



**“Quess Corp Limited  
Q4 FY2021 Conference Call”**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Quess Corp Limited Q4 FY2021 earnings conference call, hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. I now hand the conference over to Mr. Abhijit Akella from IIFL Securities Limited. Thank you and over to you Sir!

**Abhijit Akella:** Thank you Steven. Ladies and gentlemen, good morning and thank you for joining us on the 4Q FY2021 post results conference call of Quess Corp. It is my pleasure to introduce the senior management team of Quess who are here with us to discuss the results. We have with us Mr. Suraj Moraje, Managing Director and Group CEO; Mr. N. Ravi Vishwanath, Group CFO; Mr. Sekhar Garisa, Chief of Emerging Businesses and Corporate Development; Mr. S. Guruprasad, Chief Operating Officer, India Region; Mr. Lohit Bhatia, President, Workforce Management; and Mr. Pinaki Kar, President, Global Technology Solutions. We will begin the call with opening remarks by the management team and thereafter we will open up the call for the Q&A session. I would now like to hand the call over to Ms. Divya Dhawan from E&Y to take proceedings forward. Thank you and over to you Divya!

**Divya Dhawan:** Thank you Abhijit. Good morning everyone and thank you for joining our earnings call today. Please note that 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 that must be read in conjunction with the risk 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 now turn over the call to our Managing Director and Group CEO, Mr. Suraj Moraje. Over to you Sir!

**Suraj Moraje:** Thank you Divya and thanks to each of you for being here today. Your presence means a lot to us. We are in an era that can feel Sisyphean at times, and I hope you and your loved ones are staying physically and mentally safe. Most importantly, I hope you are keeping yourselves optimistic – these times can feel dark, but we must believe that our children’s best days are still ahead. Indeed a short history of mankind shows that whenever the future does happen, it will be bright.

Let me start by giving you an overview of the business and then hand over to Ravi to walk you through the financials. We will then be happy to take your questions.

‘What’s good for society is good for Quess’. Over the last year, Quess has been at the forefront of the war against COVID. During the second wave we have mobilized talent for temporary hospitals, setup vaccination camps, and delivered oxygen support. Even while society was in lockdown, we fumigated, managed and secured hospitals, airports, and countless other essential infrastructure on behalf of our clients. And while our fellow citizens were ensconced in their

homes, our associates were out at the frontline in healthcare, ecommerce, retail and manufacturing jobs to keep our economy running .

Whilst doing this, we have prioritised employee well-being & safety in every way possible. We created Quick Reaction teams across states for employee support, mobilised medical and psychological support, and worked closely with customers to enhance insurance covers. Our WorQ app has re-oriented focus towards COVID appropriate behaviour along with a campaign to encourage employees to register on the CoWin application for vaccination doses. We are seeing significant vaccine hesitancy that we are trying to overcome.

Today, across our operating asset management platform, about 30% of our frontline warriors have already been vaccinated. Our employees have participated in numerous community welfare programs, sponsoring and distributing meals, dry ration and personal kits, personal protection kits to frontline workers, teachers and students in adopted schools. With such purpose, it is no wonder that Quess has once again emerged as a great place to work@.

On business and financial matters, like many, we have had a roller coaster of a year. After a 19% reduction in revenues in Q1, the institution that emerges from Q4 is one that has only grown stronger across all metrics, be it customer acquisition, operational efficiency, digitisation, cash management, or leadership development.

Indeed, after seeing our business shrink in Q1, we grew our topline ahead of the market at an average of 7% to 8% per quarter. Our normalized PBT for FY2021 closed higher than that for FY2020, reflecting our focus on operational efficiency and simplification of the business in the balance sheet and we ended the year with almost 99 Crores of net cash versus 355 Crores of net debt a year ago.

Q4 especially ended the year with exceptional momentum. Were it not for the impact of INR 119 Crores one-time ECL provision, that Ravi will talk about, on the legacy government business and a 20 Crores COVID related impact on our TSD and foods businesses, our EBITDA actually would have been 5% higher than the same quarter a year ago. This reflects a strong growth in each platform, a testament to the superior execution of our teams be it across sales, efficiency or collections.

Our sales momentum has been strong with over 700 new customers acquired in the year. We have doubled down on cross-sell, as you know and had 55 wins worth an annual contract value of 250 Crores. These deals include some marquee solution sales, things never tried in the industry before, with cross selling now accounting for approximately a tenth of our incremental sales and showing a considerable better bang for the sales buck than cold calling. We are encouraged by the impact of our efforts and will invest more time and energy this year to improve further on this front.

Let me move on to specifics starting, as usual, with our WFM platform, which exited the year having recovered close to where we came in, and having grown headcount at over 20% in H2. GS associate headcount grew 13% quarter-on-quarter on the back of about 60000 gross additions benefiting from telecom, BFSI, manufacturing and a gradual recovery in retail. 29 new deals contributed an incremental headcount of under 9000, taking total new customer wins in GS in the year to 96.

One interesting thing about this customer addition is that it shows that India's shift towards outsourcing and flexi model is real. 40% of new GS customers in Q4 were first-time outsourcers using general staffing for the first time. We are seeing a flight to quality in the market, not just in GS but across businesses, that should continue to play in our favor especially as the new labor laws are hopefully notified over the coming months.

Within GS our focus on value-added services is starting to show up in our numbers with VAS contributions to gross margin being at its all-time high. We will continue to drive this further in its large part driven by a handful of outcome-based pilots across verticals where we are providing customers not only staff, but working with our customers to increase productivity of those staff and getting paid linked to the productivity. We expect this contribution of VAS to our gross margin to increase steadily as we gain in experience and confidence.

