"TeamLease Services
Q3 FY2019 Earnings Conference Call"

January 29, 2019

ANALYST: **MR. PRASHANT TIWARI – SBICAP SECURITIES**
MR. AYUSH BAGLA – SBICAP SECURITIES

MANAGEMENT: **MR. ASHOK REDDY - MANAGING DIRECTOR & CO-FOUNDER – TEAMLEASE SERVICES**
MR. RAVI VISHWANATH – CHIEF FINANCIAL OFFICER – TEAMLEASE SERVICES
MS. RAMANI DATHI - FINANCIAL CONTROLLER - TEAMLEASE SERVICES

Moderator: Ladies and gentlemen, good day and welcome to the TeamLease Services Limited Q3 FY2019 earnings conference call of hosted by SBICAP 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 an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Tiwari from SBICAP Securities. Thank you and over to you Sir!

Prashant Tiwari: Thank you Nirav. Good afternoon everyone and welcome to the Q3 FY2019 earnings conference call of TeamLease Services Limited. I would like to thank the management for giving SBICAP Securities the opportunity to host this call. From the management team we have today Mr. Ashok Reddy, MD & Co-Founder, Mr. Ravi Vishwanath, CFO and Ms. Ramani Dathi, Financial Controller. We will begin the call with the opening remarks from the management and then move to Q&A. Thank you.

Ashok Reddy: Thank you Prashant. Thank you Nirav. Just an update, I think we have held to the consistency in associate trainee growth. This is the first quarter that we crossed 200000 associate trainee count and we are at about 211000 now, 7500 associate growth in staffing and 3800 growth in makeup trainee.

I think follow through to that the productivity increased from the team has also played out, so we have increased from 240 associates to our core employee to 260 while on the other side we have had downward revision on the PAPM realization, which has gone down from 719 to 710, but that has also been complimented to commitment reduced funding exposure from a 16.25% it is now down to 14.6% finding.

I think the element of some of the large mandates that we had taken at the lower price point are continuing to add growth, but I think it is playing out for us from an absolute profit perspective given the productivity enhancement. As I was mentioning I think we have got a healthy track record on associates and trainee growth, productivity enhancement is there, drop in PAPM, but I think that is a kind of to some extent covered by reduction in the funding exposure that we have, which has come down to 14.6%. I think the IT staffing business is on track. We have added 130 plus associated on that front and we continue to have a heavy pipeline of open positions that we are working on.

The telecom business as we had mentioned new initiatives will take another two quarters to settle down and there will be a pressure on margins on that count, but the core business that we had initially taken is staying on track. Our belief is that the new team and trial and error in the new project will play out in the next two quarters and then we should be able to effectively get that back on track.

The HR services businesses, which includes the training normally in Q3 has larger receivables and a provisioning aspects, which is what has depressed element of the profits in that business, but our belief is that while some of those collection should have come in December would come in Q4 and to that extent we should be back on track for the HR services businesses, as it scales substantially this year, but our belief is that those provisions will have a reversal in Q4.

The School Guru, the online training business has turned positive in Q3. I think the investment phase for that business over the last many years has now started to yield benefits and the business has turned positive for the first time and we believe it will stay on tack on that front.

The Fresher's World business is also stay positive and I think we will continue to look at enhancing the technology platform for hiring and for database management from the Fresher's World side. The Avantis aspect of the business that we took is obviously in the investment phase at this juncture around the aspect of technology and the client acquisition, but we believe that considerable progress in integration and platform is achieved and the focus on sales will start to yield results on that front.

Also from our own Core Teal Lease technology initiatives, I think we have stated some element of technology development for some of the staffing verticals and value added services, which will play out over the next 18 to 24 months has a clear new variables on the technology side that we would be able to take to market as we go forward. Also as a follow up through to the last call mentioned that the AGM has been postponed on an account of shift of registered office from Mumbai to Bengaluru, the AGM there has been conducted and all the required filing has also been complied with. I think overall from our quarter perspective we are largely on tack to the aspect of growth, productivity and we would look to sustain that as we go forward into Q4 also. I am happy to take to question.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sudheer Guntupalli from Ambit Capital. Please go ahead.

