“Quess Corp Limited Q4FY22 & FY22 Earnings Conference Call”

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MANAGEMENT:	**MR. GURUPRASAD SRINIVASAN – EXECUTIVE DIRECTOR & GROUP CEO** **MR. RAVI VISHWANATH – GROUP CFO** **MR. LOHIT BHATIA – PRESIDENT (WORKFORCE MANAGEMENT)** **MR. PINAKI KAR – PRESIDENT (GLOBAL TECHNOLOGY SOLUTIONS)** **MR. SEKHAR GARISA – PRESIDENT (EMERGING BUSINESSES)** **MR. GIRISH SHARMA – DGM INVESTOR RELATIONS**
MODERATOR:	**MR. VIDIT SHAH – IIFL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Quess Corp Limited Q4FY22 & FY22 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vidit Shah from IIFL Securities Limited. Please go ahead, sir.

Vidit Shah: Thank you, Peter. Ladies and gentlemen, good morning and thank you for joining us on the post results conference call of Quess Corp. It's my pleasure to introduce the Senior Management of Quess who are here with us today to discuss the results. We have with us Mr. Guruprasad Srinivasan – Executive Director and Group CEO, Mr. Ravi Vishwanath – our CFO, Mr. Lohit Bhatia – President of Workforce Management, Mr. Pinaki Kar – President of Global Technology Solutions, and Mr. Sekhar Garisa – President of Emerging Businesses.

We will begin the call with opening remarks from the management team and thereafter we'll open the call for a Q&A session. I would now like to hand over the call to Mr. Girish Sharma – DGM Investor Relations to take proceedings forward. Thank you and over to you Girish.

Girish Sharma: Thank you Vidit. Good morning everyone and thank you for joining our earnings call today. Please note that the results and presentations are already uploaded on our website. Anything we say which refers to our outlook for the future is a forward-looking statement and must be read in conjunction with the risks that the company faces. These uncertainties and risks are included but not limited to what we have already mentioned in the prospectus filed with SEBI.

With that said, I will hand over the call to our Executive Director and Group CEO, Mr. Guruprasad Srinivasan. Over to you sir.

Guruprasad Srinivasan: Thank you Girish. Let me start by briefly giving you an overview of the business.

The business environment remained conducive barring a small pause in January due to Omicron wave. Our major businesses have continued to demonstrate exceptional growth, driving consolidated revenues up by 26% YoY and 3% QoQ basis. We achieved the highest ever revenue of 13,692 crore and EBITDA for the quarter of 185 crore once again, signifying our execution capability.

Our headcount growth was larger, where we closed the year with about 437,000 employees on board. These are our FTEs, growing at 4% QoQ. Please note, this number does not include an additional 13,316 who are payrolled in the month of March, but not on our rolls by end of the month.

Our EBITDA from operations grew by 3% QoQ. Our focus on cash generation continues to remain top priority with OCF to EBITDA conversion at 82% for FY22. However, our long term OCF to EBITDA conversion target will continue to be at 70% going forward.

Our sales engine continues to perform well. We acquired 307 new customers in Q4 versus 249 in Q3'22 and 142 a year ago. FY22 saw our cross-sell initiative across, gradually maturing into a sales culture. It just does not remain as an activity within every business, leveraging our service platform to offer solution to our customers. We generated 70 opportunities across business, 38 existing accounts and 32 from new accounts and generated a potential ACV of 532 crores.

While those were the highlights at the company level, I would now like to take you all through platform wise.

To start with, let's look at the workforce management platform:

The platform posted a revenue growth of 4% QoQ and 28% YoY. EBITDA from operations grew by 17% QoQ and 20% YoY.

The major highlights are as follows:

Our headcount across workforce management crosses 300K and an increase of 4% QoQ and 19% YoY.

General staffing headcount crosses 285K with the growth coming from retail, BFSI, logistic and telecom. And these are the major drivers of our headcount growth in the year.

General staffing added 71 new customers in the quarter and the platform has added 218 logos throughout the year. The value added services continue to grow at and accounted for about 20% of gross margin.

Our sourcing efficiency reached a new level and we have hired 10,000 people internally in a month for the first time, which also demonstrates the kind of efficiency that we have built in terms of our hiring engine, which is one of the critical events into our platform.

Core-to-associate ratio stayed almost flat due to strengthening of our core team in order to drive growth. IT staffing continues to grow, Q4 EBITDA grew by 33%, headcount greater than 10K, gross margin now makes up to 33% of our total associate base against 28% a year ago. With loosening of restrictions in Singapore, our Singapore IT staffing businesses saw an increase of 8% in headcount QoQ in Q4.

Moving on to global technology platform – GTS, which has delivered 20% YoY top line growth and a very impressive Q3. GTS has four service components in it.

First, in customer lifecycle segment - with the rapid growth of Indian consumer demand, a lot of investments are being made, and are being directed towards virtual interactions due to the pandemic, post COVID.

