"TeamLease Services Limited Q1 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the TeamLease Services Q1 FY2021 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode. 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 then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Dokania from IDFC Securities. Thank you, and over to you, Sir!

Rohit Dokania: Thank you Aisha. Good afternoon, everyone, and welcome to the Q1 FY2021 Results conference call of TeamLease Services Limited. I hope you and your near ones are doing well. 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, MD and Co-Founder, Mr. Rituparna Chakraborty, Head of Staffing; Mr. Sunil C, Head of Specialized Staffing; Ms. Ramani Dathi, Finance Controller; and other senior managing personnel. We will start the call with the comments from the management and then move into the Q&A. Thank you, everyone and over to you, Ashok.

Ashok Kumar Reddy: Thank you, Rohit. Just as an update, I think we were expecting COVID to be short-term pain and hopefully, short-term rather than long-term continued pain for industry and the economy, but I think companies have been resilient to the extent that they can have taken steps to survive the crisis and a lot of incremental decision points have been driven over the period basis the realities that have been playing out from a lockdown perspective, extension of lockdowns or business continuity, getting back to work, employment, work from home and all of those options.

I think one lingering image that people would have of the current pandemic situation is of the migratory population and workforce on the roads. And I think a large play of that focuses the attention as a difference between formal employment and informal employment. And I think it is something that has been a key focus area to drive the element of formalization in the Indian workforce, and it is something that we have been continuing to engage on to say that security net for employees at the end of the day will be formal employment because the employers to some extent do act honorably around the aspects of compliance, around the aspects of statutory payments, notice periods and all else.

I think primarily from our perspective, we were expecting headcount reduction to the extent of about 18% to 19%, as indicated in the last call. But I think we have managed to come in at an aggregate of a 14% reduction in headcount, active dialogue with customers for keeping resources, active dialogue with associates about being in employment, active dialogue across candidate pools to replace where requirements were coming in, a combination that has kind of been driving that element.

There has been a topline revenue dip, but I think we have been able to manage that some aspect of managing our internal costs to effectively improve on the EBITDA margin as a quarter-on-quarter and a year-on-year basis. I think the aspect that we have effectively been managed especially in specialized staffing, have managed to complete their integration and work to a shared service model has enabled economies of scale on the cost side.

In general staffing, our productivity ratio has improved from 269% to 283%, which effectively has enabled the economies to kick in on the cost side, while our realization has been kind of consistent. I think NETAP has had a huge hit on the associate trainee count, largely given the exposure that it had to manufacturing and to the aspect of automobile and all of that. But I think we have had some element of a positive claw back in numbers starting June. And there still seems to be an element of cautious optimism that is playing out on that front. So, we are waiting to see. So, as we had dialogued earlier also, we are looking to exit the government training business and in line with that, our revenues there have been lower and, we have reduced our headcount substantially there.

I think another business that was impacting, especially during this downtime was the permanent hiring aspect where clients are not really looking to hire, a lot of them are backtracking on offer letters, backtracking on letting employees go and all of that so we have decided to exit the firm business. So, we had an impact of that in Q1. We will have a PAT impact in Q2. But starting Q3, we will not have that in our portfolio. So, I think that is a conscious choice we have made, given the current situation and are driving it on that front.

I think, overall, while we have reduced on headcount, the margin improvement has been there. I think we will continue to focus on the cost front, the headcount front and seeing what else can be done on that side. While some costs will obviously come back as offices open and all of that, general focus on productivity would be key.

I think overall, across all businesses, while there is a COVID effect. Overall, between the quarter and to the year, we would continue to strive for growth. I think that is primarily going to be the focus from our end.

I think I would also like to have Ritu comment a little bit specific to general staffing, Sunil will give a little bit on specialized staffing, Ramani will give a little overview on the finance side, and then we can go ahead with the Q&A.

Rituparna Chakraborty: Thanks, Ashok. Good afternoon, everyone, and hope all of you and your families are safe and good. Under the circumstances as a team **(audio cut) 07:39** for the unpredictability, it drops with it. Given there was very little control over the external environment, we chose to focus inwards and chose to optimize, minimize and improve what is in our control, and we became leaner and more agile to respond to changes in external environment as and when it pays out.

Some of the key changes and initiatives we have been working on since Q3 last financial year, clearly helped us in Q1 this year, which otherwise could have been a more difficult quarter. As against an anticipated loss of around 15% to 18% of our associate base, we were able to close at around 10% and again, in expectation of more or less being flat on PBT as against the previous quarter, we were able to showcase an improvement on that front.

