"Quess Corp Q4 FY2020 Investor Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Quess Corp Q4 FY2020 Results Conference Call hosted by Axis Capital 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. Aditya Bagul from Axis Capital Limited. Thank you, and over to you, Sir!

Aditya Bagul: Thank you, Ayesha. Good afternoon, everyone. On behalf of Axis Capital, a very warm welcome to the Q4 FY 2020 Earnings Call of Quess Corp. The management is represented by Mr. Ajit Isaac, MD and Chairman; Mr. Suraj Moraje, ED and CEO; and Mr. Ramakrishnan Subramanian, CFO. I shall hand over the floor to Mr. Ramakrishnan for the management's opening remarks, post which we will open the floor for Q&A. Thank you, and over to you, sir.

Subramanian R: Thank you, Aditya. Good afternoon, everyone, and thank you for joining our earnings call today. Please note that the results and the presentation have already been uploaded on our website. Anything we say, which refers to our outlook for the future, is a forward-looking statement and that we must read it 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 Chairman and Managing Director, Mr. Ajit Isaac. Over to you, Ajit!

Ajit Abraham Isaac: Thank you. Good afternoon and thank you all for joining this call in spite of the difficult situation that we are all part of. My colleague, Suraj, our CEO; Ramki, our CFO; Guru, our Head of India Operations; and Lohit Bhatia, President of our Workforce Management team, are here with me for this call.

Sitting here in Bengaluru, I know that we are particularly lucky compared to many other parts of the country. To all of you who are in Mumbai, and on this call, despite the tough external situation, you have our respect and admiration.

After being in the employment and jobs business for about 30 years, I realize that this is a one-in-a-generation moment, and not everything can be planned for. However, there are some things that we must do as a management team, some things that we can do and there are some things that we can do and hope for the best. At Quess, we have taken a number of decisions in the last few weeks to mitigate the situation caused by COVID-19, and we are hopeful that we will come out of this experience as a stronger company.

Over the call today, we would like to present the actions we have taken, its impact at Quess and what we see coming up. Largely, the narrative will be in 3 parts. The growth in our operations of the company and its P&L, where we have done remarkably well to grow revenues by about 13% the last year and EBITDA by about 42%. Second, focus on our cash flows, where our OCF has gone up by 16% and DSOs improved by 7 days from 69, in addition to the balance sheet, where we have addressed some of the risk that COVID represents and where we wanted to be prudent in valuing our assets to reflect possible market conditions.

As a result of this, we have had some onetime noncash impact items. The most significant issue at Quess is how the business model has helped us to stay resilient and how our management team has worked extraordinarily hard in the last 2 months to make sure that we come out of this as a much stronger company. I am happy to note that there is a refreshing newness to the way we address issues, and this has reflected in the decisions that we have taken to meet the challenges of COVID-19.

I would now like to turn it over to my colleague and CEO, Suraj Moraje, who has done a terrific job in his first few months at Quess. Incidentally, yesterday was the first day he attended office after being a CEO for more than 45 days. He will now give you an overview what we have done and the steps that we have taken to meet with the challenge and the larger plans for the company in terms of how we are charting the future. Suraj.

Suraj Moraje: Thank you very much, Ajit. Good afternoon, everyone, and thank you for being here on what is my first call officially as a CEO, and I hope the first of many to come. I want to start off by saying that I hope you and your loved ones have been well over the past months. As Ajit said, for those who are in Mumbai, our thoughts are with you. I am a son-in-law of the city, and having spent many years that I am confident that this too will pass and the Mumbaiker spirit will prevail in the end, but I know these are tough times.

Let me start by saying that Quess delivered a very strong FY20. The headcount was up 21%, revenue up 29% and EBITDA up 42%. The company is focused on OCF generation, cross grow OCF by about 34% on a normalized basis and we are especially pleased by the growth of General Staffing and Allsec businesses, and I am sure you've seen some of those results. It was clear to us by the end of Q4, and it is difficult to believe that it was just a couple of weeks after our March 5 Investor Day. But it was clear that COVID was becoming a pandemic. We saw the impact first in Singapore, then the Philippines and as a company, we moved quite early actually to take some very resilient steps to dealing with the situation. As Ajit said, to ensure we emerge from the crisis even stronger as institution. If anything, I think COVID has given us even more execution focus against winning together priorities that we articulated on March 5, including growing our OCF by 30% year-on-year and achieving a ROE of 20%.

I will talk a bit more about that subsequently. But given that, I guess, the most recent months are likely to be top of mind for each of you, let me first cover the actions we have taken over the last 2 months since the beginning of the COVID pandemic in India and lay out where we stand today.

Our first reaction, I think, when we realized it is mostly around, probably, March 20 that COVID was becoming a big issue in India, was to first secure our employees and our associates and put in place BCP. We were lucky to learn from our presence in Singapore. We immediately moved to adopt protective SOPs. In many cases, our customers actually asked us to help them with keeping their employees safe, procuring sanitizers, sensors. Even in some cases, Magna helped our customers move their desktops home, so they could keep working and we moved ahead of industry to work from home. We were extraordinarily well prepared to process salaries and close invoices because we moved to work from home even before the Janta Curfew. At this point today, I am happy to say that all of our associates, core employees have access to telemedicine and emergency helpline. As we reached out with our customers, we have actually built the capability to have each and every one of our employees, associates log in his or her health digitally, every day before leaving for the office, and we do track it as best as we can.

In addition to securing our employees, we focused on 3 things, and we formed 3 task forces very early on towards the fourth week of May. One task force around customers, one task force around cost and one task force around cash. Let me talk about each of these in brief.

