



“TeamLease Services Q4 FY2017 Earnings Conference Call”

May 19, 2017



ANALYST:

**MR. ABHISHEK GUPTA - IDFC SECURITIES
LIMITED**

MANAGEMENT:

**MR. ASHOK REDDY - MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER - TEAMLEASE
SERVICES
MR. RAVI VISHWANATH – CHIEF FINANCIAL
OFFICER – TEAMLEASE SERVICES**

Moderator: Ladies and gentlemen, good day and welcome to TeamLease Services Quarterly Results Conference Call, hosted by IDFC Securities Limited. As a remainder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Gupta from IDFC Securities. Thank you and over to you Sir!

Abhishek Gupta: Thanks Sanford. Good morning everyone and welcome to the Q4 FY2017 Results Call of TeamLease Services. Today we have with us Mr. Ashok Reddy – MD and CEO and Mr. Ravi Vishwanath – CFO of TeamLease Services. We would follow the usual order of Ashok giving us a perspective on the quarter gone by and how we see the business is shaping up post GST then we would take up the questions from participants. Without further ado Ashok over to you!

Ashok Reddy: Thank you, Abhishek. Just capping up for the year, I think we have come in strong on the growth aspects the three things that we said. We would do we continue to sustain the element of topline growth for the business, the margin improvement on a standalone basis and on a consolidated basis has kind of played out.

We have one the three acquisitions and integrated them and I think there will be a strong opening balance on which we will be able to continue the element of focus for the IT staffing industry growth. We are seeing good element of demand coming in from that side independent of the whole talk of the IT industry layoffs and everything else because I think the temping aspect becomes a good functionality in those kinds of situations.

The element of continued look out to seeing if there are other opportunities for inorganic growth in verticals or in complementing services continues to be there so I think overall when we look at it from a topline perspective the organic-inorganic element has enabled the growth for the year. That opening balance will be a good sustaining driver for growth in the current year.

We do continue to look at the element of margin improvement has come about last year by various initiatives on the technology, the people and the process fronts. We believe that can continue into this year also, so we will be continuing to focus on the economies of scale additional implementations and go lives on the technology front that will compliment that ability to draw the economies of scale.

The continued focus on comprehensive compliance will be there from our end and I think it has been a huge benefit for us from a tax perspective for last year, the compliance drive at our end and the element of employment generation and growth has enabled us to draw on the 80-day benefit which has further added to the element of the PAT improvement.

So I think we will if you look at it at this point in time, given the last year performance and looking at it for next year continued growth, margin improvement, inorganic opportunities will be what we will be focusing on. Our belief is that GST implementation will be another aider to the aspect of formalization. It would not be an element of switch being turned on. It will be a gradual sunrise but we do believe that with the implementation of GST, we will see a drive towards formalization so we have been spending the past few months at the backend getting ready for the aspect of the GST implementation from a platform, the technology and the accounting perspective and we are prepared on that front too.

So we will be taking that also aggressively out to the customers and to the market once the implementation happens. So I think we are in the right direction from that perspective we will continue to stay focused on the general staffing, the vertical staffing and the attendance services of compliance, the net app and the hiring training aspects. No plans at this point to get into managed services. We believe our margin improvement topline growth and profitability will come in from these businesses into the next year. So that is the thing from our end happy to answer any questions or anything that you have.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Good morning Sir. First question is in fourth quarter we have not seen any significant improvement should it has been flattish so if you can give color on the how do you see the, are we still under the demonetization effect or why it is like that? Question number two is in terms of the IT to our total mix what was the IT revenue in fourth quarter and what is the IT revenue for full year? How do you see IT revenue improving further particularly when the software industry as such is going to its own problems?

Ashok Reddy: Typically even if you look at our last year Q4 is flattish to Q3. Q3 is typically our best quarter and that gets sustained into Q4 because of the seasonality element of the festivals and everything else so there is a lot of one-time billing that happen during the Q3 period and I think if you really look at it we had a good Q3 on account of the demonetization and it enabled us to grow and we have added an additional 4000 plus associates in Q4 so we are entering the year with about a 150000 associates but the Q3 seasonality also factors for attrition in Q4 and that kind of accounts for the flattish nature and that is how it has been

playing out so if you look at it overall in terms of a spread of revenues for the staffing industry and probably for TeamLease 55% to 60% of the revenues come in the second half of the year and the balance comes in the first half of the year and that is how it is played out this year too.

