"TeamLease Services Q2FY2018 Earnings Conference Call"

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Moderator: Good morning ladies and gentlemen, welcome to the TeamLease Services Q2 FY2018 earnings conference call hosted by IDFC Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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 Lizaan and good morning everyone. Welcome to the Q2 FY2018 results call of TeamLease Services. Today we have with us, Mr. Ashok Reddy, MD & CEO and Mr. Ravi Vishwanath, CFO of TeamLease Services. To start the call I would request Ashok to give us a perspective on the quarter gone by and recent acquisition of Schoolguru and Evolve Technologies and also how does he see the road ahead for specialized staffing vertical, which will be grouped along with IT and Evolve Technology that will be helpful and then we should take up questions from the participants. Over to you Ashok for your opening remarks!

Ashok Reddy: Thank you Abhishek. I think our continued focus on trying to drive the revenues and the margin improvement along with our verticalisation as the focus continues. Last quarter we had indicated overall saying that the markets are little soft, the aspect of GST impact with most corporates looking more inwards then outwards, an element of absorption and not as aggressive in terms of headcount growth, has kind of played out in Q2 and we believe will play out in Q3 also because we are not seeing a huge shift on that front, but as we said we continue the growth path and I think the verticalisation play.

The IT staffing we had indicated last time that the demands have increased uncertain times or a time for more staffing on that front, opportunity to variabilize costs as against creating fixed cost. So the growth trajectory for the IT staffing has happened and will continue as we go forward. I think we are adding another vertical in our staffing, which is going to be telecom the Evolve acquisition has been competed just short of 4000 odd associates that come with that acquisition playing to a specialized telecom sector profile and we believe the opportunity in that segment continues to be good, while the general staffing aspect in telecom, which is the sales is a little soft. So the telecom vertical integration will take us a quarter or two, the promoter will continue to stay for a year from a handholding perspective of a transition and business continuity, but we believe we will be able to get the leadership in and work handover and transition, but a quarter or two will kind of be that and then we will look at the growth trajectory building up on that front.

We have also made an investment in to School Guru I think we have just made that announcement today, which is online digital platform, which is kind of a SAP platform for universities to go online and also for training and assessments to happen and we believe that this could complement our on field education and training activities that we do in net app in the university and in our training business. So it complements well we have always believe that digitization and technology supports create scalability and crate margin plays in the long run, so there will be an element of an integrative effort and working together of the various P&Ls with the School Guru team. Future increase in stake in School Guru is linked to the aspect of the performance of the company on the numbers front and we will continue to chip away with them on that front. So I think as I said relatively a soft quarter, but with margin improvements that we have been able to show with productivity gains and markup improvement we let go of a few clients at lower markups also as a focus more on margin improvement and productivity aspects. Vertical growth continues and I think continue to focus on being cash generating company happens and again we have another quarter of positive cash generation, which is good position to be in. So we stay on course to the aspect of the general staffing market, the verticalisation, the other elements of complementary business acquisitions that can help us to grow and due to the course of cash flow generation. That is it from my side. Happy to take any questions.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Vetri Raju from Equity Analyst Private Limited. Please go ahead.

Vetri Raju: Congratulations Mr. Ashok Reddy on a good set of numbers. On the acquisition front can we know what is the basis and strategy of acquisitions I am sure there is something there is one, so it will be very beneficial if you can outline briefly?