I will talk about customers first. Our customers have been a pillar of our strength in these times, and we have been blessed. We have been blessed that we have one-third of India's Fortune 500 companies amongst our customers, the best brand names across sectors. Our downside has fortunately been somewhat protected by our limited exposure to tourism, entertainment, airlines, hospitality. We are lucky to have had no exposure to SMEs. We do not have gig or daily workers on our payroll. Also, we observed that coming into COVID most of our associates on our rolls are actually not on seasonal peak demand. They were mostly on perpetually outsourced and frontline tasks, which at least so far, our experience says have been less affected than some other tasks and activities.

CMI data today tells us that about 120 out of India's 250 million workers in the non-farming sector lost their job through April. That is almost 50% of the total stock. I am sure all of you are expecting that, as India's largest employers, we would be impacted, and we are. I am blessed today to report to you that the impact-to-date on us has been far less than feared. Our employee count through April was around 5% down from our February number at 365,000 employees. The future is very hard to predict, and we do not want to put bets. But at this moment, our line of sight is maybe similar decline in the month of May and in the month of June.

I want to emphasize at this point that each business is working especially hard to make sure we gain in market share for the recovery. We believe that crises are times when market leaders will consolidate even more. We believe formalization is going to set in even more with the coming in of the new labor laws. We believe customers are seeing the difference between the adults and the children and service providers and the gulf is growing bigger.

Each business has defined post-COVID service lines with technology embedded in them, defined target verticals, target customers. We have got new collaterals that are pushing very aggressively through traditional and LinkedIn-based channels. We're driving new client outreach very aggressively now and monitoring it closely. In April and May, so far, we have on-boarded 38 new logos in workforce management, more than 12 marquee customers in operating asset management and 3 new customers in global technology services. Wherever possible, we are also transitioning. Again, we feel blessed to say that we have transitioned, facilities, management and security services for the Golden Temple in Amritsar. We have used the downtime to train employees. So far, we have conducted about 35,000 training sessions across our group.

So that is the summary of what's happened on the customer side, 5% down in headcount through April, with similar line of sight for May and June.

I will come to cost. We have been surgical with our costs. Our indirect costs in April were about 20% lower than the baseline of our Rs.65 Crores per month, just 2 months earlier. I want to put this into perspective. The savings we achieved from February to April has been the same order of magnitude as the monthly EBITDA delivered by our largest business, General Staffing. We are working to ensure this translates into a structural reduction in cost base of at least Rs. 60 Crores per annum. The measures we have taken include – we served termination notices to 15 of the 58 buildings we currently occupy across the country. We are automating large force of our compliance management. We are renegotiating travel expenses and changing policies, so that everyone, including Ajit and myself, use Rs. 999 rooms when we travel. We are switching to e-invoicing as a default for all customers, which will save about Rs. 40 lakhs of courier services every quarter. We have been very detailed and very meticulous in tracking what cost we believe we can save. For us, as much as the cost saving, we believe these actions will build back our muscle as a low-cost organization. It takes us back to our meeting on March 5, 2020 on what we discussed and where we need to be. I want to reassure you that we have also made contingency plans to say, should we have a sustained economic downturn, should our FTE numbers fall below what we're expecting, we will variabilize further direct/indirect costs, and we will watch our numbers very carefully.

So that was my update on cost. I spoke about customers. I spoke about cost. Let me now come to cash. Cash is the currency of the moment. I want to assure you that the company's cash position remains comfortable. I will start off by just saying that we are blessed and the third time I am using blessed, I know, but to be in the business services industry.

This is an industry which globally is known to be countercyclical in cash generation. If we reduce FTE, what actually happens is the working capital that we lock in associate salaries comes down and we release cash back to the company, and you will see in the last couple of months many of our peers in North America and Europe have actually gone on buyback sprees, utilizing the cash that's come back and been unlocked from working capital. So that is the context of the industry we are in. Again, because of the quality of our customers, March collections were on track, which enabled us to pay salaries to our associates earlier than normal. That is the reason why we reported a normalized OCF.

April collections have been a bit different from March, given some inconveniences our customers faced during the lockdown, but the spillovers have mostly been collected. We expect no defaults. We are working extra hard to bring down receivables. We have launched task forces against government receivables, nongovernment receivables and as I will explain in a bit, we are also adjusting our portfolio and specific business strategies to reduce our exposure to low OCF businesses as we promised on March 5. Overall, our interest levels remain serviceable. DSO is under.

Now having said this, some businesses have been more impacted than others. I would like to give you a flavor of what impact COVID has had on our key businesses today.

Let me start with the Workforce Management Business and General Staffing. Overall, associate headcount in April was also down about 5% from the pre-COVID business. About half of this just came from attrition on pre-COVID period resignation. We do expect a similar decline in May. We are hoping the impact on June is too early to say. On the one hand, we think that slowing parts in some customers could result in a further slide. On the other hand, we are hoping that the unlocking of the economy, replacement hiring for migrant workers will give us a boost in new mandates, especially the 38 new customers we have on-boarded.

What we are seeing also is in many of our customers, while some pockets of skill demands are coming down, other pockets are going up within the same customer. We are hoping there will be some offsets, so we do not want to make forward-looking commitments at this point. I also want to say that there has been a decline in associate incentive payouts in April during the lockdown, which is mostly pass-through for us, but that does impact our top line. It should bounce back as economic activities rebound. In the short term, we also anticipate some pressure from customers due to change, maybe contractual conditions, given the own pressures that they are facing. But to date, this has been manageable and largely done in way, which are reciprocal and only for our large loyal customers, and so it has been largely under control.

Moving beyond General Staffing, IT staffing is largely on plan. We are seeing some softness and deferrals in new hiring, especially in lower and BPO segment, but I would say largely on plan. Comtel in the Middle East. Comtel had some early hits in Singapore, but now seems to be, again, largely on plan. In the Middle East, we are working very closely with the e-commerce companies, and we are seeing a lot of tailwinds from there.