Sudheer Guntupalli: Team, good evening. Thanks for giving this opportunity. Firstly, a couple of questions related to margins. In the previous quarter, we were very confident that we will see stability in growth and margin profile of HR services given the shift in the portfolio from placement linked training services to grand based training services; however, in this quarter there is a steep deterioration in margins here you spoke about some provisioning, etc., any further colour on whether this is seasonal or one-off will be helpful? My second question on margins, your staffing core employee productivity improved from 220 in December 2017 to 260 in December 2018 and there is an improvement in EBITDA margin of general staffing segment from 1.7% in the previous year adjusted for a one-off to 2.1% this year and everything else like realizations, etc., remaining constant just trying to understand what is the theoretical headroom for further improvement on these two metrics employee productivity and subsequently staffing EBITDA margins?

Ashok Reddy: Thank you Sudheer. I think on the HR services front, the volume of business and sales stays on track, but the grand based aspect of the government business was on 25% being received upfront, utilization and then the second installment of a 25% gets released and I think there has been an element of delay in the release of the second installment and while the second installment is to be released the current lot of trainees in process continue to get trained and the government request as not to hold back on that, so I think that is really and a large element of that collection was expected to come in, in Q3, but the government working's there has been a delay, which we do believe will come in, in Q4, so it is more a seasonality and we have normally seen that in Q3 the collections and disbursements from the government's side are normally and typically get corrected into Q4 given that the year end budgeting and all of that needs to kick in, so from that perspective, I think, it is the seasonal aspect and we do have commitments that the payment are in process and would come in. On the staffing side, I think the headroom for improved productivity is still there and we would continue to work on that front. Our belief is that there is no numerical number that we would like to limit ourselves to. Obviously there is an element of technology, there is an element of process and there is an element of client maturity in working with us that effectively drives the productivity numbers and I think we have stayed true to the productivity enhancement for the last two plus years and we believe that the future quarters will also have opportunity for that.

Sudheer Guntupalli: Thanks for that and just to go back to our HR services margins, there is no credit risk involved with any of these receivables, I just double checking on that because you used the word provisioning or something on that line?

Ashok Reddy: So, we normally have a policy of provisioning anything beyond a certain number of days as just creating a branded provision. It is a conservative policy. In the past also if you really look at it our write offs have been too much, so I do not think there is a credit risk on these amount is just a time effect.

Sudheer Guntupalli: Sir, and my last question is that some of our major client sectors like for instance retail and e-commerce seem to be aggressively talking about opex rationalizations on back of their own margin pressures or even the new FDI policy on e-commerce, so based in your discussion these clients how do you see the demand shaping up the sector, I am just trying to understand what is the amount of flab in headcount in these sectors and what can be the potential impact of opex rationalisation here and that is from my side.

Ashok Reddy: As of now, I do not think there is that much of a flab in the system that is being looked at to reduce headcount on. Actually most of these sectors plus others continue to have a healthy lot of open position because that we are working on currently, so there might be adjustments that could happen at the client in terms of the skill sets of the people that we look at, but I think both the sectors are still continuing to look for headcount enhancement at their end and at this point in time we continue to have open positions that we are working on for it.

Sudheer Guntupalli: Thanks Sir. That is very helpful and all the best.

Moderator: Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Good evening. Thank you for the opportunity. Just two questions from my side; if you can sort of talk about the open positions and kind of which that you are seeing, which are the sectors which you believe are driving that, that would be very helpful?

Ashok Reddy: I think the continued element of a widespread phase of clients and sectors from which we have open position continues to play out. I think we continue to work in the BFSI space, we continue to work in retail, agri, the telecom clients, FMCG, so I do not think anyone sector has historically driven the open positions for us and even now it continues to play out, so on an average we have about 8000 plus open positions with us and it is a kind of a widespread client from industry sectors that are driving this. It also a kind of a sector of our overall composition the top 10 clients continue to account for about 19% of our revenue and rest of the five is above 13% and that has not really charged to March, so it is overall growth of our sectors and companies that is the kind of driving the growth.

Rohit Dokania: This is very helpful. Just one small question from my side, so the corporate unallocated expense appears to be slightly higher as far as this particular quarter is concerned which will extent to about 5.1 Crores, if you can throw some light out there, is there any element of one-off sequentially I believe it was in the range of about 3.9 odd Crores?