On the IT staffing front a large element of the consolidation and integration happened into the second half of the year and some of it into the last quarter so we have had about 24 Crores of a topline from the IT staffing side and an EBITDA of about 3.6 Crores. We will have a full year of the three entities into this current fiscal so with the current run rate is about 8 Crores plus. I think we have a run rate of about a 100 Crores with the element of the industry at this point in time. Obviously we intend to leverage the opening balance that we acquired with clients, associates, capability and everything else to grow further in this year. So what we are seeing from companies is the uncertainty at their end does lead to an element of a hiring on a temporary basis because it gives you an optionality on flexibility, it gives you an optionality to take people for a test drive and figure their fitment and then evolve to a longer-term decision. So I think at this point in time we continue to see demand and we do believe we will be able to grow the IT staffing business.

Rajesh Kothari:

Can you just little bit further give some light on that because I thought there are lot of layoffs which is happening in the IT industry so when you are looking at the demand I thought also that most of these IT companies are sourcing their manpower from the organized players so how the industry is growing on the overall IT manpower recruit and particularly the segment in which you are present at the lower end and how do you see the demand growth?

Ashok Reddy:

One, we are not at the low end of the IT staffing spectrum because IT staffing plays to higher salaries and experienced profile so these are the four to eight year kind of profile average salaries range from 50000 to a 125000 and the volumes are relatively lower so if you look at our base of associates for last year is about a 1100 odd so I think when we look at it even in the IT staffing industry it is a highly fragmented market. There are multiple players probably each of the clients on the other end have nearly 150 to 200 vendors at their end so we believe in these kind of times compliance becomes a very key variable and there is an element of a consolidation that happens and also uncertain times at the company's end to some extent outsource the element of some headcount that they required so combination of these two we believe will sustain the growth into the current year.

Rajesh Kothari:

Just last question of my side what is the from your client perspective this IT staffing spread over how many clients within IT and what is the organic growth which these clients are looking for if you can give some view on that?

Ashok Reddy: So we work with about 50 customers in the IT staffing space again in the IT staffing as in the general staffing we do have a long tail of customers were about 30, 40 or them are in single digit numbers so if we effectively can drive up the element of just doubling the numbers with these guys and also working with our larger clients to incremental divisions and consolidation the opportunity to grow this substantially.

Rajesh Kothari: I will take the question offline. Thank you very much.

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

Garima Mishra: Thanks for the opportunity. Ashok, could you just elaborate on which industries or sectors do you think would contribute to further growth of the temporary staffing business in FY2018 particularly as we have ended FY2017 on a very strong note some of which may have been contributed by post demonetisation positive staffing trends in industries like Syntech. So do we expect those trends to continue in these industries and which incremental sectors you may see growth from?

Ashok Reddy: Actually Garima the Syntech growth that came in, in Q3 some of it has already dissipated by attrition so I think one good thing for us has been the aspect of diversified portfolio of clients and customers across industries and locations so this year we have added overall and other 300 plus customers and we are at about a 1900 plus customer base overall so our belief is that and if I look at even my current open positions demand is coming from multiple sectors so we do see demand at the FMCG side we are seeing it from manufacturing, we are seeing it from the agri industries, we are seeing it from infra so multiple industries of different volumes that are coming in but also I think one conscious feedback that we are getting from the industry some of the clients that we work with is about consolidation. The aspect of they having work with multiple vendors, small vendors big vendors some of them are starting to look at consolidation and I think one of the variable that gives them the comfort on TeamLease is our strong compliance platform and adherence on a continuous basis.

Garima Mishra: Thanks. Ashok you had also mentioned something about this current run rate of IT staffing revenue and EBITDA so could you please give me those numbers again I think I just missed out?

Ashok Reddy: We are at about an 8.2 Crores run rate on a monthly basis and a 15% EBITDA margin.

Garima Mishra: So annualized revenues of about 100 Crores with the full year kind of a margin?

Ashok Reddy: Yes.