We have been able to hold on to our PAPM with a marginal increase to around; however, I think it is important to share that this does include a certain amount of discounts, which we had to pass on; however, we expect that most of these discounts are likely to go away during this quarter. Also, the marginal increase, which you see is largely because of we have been losing more associates in our high volume, low-markup accounts. However, some of our client wins and associate additions that have happened during the quarter have been at higher markups.

Our cost optimization efforts, which were on since Q4 continued to Q1, based on performance and of course, some redundancies and coupled we are going live with some of our skills set automation projects from March end onwards enables us to improve productivity, wherein FC ratio went up to about 283 as against 259 last quarter.

Our investments in automation and process improvements, we believe shall continue to help us on the productivity fronts. Within the restrictions, we did not allow ourselves of course to lose sight of growth; however, wherever there was a window of opportunity, and we have 87 new clients added during the quarter, and we have seen contributions from a few of our existing accounts as well.

On account of the financial excellencies, I think many of our customers needed an additional support and hence, funding exposure, increased marginally; however, we believe that we have been able to keep it under reasonable control. I think the pandemic pose an opportunity for us to make deeper inroads in all our external stakeholders.

Customers, for example, our touch points and connect increase manifold. We could see it in a kind of proactive communication that we have been having with them and seeking advises and directions. I think we witnessed clear acknowledgment of years of investment we have made in having a deep understanding of the law of the land and our ability to dive into the waters.

From an associate perspective, I think it will be very proactive because a large base of our associates were in essential services and from March onwards, I think we have started sending out profile-specific digital handbooks so that they can keep themselves safe and yet be able to work.

We also saw different kinds of devices emerging which earlier we never thought of essential services versus nonessential, mine workers versus hand workers, work from home workforce, home but not working workforce. I think we saw a lot of these patterns and these devices emerging, and we must approach each one of them differently.

I think our engagement with government was quite significant. I think we made about 14 representations, and we do believe that the pandemic has clearly shown that formal employment is the best possible safetyness during crisis of this nature and impact and hence, it is important to press every button which enables this transformation.

From candidate perspective, I think it is quite clear that there were a lot of job seekers suddenly, there were challenges faced by the migrant workers and hence we will try to use every possible means in communication channels, to stay in touch with them, have an active engagement. So as and when green shoots of opportunities emerge, we should be able to get them engaged. Also suppose the constant dialogue with the investor community was also on.

I think looking at the future, I would like to share some insights we have and I think we have this employment outlook report and one notable change in this employment outlook report is that while so far, we have been talking about the net employment outlook it was very difficult for us to get that assessment done. So, we shifted back to intent to hire and I think what we see is a measured green shoot visible; however, consumer demand side, manpower and resource supply, geographical presence and channels, will influence how demand for employment shapes up into the future.

We feel that there is need for caution, and we really cannot jump to any conclusion. We have also realized that most of the employment recovery, whatever little is happening is likely to happen in Bengaluru, Delhi, Hyderabad, Chandigarh, Mumbai and Kolkata.

Large chunk of the movement will happen in Tier 1 cities. I know this a little in aberration with the CMI data, but honestly CMI looks at completely different segments, and our segment is usually focused on the formal employment segments and intend to hire is largely centered around the metros and the Tier 1 cities.

Not too much of a fresh news. But yes, that study also shows, it is done at across 21 sectors that is healthcare, pharmaceuticals, e-commerce and educational services, especially on the digital side, telecom, IT, KPO, agriculture and agrochemicals. FMCG are probably the ones, which are going to take off or is already in that trajectory but even in that, we noticed that there are not 100% intent to hire across these industries. So, like, for example, healthcare and pharmaceuticals, 3 out of 10 have an intent to hire.

I think we are approaching the future with caution and yes, with ability to not miss out on any of the opportunities for growth. So, our immediate focus would be to recover as much of the lost ground this year and economies is not out of the woods and hence, we will take a measured approach into the future. Thank you.

Ashok Kumar Reddy: Sunil will give you a quick update on the specialized staffing.

Sunil C: Thanks, Ritu. Thanks, Ashok. Good afternoon. The pandemic had posed challenges on supply and demand side, even for our specialized staffing. Despite that, we did not have a major hit. We had a 5% dip in our revenues. The good news is that we have been able to improve on our PBT. We moved from 5.2% to 7.6%, that is a significant improvement.

Most of this has come through our cost optimization efforts, which we had taken in Q4. The benefits have started kicking in from this quarter and this will have a good effect going forward.

We had made a shared services unit, which will support all the three entities of specialized staffing, which is IMSI, Evolve, and IT staffing and that is the benefit, which is coming out.

