Quess Corp Limited

Q2 and H1 FY 2025 Earnings Conference Call

October 29, 2024

ANALYST: **MR. BALAJI SUBRAMANIAN – IIFL SECURITIES LIMITED**

MANAGEMENT: **MR. GURUPRASAD SRINIVASAN – EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE OFFICER – QUESS CORP LIMITED**
MR. KAMAL PAL HODA – GROUP CHIEF FINANCIAL OFFICER – QUESS CORP LIMITED
MR. LOHIT BHATIA – PRESIDENT, WORKFORCE MANAGEMENT – QUESS CORP LIMITED
MR. GURMEET CHAHAL – CHIEF EXECUTIVE OFFICER – QUESS GTS
MR. ANAND SUNDAR RAJ – PRESIDENT – OAM
MR. KUSHAL MAHESHWARI – HEAD, INVESTOR RELATIONS AND STRATEGIC FINANCE – QUESS CORP LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Quess Corp Q2 FY 2025 and H1 FY 2025 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Balaji Subramanian from IIFL Securities. Please go ahead, sir.

Balaji Subramanian: Ladies and gentlemen, good morning, and thank you for joining us on the post Q2 FY25 results Conference Call for Quess Corp Limited. It's my pleasure to introduce the senior management team of Quess Corp, who are here with us today to discuss the results. We have Mr. Guruprasad Srinivasan, ED and Group CEO; Mr. Kamal Pal Hoda, Group CFO; Mr. Kushal Maheshwari, Head, Investor Relations and Strategic Finance; Mr. Lohit Bhatia, President, Workforce Management; Mr. Gurmeet Chahal, CEO, GTS; Mr. Anand Sundar Raj, President, OAM. We will begin the call with opening remarks by the management team. And thereafter, we will open the call for a Q&A session.

I would like to now hand over the call from Mr. Kushal Maheshwari to take the proceedings forward. Thank you, and over to you, Kushal.

Kushal Maheshwari: Thank you, Balaji. Good morning, everyone, and thank you for joining Quess Q2 FY25 and Half Yearly FY25 Earnings Call. The information, data and output shared by the management during the call is forward-looking and subject to prevailing business conditions and government policies. All forward-looking statements are subject to economic growth or other risks faced by the company. The results and the presentation have been uploaded on our website. Please refer to Slide 2 of the investor presentation for the Safe Harbor clause.

With that Safe Harbor, I will now hand over the call to our Group CEO and ED, Mr. Guruprasad Srinivasan, for his opening remarks. Over to you, Guru.

Guruprasad Srinivasan: Thank you, Kushal, and wishing everyone Happy Dhanteras, and thanks for joining us today. Let me start by giving you an overview of this quarter before moving on to respective platforms.

I'm pleased to share that during the quarter, we crossed 6 lakh headcount, which is a milestone achieved by very few companies in private sector in India. We were at 3,50,000 levels during COVID in FY21. And since then, we have grown the business organically at a remarkable scale and added close to 2,50,000 associates. Coincidentally, this also marks our 17th anniversary, and we take pride in scale which we have achieved, particularly as one of the youngest companies in the world to reach at this level. Over the past few quarters, we have been consistently delivering predictable financial performance along with broad-based growth across platforms. We have been delivering healthy revenue growth accompanied by margin expansion which has resulted in non-linear growth in profitability. Over the past year, we have identified key improvement areas and growth streams in our business segments. These focused initiatives have helped us to boost productivity and strengthen our key financial metrics.

Moving on to quarterly financial performance. I'm delighted to share that we have delivered a steady performance with revenue of INR 5,179 crores and an EBITDA of INR 196 crores. EBITDA margin expanded on a year-on-year basis by 23 basis points. Moving on to key financial highlights for the quarter. We recorded a consolidated revenue of INR 5,179 crores, a growth of 9% year-on-year. We delivered an EBITDA of INR 196 crores, a growth of 16% year-on-year. Our year-on-year improvement in margin was led by reduction in found-it cash burn levels and outcome of productivity and improvement initiatives, leading to cost optimization.

For the half year period, we delivered a revenue of INR 10,182 crores and EBITDA of INR 384 crores. Margin for this period was 3.8%, reflecting a year-on-year improvement of 27 basis points. We added 42,000 in headcount and closed H1 with about 6,09,000 employees on rolls. Our net addition rate of 42,000 in first half of this year is significantly higher than the net addition of 56,000 that we added in entire FY24. We recorded a consolidated revenue of INR 10,182 crores, a growth of 9% on a year-on-year basis. We delivered EBITDA of INR 384 crores, a growth of 17% on year-on-year basis. As of H1, Quess had its lowest gross debt levels of INR 253 crores with a reduction in gross debt by INR 117 crores and net cash position of INR 334 crores at H1 closing. Operating OCF to EBITDA conversion improved to a healthy 86%.

Let me now walk you through specific platform-wise updates.

I would like to start off from Workforce Management. The platform headcount grew to 4,98,000 with around 15,000 associates added during the quarter. This includes approximately 40,000 employees who are serving notice period. Over the last 3.5 years, headcount in workforce has been doubled from 2,39,000 in end of FY21 to the current levels. Revenue for the quarter increased by 13% year-on-year and 3% quarter-on-quarter. EBITDA margin remained stable at 2.44% with the top line growth driven primarily by general staffing. The platform added 128 new clients during the quarter, contributing to an overall ACV of INR 100 crores.