- Garima Mishra:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.
- Sagar Lele:** Thanks for the opportunity. Just wanted to understand what are the dynamics that result in this expectation of this slower velocity and shift occurring from GST implementation? You said it would not be a step up but it would be a more gradual process just wanted to understand this expectation a little more detail from you?
- Ashok Reddy:** If it is a step up event we would be the happiest people because our underlying belief has always been that a large element of the outsourcing in the Indian context happens in the informal sector and the gradual shift to formalization is a function of macro events things like GST, regulatory, compliance, enforcement of the laws all of these go towards the formalization drive. So our thing is that there is a cost impact for companies and primarily they have been staying out of the ambit of formalization for cost and for compliance reasons if the regulatory arbitrage play. So as long as the implementation is effective and enforced in a comprehensive manner it could lead to a step up but we believe that that step up will happen there will be a kind of a gentle flow for a period then there will be a step up then there will be a general slope and then a step up and so on is up call at this point in time given the cost implication for companies the enforcement the loopholes that people tend to find and everything else but as implementation gets bettered as the loopholes get clogged as the element of the buy and to the overall approach happens the formalization will have to kick in, so we would be the happiest if it had a step up impact but we just trying to be conservative and wait to see how it plays out.
- Sagar Lele:** Also are there could you probably highlight some of the customer conversations that you are having on this particular event already given the fact that it is just about around the corner and probably lot of these conversations must have already begun in terms of roadmaps or planning or in terms of your readiness?
- Ashok Reddy:** So our readiness is in place Sagar but I think conversations with customers are most of them are saying let us get the final roadmap out from the government because it is still uncertainty of rates and all of those variables so when we approach they are saying is let us wait till formalization and finality comes in from the government on the front and then let us get in to the discussions.
- Ravi Vishwanath:** Also Sagar at this point of time the customers our clients are actually in the process of evaluating vendors so the vendor evaluation process is currently on with most of our clients and we probably have to wait till that activity gets completed. It should get done by see in

the next 30 to 45 days that should get probably done so we have to just wait to for that activity to conclude and then take the next stay your discussions on.

Sagar Lele: Also lastly from my side just wanted to understand the dynamics in the IT services bit as well while we understand situation the services and the vendors part what kind of opportunities are you looking at in the captives of these technology buyers that they set up anywhere?

Ashok Reddy: So I think given the uncertainty in the global situation and everything else captives could potentially become a larger play in the Indian context so we have one of the aberrations that we did was to get a few clients in the captive segments but independent of that we are looking to add more captives as clients and look at the element of growth along with their growth in the Indian context. So I think services product and captives will play an element of the client base and the client mix that we will look at for the IT staffing side but obviously whoever is growing faster will be the one that will drive our growth into the year.

Sagar Lele: That was helpful. Thanks a lot.

Moderator: Thank you. We take the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir going into 2018 what would be the growth that is like and what is the breakup between volume and mark up?

Ashok Reddy: We do not really give guidance per se but if like I said earlier I think we start on a small base of an 1100 odd associates the current run rate of about a 100 Crores and it is a 15% margin business.

Madhu Babu: No overall company level sir we earlier talked of 22% kind of organic growth right?

Ashok Reddy: Yes.

Madhu Babu: So overall for the Company what is the outlook for FY2018 in term so growth breakup between volume and pricing?

Ashok Reddy: Okay not really guidance statement but I think over the last seven years we have sustained a 20% plus growth and we will continue to work to achieving that. Obviously margin improvement for us has been coming in, in the past for by economies of scale to a little extent this year by the IT staffing coming in but as we go forward obviously when you compare the relative margin statements of the two businesses IT can make a difference on the margin improvement.

Madhu Babu: So mark up has not grown much this year and so what is the outlook there because only 2% kind of growth rate only?

Ashok Reddy: So historically also it is kind of we have been showing marginal improvement in mark up because at this point in time in the general staffing industry, we do not have a pricing power as a formal sector. The informal sector is so large and accounting for such a large percentage of the volume that at this point in time the pricing power is not in our hand but obviously as we go forward formalization kicks in we might get an element of a pricing power and if we layer on what we tend to call the value added services not manage services but value added services we could probably work towards a higher realization from the customers, but yes historical track has been a marginal improvement year-on-year and we probably continue to strive for that.

Madhu Babu: Sir just last two questions what is the average mark up this quarter because I think that has not been disclosed.

Ashok Reddy: This Q4.

Madhu Babu: Yes.

Ashok Reddy: 710.

Madhu Babu: Sir in terms of the free cash flow generation I think you mentioned around 47 Crores of operating cash?

Ashok Reddy: Yes.

Madhu Babu: So how the FCF and what are was the acquisition spent for this year amount spent for acquisition?

Ashok Reddy: So 92 Crores has been spent towards acquisitions.

Madhu Babu: So almost core capex would be around 5, 6 Crores right?

Ashok Reddy: Yes in the staffing business we do not have much incremental capex happening it is because largely invested we have about capitalized software assets of about bordering around 2 Crores on that front so incremental currently from a free cash flow perspective it is about a 170 Crores.

Madhu Babu: Free cash flow 170 Crores for this year.