Ramani Dathi: I do not know from where you picked up the 5 Crores number because in fact this quarter, it has been lower compared to the previous quarter Q2 and compared to the last year Q3 as well, so it is 2.3 Crores, so I can send you a separate working on that.

Rohit Dokania: I might have missed it. Thanks for this.

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

Abhijeet Akela: Good evening. Thank you so much for taking my question. First, just on the other HR services business, so you know once the grants come in Q4, can we expect like kind of a double impact to the profits for the quarter as in Q3 profits also coming in for the quarter?

Ashok Reddy: One element is there will be a reversal of provisions and that will kind of come in the quarter, but the topline will not be as aggressive because these states that have not released the tranche two payment these kind go slow on the element of a volumes that we are handling further, so yes, we will be back on the margin trajectory and there will be some element of the reversal of the provision, but there will be some element, I mean compared to the previous year, the revenue will be higher, but there will be slightly softer given that with the states that have not released the payment.

Abhijeet Akela: Understand, that is helpful and then on the specialized staffing segment, if you could just help us with the breakdown of headcount, revenues and EBITDA between the telecom business evolve and rest of the business and also there seems to be a little bit of sequential dip in the margin there for the segment overall, so if you just comment on reasons behind that?

Ashok Reddy: The IT staffing, we have got 2100 associates that is about 130 plus from the previous quarter, the telecom is at about 4000 plus about 80 associates lower than the previous quarter and I think there was always a slight seasonality in Q3 in terms of associate count overall, and if we look at it on the IT staffing EBIT we are at about 11% to 12% broadly is where we said we would be looking at, but also some of that so-called margins is on an account of the fact that we have respectively added a few employee in the IT staffing side so our core employees have gone up from 170 to 199. We have added 29-member team there largely to effectively look at growth given some of the nee client additions and the open positions that we are getting from customers. In the telecom staffing side, we have actually also looked at reducing our core employee headcount from 101 to 87, but like as I said we are still in that investment phase with some of the new initiatives TIR and some element of new leadership coming in and settling in and stuff of that sort, so I think so-called investment phase in the telecom side will continue for two quarters and then we think we should be looking to get back to margin, so IT staffing is largely on track to the margin.

Abhijeet Akela: For Evolve would it possible to just share the revenue and EBITDA numbers for the quarter?

Ramani Dathi: Yes, is Evolve this quarter we did 43.6 Crores revenue with an EBITDA of 50 lakhs.

Abhijeet Akela: Got it and similarly on Cassius and Avantis if could give us the numbers?

Ramani Dathi: For Cassius this quarter we did a revenue of 2.1 Crores with an EBITDA of 40 lakhs and Avantis we consolidated it only for two months, so the two months revenue is about 20 lakhs and EBITDA is about a loss of 40 lakhs and we have another associate company School Guru, which is not fully consolidated and the revenue for this quarter is 3.3 Crores with an EBITDA 75 lakhs.

Abhijeet Akela: Just one last thing from side, the following mark up for associate is that driven more by market conditions and the kind of requirements are coming in from clients or is that some of a change in your own strategy in terms of approaching the market?

Ashok Reddy: I do not think it is a change in strategy at all. Like we had mentioned there were certain mandates, which were moving from composition at a price point and we believe that though they were at a low markup, they still would add to the productivity and profit improvement of Teamlease and we thought it made sense to take those mandates and those have been aggressive growth and volume mandates and that is really with the reduction in the PAPM, but if you also look at it that complemented also by the reduction in the funding exposure that we have because we were all non-funding vanilla mandate with minimal resource deployment.

Abhijeet Akela: Sure, understood. Thank you so much and wish you 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, could you comment a little bit on how your current pipeline is looking, like you did indicate that you are still at 2-lakh plus currently, which is the good number and also if you work with any of the food delivery companies, which claim to be adding a lot of people every week, every month anything on that?

