



**“Quess Corp Limited
Q2FY23 Earnings Conference Call”
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MR. RAVI VISHWANATH – GROUP CFO
MR. KAMAL-PPAL HODA – GROUP CFO, DESIGNATE
MR. LOHIT BHATIA – PRESIDENT – WORKFORCE
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MODERATOR: MS. ADITI PATIL – ICICI SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to the Quess Corp Q2FY23 Earnings Conference Call hosted by ICICI Securities. 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 ~~and~~ operator our pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Aditi Patil from ICICI Securities. Thank you, and over to you, ma'am.

Aditi Patil: Thank you, Lizann. Good day, everyone, and thank you for joining this call. From the company's leadership team, we have with us Mr. Guruprasad Srinivasan – Executive Director and Group CEO, Mr. Ravi Vishwanath – Group CFO, Mr. Kamal Pal Hoda – Group CFO, Designate, Mr. Lohit Bhatia – President, Workforce Management, Mr. Pinaki Kar – President, Global Technology Solutions, and Mr. Sekhar Garisa – President, Product-Led Business. Management would open the call with 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. Thank you, and over to you, Girish.

Girish Kumar Sharma: Thanks, Aditi. 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 are 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: Thank you, Girish. A very good afternoon to all, and thanks for joining us today. Let me start briefly by saying that it has been a terrific quarter from ~~the a~~ growth perspective. ~~a~~As we crossed 500,000 by headcount on the back of about 33,000 associates addition during the quarter. I'm happy with the way our leadership teams are demonstrating their capability to stay ahead with the growth in this environment.

The business environment for the quarter was mixed, while BFSI and the retail sector grew the headcount, there was a slowdown in IT, which impacted our IT Staffing and Selection business. All our mature businesses have contributed to demonstrating the growth, driving our consolidated revenues up by 32% YoY and 7% QoQ.

—————The consolidated EBITDA for the quarter was INR 135 crore, a 12% QoQ drop. The ~~f~~Following factors have contributed to the same. First is the impact of around INR 13 crore in the IT Staffing and Selection business due to a slowdown in IT hiring. Second, provision of INR 3 crore in training and skill development business to account for the student dropout on ongoing projects. Increase in corporate cost expenses to the extent of INR 5 crore, largely from higher salary costs, increased travel, and spending on technology. Lastly, we have made a new

investment ~~of~~ around INR 4 crore towards building a staffing presence in the United States. This investment is in ~~line~~ with our long-term aspirational goal of achieving 6% EBITDA, while maintaining 20% YoY growth. With ~~an~~ estimated market size of around \$160 billion, ~~the~~ US is the largest staffing market in the world. While this investment may have some margin impact in ~~the short~~ term, we believe that this investment will open up new avenues and improve our margin profile of business in the long term. We firmly believe it's the best time to invest when there is a downturn.

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. We have added 33,000 associates by headcount in Q2 and ~~we~~ now deploy over 0.5 million people across verticals and geographies. Please note, this number does not include an additional 21.6k associates who were payrollled in September but were not on rolls by ~~the~~ end of the month.

Cash generation continues to be strong, with OCF to EBITDA conversion at 72%, consistent with our guidance. The sales engine continues to perform well, as ~~made~~ evident ~~with-by~~ our headcount addition. We acquired 254 new customers in Q2. The sales engine continues to contribute significantly, with 63 wins in our cross-sell in H1.

Now coming ~~specific~~ to the platform updates. Starting with workforce management, the platform posted ~~revenue~~ growth of 7% QoQ and 33% YoY. Headcount reached 376,000, an increase of 7% QoQ and 27% YoY. ~~The~~ General Staffing headcount has crossed 333k, with retail, manufacturing, and BFSI being the key drivers. Driven by ~~the~~ net addition of 25k by headcount in the quarter, General Staffing grew by 8% QoQ and 36% YoY.

The PAM gross margin profile stayed stable at INR 700. Value-added services in General Staffing continues to contribute 19% of ~~the~~ General Staffing gross margin. Workforce Management added over 100 new customers in the quarter, continuing a 100+ client addition streak for over six quarters in a row. EBITDA from operations grew by 82% YoY and declined by 16% QoQ.

As outlined earlier, the major reason for EBITDA drops ~~are-is~~ as follows. Regarding the EBITDA drop of INR 13 crore due to ~~the~~ slowdown in IT hiring, ~~our~~ IT staffing business saw a headcount decline of about 300 during the quarter. The slowdown in IT hiring has increased the cost pressure ~~from-on~~ our clients. ~~While~~ the cost of acquiring a candidate has not gone down. In addition, this is the first time we have witnessed a delay in associate onboarding with the client. This has created a bench of around 100+ associates. As a result, we have incurred an additional cost of INR 2.25 crore. Our Selection business saw a decline of 30% as this business operates on a ~~fixed~~-cost model. It registered a ~~disproportionate~~ EBITDA decline. While we expect a part of ~~the~~ volume decline to last till Q4, we expect a certain percentage, around 20% to 30% of volume recovery, to happen in Q3 on a run rate basis.

Regarding INR 3 crore provision in training and skill development business, while during ~~the~~ normal course of business, we used to backfill the student who used to drop out, we now decided

to stop these in accordance with our decision to wind down this business. We expect this cost to be minimal going forward.