- Ashok Reddy:** Not this year this is the cummulation.
- Madhu Babu:** Yes 40 Crores is the free cash flow right for this year.
- Ashok Reddy:** Incrementally generated operating cash flow and closing cash flow is 171 cash balance sorry not flow, balance.
- Madhu Babu:** Okay Sir I will come for a follow up.
- Moderator:** Thank you. We take the next question from the line of Abhilash P an Individual Investor. Please go ahead.
- Abhilash P:** Sir I just have one query I saw a note on some income tax benefit in your P&L I think the 80JJAA can you just walk us through what this benefit is and how does TeamLease benefit from this and I also saw a note that it will be applicable for the next two years and I think this is going to significantly impact our bottom-line so some color on this would be very helpful?
- Ashok Reddy:** In the last budget the scheme was introduced and amendment was introduced into the income tax act to drive the element of formalization and employment in the formal sector and there were multiple criteria's that were laid out so one is that the company availing this benefit should have a net overall employee growth during the year. Typically an employee who comes on board should have work for 240 days during the year, salary should be within Rs.25000 the salary payment to these employees should happen by cheque or by bank transfers, and all of these employee should be eligible and should have contributed towards provident fund and should be eligible for gratuity payments. So I think all of these criteria being met effectively enables our company to avail of the 80JJAA benefit and I think to my earlier statement that I made a growth company focused on creating formal employment, large element of our general staffing volumes happen at the entry level our average wages are at about a Rs.20000 we try and keep our people through the support systems that we have all payments happen through cheque or bank facility, 95% of our associates contribute to provident funds others are the high salaried people who are excluded and of do not contribute and everybody is covered for gratuity. So I think compliance, adherence, and the element of employment generation to the formal sector has enable TeamLease to draw on this benefit and has been a huge benefit for us from a tax and a bottomline PAT aspect.
- Abhilash P:** Just one small follow up is this benefit available for new employment or is it basically for the new employees, which you have taken on your role for that particular job?

Ashok Reddy: So new employees taken on the roles for the year who have worked with us for 240 or so, so it is not a running balance that I can carry so typically employees who come on during the first four, five months have the leeway possibility of working for 240 days for us.

Abhilash P: Just one small follow up what is the contribution of the new acquisitions for the topline and bottomline this year?

Ashok Reddy: The topline has been 44 Crores and bottomline has been about 7.9 Crores so 51 Crores sorry on the top-line and 7.9 Crores in the bottomline.

Abhilash P: Thank you Sir and all the best.

Moderator: Thank you. We take the next question from the line of Ronak Shah from HDFC Capital. Please go ahead.

Ronak Shah: What I want to ask was you mentioned that you had a fresh move to hospitality a couple of quarters ago so just wanted to get an update of that in terms of are you see that opportunity shaping up?

Ashok Reddy: Still going slow Ronak. We have not aggressively been able to build up the numbers so we have started working with the two of the largest hotel chains and some of the other smaller hotel groups but from a volume perspective it is nothing large but I think the flip has to kind of build in from the client's side towards formalization and larger vendor play so we continue to stay focused on the sectors. So there is an element of managed services which happens in the hospitality which we are not seen on getting into but in a pure outsourcing model still the opportunity exist and I think the entry that we have done this year hopefully will enable us to grow further going forward.

Ronak Shah: Yes just a follow up on that you mentioned earlier well you have not keen in the managed services bit of the business why is that people can you explain that briefly?

Ashok Reddy: So managed services is taking ownership for outcomes from the customer it is a higher margin business it is also a higher risk business and it is also effectively running what we tend to call multiple BPOs within your organization depending on the skill set or activity that you intend to outsource, with facilities management or security or whatever else is building supervisory administrative capabilities in each of those areas. Our belief is that at the current point in time our opportunity to the P&L that we play are tremendously large might be lower margin but the margin is improving from a bottomline perspective and we would like to stay focused on drawing on that opportunity which is also the reason why we have not gone outside of India people always question us saying on margins better when you look at the global markets why do not you go outside of the country our belief is that

India is a large opportunity place not a hot opportunity it is not a large high margin opportunity but if we can play to volumes and if volumes can give us the economies of scale leading to better margin we are happy with that.

Ronak Shah: My second question is you know what happens in a case why one of your hirer goes to let us say in IT company and then after six months the IT company decides to hire a full time and the sense was of your role what do you do kind of it comes at or it is not happen a lot?

Ashok Reddy: Yes it does. So people do tend to absorb the candidates that we depute to the client location and specific to the IT staffing element there is an absorption cost when candidates are taken on to the roles of the company so actually we view this element of absorption as a very positive thing because in India it is not a lifestyle choice for kids to be tempt so ideally they would like to be on the roles of the company and when candidates who have been tempt get absorbed it kind of give the carrier opportunity statement to the others who are being tempt. So to that extent it is a positive the way we look at it the IT staffing clients give us absorption cost.