Our CLM business has grown 30% YoY, both Conneqt and AllSec have had a very impressive revenue during the quarter, with Conneqt crossing a milestone of 300 crore quarterly revenue in Q4. We have made several business models innovation in CLM taking more solution selling approach to our services and driving digitization results in our non-voice CLM revenue, which grew by 61% YoY.

Second on non-CLM BPO, the collection business had a very strong Q4 and an impressive revenue growth of 13% along with domestic F&A continuing to be a robust pillar of our non-CLM business. This is a result of our strong Conneqt management team focusing on productizing and digitizing these two service lines over the last few quarters. We are positive about the future outlook on back of strong order book that this team is on.

The third element under GTS is the platform-based services. The number of pay slips processed by AllSec platform for the quarter has grown by 25% in Q4. Our InsurTech platform business in U.S. has also had an impressive YoY growth. We will continue to invest in both sales and technology capabilities in this platform area. We hope that this will help us to expand our margin in GTS further over time.

The fourth element under GTS is IT services. Our Domestic IT services business saw a growth of 53% YoY, as our strategic initiatives in building our infrastructure management service business in India and Canada have started giving good results.

Next, moving on to the OAM platform where the growth has returned with top line growing by 24%. To start with IFM business saw a muted growth due to slowdown caused by Omicron wave. We have continued to reduce our dependency on IT industry and are aggressively focusing on adding customers in other segments and other platforms.

The business continues to make strive on efficiency; process digitization has taken our core-to-associate ratio up to 84 from 70 a year ago. Our cost-to-serve is down to 4.4% from 5.4% from the same period.

Our security business has witnessed a recovery in Q3 with headcount growing by 17% YoY. The revenue grew by 21% and the business added 38 new customers in Q4. As a measure of abundant caution, the segment also took an approximately Rs.11 crore provision under regular business activity in Q4.

Let’s move on to emerging business where the last quarter had witnessed significant progress. As most of you know Monster, our online talent platform, raised capital up to INR 137 crores at a valuation of close to USD 100 million to fund its aggressive growth plans. We have received first tranche of funds and have started deploying the funds from Q4 onwards. Fund raised will be utilized primarily for product development, user acquisition and marketing. Monster’s turned around continues to be impressive and the Company ending the year strongly with sales showing 13% QoQ growth in Q4 and about 70% YoY growth on full year basis. The new customer acquisition broke new ground with over 3,000 new customer contracts in Q4.

Key business metrics like active candidate base is up by 100%. Recruiter searches are up over 144% YoY. Value of renewal rates is up by 80%, continue to grow very strongly giving us the confidence that the business is poised to disproportionate growth going forward.

Overseas markets like SEA, Middle East that contributes to about 40% of the business continued to lead growth which also contributes to better margin profile for the company. We are excited about the potential in this talent management business and Monster's right-to-win in this exciting and fast-growing market. Our disruptive approach on product first culture and attractive ESOP plan continues to help us to hire exceptional talent at all levels, and the future looks bright.

Moving on to Qjobs – we are firmly on path to build India's most efficient blue-collar platform. We had a breakthrough quarter where we added 500K candidates per month on to the platform. Crossed 2 million active job and 5,000 logos of recruiting companies. We are now committed to nurture the platform with scale and make Qjobs a gold standard in this category.

Last but not least, I want to highlight the progress made by Quess on ESG front:

In FY22 over 93,000 employees hired by us enjoyed the first-time social security benefits. We made progress on diversity with women constituting to 29% of our core workforce up from 26%. We disposed almost over 10,000 kgs of e-waste and over 10,000 kgs of paper waste, repaired about 1 million devices, hence prolonging usage of its life. As a responsible corporate citizen, we are a firm believer in giving back to society. In FY22 we renovated infrastructure for 74 schools benefiting 14,000 students and teachers. 13,000 students and teachers were provided drinking water facility. We signed a MOU with CMC Vellore to provide a CSR grant of 15 crores over a period of four years towards building a 350-bed pediatric hospital. That was an overview of the business.

Let me close by saying we are very optimistic about FY23. On the basis of feedback from our customers, and we will continue to focus on our joint goal of achieving and sustaining a 20% ROE while growing OCF at 20% CAGR. We thank you, the analyst and investor community, for your support. I also take this opportunity to thank all my colleagues at Quess and the Board for a great support in my first quarter. Thank you so much, and over to you Ravi.

Ravi Vishwanath: Thank you Guru. Good morning everybody and I hope all of you are keeping well. Before I get out talking about the numbers, I must say that I've never felt more optimistic about the operating environment as we currently see, and notwithstanding the delay in implemented to the labor codes. This is also a validation of the formalization of the Indian workforce is actually gaining momentum. The sentiment we're seeing is strong across all our business platforms though we could be performing better in the Operating Asset Management segment.