I would like to share some more details specific to the general staffing. The business added 15,000 associates to its headcount during the quarter, largely led by demand from BFSI, logistics, manufacturing and retail sectors. The pace of headcount addition was slower, mainly because of delay in festivity season hiring in Q2. Typically, the season starts in August, but this time, we witnessed that the season picked up in mid of September. At the end of Q2, we have 22,000 open mandates, largely from manufacturing, telecom and BFSI segments. General staffing business added 74 new logos during the quarter. During the quarter, we also completed our vertical restructuring, both in terms of leadership and process. We will continue to invest in strengthening our sales, account management and sourcing across each vertical. As I mentioned in my previous discussion, this approach helps us to augment our ability to offer customized sourcing, improve customer retention and optimize fulfilment, creating a competitive advantage in the industry. Approximately 70% of our gross addition in Q2 came from Tier 2 cities and beyond. This is an indication of our industry-leading geographic presence and sourcing capabilities that we have developed across India. We have made significant progress with Job Spots which we had called out in our previous quarter as well. These are essentially recruitment hotspots for perspective job seekers around key manufacturing clusters. Job spots in Hosur, Narasapura and Chakan are fully operational. We have opened new job spots in Tirupati in early October. We are witnessing strong interest from employers due to the proximity of job spots offices to industrial areas as well as the candidates since we facilitate easy walk-in. Going forward, we plan to expand this to other supply states in Eastern and Northern parts as we believe manufacturing vertical will be a major driver of headcount growth.

The other major business as part of workforce is the IT staffing. Headwinds in IT/ITeS sector continued in Q2. To an extent, it affected our hirings as well. However, we reported a growth of net addition of 240 that was supported by GCCs. Over the past years, GCC has increasingly established their presence in India. We streamlined our GCC operations by verticalizing key industries and strengthening our sales and delivery expansion. In the current environment, when IT staffing remains subdued and demand appears to be stabilizing, we continue to focus on GCC and niche hiring to enhance our margin profile. Our open mandates are robust exceeding about 1,400 which is 3x our monthly onboarding rate.

In terms of overseas staffing, we experienced a muted quarter mainly because of our largest market, Singapore, is undergoing headwinds due to visa restrictions that is affecting our headcount growth. In contrast, our other major business region which is Middle East registered strong growth. We remain optimistic that given our strong presence and agile leadership in regions we operate, we will see an upward trend in near term.

Let me now move on to Global Technology Solutions platform. GTS achieved a revenue growth of 2% sequentially and 7% on a year-on-year basis with an EBITDA margin for the quarter at 17.5% comfortably within our target range between 17% to 18%.

The highlight of the platform are as follows. The customer lifecycle management business continues to follow a strong trajectory, achieving 18% year-on-year growth and 4% sequential growth driven by domestic and international operations. Allsec CXM vertical registered a robust growth with over 70% of its business coming from international market during the quarter. Voice services in Conneqt clocked a growth of 14% year-on-year led by demand from BFSI clients. Investments are being made to strengthen the automation, analytics and GenAI capabilities since CLM is expected to drive significant growth going forward. The non-voice BPO business remained flat year-on-year, but experienced an 8% sequential increase in following seasonal week in Q1. The collections business demonstrated a good growth momentum. Going forward, the margin improvement will be a key focus area. The EXM payroll business processed about 4.3 million payslips in Q2 with 6% quarter-on-quarter growth and 13% year-on-year growth. The platform secured an order book over about INR 117 crores, ACV added 53 new customers in the process. Key driver for this growth was specifically from e-commerce and BFSI segment.

Moving on to operating asset maintenance management, the OAM platform recorded a revenue growth of 9% and an EBITDA growth of 6% year-on-year. Over the past years, the platform has strengthened its leadership and sales capabilities. Although margins have declared on year-on-year basis due to these investments, but there has been a quarter-over-quarter improvement in margins as well from the sales penetration, and driven by growth in margin accretive business such as F&B and telecom active infra segments.

I would like to share some more key highlights of OAM business. The OAM platform added total 48 new customers resulting into ACV of INR 44 crores in Q2. IFMS vertical was primarily driven by education and ITeS sectors. The F&B also improved as educational institutions resumed post their academic breaks. The Telecom active infrastructure business recorded its highest-ever quarterly revenue experiencing significant growth to the development of 4G and 5G networks by the telecom operators.

Moving on to product-led, which is now largely representing foundit on the platform. Foundit business registered a healthy growth of 11% while also decreasing its cash burn levels on a year-on-year basis. We are also experiencing significant traction and positive feedback on the foundit 2.0 platform from both candidate and recruiters. Recruiters have expressed their confidence and witnessed highest ever job on the platform reaching nearly 9 lakhs. CSAT score remains healthy at 90% on the candidate front and number of active users from past six months have increased to 25 million.

I have an interesting announcement to make. We are excited to welcome Jasprit Bumrah, India's leading fast bowler and top ranked player in ICC Men's Player ranking across all three formats of the game as the Brand Ambassador for our staffing vertical. His exceptional journey in cricket driven by relentless dedication, resilience and pursuit of excellence aligns with the values that we champion at Quess workforce management.

