"TeamLease Services Limited Q4 & Full Year FY'20 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Conference Call with TeamLease Services Management hosted by IDFC Securities. As a reminder all participants' lines will be in 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 '*' and '0' on your touchtone phone. Please note this conference is being recorded. I now like to hand the conference over to Mr. Rohit Dokania of IDFC Securities. Thank you. And over to you, sir.

Rohit Dokania: Thank you, Vikram. Good morning, everyone and welcome to the Q4 & Full Year FY'20 Results Conference Call of TeamLease Services Limited. I hope all of you and your near ones are doing good. I would like to thank the management for giving IDFC Securities the opportunity to host this call. The management team is represented by Mr. Ashok Reddy – M.D. & Co-Founder; Mr. Ravi Vishwanath – CFO; Ritu – Head of Staffing Business and other senior management personnel. We will start the call with the commentary from the management and then move into the Q&A. Thank you, everyone. And over to you, sir.

Ashok Reddy: Thank you, Rohit. So just as an update, obviously, we are going through difficult different times and I think we have seen the start of the impact on that from March but I think we have been taking the necessary actions from our end for business continuity and to stay in touch with the customers, the associates, the employees and ensure that we are able to operate and also effectively be prepared when the market and the client start to open up. I think effectively we did see an impact on the headcount coming in from March. If we have had a reduction in the associate count and the NETAP trainee count while the Specialized Staffing business has been kind of consistent, so we had about 7,500 reduction overall in March. However, as we look forward into Q1 given the April numbers and how it is playing out, we expect about 16% to 19% impact on headcount to come in from the aspect of the COVID reductions that clients are having.

I think overall we have kind of clocked in a revenue growth of about 17% year-on-year; EBITDA was flattish; PBT was down largely on account of provisions and some of the Other HR Service performance in P&L. We have had a much lower net profit largely because of the MAT write-off that Ravi will cover.

If we look at it as a standalone aspect, the General Staffing business has added headcount, grew about 16.5% in revenue, increased about 12% in EBITDA if EBITDA margin was kind of flattish at about 1.9%.

The IT Staffing business also grew in revenues at 61%, the EBITDA grew by 28%... we have a provision in there, just as a cautious approach under COVID we were looking at some element of collections that might not happen and hence we decided to make a provision there. The IT Staffing business has got to a 9% margin which is what we believe will be the steady state margin in IT Staffing.

Telecom has stayed flat, both in revenues and profits and margins, but I think what we had indicated earlier of existing certain projects and staying focused on margin-accretive verticals will play out into this year. So, I think the margin improvement has reflected for us will play out into the coming year.

IMSI is integrated now and integrated with what we call Specialized Staffing vertical which has IT, Telecom, and IMSI and I think that will stay steady on numbers and margins around 11%, 12%.

Other HR Services is where we have had a decline in revenue. That is also in line with the aspect of sunset that we would like to do on the Government business and that is kind of on track. I think we have also taken caution to provide for receivables in the businesses there just given the whole COVID impact and layoffs and customer liquidity issues on that side that we expect. So, I think we have an additional Rs.4-odd crores provision that is impacted there. I think Freshers world is other P&L where we have consciously made investments in building the technology platforms for hiring both as an applicant tracking system and as a database for TeamLease, which has enabled us to move up the hiring contribution to 20% from the platform which we think this year will move up substantially more. Also, what it does is drive up our delivery capabilities on the hiring front in a large way. And now all recruitment teams across businesses are on these technology platform. Instead of capitalizing those platforms, last year we decided to take it into the P&L and write-off that investment. But I think effectively what will happen is that now we work with a much more truncated team because the upfront development on that front is completed.

I think overall Q1 we will be looking at a reduction in headcount, but some of the other P&L like our Compliance business and digital platform has seen an increased demand. And I think there is onboarding of customers that have been happening there and we think that trajectory should sustain itself. Ritu will cover a little more. I think we are also focusing the whole activity on staffing from Q2 onwards to trying to drive on growth and hopefully by then the industries and companies have opened up and effectively we will be able to look at positive movement in numbers thereon.

Internally, I think what we have done is effectively try to work on our own headcount rationalization and cost rationalization in line with the reduced associate headcount and business and a lot of that has been initiated from March, will get completed by June, and I think we will have impact of that coming into the quarter and thereafter into Q2 and onwards. I think there is hence a reduction in the core employee headcount, which is kind of reflected between Q3 and Q4 itself of about 150 resources. We believe there will be further rationalization on that. Employee cost accordingly would come down. Other expenses also in Q1 would go down primarily because the offices have been in lockdown. We have started working from the last three weeks. We have 10% of the staff working out of the office in Bangalore and a partial number from the other offices. So we have been I think cautious in ensuring the work from home business continuity connect with customers, associates and employees during these times. Happy to say that we have not had any employee falling ill and there has been good business continuity that we will sustain out into the future.