Ronak Shah: So is that in the form of a lump sum percentage base on the full time salary or how does that work?

Ashok Reddy: Yes it could either be linked to the salary or it is a fixed amount that is paid.

Ronak Shah: Just last question from my side so the income tax benefit you spoke about that the previous called had asked, do you expect that to recover going forward as well or how can we kind of think about modeling?

Ashok Reddy: The scheme is open for the next two years as a leeway for benefit given the fact that we are continuing to focus on growth and employment generation and continued focus on the compliances front, we believe we will be able to draw on the benefit may not guided to the full extent or not will be debatable depending on the growth and the required tax rate but yes I think there will be an element of a benefit in to the next two years also.

Ronak Shah: Just one more data point question I think you had some provisioning on your receivables last quarter was there any cash provisioning or was there any write-off from that are happen in this quarter in the numbers?

Ashok Reddy: Nothing worrying actually if you look at it on the write-off front, we are par with the previous year and on the provisioning front which is largely to the eyeless the institutional business the provisioning is in line with the growth of business and nothing alarming so these are more timing aspects to the aspect of collection from the government but we do not believe there will be any bad debts.

- Ronak Shah:** Thank you so much and congrats on a good set of numbers.
- Moderator:** Thank you. We take the next question from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.
- Atul Mehra:** Just one question in terms of this 80JAA benefit so do you think this is here to stay even beyond two years and is that something you think is likely to happen?
- Ashok Reddy:** Atul, I am not competent to make response to that. As a Company I would hope as a player to the formal sector, it is a good initiative to drive the element of formal employment and stuff but I think like we had stated earlier also I think the tailwinds from a regulatory perspective are on formalization whether it is GST, whether it is the labor law changes and consolidation to labor courts implementation of labor law reform at the state level so I think multiple variables are happening. It would not be any half them that will trigger the element of formalization. It will be multiple things it will be test by multiple staffs and I think to that extent the government is going to try a multiple variables and this was one of them and it has benefited us hope as a individual and as a company I would hope it stays for a longer period but then we just have to wait and see.
- Atul Mehra:** Because the benefit is really huge for us given in terms of profitability?
- Ashok Reddy:** The nature of our industry and the nature of our employment generation and nature of our consistent compliance adherence these are the drivers that have enable that to happen.
- Atul Mehra:** And we got this benefit for the entire year this year FY2017?
- Ashok Reddy:** Practically, the credit can be claimed only towards end Q3 mostly in Q4 primarily driven from the perspective that these employees have to complete 240 days.
- Atul Mehra:** On the same question do you think in terms of your clients would also want to chip in to this pool or that is something, which is not?
- Ashok Reddy:** When you say chip into this pool?
- Atul Mehra:** I think that if they are saying incrementally adding more and more employees and they believe that this is the benefit that you get they want to renegotiate say pricing on?
- Ashok Reddy:** It is really a tax benefit on that sense my element of costing I am already such a low margin play. I do not think the leeway for us to go down on that price is much larger. So what we could look at is some kind of an incentivization from our end to the employee towards staying for this 240 days that would benefit us from a leeway of getting the benefit so one

thing that we could look at as we go forward is how do we incentivise because our attritions are high so how do we ensure that we are able to drive the element of growth or additions in the clients and ensure that these associates stay.

Atul Mehra: And this 240 calendar days not necessarily working days right?

Ashok Reddy: Yes it is calendar days from date of joining to the date of leaving.

Atul Mehra: Secondly so I happen to visit a cement plantation recently in Rajasthan area and there were like a bunch it is quite a few employees 1000 plus being on contracts and there is a listed company that I am talking about and they were quite clear of the contractor they deal with also paid all the levies in terms of PF etc., so Sir my question here is for some of this kind of business why is it that is it a conscious call we have not been with manufacturing of maybe low end manufacturing because lot of this is minimum wage kind of employment so is it a conscious call we have not got here?

Ashok Reddy: No Atul. Actually we do have presence in the manufacturing sector and we have about I think at this point about 14000 associates who play to the manufacturing sector. One variable that the manufacturing sector has kind of thrown back on us historically and that leeway will go away with GST implementation is that for the manufacturing sector taking the service tax credit has been a challenge so well we have to charge the service tax on the gross billing the ability to take the benefit on that for the sector has not been very high which is why a large element of the manufacturing sector outsourcing happens in the informal play because they do not want to pay this larger amount for which they do not get the benefit, but with GST implementation the playing field become fair for all so our belief is that manufacturing sector formulization could happen in a bigger way post the GST implementation but how soon and how quickly that happens we will just have to wait and see this is the focus area for us.