Ashok Reddy: Yes. I think the way we had always looked at it was while the organic growth of the company continues we will try to have the inorganic route to create an opening balance on which going forward as TeamLease we will be able to build on the volumes and the market opportunity. So in line with that last year we had done the acquisitions for the IT staffing business, took us about five to six months to get the integration completed on those entities and now we have a strong opening platform and balance in terms of clients, associates capabilities that we are effectively leveraging to grow in the IT staffing front. Similarly other identified verticals were a focus area for us and one of them was the telecom staffing aspect where the profiles are of a higher and then what happens in the general staffing and the margins are also higher than what is there in the general staffing. So I think Evolve had a strong presence with a good client base and also a team that has been built over the year and a good operating platform. So I think investment in Evolve gives us that opening balance, like we said it is a new vertical for us from a TeamLease perspective and we have asked the promoter to stay for a year from a handover perspective, we will bring in the leadership in to the business. From a functional role perspective we will double it up and drive it as we go forward and effectively integrate Evolve and drive up the telecom vertical specialized staffing play at our end. We continue to explore other vertical opportunities from an M&A perspective and as and when things happen we will come back on that. We had also looked at investments other than 100% acquisitions as investments that complement our existing business or can enhance from a technology perspective and one of those last year that we had done was Freshersworld where it is an online job database platform that can complement and support our hiring of freshers, so an investment was made, we are working with them for improving the technology, product and integrating the working platforms of TeamLease and Freshersworld so that over a period of time we have a larger access to a fresher's database and also kind of digitize the processes to reduce the cost of hiring. The investment in School Guru like I had mentioned earlier is a digital platform that can support the learning services and the university that we have and also over a period of time give us access to a database because School Guru ties up with universities and colleges to become their online training and learning platform. So as kids come on to that the access to that database can increase our access to a candidate pool, so while currently School Guru investment is from a perspective that it complements learning employability services that TeamLease has in the long run it can also be a source of a candidate pool that infused our hiring. So we still have incremental free cash at the company end as we have been generating cash flows and I think we do have more discussions happening, but as and when they close we will settle that.

Vetri Raju: That is great. I see a good link of direct and indirect benefit for the company. Also yesterday there was this notification to the exchanges that from the IPO money you are actually allotting some as against 150 Crores or something you are allotting 500 Crores for acquisition and it is also great to see that the Q2 operating cash is like 150% of the operating profit, so with this kind of cash getting accumulated in addition to the pool of 500 Crores already we have with us in the IPO fund I am sure as an individual investor at least for me I know that I am in very, very strong hands as far as the management of the company goes, but with this kind of 500 Crores of cash and some…

Ashok Reddy: If I can just interrupt there that is 50 Crores it is not 500 Crores it is 500 million. When we did our IPO of 132 Crores the 50 Crores was raised for general corporate purposes, but our belief is that we have enough working capital and managing the cash flows in a very controlled manner and redirecting this 50 Crores in to potential M&A watches would be more useful so that is really where we made a change in use of purpose of the IPO proceeds.

Vetri Raju: Thanks for the clarification. I read it something like 500 Crores or something because the IT infrastructure fund has been planned to be moved to the acquisition that is what I thought if I am wrong I am sorry, but this kind of cash flow as I know that you guys are the best in the industry and I am very sure that we have a very strong management my true sense is can we think a little bigger in terms of acquisition or we can at least give back money to the shareholders with this kind of strong cash flow and if we are acquiring only companies of 30 Crores, 40 Crores size or even lesser is it better to give the money back to the shareholders because the pools down the ROE and ROC and ROA drastically down by 5%, 6% points?

Ashok Reddy: Yes so let me address that. I think we have about 100 Crores of free cash flow at this movement available with us. If bigger deals came in we are not constrained by that 100 Crores as a deal size, but we would be happy to raise money if required and we are zero debt also, so whether it is debt or equity to deal that make sense for TeamLease and for the longer-term path we would be open to exploring larger deals, but a free cash flow at this point is about 100 Crores that we have and we do believe and last year we went with the zero dividend policy primarily from a perspective that we believe that there are opportunities that can drive the growth and the element of spread in service offerings that TeamLease has. We continue to have dialogues on that front, which is where we believe the utilization of capital for the future of TeamLease growth could play out. At a point in time if we believe there are no opportunities and there is ideal cash sitting with TeamLease we will be happy to explore opportunities to give that back.

Vetri Raju: Lastly the margin expansion is very great to know that EBIT margin expansion is there even from Q1 to Q2 both in general staffing as well as IT staffing can you elaborate what works for the company and how we are tremendously improving the EBIT margin quarter-on-quarter pool?