What we did in the quarter is that we are focused on acquiring more clients. So, we were able to get 10 large logos, the benefits of which we will see in the coming quarters. We are also seeing improvement in demand and supply, which will help us to give consistent results, and we will try to maintain at 8% to 9% margins. We will continue to focus on client acquisition, margin sustenance and team productivity. We are trying to let go of few customers if the competition is willing to give a 50% but nevertheless, we will try to maintain our business, our base, and we will be able to give consistent results.

Ashok Kumar Reddy: I think the key focus for specialized staffing is to ensure the maintenance of the margins, while they focus on an element of growth, clearly. But I think as we have done in the past, we will also focus going forward on letting go of mandates that are very low-margin or are being competed for by competitions at huge price reduction but I think the trajectory of margin improvement and growth will play out for the specialized staffing. Ramani, would you give a brief intro on the finance side.

Ramani Dathi: Sir, we had been some topline growth due to lockdown in this quarter. We have improved our operating margins and cash conversion, both in absolute terms and in percentage terms and this is driven through optimization of our costs, both the core employee costs and overheads and efficient working capital management.

One of the main aspects, which impacted our cash flows in the past, is withholding taxes and the delay in obtaining low deduction certificate from the department, which we call as LDC. We are a 0-tax company at the beginning of every financial year, we must apply for an LDC with the Income Tax Department otherwise, we would be subject to 10% TDS on our invoices. Fortunately, starting this year, the department has allowed applying for LDC prior to April 1, and that has helped us to reduce the cash outflow on higher withholding taxes.

Our operating cash conversion stood at 80% of EBITDA and including the Rs. 8 Crores of TDS refund, which we received for one of the subsidiaries, it is more than 100% for the quarter. We are anticipating another Rs.30 Crores of TDS refund in Q2 for which assessment has already been completed. We currently have free cash of about Rs.70 Crores as of 30th June 2020.

For this year, we moved to new tax regimes and no MAT tax is applicable, no minimum alternate tax is applicable under the new tax regime, and we will be saving cash outflow on MAT taxes too. So we have a opening balance of Rs.160 Crores of 80JJAA benefit of prior years, on which no deferred tax assets is recognized in the past and hence, this Rs.160 Crores can be utilized to offset current year profits, and we would continue to remain tax-free for this year, too.

In terms of cost optimization, we have rationalized our core employee headcount by over 20%, 24% during the quarter and because of lockdown, some of our other overheads, like travel, maintenance, printing and other costs have come down. But we believe once the offices open and we get back to normalcy, at least a 20%, 25% of cost saving can be sustained. That is, its Ashok from finance.

Ashok Kumar Reddy: Thank you, Ramani. Rohit, we can open for questions.

Moderator: Thank you. The first question is from the line of Sudheer Guntupalli from Motilal Oswal Financial Securities. Please go ahead.

Sudheer Guntupalli: Congrats on an effective margin execution. Sir, my first question is for Ashok. The actual headcount decline of 10% in general staffing was much lower than what we anticipated at the beginning of the quarter. So, you outlined some of the steps you had taken to limit the damage. But any specific sectors or factors, which have kind of helped you on this front? What I am trying to understand is that if there is any technical or legal reason, which could have stemmed the decline now for now and that decline would come with a lag in the subsequent quarters?

Ashok Kumar Reddy: Actually, there is no technical or legal framework with which to carry back the employees. I think companies that had to make the decision to let go or kind of layoff have all kind of taken those decisions on a recurring, continuous basis. Obviously, some of the companies in good faith, did try to hold on to employees for a period of time given hope of opening up or the aspect of recovery of system because, frankly, as all of us and as all companies are navigating in extremely uncertain waters. No one has been through this pandemic, no one has seen a situation of this sort and I think to some extent, decisions are being made as and when and hence the situation is a little unmodelable, so to speak of. But I think while the government did give directives and indications to companies to hold employees and make salary payments, I do not think it was really binding in that sense and companies did make decisions at their end. I think some element that has enabled us to reduce the quantum of reduction is also what Ritu mentioned earlier that we were able to add new clients during this period. So, we added about 80-70-plus accounts. That has given us a transition of numbers, consolidation of numbers, some of our existing clients have also added numbers from competition or otherwise during this period. I think however, our attritions and layoffs were a lot more and hence, we came in at that minus 10%. I mean we are optimistic. We believe that the largest pain would have been in Q1, and it should keep reducing as we go forward and at some point, we flip to a more positive outlook of growth. So, I think that is really where we are.

Sudheer Guntupalli: Sure. My next question is to Ritu. Thanks for giving the color on hiring trends and for the interesting report you had come out with. Your research and due diligence on this trend would have happened before some of the key south Indian cities had gone into a second round of lockdowns. So just trying to understand what part of the conclusions of this research will still be applicable after factoring in the recent situation. And are you guys seeing any trend of some of the permanent roles being converted into temporary roles given the uncertainty we are talking about?