We ~~have~~ invested INR 4 crores in Q2 towards building our presence in the United States. International business contributed almost ~~about~~ INR 25 crore EBITDA this quarter. This has given us the confidence to enter ~~into~~ the largest staffing market in the world. This helps us to achieve and sustain ~~a~~ high-margin organic growth. We expect to achieve ~~a~~ breakeven in this business by Q1FY24. Buoyed by record headcount additions, we are now focused on improving our margins in this segment.

Moving on to our Global Technology Solutions platform. The segment continues to show impressive growth, with revenue growing by 23% and 4% QoQ, while EBITDA grew by 9% YoY and 2% QoQ. The Customer Lifecycle segment continues to grow at a 20%+ growth rate driven by a 36% growth rate in international CLM business. Both Connqct and AllsSec had impressive revenue growth and achieved the highest-ever revenue during the quarter.

We have made several business model innovations in CLM, resulting in doubling our order book to about INR 230 crores in H1 compared to INR 110 crores in H1FY22. In the non-voice BPO, our collection business had a very good Q2, resulting in 23% YoY growth. This is a good example of a solution-centric approach resulting in the platformization of our collection business using digital tools.

In platform-based services, our North American business under MFX grew by 8% QoQ. HRO platform business, AllSec, added 100,000 new pay ~~s~~lips during the quarter, ~~and~~ leading to 15% growth YoY.

~~————~~ Moving on to Integrated Asset Management business. This business registered a robust top line of over 33% YoY and 9% QoQ. Integrated Facility Management saw a revenue growth of 33% YoY and 10% QoQ. During the quarter, we saw muted sectors like IT/ITES and education coming back to an extent, while our focused sectors are seen to be in continuous demand. The business added 36 new logos during the quarter. IT segment witnessed a marginal recovery on return back to work and grew by 15% QoQ. The number of meals served ~~have~~ has also picked up, registering a 5% growth QoQ. This has resulted in a 26% QoQ increase in Q2.

Our facility management business has launched an application named Qbridge, which facilitates real-time project management leading to integrated facility management monitoring, significantly improving the efficiency of operations and monitoring the service level delivered to customers. This has resulted in an improvement in the core-to-associate ratio to 95 from 91 in Q1. We expect Qbridge to fully manage all aspects of our service level deliveries by Q1FY24, ~~which will~~ leading to higher efficiency and better customer engagement.

Security business grew by 28% YoY on the back of a strong headcount up by 25%. Customer sales momentum remained strong, with 21 new customers in the quarter. Our telecom business, Vedang, grew by 38% YoY on the back of increased demand from the telecom segment and the upcoming 5G rollout.

Let's move on to our product business, where we continue to make significant progress. Monster continued to log interesting numbers, with sales and revenue growing by 37% and 40% YoY, respectively. New user acquisition was at the highest ever, with 1.8 million registrations in Q2. The candidate traffic and engagement saw a spurt, with a six-month active candidate base growing to 17.3 million and traffic on the platform growing by 25% QoQ and crossing 44 million.

Strong customer acquisition continued with more than 2,700 new contracts signed. The customer feedback continues to be positive as the business achieved CSAT and NPS scores of 90% and 20, respectively. Zuno Fellowship, which was launched in July, saw more than 130K candidates registering for the fellowship test.

Coming to the blue-collar job platform, we have started exploring the options towards monetizing our products. QJobs saw an external customer count reaching 7,900, an increase YoY. The new jobs opening hosted on the platform increased by 122% YoY to 2 million. The NPS continues to be among the best in the industry. The cash burn in this segment is in-line with what we have communicated in the past.

Our corporate cost has gone up by 8% QoQ, driven by higher salary costs, and increased spending on travel, and tools and tech. While we continue to invest in automation and other technology to drive our processes, we are simultaneously looking very closely at our cost structure to identify an opportunity for reduction.

Coming on to the corporate updates. We have completed the divestment of Simpliance. The transaction valued Simpliance at an enterprise value of INR 120 crores against our original investment of INR 4.5 crores for a 53% stake in the company. This transaction validates our ability to nurture and turn around the tech-based business.

In-line with our capital allocation policy, we have announced an interim dividend of INR 8 per share for FY23. This reflects our confidence in the cash-generation ability of our businesses. So far, that was the overview. Going forward, our focus continues to be on: A) adding additional headcount; B) driving sales and cost optimization to improve margins.

We thank you, the analyst community, as it is with your support and our institution as a primary focus, we will continue to grow, and focus on margin. Certain reinforcement just before I conclude. The strength of our business model in GTS is holding up where there is a weakness in other sectors. Simpliance divestment as part of the outcome of our capital allocation policy and our long-term orientation; we hope to see more of such portfolio rebalancing projects in the future. Greater growth than competition in general staffing. The dividend payout is a reflection of our confidence in cash generation. Investment in technology and organic growth will continue. Stability and focus on ROE and market share are our key priorities.

With that, I now hand over to Ravi to talk about financial matters.

Ravi Vishwanath:

Thank you, Guru, and good afternoon everybody. Despite putting the pandemic behind us and powering on, global uncertainties continue to provide some challenges in the business environment, which is evident largely through a slowdown in IT hiring that has impacted our IT Staffing and Selection businesses. However, this quarter also highlighted the intrinsic strength of our business model as our GTS vertical held up, even when there is a general weakness in the operating environment, especially in the Specialty Staffing businesses.