Ashok Reddy: So I think as we had mentioned earlier there are three drivers that effectively give us the margin improvement, one is the productivity at our end, which is to say that we have a higher ratio of associates to core employees and we had implemented multiple products, which is technology at the backend process and people changes and I think those are kind of continuously playing out to a better ratio, which is leading to the cost not being linear with the revenue growth and that effectively improves the margin. The second is some element of lower margin mandates that we decided to drop giving us the higher realization per associate per month, which also adds to the aspect of the margin improvement and the third is the vertical play that comes in with the higher margin business of IT or going forward the telecom and so on which would continue to drive the improvement on the margin front. These are the three variables that exist in our hand as a driver to margin improvement.

Moderator: Thank you. The next question is from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.

Sagar Lele: Thanks for the opportunity. Just a couple of questions from my end, one was that Ashok when do you actually start seeing formulization become to a larger extent we have not seen much of a pickup post GST, but you did before this happen did allude to some discussions with the existing customers where you are helping them sort out their hiring plan post GST scenario. Have we at least seen these active discussions translate into anything material from a revenue perspective?

Ashok Reddy: Sagar I will be astrologer if I could clearly say when its impact would kick in, but like we said we do believe GST enables formulization, but the whole element of how GST got implemented with the complexities, uncertainties, the changes that are happening and so on, most organizations have become very invert focused at this point in saying, do not bother still we kind of sort out all the GST related issues and so on, so I think the translation of, while we strongly support GST implementation and the cleanup of the process to what it should be our true belief is that it will take a while longer and I am not in a position to right now say when. For the impact of that to start kicking in because even if you look at the extension for compliance has been given on a continuous basis, so when compliance kicks in when company starts seeing the payment of their GST and getting the input credit or not getting the input credit, all of those variables is what will start driving a larger element of shift to the formal players. So I think we are a little time away from that which is why last quarter I had indicated that it is looking kind of soft and I continue to hold that stance that this quarter also is looking soft from that perspective and some of the companies with the uncertainty involved have actually even on boarded outsourcing that was happening earlier, so some of the numbers that earlier were with us have actually moved back on to the roles of the company and their aspect of a statement is let us get through this period, let us see how it plays out and then we will come back. So I still hold the belief that the headroom for formulization and headroom for staffing is tremendously large if just I believe an element of timing and staying on course to the aspect of playing to that long term is what will hold us in good state.

Sagar Lele: Thanks for that Ashok. Also in terms of the markup while we have seen a consistent increase over the last few quarters I understand this would be a function of a change from a fixed commission model to a markup model and at the same time we have been improving some of the low yield customers, but would you attribute any of this to general improvement in the pricing scenario in the industry or does there still pressure continue on downward side?

Ashok Reddy: So the pressure continues on the downward side. Clearly the fact that only 1.5% of the market is in the formal state and 98.5% is in the informal state continues to not give us the pricing power and we are kind of dictated on the price, but the fact that we have about 22% of our clients on the variable model gives us some leeway for as salaries go up increase realization. In some contracts it is an element of higher price realization with new contracts where we have bundled in the service of the attendance or asset tracking and so on. Like I mentioned earlier in some of the contracts where there is a huge price pressure we are coming around to the aspect of saying we are better off if we lose that customer in the short run to gain in the long run, so I think a combination of these three is really where the margin improvement happens, but as you can see over the years and even in the current year that margin improvement is not a huge bump up it is a gradual raise that happen and we hope to keep that gradual raise on that tangent.

Sagar Lele: That was helpful. Thanks a lot guys.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities Limited. Please go ahead.

Ashish Chopra: Thanks for the opportunity Ashok. To the earlier question you just alluded on the fact that in the current inward focus some companies are also on-boarding the otherwise outsourced resources so I was just wondering would there also be a play of this whole taxation benefit that is currently on the table, which could be driving that given that if there is such a lot of tax incentive then these employees has incremental additions to their numbers, so do you see that kind of acting maybe against the trend of outsourcing or over the medium to long-term could that be a factor that plays into the company's decision making when they think about third party staffing company.