So I think overall we should have driven for a better growth and profitability, but I think that will be something that we will focus on into this year again. Growth will get impacted in Q1 depending on how industries and companies open up. We will look at reinitiating to that in Q2 and obviously the cost controls and productivity aspects being worked on to drive the sustainability on the margins would continue. Ritu, just give an overview on the staffing side of it and then…

Rituparna Chakraborty: Good morning, everyone. I think just to give you an overview, to begin with the last quarter's performance from annualized perspective, we have seen growth on the top line to around 16.5%, from a revenue perspective we are looking at about 12%; however, particularly for the last quarter I think industries and sectors probably started seeing the possible impact of COVID and hence we started losing associate headcount in the month of March and that essentially kind of slowed us down to some extent. Yes, from EBITDA margin perspective, we have remained flat at around 1.9%.

From FTE perspective, I think we fell marginally from a last quarter's performance to about 264 as against 266. I think of course we have been making steady progress in terms of how we have been managing our headcount and hence there has been in the last quarter significant amount of rationalization that has happened from a headcount perspective.

I think in terms of the hiring mix, overall additions that we have seen over the last year, 17% of them have been through hiring that we have done from our side.

In terms of funding customer mix, I think we have pretty much remained at the same level as last quarter.

In terms of the number of associates who are in fixed markup remained kind of plus.

Just to give you some perspective about how we are looking at market here on, I think fact that we are springboards in good times and shock absorbers in bad times has never been more evident than in current times. I think since March onwards we have started seeing the impact of lack of revenue showing up in terms of the associate headcount. We believe that we will see around 15%, 20% reduction through Q1 in terms of headcount and at our end I think we have taken all the necessary steps in terms of sustained rationalization of cost largely by way of headcount restructuring and headcount rationalization and reduction. Of course, there are some benefits we have got in terms of the operational costs having come down.

I think the way we look at the future hereon from Q2 onwards it is clear that there is going to be a phase recovery process across the top-15 segments or 15-industries, and in our view we would like to stay focused on the few sectors which seems to have a much more predictable path towards recovery and focus all our energies and resources in terms of maximizing our growth opportunities that are emerging. Of course, there seems to be some shift in terms of demand for profiles which are emerging. Whether it is in terms of hiring capabilities and servicing, we are making changes at our end to ensure that we are able to deliver to those opportunities which are likely to emerge in the future.

Clearly, agriculture remains a sector which has been unaffected largely and hence we would continue to chip in towards that sector. We believe that chemicals will make a rebound as a sector. eCommerce, of course, remains, will become and is probably a sector that should see steady growth. Even in the retail space, we feel that essential retail and all-mart format will continue to see demand. We see some pockets of positivity emerge even for FMCG which is largely around (**Inaudible**) **14:16** food and staples. Healthcare and pharma sector which has remained COVID throughout this journey. And also we expect some amount of revival towards the latter half of the year for manufacturing and energy. Interestingly, while telecom have had difficult last few years, but it has been quite steady and we believe that steadiness will also be a window of opportunity for us.

So I think with that I have tried to give a bit of an overview in terms of how we are looking at a future from a staffing perspective.

Ashok Reddy: While we will have the sectoral mix playing out depending on the economy opening, I think one key variable is we have been able to sustain the average markup over the quarters and I think what we are seeing from clients is some arc of a discount in the short run to tide over the current period. So, we are doing that on per client discussion basis. I think the whole mix of funding to non-funded had stayed consistent. So, we still have only about 12.5%, 13% being funded and the balance is collect and pay model. And I think the whole element of hiring ability enhancement and delivering to a larger percentage of the positions as a mix between our recruiters, our technology platforms and our vendor channel has gone up quite substantially.

Also, on the productivity front, if we did not have the much reduction, we would have had FTE improvement. But that kind of stayed flat. But I think with the headcount adjustment, we should be able to drive that back as we go forward.

Ravi will just cover a little bit on the numbers.

Ravi Vishwanath: Yes. Good morning, everybody. As we have been talking about this for the past couple of quarters and we have chosen to adopt the new tax regime under the lower tax rate which meant that the MAT tax credit that we have accumulated over the past few years are an eligible amount that we could have possibly adjusted against our future tax liability or had to be written off. So, we have taken a one-time charge of about Rs.50 crores in current Q4. So, we have adopted the new tax regime and believe that it would benefit the company significantly both in terms of cash flow because we would not have the MAT tax outflows that we have seen in the past and have the advantage of the lower tax regime. So, we have also seen reduction in the overall DSO, collections have improved across businesses barring a few like we mentioned, the total funding exposure in the Staffing business continues to be at about 13%. Other businesses too have seen collections kicking in between Q3 and Q4 including the Government business we have seen some collections coming in. So overall I think DSO seems to be on track. We have continued to maintain a very strict focus on our collections even during the current times and things are the same if not better right now. We continue to stay focused on what we need to do. We continue to stay focused on capital allocation during these times. Certain decisions have been taken which we will probably announce in a course of time and we stay committed to get the Staffing margins back to the levels that they were at in FY'19, so we are focused on that and we believe we have done the necessary ground work over the last couple of months to deliver to those numbers once the market and the economy kind of revives over the next couple of months.