Rituparna Chakraborty: Sudheer, the thing is that, interestingly, in spite of the lockdown, Bangalore still, by the way, continues to rank as one of the cities where demand is still the highest and we are all aware about the spike in cases. So essentially, interestingly, the consumer demand and is at play. So, while there is still a tug of war which is going on between the spread of the pandemic and the consumer demand but besides Chennai and Hyderabad, I think all the other cities will hold out. So, which means Bangalore, Delhi, Chandigarh, Pune, will hold out is at least from the demand that is now creeping in from customers is quite clear. So, I think as open positions are coming in, yes, there are some ground level challenges in terms of how we tap in and fulfill these demands. But yes, it is kind of interesting this tug of war, which is going on right now, Sudheer. So...

Ashok Kumar Reddy: But I think also just to add there, the reality is that it is a steady, and it is estimation on the mood. But I think how it plays up, we will have to wait to see. Obviously, it is an element. It is at least a positive aspect of optimism, I think obviously; nuances around fresh lockdown or spike in cases will have impact. But I think what most what it tends to reflect is that corporate and individuals are now looking at getting back to work or getting back to some sense of normalcy with COVID being around. So, I think that is really where it is. The cautious optimism is at play. But I think we will wait to see how it pans out.

Sudheer Guntupalli: Sure, and any trend of the permanent roles being converted into temporary roles, given the kind of uncertainty we are looking at? One last question on the margin front, for the full year, what is the sustainable level of EBITDA margins we should be looking at. I think last quarter; Ravi indicated that you are targeting to go back to FY2019 EBIT margin level, so any updated outlook on that front?

Ashok Kumar Reddy: The conversion, like we keep saying there is a springboard in good signs and a shock absorber in bad times. Companies are clearly acknowledging the flexibility that staffing gives to them. So, there is some element, I would not say it is a quantum move of conversion of permanent employment to temp employment. But uncertainty does create an element of an optionality that corporate would like to have by adding temp workforce. So, like I said, we do have some demand that has come in is more than what was there last quarter. We are filling positions. We are rolling out offering letters. So there is an incremental take now, whether that is coming because permanent jobs are being converted to temp or just the demand per se for them is coming back or it is a shift from other vendors is difficult for us to quantify at this point in time. But I think overall, if demand goes up from where it comes, we are independent if we keep saying, as long as the cat sees the mice whether its black or white, it does not matter to us. The second element, I think, as we had said, we did miss on the EBIT margins last year. We had made investments internally in teams and in people and in businesses that we thought would play out had not happened, and we had taken a decision starting late Q3 to recorrect that element of the structure and COVID or no COVID, we were looking to get back to the margins of the prior year. So, I think that is clearly a focus area for us.

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

Vidit Shah: My first question was around the General Staffing segment, where the number of employees has fallen by 10%, whereas revenues fallen steeper, leading to a decline in average realization. So, is this since there has been a sharper bounce back in June? Or is there another reason due to the fall?

Ashok Kumar Reddy: So, 2 elements to the revenue that being higher than the associated. One is our average PTC is also reduced from Rs.22400 to Rs.20800. So, there is a Rs.1,500 dip some of the higher cost resources, are the ones that have been exited from the system. Also, given the current situation, we have had minimal-to-0 invoicing on reimbursements and incentive payouts. So that is another added billing that normally happens on the associate count. For last quarter, given the fact that nobody was really out there and performance was not really where it ought to be, reimbursements and incentive payouts were not there, and hence, billing was not there and that is the gift that you get to see on that side. I think as businesses stabilize, some of that billing could potentially come back.

Vidit Shah: Understood and my second question was around the employee cost as a percentage of revenue, somewhat gross margin. They have declined by 120-odd BPS quarter-on-quarter despite improvement in productivity. So, what caused that change?

Rituparna Chakraborty: Vidit, so the increase in core employee productivity is largely driven by headcount optimization in staffing. So, while the associate decline is about 10%, the core employee reduction in staffing is close to 15%, 16%. So that has led to higher productivity and in terms of the gross margins and markup, it is in line with the decline in headcount. So, while gross revenue has come down by 15% in terms of the markup, it is 11% in line with the headcount drop of 10%.

Vidit Shah: Okay. Because when I calculated the gross margins were 5.2% in Q4, which have come down to 4% for the overall at the overall company level and despite an improvement in productivity?

Ashok Kumar Reddy: No, overall, at company level, it would not be comparable, but Ramani, you can continue.

Ramani Dathi: Yes. So our improvement in productivity comes largely from the cost, which are below gross margin, because the above gross margin line, the associate salaries, we do not have control and there, we have reduced the cost is largely under our core employee costs and other overheads and expenses.

