"TeamLease Services Limited
Q3 FY2020 Earnings Conference Call"

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| **MANAGEMENT:** | **MR. ASHOK KUMAR REDDY – CO-FOUNDER, MANAGING DIRECTOR - TEAMLEASE SERVICES**<br>**MR. RAVI VISHWANATH - CHIEF FINANCIAL OFFICER - TEAMLEASE SERVICES**<br>**MS. RAMANI DATHI - FINANCE CONTROLLER – TEAMLEASE SERVICES** |

**Moderator**: Ladies and gentlemen, good day, and welcome to the TeamLease Services Q3 FY2020 Results Conference Call hosted by IDFC Securities. 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 Aman. Good evening, everyone, and welcome to the Q3 FY2020 Results Conference Call of TeamLease Services Limited. I would like to thank the management for giving IDFC Securities the opportunity to host this call. The management team is represented by Mr. Ashok Reddy, M.D. and Co-Founder, Mr. Ravi Vishwanath, Chief Financial Officer, Ms. Ramani Dathi, Financial Controller, and other senior management personnel. We will start the call with a commentary from the management and then move into the Q&A. Thank you, everyone, and over to you, team.

**Ashok Kumar Reddy:** Thank you, Rohit. Just as an update from our end, I think we have effectively clocked in about 16% quarter-on-quarter revenue growth and overall 18% year-on-year revenue growth. While the EBITDA margin effectively from Q2 to Q3, both EBITDA and PBT margins have improved year-on-year, they are clearly lower than the previous year, also this improvement has largely been enabled by the performance of specialized staffing and HR services coming back on track.

Also, just from staffing perspective, against overall negative growth that we had, had in Q2 of reduction of about 2000 resources, we have done about 5000 resource addition overall across general staffing, which is about 2000 odd resources. NETAP has turned positive after two quarters of downturn at about 1000 odd resources and specialized staffing has got about an addition of 1800 resources.

The general staffing has also been conservative in growth, but is supported by maintaining its PAPM at a marginal improvement to Rs.751 and marginal productivity increased to 266. This is also on the back of maintaining a controlled funding exposure, which still continues to be sub 14%. So I think effectively, the general staffing growth has not been as aggressive, but we have been able to maintain the PAPMs, the productivity and funding exposure.

During the quarter, we also completed the 74% stake acquisition in IMSI, which is an infra staffing vertical, which effectively has been with us now for 45 days. The integration of the business and the team has been completed. We get about 43 employees, the majority of them based out of Dehradun, and we cater to about 1500 resources from the IMSI side. That will add on to the portfolio in the specialized staffing front, where we have IT staffing, telecom and now the infra-staffing vertical.

I think largely the aspect of the traction on Freshersworld in terms of job postings and resume build has also been on a good growth trajectory, which is also leading to it complementing our internal hiring from the platform so now we have got about 10% of our hiring coming in from the Freshersworld teamlease.com portal aspect so I think, overall, there has been a positive trajectory. Lower than last year, relatively speaking, but I think from Q2, the trajectory on general staffing, on the specialized staffing and HR businesses is kind of on a positive mode, and we believe that, that should sustain itself going forward into Q4 also. Happy to take any questions and answer them.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sachin Hemnani from Perfect Value Funds. Please go ahead.

**Sachin Hemnani:** Sir, I have a few questions. I am listing down together. First, is there any client stickiness or steps are we taking for it, because if the client gets a lower markup from a competitor, will they switch, second, even in the metro markets like USA, the staffing industry is extremely fragmented. Can leaders here in India consolidate and gain more market share, third, given that staffing is a commodity industry, can excessive competition drive down margins to negligible margins and lastly, is there any advantage of a national player versus regional players does the big companies prefer to tie up with a pan India player or individually with regional players?