GS has invested significantly in specific new sales capabilities during the quarter, we will continue to do so in Q1. Deal cycles have become longer, and we believe that sales capabilities will benefit us when markets open as they did in H2 and we will continue to invest. Taskmo, the country's leader in gig economy tasking, which we invested in in Q3, has added a range of lockdown resilient activities, including experimenting with phlebotomy. This business shows impressive revenue growth and has already started benefiting from the heft of new deals from our existing GS customers.

Moving on to our domestic IT staffing business, which continues to be in demand and enjoys a rich environment. Our focus on higher margin profiles in the digital space has propelled our EBITDA up 54% in FY2021 versus the year before. The business acquired about 95 new customers in the year, leveraging new models such as Hire Train and Deploy, MSP and RPO to increase share in GICs. We believe this business will continue to be resilient to COVID and continue to be in a sweet spot from a demand perspective. At this moment, our focus is on ramping up our delivery capabilities, leveraging our technology assets and sourcing, screening, on-boarding and deploying candidates.

Outside of India, our Middle East business has seen its best year ever in FY2021 and we expect this momentum to continue into the coming year. Our APAC business has renewed management focus and should start showing significantly in their traction in FY2022.

The third part of our workforce management platform, our training and skill development business, mobilized its operations sufficiently to breakeven in Q4 despite operating at about 50%

capacity following social distancing norms. Given the second wave, the business is expected to see setbacks in Q1 again this year. We stay committed to running off the B2G business and at this point our focus is on closing out the legacy government projects, driving collections and further optimizing productivity even while we explore new B2B models. So, that is WFM platform for you.

Let me move on to the global technology solutions platform, which had a very strong Q4. It has been our highest EBITDA contributor in H2 and as you can see in our presentation, ended the year at higher EBITDA margins from the year before.

I will talk about each of the four service components of this business. First, platform-based services. We have two platforms, one, the InsureTech platform in our MFX subsidiary in the US and two, the HRO platform in our Indian subsidiary, Allsec. Integrated go-to-market in the InsureTech business has resulted in 10 contracts wins in FY2021 versus just 4 in FY2020 with platform-led revenues contributing to 80% plus of our US revenues today.

On the HRO business platform, the second platform, delivered by Allsec, we had 44 new wins in FY2021 versus 39 the year before and the number of pay slips processed per quarter grew from 2.1 million to 2.6 million in Q4 Y-o-Y. Note that this growth was without the typical 6% to 7% same customer growth that comes from employee growth at existing customers in a typical year. The high margin of these platform businesses make us even more excited for profitable growth in the quarters ahead and we are doubling down on modernization and more aggressive sales in both of these areas.

The second platform, our CLM platform, includes both voice and non-voice. 80% of this business is for domestic customers, delivered mainly by Conneqt, and the rest is for American customers, delivered mainly by Allsec. 11% of our revenues came from non-voice in Q4 up from 9% in the same quarter last year. Our teams are working harder to convert more of our CLM customers to omni-channel users by our unique CLM-in-a-box solutions and we are pushing for more progress there.

The third part of our GTS platform is our non-voice BPO. This is largely done at Conneqt with a focus on collections, which we are also in the process of platformising. We are India's leading professional collections company and, despite low volumes early on in the year due to RBI moratoriums, we ended Q4 almost flat versus a year ago, with five new customers introduced to the service line in the year. Our business faced some challenges in Q1 again since our feet on street are unable to fulfill last mile travel, but we will see how that plays out.

Note that we also have a domestic F&A business, which is part of our non-voice BPO. We had six wins in the year and we expect this service line to double in revenue in FY2022. We will continue to focus on building this project.

The fourth part of our GTS platform is IT Services. FY2021 was a good year for our IT services business, both in India and in Canada. In India, the business reached a critical mass of about 60 Crores in revenue, acquiring 16 customers versus 6 the year before. We have observed the real paucity of quality players in the Indian domestic IT services space and we will continue to build our presence here, adding new service lines to our existing Infra Management and Cyber Security capabilities. In Canada, we introduced Managed IT Services business early in the year and over four quarters this will now contribute to about 10% of our gross margin in Canada.

Before I move on from GTS, I would like to spend a minute on Conneqt. Honoring the put option exercised by Tata Sons in November 2020, we have acquired the balance 30% stake in Conneqt for a consideration of 208 Crores in April. The price paid for this transaction was well within our balance sheet provisions and the valuation extremely lucrative at less than 4x EV to EBITDA. We are excited to fully own Conneqt. The business has executed superbly since our acquisition, growing pre-COVID revenues at a 14% CAGR and operating EBITDA at a 19% CAGR. The improved focus on execution, growing from the Quess culture, is apparent in the net promoter score growing from 14% at the time of acquisition to 60% in the quarter just passed. The reliance on our top 10 customers has come down, with revenues from these customers going down from 74% to 54%. Conneqt will continue to be our springboard in the IT and ITES space, with full ownership enabling us to optimally realize synergies.

Let me now move on to OAM where I would like to highlight some of the recent growth. Q4 has witnessed a recovery in our Integrated Facilities Management business, with the exception of IT, ITES and education sectors, which accounted for 49% of pre-COVID revenues. We had a particularly strong run in the aviation sector where we won contracts with three airports in Q4. We also saw strong customer acquisitions in healthcare, pharmaceutical, manufacturing, and logistics/e-commerce. We will continue to focus on these sectors, deepening our verticalization further to gain market share, doubling down on sales capacity and expertise. We expect disinfection services to be the new norm for hygiene and we expect these to augment our revenue lines. Our AI driven solutions to manage onsite operations, including digital platform for our food services, are expected to bring operational efficiency and productivity. Our workforce management app, WorQ, has now become mainstream for managing attendance and consuming training content with 75% of our associates in IFM being on this platform.