Atul Mehra: But does this also involve like being there in the local area and actually because lot of this stuff is in terms of having maybe to works on monthly basis and our client labor and all?

Ashok Reddy: There are two elements to it one is even the outsourcing that happens to some of these manufacturing sectors it is job contracting, which is saying that I give you it is like a managed service so we do not do the job contracts in the manufacturing sector but there is a certain segment of the work force that gets outsourced and that is the volume that we play to so specific to the industry yes the hiring is normally driven at the factory gate so we have resources that are deputed to these clients to work on the hiring and also keep the engagement with the employees because these are not really tech savvy employees. So from that perspective we do have what we call onsite who work out of client locations and stuffs.

Atul Mehra: But you think this manufacturing as such as a sector is may be a major focus area now that GST would be in place?

Ashok Reddy: It is a focus area but I think it is a large opportunity area as we go forward.

Atul Mehra: Great and wish you all the best thank you.

Moderator: Thank you. We take the next question from the line of Abhishek Gupta from IDFC Securities. Please go ahead.

Abhishek Gupta: Hi Ashok and Ravi two questions one is on the value added services front. I think where we using this self-care app to driver more and more attendance related and geo-tagging related services where are we on that front? Have we signed any new clients of there what is the percentage of associates from the self-care app now one is that and I will come into second question later?

Ashok Reddy: So we have got now about 6000 to 7000 associates who moved on to the self service app like I said last time we have got about 14, 15 customers now on the app. We have also what we have done from a business development perspective is created a vertical focused on selling the value added services to the customer who will work in conjunction with the client owners and drive the element of the app buy in and adoption so I think we will start seeing progress on this towards Q2, Q3 as we go forward but yes the initial response has been positive the volumes are growing on the usage and we are also doing basis the first round of adoption and feedback we have also started doing changes and improvements on the app UI and UF and all of that our belief is well kind of the roadmap that we have on the development side is till June, July but independent of that we have started taking into market and towards end Q2, Q3 we should start seeing the uptick of this.

Abhishek Gupta: So the 6000 to 7000 associates are using this around this value added services front you are saying across this 10, 15 clients but how many associates are using the self care app for usual query?

Ashok Reddy: No that one is about 55% of the associates are using the app for self-service for information needs.

Abhishek Gupta: The last question is on the other HR services we have seen a strong 57% growth in revenue front this year in FY2017 from 29 Crores to about 45, 46 Crores in terms of revenue; however, the EBITDA has remain almost flattish at 3.5 Crores how should we look at profitability of these other HR services?

- Ashok Reddy:** We will see a change on this front into this year because there was a lot of tweaking happening in terms of the nature of mandates in the institutional training business so large element of this growth is driven by the institutional training business and which is where some element of the provisions have also happened last year but the tweak in model on that front should be sustained growth in the topline and better margins into this year.
- Abhishek Gupta:** I am not asking for really guidance but would these businesses, be on a sustainable basis a lower to mid team kind of businesses in terms of margins.
- Ashok Reddy:** Sorry I did not...
- Abhishek Gupta:** In terms of margins could these be like say 10% to 15% margin businesses.
- Ashok Reddy:** It should be.
- Abhishek Gupta:** Thank you very much.
- Moderator:** Thank you. We take the next question from the line of Deepak Kapoor an Individual Investor. Please go ahead.
- Deepak Kapoor:** Good morning. I do not know I could see the numbers but could you tell me your associate count in IT, IT staffing associate count and the staff count there?
- Ashok Reddy:** 1150 was the total count on associates – 1251.
- Deepak Kapoor:** This is lesser than your Q3. Q3 was about 1365 right?
- Ashok Reddy:** Some element of absorption happened. Typically what happens in the last quarter of the year with the appraisal cycle and everything else at the company's end, addressing the earlier question of 10 clients absorbed the associates that you depute, we had in excess of about 200 plus absorptions that happened in the last quarter.
- Deepak Kapoor:** What would be the IT staffing business staff strength?
- Ashok Reddy:** The core team is about 181 people.
- Deepak Kapoor:** Your general staffing ratio of associates to core staff has gone up by about 166 to 203?
- Ashok Reddy:** Yes.

Deepak Kapoor: So, when you talk about probably margins going up, economies of scale, I guess this is one of the most important numbers we need to track right.

Ashok Reddy: Yes, it is.

Deepak Kapoor: How do you think this will shape up over the next couple of years?