Let me now walk you through the financial performance of the company. Our overall revenue in Q2 grew by 7% compared to the previous quarter and ~~grew~~ by 32% on a YoY basis. All the segments posted healthy top-line growth, with Workforce Management, Global Tech Solutions, Operating Asset Management, and Product-Led business platforms growing by 33%, 23%, 33%, and 62%, respectively, on a YoY basis.

Our EBITDA from operations in Q2FY23 ~~in absolute terms~~ improved by 20% on a YoY basis to INR 135 crores. EBITDA margins have declined by 32% YoY and 70% QoQ to 3.16%, largely due to the following reasons.— Workforce ~~M~~management ~~has been was~~ impacted by INR 13 crores due to a slowdown in the IT Staffing and Selection business and INR 4 crores towards a newly set-up North American Professional Staffing business.

Operating Asset Management saw an additional inventory cost of INR 3 crores in the food business. Our SG&A costs were also up by about INR 5 crores, largely on account of salaries, travel, and tech implementation costs. I would like to now move on to segment-wise updates. Let's start with Workforce Management. Workforce Management as a segment, the revenue grew by about 7% on a QoQ basis and 33% on a YoY basis, driven by General Staffing and the Singapore business. ~~The~~ General Staffing business grew by 8% QoQ and 36% on a YoY basis, while Comtel in Singapore grew 11% QoQ and 48% on a YoY basis.

We have already spoken about the reasons for ~~the~~ EBITDA decline in workforce management. However, I would like to add that we have already started to see the part of business coming back and expect margin improvement in the coming quarters.

Global Technology Solutions – this segment has shown a 4% revenue growth on a QoQ, driven by MFX and Conneqt, which grew by 18% and 3% on QoQ, respectively. The YoY growth of 23% was also driven chiefly by the Conneqt business. EBITDA for the segment grew by 2% on a QoQ and 8% on a YoY basis, driven mainly by the InsurTech platform and the AllSec business. There has been a slight margin dip in this vertical due to expenses incurred in hosting the tech capability of our businesses.

Operating Asset Management – revenues have increased by 33% YoY and 9% QoQ, driven by our facility management, security, and telecom service business. EBITDA saw a decline of 7% QoQ due to an additional inventory cost in the food business and some additional costs in the industrial asset management segment.

Our continuing efforts in collections ~~has~~ ~~have~~ resulted in a much better working capital management and that being instrumental in gaining back our OCF-to-EBITDA to over 70% in

Q2. As a result, we reached a net cash position of INR 57 crores in Q2 versus a net debt position of INR 59 crores in Q1.

I would like to now touch upon depreciation and interest costs. ~~The d~~Depreciation increase of INR 7 crores QoQ, is predominantly on account of Ind-AS adjustments in lease premises and equipment for the GTS business for Conneqt. The operating depreciation continued to be around INR 31 crores, an increase only by about INR 1 crore in Q2. We continue to maintain our annual CAPEX run rate of INR 80 crores to INR 90 crores, as communicated earlier.

Similarly, ~~an~~ interest cost increase of INR 6 crores can be divided into two parts. INR 3 crores of increase ~~has~~ have been on account of rising interest rates, ~~and~~ as a result, our interest outflow increased from INR 12 crores in Q1 to INR 15 crores in Q2. The remaining balance increase has been on account of Ind-AS adjustments towards lease premises as explained earlier;— this is for Conneqt.

Balance sheet and corporate actions;— ~~w~~We continue to acutely focus on collections, and this has resulted in our overall DSO reducing by 1 day QoQ to 58 days. In—line with our policy of capital allocation, we have announced an interim dividend of INR 8 per share for FY23. This truly reflects our confidence in the prospects of the cash—generation abilities of all our businesses.

We continue to focus on corporate simplification, and you will hear from us more about this as and when we are ready with news on this front. Lastly, on taxation, there has been no significant update regarding the ongoing income tax matter. The special audit, ~~which was~~ ordered by the tax authorities for ~~the~~ FY18-19 has also been completed, and the draft assessment order is expected shortly. We believe the draft assessment order would be on lines similar to what we had received for the previous year.

Once again, we would like to thank you all for your continued support. And I would like to now open the floor for questions. Thank you!;

Moderator:

The first question is from the line of Nitin Padmanabhan from Investec.

Nitin Padmanabhan:

Congrats on the strong revenue performance!;— I ~~had~~ have a question ~~on~~ about the operating expenses. There is this line item cost of materials, stores, and spare parts. That's been growing at a 22% CAGR since Q1FY22, and it's now at INR 129 crores. Even this quarter, it's like 0.5% sort of impact on margins. So just want to understand how we should look at this number ~~and~~, what's the context behind this number;? And what's driving such a massive growth on this cost line?

Guruprasad Srinivasan:

This particular line item refers to a business ~~that~~ we are into - a break-fix business. Between April ~~to~~ and October is a peak time for this business, and the inventory management of that is what;— is driving the cost of material largely;— that's a majority contribution. Cyclically, this business has a peak between April ~~to~~ and October, then Q3, it slightly tapers back and then regains again thereafter. That's how this business operates. So that's the cost which you are seeing there.