We are hopeful that our revised business strategy of tech enabled integrated solutions and cross-selling and doubling down on sales will bring value-added delivery to our clients and fuel our growth in FY2022. Q4 also saw Terrier security services win 11 major contracts in the security services space and 4 major contracts for man-tech. 85% of our associates today are using our proprietary WorQ application, enabling 403 digital training sessions, covering almost 80% of the associate's strength.

We have also introduced a well-used digital supervisor workflow, which allows us to digitally check on our guards for alertness in real time. I am happy to report that effective collections at

Terrier has helped it clear its entire borrowings in the form of inter-company loans from Quess in the quarter.

Our industrial business is also seeing momentum. With an 11% QoQ revenue growth and a clear market shift visible amongst our customers to move from local unorganized contractors to O&M experts as industry moves towards Industry 4.0 and the need for training and productivity improves. The business won 15 new clients during the quarter; including our first ever win in the Fertilizer vertical. We also debuted in Specialized Technical manpower recruitment space, winning a contract with an Alloy and Steel company. So that was the OAM platform.

Let me move to our emerging businesses. After a weak-COVID induced start, Monster had a good year, both in terms of sales and operating metrics. An aggressive sales transformation helped turnaround our sales trajectory with the business acquiring more customers in Q4 than it has in many quarters in the past years, and across geographies too. Q4 2021 witnessed a strong growth in key operational metrics like candidate acquisitions, job postings, and so on and so forth and you will see more details in our investor presentation.

We continue to strengthen our team and there has been good momentum there. Having doubled our Product and Tech team to accelerate our product innovation through intelligent and personalized search and recommendation, video profiles, automated hiring data security etc.

Our after sales installation and service business, DigiCare, continues to execute well in the B2B2C space, attending close to 2 million service requests in the year. Through the year, the team focused on slow profitability, which is also ~80% of our service centers being profitable, despite significant COVID impact in Q1 and half of Q2. We continue to remain focused on service excellence through our tech-driven approach and we are building a direct to consumer business for product and services.

I want to talk about QJobs briefly. I am happy to say that QJobs has firmly established itself as the most effective platform in the market for recruiters to use in hiring blue-collared professionals digitally. It has crossed half a million downloads with probably under Rs.4 spent on customer acquisition per customer. We have 1100 customers and a little under 200,000 active job openings across four cities. In some of the higher volume roles, QJobs has enabled recruiters to hire 1 in 4 to sometimes, in some cases, 1 in 2 contacted candidates. Just think about the impact that has on recruiter productivity where traditionally recruiters are used to hiring one to two out of every ten people they contact. QJobs, through its superior screening, credentializing, and testing processes allows as high as 1:2 and this is something that we are going to keep driving. We are very excited about. In our key businesses such as Staffing and Terrier, we have had months where more than 10% of our gross hirers have actually been on QJobs.

Our employment benefits platform, earlier called MarQet, is now re-branded as Dash, has had a very good first year, signing up 100+ partners and serving more than 4000 associates over the year with a loan volume in March of around 2 Crores issued by our partner NBFCs. We continue

to remain excited about the possibility of making it a one-stop employee benefits and engagement platform. So that has been an overview of our platforms.

I will talk a little bit around the operational side. I am happy to inform you that our cost management remains in good shape even as our businesses scaled up in Q4, travel returned; people did come back to offices, before the fresh wave. Our indirect cost, which exited FY2020 at a run rate of 74, crore were down to about 51 Crores in Q4. We do think that they will go up this year, as we have passed on salary increments, bonus can come back and travel started. Bonuses go up and travel and expenses return but we will keep a close watch on this, while launching several additional initiatives such as further space rationalization, subcontractor cost optimization, further IT cost reductions, and organization design optimization.

Our organization health has also further strengthened over FY2021. We have a strong leadership team, much more standardization in our processes, and a huge hunger for success. When we laid out our 2023 vision to you on March 5, 2020, none of us knew exactly how disruptive COVID would be to our lives and to our businesses. I am immensely proud of each member of my management committee and of each Quessian for the perseverance, s/he has demonstrated. We are collectively proud of our purpose and resolute in our goals and I assure you we will not waiver.

Our cash generation continues to be robust. Our OCF generation last year in FY2021 was double that in FY2020. Our cash conversion is at a historic high and this is on the back of much better balance sheet management, cash management, customer collections and tax collections. We continue to watch our cash management carefully and we will continue to deliver well on this parameter.

In line with this, it has been a real pleasure to reward our shareholders with our first ever dividend payout, in line with our new dividend policy, where we have committed that we will return 33% of our free cash flow, approximately over the next three years, back to our shareholders in either dividends or buybacks. We remain committed to this.

Moving from last year to the present, I am sure you want a sense of what impact the current wave will have on our businesses. Overall, to date, the current wave appears likely to be less harmful to our business than the first wave. This is partly attributable, thankfully and frankly, to the human element. At this point, our clients, and us are more focused on employee safety and vaccinations in the face of higher illnesses and sadly, mortality. To date, we have not received a single material request for employee demobilization. Beyond this, the business volumes impacted by the first wave of COVID in IT/ITES, education verticals of IFM, food, Terrier had only partially recovered by end of Q4, so we see less of a negative impact on these businesses at that time.

Having said that, we are clearly seeing the dampening of the momentum built over Q3 and Q4, we are not perturbed, we see how we can execute, we see that we can build momentum back quickly, but at this point, clearly the momentum is down over the last three or four weeks. Three



specific businesses that, have been particularly hit by lockdown are DigiCare, where our services have shut down for the duration of lockdown; Excelus, where our centers are once again shut; and Monster, where sales, especially field sales, have been impacted in the SME segment. It is difficult to quantify the impact at this point and we will not give you a quantification. We will give you a clearer picture with our Q1 results coming next month.