Ashok Reddy: At least the indicators feedback at this point is that is not variable that is driving the decision because most of these corporates if we look at it on a gross basis because for the tax benefit to kick in gross level employee base has to increase and most of these people had been growing at a gross level I think it is just element of uncertainty at this point in time that is driving the aspect of can I get them on rows and then figure it out later and stuff. So I think at some point in time as we go forward the flip will happen again, but I think even historically pre GST we used to see this cycle of on-boarding, off-boarding and all of that, but I think GST has increased that percentage of volume of on-boarding per se, but I do not think the tax would be the key driver while per se they were anyway having a head count growth at their end.

Ashish Chopra: On a related note would it also, it is an incentive for the unorganized players also to probably become compliant, but just wanted to know from you, your thoughts on how easily achievable or how easy the shift is for the unorganized players to actually, probably take up an avatar of someone like a TeamLease and the operating in a more compliance category going forward just because there is this incentive that is there to be had and which kind of levels the playing field for you guys?

Ashok Reddy: I think there are two variables that give hidden revenue to the informal sector. Earlier one was GST and one was the statutory compliances that need to be paid for the employees, but at the wage levels that we play nearly 30% to 40% of the gross CTC gets deducted as various statutory deductions contributions that need to be paid to the government. So our current belief is that with when GST gets implemented and enforced and gets on track in a full-fledged manner the compliance on GST would be a non-negotiable for the informal sector. So one stream of hidden revenue that existed would get cut away so either the informal guy pays that money to the government and enables the company to get the input credit or the company will choose to move away to somebody else, but I think the second hidden revenue stream or statutory compliances not being paid in entirety and the leeway for the various compliances and different laws being offline are not being triangulated by the government to control check compliances has not yet fallen into play, so as long as that opportunity still stays open the hidden revenue streams are still quite large, so I think a holistic plugging on all front is what will drive or create a quantum shift in formulization, otherwise it will be a gradual reduction.

Moderator: Thank you. We take the next question from the line of Chockalingam Narayanan from BNP Paribas Mutual Fund. Please go ahead.

Chockalingam N: Just on School Guru if it is possible to share some financial metrics as far as that company is concerned?

Ashok Reddy: They have about 125 employees and they have about 4 Crores revenue for last year, probably will be flattish for this year also, but effectively I think what they have is the platform they are not profit making at this point in time marginally in the negative, but I think the variable on where the money would be spent that is going into the company is largely now leveraging the sales network to increase the element on rolling students. So the partnerships with 18 universities for School Guru is in place. I think they have the technology platform, the content in place from perspective of the e-learning platforms they outsource a lot of that content conversion cost as variable cost. Now the key is to make the investments in to sales and marketing to onboard a larger number of a student base and effectively role it out from there. So the way they work today is they create a content library, which has both content from a learning perspective and questions, it is in multiple languages, they have about 2000 plus faculty network that enables the aspect of the content library build. They address different programs in different functional areas of our commerce, management, IT and all of those and effectively as I mentioned contracts that are more long term and renewable with universities. The aspect of the learning can be on the computer or on an app and our belief is that ability to leverage this platform for TeamLease to become a client and put our associates or our trainees to kind of get a learning and for them to then reach out also additionally to getting larger number of students is really where the opportunity for the university, for the School Guru program there.

Chockalingam N: Are there any put a call options in terms of buying the remaining 60% or how does that work?

Ashok Reddy: Over the next four years we have a roadmap to being able to acquire the entire stake. It is all linked to performance multiples and largely driven on profit multiple rather than anything else.

Chockalingam N: So while the initial investment seems to be more on sales the future ones are based on profit is that the right understanding?

Ashok Reddy: Yes.

Chockalingam N: As far as this associate count is concerned in the staffing business Q-o-Q there has been a bit of a decline, so any large client that has taken the staff pool in-house?