Nitin Padmanabhan: But the only reason I pointed it out is, it is possibly the highest number we have ever seen. And although I understand the cyclical, the intensity is only increasing. So, the intensity of the expense. So, I was just wondering, is there a commensurate revenue addition with the margin on the top, or how should we think about this? And does this really have a bearing on the margin in reality?

Ravi Vishwanath: Absolutely, Nitin. You're absolutely right. This cost is directly linked to our revenues and margins in QDigi business. So, it is not a cost that we are incurring separately.

Nitin Padmanabhan: And just if I may, just another broad question on the demand environment. So if you could just give some color on the General staffing business? How do you see that for the second half? And generally, within that, even the IT Staffing business, do you expect declines on that side of the business? Those are the two questions.

Guruprasad Srinivasan: Lohit, you want to take this?

Lohit Bhatia: Yes. Thank you, Guru. Nitin, good afternoon. This is Lohit here. Thank you for your question. And if you notice, in the first half of the year, our General Staffing team in India has added close to 53,000 net adds. The last 12 months has been our best ever. And in fact, the six months also. We've added in the last 12 months about 81,000 net adds. The reason I give these numbers out while you've already said it's a good performance is because that in an ordinary year, we used to do our best year, not after year.

But ordinarily, in a year, we used to do about 50,000+ in 12 months, which our team has been able to achieve in 6 months. A couple of points, if you remember, from the last few quarters' call. One, we said we doubled down on our sales initiative in this entire business. We doubled our sales. And yes, we incurred some costs bringing in the sales resources.

Second, we focused on M&I and M&A. Manufacturing and Industries, if you notice, used to be ranking sixth and seventh segments for our business. It has inched up to the fourth place. The fourth segment in our business after BFSI is retail, telecom, and now manufacturing. Telecom and manufacturing now at Quess General Staffing are neck and neck with each other, both at about 50,000 associates each. So that's the second point which we focused on.

The third, as far as the demand environment that you're talking about, our sourcing team has started run rating at an average between 7,000 to 10,000 people sourced every month. and that's the capacity again that we've added, both in terms of digital capacity from QJobs and the other platforms that we brought in the last 12 months, but also from the recruiters. I must also add, you've heard that we've crossed the 500,000 mark. But if you split our data in that 500,000, you would see that Tier 3 today contributes nearly one-third of the deployment in the country.

So with Quess, the kind of the size of operations and branches that we have, the kind of technology we have, the sourcing that we have, we definitely feel that this would be something that we would be able to replicate.

To your very specific point on what would happen after the Diwali season is over:- Yes, there is some destocking or reduction of the people hired internally only for the season. In this number, our estimate is about 6,000 only ~~are those numbers~~. So, this number does not contribute more than 25% of such resources; ~~which-who~~ were hired for a short-term duration.

Guruprasad Srinivasan: Just to add here, Nitin. ~~The data-It~~ is quite inspiring to see the distribution in cities panning out. So we were just doing our own research on this. And it's good to see that ~~the~~ kind of distribution with Tier 1, Tier 2, ~~and~~ Tier 3 for us is almost equal, which means about 35% ~~from~~ Tier 1 and more demand coming from Tier 2 and Tier 3 ~~kind~~s of cities. So, that's just a data point.

Moderator: The next question is from the line of Jitendra Arora from ICICI Prudential.

Jitendra Arora: I have a couple of questions. Given that we have clearly laid out that we are targeting a particular ROE and also a 6% EBITDA by 2025 ~~-~~ I see, last quarter, there were certain issues because of which the EBITDA was where it was. This quarter, again, ~~I see~~ the EBITDA margin is at 3.2%. So I just want to understand from the team, how do we see ourselves from the current 3.2% to reaching that target of 6% by 2025 ~~?~~ Is that simply aspirational? Or do we believe that there is a glide path to it?

Guruprasad Srinivasan: Okay. So Jitendra, thanks for bringing this ~~up~~. So first and foremost, it's a separately ~~a~~ goal and aspirational number ~~that~~ we have.

Jitendra Arora: So Guru, in that case, may I ask ~~that case may ask~~, what is the most ~~re~~ realistic number that as investors, we should keep in mind?

Guruprasad Srinivasan: I'll bridge that. So let me ~~give-tell~~ you what thinking goes behind putting a number like this. So first and foremost, when we entered this financial year, it was little unforeseen ~~the-in~~ terms ~~that~~ ~~of what~~ happened. When we did that initial planning, Monster fund-raising was not ~~in-on~~ our road-map at that point in time because the product was still under construction, and we still had not reached a situation to write the capital there.

BCPL is another product ~~which-that~~ is doing clearly well, and there is ~~a~~ good traction from the investment community in the product-led business. So, ~~with-while~~ this ~~was~~ not completely anticipated ~~into~~ the plan, we would have definitely reached ~~to~~ where we have committed. ~~But~~ ~~H~~however, considering the kind of burn that we are looking into ~~in~~ the investment that we have raised, by FY24, we firmly believe that we ~~are-will be~~ on the course to reduce the burn. The moment we start reducing the burn by FY24 as per the plan ~~that~~ we have, we are still confident that we can slowly graduate ~~towards-in~~ that direction.