Ashok Reddy: I think also overall over the last two, three months aspect of engagement with customers on invoicing, collections and all of that has been lot more rigorous and we have seen a good element of collections coming in over this period. I think we are cash-positive month-on-month.

While we have received about Rs.40 crores worth of TDS refund letter from the IT department, we have not yet received the money in hand and we expect that to come in probably over the next two months. It is already late. Normally within a month of receiving the letter we receive the cash on that front.

Also, I think effectively with the cash accumulation, positive cash flow and all compliances and all payments being met, we should be able to month-on-month increase our free cash flow position and keep higher cash reserve available with us.

We have also kept Rs.25 crores line of credit with a bank just in case should we require it but we do not see any need for drawing on that at this point in time.

I think the key focus to be frugal with capital, to be consistent in the follow-ups, collections and capital allocation across the businesses. And I think we will work towards the aspect in the short run adjusting costs, but in the long run revenue ramp ups to drive on the profitability and the margins into the future. But I think what we are trying to do is work with companies and industries during this difficult time to effectively handhold the work from home, handhold the associates, handhold the tough decisions that are being taken both at their end and our end. That is it from our side. Happy to take questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Sudheer Guntupalli from Motilal Oswal Financial Services. Please go ahead.

Sudheer Guntupalli: My first question is to Mr. Ashok. Coming to the 15-20% headcount reduction you spoke about in June quarter, is this a conscious and conservative estimate we are looking at, at this point in time or have we already seen that kind of numbers pan out in April and May month itself? Now, as the economy has largely opened up, is there incipient change in the direction of hiring discussions you are having with the clients or in the pipeline?

Ashok Reddy: Morning, Sudheer. So I think current situation that we are in is frankly not modellable and from that perspective have been looking at sectors, companies that have been impacted, sector companies that have been able to function in the lockdown and function and people who have effectively been looking at increasing headcount. So this is a combination of all three. So while we have been making an estimate on the number reduction basis what we think, we are not sure of it. So, obviously, April is done, we have a view on the number there. May payroll is still going on. It will take another three, four days before we close out on May. And there have been a revival of some of the companies and industries in terms of working. Employees have started coming back into offices, have been working from home, a combination of all of that. And I think even in April, we have had some new clients who have come onboard and onboarded new associates. Obviously, the attrition from existing clients has been larger than that, but as you pointed out there are some companies and sectors that are seeing and having discussions on positive growth. But overall I think given the current situation we do expect the Q1 to be negative, but the dialogue with corporate, with new clients, with prospects is about how we can complement for growth in their requirement.

Sudheer Guntupalli: Regarding the PF trust issue, if we look at the unrealized gains on the investments in the trust, it has been increasing over the previous three quarters; so, from 47 crores in September to Rs.66 crores in December to Rs.78 crores in March. In March month, both debt and equity markets witnessed a significant correction. Just curious on why there is a meaningful increase in the unrealized gains by end of period March?

Ravi Vishwanath: Some of the investments in the bond markets with state government instruments have witnessed some demand over the last few months and that probably explains how the unrealized gains have actually increased to Rs.78 crores. So we would probably be taking advantage of some of these profits in the current year just to ensure we do not miss out on those opportunities.

Sudheer Guntupalli: So if we look at the provisions in Other HR Services, so both central government and state governments seem to be sounding quite proactive in terms of releasing pending dues and payments to different vendors and even releasing tax refunds to people also quite early. So even in that background, do you expect the probability of delay or credit loss in this dues? I think provisions were largely taken in Other HR services.

Ravi Vishwanath: Provisions have actually been taken against corporate receivables, not the government receivables. I think actually between March, April and early May, we have had some good collections coming from the government projects and there has been some element of movement on that front. So the government projects have given about Rs.20 crores of collections over the last 45-days kind of a thing. But I think some of the corporates are seeing challenge on headcount, working and all of that. So our belief is that the aspect of a play out on headcount reduction or non-performance and stuff might translate into them backing off from some of the payments. And that is really where we said, it is better to be cautious and… while we will continue to chase for those follow ups, I think it is just better to look at it from a provision perspective.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

Vimal Gohil: My question is on margin expansion. You said that you are wanting to get back to the overall margin level of about 2.12% that you had delivered in FY'19. But given the fact that you have done a lot of initiatives at your end; you probably stepped hiring from your platform, you have sort of reduced cost. Going forward, I mean, over and above FY'21, do you expect margins to be at a high level as compared to FY'19 also given the fact that there are multiple initiatives that you have initiated even before the COVID, so where do you see your long-term margins settle in going forward?