Before I hand over to Ravi, I would like to re-emphasize our commitment to our twin goals of 20% ROE by FY2023 and 20% year-on-year OCF CAGR. I want to thank you at the end the analyst and the investor community for your support to us and to our institution. We remain committed to the institution and to our goals. Ravi over to you!

**N. Ravi Vishwanath:** Thank you. Good morning everybody. I hope all of you are doing well and keeping safe in these difficult times. I am excited to be part of Quess Corp and I am looking forward to the next phase of my journey.

Let me now walk you through the financial performance of the company. Talking about financial updates, our overall revenue in Q4 grew by about 7% as compared to the previous quarter. For the full year, we continue to maintain the revenue at the same level as last year despite the massive COVID impact we saw in Q1.

Our businesses have returned to secular growth and we continue to focus acutely on collections. In the process, we have evaluated all receivables, specifically receivables to the government, across all our branches. While we do not foresee any increase in credit period from government, we have been reducing our exposure to certain government businesses.

Over the past few quarters, we have been talking about the need to create provisions for delay in certain decisions. These things have been further accentuated due to the second wave of the pandemic and therefore, has led the management to believe that this is the right time to provision these government deals. Accordingly, we have provided for an amount of 119 Crores in Q4 of FY2021 out of abundant caution.

It is imperative to note that this does not in any manner, indicate any concerns with respect to the recoverability of the amount in future. These are mere provisions and the receivables have not been written off. We will continue to pursue the collection and write back provisions to the P&L account as and when the said dues are collected.

With this provision, we are confident about taking care of all the credit risk exposure that exists from such receivables. Consequently, EBITDA in Q4 2021 was down 75% to 38 Crores as compared to 151 Crores in Q3 2021 owing to the aforementioned government provisions and COVID-19 related impact of 20 Crores from the Excelus and Training & Skill Development business; however, the normalized EBITDA for the quarter grew 5% quarter-on-quarter.

Similarly, for the full year, reported EBITDA was down by 30%. Adjusted for one-timers, EBITDA was down by about 12.3% versus FY2020. The impact of COVID-19 related lockdown on high margin Training and Skill development and food businesses was approximately 98 Crores for the year. The reported PAT in Q4 2021 was impacted by a one-time charge on account of a deferred tax liability that was created on Goodwill. The charge was about 52 Crores and came about due to a change in the tax laws announced by the Finance Minister in January 2021. However, for the full year, reported PAT stood at 74 Crores, up compared to a negative of 432 Crores last year.

I would now like to update you on our balance sheet items. We are glad to inform you that we continue to maintain a net cash position of 99 Crores in Q4 2021 as compared to 355 Crores as the end of last year. As alluded by Suraj in his message, in April 2021 we purchased the remaining 30% stake in our Conneqt business from Tata Sons for a cash consideration of 208 Crores. This could probably cause an upward trajectory in the gross debt. However, we do assure you that we will bring the gross debt down to our net cash position over the next couple of quarters.

Our relentless focus on cash conversion/generation has seen Q4 2021 delivering an OCF EBITDA conversion of 93% versus 33% for the same quarter a year ago. It is important to note that this reflects true business performance without taking into account any tax refunds or other extraneous items.

For the full year, our OCF grew by about 151% with OCF EBITDA conversion of 131% in FY2021, versus 44% in FY2020. We continue to focus on achieving the 20% ROE by FY2023 through judicious capital allocation. The board and senior management of the company have also been contemplating for several quarters now about paying some of the cash flows back to the shareholders. Accordingly, we have announced the first ever dividend, since our IPO, of Rs.7 per share in our endeavor to optimize shareholder returns.

We will continue to prioritize debt repayments and return excess cash to the shareholders as appropriate. Given our confidence in organic financial growth and cash conversion, we have adopted a revised dividend policy where we expect to return approximately a third of the free cash flows to shareholders through a combination of dividend and/or buyback annually in the future. This will help us reinforce management discipline around maintaining optimum treasury levels for the company as well as reward shareholders who have placed their trust in us. We continue to simplify the organizational structure to ensure that our businesses can be understood seamlessly. Accordingly, we have made and continued to make improvements in bringing down the overall subsidiary count. We have filed for merger of two entities before the NCLT, namely, MFX and Greenpiece.

Talking about simplification, we are also in the process of simplifying the way we work internally and driving uniformity in all our processes across all our businesses. The process of upgrading to SAP/HANA has been largely completed. This is expected to put our businesses'

accounting system on a single platform thereby simplifying and aligning our processes under a single platform and reducing time and effort and improving efficiency in reporting.

We thank you all for your continued support and with this I would like to now open the floor for questions. Thank you all once again.

**Moderator:** Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

**Aditya Bagul:** Thank you. Congratulations to Suraj and team for a good FY2021. I have three questions, one is from an FY2022 perspective? You alluded that we are extremely focused on the health and safety of our employees and our associates and that has to be priority number one, but what are some of the other things that you are looking forward to in FY2022, if there are some milestones that you can share to our journey of 20% ROE that would be helpful, so that is my first question? My second question is on the WFM platform, I understand that we are going slowly in terms of the Excelus business and as a result the margins have come up to 3.6% to 3.7% sort of level? I just wanted to understand is this a new normal and how do we think about this from a medium term? That is my second question. Third question is, if we were to assume a high teen sort of growth over FY2022 and FY2023, how do we see cash conversion numbers over the next two to three years? Do we see it coming back to 60% - 70% level or do we expect them to be structurally high? Thank you.