Having said that, there are a couple of other businesses, which are turning around. For example, our entire asset management business, ~~which~~ used to deliver an EBITDA of 8%. Now, where we are is about 3% to 4.5%. Now there is a solid growth trajectory in this business. And this business was genuinely down for ~~the~~ last two years. And as and when the market is opening now, we are already seeing 15% growth in IT/ITES ~~slowly coming back~~, plus our focus on growth in this business, going aggressively on sales, we are confident to get this back to the

trajectory, which will be accretive to our margin. Number three ~~;~~ our international businesses, which are delivering well. Today, out of the total EBITDA ~~what-that~~ we generate on an annualized basis, roughly INR 100 crores comes from our international business, which constitutes about 7,000 by headcount. With the new investments in the US that we are currently doing and setting up the platform for future revenues, these businesses come with a very high margin over a period of time ~~;~~ right? So the product mix is something that will drive the margin increase for us over a period of time.

However, we cannot stop our general staffing growth. We are number one and, we'll continue to grow. And ~~we don't~~ they don't grow at the kind of margin that we anticipate. So they have ~~an~~ the ability to deliver anywhere between 700 to 750. So with more operational efficiency coming into and more growth-oriented ~~all-our~~ other two platforms, plus product-led business turning into by FY24 ~~;~~ Wwe are still confident that we will march towards that direction.

Jitendra Arora: Thanks ; Guru ; The thing is that ; as an investor ; when you guide-look for a particular margin or ~~for a~~ particular kind of business performance, it ~~has-is~~ assumed that management has taken into account some of the roadblocks that it will potentially face on the way and hence, has been a little bit ~~of~~ conservative in terms of their guidance. Unfortunately, I don't get that sense right now when I heard ~~from~~ you.

Guruprasad Srinivasan: Sure. I mean ; ~~our-we have a~~ plan in mind ~~to-for~~ what we are doing ; Wwe are definitely mindful about-of the direction that we are going into. ~~But-H~~ however, we are constantly recalibrating and going back to the drawing board. So we'll come back and let you know at a point ;

Jitendra Arora: Yes. So ; in that case, I'll appreciate it if we can get a more realistic sense of where we can be perhaps. I'll really appreciate that.

Guruprasad Srinivasan: Sure ; Jitendra.

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

Vidit: My first question was ~~this-about the~~ INR 13 crore impact on IT Staffing and Selection ; if you could delve a bit into it and give some further insight ; I mean, assuming we do somewhere around 1.7% and 1.6% in General Staffing ; ~~it~~ appears the IT Staffing margins have really halved versus the previous quarter. That would imply that our fixed costs in this business ~~is-are~~ extremely, extremely high, which is typically not the case. So if you could ~~like somewhat~~ explain this INR 13 crore impact ; it would be very helpful ;

Lohit Bhatia: This is Lohit. I'll take that. So first and foremost, before I go into your specific question and walk you through the margin profile and what happened to QoQ, I must just call ~~it~~ out that our IT staffing and permanent recruitment team has done a fabulous job in the last three years. If you look at us in a three-to-four-year period pre-COVID, during COVID and today, we are at triple ~~of~~ our EBITDA from this business on an H1 basis this year in comparison to H1FY21, and we are double ~~of~~ our EBITDA from H1FY19 and H1FY20.

So that's number one, I wanted to clearly call ~~it~~-out. IT has been a strategy that we feel ~~we~~-will play, we are one of the largest players there, both in permanent as well as temporary staffing. We will continue to play in that space. That's point number one.

Point number two. Now, what has happened between Q1 and Q2? So a couple of things have happened. One, you must also be seeing all the IT news coming across the world and from the IT services companies in India as well. As the wage inflation in the last 12 to 18 months really went up, the supply side and ~~the~~-demand side, both started having ~~a~~ wage inflation, which means customers' POs also went up, ~~and~~ simultaneously associates compensation and salaries also went up. In the last four to six months, a lot of companies have become extremely cautious ~~on~~ about the margins, which means that the customer pressure on revenues and PO lines has become ~~come~~ faster than you can convert the cost. So cost takes a lag of about one to two quarters before you can start rebalancing the cost itself.

That's the first thing ~~which-that~~ has happened in this business, and which is ~~where-what~~ Guru in his speech ~~itself~~-had mentioned, and so did Ravi, that the INR 7 crore of impact has come from that side of the business. The second important thing here is we are fairly large, with an INR 100+ crore revenue line from our permanent IT practice. This practice from a QoQ basis has come down by almost 40%.

Our fitments in Q1 were close to 3,300 onboards to customers, which shrunk to 2,200 and below. Now two reasons ~~have-why it~~ happened. One, obviously, like I said, customers have become a little margin conscious. And hence, onboardings have either been deferred, or the number of open man days on which we were working in our RPOs ~~have-has~~ kind of come down. What would happen going forward?

Now, we are seeing Q3 would be the ebb from where we would start to rise again. And in Q3, there are two actions ~~which-that~~ we are taking. One, obviously, on the cost side, wherever we had niche skills, but the niche skills that have not been deployed to, customers will be relooked at. They will be rebatched or moved ~~in-to~~ other projects. The second thing ~~what~~-we would look at is the renegotiation of contracts where we can. And the third, obviously, what we would be looking at is getting more demand back on the basis. Where do I see it on 10th November? ~~I~~ in the last 40 days, we see some of that demand has started to rise again.