**Ashok Kumar Reddy**: So just to address, India has never been a very high priced market on the staffing front, largely given the dominance of informal players and just stepping back a little bit on that, globally also, the way the staffing industry structures itself is that there are about 8 to 10 large players, then there is a huge missing middle, and it is a highly fragmented market thereafter, given that entry barriers to staffing are relatively low. Having said that, 100% of the global staffing market works in a formal structure, which is to say that the labor laws of the country are adhered to. In the Indian context too, the aspect of 7, 8 large players being there, huge missing middle and a highly fragmented market is a reality, but other aspect also that is a reality in the Indian context is about 2% of the outsourcing happens in a formal manner and the balance is informal and given that element of difference between formal and informal, there has never been a pricing power and the prices have historically started at a low point and I think it is the element of various service ads, confidence of the vendor partner on compliances, the element of being able to handle scale and stuff that gives us the element of sustainability in pricing that we have with customers. Obviously, I think what customers look to consolidate to large vendors and partners comes from the fact that the counterparty risk reduces around compliances, the confidence of understanding compliances, ensuring compliances and partnering with customers for HR support, complemented with hiring capabilities, is really where the large national players as partners come into play. Having said that, price is still a determinant for corporate to make a decision, but we try to address that with various aspects of trying to improve the services or add elements of DWS and stuff of that sort. But yes, we do have challenges where people do come with lower price points from competition and do migrate on that count, but as much as possible, at this point, we like to try and maintain or acquire clients at a price point rather than purely on price. I hope I have addressed your questions.

**Sachin Hemnani:** Yes Sir.

**Moderator**: Thank you. The next question is from the line of Sudheer Guntupalli from Motilal Oswal. Please go ahead.

**Sudheer Guntupalli**: Ashok, despite this being festive season, the headcount addition of 2200 in general staffing looks very tepid on a year-on-year basis, this translates into 10% or so kind of a growth, which is far lower than the average growth we have been seeing over the last few years so we understand there is softness in the overall job market given the macro slowdown, but is there any material change in the outlook for Q4 or is it expected to continue to be soft there, increase in general staffing headcount should perhaps be one of the lowest in our history?

**Ashok Kumar Reddy**: So I think the slowdown, slowness in the overall market is the reality that is impacting the additional demand and growth and we have not had that great festive quarter overall. I mean, relative to previous years, the growth that we have had in Q3, which is the festive season, is relatively lower than normal. I think while there is demand from certain corporates and sectors, there is an element of attrition and reduction also happening from other sectors, which is kind of offsetting the net growth to that extent. So I do not think we have an extremely aggressive quarter and also, I think we have chosen to not be extremely aggressive on associate growth through price reduction. I think we have tried to hold the price, retain customers and grow the customers at a price rather than take clients and mandates at a lower price point at this juncture.

**Sudheer Guntupalli**: In terms of outlook, so how do you look at next let us say if 3 to 6 months based on available open positions?

**Ashok Kumar Reddy:** So I think if you look at staffing, we are coming in at about a 16% growth rate and probably, we would sustain that into the year so cumulatively, we had 18% at the corporate level with the other businesses so that we will work to trying to pushing it to 20%, but largely, three quarters, it is coming at about 18%.

**Sudheer Guntupalli:** Okay so if I understand it right, you are saying the full year headcount addition would be 16% is that the correct understanding?

**Ashok Kumar Reddy:** No, the revenue growth is 16%. The associate addition is at about 10% so if you really look at it for our 22% growth, over 20-plus percent growth in staffing, we normally used to have about a 15% associate growth. We are coming in short on that front this year.

**Sudheer Guntupalli:** For the full year, you expect it to be in line with the nine month trend?

**Ashok Kumar Reddy:** Yes.

**Sudheer Guntupalli:** Okay and one question on margins. On a sequential basis, your markups increased from Rs.739 to Rs.750 and your productivity number has also shown a marginal improvement on a sequential basis. Despite these two things playing out in our favor, there is a 20 basis point contraction sequentially in the margins of general staffing so any color on this will be helpful and secondly, on margins of Evolve staffing, every quarter we seem to be expecting an improvement here, but the margins are only trending down so any incremental outlook on this will also be helpful?

**Ashok Kumar Reddy:** Okay on the staffing front, I think, while largely the price has held up and we are looking at productivity enhancement. I think in this quarter, we have had a hit to the cost structure by Rs.1.3 Crores provision that we have done for one client account where part of the payment has been held back and delayed. We are still in the process of effectively dialoguing with the customer and reconciling that aspect, but we decided to provide for it, given the delay in receipts from the customer so I think that Rs.1.3 Crores was an unexpected hit to the P&L in the current quarter.

**Ramani Dathi**: Sudheer, to your other question on Evolve, so the largest client of Evolve, we managed to negotiate the working capital down from 90 days to 30 days so because of which, in terms of EBITDA, you might see a slight dip. But in terms of PBT, Q2, we recorded a PBT of Rs.40 lakhs that has gone to Rs.70 lakhs in Q3 and we expect this PBT to grow further in Q4 and following quarters.