Ashok Reddy: Two, three clients have gone in-house, some large numbers and then it has also been a distributed reduction across different companies and I think like I said we saw that and we were expecting that in Q2 we do expect it to happen in Q3 also.

Chockalingam N: When they do in-house do you get a certain sourcing fee as a part of it?

Ashok Reddy: So by contract we have a sourcing absorption fee as we call it for the segment of the associates that we had hired, but in reality most companies do not make that payment and from a relationship perspective we kind of tend to not charge it though it is on contract we just make the client feel bad about it, so that in future when they are coming back to the table they come back to us.

Chockalingam N: Actually a related question was on the other HR services where there has been a very marginal, it is a very low base of operations I understand that, has there been some large increase in cost or hiring to beef up that business or how should one look at that?

Ashok Reddy: For the other HR services temporary aberration on account of some delayed collections, but I think in Q3 it will bounce back. We have not made any huge incremental cost increases or investments on that business, the business is quite invested at this point in time. I think it is more a temporary blip rather than a long term.

Chockalingam N: Thanks Ashok and all the best.

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

Abhijit Akela: Thanks a lot for taking my question. First just a followup on the general staffing headcount so given the dip we have seen in this quarter and the fact that you are talking about possibly a continued dip in 3Q as well how do you see the outlook for FY2018 now, we have been talking about revenue both expectation of about 20% in the general staffing business should we sort of moderate that assumption for this year at least?

Ashok Reddy: I think we will have to wait out to see how Q3 actually plays out before I can comment on that because while I am making a statement of softness from what we have seen and what we have been dialoguing with companies. Last quarter we were also hopeful that the GST issues would kind of get ironed out and get sorted out. The other variable is also earlier although seasonality use to come in to Q3, but this year we have had an early Diwali and all of that, so Q2 had seen that up and down from a seasonality perspective. So if we really look at seasonality in Q3 this year is only Christmas and New Year, but the Diwali one went into the Q2 aspect. So I think it is early to talk about overall outlook per se, but I think clearly the aspect of uncertainties on GST has been impacting the market. I think we will continue to focus on productivity improvements, the verticals have not been impacted by these uncertainties, so we will try and push on the vertical performances and the HR services performances they do not make a huge impact on the topline of TeamLease, but they can contribute to the bottomline, so I think that focus will continue.

Abhijit Akela: Second on the tax rate we have not almost at a zero tax rate for the first half now. So for a full year basis if again that the right level to look at?

Ashok Reddy: So we have a continued benefit carrying over on account of **(inaudible) 34:31** benefit. Into Q4 we will know the volume of associates and tenure of associates how much incremental can get added to that tax benefit. So at this point till Q3 I think we are clear that we will be at a zero tax bracket, into Q4 we will know the incremental benefit available.

Abhijit Akela: But would it be fair to assume that you will be below MAT even at least for this year?

Ashok Reddy: Yes.

Abhijit Akela: One last quick clarification could you just update us on the value added services head counts please I believe it was some 14000 people last quarter if you can just give us the updated number?

Ashok Reddy: It is about 16500 now like we had said last quarter even the 14000 that we mentioned last quarter we had said that some of them were on a free trial basis and if you look at it some of our average realization has gone up because we have started bundling these value added services in to some of our customer contracts, but we have about 16500 associates currently using the app.

Abhijit Akela: Got it. Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Madhu Babu from Prabhudas Lilladher Private Limited. Please go ahead.

Madhu Babu: We have talked that manufacturing will move towards organized tapping players post GST so how are we seeing from the manufacturing vertical on the shift?

Ashok Reddy: Like again one benefit also that manufacturing will get Madhu into the future is the aspect that they get the input credit. Earlier the manufacturing sector did not have input credit on the service tax under the GST regime they will get that so we believe the manufacturing sectors can be a large potential from a formulization as we go forward. I am just going to have to wait for the GST issues to sort themselves out and companies to be able to be more outward looking as we go forward.