Let me now walk you through the financial performance of the company:

Our overall revenue in Q4 grew by 3% compared to the previous quarter and grew by 26% on a YoY basis. All the segments posted healthy growth numbers with Workforce Management, Tech

Solutions and Asset Management platform growing by 28%, 22% and 24% respectively on a YoY basis. Our EBITDA from operations in Q4 improved by 18% on a YoY basis and 3% on a QoQ basis to Rs.185 crores. The EBITDA growth has been slower than revenue growth due to the following reasons. Our growth in the Workforce Management platform led largely by General Staffing business has been faster compared to other businesses. And as we all know, the margins in the General Staffing business is much lower than the others. There has been an increase in SG&A cost due to increased business activity coming back and our own investments in digital assets.

The third reason being lower margin in the Operating Asset Management platform, driven by delays in offices reopening completely and ECL provisions of 11 crores during the normal course of business. Our operating cash flow to operating EBITDA conversion was 76% in Q4 and 79% for the entire year, comfortably exceeding the target of 70% that we have set for ourselves.

Let me move on to segment-wise updates:

Starting with workforce management, our general staffing business continues to grow over 25% on a YoY basis and crossed 285,000 headcounts. Workforce management segment has shown 28% revenue growth driven by general staffing 29% and bolstered by IT staffing 62% and the selection business at 453%. EBITDA has grown by 20%, which is 15 crore in absolute terms, largely driven by Selection, Comtel, which is our Singapore subsidiary, IT staffing and Middle East.

Coming to Global Tech Solution:

The segment has shown a 22% revenue growth YoY driven by Conneqt at 26% and bolstered by Monster 36% and Digicare at 37%. EBITDA has grown by 14% that is 10 crores in absolute terms, largely driven by the InsurTech platform, AllSec and Conneqt. Quarterly EBITDA has seen a decline as Monster cash burn has commenced post capital raise and is as per plan. The impact of Monster on Q4 was approximately 10 crores. We plan to start reporting digital assets separately from Q1’23 to give a clearer picture of the emerging business versus existing businesses.

Moving on to operating asset management:

While the revenue has been flat on a QoQ basis due to delay in offices opening up completely, it has grown 24% on a YoY basis on the back of facilities management and security business. As explained earlier, our Q4 EBITDA has seen a decline due to increase provisions of 11 crores which have arisen due to normal course of business. The profit after tax for FY22 is Rs.251 crores, a 241% increase over last year. The reported PAT for Q4’22 is Rs.77 crores.

Balance sheet updates. The Company has been relentlessly focused on cash collection. As a result, we achieved net cash position of 16 crores in Q4'22 and we have a net debt position of Rs.108 crores in Q3 of 22. The DSO has also been stable throughout the year.

On the corporate structures, our focus on corporate structure simplification continues. You will be seeing a lot more action on this front through the year during FY23.

Income tax. Let me give you an update on the current income tax position. As disclosed earlier, the Income Tax department conducted a survey operation at the company's premise during July'20. The queries during the survey were largely for the financial year 2016-17 to 2019-20. And were primarily related to the manner in which we had deductions under Section 80JJAA and depreciation and goodwill were claimed by the Company post-acquisitions/mergers. Post this, a special audit was initiated by the IT department for FY17-18 and following the issue of the special audit report, the department has now issued a draft assessment order. The draft assessment order indicates that the entire 80JJAA deduction claimed by the company has been disallowed. This is consistent with what the IT department has done with our peers as well. Depreciation on goodwill arising on merger and acquisition has not been allowed. Further, receipts in the nature of reimbursement of expenses from customers reduced from revenue as per Generally Accepted Accounting Principles and Standards have also been added to the taxable income. As per the process laid out under section 144C of the act, the company has 30 days to file objections with the dispute resolution panel. The company intends to vigorously contest its position and the interpretive stances of these sections on merits, including judicial precedents, and believe it can strongly defend this position through the legal process as defined under the act.

Based on the initial prima facie internal assessment, the company has disclosed a contingent liability for 16.6 crores, excluding interest and penalties if any. This estimate will be updated as developments unfold in the future. Assessment of FY19, FY20 return is currently underway, and we will update you as soon as there's any material development to the matter.

Once again, I must thank you for your continued support all through these years. I would now like to open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question is from line of Mukul Garg from Motilal Oswal. Please go ahead.

Mukul Garg: Sir, just a couple of questions from my side. The first one was on the impact of Omicron. If you can just share how much the impact played out for the three verticals during last quarter, because if you look at the commentary, it has consistently remained very positive on demand. So, if you can just kind of help out whether the quarterly weaker growth compared to Q3, how much of that was on account of Omicron and also if you can just help with some thought on how should we think about FY23, compared to FY22 the growth will obviously improve, but can it be very meaningful?

Guruprasad Srinivasan: Sure Mukul. First and foremost, the wave was slightly short than anticipated so that's a good start for us in Q4. We thought it would extend beyond January, but it was limited by and large to January. So, we lost a month and we got about two months to operate. With regard to our workforce management, it did not really impact to a great extent. We had a marginal growth there of about 3%. But this hit however, continued for our OAM platform. Companies that were about to – IT/ITES were supposed to resume work and expansion were to happen that did not really take place, which is why you see a very flat growth there. But having said that done, now we are experiencing our mandate level with workforce management is extremely high and we are having anywhere between about 18,000 to 20,000 open mandates there. Things are quite positive the way we are seeing and the hiring quantum has gone well between BFSI, logistics, supply chain, telecom opening up - a lot of buzz around 5G, manufacturing segment doing extremely well. So, our demands are coming from these quarters. Plus, for Q1 and Q2, we would see some level of growth coming in from OAM as well. So, that's the outlook currently what we have.