Vidit Shah: If I may just squeeze a data point from you, what would be the total core employees across the company, you disclosed the general staffing product?

Ashok Kumar Reddy: Core employee headcount last quarter was about 2022, now it is 1544.

Vidit Shah: Thanks. I will come back in the queue.

Moderator: Thank you. The next question is from the line of **(inaudible) 33:16** from DMG Partners. Please go ahead.

Unknown Speaker: I hope all of you are well. Just a quick question on any sector-specific trends, have been ramping up collection infrastructure in a big way. Any such comments you could share thematically? Thanks.

Rituparna Chakraborty: Yes. So, from what I gathered, you are asking if there are some new emerging trends, right? That is the question.

Unknown Speaker: Absolutely and perhaps even a little bit more specific banks and lenders who might be ramping up a lot structure?

Rituparna Chakraborty: Yes, I think, you are right. Collection is a profile that we have seen across different businesses have emerged as 4, 5 lives as high demand profile. Besides that, I think what we are noticing is that in there are a lot of digital businesses which are picking up demand. But again, I am not going to say that this demand is anywhere comparable to the loss of openings that we are seeing. But in education services, we are seeing that, in agriculture, there are a lot of e-commerce start-ups, which are emerging, which is an interesting trend. Testing labs across the country are becoming more prominent and their plans of expansions. So, I feel that from new emerging sectors, these are the ones that we should be watching out and looking out for. We are expecting much deeper play in e-commerce for sure for obvious reasons healthcare and pharma, again, for obvious reasons. Yes, I think this is where we are headed. But I think what essentially COVID will do is amplify existing trends and not so much about creating completely unknown trends. So yes, digital trend is one of those amplified trends where people notice across sectors. So even in the technology sector, we are noticing that there will be an uptake in terms of certain kind of profiles that so far India, probably, we are not focusing on like cyber security, drone technology, robotics, and so on and so forth. So yes, I think that is where we are looking at possible trends into the future.

Unknown Speaker: That is interesting If I can squeeze a quick one. The general staffing productivity gains you just commented on a little while ago. How much of that do you think is likely to persist? And how much of it may roll back a little bit as you again invest in the headcount at a core level?

Ashok Kumar Reddy: So, I do not think there is a large investment of core headcount level as such planned. I mean there will be some marginal element that will come in because of as business kind of crawls back up. But some of the indirect costs might come back into the system as we open offices and stuff of that sort. But I think some of the technology interventions that have a rollout in Q2 and Q3 should give some more productivity enhancement opportunity to the business. So, now, there is no plan to increase the core headcount in any large manner in the foreseeable future.

Unknown Speaker: Thanks.

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

Sandesh Shetty: Sir, you have released your annual report today. So, in that, there is an element of international. So, if you can elaborate on that?

Ashok Kumar Reddy: We do not have any international business now. So, we are focused on India. I believe the opportunity is tremendously large, and we will stay focused at this point.

Sandesh Shetty: So, the thing is in the annual report, there is a mention of Rs.8.7 Crores of international revenues. That is why I asked this question. I was curious regarding that.

Ashok Kumar Reddy: Sandesh, what happens a lot many times, we have Indian customers, but because of their policy, they are paying you foreign currency so as a reporting format, we have to still go ahead and report it but these are the…

Rituparna Chakraborty: This is not revenue from international operations, Sandesh. So, this is the revenue received in USD, but the operation is delivered in India.

Sandesh Shetty: That was helpful and one more question I wanted to ask was the government has recently come up with New Education Policy 2020, which has an emphasis on vocational training that you have been talking about all around for some time and how do you see these new changes impacting the staffing and the training business going forward? I know its directional thing, but still, if you can elaborate on that that would be helpful.

Ashok Kumar Reddy: I mean, I think there is still kind of framing I mean, we clearly believe it is an opportunity play for the employability business. We have 4 classrooms at our end. We have online learning, on-site learning, on-campus learning, and on the job learning. Our belief and as we have always said, any reform, any change from status co is for the better. But again, all of these will not be a flick of the switch kind of an event. There will be gentle sunrise. I think as things get notified, as things fall into place, clearly, the new education policy will be an opportunity for our employability business as we believe that the whole new labor code notifications, dialogue, informal employment focus to trying to shift to formal employment will be a key pillar for our employment side and this whole element of the work from home, digitalization that has kind of happened because of the current pandemic will be an opportunity for our e-Workforce element of the cluster. So, our belief is that the current situation crisis is also an opportunity for all our 3 clusters. None of it will be immediate trigger, but clearly will play out to the long haul.