Our demerger plan is progressing as per schedule. We have received NOC from stock exchange and the first motion with the NCLT has been completed with shareholders and creditors meeting scheduled on December 9. Since the announcement of our demerger in February, we have been strategically investing in people, technology to enhance our leadership capabilities, driving improvement in both sales and internal processes within each platform. With these investments and healthy financial and operating performance, we are confident that each of these three entities - Quess, Digitide and Bluspring will become the market leaders in their respective industries.

I'll now hand over to Kamal to give you more updates on financial for the quarter. Kamal, over to you.

Kamal Pal Hoda: Thank you, Guru. I'll first take you through headline financial numbers before delving into segmental performance and other corporate updates.

During the quarter, we delivered a revenue of INR 5,179 crores with a growth of 9% year-on-year and 4% quarter-on-quarter. EBITDA stands at INR 196 crores, a growth of 16% year-on-year and 4% quarter-on-quarter. Our operating margin is at 3.8%, which is 23 basis points higher on a year-on-year basis, driven by business improvement and focused projects carried out in last one year and reductions in foundit burn. On a sequential basis, the margin held steadily. Profit after tax increased by 32% on a year-on-year basis, owing to growth of EBITDA and reduction of interest costs. While it declined 16% on a quarter-on-quarter basis to INR 94 crores due to one-off gains from divestment of LLC business and interest on tax refunds in the previous quarter. EPS for the quarter is INR 6.1, a 26% increase on a year-on-year basis, in line with the PAT growth. For the half year period, EPS is at INR 13, up 63% year-on-year.

One of our core focus areas in optimizing capital structure and improving sustained operational efficiency in our commitment towards debt reduction. As of H1 FY25, gross debt stands at INR 253 crores. We repaid INR 117 crores in H1 FY25. Net cash position stands at INR 334 crores, improving 142% on a year-on-year basis. Our operating cash flow improved 78% year-on-year to INR 245 crores with operating OCF to EBITDA conversion at 86% on a half year basis.

Moving on to platform-wise updates, starting with workforce management. We delivered a top line of INR 3,747 crores, which is up 13% year-on-year and 3% quarter-on-quarter growth driven primarily by general staffing. IT staffing was steady led by GCC hiring. EBITDA for this quarter for this platform is at INR 92 crores, a growth of 5% year-on-year and 4% quarter-on-quarter basis. On a year-on-year basis, EBITDA margin has contracted by 18 basis points to 2.44%, due to muted growth in Singapore market, wage inflation and increase in general staffing revenue mix, which stands at 84% from 82% a year ago.

Moving on to Global Technology Solutions platform. The platform clocked a revenue of INR 625 crores, an increase of 7% year-on-year basis and 2% quarter-on-quarter basis due to robust growth in voice and platform services businesses with improvements in the non-voice businesses. EBITDA margin was largely flat on a sequential basis at 17.5%. We continue our focus on higher growth from international geographies in CLM and on margin improvement in non-voice businesses.

Coming to operating asset management platform, it delivered a revenue of INR 768 crores, a growth of 9% year-on-year and 6% quarter-on-quarter. Growth was attributed towards food and telecom infra. Operating margin for the quarter is at 4.84%, declining 14 basis points on a year-on-year basis, due to investments towards sales and leadership while it improved 4 basis points sequentially.

In the product-led business, adjusted for our divestments in Qdigi, revenue for the quarter was INR 39 crores, a growth of 12% year-on-year. Foundit sales growth was 11% on a year-on-year basis. EBITDA was a negative INR 8 crores with cash burn at significantly lower levels on a year-on-year basis.

Moving on to demerger updates, we are progressing on track towards the proposed three-way demerger of Quess Corp. After we filed NCLT application in August, post stock exchange approval, NCLT on 22nd October disposed the first motion applications, giving directions for convening meetings with equity shareholders and unsecured creditors on 9th December.

Strengthening our internal processes and leadership are the key work streams before the demerger, and we are hopeful of completing the entire demerger process by Q1 of next financial year.

With this, I conclude our financial results and pass back to the moderator for taking your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mr. Balaji Subramanian from IIFL Securities Limited. Please go ahead, sir.

Balaji Subramanian: Congrats on a good set of results. So, my question was while your consolidated EBITDA growth of 16% looks quite healthy, but I can see that a lot of it is driven by the loss reduction in the PLB platform. And the other three segments, the EBITDA growth is just in mid-single digits, like 5%, 6% on a Y-o-Y basis. And that is probably because of the OAM and GTS solutions seeing single-digit revenue growth. So what is the outlook going forward? So once the PLB business turns EBITDA positive later this year, how do you see the consol EBITDA trajectory in future?

The second question is on the core to associate ratio. So there has been a steady deterioration on that count. So, what exactly is happening there? And going forward, how should one think about it?