**Sudheer Guntupalli**: Sure and one last question, so if you exclude the inorganic component, both IT staffing and telecom revenue seems to be stagnant on a year-on-year basis so as I understand, this is not even a quarter where associate absorptions happened by client so what exactly might be happening here?

**Ashok Kumar Reddy**: No, so like we had mentioned that we have not got major open positions in both of these segments and we are effectively looking to rationalize the headcount with a focus on margin improvement so some of the lower-end, low-margin projects, some of the lower-end associate deployments and all of that, we are consciously exiting, which will play out from a revenue perspective being stagnant, but from a PBT perspective, there will be an improvement.

**Sudheer Guntupalli**: Sure thanks Ashok that is very helpful and all the best.

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

**Vimal Gohil**: Thank you for the opportunity Sir. Just to start with, can I get one data point on the number of core employees. I guess, the presentation is missing that particular data this time around?

**Ashok Kumar Reddy:** Okay, it is 2150.

**Vimal Gohil**: Okay 2150 it is?

**Ashok Kumar Reddy:** Yes.

**Vimal Gohil**: Fair enough. Sir, basically, apart from this Rs.13 million sort of onetime provision that you have done in this quarter, are there any other one-offs in the general staffing margins and what exactly will take the margins forward because if you exclude this, we have had a very sharp improvement in productivity. Our spreads have improved and despite that, we are not seeing that improvement in the EBITDA margin that should be seen. I mean what am I missing here what is the outlook there basically?

**Ashok Kumar Reddy:** Yes so I do not think we have any other non-like-to-like items other than this in the number. But I think in an expectation of growth and in order to we had said that there will be step-up cost structures that happened and we had invested in certain people and team. I think given the reality that the growth has not happened to the level expected, we are relooking at those cost structures and there will be an adjustment on that. We have in Q3 brought down the staffing cost by about Rs.50 lakhs and we will continue to look at that cost rationalization into Q4.

**Ramani Dathi**: Vimal, last quarter, we said between Q3 and Q4, we are targeting to reduce our headcount by about 50 so in December month we have already brought it down by about 10 so that has reflected in the closing productivity ratio. But the full cost reduction impact, we can see that in Q4.

**Vimal Gohil**: Okay by reduction in employee, you mean the core employees in the staffing, right, that you reported 826?

**Ramani Dathi**: Yes.

**Vimal Gohil**: It is 826, right, that is what you are talking about?

**Ramani Dathi**: Yes so I mean, they are still in notice period and all, so almost 50 reduction will happen in Q4, before March.

**Vimal Gohil**: Okay.

**Ashok Kumar Reddy:** These are like replacements that we are not doing, it is not really removing people as much as where there is lesser productivity, given the top line growth, attritions are not being replaced.

**Vimal Gohil**: So yes, this 826 number is expected to go to 775 odd by Q4?

**Ramani Dathi**: Yes, 780.

**Ashok Kumar Reddy:** 780.

**Vimal Gohil**: Okay got it so, if you could just provide me further reconciliation. If I were to adjust the Rs.1.3 Crores provision that you had to do in the general staffing business, your adjusted margin then comes to 1.7% versus 1.6% that you reported, which is still lower on a quarter-on-quarter basis so what has led to that or is it just that the growth has not played out and there is no opportunity?

**Ashok Kumar Reddy:** The growth has not played out and like we said, the corresponding cost reductions have not happened in the quarter, will happen into Q4.

**Vimal Gohil**: Okay so what is the margin that you are targeting here in the general staffing business on a sustainable basis, we have done 2.3%, as I noticed in Q4 of FY2019. Is that the number that you are targeting in the near term?

**Ravi Vishwanath**: See, Q4 always will have certain write-backs and certain onetime adjustment which will actually push the profits up so a sustainable one anything between 2% to 2.1% like the most sustainable one, actually.

**Vimal Gohil**: Okay.

**Ravi Vishwanath**: And which is what we are actually working towards.

**Vimal Gohil**: Right and Sir, how much was the amount, are there any reversal pertaining to that HR services, that Rs.6 Crores number that came in Q1? Have we recovered that entire money?

**Ramani Dathi**: Yes so out of the Rs.6 Crores provision, we recovered about Rs.2 Crores in Q2 and Rs.1.2 Crores in Q3. The balance will be recovered before March 31, 2020.