Moderator: Thank you. The next question is from the line of Niket Shah from Motilal Oswal Asset Management. Please go ahead.

Niket H. Shah: Congrats on a very good set of numbers in a challenging time, a couple of questions from my side. The first is given the current pandemic that we have seen, do you think there will be a significant amount of shift from unorganized to organized players extremely, that is the first question. The second question is, while you did allude to the fact that there will be certain cost which will come back. I am just trying to understand how much of the saving is something that we will continue to save on a structural basis and over the three to five year period, where do you see the number, and the last question would be on cash flows. While you did highlight that your EBITDA to FCF conversion is extremely high for the first quarter and second quarter put together. If you can just give us a little bit longer-term thought process on how do you look at EBITDA to free cash flow, will we see a sustainable trend improving over the next 2 to 3 years?

Ashok Kumar Reddy: Ramani will answer the cost and the cash flow part, but I will just cover the informal-to-formal assets. I mean, from informal vendors or smaller vendors to the larger vendors. I think some of the clients that we have added during this the last quarter and some of the growth that we have had in existing customers has come from competition. I mean some of it from the larger players, but a larger element of it from the smaller players. So I think in uncertain times, when liquidity is tight, when the asset of compliances are a focus, the support systems are essential, the ability of the counterparty to be able to deliver and give the element of comfort to organization matters a lot and I think as we go forward, that will matter substantially. I think we can say with confidence that while we had started planning for work from home prior to the lockdown, and we were in a test phase of work from home with 60% of our people under that model a week before lockdown happened end of March, we were able to move to work from home, and we have had actually a very seamless run for the last 4 payrolls, both from a technology perspective and the engagement perspective with customers and associates. So, I think corporate start valuing that over a period and I think some of the dialogues that we have today are reflecting of that element of a counterparty comfort that they have been able to build. So yes, I do believe consolidation is an opportunity that we would be continuing to pitch for.

Rituparna Chakraborty: I think one of the most important things we noticed which organizations values to the pandemic is deep understanding of the law of the land because what happened during pandemic, I think it is something which is unforeseen and many organizations were really not planned to how to go about it and I think the advisory role that we took on and the fact that they could come and approach an organization like ours to kind of seek advice and counsel in terms of giving them solutions and support, whether in terms of how to navigate through the regulatory environment as well as like Ashok mentioned, the working capital position. I think these two were big levers for organizations to look or differentiate between established organizations and the follow-on.

Ramani Dathi: In terms of cost, in Q1, our core employee cost has come down by about 15% and other operating expenses by over 40%, but we believe some of those operating expenses will be rolled back like the travel and other business related costs would be rolled back. So, we believe on a sustainable basis, a 20%, 25% of cost saving compared to Q4 can be maintained. In terms of cash flow conversion, as I indicated in my opening statement, starting this year, the income tax department has allowed applying for low deduction certificate before April 1, 2020. So if you have noticed our past cash flows, the major impact was coming from higher withholding taxes and that has been addressed in this quarter and hopefully, the trend would continue in the future of maintaining 70%, 80% of cash flow conversion to EBITDA.

Niket H. Shah: Sure. That is very helpful. If I may squeeze in couple of more questions, how are you seeing pricing in the current environment, while we were seeing some of your peers had under pricing sometimes or kind of using little more aggressive way of getting contract are you seeing in the current context, everyone becoming slightly more rational and hence, pricing becoming far better?

Ashok Kumar Reddy: So, I think the element of pricing, free differentiator or comparable sales which always existed and will continue to play out into the future. So, I think the fact that we have been able to hold out at our average realization reflects that we have not really dropped our prices that much. As I had also mentioned in line with our specialized staffing business, some of the mandates that competition is bidding for at a huge discount to a low markup or margins, we are happy to let go out rather than price ourselves too low. So, I think a mandate that makes sense from a margin and a profitability perspective is really what we would focus on. Having said that, like we had mentioned earlier, there have been clients who have come back to us to help them and support them in these difficult times. We have had case-by-case dialogue with customers and we have given elements of discount on the markup for short period and fixed periods of time, which we intent to roll back between Q2 and Q3. But I think that is a partnership aspect that we view in working with corporate and working with them for longer periods of time, but I think the price competitiveness has been there and will continue to be there.

Niket H. Shah: Sure and final question on the government training business that you have exited, if you can just quantify the impact in the quarter and for the full year on the P&L as well as on the receivable side that is all from side. Thank you and best of luck.

Ashok Kumar Reddy: Ramani will give the numbers, but we have not exited yet because we are not taking any new mandates and we have a sunset clause, which goes all the way into 2022 on the government business with the various mandates that we are working with. So in a phased manner, we will deliver and exit on those mandates, also revenue recognition in Q1 has been very low on the government training business, primarily by virtue of the fact that most of these mandates cannot be delivered to since the students are not coming into the classroom.