Ravi Vishwanath: Mukul if I may add to what Guru said, we have always consistently held the view that we are one of those few companies who can probably say that we will maintain a growth rate between 20% - 25% for the next 10 years. And we continue to live by that and that's something that you can hold on.

Mukul Garg: Sure, appreciate that. The second question was, on the taxation part - the overall tax rate for FY22 was about 28% and that obviously as you guys disclosed excludes the 80JJAA claim which you have done for about 200 crores. So, #A how should we look at what really led to the high taxation this year and second, how should we think about the tax policy going forward especially given that the income tax department is aggressively pushing back and would you like to take any buffer there?

Ravi Vishwanath: As far as the deduction under section 80JJAA is concerned, I don't think our stand as far as the deduction has changed whatsoever, no matter what the department maybe saying, because we do legitimately believe that the stand taken by us and by the industry is absolutely correct. So, I don't think there would be any change in the position in which we have taken it - point number one. Point number two - therefore we will factor for 80JJAA going forward as well. The tax in the current year has been slightly more on account of the tax that we had to incur in Manila, the foreign tax credit that we had to write-off that we incurred in Manila when we declared dividends from Manila and we got the money from Manila into India, that was a one-time tax charge that we had to take. And thirdly, we had been a little more conservative on the deferred tax asset creation as well in the current year, which has led to a slight increase in the tax rates. Going forward, pending certain corporate restructuring, et cetera. I would say anywhere between about 15% to 18% would be an appropriate tax rate for us to take.

Moderator: Thank you. Our next question is from the line of Sanjay Awatramani from Envision Capital. Please go ahead.

Sanjay Awatramani: Sir you have given this 15% to 18% of tax rate so this will be from FY23 - this year itself?

Ravi Viswanath: Yes, it will from FY23 onwards.

Sanjay Awatramani: Okay. And this 20% to 25% growth which you have mentioned this is for revenue and profits, or what is this exactly 20% to 25% for next 10 years?

Ravi Viswanath: That's the revenue growth.

Sanjay Awatramani: And anything on margins if you can help us with that?

Ravi Viswanath: I am going to refrain from commenting on margins. So, you can probably estimate what the margins could be, because we definitely, we work towards improving our operating leverage on a YoY basis.

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

Raghuram N S: This was a question for Ravi. Ravi you just mentioned as part of your opening remarks, saying that going forward we will see more simplification of the corporate structure of your various subsidiaries under Quess. Can you please elaborate on that, is there anything that we should be expecting as to what will unfold?

Ravi Vishwanath: We currently have merger of three, four of our wholly owned subsidiaries underway with the NCLT. That's currently in the process. We are evaluating simplification of corporate structure of some of our overseas subsidiaries that we have, we definitely want to simplify that. We will not be able to comment on anything else apart from this at this point of time Raghu.

Raghuram N S: Okay. Because this will be in one of the questions that has been obviously on the investor's to do list for a long time. At some point of time when you guys feel it appropriate, you should come out with a overall kind of, you want to have two subsidiaries or three subsidiaries or you will say that the one company will be the main Company for every operating stream that you have, like what you have for GTS or what you have for WFM or OAM, those kinds of things.

Ravi Vishwanath: Sure. That's good idea we'll definitely consider that Raghu. Thank you.

Moderator: Thank you. Our next question is from the line of Sidhant Mattha from B&K Securities. Please go ahead.

Sidhant Mattha: My question is to Ravi. We could see some pressures in OAM margins as you alluded to that 11 crore provision taken for the normal course of business, since you have a food business, which is a very high margin business and we are seeing schools and everything going back to normal. So, what expectations are there from the food business because it's a very high margin business and especially because it drives the OAM margins also. So, that was my question.

Ravi Vishwanath: You're absolutely right Sidhant, the food business is definitely a high margin business for us. Q4, again it was slightly impacted with the Omicron wave, because some of the schools and colleges really opened up only in month three, not in the first two months. So it did impact us considerably in Q4 and even during the year. We do believe that the food business should come back quite strongly in FY23. It is a high margin business for us and some of the provisions that we took are the normal course of business with regard to certain other dues on which we had some delays in collections. So, we should be able to put this behind us and get back to doing business as usual going forward from Q1 onwards.

Sidhant Mattha: So, basically we can assume the margins to go back to pre-COVID levels or there might be some pressures in FY23 onwards in FY23 also?

Ravi Vishwanath: Our intent is clearly to take the margin back to pre-COVID levels as far as OAM is concerned. We do see some headwinds in the particular business, but we are working around it.