We've also moved some segments outside of the IT and ITES to give a little bit of a flavor. So that's where it is as far as the IT/ITES is concerned, which is why only from a pure QoQ perspective, when you look at it, you would see the pain. But if you compare this half of the year with any of the halves of the years in the past, it has been still a very, very phenomenal result, and we'll continue to be a big player in this industry.

Vidit:

Got it. With the two-quarter lag for cost optimization, we'd expect it to be back to 1Q levels by 4Q and after.

Lohit Bhatia:

Yes, very good assessment. Absolutely.

Vidit:

And my second question was ~~en-about~~ the investments made in US Staffing. If you could shed some light on the sort of market share ~~that~~ we have out there and whether this INR 4 crores of investment is being made, is it enough for really kick-starting high-growth momentum out there, or are we going to require continuous investments to really capture that market?

Lohit Bhatia:

I think it's a brilliant question, and thank you for asking that. So first and foremost, I think Guru answered it both in his opening speech and ~~then~~ also when the question came ~~that up on~~ how ~~do~~ we go to the glide path of 6% EBITDA sometime ~~into~~ the future.

Let me give you a little bit of ~~a~~ the colour of the US market and what prompted us to get there. The United States market has \$160 billion of staffing growing at about 8% per annum. The US is adding one Indian staffing every year. So, while India is definitely growing at 25%-30%, ~~the~~ the Indian ~~steering Staffing F~~ederation's last number shows 21%+, and we assume that the market will continue to grow at that pace, and we are obviously growing faster than the market in India. The US is adding one Indian staffing every year as a market ~~it~~, that's number one.

Number two, India has about 5 million to 5.5 million IT staff deployed in our country. At the same time, the USA is the only other country in the world, ~~which that~~ has as many and more people deployed in IT as well. So it's a very large market out there. Currently, what we do in the United States and Canada for the last couple of years is through MFX and our InsurTech business, which comes under our GTS platform. Staffing hasn't really done anything in the last couple of years, and we wanted to be strong in both India and APAC to be at the right time to make that conscious call to go to the US.

Third, to your question, ~~that~~ how does this start to pan out?, ~~this~~ The INR 4 crores is an investment towards registering the legal entity in Delaware, it's for all the taxation requirements and the paperwork ~~that~~ we've done to hire the 3 leadership team that we've already hired.

Going forward, we feel that on a QoQ basis, this INR 4 crore number would start to taper downwards. Somewhere by the exit of this financial year and the early entry into the next financial year, we would be at a situation of breakeven as far as the US staffing business on the WFM itself is concerned.

The ~~l~~ast point I want to leave you with, not only is it the largest market in the world, but it also operates at a 6% to 8% and above EBITDA margin as well. And with where the US dollar to Indian rupee is, I'm sure you will understand that at some point ~~of in~~ time, this will play out in the medium to long term for Quess overall.

Vidit:

And just one follow-up to that would be, what is the differentiating factor that ~~is~~ Quess is going to offer versus the existing players in that particular market that will make customers move? Are you just targeting new customers?

Lohit Bhatia:

The short answer to that is we'd be targeting both. There are new customers coming up as well as ~~their~~ existing customers. Second, the US has, on the last count, a shortage of about 1 million

IT workers, and customers are looking for new companies ~~who-that~~ have innovative technology solutions and deployment and sourcing capabilities on the basis of which orders can be given.

Let us not forget, we control 1,700 recruiters in the Indian geography itself. We are the largest recruitment factory, and we have a huge ODC that can be created in India in practically no time. We also have 500 of those 1,700 recruiters in IT. So we understand that space very well. We also have a fairly decent business in the Philippines. So if you kick in the back end from the Philippines and India, as an ODC for sourcing and deployment with the customers' front ended from the United States of America, you can definitely imagine that we could get some of the \$160 billion space.

Today, WFM is over the \$1 billion, \$1.5 billion mark. We obviously need to add the next \$1.5 billion at much higher margins from another geography as well. So we are pretty confident that what Quess has been able to create in 15 years, both with its delivery as well as technology capability. Customers in the USA, are also having very, very decent conversations with us.

Anecdotally, let me tell you, ~~from~~ whatever conversations I have personally done with customers and met with them. They have been shocked by seeing the POP onboarding tool that Quess has created, the workforce productivity tool called WorQ and ~~the-QiJobs_ and-M~~ many of the companies, and with due respect to all my international competitors as well, who've been in business for 70 years or more, many of them have not created technologies like this, which in a market like India, obviously, Quess has created.

Moderator: The next question is from the line of Nikhil Gada from Abakkus AMC.

Nikhil Gada: When you explained ~~about~~ the IT staffing part, ~~and while~~ you ~~say said that~~ it might take a couple of quarters to get our cost optimization on and maybe even see improvement in the business. What kind of EBITDA margin do we expect in the WFM for the second half of FY23?

Lohit Bhatia: WFM, in all likelihood, in our understanding and our internal homework, is at its lowest that it could be. We baked in-to Q2, whatever costs we had to incur, whether it ~~-i-wass~~ for IT staffing, whether it ~~was's~~ the temporary slowdown ~~that~~ we saw in RPO or permanent, as I just spoke about, whether it ~~is-was~~ our investments in the US and ~~in~~ technology.