Ashok Reddy: So I think at least for '21 we would like to bring back the margins to the '19 levels and work it up from there. So I think from two, three-folds, one aspect is obviously staffing we would have to look at how the current negative impact can be offset by cost adjustments and then look at growth thereon playing to productivity in the latter half of the year. The impact in Specialized Staffing in the current scenario have not been much. I think across the three verticals of IT, telecom and network security, the demand has stayed consistent while some of the mandates that were to have come on board in Q1 have deferred to Q2. We have not had a major reduction play out in headcount other than some of the projects that we have consciously chosen to drop on that side. So, as I had mentioned over the last two quarters, TIRF as a vertical play were something that we were looking to exit and some of the lower margin plain services and stuff, we were looking to exit. But I think overall the demand in Specialized Staffing seems to be there. And Specialized Staffing is compared to the General Staffing business the higher margin play. So in IT we have about a 9% margin that we are looking at. Telecom should get back to the 3%, 4% margin. Network security should be at 11%-12% margin. So I think stability in that with some element of a growth in the second half should enable us to move the margins. And in Other HR Services also, I think the aspect of some of the revenue growth and the element of cost productivity aspects that we were doing, one of the P&L in Q4 had turned positive, will continue to stay positive as we go forward, they have also been adding revenues during this shutdown period. I think overall the portfolio play out while it is really what will contribute to the margin, getting back on track, growth will really be a function at this point that we will have to effectively wait to see how the economy opens up. But I think we are the eternal optimist, we would like to believe that formalization will have to be the way forward given the whole migration that has played out and the impact for the unorganized sector and all of that. So, I think even for the government trying to work on formalization would be a key imperative. And obviously as formalization happens, we would play on that wicket. I think hope the future has a growth potential and we will continue to work towards that is how we would look at.

Vimal Gohil: Sir, your provisions in the HR business are largely done, would it be safe to make the statement?

Ashok Reddy: I think effectively the way we are looking at it unless some new surprise come, but I do not think there should be any. We have looked at all clients, looked at all the elements of the outstanding and the possible feedback that we have had from them and then looked at the provisioning.

Vimal Gohil: So the reason why I am asking this question is because we had some government receivables that we wrote off earlier in the year and now we have some private corporate where we have had to write off? How are we looking to improve the overall quality of clientele over there?

Ashok Reddy: Government revenues have not been written off. There were short-term provisions which on collections get reversed. So we have not had any write-offs in the government revenues.

Ravi Vishwanath: These are not write-offs. These are just provisions being made on a prudent basis and on the basis of the policy that we have for provisioning. These continue to get focused, these continue to get collected and as and when they get collected they get written back.

Vimal Gohil: So what is the total provisions that we have made in the HR business for the full year including the government and the private companies that we made this quarter?

Ashok Reddy: We will get back to you on that question.

Vimal Gohil: I had a question on the working capital. You said that the company has about Rs.40 crores worth of TDS refund letter from the IT department. That should significantly help our working capital on absolute basis maybe in FY'21?

Ravi Vishwanath: Absolutely, you are right.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal PMS. Please go ahead.

Susmit Patodia: Out of the Rs.6.5 crores of provision, Rs.4 crores is for Other HR services, is that right?

Ashok Reddy: Yes.

Susmit Patodia: And Rs.2.5 is in Specialized Staffing?

Ashok Reddy: Yes.

Susmit Patodia: So if you could tell us how many accounts would these come from?

Ashok Reddy: So this is a general provision we have made, not specific to an account. We have just taken it as a view looking at the overall outstanding and the client portfolio and some of the feedback. So it is not attributed to a specific client as such.

Susmit Patodia: Actually just to finish on the aspect and taking off the last participant's question, out of the total provisions you have made, have you written back anything here with government plus all the other provisions that you may have made on receivables?

Ashok Reddy: So on a recurring basis there are write-backs that keep happening. This is an ongoing activity. So out of the total provision that we made in Q1, we have written back about Rs.4 crores and as and when these amounts get collected, they continue to get written back.

Susmit Patodia: The second aspect is the MAT decision that you have taken to move to the new tax regime. I was wondering because of the massive any benefit that we have, which year does this breakeven for us, or is it a pure cash flow call?

Ravi Vishwanath: This is a pure cash flow call because under the earlier regime the tax rate used to be 33%. But given that we were not liable to pay any tax on account of 80JJAA, which came under the minimum alternate tax and that was a 22% tax outflow for us on our book profits which was what got accumulated as the MAT tax credit, which was Rs.50 crores opening balance that we have written off. Under the new tax regime, the tax rates have been lowered to 25%. So if you want to adopt to the new tax regime, the tax rates are 25%. The 80JJAA continues to be available for us. Probably one of those few sections that continue to remain in the tax books which means that we will not be required to pay any tax. So under the new tax regime the MAT has also been eliminated. So we would not be required to pay any minimum alternate tax. So thereby the tax outflow for us which used to be 22% of the book profits would not be there going forward.