I want to spend time a bit on Excelus. Excelus revenue fell to 0 in April, as training centers shut during the lockdown. We are awaiting permission to restart. This business has a cost base of about Rs. 15 Crores. We are working to bring that down. We expect that to come down by Rs. 10 Crores by May. As I will cover later, we are working to reengineer the OCF profile of this business in this year. We are hoping for dramatic differences there by reducing our exposure to the government business.

Moving from WFM to OAM, I will start with facilities management. This business did reach a milestone of sorts by hitting a headcount of 50,000 FTE by end of March. Look, overall, we are very bullish about our OAM business. We believe this business will greatly benefit in the medium-term from the dynamics we are seeing. Companies are paying much more attention to quality of sanitation. They are coming to realize that larger players deliver better and this accelerated formalization and flight to quality, we are seeing, will create huge tailwind for this business.

While we expect some shrinkage from work from home in the medium term, some of our customers are announcing it, we do think that formalization will offset that. In the long run, we will see growth in this business. There have been a couple of temporary headwinds in this business. One is the food business in offices and education institutions, down because of lower traffic and closure of educational institutions. The second is some margin pressure because our customers are all rationalizing costs, and they want to rationalize the site of onsite team. Again, at this point, these are rounding errors, not something to worry about.

We are doing a lot to compensate this with new service lines. So as of May 30, we are about 10 million square feet of steri fumigation. About 120 new clients came in through steri fumigation across hospitals, banks, oil and gas and eminent education institutions. We do see some momentum there. I do want to make a remark here, which is we want to see more growth in the business going forward. We are investing in it. We have brought in additional sales capacity, organizational capacity to drive this, and this is a priority for us to do.

Moving on from facilities to careers, during this pandemic, I think most of you have heard and seen, security has become an essential service. All our sites have been active. There has an increasing demand for the services linked to technology solutions that have minimal physical intervention. We are doing a lot of new bundled service offerings to customers like fever screening, thermal cameras, steri fumigation chambers. We have launched ‘’Secure’, which is our proprietary reception management system, which is integrated to a central command center. No puns intended, but we have secured several orders for Secure already. The team is working with clients to provide high service levels and try to be as cost-effective in this time, while implementing the new COVID-19 norms. All our trainers are certified for preventive and awareness programs linked to Apollo MedSkills and WHO. As I mentioned, we have added several new clients, including a transition at the Golden Temple. This team is strongly focused on operations. We have had a new CEO join us here as well in April. A veteran of the security business, Dr. K. Ramesh, and we will strengthen our focus on operations and growth even further. We have had our DSO in this business come down from 82 days to 67 days over the year, and we are continuing to build our capacity.

The third part of the OAM business that I want to touch upon is industrial. This has been a business which was quite troublesome last year and the year before. I am happy to say that we think we have bottomed out here in our restructuring. We have seen positive momentum. We strengthened our talent here also. Anil Bhadauria has joined us as the incoming CEO in April. During COVID-19, the business has strengthened its pipeline, including intensifying discussions on maintenance and shutdown services. We have also used this business a little bit to drive our cross-sell, launching our customer connect program, which is basically bringing all of Quess' service offerings across facilities, security services, general staffing to our industrial customers, and we are hoping to see good momentum there as more manufacturing facilities open. The business also used COVID time to increase the digital intensity. Our ‘InEDGE’ app is now rolled out to

3,500 employees there for online attendance, communication, and we are taking step to digitize our workflow and recruitment there. That was a quick update on OAM.

Moving to our global technology services, I would say this has been a mixed bag. Let me start with the North American IT services business. It saw its best revenue quarter ever in Q4. April, we have seen relative stability, except for a small drop in our government revenues in Ottawa due to some work-from-home constraints for security cleared work, which will start coming back over the coming weeks. Overall, North America is still on business plan. We have observed that, frankly, all of our geographies, that is where sales activities seem to be continuing as normally. It seems people that are used to working with distance and video. So, we are largely on track. We have had 6 new client introductions in Q4, another 3 in April, and we are poising this business for growth, and we are pushing this business for growth in the coming period. Of course, in the short term, we do not know, but this is how we are thinking about it.

In our Allsec business, the HRO business is just very robust. This is about half of the EBITDA in Allsec. Many of you would have probably read the press release from the Allsec annual results. Allsec processed more payroll than ever in Q4.So far, the pay slip numbers are holding up and giving us a little bit of insight into how good or how bad the employment issue is because they were not seeing payrolls drop as dramatically as maybe some numbers might suggest.

The call center business in Allsec and Conneqt has seen very significant disruption. It started on March 15 with the shutdown of Manila, where overnight, our ability to deliver work dropped to literally 0%. I am happy to report that in a couple of weeks Manila was back up to over 80% of its regular load. We shipped desktops home, but we were also able to book hotel rooms for our employees, right next to the call center, so they could walk to work. In India, we are working at about 45% work from home by the end of lockdown. We are slowly ramping up our operations from the office as regulation permits. Some of our tech enablement investments came to help you. In India, I think, our Conneqt business is probably best-in-class on enabling work-from-home agents invoice. However, we will see EBITDA from this domestic call center business fall significantly until when operations can resume normally. These both Allsec and Conneqt are in positive EBITDA territory, I would like to emphasize, but it is lower. About 25% of Conneqt's revenue is a normal time comes from our collection business, and that was a bit of a hit to us in March because the last week of March is usually the best collections week in the whole year. We are hoping that once moratorium is lifted, given the backlog and emerging packet of delinquencies, we will see a big uptick in the collections business. We are gearing up for and talking to our customers. Let us see how this goes.

