as well.

Moderator: Thank you, ladies and gentlemen. That was the last question for today. I would now like to hand the conference over to the management for closing comments.

Guruprasad Srinivasan: Thank you. So first and foremost, let me take this opportunity to thank each one of you. We keep interacting a lot, we learn a lot. We exchange a lot of information, quite informative and it's also a learning for us in many ways. Thank you so much for all your support to Quess and our institution. So, thank you so much. Look forward to interact with you also. Thank you.

Moderator: Thank you ladies and gentlemen, on behalf of DAM Capital, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purpose)

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