Ashok Reddy: So, like I said play on the element of technology and other interventions for the productivity play. We will see a sustained improvement on the productivity ratio on this side.

Deepak Kapoor: Okay, no number in mind.

Ashok Reddy: We will show you the improvement because our margin improvement largely is going to come from that.

Deepak Kapoor: My downsize indicated that I think Reliance Jio during its launch had largely ten staffs plus operation that have been exclusively with you guys?

Ashok Reddy: They were not exclusive to us they worked with multiple vendors, so not exclusive to us.

Deepak Kapoor: So that whole two quarters of the launch has been over, you think will see a slowdown in next one or two quarters recourse of their business not been there, was it a big part of Q3 or Q4 numbers?

Ashok Reddy: What I would say, currently we have about 5000 odd associates with them and they work with multiple vendors and many small vendors also were taken on for the initial requirements that they had. So if demand were to reduce yes there could be an element of a consolidation that happens but no indication to us at this point of reduction on headcount that they are planning.

Deepak Kapoor: Thank you so much.

Moderator: Thank you. We take the next question a follow up question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir, cash and equivalents, what would be the deployment strategy? Would we look at further acquisitions in IT and how difficult is it to grow this IT staffing organically?

Ashok Reddy: Largely, deployment of cash will only be towards acquisitions given that in the core business we are fully capitalized and do not really needed to spend much more. So yes, we are looking at other opportunities, not necessarily into the IT staffing side but also into other

verticals and other complementing business areas. In the IT staffing front my first preference would not be to doing incremental acquisitions because I think we have built a strong opening balance across the three spectrums with the earlier acquisitions that we have done. We have moved in the leadership team to drive the element of the growth on that business. So incremental growth as we view it will happen organic and that we come across a deal that is too good to let go, but we are continuing to have dialogues with multiple other opportunities in complementing businesses and in complementing areas that we would look to do in this year.

Madhu Babu: What is the cost of servicing the tail account Sir because I think our client base is very larger on 1900. So there would be a big tail account, so what is the cost? Is it margin dilutive to keep so many tail accounts?

Ashok Reddy: Actually it is not, so we did an analysis we have about 500 - 600 long tail customers and the average realization in these customers is slightly higher than the volume accounts because as volume starts building clients want volume discounts on price. The second variable is that the reason why we stay with the long tail is, the belief that we do not know whether they are going to be a baby or a dwarf to the future. So if you build a relationship when they are small, when they start to grow they rely on you for that growth. Our belief is that at this point in time it is not margin negative to maintain this long tail but at any point should we start seeing that situation we will effectively look to consolidate on the client base but I think the current strategy of keeping a large client base with a long tail with a presence across industries and across companies has enabled us to sustain the ups and downs that happen in specific sectors at specific points in time and probably even with the formalization and GST and all of that happening, some of these smaller players who are not playing to larger volumes but had multiple small vendors, could start formalizing and we will be positioned well to leverage that growth.

Madhu Babu: Sir internally what is the target margin expansion over next two years?

Ashok Reddy: Do not want to give a guidance but I think primarily like we were saying when we started off that we would like to get to the 3.5% margin over a five year period, we continue to work towards that. One year is done, so we have four more years.

Madhu Babu: Thanks.

Moderator: Thank you. We take the follow up question from the line of Ronak Shah from HDFC Capital. Please go ahead.

- Ronak Shah:** Could you give us the sourcing to staffing ratio for 4Q? You have given us the staffing ratio for 4Q you have given as the FY2017 number, what was the 4Q 2017 number?
- Ashok Reddy:** It is as on date because we do not average this out for the year because as on date makes more sense.
- Ronak Shah:** Okay, right and what was the goodwill amortization for 4Q?
- Ashok Reddy:** Ronak, I think you are on a speakerphone the voice is not coming through clear.
- Ronak Shah:** What was the goodwill amortization number for 4Q and for the full year?
- Ashok Reddy:** That is for the total 86 Crores of goodwill is there overall, we have not had any amortization last year. We will start it from this current year, so it will be about 2.5 odd Crores. So amortization of 8 Crores tax benefit of 2 odd Crores.
- Ronak Shah:** For quarter.
- Ashok Reddy:** We have amortized 86 Crores of goodwill over a ten year period and get a tax benefit on it.
- Ronak Shah:** Thank you.
- Moderator:** Thank you. We take the next question from the line of S Sarkar from Steinberg India. Please go ahead.
- S Sarkar:** How are you? Two questions from my end; one is that you mentioned that you would not like to do incremental acquisitions in the IT staffing business. So what would be your target associate number in this vertical because I think previously you mentioned some long-term goal of reaching around 10000 associates; so what is your associate target here and number two is, like because you are not acquiring in RT spring vertical, which space would you like to acquire in? Would you rather acquire more in the general staffing business or would you go for specialized verticals?
- Ashok Reddy:** I do not know whether 10000 came from Sarkar, I do not know so we are looking at aggressive growth on the IT staffing front and we will continue to work towards that. Like I said, I think the current acquisitions have given us a good opening balance into the three segments of the IT staffing clients and we would like to leverage that opening balance to future growth and our belief is that, that opportunity exists, so why not do it organically and drive it and I said we are not averse to looking at incremental opportunities if they come at a good valuation and they bring something to the table that we do not have today. Whether it is a new client that I do not have or element of a capability in hiring or a database that