I just want to touch on Monster quickly. I think Monster has been something we spent a lot of time talking about last year. After sequential reductions in EBITDA losses, we are now at an EBITDA loss of between Rs. 1 Crores to Rs. 2 Crores a month at this point. And seeing significant search volume growth through Q4, search volumes are down by 50% in April versus February. Sales volumes are significantly lower as renewals go down, as recruitment scales back and people hold back from spending cash. We will go through some short-term headwinds there. We will keep losses to a manageable level. Our focus now is the product performance has gone up significantly, and we are using this peer to sharpen our value proposition articulation better. I hope many of you have seen our new ads for Monster around the price proposition. We are training our sales force, and our customer retention teams to make sure we come out of the block running when recruitment starts.

So that was the update on COVID and how we are trying to make lemonade out of lemons that have come our way. I do want to spend a little bit of time going back to March 5, where we spoke about our winning together promise, the objective of hitting a 20% ROE while delivering a sustainable 20% year-on-year growth in OCF. I want to highlight some of the steps that we continue to take and some of the progress we have made also against the things we spoke about on March 5 to you. There were 3 parts of winning together: Winning with customers, winning with people and winning with investors.

Let me start by winning with customers. We have doubled down on our cross-sell efforts. We do well in pockets already. For example, over 80% of our revenues and facilities management and security comes from shared customers. 21% of our top 30 clients work with more than 1 vertical, accounting for Rs. 3,500 Crores of revenue. We have launched a fresh initiative now around the top 75 named accounts, where we will focus on adding additional service lines and improving our account management. We will conduct our first national sales conference tomorrow, digitally, to further increase the cross-sell fluency of our front line, and this is something which is very much in focus. Our push towards digitally enabled revenues is accelerating.

Our associate workforce management app is now connected to 235,000 associates. And when we are beta testing our internal recruitment platform, which will also help us share talent across our verticals internally at Quess over time. We are seeing a very interesting increase in cross vertical managed services projects. For example, just last week, we concluded a deal with a leading bank wherein Conneqt, Heptagon and Quess staffing are jointly stitching together a service that will help the banks increase the sales productivity. We are excited about this. We think this is the direction that more and more we will take in the future. And we are happy that this was important enough for the client to even close during this period. We think that the value proposition is strong. Nobody else here can copy this, and we want to do more of it. Our rebranding effort is also gaining momentum with significantly improved CRM and collateralization. I do hope all of you are following us on LinkedIn, for example, and noticing the increased presence of our brands and increased activity and better articulation of our proposition over the past month.

I will talk about winning with people briefly. With the support of 99% of voting shareholders, we have launched our new RSU scheme. Thank you to all of you who have voted. The initial grants cover of 60-plus of our top employees, and it has come as a shot in the arm for many people, many of them have taken pay cuts, many of them have gone out of their way to really over deliver in this time. And I think it comes as a shot in the arm to understand that we are taking a long-term view of the business linked to our 20% ROE and OCF growth targets. So, the alignments have gone up. We are also strengthening our team, and we continue to strengthen our team with top talent, both to increase our technology intensity and to drive key businesses forward. Sekhar Garisa has joined us from Microsoft as the Chief of Corporate Development and Emerging businesses. Joy Kurian joined us from Accenture as the Chief Technology Officer in Q4. Rupal Sinha joined us to lead Goldenstar and healthcare verticals. She's had over 20 years in the industry across security, facilities management, and we are very pleased to have her on both. I mentioned Dr. K. Ramesh, who joined us from G4S and Anil Bhadauria, a long-term veteran in the industry, who has joined us to lead our industrial.

Let me end with maybe the most important bit for this call, which is how we are winning with our investors. I just want to give you a few short updates. We will conclude the termination of our partnership with QEBFC as of end May, and we will make sure there are no further liabilities on that front. We did announce that we were looking to dispose of Dependo. Unfortunately, the discussions were delayed due to COVID. But fortunately, COVID has seen an increased interest in the assets. We are hopeful that we will find a good outcome for this asset. In the meantime, we are keeping the burn here to less than Rs. 50 lakhs per month. As discussed on March 5, we will continue to take actions to adjust our portfolio where we do not see a favorable OCF generation or ROE profile overtime.

We have taken 2 decisions since our last discussion in March. One, we have restructured our selection and executive search business. This has been a relatively small part of our revenue, but it has historically had low margins and a troublesome collection cycle. We have shut down some of the less profitable service lines, merged with Magna, which will allow us to capture cost sales synergies, while giving us the better EBITDA and OCF profile.

The second decision we have taken is on Excelus. Excelus has been one of the government's largest partners in their programs across DDU-GKY and PMKK. And we are one of the country's few champion employees. And we have been working with the government to improve the cash flow profile of the business over the last year and many improvements have happened. Having said that, the cash flow profile remains poor. While we are in discussions with government to fix this issue, we have decided, in the meanwhile, not to accept any new program under the government scheme. We will keep our commitments. Let me reiterate, we will keep our commitments because we do want to be a good partner and a reliable partner. We will complete ongoing programs as we step-up on diligence on collections. In parallel, we are going to ramp up our B2B and B2C business streams here. And these 2 streams will be the focus of this business going forward.

I want to close by emphasizing that we have taken resolute steps to further develop our business, and we are confident these actions will continue to boost our OCF growth and ROE in the medium term, while ensuring the institution emerges even more resilient from this tragic period for humankind.

With this, thank you for the time, and happy to open up with questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sudheer Guntupalli from Motilal Oswal Financial Services. Please go ahead.

Sudheer Guntupalli: Your commentary suggests that so far, headcount layoffs have not been as pronounced as we would have feared earlier, despite some of the sectors, like retail being heavily impacted and as you pointed out, despite the sharp increase in systemic unemployment. Parallely, some of the retail companies seem to suggest that absenteeism and absconding rate in the front line store professionals has been as high as 70% or so. We understand from a legal standpoint, associates cannot be retrenched unless they are present and the full and final settlement is done. Two questions on this front. Are we seeing this trend of absenteeism and absconding in our portfolio of associates also? Secondly, while retrenchments would not have started yet on a massive scale, do you see the possibility of this happening, let us say, 2 to 3 months down the line once this dust settles down and associates are back?