Ashok Reddy: I think we crossed the 210000, overall if you look at quarter-on-quarter we have added about 11000 plus numbers and for the nine months about 30000 and I think if you look at it in the staffing, NETAP, IT staffing in all the verticals, we have a healthy pipeline of open positions and demand that exists. Obviously certain profiles and certain segments are not driving the growth like food delivery largely the element of on boarding has not been that much through us. We do not have that many clients and volume on that front and also I think what we have noticed and seen is the attrition rates there are just so high that is a very leaky bucket to be servicing on a recurring basis, but we continue to dialogue and we continue to explore opportunities in every segment where there is a growth in employment or projected headcount increases. I think in the general staffing across clients and across sectors and a broad base of sector we have 8000 plus open position in NETAP and similarly we in excess of about 2000 plus position, and even IT staffing we are seeing healthy demand across some old clients and some new clients that we have added, which is also the reason why we have increased the team in order to be able to address that element of hiring on that side.

Garima Mishra: Thanks. Just specifically on IT staffing, how should I look at it because one would think about it, it is that in periods of lean permanent employee recruitment by IT companies, you expect demand for companies like your staffing companies like yours to go up; however, now when most IT companies are actually reporting very healthy headcount growth, which is permanent employee growth, does your business get impacted or the two are largely not correlated and IT industry growing is just good for all stakeholders?

Ashok Reddy: IT industry is having a bad period is good for us and IT industry having good times is good for us. I think what we are seeing from and hearing as a feedback from the IT industry is that a certain percentage of the employee base they like to look at outsourcing, so there are two variables to that, one is at times uncertainty of projects or something being really a project requirement and hence I need to on board the resources for a period and to some extent take them for a trial drive before I convert them and so on and the second element is just maintaining a variable cost as against a fixed cost for a period of time, so I think broadly and this varies a little bit across companies about 1% to 1.5% of the workforce tends to get outsourced in the IT industry and different companies have come up with a desire to move that number to anywhere between a 4% and 10%. That is not going to happen overnight, it is not going to happen as an event, but in a phased manner we believe that outsourcing will become larger and also historically many of the IT companies work with and in a very fragmented manner with multiple vendors, so at some point our belief is also that there will be an element of vendor consolidation that could play to volume growth for us.

Ravi Vishwanath: Garima, what really happens is the time to hire for the companies on to their own payroll is much longer compared to what staffing companies typically are able to fulfill their needs actually, their staffing needs, so at any point of time they always need staffing companies to provide employees within 30-day timeframe while their own hiring process takes as much as about 90 to 120 days actually, so there would always be a need for them to immediately start projects using a staffing model and overtime may be they will probably hire people on their own, but this will always be an ongoing cycle actually.

Garima Mishra: Thank you so much both of you for answering my questions.

Moderator: Thank you. The next question is from the line of Vaikam Kumar from JM Financial. Please go ahead.

Vaikam Kumar: Thank you for your opportunity. Ashok, I just wanted to ask check about client additions, so over the last few quarters, the client count has stabilized around 2250 mark so is this kind of a steady state number and are we looking more farming than hunting?

Ashok Reddy: Not really. We do have client addition happening. Some of the client IDs also at times gets screened up for consolidation, multiple client IDs, client end change in terms of consolidation into one and so on and so forth, some client with more open positions or a change in policy also drop off, but overall the continued focus for growth for us is and will continue to stay twofold new client acquisition and farming from existing clients, so both the trajectory will continue to play out for us.

Vaikam Kumar: That was helpful. And another bookkeeping question, can you help with the EBITDA number for general staffing, IT staffing and other services?

Ramani Dathi: For Q3 general staffing EBITDA is about 26.1 Crores, IT staffing is 3.9 Crores, telecom is 50 lakhs, other HR services 30 lakhs.

Vaikam Kumar: That was helpful. Thank you.

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

Ashish Chopra: Thanks for the opportunity. Ashok, I just had one question. You just threw some light on the structural drivers for IT staffing. With respect to the current portfolio of IT staffing business that you have, how would you really peg the competitiveness within the market right now and what would be your approach in terms of gaps that you would like to fulfill? Do we see more investments ahead for you to be able to garner a much larger share of that market or you would feel that you are largely well placed to address the thing?