Guruprasad Srinivasan: Just to add Sidhant, specifically to OAM, we also have our own homework to be done. So, #A we are shifting our - for example there are direct and indirect businesses that we do, like indirect, where we work with the larger players, are secondary. So, we are reducing exposure to our indirect and becoming more direct. Second, our acceleration in sales has to increase in that business which we are putting all effort to ramp up our sales team, because our dependency from IT sector will have to completely taken off, which was almost about 35% of our exposure to IT. And considering partial working or hybrid way of working, the things are going to change. So, that is another set of activity that we are working for ourselves. Plus, we are bringing in a lot of digital initiatives which will enable us to bring our SG&A cost down. These are site management or site survey, where we may not deploy to many people, but how can we do it much more efficiently and cost it right and cost it well, much quicker, faster to our customer. So, these are a few things that we are putting together to ensure as and when we step into this financial year. It's going to help us to accelerate this business better. And the second element under OAM is Terrier, which is our security business. We have done some changes in leadership there and that's going to fire well for in this financial year. So, there are a few homework for us to do, which we have already started implementing for this year to embrace well, the way market reacts to us.

Sidhant Mattha: Okay, thank you. And my second question is regarding - during our conferences and analysts day also and on your calls also you have mentioned that the GTS business contributes to maximum percent of your margins. So, we could see this time that the GTS business, excluding the emerging business was doing very well, but there was some loss on the emerging business side on the EBITDA front. So, were there some one-offs here or do we expect some loss in the near term because we are increasing our digital investments?

Guruprasad Srinivasan: That's a planned number what you're seeing Sidhant, it's part of the investment. We have raised capital specifically for Monster and we are deploying those funds for marketing and the product development, so it's a planned activity.

Moderator: Thank you. Our next question is from the line of Sandeep Baid an Investor. Please go ahead.

Sandeep Baid: My question is on depreciation - on a quarterly run rate basis now it is trending above Rs. 200 crores, even if you exclude amortization, while your net block is about Rs. 500 odd crores. So, if you can give some color on that and what is it likely to trend going forward?

Ravi Vishwanath: It should be in the range of what we have declared in Q4, it could come down slightly. I don't think it'll come off dramatically lower than that, there could be a slight lowering of the numbers going forward, but it will not be very different actually.

Sandeep Baid: So, Ravi how much is the addition to our gross block every year?

Ravi Vishwanath: The addition to gross block would be near about 60 to 70 crores a year. And this what we see is largely on account of certain large premises leases that were renewed in Q4 and this is the IndAS accounting standards which got amortized some of those rentals.

Sandeep Baid: Okay. So, out of the Rs. 64 odd crores for this quarter, how much would be on account of IndAS?

Ravi Vishwanath: About 6 to 7 crores will be on account on IndAS actually.

Sandeep Baid: Only 6 to 7 crore?

Ravi Vishwanath: Yes.

Sandeep Baid: 50 crore is normal depreciation as per the old account.

Ravi Vishwanath: Yes, exactly.

Sandeep Baid: So, Ravi so this does not add up if you have 50 crores of normal depreciation that means about 200 crore annually and you are adding a gross block of only 60, 70 crores a year. So, somewhere the numbers are not adding up.

Ravi Vishwanath: We also have the goodwill, et cetera which we actually amortize so we have intangible, we have fixed assets, with all of these put together.

Sandeep Baid: Amortization and goodwill is separate, which is 8 crores or so right?

Ravi Vishwanath: Yes.

Sandeep Baid: That is separate, I'm talking about only the depreciation part if I remember correctly it's 54 crores for this quarter, and if you remove the 6, 7 crores on account of IndAS then you are left with about 48 crore which annualized will be +190 crore, while your gross block addition is only 60 to 70 crores.

Ravi Vishwanath: So, I am not able to understand the question, so let me just take it offline with you, because this is actually in line with the asset block which we have and the incremental amount that you've seen in this quarter is on account of the new lease rental that we have signed.

Sandeep Baid: Fine, Ravi I'll take it offline with you.

Ravi Vishwanath: I'll take it offline and we will clarify it, not a problem.

Sandeep Baid: And secondly, we were targeting 20% ROE by the end of FY23. So, just wanted to check whether we are on track for that?

Ravi Vishwanath: Yes, we are on track for that. That's actually without the burn in Monster, we are on track with the 20% ROE.

Sandeep Baid: So, you are saying that sometime in the second half of this financial year, we should hit that target - is that what you are saying?

Ravi Vishwanath: Yes. Because like I said, Monster would be, we raise capital in Monster for increased expenditure on product development, sales and marketing for the year. Those expenses excluded, we will be able to get to the 20% ROE number.

Sandeep Baid: Right. And lastly, any update on fundraising for Qjobs, you were working on that?

Sekhar Garisa: So, we continue to work on that, we had a fantastic year for Qjobs and the Blue-Collar asset platform in terms of performance, and we have some interesting conversations happening with prospective investors. So, we'll keep you updated on that. We have a lot of inbound interest, but the process is going as per planned.

Moderator: Thank you. Our next question is from the line of Nilesh Jethani with BOI Mutual Fund. Please go ahead.