Guruprasad Srinivasan: Sure. I'll take this one. Balaji. I think both the questions are interrelated. So let me take the first part of it. In product-led business, if you look at it our burn is in line to the plan. Last full financial year, we had a cash burn of about INR 56 crores and this year by H1 we are in a range of about INR16 crores to INR17 crores. And as we enter Q3, it should further come down and exit of Q4 is when I think we will definitely be in a break-even state. So we are on course to our plan there. And of course, it is also helping us to better our overall EBITDA margin percentages.

Coming back to specifically on the question that you asked for the growth from WFM and GTS. So, let me start with WFM. WFM has been by headcount, if you look at last full year across Quess we added about 56,000, of which almost, I would say, about 90% comes from WFM which is specifically general staffing there. And this year by H1, we have added about 42,000 of which again the same ratio comes from specifically from the general staffing business. While we are mindful that core to associate ratio has to be healthy. But however, the size where we are, and we got to invest more onto our sourcing engine because on an average we lose anywhere between 5% to 6% through attrition and backfill has to be done. And we have built this engine almost 10-year plus which is now very aggressive engine across in terms of capability of hiring faster, quicker to our customers and we continue to invest in that phase a lot. So few specific call outs there. One, of course, Q2 being seasonal, we have increased our recruiter base in general staffing. So, 100 plus recruiters incremental we have added. Moreover, we have Job Spots that we have been calling out investing specifically to be precisely closer to the customers in manufacturing segment. So, there we are investing, plus verticalization that we have done as I called out in Q1 as well. Vertical strategy is extremely important, and we have to be more precise to the boundaries that customer operates in. So, for example BFSI we have 120,000 people, manufacturing we have close to 70,000 people, consumer retail is almost about 200,000 people. So, we are also building a tower specifically to focus growth by vertical. That's how we measure each of our businesses internally. So from that standpoint these investments that we are doing, we are confident that it is going to realize well as we move forward. There is an interim that it will bring down the core to associate. But however, as we move forward, each of the pillar in itself will have its strength to grow at a different percentage as we move forward into FY26.

Coming back to GTS, they are on course. GTS has been growing on high single digit and that's also in line to our plan. We're not seeing any surprises there. And their ACV if you look at for Q1 as well and Q2 is pretty strong with respect to the number of logos, almost INR 100 crores of ACV that they have signed in Q2 itself. And Q1 also we had called out almost about INR 83 crores. So they are on course in terms of their plan. So hope this answers core to associate as well as foundit and WFM question that you asked.

Balaji Subramanian: Yes, that more or less answers my question. So, yes, I think, yes, that's it from my side. All the best

Guruprasad Srinivasan: Thank you.

Kushal Maheshwari: Thank you, Balaji.

Moderator: Thank you very much. The next question is from the line of Vikas Ahuja from Antique. Please go ahead.

Vikas Ahuja: Hi, sir. Very good morning. So I have a couple of questions. The first one is this quarter headcount addition was lower than usual, 15,000 hires we typically see each quarter. Was this mainly due to we hired more than 30,000 in Q1, so there was some base effect. And how should we anticipate headcount trend in the second half of the year? That's number one.

And secondly on IT staffing, in the presentation, it says GCC contribution in Q2 is at 68% by revenue. So, it has actually declined from 70% to 68%. And I thought in the opening remarks, you said GCC again did better than IT staffing. So, I was little confused here. I mean can you please explain on that as well?

Guruprasad Srinivasan: So, because with regards to the headcount, yes, Q1 definitely was a good opening and we added 30,000 plus and Q2, I think, I specifically called out, this time we have seen season start a month later. So, generally, the mandates would have come in July and ramped up, the deployment would have happened in the month of August. We saw slight delay there and the actual onboarding was done in the month of September. And it also benchmarks to the Diwali around. So because post Diwali after three weeks to four weeks of Diwali there will be a rehiring also that will happen. So, first and foremost, a month delay. So that has impacted the onboarding and hence we were able to achieve about 11,000 net adds. I mean, while we have done 11,000 net-add, the gross add will be at least three times of that, so three-plus times. Net add is what we will consider in terms of reporting. In addition to that, I mean, the sector that has given us a boost specifically for Q2 is logistic supply chain. In BFSI, we have seen slightly slowdown and manufacturing also slightly slowed down. So manufacturing should be interim which should pick up in Q3 for us. We are seeing mandates coming up from manufacturing for Q3. On a quarter-to-quarter basis, I think overall Quess, we have been able to grow anywhere between 4% to 5% and we would still continue to see that because both GTS and OAM will have a stronger Q3 and Q4. So, from that standpoint, I think we'll be doing good in terms of our growth on overall perspective.

Specific to IT, to clarify our mandates which are coming in majorly, almost 74% comes from GCCs. We are not still seeing any green shoots coming in from ITeS and IT services. Part 2, I mean GCC contributing to the revenue is about 68% contribution to the overall revenue and in fact we are ahead of plan specifically to IT staffing within when we measure the business. And Q3 also we are seeing the net add and quality mandate which are coming in. So from that standpoint, the slowness in WFM is only from international staffing as I called out specifically from Singapore. Otherwise, India IT staffing on back of GCC I think we are quite confident.

Kushal Maheshwari: Lohit, would you like to add some more colour on IT staffing?

Vikas Ahuja: No. Sir, just one clarification also the GCC contribution in the presentation is 68% and last quarter it was 70%. So, I wanted to know the disconnect that why the contribution has dropped by 200 basis point for GCC?