Suraj Moraje: Let me launch and then I will ask Lohit to also jump in. Look, I think that we did initially see a high absconding rate. I think we have been given our sourcing capability and we are very quickly able to backfill a lot of this. Therefore, some of our larger retail clients; we had more people staffed, more people marking attendance in April than in March and so I think we have not seen that. I think we are keeping a very close eye on this. We were also just ramping up our sourcing capability right now to make sure we can backfill faster. At this point, we are very confident that we have more than enough supply for all the demand that we are seeing. One of the things that could really impact this is if there is a solid migrant return program that the government is sponsoring, and we are in talks with various parts of government to say, how do we get people back to work faster, how do we get people and listed interest in coming back, I think that could help and let us hope that some help of that does emerge.

Guruprasad Srinivasan: This is Guru here. Our exposure to retail has been about 21% and the kind of brands that we work I mean, Suraj generated in this speech, it has really great association that we had with our customers and the kind of longevity. As you rightly said, Sudheer, until the lockdown period, absolutely, there are no major decisions that are being taken. Our customers were very understanding in terms of between the between April and up to the lockdown stage. Having said that, what could happen in the future? There have been some levels of discussions. The kind of stability that our people carry; though, these are frontliners, they are key to the respective business. And the kind of knowledge that they carry, replacing them is just not an easy task. So considering the criticality, as and when the brand opens up, getting them back quickly will also be a challenge, and hence, brands are mindful about working with us. We are not seeing a major cut that has happened. Overall, if I were to look at, it could be anywhere between 5% and 6% that can come in coming weeks.

Sudheer Guntupalli: Sure, Sir, and how are the trends when it comes to the markups in General Staffing? Since clients are bearing, let us say, the bench cost of associates, are they trying to sort of pressurize vendors to take any material cuts in markups?

Guruprasad Srinivasan: Lohit, do you want to take that?

Lohit Bhatia: Yes. So that is a good question, Sudheer. I think in the spirit of partnership, there have been certain set of customers from some industries who come back and asked us whether we can take a small pricing cut during the lockdown period of, say, 55 to 60 days. We have had those negotiations with a few set of clients and the reduction is not material in nature when you look at the entire portfolio, but it is meaningful to strengthen our relationship with those customers during this period. But to further elaborate a bit on this, one, this is time bound. It has a clear sunset clause. The renegotiation has been made in such a fashion that it automatically ends after 60 days or in some cases, after 90 days. Second, being our size of portfolio and the cross-sell initiative that Suraj mentioned, we have also used this opportunity to have other lines of services appended to the same client. Third, as you are aware in this industry, while we have a great portfolio of customers, marquee names where we have exclusivity also on some of the contracts. In some customer contracts, we have a shared portfolio with other staffing companies. We have used the same hedge to tell the customers to move some of the work from the smaller or not-so-defined companies to us. So while there has an arbitrage on some part of the portfolio, it offsets by more work from the same customer as well. Lastly, in some of our portfolio, where the same customer who has had this negotiation with us because of the COVID lockdown period, we have also cut the credit period if there was any credit. If there is a margin arbitrage discussion, which has happened, it has come at the cost of reduced or no credit to the client.

Moderator: Thank you. The next question is from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.

Tarang Agarwal: I noticed in your presentation that the cross-selling has begun to pay off, and that was suggested in the opening remarks, with more than 50% of clients now are working with more than one vertical of Quess. What was the metric, maybe, say, 2 years back, if you could give out a number?

Suraj Moraje: I do not have the metric top of mind on this one, and I think we have started measuring it better now in a sense. Just to be clear, this is 50% of General Staffing customers working with more than 1 client. So, I can't answer you specifically, but I can tell you that what we have seen is, the rebranding exercise has significantly increased client awareness that we have multiple verticals, number one. Number two, I think our people are getting better at understanding which other verticals are related to them and which are not related to them and so they're getting better at describing the proposition. For us, this is just a process of evolution, and we will keep getting hearing better at this.

Ajit Abraham Isaac: I just want to add a point here that 3 years back, we did not have a work stream around this about how to cross-sell. Now we have a work stream, we have a set of targets and we have a process and a review for this. So that is kind of taking shape. The next point is that 2, 3 years ago, our business services platform itself was taking shape. So the ability to cross-sell was not as clearly defined as it is today, now that we have got 3 clear buckets of business and business leaders in each of them.

Tarang Agarwal: Okay. If I look at your revenues in FY2020 over FY2019, there has been a revenue increase of almost Rs. 2,500 Crores. Out of this, almost Rs. 300 Crores is from Allsec. So maybe balance Rs. 2,200 Crores is from all the lines of businesses. How much of this revenue have you been able to say mine from the same set of clients due to cross-selling wins? Is that a metric that you could probably provide?

Ajit Abraham Isaac: Yes. We would grow almost between 15% and 18% of our revenues from our existing clients on a normative basis. What we will do is actually, we will come back to you with a more specific number on an off-line basis, we have got the name now down here, but that is about the number that we have seen our clients grow it and our relationship with them. We have not really tracked to precision about how much of it comes from existing clients, but this will get better as we move along here.

Tarang Agarwal: Just last question. In the operating asset management business, what proportion of your revenues are contributed by industrials?

Suraj Moraje: I think about Rs. 130 Crores of the total loan. I think you see it on the page #22 is about 11% of the total of the operating asset management business.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate. Please go ahead.

Rajesh Kothari: Congratulations for a reasonably satisfactory performance in an otherwise challenging environment. My 2 questions are: first is when you say that in the month of April, you have seen a decline of only 5% in your total number of employees compared to February levels. Should one assume that, that is the worst, or do you think the May can be even worse than April?

Suraj Moraje: Okay. So what's the second question, Rajesh?