Nilesh Jethani: Two questions from my side one on this 80JJAA. So, want to understand how did we arrive at this Rs.16 crore contingent liability and what was the 80JJAA benefit which we availed in FY17 to FY20?

Ravi Vishwanath: Sure. The 16 crore of contingent liability was arrived at on the basis of what we call a PPR study of the draft assessment order. The PPR is basically where you do a probable possible remote assessment of the different items that it consists of and this is that on a conservative basis, we felt that Rs. 16.6 crores is probably the liability that might come up. This is a very, very conservative estimate that we have done and some 16, 17 till 2021 the total 80JJAA claim of the company is in the region of about 700 crores.

Nilesh Jethani: Okay. So, 700 crores which we claimed from FY16 to FY20 so broadly 30% basis number will work out to be much larger than the 16 crores number?

Ravi Vishwanath: No, this is only for the particular year for which the assessment order has been received. Even here, we do believe that our claim is absolutely valid and legitimate and has been backed by legal opinions of experts in the field.

Nilesh Jethani: Okay. Because when I see our effective tax rate, so for 16-17, this works out to be in the range of 30% - 34%, and only in 18, 19, 20, where 18, 19 tax rates are in the range of 3% and 10%. Even if I include these two years number, then also the tax paid expected comes out to be a much larger number than 16 crore. So, wanted to understand as the number seems to be too conservative to be included as 16 crores in contingent liability, is the assessment right?

Ravi Vishwanath: No, so the way to look at it is, the total liability we do have MAT tax payments in those years also, right. You have not considered the MAT tax which we have paid. So, after adjusting for the MAT tax payment of 41 crores in '17-18, the differential amount is about 16.6 crores.

Nilesh Jethani: Okay, got it. Second question was on the investments into Monster. So, when I see our GTS business EBITDA, ex-emerging businesses, the number is pretty high. But when we report it on a consol basis, when we include the emerging businesses, Monster, Qjobs, et cetera, the number seems to be slightly lower, so on a quarterly run rate sometimes it is 8 crores also effective Q4. So, want to understand, how should we look at this expense going ahead, any guidance on this or any color on this what are we intending to expense on the emerging businesses to understand the steady state margin for the GTM business going ahead?

Ravi Vishwanath: You are absolutely correct. Like I said earlier, we will be reporting emerging businesses separately from Q1 onwards. So, that should give you a clear picture of what the burn is in such businesses and how the existing businesses are performing on a regular basis.

Nilesh Jethani: Yes, I want to understand what the burn would be, what is the incremental expenses would be per quarter, per year, going forward into emerging business any color on that?

Ravi Vishwanath: I can talk about the burn that we had for Q4 was about 10 crores. For the total year, for FY23 we expect the total burn, including ESOPs et cetera, could be in the region of about 110 to 120 crores.

Moderator: Thank you. Our next question is from the line of Rushikesh Bhise from Money Works For Me Financial Advisors. Please go ahead.

Rushikesh Bhise: I just had a question that in this forgone quarter, we have seen a change in the management wherein we saw the CEO resigning. So, I just wanted to ask, is there any change in the strategy by the new management that has come in with a new CEO, is there a new strategy that is in place or is it more or less the same?

Guruprasad Srinivasan: So, Rushikesh thanks for bringing this up. We had set our goals under three elements of Quess, starting from customers, people and investors. So, there's no change, because whatever we have committed - 20% ROE, our OCF growth remains same and as part of our investor meeting on

29th, we have reiterated the fact. So, there is no change in strategy or there is no change in goal, all of that remains same. At the moment what we are doing is #A we are continuing to stay committed on all the parameters that we have put across plus incrementally we are working on the growth. In workforce management we are setting up the growth plus we are setting up the new future kind of streams like manufacturing, where we are penetrating more, construction is another area where we are putting our efforts. So, overall strategy remains and we are continuing to focus on our growth.

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

Vidit Shah: Thank you. If you could share some light on the margin expansion in workforce management, the margin expansion is healthy YoY but even QoQ, it's better than what we had anticipated so what exactly has been the driver of this improvement?

Guruprasad Srinivasan: Vidit one of the key driver there is our selection business, while overall technology business is doing well. As part of the great resignation, we have seen a fantastic traction coming up in our selection business, which has grown phenomenally well and boosting up our margin. In fact, just to give you whatever we used to do annually in terms of EBITDA for the business, we have done it in one quarter. So, that has driven the margin expansion there. Lohit you want to pitch in there?