Lohit Bhatia: So 68% is the overall contribution as it stands at the end of Q2. However what, Guru, was mentioning was 74% of the new business is coming from GCC. So I think every quarter that number you would see that it would eventually go up as the mix changes. I'd also like to add a few more points. I think we had mentioned in the previous calls as well that the entire mix for us is changing. As we have, if you notice from the last four years from the pre-COVID time to today, I'll just give you some estimated numbers. From 8,300 headcount today we are close to about 6,000 headcount in the IT business. However, from the niche profile and from the higher margin profiles from a low base of less than 3% contribution then, today the contribution is over 15%.

And when I say contribution from higher niche margins, 15% means almost close to about 900 plus headcount out of the 6,000 which contributes upwards of 50,000 and 100,000 gross margin PAPM. Our blended gross margin PAPM from this business is now at a record high of 19,000 per person per month. In comparison, you would remember that the general staffing business hovers between the INR680 to INR700 mark.

Vikas Ahuja: Okay. So maybe I'll take it separately with Kushal. So I think in last presentation it says GCC now contributes 70% of total domestic IT revenues and it says now 68%. So I was just getting confused. I'll take this offline. My second question is, last quarter we indicated that EBITDA was impacted by seasonality and wage hike. And then we guided for margin improvement in Q2. Can you break down where specifically we have missed on margin improvement as we only saw a marginal uptick? And also, last year we saw better margin performance in the second half of the year compared to the first half. Do we anticipate a similar trend this year as well? And what are the key drivers if that is the trajectory going?

Kamal Pal Hoda: So, Vikas, Kamal this side. So I'll take up the margin questions. You pointed out rightly, so quarter three and quarter four are better quarters to us from a margin standpoint. The reasons are primarily that in quarter one and quarter two some of our high margin businesses go through a cyclicality. So the food business in the operating asset management business, the telecom infra business again in the operating asset management business which are better margin business within the platform, go through a bit of a downhill in Q1 and Q2 due to the nature of the business and then they come back strongly in Q3, Q4 which also we are confident of basis the present pipeline. Similarly in our GTS business, in connect the collection business does much better in Q4 and also the payroll business in HRMS business in Allsec does better in Q3 and Q4. So combination of these factors give us better margins in Q3 and Q4 and hence we are hopeful that from the present 3.8% margin levels that we are reporting right now, we should inch towards 4% as we move into H2.

Kushal Maheshwari: Vikas, does that answer your question?

Vikas Ahuja: Yes, it did. Just one small clarification. The improvement in margins we have seen which is a marginal this quarter from Q1 to Q2. This is what we were anticipating, or initially we thought, the improvement is going to be much better. So just I need one small clarification here and thanks a lot and happy festive season to the management team.

Kushal Maheshwari: Thank you, Vikas.

Moderator: Thank you. The next question is from the line of Deep Shah from B&K Securities. Please go ahead.

Deep Shah: Yes, Thanks for the opportunity. So, one is a bookkeeping question on the reclassification that we did between employee cost and finance lost. So I did read the note but if you could explain a bit better? And then if this is going to be the way ahead or why was this done? That is first. Second, sir, we've seen a lot of noise or some substance on the GenAI affecting your BPO/BPM business. Could you provide some more clarity on what are the first interactions you're having? Is it affecting our pricing power? Is it affecting number of seats? And how do you actually see this going ahead? Thank you.

Kamal Pal Hoda: Sure. Deep, Kamal this side. So, I will take the reclass and then on the generative AI question I'll ask Gurmeet to step in. So, we did this reclassification after benchmarking of how good governance organizations are presenting it. So the accounting standards do allow a choice of accounting policy in terms of presentation of the interest cost on the defined benefit obligation to show it either in employee cost or to show it under finance cost. And we have chosen the latter as a change in accounting policy.

We have done this change, and it has been done with a retrospective effect because the whole accounting policy changes have to be done with the retrospective effect. It has had no impact on our profitability. It is just a change of presentation. So, to the extent that it has impacted employee costs, it has had a very similar effect on the finance costs. So from a profitability standpoint, this has had no impact upon the profitability as well. From a presentation standpoint also, we have reclassified all our prior year numbers to give effect of this change so that the numbers are comparable for all prior periods.

On your question on generative AI and its impact, I would request Gurmeet to respond.

Gurmeet Chahal: Hi. Thank you. This is Gurmeet here. So for us, generative AI is an opportunity and that's how we are approaching it. As an organization, as you know, customer lifecycle management is a significant part of our business. We manage about 1 billion customer interactions every year. So that means about 3 per second, 24/7, 365 days. So there's a lot of experience that is within the organization. So, what we are doing is we are leveraging that experience, keeping the human in the loop and building assets, AI assets around it. We will be launching an overarching offering called 'pulse.ai', which to start with will have eight, think of it as lego blocks, which could be used in unison or individually. We believe it will address a couple of challenges that the industry sees in this regard. First of all, it will help us bring elastic capacity into operations because of the predictability. Second, 2x improvement in go-to-market for our e-commerce customers, up to 3x growth in sales. We believe with the improved customer service will lead to a 30% uplift in NPS. And of course all of this will also be able to deliver about 30% to 40% cost saving, depending on how mature your underlying data assets are. Hopefully, that addresses your question.