Madhu Babu: One of our peer is very aggressive on the acquisitions in terms of expanding in the verticals even considering that we still unorganized players are substantial and organized players are gaining share so would we look at fresh capital infusion into the company and go aggressively for acquisition?

Ashok Reddy: I think my competitor and I have different strategies to the business and our belief is staying through to our course of the three vertical businesses that we have of employment, employability and education. Yes we will be doing acquisitions in these three spaces from a perspective of complementing what we do not have or adding on to what can be in to the future, but I do not think in the foreseeable future we have a desire to get into manage services or not do we intent to go outside of India. So I think we will like to be an India play and we will like to play to our core competencies and drive up on the business opportunity.

Madhu Babu: Last one from my side core headcount cost has come down. The salary cost for core employees and that has been one of the margin driver, how much productivity can we further get from this nonlinearity?

Ashok Reddy: Some of the cost is an element of allocation to the other P&Ls and so on so IT P&L has come in newly, so we allocate some cost to them, so on an overall basis if you look at it our head count has not increased and we have been more or less flat in terms of at a consolidated level the employee cost for ourselves so the growth that we have had has been handled by the same cost structures that we had earlier.

Madhu Babu: Thanks a lot Sir!

Moderator: Thank you. The next question is from the line of Sudhir Guntupalli from Ambit Capital. Please go ahead.

Sudhir Guntupalli: Thanks for taking my question and congrats on a good set of numbers. My question relates to this School Guru acquisitions if you remember in 2010 we have acquired a company one is IIJT, which is also into this training, learning and development side and later on we kind of fail to scale it up significantly so what went wrong at that point in time and what gives you visibility that it will not go wrong in this School Guru investment that they have made and what are our learnings from that episode?

Ashok Reddy: So the two are very different platforms so the IIJT was physical learning structure where we had over 40 company owned centers and about 60 franchise centers and the model for payment was the B2C model where you convince students to come into the classrooms and pay for the education or the training. I think the model had kind of been badly abused and also the whole aspect of a high street retail model to learning was just not working out from a commercial aspect perspective, so if you look at it we still while IIJT has been prune down it transformed itself from what it was in terms of company owned centers and retail network and all of that into a variable cost model where we have training delivery partners over 200 of them currently implementing on various programs that we have. Very little B2C in this, the kids hardly pay for it, it is either governments paying for it or it is the corporate CSR funds paying for it or it is the corporates paying for it. So I think under that model we have been able to scale up the aspect of the training business and last year we did about 40000 trainees, this year we are looking at the aspect of another 50000 trainees to happen on the training front and stuff and this model is commercially viable. So I think the model per se has changed at the TeamLease end and when we look at School Guru it is not about again a physical infrastructure it is about an online platform that complements the training delivery, it is about in a sense a B2B partnership with universities and becoming their element of a SAP platform for distance education and recently there has also been regulatory changes around open and distance learning and we believe more of that will happen as we go forward. So largely School Guru is a variable cost platform. The technology is the key variable, it is not a linear cost structure after the initial slip of the fixed cost being met the margin improvement can be tremendously large so we will look at School Guru twofold, one is as a vendor providing us the technology platform that we can leverage for our students and trainees and it will be an independent business platform that generates its own revenues. As we said earlier the future roadmap of acquisition of incremental stake is structured around the performance of the company to profits and revenues and we do have a ratchet clause in case they do not perform to the commitments.

Sudhir Guntupalli: Just one last question from my side. As a CEO of the company what are the two, three big risks that you see company specific risk I am talking about not the macro ones like formulization and GST and stuff like that so what are the two to three big concerns or risks that you see that can upset the growth trajectory of the company going forward?