**Vimal Gohil**: So Rs.1.2 Crores is the recovery in HR.

**Ramani Dathi**: Yes.

**Vimal Gohil**: Okay and what would be the impact on working capital because of the tax assessment that is completed for FY2016, 2017, would that mean that your working capital or your tax receivables will come in lower going forward or how will it be?

**Ravi Vishwanath:** The assessment has been completed where 80JJAA deduction has been confirmed. The tax refund that is due to us for that particular year, which is for the year ending March 2016 while the amount has been quantified, we expect to receive the tax refund by end of February so to that extent, to extent of about Rs.22 Crores to Rs.25 Crores is what we will receive, which will probably reduce some of our borrowings and overdraft facility.

**Vimal Gohil**: Okay fair enough. I think I will get back in the queue now. Thank you so much.

**Moderator**: Thank you. The next question is from the line of Dipen Mehta from Elixir Equities. Please go ahead.

**Dipen Mehta**: Sir, my question also is the same what the earlier participants are asking that, actually, we had a 16% type of revenue growth and yet at PBT level it was negative so Rs.1.3 Crores could be explained by the onetime provision, but then again you said that you received Rs.1.2 Crores from a provision which we have made earlier so is that offsetting and if you can just explain to us that why we had such negative PBT growth when actually there was a 15% type of revenue growth so what are we missing over here?

**Ashok Kumar Reddy:** So if you look at it on a Q2 to Q3 basis, we have actually increased the profit. It is compared to the Q3 of last year is where we are lower.

**Ravi Vishwanath**: And again Rs.1.3 Crores of provision is in the general staffing business, Rs.1.2 Crores recovery was in the other HR services so in 2 different segments that we actually have reported these.

**Dipen Mehta**: Yes, but on a consol basis one offset the other, right?

**Ramani Dathi**: Yes so if you look at the breakup of PBT growth, staffing in terms of rupee value of PBT, staffing has grown from Rs.53 Crores last year, 9 months last year, to Rs.60 Crores this year so the main negative impact came from HR services so we created Rs.6 Crores provision in Q1 that to some extent we have offset and also we are absorbing share of loss from associate companies Schoolguru and Avantis, which are still in investment phase so Schoolguru 9 months to date, has booked a loss of about Rs. 5 Crores, out of which we take 40% share and Avantis is also still in investment phase. We are taking a share of loss from them. Freshersworld this quarter alone has contributed to about Rs.2 Crores of loss.

**Dipen Mehta:** So what you are explaining to me is that from Q3 FY2019 to Q3 FY2020, Rs.2 Crores PBT hit on a consolidated basis is because of share of losses of other associates and group companies?

**Ramani Dathi**: Rs.2 Crore alone is from Freshersworld. In addition to Freshersworld, we have share of loss at loss from Schoolguru and Avantis. All put together, about Rs.3.5 Crores loss coming just from these associate companies, which are in investment phase.

**Dipen Mehta**: Yes, but they were not there in Q3 FY2019, but these losses are there in Q4 FY2020. I am just trying to focus on why the PBT on a year-on-year basis has gone down from Rs.24.4 Crores to Rs.23.9 Crores. If you can just explain me that because the revenues are higher 15% so we should translate typically when revenues are higher, which should translate into a higher PBT margin, but in fact, you have got a lower PBT margin so I am just trying to understand that aspect, madam?

**Ramani Dathi:** Okay. If we are comparing only Q3 of this year with Q3 of last year, so even staffing PBT contribution has come down compared to Q3 of last year because of the cost increase which we discussed in Q2 and Q1, and new leadership team which came on board at mid and senior level. In addition to that, we have share of loss from these other associate companies, which are in investment phase.

**Dipen Mehta:** Which you are quantifying at Rs.3.5 Crores.

**Ramani Dathi:** Yes.

**Dipen Mehta:** Thank you. I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

**Nitin Padmanabhan:** On the general staffing business, you suggested that we could possibly do a 10% growth for the year in terms of headcount. Now that would imply that you actually add people next quarter close to 2,000 odd people. But if I look at history, Q4 typically tends to be weaker than Q3. So in that context, is there any potential risk of a decline in associates going forward for this year in Q4?

**Ashok Kumar Reddy:** So I think if you look at it historically for us, Q3 is also a very aggressive positive quarter which it has not been. And currently, the Q4 numbers, we are looking at on the base of some of the confirmed mandate and pipeline of sales that we have on the board, which should start migrating numbers or getting on board with numbers from January and February. So I think from that perspective, the confidence to the addition on those numbers is basis pipeline from a sales perspective of client agreements that had been closed out, that should come on board. We factored for a certain element of attrition on the opening balance and we have factored this attrition looking at the last three quarters. We assume it will not be larger than that. And basis that, we should be able to sustain the positive growth in Q4.