Susmit Patodia: So you will have zero cash tax outflow in FY'21, is that the right understanding?

Ravi Vishwanath: Yes, you are right.

Susmit Patodia: And just lastly, Ashok, I wanted to ask you this. Shri Manish has been talking about this in various platforms is that only 5% of India's labor force can actually work from home. So, when you said that the demand profile is changing, are you seeing any significant change or are you seeing more work from home enablement at your end?

Ashok Reddy: So I think it is effectively a new norm and I think 2030 have been pulled forward to 2020 in terms of digital transformation, whether it is eLearning, whether it is online learning, work from home or technology, platform, adoption and stuff of that sort. So I think frankly even if I just look at it as a microcosm of TeamLease, we are 100% of the employees working from office and for the last three months we have actually had 100% working from home. Even in the new normal as we go forward, we are actually dialoguing to say what percentage of our people can continue to work from home. So I think it is going to be a differential strategy and approach for different companies and different sectors. Obviously, there are companies in manufacturing and retail and stuff where you do need the employees to come to the construction and all of that where people need to be on site, but clearly in service sectors in IT and in other areas, the opportunity of work from home or work from anywhere comes in as a viable option. So I think industries are gearing themselves up for the new norm and I think we will see a lot more adoption on technology, adoption on variable models of working and see that evolving as we go forward. But I think, Ritu also add something to add on that.

Rituparna Chakraborty: Yes, if we are looking at 88% of the work being informal in nature, by default these are work which cannot be done from home and are done remotely. So we need to mentally make that connection. Also, COVID has exposed the divide between mind workers and hand workers. So I think while work from home has been talked about largely, but we have to realize that is a possibility largely of those who use their mind and definitely we are likely to see a huge shift in terms of organization decisions about moving such kind of workers maybe permanently to a work from home kind of arrangement. However, large part of the economy is still dependent on people who work outside of work places. While COVID has allowed these people to be at home, we are not particularly sure whether all those people were actually working from home or were in a position to work from home. I will give you an example of the call center segment which got deeply impacted because of COVID in a way in which we have not seen maybe in other sector, for example, their work has security requirements, privacy requirements and even in their offices mobile phones are not allowed. So those kind of profiles unlikely can immediately move to work from home kind of an environment. I think that just to give you a perspective about the whole narrative around work from home.

Ravi Vishwanath: Specifically, if you were to look at it in the context of our temporary staffing business, 75% of our head count are sales, customer support and logistics people. And that is how it is being for actually for the last many years now. These are activities that cannot be worked out of home. So those will continue. As and when economy revives, we will have sales people coming back, we will have a delivery boy coming back and we will have your customer service people coming back to our homes to fix stuff and stuff like that. So, I think that is how it is going to be as far as especially to our business particularly actually.

Ashok Reddy: But an extension of back in Specialized Staffing in IT and in network security, 100% of the workforce was working from home, even the temporary resources, clients wanted platforms and apps to monitor and manage them but 100% of the work over a month was happening from home.

Susmit Patodia: Just one last question to Ms. Ritu and to Ashok as well is that have you heard a lot about these labor regulations being changed in a couple of states, have you seen any initial interaction with any large companies and could these states be a big growth engine for us as a company?

Rituparna Chakraborty: First and foremost I think as an organization we feel that it is a positive move in the right direction where states are coming forward, taking lead on making necessary legislative changes within the state territory boundaries. While we might have differential views on decisions taken by different states, but I think it is a move in the right direction. At this point of time, I think most of the legislation that the states have come out with are pending executive decisions from the cabinet and then from the president. So we will have to wait and watch how that translate in terms of impact on our customers and us but we do believe that probably going forward we should anticipate a lighter touch of legislation and I think that is a bright spot out there for us. I think besides the state legislation, there are many representations that we have made over the course over the last two, two and a half months to be specific in terms of making specific changes and amendments which help industries as well as the staffing fraternity. So I think if COVID does not make all concern on the policy makers aware of the need for labor reform, I think no other situation has a chance. The focus of all of the labor reform agenda has to shift towards job creation rather than job reservation. Some of those measures that were taken during the month of April under the Disaster Management Act which kind of tied down the hands of many employers that has been done away with and which gives a little more freedom to industries as well.

Moderator: Thank you. The next question is from the line of Garima Mishra from Kotak Securities. Please go ahead.

Garima Mishra: First question, this nil cash tax outflow, till when do you think this will sustain, is there any sunset on it at all that you envisage?