Deep Shah: Yes. So sir, you plan to launch this, so will it be rolled out over the next one year? How is the rollout plan? And does it cater to a large client, or it is something that anyone can use it, or these are just very early conversations?

Gurmeet Chahal: Yes. So look, we've been kind of doing the POCs for the last six months. And then based on those POCs, we have been refining our offering. We plan to launch the first set in the coming quarter itself and then gradually we will roll it out.

Deep Shah: Sure, sir. Thank you so much. All the best.

Kushal Maheshwari: Thank you, Deep.

Moderator: Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Yes, and thanks for the opportunity. Sir, my first question is on the margins for the WFM segment. So obviously you have provided the clarification. But for my understanding, the margins Y-o-Y has been down and sequentially also it has been almost flat, right? So this is now like despite the increasing contribution of GCC, which is supposedly at a higher margin. So can you assume that the general staffing, the core general staffing margins have been coming down and still there is no respite to the margins for the core segment within WFM? And also the sourcing component has been going up and the transfer component has been coming down. So in general, if you explain whether the sourcing, higher sourcing can also lead to lower margins?

Guruprasad Srinivasan: Sure. Amit, I will start with the margin. We were 2.6% and we've come down to about 2.4%. Again, multiple pointers here. One is, of course, as part of the demerger process we are also strengthening each of the platforms. So we are again hiring the capabilities for the back office and all of that for of the platform. Number two, specifically for WFM I spoke about verticalization. We have been investing because investment for future in terms of how each of these verticals are going to represent and will have its trajectory of growth. Just to give you an example again, for us the manufacturing is about 70,000. We intend to drive this and it has an opportunity in itself to cross over 200,000 associates over a couple of years from now, right. So, to build that you got to get the right structures in place, the processes in place, the challenges between segment to segment is very extremely different. So, we got to make those investments in IR being closer to customers, specifically when I take manufacturing. Then consumer retail hiring is extremely different than what we do for manufacturing. So, from that standpoint we are strengthening the vertical. So verticalization will help us to get the competitive edge as we move forward. So that's the second investment post the demerger.

Third, hiring for GCC versus hiring for IT services is extremely different. So, in terms of the quality of recruiters, we don't hire freshers here, they are minimum of about three years to eight years of experience. And to hire them in terms of onboarding is something that you need a better quality of recruiters to handle it. The last one here is the international mix, if you take overall WFM EBITDA, 50% comes from general staffing, 50% comes from all other. So, of which balance 50% which comes from all other staffing, 21% comes from international. So, international comes at a very high EBITDA margin level. So, Singapore currently not hiring has also got few basis points down in terms of the EBITDA margin. So, from margin perspective, the levers for us to work on is one, of course international recovery; Two, as we get volume coming in, in incoming quarters it should come back to the levels where we were and then slowly we should see how we can graduate from thereafter.

So, the next question that you had on sourcing, on source sourcing versus transfer, sourcing engine is doing well. I'll hand over to Lohit to take this question.

Lohit Bhatia: Yes. Thank you Guru. Before I come to the sourcing versus transfers, let me put some perspective because I think there seems to be a concern on WFM margins overall. At 2.44%, we are slightly softer by about 15-20 basis points against our medium-term last couple of quarters at about 2.6%. Having said that, the business as large as 84% contribution coming from the general staffing India business at 2.44% margin, we are already beating industry averages by at least 2x. The nearest anybody in the industry would be performing would be at half the margin rates of what Quest is delivering at almost 50% higher headcount and revenue both. So that's the first part. Let's keep that in mind in context to the delivery from Quess. The second point which I must add, as a team, our WFM long-term margin trajectory north star remains at 3%. We have not moved away from that north star, but that's a long-term target for us. Where do we want to get into the medium term is back to the 2.6%, 2.65%. What contributes is three large levers for us. The general staffing business which hovers between the 1.9%-2% margin, the international business which erstwhile about a year ago prior to the regulatory and visa tightness in Singapore, internationally used to contribute between 6% to 7% EBITDA margin and India which used to again contribute between the 6% to 7% for professional staffing. The good news here is that while the decline of Singapore has completely been overtaken by our focus and advent into GCC as far as the India professional staffing is concerned. Today, our India IT business is contributing upwards of 9% EBITDA margin which is a record high for us for this business. But unfortunately, it happened at the times when international or mainly Singapore has declined from 6.5% to 4.5%. So what would have otherwise aided in a 20 basis point margin expansion has just offset what has happened in Singapore. So, I just wanted to give that perspective. Guru is right about the verticalization, the investment in sourcing and the other things.

I will come back to the point on sourcing versus transfers. Transfers always add to immediate uplift in gross margin. It may or may not aid your margin percentage expansion because generally large transfers also come at flat fee and those flat fees typically if it's a collect and pay actually drags your margin downwards. Sourcing on the other hand is more sticky. Once you do sourcing, the customer cannot easily replace or that account cannot be easily replaced by somebody else because that's the investment that we are doing on those majors.