otherwise I cannot build, so variables that we will look at to decide. But like I said, there are other verticals in Engineering, Telecom, Hospitality, Healthcare, Payroll and Regulatory Compliance, the other P&L that we have that we have not really done any acquisitions into create that opening balance. So opportunity to evaluate and keep optionality on that front will be there. On the general staffing front also I am kind of averse to making a deal unless it adds huge value. Absorption of our company in the general staffing space could possibly be done quite easily because we have the processes, we have the technology, we have the capability and building that incremental bandwidth should not be a problem. So it could be a huge cost reduction in structure in the element of integration of general staffing company but the challenge where the general staffing company is not too many opportunities out there, because there are a very few of large players who comply with all the compliance requirements and the labour laws. Many small players were worried on compliance and the current set of offerings to customers becomes the challenge to integrate.

S Sarkar: Sir, just to clarify you do not have a particular associate target in mind for the IT staffing vertical but will it be safe to assume that it will grow similarly like your Company growth of around 20% - 25% or will it go at a much higher base of around 50% stake?

Ashok Reddy: The opening balance is smaller so I hope to grow it higher but yes 20% plus should be reasonable.

S Sarkar: In the general staffing, I was just asking because of the GST shift, a lot of informal players might be willing like get consolidated into bigger names because of the compliance issues. So I was just looking if there is a possibility?

Ashok Reddy: I do not need to pay them to absorb them. The client will anyway do away with them. Ideally I would take it up from the client side to saying formalize the informal rather than pay an informal guy to take his business.

S Sarkar: Yes, but informal guys will be far entrenched with the country?

Ashok Reddy: Yes, today they have a cost arbitrage, which will go away tomorrow. So the reason why they survive and are so well entrenched with the customer or with the regulatory authorities is, largely around the hidden costs and the arbitrage opportunity that they have. So when all of those go away their ability to play to that becomes a challenge.

S Sarkar: Thank you.

Moderator: Thank you. Ladies and gentlemen we will take the last question. We take the question from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Thanks. Sir, just once again in terms of capital allocation from here on, I believe we were looking at framing our dividend policy and overall capital allocation how we go about it, so anything on that?

Ashok Reddy: For last year at least the Board decision has been no dividend policy primarily given that we are in a growth situation; we are exploring multiple opportunities to inorganic growth to further the element of complimentary services or scale. Obviously, we will try and utilize the cash towards these business objectives but at some point, we are a cash flow positive Company. We are at this point a zero debt Company and we do not find investment growth opportunities for capital, we will look at the dividend policy for payout.

Atul Mehra: When do we look at this in terms of say timeline?

Ashok Reddy: Every year we will be revisiting it basis - what is on the table and stuff of that sort so, at the Board we do take cognizance of the fact of available cash flow, incremental cash flow opportunities that we are looking at in terms of the acquisitions and net of that is where the decision will get taken on the dividend policy.

Atul Mehra: Just one clarification from Ravi. I believe goodwill amortization will not be charged to the P&L right. I think in the previous conversation we had it was supposed to be that way. Is that the right understanding?

Ravi Vishwanath: That is right. It would be charged to the subsidiary P&L but for consolidation it will get eliminated.

Atul Mehra: On consolidation it will get eliminated while we have the Rs.2.5 Crores of tax benefit, which will be post demonetisation?

Ashok Reddy: Yes.

Atul Mehra: Great. Thanks for answering the question.

Moderator: Thank you. Ladies and gentlemen as that was the last question I now hand the conference over to the management for closing comments.

Ashok Reddy: Thank you very much for the questions and for participating in the call. I think we appreciate the support given last year. The growth was in line with what we had expected and we will continue to strive towards further growth coupled with capital frugality, coupled with the element of margin improvements and consistent strong compliance back. We stay focused. We stay to an opportunity that is tremendously large and look to your continued support on that front. Thank you.

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