**Suraj Moraje:** Thank you Aditya. Let me answer the one and three and then I will ask Ravi to take on your second question about the WFM margins. So, FY2023 we are targeting 20% ROE. We want to get approximately half the way there this year. Frankly, this year it is really going to come through growth and our focus really is on growth in every platform. We have doubled down on sales capacity. We are doubling down on cross sell. We are also doubling down on some of these new revenue streams I have spoken about be it in construction, manufacturing, healthcare, IT services. We are being very deliberate about identifying areas that can give us further tailwinds. So really this year is about growth. Obviously OCF I think you know we would like to target ourselves on 70% OCF conversion. I think that is the minimum we would like to deliver. That is probably what you should model. Let us see how it goes because I think the reality is our engine is much better. I think we are being very disciplined about our cash management. At the same time last year was an unusual year, I do not want to over promise. On the WFM business, Ravi you want to go for the answer there.

**N. Ravi Vishwanath:** The normalized EBITDA margin that we are currently seeing, is impacted by the training and skill development business which contributes to a higher margin in the overall platform and once that business comes back to normalcy, we do expect margins to inch upwards. The second part of the margin improvement that we expect to happen is with the IT staffing business increasing its footprint in the higher margin businesses that it has been going after over the last one year. So on

both these accounts, we do expect the margins to kick upwards from what has been reported as normalized EBITDA.

**Aditya Bagul:** Understood Sir. Very helpful. Suraj just one question as a follow-up, you talked about growth in FY2022 can you probably help us understand which of the three segments do you think is going to be a flag bearer for us when it comes to both? Do we expect a significant higher growth in tech or vis-à-vis workforce or OEM some color on that would be helpful?

**Suraj Moraje:** I think all of our platforms should grow at about 20% topline, so I think there are no free passes and all of us are targeting that.

**Aditya Bagul:** Understood loud and clear. Thank you so much and best of luck for the quarters to come.

**Moderator:** Thank you. The next question is from the line of Sudheer Guntupalli from ICICI Securities. Please go ahead.

**Sudheer Guntupalli:** Thanks for giving me the opportunity. Ravi congratulations and all the best on your new role. My first question is on the Rs.52 Crores adjustment of the deferred tax liability if you can help us understand which line item is this Rs.52 Crores adjustment reflected in both the P&L and the balance sheet? Also, overall outstanding goodwill due to MIS is around Rs.300 Crores post the write off which happened in March 2020? This translates into overall tax shield of Rs.75 Crores over the lifetime of the asset maybe five to 10 years? In that context adjustment of Rs.52 Crores looks high given that the book base and tax base difference would have arisen only for a year after the Honorable Finance Minister has changed the taxation rules so any thoughts on this would be welcome?

**N. Ravi Vishwanath:** Sudheer basically we have two categories of goodwill in our balance sheet. One is goodwill that does not get depreciated and goodwill that has been used for and that is getting depreciated in the tax returns batch, so the one that is getting impacted due to the change in tax law is the second component, so in our books the carrying value of this particular goodwill is about Rs.290 odd Crores. I will get you the full details and in the tax base the carrying value of this particular asset is about Rs.207 Crores, roughly about Rs.207 Crores to Rs.210 Crores. So this Rs.200 Crores of depreciated goodwill is the one on which the deferred tax liability has been created. We actually debated this quite a bit on whether this change in law is in fact a temporary timing difference, which is what deferred tax treatment is actually given for, but this is a consistent position that has been taken by the accounting firms and accordingly we had no other choice but to go ahead with this particular charge. Having said that, we would be making necessary applications to the agencies concerned to clarify on the correct treatment of this particular matter and you could call our treatment of creating a deferred tax liability as a conservative measure only to be rectified should we get a favorable ruling from the agencies next year.

**Sudheer Guntupalli:** Sure Ravi but if I understand it right the book base and tax base difference is roughly around Rs.90 Crores or slightly lower than that and given a corporate taxation of around 25% the DTL

adjustment should have been lower that is the first part of my question and the second part is that how is it reflected in the P&L and balance sheet because balance sheet DTL assets has not changed meaningfully and in the P&L we would have passed it to the taxation line item I assume?

- N. Ravi Vishwanath:** Like I said the gap is almost about Rs.200 Crores on which DTL has been created.
- Sudheer Guntupalli:** Okay and the P&L and balance sheet reflection where exactly is it referred to in the balance sheet because the DTL items have not changed much from the September quarter.
- N. Ravi Vishwanath:** I will come back to you on this question before the end of this conference call. I will tell you where exactly it should be.
- Sudheer Guntupalli:** No problem and second thing, the Rs.119 Crores provision when we say legacy government business is this related to Trimax or is this related to the receivables in training and development and also what is the status on Trimax and any color on why the amalgamation of Trimax was rejected by the regulator?
- N. Ravi Vishwanath:** So there are two things here, one of course it is combination of both Trimax and the training and skill development so it consists of these two elements only and second the amalgamation of Trimax was rejected by the regulator on account of a technical issue, which is why it is being re-filed currently with the NCLT. We had proposed a four-way merger last year and we are now actually getting it down to a two-way merger which is MFX and Greenpiece and so it is clearly on a technical issue on the number of share capitals because the shareholders needing approval was the technical issue due to which it was actually rejected last year.
- Sudheer Guntupalli:** Sure Ravi and what is the outstanding from Trimax and any possibility of future provisioning on Trimax account?
- N. Ravi Vishwanath:** We do not foresee any future provisioning on the Trimax account. We believe that the amount that we have provided for so far should be more than adequate to take care of any eventuality as far as Trimax is concerned. The total recoverability from Trimax is about Rs.101 Crores.
- Sudheer Guntupalli:** Which is still due?
- N. Ravi Vishwanath:** Which is totally due yes.
- Sudheer Guntupalli:** Ravi just one clarification on that because this is almost a two year back issue right and so if I understand it right in 180 days or so the accounting rules regulate or demand a provision on that account out of abundant caution but because it is more than a two-year issue, so just trying to understand as to why we are not taking provision for the rest of the Rs.101 Crores amount?
- N. Ravi Vishwanath:** So basically government dues are considered sovereign dues Sudheer and the policy had been to not provide for government dues at all because it is a sovereign kind of due which actually the

state promises, so this is the reason why we had not provided for it. Having said that, out of abundant caution we have come up with a new policy, which will provide for a certain amount of total receivables to be taking care of provisions on a going forward basis.