So all these are already baked in-to the numbers. You can take these as bottoms as far as WFM is concerned. With our growth, both in India and outside of India, and as Ravi alluded to in his presentation, where he spoke about ~~the-fact-that~~ how phenomenally the asset that we acquired a few years ago in Singapore is doing today, and it's grown over 40% ~~in-on~~ EBITDA YoY basis. So going forward, we definitely want to first inch back to 3.4% - 3.5% EBITDA margins. Thereafter to gradually get to the aspirational 4% mark from this asset for the rest of the Quess to also inch equally upwards.

Nikhil Gada: And to reach back to the 3.4% margin, how many quarters do you think would it take?

- Lohit Bhatia:** Nikhil, in the WFM business, as you understand, the largest -- the 80-pound gorilla in the room is the staffing business. It's a 2% EBITDA margin business. If some of the other elements, like on the last call, I remember, I had mentioned that the General Staffing business while growing 25% - 30% YoY, was contributing only 45% to the overall mix.
- So if General Staffing continues to grow, but others disproportionately grow faster than General Staffing, and the US also starts to join the party, this will move up much faster than all of us can expect. So, there are a couple of moving parts. You can understand my challenge here by-in giving a specific date or a specific month. But I'm not saying this is going to take years; that is a promise.
- Guruprasad Srinivasan:** But the question is, Nikhil. Are we working in that direction to create the right product mix; the answer is yes. So, we are doing everything to see how we can gradually move, whether it is a one-way investment and the new product line or international and other geographies delivering a higher EBITDA margins. IT Staffing, of course, reviving back and even cost reduction, etc. So we are definitely working on every other parameter to get to-in that direction.
- Nikhil Gada:** And, sir, secondly, regarding the OAM business. You mentioned there was an INR 3 crore write-off because of inventory. Is that the only reason the margins have fallen further from 5% in 1Q to around 4.5% in 2Q?
- Guruprasad Srinivasan:** No. I mean, it's a one-time Q2 impact that we have taken in one of our businesses. It will not recur back in Q3. So that business definitely has thea potential to revie back towards its EBITDA margins in coming quarters.
- Nikhil Gada:** Any sort of guidance, you would say? Because I think last time, you mentioned that 5% is an absolute low that we might hit in the OAM business.
- Guruprasad Srinivasan:** Of course, it will be close to 5%, anywhere between 4.8% to 5%. It definitely has thea potential in the next 2 quarters to get back to those levels.
- Nikhil Gada:** And, sir, just-I did not understand the Ind-AS adjustment for the depreciation and the interest part for the Conneqt business. If you can be more specific as in-to all the changes that have been?
- Ravi Vishwanath:** So basically, for your lease assets, you calculate the interest components and you amortize the rental over the future lease period, right? That's what I meant by saying that there are 2-two components in-to the interest and to-the depreciation and amortization. One, the facility that we have taken on rent gets amortized along with the interest part of it. That's what I meant by saying that there are 2-two components. One is as-the interest on the lease, and the second is the depreciation itself.
- Nikhil Gada:** So then this sort of the-run rate that we are seeing now in depreciation and interest, that is something which we expect to continue, right?

Ravi Vishwanath: Yes. One, ~~on~~ depreciation will continue, and our borrowings will keep coming down, and the financial interest costs, ~~which~~ are coming down too.

Moderator: The next question is from the line of Sanjay, an individual investor.

Sanjay: There was a good increase in business in Monster, and just want to check about what are your plans to capitalize on this Monster investment? Are you planning to tie this, ~~or you're planning to~~ separate it, ~~out~~ or bring it to the public? Any plans you have on Monster?

Sekhar Garisa: Yes, we've been having a couple of great years at Monster going very rapidly. And more importantly, the product metric, which is around engagement with recruiters and candidates, has been growing very, very fast. There is still a huge growth journey ahead for Monster. We are adequately capitalized, as you know, we raised capital just in ~~the~~ January earlier this year.

We expect the current growth to continue, at least for the next three, ~~or~~ four years, there's so much headroom to grow, and we're excited about the product lineup. And when we do that, all options are possible. There is more investor interest still in it.

But at the same time, the way the business model works ~~as-is the~~ SaaS business model. Once it starts turning profitable, the margins are significantly higher. And we have enough examples of some great publicly listed companies in this model. So, all options are on the table. Right now, we're focusing on doing the right things for the business. We're growing fast, and we are doing the right things ~~from-with~~ the product.

Moderator: The next question is from the line of Mukul Garg from Motilal Oswal Financial Services.

Mukul Garg: My question, I just had two follow-up questions ~~to-for~~ Lohit on the US market expansion. I'm assuming that this will be staffed purely from local resources. And I wanted to understand it a bit better, ~~when~~ if you look at the US market, till now, it has been an extremely supply-constrained market. And that ~~was-is~~ the reason why there are so many openings ~~which-are there~~ in the local economy.

So how are you going to bridge this gap in terms of supply which is there? Your local peers have struggled a lot to do it. Do you think there is some local know-how or technological advantage which you can bring to the table?

And B, as the macroeconomic environment slows down there and as this kind of move, some deficient to an environment where we will staff projects gets impacted because of lack of demand. How should we think about the right path to profitability over the next few quarters? Is that something ~~which-that~~ you have factored into estimates?