Ashok Reddy: No. I think we have three segments that we look at in the IT staffing side, clients in the services sector, clients in the product side, and clients on the captive side. Obviously, our largest volume and growth drivers historically has been services side, but we are looking to complement and grow on the product and captive side also, so I think clearly volumes in the IT staffing comes on the services side to some extent margins come from the captive and product side, so our existing customer base historically does and continues to have open positions and demand for growth. We have added about five to six customers in the past few months and historically also we have said that most of the IT staffing clients always tend to start very small kind of give you the more difficult positions to deliver on and basis the traction to delivery and closure starts scaling up in a phased manner, so I think we are starting to see that with the few clients where we have now started closing positions. I think closure of these positions will give us additional demand on this front. Obviously, there are many more potentially large accounts that we do not work with today and we will continue to look at entering into these accounts either organically or inorganically as we go forward.

Ashish Chopra: That is actually where my question was also centered Ashok, so is it that you feel that inorganic thrust still remains a key imperative for you to be able to address some of those larger untapped opportunities as yet or how would you feel about your competitiveness with the existing set of small acquisitions that you have?

Ashok Reddy: I think what we would have looked at for inorganic would largely be towards the mentality of clients. I think in the existing clients from a relationship and delivery perspective, we are well positioned. The team is competent, has the capability and the track record, I think while we continue to grow that element we will continue to look for our opportunities that could essentially bring on board clients that get us an opening balance on which we can built faster rather than starting from ground zero, so those opportunities do exist and we continue to keep our lookout for them and engage to see what marries well and can be taken up to the future.

Ashish Chopra: Fair enough, that is very helpful. Thanks for answering my questions.

Moderator: Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Thanks for the opportunity again. Just a quick one, if you can talk about the margins across segment for the full year and also how could should one think of it that is it from a two-year perspective, if not numerically at least directionally that will be very helpful?

Ramani Dathi: In terms of margin percentage for general staffing for year-to-date we are at 1.9% and more or less we will close the year also around the same percentage. IT staffing we are at 12%, telecom 2.8%, while on core telecom segment we are maintaining a 5% EBITDA margin because of the new investments that we made in TIRS, which has come down to 2.8% during the year and other HR services at 7%.

Rohit Dokania: Should I look at it from a full year perspective?

Ashok Reddy: Broadly I think these will hold.

Ramani Dathi: Other HR services will slightly go up if the collections and write backs happening in Q4, so there will be slight seasonality with respect to the write backs in Q4 for other HR services, more or less in other segments it will be in the same length as the mine months margin.

Rohit Dokania: Great and from probably 2-3 year perspective something directionally would also help?

Ashok Reddy: Directionally, like we were saying the productivity increases in general staffing continue to play out and hopefully that and the volume growth should contribute to margin improvements as it has for the last two years and our belief is that that trajectory should hold good. IT staffing it is scaling up, but is what we will focus on, but I think while we scale, maintaining the 12% margin is what we will look forward to. The telecom, we look to bring the margins back to the 5% over a period of time and like we said investment in the new segment is what is depressed the margins, but 5% is what we believe will be long-term sustainable margins on that front and the HR services also leaving ahead to seasonality aspect, our belief is over a period should get between 8% and 10%.

Rohit Dokania: This is very helpful. Thanks a lot and wish you all the best.

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

Amit Chandra: Thanks Sir for the opportunity. My question is related to funding exposure. As you said that you have reduced the funding exposure from 22% Y-o-Y to 15%, so I just want to understand how do you achieve this and the funding exposure that you have reduced is it with the same clients or is it with the newer clients and how do you see the churn in the top 10 clients because as far as my understanding goes the funding exposure was largely with the larger clients that you have?

Ashok Reddy: Yes. The funding exposures have come down from about 32% to about 15.6% while this has largely been an account of two things. One we did convert upfront in Q1 itself we did convert some of the existing funding mandates into non-funding mandates and most of the newer accounts have all been non-funded mandates. If you see the total number of our associates on the 6 markup also has actually gone up from about 68% to about 75% over the last about 3 or 4 quarter actually, so that kind of explains the reduction in per associates for a month as well because we did trading the funding to a reduced markup or the realization that we earn from 735, which down to about 710, which is the markup while the funding exposure has actually gone down from about 22.7% at the same time to about 14.7% actually.

Ravi Vishwanath: Also to add to that on it, Amit, this year we have had no churn in any of our customers, all of them are on board and have been on board through the year.

Amit Chandra: Thank you.

Moderator: Thank you. The next question is from the line of Prashant Tiwari from SBICAP Securities. Please go ahead.