Ravi Vishwanath: It is very difficult to answer that question, Garima, but at this point given that when the new tax regime was introduced in September, October last year the only deduction that they have allowed is 80JJAA. It clearly shows the intent of the government to formalize the workforce. And given the current situation we are in where we have the migrant issues, where most of the migrants were working in the unorganized sector, to bring them back, etc., I think the government will probably keep the 80JJAA section for a while till they believe that there have been some movements from the unorganized to the organized sector.

Garima Mishra: But otherwise, Ravi, there is no other sort of hindrance which can come in, I mean, barring any regulation change, but there is nothing else that basically indulge you from billing this benefit in the years to come, right, assuming all else is same?

Ravi Vishwanath: Absolutely because we also have completed our first tax assessment last year where this particular section was claimed for the first time in our tax return, the case was taken for scrutiny and after scrutiny the tax official have allowed the deduction, which means that what we have done is right and the section is here to stay and the benefit for the years to come.

Garima Mishra: One question for Ravi and Ritu. Could you please comment a little bit on demand for your General Staffing segment from BFSI because that has been an important one for the TeamLease for the last few years?

Rituparna Chakraborty: What we are trying to do is unpack BFSI and not look at it as BFSI because different elements of BFSI is likely to get impacted differently, for example, the entire NBFC side has a retail demand and as you seen all around that overall there is a dip in retail consumptions and hence the retail demand is likely to not go up for probably another quarter. However I do not see BFSI being completely down. I am looking at a revival of that sector in the second half of this financial year because while our existing customers if I take feedback from them, there has been concern because of the dip in revenues, they are cautiously optimistic if I may put it that way about a possible revival from Q2 and in Q3 onwards. I do not see new additions, but I do not see too much of reduction as well at this point of time. They probably will stay flat post whatever numbers we end June with, for about a quarter and then we might see increase in headcount as well coming from that sector.

Moderator: Thank you. The next question is from the line of **Jason Sauns** from Monarch Networth Capital. Please go ahead.

Jason: I understand right now the situation is pretty fluid. But just as a broad outlook, on Generalized Staffing as well as Specialized Staffing as in, in the post-COVID scenario, post June or July say, how do you look at the demand scenario?

Ashok Reddy: Jason, as I mentioned earlier, this crisis is something that no one has ever faced before and it is a situation that people are evolving on a recurring basis, the whole lockdown, the opening up of the lockdown, the phased work model, the fear it has created in people in terms of social engagements or in office and work and some of that sort. So I think clearly Q1 across industries and companies is going to be bad. Our belief is that with the phased opening up that we are seeing, companies coming back to work and employees coming back with precautions and all of that, we should in certain sectors start seeing some element of demand improvement. Whether that will more than offset the negatives of other sectors? We will have to wait and see because I think the overall employment and industry pick up, there is a supply side constraint and the demand side constraint and we have to ensure that both of these are effectively being addressed for the industries to come back. But I think like I had mentioned earlier, we are eternal optimist, we do believe that the economy will pick up again, we will start seeing formalization and employment in a longer timeframe and we will be working towards that. In the Specialized Staffing, as I mentioned earlier, the immediate impact has not been much. I think the nature of the resources which are essential for delivery, work and also in essential services such as telecom, we have not seen an impact on headcount per se, but I think what we are looking at is push out of some of the new mandates into Q2 and thereafter. So I still believe that for the year there is growth potential in the Specialized Staffing business. Whether that comes as an account of consolidation from the multiple vendors that they have been working with, formalization, the aspect of general growth, we will be open to all of that. So I think Specialized Staffing will be stable to growth. General Staffing will have an element of reduction in the Q1 and we need to see how we can drive that up to growth as we go forward.

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

Abhijit Akella: I just wanted to understand the segment EBITDA break down that has been given in the PPT. It seems a little bit different from the format we used to follow earlier. So some of the segments, EBITDA does not seem to reconcile exactly with the P&L. I am just wondering whether other income has been included within the segments here and also the unallocated line is not provided there. So if you could just help out with these details please?.

Ravi Vishwanath: Yes, other income which is pertaining to the respective segments, we always added back to the respective P&Ls and that is how we have been presenting since we got listed. And at a consol level, unallocated contribution is similar to what was there for last year which is almost around Rs.15-odd crores between year-on-year.

Abhijit Akella: Okay, alright. Fine. Maybe I will take the details from you offline.

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

Sandesh Shetty: Employee addition has been just 4,000 for the whole year, but our mark ups have gone up to 744. So if you can explain what drove the growth in mark up, that would be helpful?

Ashok Reddy: Associated addition and the mark ups are two different variables. I think we were driving for a larger number associate addition, but I think the Q4 reduction as against positive growth impacted the overall plan on additions of associate. The markup PaPM is a function of the percentage markup that we have with customers, the new customers coming on board, our ability to price and renegotiate existing contracts, offer some of the value added services has the elements of the (ATS) Attendance Tracking System and stuff of that sort. So I think the combination of all of that goes into the PaPM and we have been able to drive that again over the years, while over the last two quarters kind of flat, the PaPM we have been able to drive up a little bit.