Lohit Bhatia: Sure, Mukul. Lohit here. And thanks for the question. So first and foremost, you're right. In the US market, there are two ways that you can play the market. There are local candidates, and there is the immigration policy business as well that you can do. At some stage, given Quess' size, scale, stature, and ability to move talent across geographies ~~as-well-as we've-been-very-and~~

~~our successfully been able to~~ in doing that ~~in for~~ the last five to six years between India - Middle East, India ~~–~~ APAC, and other geographies, we should be able to play in that game as well.

However, our current numbers are not based ~~on~~ our current calculations, and entry into the U.S. market is not based on a visa ~~strategy or on~~ immigration strategy. What it is based on is, there ~~is~~ are 100,000 people who have probably been let go. And there ~~is~~ are 1 million people in the IT space where there is an open mandate.

In the US also, you could see, just like in India, there are two categories of people who are getting hired in IT - there are the niche skills where we can definitely play a lot, and there are the perennial skills. Perennial skills are the ones where companies would offload people when the times are slightly tough, and we've been hearing some news of that as well. It allows our recruiters to onboard those people quicker because they're already onshore in America, and they can be moved from assignment A to assignment B, whether they are on an H-1B visa or whether they are on any other status there.

However, ~~in~~ the niche segment ~~also~~ is something that we've already started playing. And this is something ~~which both for APAC as well as India,~~ our teams have been very successfully in doing ~~both for APAC as well as India.~~ So when I was mentioning the 1,700 recruiters, on ~~an~~ average in India, out of which 500 are tenured ~~recruiters~~ and in the IT space at Quest in India~~as,~~ There are another 200 recruiters, ~~which are~~ in APAC and the Middle East who also understand the space very well.

So a lot of coordination across hundreds of our IT customers from APAC, the Middle East, and India and a lot of coordination across the hundreds of recruiters ~~that~~ we have. You just couple that with the technology-technological advancement ~~that~~ we do.

So I'll just leave one thought with you on how technology makes this whole differentiation. Today, if you call up most of the staffing companies in the US, they'll tell you that they still use UPS to onboard the candidate. It takes anywhere between 30-35 days for the papers to go and ~~the papers to be~~ returned ~~back~~ and for a candidate to be successfully finally onboarded. You know it. Quest has 6,350 towns, ~~and~~ cities and villages where people are deployed. And our POP works between 7.5 to 8 minutes to onboard a candidate.

So just think about it, if tomorrow Quest were to stand in the same market and tell people ~~that~~ what ~~could~~ was earlier ~~be~~ done in 30 to 35 days, ~~or~~ we could crunch the time down to 8 minutes. Instead of ~~it~~ taking \$50 or \$100 to onboard a person using UPS, we could do it in a matter of \$1 to \$5 using our technology. I don't need to explain further as to what are the opportunities available in the market.

Guruprasad Srinivasan: Just to add, Mukul, these technologies, we are not still testing these in the US. We have already tested in our APAC geographies, and ~~we~~ are prepared to take this out. So that's just an addition.

Mukul Garg: No, I understand that Guru and Lohit -- pardon me for following up on this. I understand, ~~on~~ in APAC and India, this has worked quite well. But when I look at the US market, ~~and~~ particularly

the technology space, it has been a fairly penetrated and over-operated space, and you have technology companies ~~who are~~ all over the place there.

When I'm looking at the market right now, ~~it is~~, as Lohit correctly highlighted, it's a market where there's a lot of supply, which is coming in as companies shed employees. When I look at your aspiration to turn profitable by Q1FY24, is there something ~~which that~~ can get delayed because there is, I would say, a little demand for scale-up over the next few quarters, and we can kind of play out that we be a little longer time horizon.

Lohit Bhatia:

You're right. The US market staffing is not new. There are operators who've been operating for 70 years and more. Yet, in the last five years, a lot of smaller firms have created a niche for themselves and built up practices ~~and that~~ go between \$50 million to about \$300 million. And I'm not talking about any of the listed companies.

The second point is that the active conversations in the last 3 to 4 months that we've had with customers spread across permanent staffing, RPO, as well as contract staffing. And many of these customers are ~~currently~~ already using homegrown US firms, yet they are in talks with us to have Quess empaneled and onboarded as a partner.

So Mukul, I definitely take your feedback. And we will keep all these points that you've raised in our mind, in our deliberations with our teams, and we will ensure that this is not just another strategy to add a flag in another geography, but ~~it~~ significantly adds to the bottom line at Quess.

Moderator:

Ladies and gentlemen, this was the last question today. I now hand the conference over to the management for closing comments. Over to you, Sir.

Guruprasad Srinivasan:

Thank you. Thanks, ~~for~~ everyone. I think it was quite ~~an~~ engaging conversation. So I take this opportunity to thank analysts and investors, and the community. It's your support to us and the kind of support ~~there~~ that we get from you and insights for our institution. We'll continue to focus. Our primary focus is going to be on growth and margin. So we'll not take our eyes off ~~it~~. We'll continue to drive and stay ahead in the market. Thank you so much.

Moderator:

Thank you, Ladies and gentlemen, on behalf of ICICI Securities Limited, 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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