Prashant Tiwari: Gentlemen, actually if I look at the margins in the general staffing segment, they were around 1.7% or 1.6% some seven to eight years ago also and in Q2 we achieved 1.8% this year, so what I want to ask is even though the core ratio improved, the margins did not move much, so what has changed in the last one or two years that we are seeing this change and does associate core ratio only changes margin or is there something else that can drive margins up in the segment?

Ravi Vishwanath: Associates, the productivity part of it definitely impacts margin Prashant, but having said that we have been reiterating this and the fact that the percentages can be a little misleading given the fact that we do not control over 97% of the cost, which we are pass through, so while the margins have actually gone up the gross margins have actually, which is the PAPM has actually dropped from about 3.5% to about 3.1%, which is the reflection of the funding part of that and all of those, which we actually alluded too earlier, so the productivity part of it is definitely a kicker for the margins to go up and like Ashok said, we are working on lots of other initiatives right now, I do not know whether it is specialized tapping or additional work force solution, etc., to essentially start taking the margins up as we go forward.

Ashok Reddy: Also just to add to that Prashant, the three key variables that drives the margins in the general volume staffing business is the PAPM, is the percentage of funded and hence working capital tied up aspect in the general staffing and third is the productivity enhancement that can play, so I think while we have improved on two of the variables in a positive manner, the productivity and lower funding exposure, the PAPM has been a reduction that has kind of to some extent reduced the potential margins.

Prashant Tiwari: By PAPM you mean the markup that you get for us?

Ravi Vishwanath: That is per associates per month market that we have.

Prashant Tiwari: And what is that number for the current quarter?

Ravi Vishwanath: 710.

Prashant Tiwari: Earlier it used to be 740 or close to that?

Ashok Reddy: 719 last quarter, but last year was 750.

Prashant Tiwari: If I look at overall company’s EBITDA margins what will be the driver? I guess for the whole company would the driver be the turnaround in some of the segments that are still loosing money let us say compliance or payroll?

Ashok Reddy: The topline growth will largely come from volume staffing, but the element of the margin improvement will come from the specialized staffing, it will come from the HR services businesses and also the investments in the new companies that we have made as adjacencies to the core business because these are all higher margin businesses per se, so as these businesses scale their contribution to margin improvement will be substantially larger.

Prashant Tiwari: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Vaikam Kumar from JM Financial. Please go ahead.

Vaikam Kumar: Thank you for the opportunity again. Just wanted to check on this trade of between funding and markup, is this definitely move towards having lesser exposure to funding business, the compromise on margins?

Ashok Reddy: It is not that compromise on margins, but I think like I mentioned earlier there were certain volume mandates this year that were coming from competition that as of a price point that they were coming at we are very clear it does not make sense to fund them and hence pushed back hard to drive them for a collect and pay model, so I think case specific we take divisions given the margins and realization play whether to fund or not fund, but first choice approach into the market for us needs to go for not funding.

Vaikam Kumar: Thank you, Ashok.

Moderator: Thank you. The next question is from the line of Ananda Padmanabhan from Renaissance Investments. Please go ahead.

Ananda Padmanabhan: Thanks for taking my question. With respect to your markup, so would you be able to throw some more light or give more colour on the industries or the sector from which you get this for this opportunistic mandates and how would that mark up vary from across the various industries per se?

Ashok Reddy: Markup is very client specific and not really industry specific. It is dependent on volume. It is dependent on the nature of the profiles possibly their salaries, their work profile, their attrition, the client expectation of service from us in terms of implants, number of people that we have to deal with for import, so multiple variable kind of drives, the element of the realization, so while 710 is average that we have across the entire client base. The lowest and highest will have very high variants in numbers. Also we have two models of fixed markup and average variable markup. On a fixed markup, our average realization is about Rs.560 whereas on variable it is about Rs.1200, so there are variances, client wise, industry wise is not structured specific to an industry or a client, it is all specific mandates that we dialogue on.

Ravi Vishwanath: These fixed and variable markup that Ashok actually spoke about, which is 560 and the 1200 has actually not gone down over the years, it is just at the percentage of employees on the fixed markup has actually increased for the markup per se has remained the same for the over the last three or four quarters.

Ananda Padmanabhan: Incrementally in couple of quarters back one of the key initiatives that the company was looking was to increase the variable markup as because of overall revenues, so this thrust will continue per se or how to secure the clients or we have made any changes to that?