Rajesh Kothari: Yes. Why I am asking this first question is because there might be a possibility that you might have entered into long-term contracts with your clients, but as the contract comes for renewal, maybe after 2 months, 3 months, you might see the downward movement in that. So that is the first question. Second question is in terms of where do you see the maximum, adverse impact in terms of profitability when you look at your verticals? Therefore, when you look at on totality basis, since you have mentioned about Rs. 60 Crores, Rs. 65 Crores kind of a cost savings, do you think that will be enough to mitigate that pressure on your profitability?

Suraj Moraje: Let me talk about the decline first. We've had a 5% decline. We expect to see a similar decline in May, a similar decline in June is our sense, Rajesh, and we are sort of prepared for that at this point. That's the line of sight we have. To your question on will things go down after a contract ends, that is not how it works because even within our contracts, clients typically between 15, 30 days' notice, can ramp up or ramp down requirements, in most cases. So, we will not see people ending our contract and then terminating unless they want to switch to a different vendor, and we lose the contract altogether. But historically, we have been quite good at hanging on to our customers. We are not anticipating a lot of that. That is the line of sight we have, Rajesh, and again, I do not want to pretend to have a crystal ball into the future. I remember you and I chatting on March 5 about COVID also, if only we had a crystal ball then.

Rajesh Kothari: This 5% decline, is it a month-on-month you are looking at in month of May over month of April?

Suraj Moraje: Yes, month of May; yes, month-on-month.

Rajesh Kothari: Month-on-month. Okay. Basically, 5% further in the month of May and 5% further in the month of June, and from there, hopefully, stabilization or maybe growth coming back? That should get on this.

Ajit Abraham Isaac: That's right.

Suraj Moraje: That's right. We'll see how it plays out. Right, and we are ready for all eventualities, Rajesh. We'll take it as it comes. Maximum impact in profitability, I think there are 4 areas that have been hit the hardest in terms of profitability, okay? There are 2 businesses that came to a standstill in terms of revenue. So DigiCare and Excelus revenue dropped to 0 overnight in the lockdown. The way to think about that is Rs. 30 Crores of revenue per month run rate came down to 0 for April. Now DigiCare is already back to about 40% run rate in May. We are hoping as the lockdown kind of opens, that will progressively go up. Excelus, well, in both places, we have cut costs as hard as we can. Excelus, also, we have taken the cash burn down significantly despite the fact it is 0 revenue, and we are waiting for government announcements on when this can open up. So those 2 were carrying, but these are not certain sort of risks we have taken. There is then the impact on the domestic call center business and on the international call center business, it was a sudden jerk for a few days, we stopped. We didn't know what to do, but then we got it up quite quickly, and our teams worked really hard to get up quickly. I think there, we are seeing a steady increase. What we do not know right now is at what volumes will calls settle, right? It could be that call settled at 25% of their pre-COVID values, and that defines the new scale of the CLM business. That we have to watch and wait. I think those are the main areas, Rajesh.

Rajesh Kothari: Great. If I can squeeze in. When I look at your overall business performance and when you look at from the cash flow perspective, because of the pressure on the few businesses, how do you see your cash flow situation in FY2021 compared to FY2020?

Suraj Moraje: Again, not going to look into a crystal ball, let me give you some of the variables that you can model, Rajesh. So I think, first of all, we are going to stay on the ball on collections, right? And we think that we are going after some of our long-standing accounts receivables, we are going after our government collection. That will bring in significant amounts of cash, and we are executing that in a very detailed fashion right now. This includes, for example, collecting from finance. This includes making sure our Excelus business gets receivables in. This includes some of the long-standing cash. So that is tax refund. So that is one dimension I want to think about. The second dimension is that we are working on cleaning up our UBR, AR processes, getting them more automated, more seamless so we can just bring down through our shared services, improve our billing cycle and that should help overall the AR time, right? The third factor to think about here is that if our business does shrink, the amount of working capital we consumed will be lower, and so that will come back at OCF in the system. It should be a good OCF here.

Moderator: Thank you. The next question is from the line of Aditya Bagul. Please go ahead.

Aditya Bagul: Our total gross debt, as we stand in March is about Rs. 1,150-odd Crores, just wanted to understand what is our deleveraging plan. Over a period of the next few years, we envisage ourselves to be debt free– its impact on our interest cost and consequently to ROE. So that is question number one, and question number two I had was on account of goodwill. I just wanted to understand our rationale for the goodwill write-off that we did this quarter and just thoughts on something that may come going forward.

Subramanian R: Thanks, Aditya. One thing which we want to emphasize on our debt, right from December, when we were at about Rs. 830 Crores of gross debt, it went about Rs. 1,147 Crores, and one of the main reasons for that was also because this entire pandemic situation started getting a little more severe, probably in the second half of March, and obviously, in our business, the most important capital is the human capital and making sure that we pay our employees on time. Under those circumstances, it was important for us to make sure that we have the money on time, and we do not get caught between the remote technology and the fact that we are not able to pay salaries to our employees. Under those circumstances, we had to maximize our credit lines. What is important for us also though the gross debt increased by about Rs. 355 Crores, the net debt increase will only be about Rs. 42 Crores. Now moving forward, what's the directive? Obviously, like Suraj said, our focus is on collections and cash. So that being the case, we will get back to our original part of coming back to reducing our debt because our working capital contribution also will start going down. So that is the answer on the debt. Quickly coming on to goodwill. Obviously, you will appreciate the fact that there is a onetime noncash charge. To give you a background on how we approach the whole thing – in the month of April as we were closing, that was the time we were not able to quantify how severe and significant COVID was, but we knew that this is not normal circumstances for sure. Under those circumstances, it was important for us to take a very prudent and conservative step towards bringing down our projections for the current year in terms of valuations and thereby making sure that the projections are a lot more realistic. Moving forward, again, our projections from next year onwards are back to our normal projections in terms of our growth path. The other important thing is to understand that the assumptions used, be it in terms of growth, be it in terms of discount factor, be it in terms of risk pattern, is uniform across all CTOs. We've not shared it with any of these or any of the particular CTOs. This is extremely important for us to understand because after this exercise, we are still left with sufficient headroom in all the CTOs. This is from an overall thought process perspective. From a process perspective, we did use one of the big fours to advise us. The valuation was done by an independent external valuer, and this was also done through the audit team of Deloitte and their valuation teams. There was a stress test which was done on the numbers, which was part of the valuation excise, and after all that, we agreed that this is the kind of impairment that the book should be taken. With that, we took an impairment of about Rs. 506 Crores and kind of move on with things, also, intangible, correspondingly about Rs. 134 Crores. This will be a one-off, and we wouldn't be required to do anything further on goodwill or any intangibles.