Ramani Dathi: Yes, Ashok. So for comparison, I mean, last year, we booked a revenue of overall Rs.55 Crores in the government training business, whereas in this quarter, we did only about from Rs.3.5 Crores because of the lockdown and also due to the sunset mode that we are on and not signing up new mandates in IL&FS. We believe this year we do at max about Rs.20 Crores of revenue in top-line.

Niket H. Shah: Sure, thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Gautam D from Incarnation Investment. Please go ahead.

Gautam D: I went through the annual report, which states that you have 1,517 employees at a stand-alone level. But historically, on the calls, we have heard had several 800 core employees. So, could you just explain what is included in the core employees, what kind of roles and what are the other big segments outside the 800?

Ashok Kumar Reddy: No. So, our staffing business had 800-odd employees, which has come down to about 640 this quarter. We have employed about 350-odd employees in the specialized staffing business and the various other training businesses and, etc., account for the balance. So, we have three clusters of business, which is the employment, employability, and eWorkforce and we have got multiple P&Ls under them. The 800 that you are referring to is the general staffing head count. The balance comes from the other P&L.

Gautam D: Okay and in the calls, it was mentioned that the average salary is around Rs.28,000 per month for the general staffing core employee. So, does this apply on the 800 or does this apply on the 800 plus 400?

Ashok Kumar Reddy: The average salary is an associate salary. That is the employees who are camped out to organization, the Rs.20800 that I referred to be the average associate salary, the one that we bill clients.

Gautam D: Yes. I understand that is the PAPM, but then what would be the average salary.

Ashok Kumar Reddy: PAPM is 750. The average associate salary is Rs.20800.

Gautam D: One more question I had was, how is hiring generally done for the general staffing by the industry, like who are the vendors, what role do they play, and how are they compensated and does it flow through our P&L?

Ashok Kumar Reddy: So, we have multiple channels that supply resources for the client requirements. We have our own hiring team, which is part of these 640 headcounts. They are located across locations, they do headhunting/field resourcing, all of that. We also have the digital platform of tl.com and freshersworld.com that provide us database from which we can match to customer requirement. We also have multiple signals that we use of training institutes, colleges, and multiple other vendors at locations paid or unpaid that are effectively delivering to these open positions. While we had lesser number of open positions per se in Q1, about 70% of the delivery happened through the digital platforms and through various vendor reference channel network worked on by the hiring team. So, the hiring team is part of this headcount that we talk about and is completely cost into the P&L of the staffing business.

Gautam D: That is helpful. That is all from my side.

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

Vidit Shah: Yes, that is good. Thanks for the followup. I just wanted to understand how things are recovering from the month of July onwards, are we seeing any sort of growth across headcount over customers or is it kind of flattish yet?

Ashok Kumar Reddy: So I think July is clearly better than June, but I do not think we are not yet in a growth phase at this point in time, but I think like Ritu was earlier mentioning, there is an element of cautious optimism. We are adding clients. We are adding two clients' associate numbers, but I think we are still in the process of July now. We would not see growth start in July. Our estimation probably is that we look at flattish to a marginal decline in Q2 overall and probably start the growth phase from Q3 and Q4.

Vidit Shah: Understood. Also, just I wanted some clarity across margins of various segments. So other HR services reported reaching Rs.3 Crores to Rs.4 Crores loss this quarter, you are saying that the permanent recruitment business is being discontinued from 2Q onwards. So where should we expect margins of this business going forward?

Ashok Kumar Reddy: So, I think Q3 onwards. So, if you look at the largest hit in that number has come from the permanent business. So that is really the bit that come because like I mentioned, the challenges in the current times of clients not closing open positions, deferring offer letters, revoking joinees and wanting to take credit notes and we believe that will play out into Q2 also, and that is primarily the reason we exited, but the other large P&L in that portfolio is the compliance and payroll outsourcing business, which has actually been profitable this quarter, and we believe will continue to stay profitable going forward. I think that is one business that has consistently added customers during the last quarter, has migrated them, has gone into billing with customers. So I think we have the hit largely coming in from the firm business, which we intend to exit, but I think the effect of the play of the balance P&Ls effective Q3 should bring it near to breakeven model going forward.

Vidit Shah: Okay that is helpful and could you also just comment on the IT staffing. I think the margins have sought up to around 12.2% while being at around 8.5%, 9% basically, so just wanted an idea of what has happened?