Ashok Reddy: So leaving the external macro factors, which are probably more temporary in nature than long-term because in the long haul the outsourced volume of employees in India is tremendously large and they have to get formalized and all of that and as long as the government is working towards it and enabling it at some point we believe it will happen so the headroom for the market opportunities for us continues to be tremendously large. I think the two variables that are important as we look at it is execution on a continuous basis, which is being able to handle larger volume as we grow and scale up and I think that is the key focus area for us. Improving our hiring capability to address the long tale of demand that customers have on the kind of profiles at the salary levels at the lowest cost is the second variable that we are focusing on and I think that is where an element of the digitization and the online platform and all of that help and three is the integration of the acquisitions that we do. I think acquisition M&A approach is good for us to gain foothold and opening balances, but it is also important on how we integrate those opening balances and grow them to the future, so these are the three key focus areas from our perspective that we will be looking at.

Sudhir Guntupalli: Thanks. All the best.

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

Garima Mishra: Thank you so much for the opportunity. Ashok I had three questions. Number one if I look at the apprentice count growth it continues to be very, very strong and has really defied the trends that you have seen in the associate employee growth in the staffing business, so could you just highlight what is driving this very, very strong growth and what trends do you see for the next say two or three quarters?

Ashok Reddy: On the apprenticeship trainee front it is a new scheme and it is a easy variable for corporates to formalize their informal employment with no cost increase per se because a transition from the informal employment to formal in a staffing space has a cost attached to it from a perspective of the statutory deductions and impact on e-com and everything else. In the net app scheme the immediate cost implications are relatively much lower for the organization and hence the ability to transform becomes easier. Also I think as this scheme we have been feeding it now for over three years and so I think the acceptance of the net app scheme with the existing corporates and the new corporates who have been seeing this scheme and operation have been the two key drivers for growth and we believe the opportunity still continues to play out because here the GST impact is not so high.

Garima Mishra: We should see similar growth rate for the next two, three quarters?

Ashok Reddy: Sure.

Garima Mishra: Second question was regarding the tax benefits that you are getting, which essentially makes this whole exercise more profitable than what it was in the past and this would be the case for other staffing companies as well so do you think there may be a tendency for companies to pass on some benefits to clients and try to take higher market share in view of these benefits?

Ashok Reddy: I think the increased formulization even if it is with the tax benefit is a great thing to have on board. Yes it can lead to some element of a pricing power in the hands of people saying that look I am getting the tax benefit so even if I go with the lower markup and still there is a benefit and stuff of that sort, but Garima we have always been in a price war situation here. So the markups that the formal sector commands with customers has never been very high, it has been very low when you compare it to any peers outside of the country and so on, so I think there will always be an element of a knee jerk reaction at times from certain people on pricing and so on, but in the long haul I do not think it will be a sustainable business model.

Garima Mishra: But as of now you are not receiving any feedback from your customers who demanding lower prices or from you…

Ashok Reddy: My customers are always demanding a lower price irrespective of this. Specific to this nothing that we have got.

Garima Mishra: Last question. See now with these acquisitions that you made recently plus the IT staffing acquisitions last year you have five or six different entities within TeamLease itself so how do you really think about managing these different entities and what would your thoughts on leadership be will they be centrally manage from your Bengaluru office or they will continue with their existing sort of structure?

Ashok Reddy: Where we are doing 100% so the way at TeamLease we are structured is we have got the verticals, which are the P&Ls and we have got the horizontals of finance, HR, IT and compliance, which kind of run across the various verticals. I think this is the same structure that we will follow as we go forward. So in some of the acquisitions it might be a situation where we have to bring in leadership to take ownership on the P&L like it is at Evolve where the promoter will be moving out after one year to run some other business that they have and so on. As it has been with the IT staffing where the promoters had other businesses and other interests and we are going to move out of it after transition phase and we brought in the leadership on that front, so looking for CEO whether they come from internal aspect or we get them from outside for the various P&Ls will be a key focus area for us. Where we are doing minority investments with their path to acquisition these are places where we are looking at the management team and the CEO staying on because they bring a capability that today TeamLease does not have or does not intend to build and we would ideally like them to scale on the business and that is why we have linked their future earnings or payout to the aspect of their performance and over a period of time if they are good we will give them even larger opportunities to play out in TeamLease. So I think it will be a combination of looking at internal leadership growth kind of hiring leadership growth with the businesses that can kind of grow with us and catapulting people in where it is required.