Now the third element that we must add here is Quess has been looking into the manufacturing space for the last three years in a very serious manner. Today we have about 70,000 to 75,000 people just in the manufacturing space, thanks to our verticalization, 265 dedicated core resources work here. As we expand in manufacturing, while our margin percentage might go up a bit, our core to FTE ratios and other ratios might come down. I'm sure all of you understand when we are dealing with services customers, managing 400 to 500 associates with one core is possible. But when you're managing manufacturing, typically you have to give shift supervisors, you have to give IR and ER professionals, you have to manage compliances at the factories. A typical core to FTE ratio comes down to 1 to 200. So, it's a blended mix. Quess WFM is almost at the cusp of 500,000 professionals. Our long-term vision is to be 1 million. To be able to do that we need to focus on our verticalization. This is not a short-term game. We are in here for the long-term. So I hope you can see it with that perspective.

Amit Chandra: Yes. Thanks for the elaborate answer. So it is clear now. So the second is on the foundit segment. So, firstly, on the breakeven part, earlier we mentioned that we are going to breakeven this year, but in the first half there is an EBITDA loss of around INR16 crores. So how we are going to navigate that. And secondly on the investments and the sales growth, so some more clarity on how we are seeing because the sales have been almost flat sequentially and Y-o-Y also it's not that encouraging. But how the various metrics are panning out and how we can compete with giant here because in platform business it's very difficult to establish yourself when there is such a large player that is there in the system for so many years. So what initiatives we have taken and where we are there in those initiatives and with those investments how we plan to break even?

Guruprasad Srinivasan: Sure. Amit, first and foremost, we keep getting this question specifically on ‘winner takes the market’, which probably I think is not really true. What happens is the job seeker needs a job, and they don't specifically go after one specific platform. So, wherever they can maximize, they will come onto that which is also kind of proof in terms of the profile updates that is up by 61% year-on-year with foundit. From almost 3 million we have touched almost about 7 million in terms of the profile updates. Our job postings have gone up by 141% year-on-year. And the 2.0 applications that we have launched, we have done quite a lot of pilots, and the large customers have been migrated on this been received very well and our CSAT from the candidate side is also almost 90% plus. So these are few, I would say, positive indicators why the platform will do well. And it is also reflecting on our burn reducing by actual revenue increase that is happening year-on-year. We have grown about 12%. Having said that, you are right, it is also slightly soft because of few factors. So, 60% of our revenue comes from the IT sector which in itself has reduced its hiring. So IT services contributes a major and even that segment has come down by 60%. Second is placement agencies who are the second largest set of subscribers who come onto this, and smaller staffing companies are still not spending as before. So that's the second call-out that we have seen. Singapore market again has an impact on foundit because we cater to the Asia market as well so still we see caution in terms of spending. It is also leading to longer sales cycles and plus of course the candidate services which continues to grow. We have seen in India specifically the candidate services growing and new product launches which has been received well. So IT services about 60% slowing down has impacted on our growth. It can do better as we step into the upcoming quarters we are seeing good order book coming in for this. So A) – winner takes all market. We have seen the other way around, so we are really not stressed about it. B), we are waiting for IT services to open up for this segment as well as the international boundaries as well. But otherwise, we are confident from the order book to see how the Q3 and moving towards the breakeven for Q4. Just to give you a little math there, our cost is around INR45 crores per quarter, and we are hovering around INR 39 crores of revenue. So we are not too far from the break even. Hope that answers your question.

Amit Chandra: Yes, sir. Thanks, and all the best for the quarter.

Guruprasad Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Deep Modi from Equirus Securities Private Limited. Please go ahead.

Deep Modi: Yes. Thanks for the opportunity. I have couple of questions. So based on the commentary given by several IT companies in recent results call, there is a gradual recovery in demand led by the decreasing interest rates. So whether we see improvement in demand in IT service within workforce management going forward as well? And is there any chances to improve the margin within workforce management led by this?

Kushal Maheshwari: More or less, Deep, this question has been answered, but I'll ask Lohit to give you some more colour on IT staffing and the margins for workforce management., Lohit, if you can just give us some more inputs?

Lohit Bhatia: Sir, like I was mentioning that three large businesses that we have split into, there's the general staffing business which is just hovering around a little sub 2% EBITDA margin. However, it still continues to be nearly two times the industry average and the nearest competitors. The second large business for us is the International or the APAC business. International and APAC used to be hovering between 6% to 7% EBITDA margin, however subdued because of the last one year of regulatory and visa compliance issues in the Singapore market. And the third mix in the business is the IT staffing in India. IT staffing, currently in India, we have about 6,000 resources. But consistently for last four years we have been working towards higher and niche segments. We've changed our customer mix, we've gone after GCCs in a big way. Hence the slowdown of the IT services industry has not really impacted us. Rather we have changed our mix towards the IT niche segments from the GCCs itself.

Today our average open mandate and open book in IT business is about 1,500. You'd be glad to know that about 75% or three-fourth of them primarily come from higher margins and GCCs itself. Open book is almost 3x of our monthly onboards. So, our monthly onboards being at about 500, we have an open mandate of about three times that size.

Deep Modi: Okay. It clarifies. Thank you. So my second question is how we leverage our opportunity on government's focus on job creation, which was held in the month of July in the union budget. So is there any update on the fine print from government side and how we see the impact of same in this staffing business?