Sandesh Shetty: In the notes-to-accounts, it has been mentioned that 2.81 crores deferred tax charge. I wanted to understand, does this has a P&L implication?

Ravi Vishwanath: Yes, it will have P&L implication. Since we moved from 34% to 25%... like 34% was the old tax regime and 25% is the new tax regime, so there is a difference between the percentage movement. That is what we have presented in the note.

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

Tarang Agrawal: So when I look at your P&L, your Specialized Staffing business mix has improved in FY'20 over FY'19, yet I notice the 50 bps drop in gross margin, i.e. that is revenue minus employee expenses. So what happened here and how should we look at it going forward?

Ashok Reddy: Specialized Staffing is largely in three vectors that we have. So we have got the element of IT, telecom and the network security. The IT margins, as we had indicated, we have done an additional acquisition of eCentric which was a lower margin play merged it with our earlier business that we had an aggregate margin play would be at around 9% EBIT and that is roughly what it has come in at and will sustain into the future. The telecom, we had actually gone kind of negative, but our belief was that we should be able to bring it back to a 4% margin. Some of the project closures and stuff have been happening over the last two quarters will play out to another quarter. But I think we have brought that effectively to about a 2.8 EBIT and we should be able to improve it thereafter as we go forward. In IMSI, it is relatively new, it is about 4.5 months into the system, but around 11% to 12% EBIT is really where they should land in at. I think what we have also been able to do post the element of the acquisitions and the three verticals, is integrate them under one leadership. So we have got Sunil who has come on board to take charge of the Specialized Staffing business, viewing these three as three verticals, with leadership reporting in. They have managed to create a shared service between the three verticals so that the cost overlaps and headcount overlaps have kind of taken care of. So, we will see a huge element of core headcount reduction per se happening in the Specialized Staffing business as a function of the integrated play that they will be doing as we go forward. So I think that is really where we would be working out to. I think overall while we effectively have about 400-odd people in the consolidated Specialized Staffing business, we will see that reducing substantially as we go forward to about 250 in the future.

Tarang Agrawal: No, I understand that specialized staffing you have it going alright. My question was on the gross margins. So, the question really is that if the mix of Specialized Staffing services is increasing in the overall revenue, logically because it is a high margin business, my gross margin should expand, right and your realizations in your General Staffing business have also improved, yet on overall basis, your gross margins have come down by 50 bps, so is it because of margin pressure or cost pressure in the General Staffing business?

Ashok Reddy: I am not sure where this number you are referring to. If you could specifically revert with that by mail or a follow up call, we will respond to that.

Tarang Agrawal: Sure, we will do it over a call. Second question I have is what do you think are the benefits of increased hiring through your teamlease.com portal?

Ashok Reddy: I think it effectively enables us to get greater reach, conversion and a lower cost per hire. So I think the variables that we look at from a hiring perspective on the staffing side is how can we do more open positions closure, how can we do them across multiple locations and how do we effectively do it at a lower cost. I think the digital platforms enable us to achieve all of those three well.

Moderator: Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: The last two years we have done a fair amount of acquisitions to build a Specialized Staffing portfolio. Now with the minimal cash on balance sheet and weak cash flow trajectory, we would not look for any acquisitions in the medium-term?

Ashok Reddy: So I think we continue to stay and debt-free and we are cash flow-positive and if acquisition makes sense we would still explore opportunities. But also if you look at the historical trajectory of our inorganic growth, none of them have been really a very big ticket item. So, I think they are all latch on, add on vertical that effectively add to the current portfolio of products or technology or team**.** And I think to that extent we would continue to stay active to look for opportunities. If an opportunity is right we will either fund it from our internal cash accruals that are happening month-on-month, we can look to raising debt if required or look at other options into the future. So I do not think we are in a rush to doing any inorganic growth, but should any good opportunity come by, I think we will stay open to it.

Madhu Babu: 1Q anyway is a wash out. But when we are building a back-ended momentum, so you are seeing the festive season again things could pick up?

Ashok Reddy: Right now, it is so difficult to comment on what is going to play out into the future primarily because that is really demand growth and that is going to be driven by liquidity in the system, employment for individual, the layoff impact. I think there are multiple variables that are going to impact, but like I said earlier the festival season is many months away. I think in the interests of the economy, people and the overall business sentiment, I would like to stay positive to saying that demand and supply would have sorted itself out by then.

Moderator: Thank you. The next question is from the line of Soumil Zaveri from DMZ Partners. Please go ahead.