**Nitin Padmanabhan:** Sure. So actually, I have two more questions, if I may. One is, if you look at the movement on attrition and the demand that you are seeing, could you give some color in terms of where are we seeing the pockets of demand and where are we seeing the pockets of weakness? And also, if you could give some sense on, is it the top 20 client buckets or it is more down on a broad-based basis in the smaller clients?

**Ashok Kumar Reddy:** So positive demand, we are seeing from the banking sector, while the NBFCs are not very positive on growth or aggression at this point. The banking sector clients are still quite positive and we are seeing demand on that front. We are seeing demand from the e-comm players, from digital wallets to e-commerce and all of that also have requirements and demands on that front. I think manufacturing and telecom have relatively been subdued to negative on the demand and headcount perspective. And I think, overall, if you look at it, while there is certain element of demand which we are catering to in the earlier two sectors that I mentioned, the other sectors have been soft.

**Nitin Padmanabhan:** Sure. And finally, if I look at the margins, the general staffing margins in the nine months have been sort of weaker than the preceding nine months on EBITDA despite the positive gain from Ind AS, so I just wanted your thoughts on what is driving this softness, and I do understand there is an element of NETAPs there, but if you could just give some color in terms of the drivers of the weaker margin performance in that business for the nine months versus the preceding nine months would be very helpful.

**Ashok Kumar Reddy:** I think broadly, it is driven by the fact that we have not grown the associate trainee numbers as aggressively as we should, because, typically, the economies of scale start to kick in with the aspect of top line growth in numbers and we have not had that much of growth on that front. And one of the reasons for that element of a softer margin play is coming in on that.

The second element, like I had mentioned earlier, we had made investments in certain people and teams that did play to our internal cost. And I think to some extent, there will be a rationalization on that as we go forward. But I think largely, if growth had come in, the margin sustenance would have happened.

**Nitin Padmanabhan:** So basically, is it fair to assume that we will come back to the 2% kind of margin range beyond Q4 on a normalized run rate basis?

**Ashok Kumar Reddy:** Is what we would be pushing to work towards.

**Nitin Padmanabhan:** Thank you so much and all the best.

**Moderator:** Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

**Rajesh Kothari:** My first question is, with reference to general staffing, you just now mentioned that the associate is the one, where you have not increased aggressively, which is otherwise could have played out on operating leverage. So what is the reason for that and how we are going to address that? That is question number one. Second question is in terms of speciality staffing, how do you see from here on growth and the margins? And how do you basically see FY2021? Because on one hand, everybody is talking about that probably we are coming out of economic slowdown and people are doing more outsourcing because cost-cutting becomes easy, and on the other hand, you are talking about rationalization of your force and so on and so forth, so can you just explain these two things?

**Ashok Kumar Reddy:** So I think in general staffing, in the first two quarters, we did have impact play out on NETAP, numbers not growing given the exposure that it had to the manufacturing and auto sector. And given the Q1 demand from different clients and the growth that we saw there, we believe the slowdown impact would not be that much on the staffing side. Obviously, we were wrong on that count. There is a slowdown and headcount reduction across clients and not so much from the large accounts as much as from the medium and small accounts, which are large in number and the attrition adds up on a cumulative basis. So I think the softness in the external markets, to some extent, the aspect of us wanting to hold our price at which we get mandates rather than drop that price. The aspect of holding on to the funding exposure have been some element of a limitation in the aspect of growth in the staffing front.

In the specialized staffing, I think while we are not growing the numbers, I think we are working continuously on trying to rationalize the current balance and rebalance it to bring back the margin. So if you look at it, even in IT staffing, we have been able to take the EBITDA margin from a 9% to 10% between Q2 to Q3. And in telecom also, while it is not playing out at an EBITDA level, it is playing out at a PBT level because we have been able to reduce the cost implication. So I think I am not going to say the worst is over from a perspective of the demand and the slowdown, but we do have a certain pipeline between all the 3 businesses, which is why Q4 is normally negative on numbers, we believe that there is demand to make that a positive this Q4. Telecom also, with different customers and OEMs, we are seeing some element of demand coming in. So I think while we are not going to in the specialized staffing focus that much on and it would never have been the headcount growth, we will focus on the margin improvement.