Aditya Bagul: Perfect, Ramki. That is loud and clear and very encouraging to note. Just one last comment from my end. Just on the point is that when we spoke last in March, what I understood was that a deleveraging, that is increasing our interest cover over a period of time, would be sort of essential for us to translate into a 20% ROE company. I understand that we are in a difficult situation right now, but over time, that should be one of the areas that we would be focusing on.

Subramanian R: Without a doubt, Aditya. Definitely, that is the case, and even if you look at the numbers, from about Rs. 40 – 45 Crores, then move down to about Rs. 40 Crores, and this quarter also, we were able to reduce it quite well until about this last 15 days, that alone resulted in about Rs. 3-odd Crores of an additional interest. But if you look at it, definitely, we will focus on this item even more and ensure that the interest cost is kept at a minimum ROE interest.

Moderator: Thank you. The next question is from the line of Abhijit Akella from IIFL Securities. Please go ahead.

Abhijit Akella: I just had a couple regarding the cost containment initiatives that you spoke about. The first was about the indirect cost structure, in which you mentioned that you're taking initiatives to cut the indirect costs which is running at about Rs. 65 Crores a month by about 20%, and then I think Suraj also mentioned that you aim to reduce this by at least Rs. 60 Crores per year. I was just trying to reconcile those 2 numbers with each other. When you say Rs. 60 Crores, is it during the course of fiscal 2021 itself and then will it be a larger run rate going forward into fiscal 2022? How exactly are you looking at that?

Suraj Moraje: Well, that is a good question, Abhijit, and thanks for asking it. No, I think what we have recognized in April versus, say, February was a 20% decrease. Okay. So that number, you can do the math, it has about Rs. 12 Crores, Rs. 13 Crores of EBITDA savings in February. When I said Rs. 60 Crores, obviously, some of the savings we have got at this point are somewhat onetime in nature. Like taking travels down to 0, our power costs have gone down quite dramatically in these buildings. We are in the process of figuring out which ones are going to be sustainable, which ones are not. So, when I said Rs. 60 Crores, that is a little bit of our first estimate in what the through the year number could look like. Also keeping in mind the fact that last year, if you compare year-on-year, last year, indirect costs went up through the year in FY2020. The average will be less than the February cost. I am just giving you a little bit of an average-ish number. This is what we should realize in the year-on-year when you compare, at least.

Abhijit Akella: Understood. That's helpful, and the second question I just had was, there has a comment on, I think, Slide 13 of your presentation, about a sliding scale that will help you variabilize your cost structure. So just trying to understand that a little bit in more detail, if you could please elaborate on that.

Suraj Moraje: No, sure. I mean this is one of Ajit's innovations, and I think it has a brilliant one. Look, I think what we have tried to do is challenge ourselves to say, now at this point, let us say, our business is x percent down in revenues from where it was in February. So what if that x falls by 10% more? What if it falls by 20% more? What if it falls by 30% more? The intellectual exercise we are going through, to say, how do we make sure that it is difficult to maintain the same EBITDA margin as your business falls, but how do we make sure that we retain, a EBITDA margin and keep it as constant as possible. What does that mean in terms of buildings we would give up, in terms of steps we would have to take on resizing our employee base and so on and so forth. It has just contingencies for contingencies for contingencies, Abhijit, just to make sure that we have kind of thought through the future properly.

Moderator: Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: Few of the retail mentioned the recent remark that just to comply with social distancing, they need to reduce their headcount by almost 25 percentage in the front line. So any color based on your interaction with your clients, if they want to maintain social distancing, how much headcount cut they might need to take, even though business is as usual?

Guruprasad Srinivasan: When you said 'they', who do you refer to?

Jignesh Kamani: So when I interacted with some of the national retailer who, as you can say, who are the 300, you can say, EBO and maybe 100-plus, you can say, department store, everything, they mentioned that just to maintain the social distancing norm as per the regulation, their headcount has to be 25% lower in the front line.

Suraj Moraje: In store, I see what you are saying.

Guruprasad Srinivasan: Our exposure to retail in that case, where there is high density, is not really high. If I were to give you an example, wherever we have, say, more than 8-10 people working under a roof, the plan is to do alternates or based on number of shifts. There are a lot of intensified plans being drawn between us and customers. There are roasting that will happen for associates in terms of their reporting timing et cetera. So that is what is happening in high density. But otherwise, most of the retail units, the density would be low where we have deployed our resources. Clearly, we are not seeing a major change in that front.

Suraj Moraje: The only one thing I would add is, obviously, all retail is not the same. Where we have had some exposure to, let us say, travel retail companies, there, we have seen people have been asked to kind of demobilize and so on and so forth. The number we are giving you is kind of a net number across different industries, different customers, right? There are clearly some who are more impacted than others.

Moderator: Thank you. The next question is from the line of Sandesh Shetty from PhillipCapital. Please go ahead.

Sandesh Shetty: My question to you is, Sir, with regards to goodwill impairment. If you can give us the breakup of goodwill impairment across companies, wherein the Rs. 6.6 billion falls in?