Ashok Kumar Reddy: Yes. So, like we had mentioned, we had been consolidating the three staffing, a specialized staffing verticals and P&L, so we had IT staffing, we had the element of telecom, and we had network security as the three entities. We brought them all under the common leadership of Sunil and we have also create while sales and delivery will be dedicated to the verticals, the whole element of operations, financial control, quality mechanism, all of that kind have got integrated into a shared service. So, there was a leeway for a huge element of team and cost correction that was enabled by virtue of doing that. Also, in IT staffing, we had two entities. The eCentric was the incremental entity that we had acquired a year before and in the last year, we integrated two entities in IT staffing also, which again gave us element of a leeway for the aspect of headcount optimization and cost controls. In addition to that I mean I think that team has been quite focused on new client acquisition at higher margins and that has kind of been playing out quite well for that team to drive the margin growth.

Moderator: Thank you. The last question is from the line of Garima Mishra from Kotak Securities. You can go ahead, please.

Garima Mishra: Thank you so much for the opportunity. I had a couple of questions. One for the XLS business, I think I may have missed this if you spoke about it earlier, could you please quantify the extent of

EBITDA loss that you booked on account of this business sort of winding down during the quarter, so that is question number one and second….

Ashok Kumar Reddy: What is XLS?

Garima Mishra: For XLS, what is the kind of EBITDA loss that you may have booked in this quarter pertaining to this business?

Ashok Kumar Reddy: No, but XLS is not our company.

Garima Mishra: Sorry. I meant the government business.

Ashok Kumar Reddy: Okay. I mean ILS as we call it, institutional learning solutions.

Garima Mishra: Yes.

Ramani Dathi: Also, the firm recruitment business, you have mentioned Rs.3 Crores of loss that we booked for firm recruitment business in the quarter. So Garima, we have two businesses in our HR services, which are in sunset mode. One is the government training business and the other one is the permanent recruitment business so between these two businesses, we have, in Q1, we have booked about Rs.3 Crores of loss that got contributed to EBITDA. So almost 50% of the loss in Q2 as well, and I believe from Q3, then, it would transit completely.

Garima Mishra: Okay and just a follow-up on this. So, see, essentially, you had this TeamLease Skills University, right, which you were also sort of leveraging in terms of imparting skills, etc., and I believe it was a part of this government skilling business only. So, is that understanding correct and are you winding down TLSU as well?

Ashok Kumar Reddy: So, we do not do any government training out of the skill university. So the skill university primarily has a small number of students' on-campus, has distance learning platforms for different students across locations and has the NetApp deployment of trainees across customers, so all of that would continue, there is no phasing down on that front.

Garima Mishra: Got it and last question, you reported a pretty steep sequential decline in your core employee count. So could you just highlight what functions have you seen this retrenchment happening and is this employee count basically enough for you to sustain business for the rest of the year or you think there would be some trend reversal, and you would add more employees going through the year?

Ashok Kumar Reddy: So, some of it is structural change, which is effectively in the firm business, about 150 to 200 people come on account of the firm business reduction. We have also the government business rolling down has an impact out there. We have about 140 people reduction in the general staffing business and that is really where the FTE improvement has come in, but to current volumes, we believe that this we can clearly manage with this headcount, and as our technology modules in work go-live, we would look at additional adjustments that could potentially happen. The other area that we have also had reductions in headcount of about another 70 to 80 people is in the specialized staffing side, which is really what I was mentioning about the shared service and headcount and cost optimization levers that they got. So, I think now, to current business volumes, we would not be looking to add any large headcount per se unless the business demands it for growth.

Garima Mishra: Got it that is very clear, thank you so much.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Ashok Kumar Reddy: Thank you. So, I think as we have said, clearly these are difficult times and different times. If the pandemic that has been unmodelable, has been a challenge for people to make long-term decisions, but I think we have been able to respond and react well and I think we will stay focused in the aspects of trying to engage with customers, with associates, candidates and the government to lay the way for the future. Our belief is that while it is a crisis, it is a sad situation to be in for a lot of people and for the economy. I think there is an opportunity from a long-term perspective, and we have been making the necessary investments, and we will continue to make the investments going forward to ensure that we focus on the three clusters of employment, employability, and eWorkforce as an enabling platform and support structure for the economy at this point in time. So, the whole aspect of the principle that we had at the back end of we are caused as much as a company cannot be more relevant than at these times. So, I think we will continue to chip away on this front. We assure there might be more challenges and more difficulties as we go along, but we believe that staying focused, staying through to the long run will enable us to succeed, with that, thank you.

Rohit Dokania: Yes, great Ashok. Thanks a lot for the comments on the call.

Ashok Kumar Reddy: Thank you all.

Moderator: On behalf of IDFC Securities, that concludes today’s conference call. Thank you for joining us. You may now disconnect your lines. Thank you.