Garima Mishra: Just a followup. For the IT staffing companies that you acquired last year who is managing those currently because my understanding is that the older promoters have left so are they under your direct control or is there anything within TeamLease who is managing?

Ashok Reddy: Santosh who was earlier our HR Head and was also 20 plus years with the IT industry prior to coming to us was good at lecturing us about how to do business so we said why do not you take the transition to the other side and become a business leader so he is kind of stepped in to take charge of the entire IT staffing business so all the three entities in the IT staffing business are now managed by Santosh as the P&L Head.

Garima Mishra: Thank you so much Ashok and all the best for the future.

Moderator: Thank you. The next question is from the line of Abhishek S from Equirus Securities. Please go ahead.

Abhishek S: Thanks for the opportunity. The first question is regarding your observations have you seen any instances of the unorganized players reworking their business models to become organized and retain their existing market share?

Ashok Reddy: Not yet. Frankly the unorganized sector is highly fragmented, so the only way we will see an element of so called indicators of formulization from their end is as compliance is kick in. A larger element is GST collections by the government from outsourcing agencies and stuff of that sort because right now when we talk about informal employment or we talk about the unorganized sector they are kind of under the radar. They are not in the track system of the government or for us, so when I go to a corporate most of my clients invariably will have some element of informal employment, but nobody would acknowledge that reality. So I think the only variable that will throw this up as we go forward is more players under our category of service starting to contribute GST.

Abhishek S: Just a followup. In case you see instances of this happening what could be the potential cost differential of providing services between what it is current and what it becomes at what level you could see increased competition coming in from the unorganized mix?

Ashok Reddy: I did not understand your question on the cost differential can you just repeat that?

Abhishek S: There is a higher markup, which unorganized charges and the total cost of outsourcing would be lower for a company doing the unorganized staffing versus what if they move it through TeamLease so at what level you think the cost differential is today and that can become which would increase the competition from the unorganized space?

Ashok Reddy: So that there is three ways that the informal sector had a revenue stream historically. One is the markup that they charge per associate per month kind of a thing and they had a leeway of charging of very low markup on that given the other two revenue streams. The other two revenue streams are primarily the statutory compliances like I mentioned at the wage levels that we cater to about 30%, 40% of statutory reductions and if a percentage of that does not get paid it is a huge revenue for the company. The third was service tax, which if not paid in entirety or in part was again a huge revenue stream 14.5% of our gross billing. So in the GST regime 18% GST hopefully would have to get remitted because the input credit otherwise would not be available for the company, but the 30%, 40% leeway that existed on statutory compliance default still continues. So only when that gets clubbed will the realization for the informal sector that I cannot work at Rs.100 or Rs.200 per month per associate become a reality and that is where the transition can happen over a period of time.

Abhishek S: Just a last couple of questions you talked about resourcing happening could you help us understand your observations in terms of what are the profiles that are being resourced and any trend across which sectors are seeing increasing in sourcing versus what we have seen in the field?

Ashok Reddy: There is no trend and that is why I had mentioned earlier also that if you really look at it. It has not been a massive transition in any one industry or any one company it is more a distributed activity. Two, three companies have been larger numbers, but otherwise it has been a distributed aspect and overall if you look at the staffing aspect from our perspective 65%, 70% are sales customer support and logistics so the transition would largely happen from that, so it is not specific to any company, any region, any industry or any profile.

Abhishek S: Thanks for taking my questions.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments. Sir would you like to add any closing remarks?

Ashok Reddy: I think like we said we have stayed through to the course of the business focus and I think we will continue to focus even though the external variables are soft in trying to create an element of growth in increasing our numbers in building the vertical scale up and looking at possible future opportunities. In the process cash flow generations, margin improvement will be the two key focus areas that we will look at because we believe that, that gives strength to the organization's balance sheet and drive it up as we go forward. That is it from our end. Thank you for all the support and we look to meet your aspirations in Q3.

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