**Suraj Moraje:** Sudheer I just also wanted to make sure that the question you asked first I just want to kind of clarify. The question was an incomplete one. You asked why the regulators rejected the merger of Trimax. Let me put that fully in context. As part of our simplification exercise, we are progressively reducing the number of subsidiaries that we do not need to own or need to have independent. We have gone for a fast track NCLT process with four of our subsidiaries including Trimax requesting that they be merged into Quess. The reason it did not go through was in the process the regulator came down and said that 90% of all our shareholders need to vote for the resolution for this to go through. It is a mathematical impossibility for us to get 90% of our shareholders to vote because many of the investment companies have a policy of not voting. So that is the issue. It has got nothing to do with Trimax. It has got nothing to do with the company. It is purely a process issue and we have now re-filed with two subs. We have decided to keep Trimax as a separate sub simply because we realized that on further consideration given that the project exists it is better to keep it as a separate sub for now. So that is the full sort answer if you will.

**Sudheer Guntupalli:** Got it Sir. Thanks for the color and all the best for FY2022.

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

**Nitin Padmanabhan:** Good morning. I think if I look at the operating asset management EBITDA and the adjusted EBITDA there is Rs.83 Crores difference and I presume that would be related to the Trimax provisions? Now with reference to recovery of that amount from Ahmedabad do you think it is something that is stuck because of technicalities with regard to the merger and having it as a separate sub or do you think it is just about collection rather than any technical sort of impediment?

**Suraj Moraje:** So maybe Guru you want to take that question?

**S. Guruprasad:** To set the context, it is going through the NCLT process and the novation is taking some time and that is a technical impact. Otherwise, we do not see any project which is one of the best awarded projects having accolades of multiple awards and we have completed 85% of work on the project. So, it is just a technicality which is taking some time but otherwise we definitely foresee in terms of getting these collections rolling up easily in the next couple of quarters.

**Nitin Padmanabhan:** Sure, that is very helpful. The second was in terms of provisioning or in terms of goodwill I think most of the debt is already done right? You do not foresee any more such thing in the future of the quantum that you have seen in the last two years? Just trying to ask that most of these large

sorts of numbers are largely through and you do not foresee similar large numbers going forward?

**Suraj Moraje:** Not really. I think we are absolutely done with COVID and legacy issues.

**Nitin Padmanabhan:** Perfect that is quite helpful. Then the only other thing I wanted to check was in terms of what we are seeing today of the second wave how is that impacting your thought process on the business for the year? I ask this because I think this quarter we have seen some good pick up in operating asset management and even workforce has done well, does that sort of put the brakes for and do you think that it is just a quarters worth of pain and then things will recover or do you think this could be a little more long drawn? Just wanted your thoughts on how one should think about the flow?

**Suraj Moraje:** The only thing certain about COVID is that anybody who is trying to predict how COVID plays out has got it wrong, so I will not give you a forward-looking statement on this. What I will say is we are holding our internal targets. It has certainly been a loss of momentum through lockdown. Having said that, we genuinely feel that a lot of the contracts assuming if the current lockdown is really sort of let us hope wave three is not debilitating. We still feel that we can make our annual targets. That is where we are right now and that is the best visibility we have. Lohit if you want to say anything specifically about WFM?

**Lohit Bhatia:** Taking on from where Suraj was, I think that difference between last year's Q1 versus this year's Q1 predominately has been that last year was a complete economic trough, which the whole country went into and everyone, every organization including Quess was thrown into that trough. I think what we did significantly in our sales process in Q1 itself and by the time we emerged in June 2020 was to start talking about what are the resilient parts of the economy and the segments where our sales can double down and get us wins and get us deals irrespective of what happens in COVID so this year Q1 probably like Suraj rightly said I will take it on from there and forward-looking statement is a little challenging for us in these pandemic times and otherwise also you know the speed may vary but I at this moment do not see us getting down and thrown into a trough like last year and as all of you have been reading in media and the way the economic cycles are continuing the parts of the economy which continue to function this year unlike the situation which was there last year. That is number one. Number two I think this year around what people have seen is that the sharpness of the COVID rise is also almost equal to the mirror of the sharpness of the COVID drop from a high of 414000 cases in a day we are down to close to a lakh, we are not still there but we are very much there, four southern states put together is contributing now 80% of the cases. I think this is known to India, this is known to a lot of corporates and whatever people have lost in the last four to five quarters they want to make up in the next three. We will remain hopeful I understand that Suraj is giving all of us a lot of messages on this call as well. Thank you.