Lohit Bhatia: There will be four things that you'll have to see as far as WFM is concerned, whenever you see a margin trajectory, the first is where is general staffing going. In general staffing, we have ben repeatedly saying that we are putting immense focus on our value-added services. Today value-added services, good to report that in Q4 FY22 that we exited, is already at 20%. So, while general staffing is a low margin business overall, but that continues to give us a better bottom line. The second thing is like Guru rightly said, we immediately realized about post the first year of COVID, that there is a huge amount of tech spend happening and we refocused both our IT staffing team as well as our IT selection and recruitment business. And under the two leaders Kapil and Vijay, we've had immense growth there in that business as well. In IT staffing we've expanded on the higher margin digital and niche segments which today contribute 33% of our entire high margin product, as well as, like Guru also rightly mentioned that we've doubled our overall EBITDA from this book which is IT professional recruitment and professional staffing. The third element for WFM always would be the color coming out of APAC and within APAC our largest unit is Singapore. As also mentioned in our commentary and the investor deck, Singapore has opened up in Q4 and that has been good for us. The steady state growth both on improving margin trajectory in Singapore as well as new headcount additions, and new visas, which are being allowed in Singapore is definitely beneficial for us. So, that's overall how WFM trends on these products and for each of the business units, those are important parameters that they are following.

Vidit Shah: Understood. And just staying on with WFM, we have seen like a 4% QoQ headcount growth, and a similar growth in revenue. So, when can we expect to see some sort of wage inflation kick in and what's the impact on margins for associate as such like how is that trending this quarter versus last quarter?

Ravi Vishwanath: Wage inflation should not really impact the general staffing business because we follow a cost-plus model. And in most cases our margins should be able to take care of some basic wage increases, but if the wage increases are very substantial, we also go back to our customers and speak and increase our own fees that they have to pay to us.

Vidit Shah: Understood. But just, I agree that it's a cost-plus model. So, are margins per associate stable QoQ and should we expect similar levels in FY23 as well, or will there be some sort of improvement given the strong demand witnessed across?

Ravi Vishwanath: We are always constantly working towards improving our margins. Even if it means 10 basis points, 20 basis points, whatever it is. Given that we have such low base to work with, we're constantly working towards improving our margins in the general staffing and across all businesses that we operate in. So, therefore, you will see some amount of productivity kicking in and margins going up over time and that's an operating leverage that we have developed over time.

Guruprasad Srinivasan: See one key indicator there is our core-to-associate ratio that we constantly keep a tab on. And if you see, we have phenomenally grown well there, we are about 1:428 and that also explains the kind of digital intrusion that we are doing into the platform to reduce our SG&A cost. So, the cost to serve would be a focus always.

Moderator: Thank you. Our next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Sir, my first question is on - so you have spoken about clients in the IFM segment about 20-odd clients in this quarter and 27 new logo addition in GTS per se. Generally, as a trend I wanted to understand how to read these clients, when per se at least in the context of this OAM busines. Should we think of each client can scale through an X amount of headcount per se. What would be that aspiration number, for a client that we usually win, any perspective that you can share?

Guruprasad Srinivasan: Sure. The way to read this is, #A there is a new contract that we sign. So, when we are putting those numbers, that many number of individual contracts that gets signed. Now, the way it works in this industry is, the moment we sign a contract there will be some level of deployment that would be there, not necessary that we start with a 100% from day one. So, there will be partial deployment and these would nurture over a period of a quarter. So, for example, whatever we have signed in 148 contracts last year, they would actually start coming into full blow, after say six to eight quarters. That's how it is to be read. The number of incoming contracts will tell us the quality of revenue that is going to come over quarters to us. So, that's how we measure and there will be few contracts which will ramp up quickly and there will be few contracts which will gradually come into, but these are kind of hard coded order book for us. So, that's how we read internally.

Shyam Sundar Sriram: So, is there any average head count per contract that we, we usually look at on a per contract basis?

Guruprasad Srinivasan: Not really because each platform would have its own measurement for this, for example, when it comes to workforce, there will be an average headcount that we would be looking at. But when it comes to facility management, we'll be looking at the number of square feet that we are adding, when it comes to GTS, we will be looking at the number of seats, customer life settlement, number of seats that gets occupied. So, the measurement is different by business. We will be happy to take you through in detail whenever we can meet.

Shyam Sundar Sriram: Sure. The other question is on the OAM provision. While you did talk briefly on that, there was a 340 bps provision - what was it related to, sorry I didn't quite fully understand that part?

Ravi Vishwanath: These are related to certain old projects that we were continuing with some of the industrial and some of the other infra projects, et cetera. When we say infra, this is not Trimax, such other projects that we were actually operating in, where there have been slight delays and out of abundant caution and prudency, we have considered a small provision in the current quarter.

Guruprasad Srinivasan: So, these typically will not be a write-off, these are kind of expected credit loss that we take. As and when we work on it and recover, this will also be written back soon.

Shyam Sundar Sriram: Okay. So, this is for some certain infra projects?

Guruprasad Srinivasan: Correct.

Shyam Sundar Sriram: Understood. Sir, one last question from my side, sir so you did give this 80JJAA claim that around 700 crores per se that we have seen, so similar to your probabilistic assessment that you have done for FY18, what would be that similar amount if the claims were to come for the remainder years as well, just to hazard what could be the maximum amount that can come as claims?

Ravi Vishwanath: We haven't done that exercise Shyam we will probably get it done and probably share that with you sometime. We focused our attention only on the draft assessment order for 17-18 right now.