Soumil Zaveri: Just something I noticed in the CRISIL rating report from April is that it said that we are looking to invest in a new business associated with ready to move in office spaces. May I request you to address that a little bit and give a little bit of color on that please?

Ashok Reddy: We do not invest in any ready to move in office spaces, but for three of our clients, we provide office infrastructure as a service. So besides the element of staffing that happens, we also front-end the office space requirements that they have. And that is the only add on as offering that comes in, in there. So it is not a conscious business line that we are getting into. This is purely specific to the customer requirements that we do the service on.

Moderator: Thank you. The next question is from the line of Nitin Jain from UTI Mutual Fund. Please go ahead.

Nitin Jain: So are you seeing any opportunities for market share gain from smaller players in the general staffing business. And did you have any conversations with the clients in this regard?

Ashok Reddy: Nitin, I think clearly, our belief is that corporates will act differently post this crisis blows over. But having said that I think right now everybody's focus is surviving the crisis. So I think while we have dialogue with people around consolidation of vendors, larger share of wallets with the customers and all of that, decisions per se will happen when some sense of normalcy returns for them. So which is really where I was earlier saying that Q2 onwards is really where we would actively look for dialogue on growth because our belief is that customers have then come back into office, the new normal has kind of set in, and then the leeway for dialogue around growth, whether it is consolidation, whether it is growth because business demands it or whether it is formalization, could start to kick in. Having said that like I mentioned earlier, we did have element of associate addition happening in April, but obviously offset by the negative from other clients. So there are dialogues with specific clients for growth in numbers that are either shifting from other vendors or coming in new per se.

Rituparna Chakraborty: Also, just to add there that the crisis also kind of exposes organizations in the same fraternity especially staffing in different ways, for example, the resiliency, ability to engage and ability to handhold customers through the difficult times is suddenly fast becoming visible and far more visible and we do feel that there is an opportunity to take advantage of some of those relationships at this point.

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

Alok Deshpande: I had a question on the pricing bit. So have any of your larger or medium scale clients come to you in April and May and asked for any sort of temporary cut in the pricing?

Ashok Reddy: Like I had mentioned earlier, we do have requests come in from customers to support them during these difficult times by reducing the price temporarily and stuff of that sort. It is very client-specific. We have been dialoguing with them about it and we have given some price cuts for specific clients.

Alok Deshpande: And what part of overall client portfolio would this be?

Rituparna Chakraborty: Very small portion.

Ashok Reddy: The way we have structured it with them is that we hold the old pricing and give them a credit back for that discount rather than factoring the discount per se into the price hike so that he should be able to revert back to the old price when the market improves for them.

Moderator: Thank you. The next question is from the line of Purohit Krish from Prithvi Capital. Please go ahead.

Purohit Krish: So just wanted to understand out of our overall other cost which we have in this year around Rs.170 crores, how much of that would be like your fixed cost and what is the kind of reduction that you envision in this year owing to all the cost cutting measures that you are seeing?

Ashok Reddy: Certainly, the employee cost will see a reduction primarily from the perspective that we are reducing the headcount. So from Q2 we would have a larger impact coming in on that. The office rental and stuff which is the second largest cost item, while we will have some leeway for giving up some office spaces into Q3 onwards, I think given the social distancing, requirements and even if we have 50%, 60% of the staff coming back into work, we would still need to maintain a certain element of office space. I think at least in Q1 we see a huge reduction around travel, conveyance and other overheads because frankly that has not been happening at all and for about a month and a half, all offices were closed. So the overhead has impact on that also would be much lower. So I think overall while we have not worked on the annual cost play card, we do see a substantial cost reduction coming into this year.

Purohit Krish: Just as a follow up on this. What would be the core employee cost in FY'20 and do you see reduction in that also in the coming year?

Ashok Reddy: Our average monthly wage bill is about Rs.12 crores and we had about 2,000-odd employees. We are looking at about 300-odd reduction on that count. So I think at least about a crore and a half of wage cut is what we would potentially look at as we go forward.

Moderator: Thank you, sir. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Rohit Dokania of IDFC Securities for closing comments. Over to you, sir.

Rohit Dokania: Thanks. Ashok, would you want to make any closing comments?

Ashok Reddy: Just a comment on the fact of the uncertain times that have been playing out for March, obviously, none of this generation has clearly experienced it. I think we are trying to work in a situation where any kind of modeling is exactly playing out to reality. But I think staying true to the core, staying resilient, staying focused and taking hard decision as required, will see us through on this. I think a crisis also throws up opportunities from a macro perspective where things that were on a regular run could get shaken up whether it is labor reform, whether it is formalization or whatever and we do believe that these triggers could help the overall industry play into the future. So I think staying true to the core, staying focused, taking the hard decisions, working with clients, employees and associates, is the way that we would look at the way forward. Thanks, Rohit.

Rohit Dokania: Great. Thank you, everyone.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of IDFC Securities, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.