**Moderator:** Thank you. The next question is from the line of Jasdeep Walia from New Mark Capital. Please go ahead.

- Jasdeep Walia:** Thanks for taking my question, what the total amount of receivables from the government as of now or as of March 31, 2021?
- N. Ravi Vishwanath:** The total amount is in the region of Rs.200 Crores, Rs. 200 plus about Rs.100 Crores in Trimax. Rs.270 Crores to 300 Crores would be the total receivables in the bank.
- Jasdeep Walia:** Got it Sir. Sir, out of this total amount of Rs.120 Crores that is sitting in the quarter, what amount pertains to the write-off receivables.
- N. Ravi Vishwanath:** We have not written off any of these amounts. These are mere provisions like I said. These are not write-off at all?
- Jasdeep Walia:** What is the provision on the part of government receivables?
- N. Ravi Vishwanath:** Rs.119 Crores is the provision of account of government receivables. The entire provision for the quarter of 119 Crores was all due to legacy government business.
- Jasdeep Walia:** I wanted a breakup of these provisions between Trimax and other government receivables I do not know if that is possible for you to give?
- N. Ravi Vishwanath:** Sure absolutely I will give it to you. The Trimax was Rs.83 Crores and government receivables were Rs.36 Crores.
- Jasdeep Walia:** Sir you mentioned in the presentation that EBITDA from IT staffing business had grown at a significant rate this year what was the growth in sales in IT staffing in FY2021?
- Lohit Bhatia:** I think what you are referring to is a real trend change in the IT industry across the board and you have seen the results of the tier 1 IT companies as well. I think with a plateau-ish kind of a demand in the last three years, IT is now coming to a multiyear cycle. What our teams have done is they have doubled down and added a few things. One Suraj spoke about the large sales wins. The wins that we have got this year and Ravi also alluded to that is not from the ITES or the perennial demand of Java and the front lines where the PO values typically remain close to the 25000 to 40000 per associate per month. We have gone for a digital strategy and in the next three years we are going to play that digital strategy significantly as far as our Quess IT staffing or erstwhile Magna Infotech was concerned. On a revenue basis, I would say we are pretty much flattish and so is it on the headcount we would be marginally lower than where we were in March 2020, but it is the mix which has caused this 54% jump in EBITDA and this will continue to happen while beyond a certain time this year itself you will start seeing the revenue and the headcount both climbing because the mix would have fairly changed by that time and our strategy on the digital sales where on an average the margin is three times the potential existing margin of the cost. I hope that answered the question that you had?



- Jasdeep Walia:** Yes Sir. One final question that I may add? Sir in the presentation you mentioned that GIC will see the focus area in your IT staffing business if you could please elaborate on what kind of processes you are focusing on to target the GIC?
- Lohit Bhatia:** GIC is a very generic terminology for captives. Within captives and within digital as a strategy we have both a vertical as well as a horizontal strategy. So there is a horizontal which cuts across a certain very niche scale, which will cut across all categories of GIC; however, GIC in themselves are verticalized for us which could be products, which could be service based companies, which could be fortune 500 GICs in India, which could be healthcare based, which could be global retail or FMCG GICs in India so GICs in itself has multiple different ingredients but digital for us cuts as a horizontal so when we call out GIC what we are basically talking about is the 1500 to 1600 or GICs that are in India, the investment which is coming into India in GICs support existing which are growing as well as the new ones which are setting up that has been our focus area and a part of our Quess IT staffing team singularly focuses on.
- Jasdeep Walia:** Thank you. That is all from my side Sir.
- Moderator:** Thank you. The next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.
- Amar Mourya:** Thanks a lot for the opportunity. Sir my first question is on the WFM despite the breakeven in the skill business, the overall WFM EBITDA has been down so if you can explain to me what has led to this margin contraction and what basically led into this?
- N. Ravi Vishwanath:** Sorry which business are you talking about Amar?
- Amar Mourya:** WFM business, workforce management despite the skill business I mean you alluded that the skill business had seen a breakeven this quarter despite that the overall EBITDA is down so what could be the reason?
- N. Ravi Vishwanath:** It is absolutely about the skill business, that business would be let us say Rs.10 Crores to Rs.15 Crores of EBITDA per quarter pre-COVID so that is gone. You take Q4 without that, I think the IT staffing business as we said margins are up, GS has remained flattish.
- Amar Mourya:** And the 36 Crores provision also...?
- N. Ravi Vishwanath:** That is right.
- Amar Mourya:** So in this business also there is a provision right?
- N. Ravi Vishwanath:** The training and skill development business has Rs.36 Crores one time provision.
- Amar Mourya:** Okay so that is the part of -36 Crores. Okay so if I add Rs.36 Crores then basically you are saying the EBITDA was probably up?

- N. Ravi Vishwanath:** That is right. The normalized is about 3.66 versus about 3.7 a year ago, you see it on page #34 of our investor deck.
- Amar Mourya:** I got that and Sir operating asset management business I mean Rs.119 Crores of provision is the part of this operating asset management business?
- N. Ravi Vishwanath:** No. Rs. 83 cores is part of operating expenses.
- Amar Mourya:** Okay.
- N. Ravi Vishwanath:** So, actually Amar again if you go to page 34 of the investor deck you will see the normalized and the difference between the EBITDA and the normalized EBITDA is entirely due to the government provisioning.
- Amar Mourya:** Okay perfect Sir. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Soumitra Chatterjee from Spark Capital. Please go ahead.
- Soumitra Chatterjee:** Thanks for taking my question. Now just couple of questions first is what is the markup per person per associate in the general staffing segmentation trend for FY2021 and FY2020 also and second is in the general staffing segment what is the funding proportion, the collect and pay a is at 73:27. What is the proportion of revenues or headcount, which we are funding the client in the general staffing business?
- N. Ravi Vishwanath:** What we are funding is that 23% Soumitra because we have reduced the funding exposure significantly. It is what you said it is and I do not think as a company we have put out the full associates per month but I can assure you that it is in line with what the industry trends are, we compete in the market actively and the markup at which we operate at currently is absolutely in line with what the industry trends are.
- Soumitra Chatterjee:** Just one question if I can squeeze in is Rs.300 Crores receivables from government if you can split it between Trimax and the government training business? That would be helpful.
- N. Ravi Vishwanath:** Like I said, Rs.100 Crores is from Trimax and then the remaining would be between the skill development and a small portion into other receivables from certain other operating asset management verticals.
- Soumitra Chatterjee:** So Rs.100 Crores Trimax receivable is after the provisioning of Rs. 83 crores?
- N. Ravi Vishwanath:** These are just prior to provisioning.
- Soumitra Chatterjee:** Prior to provisioning of which Rs. 83 crores is already provided, so roughly Rs. 17 crores are still left you mean to say?