Moderator: Thank you. Our next question is from line of Alok Deshpande from Edelweiss Financial Services. Please go ahead.

Alok Deshpande: First question for Ravi. Ravi, I just want to understand this tax assessment a little bit better, what is the real bone of contention here, is it the fact that reimbursements are getting added to the salaries when the associates are getting paid, is that what is creating that different perception in interpretation or is it a couple of more dynamics to this whole concept?

Ravi Vishwanath: The prima facie disagreement that we have with the department is that the department believes that these associates are not our employees. So, therefore, we should not be eligible for the claim per se. That is the prima facie disagreement that we have. Then you have the other - the Rs.25,000 a month average salary, reimbursements, the second and third year claims and so on and so forth. But the prima facie disagreement is on the fact that they believe that they are not our employees. We have every reason to believe that they are our employees because we are the legal employer in record. We pay provident fund, we pay ESI, we take care of all the retirement benefits like gratuity, et cetera. And we have made out a very strong case which has been supported by very, very strong legal opinions Alok.

Alok Deshpande: Ravi, just the fact that you are paying gratuity, provident fund that alone should, shouldn't that suffice in most cases, for any permanent employee?

Ravi Vishwanath: That's what even we thought but obviously they are probably chosen to look the other way. I would say they've actually chosen to look the other way and just stick to whatever they said that's it. And in a way it has now become an industry issue and so we will probably take it up at the appropriate forum and get this issue addressed suitably.

Alok Deshpande: Sure understood. And my second question is, regarding general staffing. So, we'll be targeting about 18%, 20% growth there. So, essentially about a number between 55,000-60,000 associates to be added next year or this year rather now. So, can you share some color on what are the sectors that you're most optimistic on in terms of getting these additions this year?

Ravi Vishwanath: I will actually let Lohit to answer it.

Lohit Bhatia: Good morning everyone and thanks Alok for that question. What we have to take in context is, Q1 this year at least after two years has started on a much more positive note. If you remember the first quarter when we were hit with COVID for the first time and there was a lockdown, there was almost a 14.5% headcount reduction which translated into some 40,000 people loss. Last year, we barely grew because of delta wave, in spite of delta wave we grew by about 2000 headcount. This time Q1 has opened with a lot of robust color from across industries and segments as Guru was mentioning. Some of the ones which we are very bullish about is manufacturing and industries. We doubled the sales team and made a huge investment in the year gone by, in fact our sales team today is twice the size of the sales team, we had just six quarters ago and it is 55% more than what we had four quarters ago. So, there is a huge investment in that. Second, as Guru mentioned that there is construction, we are focused on that industry in a big way. The third is Telecom, which is already a large industry for us, and growing very well for us. The fourth for us is e-com and logistics, which again Quess plays a huge role in e-com and logistics and we are growing significantly there over 40% in this year itself. The fifth, which we are extremely bullish, and we are thankful is that retail is coming back. And if you remember, for the last eight quarterly calls, I was saying we are waiting for retail and consumerism to come back. So, we are very, very happy that retail is also back to the party. So, these are the sectors that we would remain bullish on, on a medium to long term I would continue to personally watch out for manufacturing and industries because that with PLI, with what the government is doing, with lower tax rate in India, all of those things and labor code as Ravi spoke about, all of these are potentially very high beneficial segments for the staffing segment.

Alok Deshpande: Digital one on this e-commerce are you seeing any signs of any pullback in starting count there given what's happening in the whole funding winter coming along and all those things?

Lohit Bhatia: So, good question, you'll remember from our various past years, we've been mentioning that we don't operate too much in early startups, which are still on pre-funding series or angel investment or series A or series B. When I say e-commerce, logistics and all we actually work with the country's largest, we work with the globe's largest. And our focus on customer acquisition has been, in fact, there are three levels of checks which happen before a customer actually gets added to the workforce management platform or for that matter any platform within Quess. We do a huge amount of due diligence. We don't go after a lot of small startups so at the moment, we don't see that as an issue. For our Quess IT Staffing Business and Quess Permanent Recruitment Business in Information Technology - in some ways, we feel that the supply side which was constrained could possibly give us more candidates and we'll be able to help navigate the great resignation which is happening. So, in some ways, it could also be positive for us in times to come.

Guruprasad Srinivasan: Overall Alok, overall, our exposure to startup is extremely low as a group.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. And, I would now like to hand the call back to the management for closing comments.

Guruprasad Srinivasan: Great. Thank you so much. Thanks for joining us and all we can say we are quite optimistic in terms of what we are hearing from our customers and the kinds of experiences that we are going through in terms of things opening up across. So, look forward for an upcoming great quarter and look forward to talk to you all and meet you soon. Thank you.

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

(This document has been edited for readability purpose)

Contact Information

Investor Relations:

Girish Sharma, DGM Investor Relations

Email: girish.sharma@quesscorp.com

Registered Office:

Quess House, 3/3/2, Bellandur Gate, Sarjapur Road,

Bengaluru-560103, Karnataka, India

CIN: L74140KA2007PLC043909