Subramanian R: Yes. The goodwill impairment of Rs. 506 Crores pertains to the following CGUs. In the IFM business, it was Rs. 312 Crores; in the MFX business, it was Rs. 52 Crores; in Allsec, it was Rs. 51 Crores; in Vedang, it was Rs. 27 Crores; and in Greenpiece, about Rs. 25 Crores; and Trimax Rs. 40 Crores. This is on the goodwill, and the intangible, which is the other section of the impairment, which is about Rs. 134 Crores. The IFM was Rs. 76 Crores, Allsec was Rs. 48 Crores and Vedang was Rs. 10 Crores. So that is the split.

Sandesh Shetty: Sir, one more question. When we say IFM, is it mainly to the Manipal vertical?

Subramanian R: Yes.

Sandesh Shetty: Sir, one 1 more question, if I may squeeze in. With regards to your tax, it has a bookkeeping question. Like this quarter, if you see in current tax, it is positive. If you can throw some light on it, like what's the implication? What is the tax implication of this write-off also?

Subramanian R: Yes. So I think, tax, if you look at it for the current quarter, we think there are 2 or 3 parts to it. I think we had also alluded to this in our December call, we had told about this in the March 5 Investor Conference that we are moving to the new tax regime. Obviously, if you are moving to the new tax regime, which is a lower tax regime, it still allows us to continue to take the 80JJAA deduction for employability. There has a onetime write-off which needs to be taken in terms of accumulated MAT credit and also the incremental deferred tax for the change in tax rates. That itself is about Rs. 140-odd Crores. Having said that, the entire Rs. 140 Crores did not take a hit in the tax line because there is also a corresponding reversal of deferred tax liability for the goodwill, which was written off, and that itself for the goodwill and the intangibles, put together, is about, another about Rs. 105 Crores. What you see is the impact in the financials, is only the differential between Rs. 140 Crores and Rs. 105 Crores and nothing else. Other than that, the impact on tax pertaining at a Quess level at 0 tax, but it could be tax pertaining to some of the other entities, which were still not on the 0 tax regime or on some of the overseas entities like Comtel and so on. It has a very marginal tax element which is other than these adjustments.

Sandesh Shetty: Okay. Sir, correct my understanding, if it is wrong, like because of the goodwill impairment and also because of the lower tax rate, the net current tax for this quarter is positive, if I am not wrong?

Subramanian R: Correct. Okay.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, just wanted to understand when you're speaking about 20% ROE target, so what sort of timeline are we looking at?

Suraj Moraje: We had said FY '23 on March 5, Deepak. At this point, we do not have any information to either push it out or bring it forward. We will keep that target, and like I said, we are not looking into the crystal ball right now. We are just working very hard to do all the right things and to do everything we can.

Moderator: Thank you. The next question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: I had a follow-up on an earlier question regarding cross-sell driving a large part of sales for us. You'd said that 15% to 18% of incremental sales are from existing clients. Is that in the existing verticals? Or is that mostly through cross-sell? Because when you go and sell General Staffing services to a facilities management customer or vice versa or customer service customer, shouldn't the buyers be in different parts of the customer organization? Why then would being able to cross-sell be possible or easy anyway? Why should it help?

Ajit Abraham Isaac: So, that is a good question. I think what happens in an actual situation is that when you do cross-selling is usually to a large corporation on the other side. Large enterprises have centralized procurement teams and procurement teams work with multiple functions inside an enterprise. So when we tend to build a long-term relationship with an enterprise, then we get to know the internal of the organization, what are the dynamics of sales that work there and where is their shoe pitched most and that is how we are able to construct a sales program around cross-selling.

Nagraj Chandrasekar: Understood. Just a couple of bookkeeping questions. Just what percentage of our revenues would be from sort of customers what you would describe deeper relationships where we are able to continually cross-sell other arms to every year?

Suraj Moraje: The number I put out earlier was if you look at our top 30 clients, right? 21 of them work with more than 1 vertical. That's about Rs. 3,500 Crores. Look, I will be honest with you, we are getting better at measuring this, and we will get better. We are also going through a little bit of an IT system upgrade which will help us kind of get even better at measuring some of the numbers you're asking us. These are good numbers to ask and these are numbers we will be able to give you, but at this point, we do not have the comprehensive answers. What we are trying to do is pick groups of customers now where we feel cross-sell should go up either because we think these are customers that are right for cross-sell or we think that these are customers that our penetration is low, and that is what our top 75 named accounts initiative is for. In those accounts, for the first time, we do a comprehensive account mapping, understanding the buying centers, understanding who our relationships were and driving very systematic cross-sell in those accounts. It is a little bit of a learning to walk before we can run. I think it has getting better is all I can say, and we will have better numbers for you in a few quarters, much more systematic in a few quarters.

Nagraj Chandrasekar: Just on legacy acquisition amounts payable, how much would be left for us to pay in terms of agreed liabilities left to take our stakes up in past acquisitions over time?

Ajit Abraham Isaac: We have only one big stuff that is remaining which is the Conneqt Business Solutions one. We own 70%, and there has a 30% stake held by the Tata's. It will come up sometime next year.

Subramanian R: November 2021.

Ajit Abraham Isaac: November 2021, and so there has an agreed pricing formula, which we will disclose as for the numbers, that emerges closer to the date. But we are sufficiently financed and within our means to fund it without any further debt to complete the transaction.

I want to thank you all for a very energizing session and for the many questions that you raised. As you've seen by now, we have a number of initiatives at Quess, many of which are long-term in nature and with serious impact on shareholder return. As management, we are focused on realizing the goal of 20% ROE with 20% OCF growth in the medium term, and we intend to do what it takes to achieve it. Thank you for your support and look forward to interacting with all of you in the future. Thank you very much.

Moderator: Thank you. On behalf of Axis Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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