- N. Ravi Vishwanath:** Yes.
- Soumitra Chatterjee:** Okay and the government balance Rs. 200 crores of which Rs. 36 crores has been provided so far?
- N. Ravi Vishwanath:** That is right
- Soumitra Chatterjee:** As of today, are we doing those government training businesses or is it completely stopped?
- N. Ravi Vishwanath:** In Q4 as the centers opened up and we were operating at a 50% efficiency of our centers that had actually opened up but again now with April and May getting into specific lockdowns across the country some of our centers have again been shut. We will take stock of the training business again once the wave starts coming down and then we will decide on which centers to open and then get the training restarted again.
- Suraj Moraje:** But Soumitra just to be clear on this. We are not taking on new projects. We are only running existing projects we do have commitments to run them off and we want to make sure that we fulfill our contractual obligations that is what we are doing right now.
- Soumitra Chatterjee:** But my only question is that while the Trimax issue is more or less over that most of them have been provided for in the government business because of this lockdown and all the deals and collectors these provisions can happen in the next few quarters because there will be delays and the auditors might say that some of the collections have gone beyond 120, 150 or 180 days and you may have to provide that again I mean excluding Trimax because it is more or less done. We do not expect that?
- Suraj Moraje:** Soumitra, we do not expect to do, we are fine.
- Soumitra Chatterjee:** Okay.
- Moderator:** Thank you. The next question is from the line up of Abhay Moghe from Bajaj Allianz Life. Please go ahead.
- Abhay Moghe:** Thanks for taking my question. One thing I wanted to understand regarding put option of Tata Sons in Conneqt which is being done in April 2021, was there any sort of charge or amortization or anything that was included earlier in depreciation and amortization, in your P&L and going forward, will it not be there because this deal is done. I just want to check how your depreciation amortization will be next year, will it be far lower because this deal is done?
- N. Ravi Vishwanath:** No. I do not think this deal will have any impact on the depreciation or amortization, Abhay.
- Abhay Moghe:** Second thing I want to understand was your tax rate because of all this goodwill and everything change and obviously 25% tax rate and because of that there was some portion of deferred tax in your tax rate this year as well so how do you see your tax rate say from next year?

- N. Ravi Vishwanath:** We expect the tax rate to be in the 20% range say from next year onwards this is subject to 80JJAA. 80JJAA will have a fairly large base in our overall tax rate and so typically our tax rates would be determined by the amount of 80JJAA benefits that we would be able to claim. So therefore it could be a little out of place to really indicate what exactly would be the tax rate but all I can tell you is, it will be somewhere between 15% and 20% range apart from that there are certain other businesses that are not entitled to the tax breaks of 80JJAA.
- Abhay Moghe:** Okay and last thing that I want to understand, was 73% of workforce management or general staffing is collect and pay so obviously that is a negative working capital but I assume most of your other businesses will be positive working capital. As you start growing, I understand in the opening remarks Suraj mentioned, that you will try to maintain OCF/EBITDA conversion around 70% but do you think there are risks to it as other businesses also grow fast or you think that is manageable?
- N. Ravi Vishwanath:** I think that is a very, very good observation one thing that has actually helped us during FY2021 was the fact that our demand on working capital was reduced on account of operating asset management business as we see all other businesses coming back on and beginning to fire, we do expect the working capital requirements to increase and we have made adequate provisions to take care of such requirements. This is something that we are watchful and we are actually acutely aware of.
- Suraj Moraje:** Abhay having said that 70% OCF to EBITDA conversion I would be disappointed if we cannot maintain it, so you see that Q4 also there was almost 7% growth across all businesses and you saw OCF to EBITDA conversion without any one-timers like tax input or whatever so I would be disappointed if we do not make 70%.
- Abhay Moghe:** That is great to hear. Good job and best of luck.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question. I now have the conference over to Mr. Suraj Moraje, MD and group CEO for closing comments. Over to you Sir!
- Suraj Moraje:** Thank you all for being here today. I am sorry we could not answer a lot of the questions of people in the queue because of time constraints. Those of you who are still in the queue please do drop us an email, get in touch, we will absolutely be happy to engage. I just want to close by saying that we remain very resolute in our purpose. We are very charged coming out of Q4. We think that the businesses have shown their power of execution, the core businesses would have been up 5% year-on-year if not for the food and TSD businesses so we have shown that we have the speed to recover quickly across platforms has been quite secular. Our cash generation like I said has more than doubled in FY2021. It is the best in the history of the company to date. Our net cash position has improved, and we have started paying dividends. We feel very, very charged as a management team about where we are. We are very focused on the way ahead. We

thank you for your support and thank you for your time on the call today. I wish you all good health, stay safe and let us get the economy going again. Thank you.

**Moderator:** Thank you. Ladies and gentlemen on behalf of IIFL Securities Limited that concludes this conference. We thank you all for joining us. You may now just connect your lines.

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(This document has been edited for readability purpose)



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