Lohit Bhatia: The employment-led incentive schemes as announced by the government in July have undergone a massive amount of consultation. We have participated as industry leaders and as part of industry bodies with the government at various levels in various forums. According to our understanding, the government has taken consultation from all the industry players aggregated all the points of view. And obviously, their focus continues to be to move from informal to formal. More importantly, the government is focused towards the right measurement that once the rules are out and hopefully, they should be out very shortly. Once the rules are out, the measurement has to be very simple.. So that's what the government is working towards. But at this stage, I mean, I would not be able to answer on behalf of the government. I can only say that the industry consultation have happened at appropriate levels. And we feel that we should hear about the guidance very, very shortly.

Deep Modi: Okay. Thank you very much. Wish you all the best. Thank you.

Kushal Maheshwari: Thank you, Deep. Thank you, Lohit.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Girik Capital. Please go ahead.

Chintan Sheth: Yes. Thank you for the opportunity. Just a bit on the DSO days overall, we have seen from March to this first half has increased a bit by three days or so. If you can talk about, even the collection has been pretty robust, and cash flow has been pretty strong but if you can highlight anything to take away from that? And secondly, on the government incentives scheme which you talked about a bit just before that, is still not implemented fully? And what is our expectation in terms of incentive scheme also one of the contributor to our overall margin profile going forward?

Kamal Pal Hoda: Sure. Chintan, Kamal here. I'll take the question. So the DSO days actually has been flat. In fact on a quarter-on-quarter basis we have seen a one day increase in DSO but on a March to September basis it has been flattish. We have internally active working streams across all businesses and on back of that, that we've been able to report 86% OCF conversion to EBITDA. And which has led to a significant reduction of our debt levels. We mentioned in our commentary that INR117 crores of debt repayment that we have done. So, it's not at a very alarming level. And as management, we are confident of bringing the DSO days further down.

On the government incentives, I think, Lohit did explain that so far we are still awaiting the detailed guidelines from the government and hence there is no portion of our present reporting numbers which includes these proposed government incentives, because the detailed guidelines of the ELIs are expected next month and that is when it should start impacting the business results. So, in the present H1 numbers there are no impact of any government incentive schemes.

Chintan Sheth: But by year end you expect this to get implemented and some benefit to start accruing in our numbers, that's fair to assume?

Kamal Pal Hoda: So Chintan, as we explained on the call, there has been massive consultation post the budgetary announcement and we are hopeful and awaiting the detailed guidelines as to when it comes. The major impact is towards first time employment and it also towards the direct benefit transfers which should happen towards the fresh employment. And being the largest player in the industry in this space, we believe that it should benefit our business. But we await the detailed guidelines. And once the guidelines are out from the government side we'll be able to comment more on this.

Chintan Sheth: Okay. And if we look at the change in the accounting on the employee and finance cost, if we reverse that the EBITDA number will further have some flat on a sequential basis, but the improvement won't be that large, what is reported after the adjustments which we have reported during the quarter. One thing also I observed was the SG&A spend which was a little elevated this quarter largely related to the job postings and the hotspots which we have talked about is part of that SG&A. Is that correct understanding?

Kushal Maheshwari: Sorry, can you repeat your last question again?

Chintan Sheth: The SG&A spend for WFM has increased to 6.2% versus it was hovering around 5.8%. So will the trend continue and how should one look at it?

Kamal Pal Hoda: Yes. So, on the interest and the classification of interest cost on defined benefit obligation from employee benefits to finance cost, I think I explained in one of the previous question as well that it has had no impact on our profitability. In fact, in the accounting policy we have had a retrospective application. So the quarter-on-quarter EBITDA growth that you see is apple-to-apple comparable because in all our prior year numbers also we have done a reclassification.

On the SG&A cost going up. I think both Lohit and Guru briefly covered that the investments that we have made in the verticalization across our sectors and also due to festive hiring, the additional recruiters that we hire leads to a bit of an increase in our SG&A cost towards Q2 and Q3 and then it gets normalized back in Q4. So, we don't expect it to be at these levels and we hope that it will come back to the previous levels reported. Some of these also include investments that we are doing as part of our strengthening of the leadership and sales going to the demerger process. So, it's a combination of three, four things that we explain over the call.

But we are hopeful that we should be able to pull back the SG&A cost to normal levels in the upcoming quarters.

Chintan Sheth: Okay. That cost will also aid our margins that can be…

Kamal Pal Hoda: Yes.

Chintan Sheth: Okay. Got it. I'll jump back in queue. All the very best. Thank you.

Kamal Pal Hoda: Thank you.

Moderator: Thank you. As that was the last question from the participant, I now hand the conference over to Management for closing comments.

Kushal Maheshwari: Over to you, Guru.

Guruprasad Srinivasan: So, thanks to everyone for joining us again for this Q2 Earnings Call. Your question and feedback have always been valuable, and I would like to reiterate that we remain committed to grow the business across all operational and financial metrics while unlocking value for our shareholders. So before we conclude the call, I would like to wish each one of you and your families a joyful, festive season ahead. Thank you.

Kushal Maheshwari: Thank you very much.

Moderator: 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 slightly edited to improve readability)