Ashok Reddy: That focus continues, but given the certain mandates and where the volume growth has come from, that percentage is actually on fixed has gone up by about 6% overall and commensurate on the variable has come down to that extent, so while the average realization in fixed and variable has kind of stayed flat for us over the quarters, per associate per month on an aggregate basis has come down because of the fixed percent shift from variable to fixed.

Ananda Padmanabhan: And presently what is the percentage of recruitment that is done by the company itself?

Ashok Reddy: About 24% of the growth is hired by us.

Ananda Padmanabhan: And this could have moved up in the last couple of quarters?

Ashok Reddy: Yes, it has been moving up. Quarter-on-quarter we are seeing larger volume of hires done by us, but obviously it is not where we would like it to be, we continue to make investments through technology, people and process to seeing how we can do a lot better on that front.

Ananda Padmanabhan: This would again be margin driver for you because you have been getting a separate recruitment team?

Ashok Reddy: Actually not, because among the customer pays for hiring is not much, but it will be a driver in volume growth and the annuities that we could earn there.

Ravi Vishwanath: But some amount of margins loss can also be attributed to the hiring that we have done over the last couple of quarters.

Ananda Padmanabhan: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Prashant Tiwari from SBICAP Securities. Please go ahead.

Prashant Tiwari: Ashok, I believe we are sorted with the Avantis acquisition, we have sorted for the technology marriage between the compliance and the SaaS platform, last time you also talked about that you are looking for some company, developing your own technology for something for payroll, do you have any update for that?

Ashok Reddy: While we continue to look for inorganic opportunities on payroll, specialized staffing and digital workforce solutions outside, we have actually gone ahead and kick started our own development on these fronts. We have got the team in place and development work has started on the payroll platform and certain specialized staffing and DWS aspects effective Q3 and I think we have the roadmap over the next two years to do a lot of product rollout on these fronts, but as we do this, I think, the initiative to go ahead with development internally was in saying let us not waste and lose time, but should we come across anything that complements and can speed up this element of go live on these products, we continue to look for opportunities on that front.

Prashant Tiwari: So, I guess there are upfront costs involved in developing your own tech, so can I assume or expect that payroll also will remain slightly loss making in coming quarters?

Ashok Reddy: Yes. I think CTO business turning to profitability will be probably next year and scale achievement will probably be thereafter largely from a perspective that entire SaaS technology platform will fall into place into the third quarter of next year and then go to market can happen on that front.

Prashant Tiwari: By CTO you mean both compliance and payroll?

Ashok Reddy: Yes, compliance and payroll.

Prashant Tiwari: Thank you.

Moderator: Thank you. The next question is from the line of Chintan Bhindora from Narnolia Financial. Please go ahead.

Chintan Bhindora: Good evening. Like you have said, the market per associate similarly can you give it for the Netap trainees on the markup that alone?

Ashok Reddy: So, the markup for the NETAP is about Rs.590, which remains around the same range for the last few quarters.

Chintan Bhindora: Is it that to say that whenever the margins and the markup percentage on the NETAP is higher than CB Associates, so the margins are higher due?

Ravi Vishwanath: As a percentage yes, because the stipend payment is only about 10000 is the average payment actually.

Chintan Bhindora: That is it from my side.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Ashok Reddy for closing comments.

Ashok Reddy: Thank you. I think the continued focus on growth, productivity and profit improvement will continue to play out from our perspective. Also we continue to look for inorganic opportunities that will complement us for speeding up the technology, go live or go-to-market live and so on and I think those are opportunities that we continue to engage in and I think the overall aspect of margin improvement as a conjunction of the various businesses coming together will continue to be a focus area for us. Like I have mentioned earlier, I think technology investment is something that we will look to focus on going forward. Work is initiated in Q3, but going forward we believe that these investments in the technology platforms whether it is payroll, whether it is specialized staffing or digital workforce solution we will drive an element of market opportunity and margin play and that will be another area of focus for us as we go forward. I think overall, we continue to stay on track to growth and margin improvement and profitability and that is the trajectory that we would like to look at for Q4 also as an immediate event. Thank you very much.

Moderator: Thank you. On behalf of SBICAP Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.