**Rajesh Kothari:** So when you say fourth quarter you are saying some improvement because based on your visibility, are you saying this on Q-o-Q basis or Y-o-Y basis?

**Ashok Kumar Reddy:** Both. Because Q3 has only been a 2,000 addition.

**Rajesh Kothari:** In general staffing basically?

**Ashok Kumar Reddy:** In the staffing side. And about 1,200 addition on the NETAP side.

**Rajesh Kothari:** Okay. So you are saying that, therefore, in fourth quarter, your target would be to add more than 2,000 or probably, because if I look last year, then, of course, the base is low. But Q-o-Q, the base is high. So I am saying, from that perspective, you are saying that you can have a very bigger growth on Y-o-Y basis?

**Ashok Kumar Reddy:** Yes.

**Rajesh Kothari:** Okay. And specialty staffing business, this 7.3% margins, what you have achieved in 3Q, how do you see FY2021 as you focus more on rationalization?

**Ashok Kumar Reddy:** So if you look at it, the IT staffing was broadly at about 10% to 11% profit margin. And we had added on additional business from eCentric, which was at 8%. So on an average, we think, as we go forward, between 9.5% and 10% margin is what the IT staffing would play out to. The telecom was at about 2% to 3%. And I think we had gone down on that front and we should be able to bring it back with the restructuring of the mandates and the portfolio and the IMSI is broadly at about 11% to 12% margin. So I think we should work to sustain that.

**Rajesh Kothari:** Sir, this number, what you said in terms of the IT business, where you said that because of the acquisition, but if I look at your segment wise, what you disclosed in presentation, IT, OPM says 10.2%. So you are saying 9.5% to 10%. I am slightly confused?

**Ashok Kumar Reddy:** 9.4% is for the 9 months, 10.2% is for the quarter.

**Rajesh Kothari:** Yes. So why from 10.2% it will reduce? Because you said that you are going to take a lot of efforts on rationalization?

**Ashok Kumar Reddy:** No, in IT, there is not that much of rationalization. The rationalization happens in telecom.

**Rajesh Kothari:** Okay. So no. what kind of margins you are looking in, in IT business?

**Ashok Kumar Reddy:** Between 10% to 11%, that is what is broadly what it plays out.

**Ramani Dathi:** 10% to 11% on EBITDA, and 9%, 9.5% on PBT.

**Ashok Kumar Reddy:** I was telling PBT.

**Rajesh Kothari:** Oh, I see. And telecom also, you are saying PBT, this 2.5%, or that is OPM?

**Ashok Kumar Reddy:** That is PBT.

**Rajesh Kothari:** Telecom is also PBT. Okay. And IMSI, 11% to 12% is?

**Ashok Kumar Reddy:** PBT.

**Rajesh Kothari:** Okay, perfect. Thank you.

**Moderator:** Thank you. The next question is from the line of Prince Poddar from JM Financial. Please go ahead.

**Prince Poddar:** Just harping again on that margin's point. I will just try to, probably what other participants as well trying to ask, I will just try to clarify that. See from Q2 to Q3 basically, the margins in Q2 were 1.83% for general staffing. And from Q2 to Q3, we had a write-off of Rs.13 million, which led to a margin decline. But even if you adjust for that, the margins come out to be 1.73% as opposed to 1.83% in Q2. So apart from this write-off, there was something else in the cost side which actually led to this margin decline. And because the number of core employees have decreased and in fact the productivity of core employees has also increased, we are not actually able to located where this cost increase has come from. So I am sorry to harp this again and again, but just that is a clarification seeking from that?

**Ramani Dathi:** Prince, actually, there is no increase in cost between Q2 and Q3. So December, the attrition is higher than usual. So between October and November, we had a net addition of about 4,000-plus and that got negated by higher attrition in December. So we used to have this festive attrition by mid of Feb, usually after the Pongal season, Pongal, Republic Day, and mid of Feb, we used to have this attrition. So this got advanced by end of November this time. So December, we had close to 3,000 attrition from 3 large clients in retail and FMCG. So the net revenue has come down in the month of December to that extent. So that has caused this drop in margin.

**Prince Poddar:** No, but still, even when the net attrition has come down, still there is an increase of Q-on-Q 6.8% to 7% in revenue terms, while the cost in the general staffing business, that had to be lower because the number of core staffing are also lower from 829 to 826 in general.

**Ramani Dathi:** Lower only by some 6 headcount; 5, 6 headcount.

**Prince Poddar:** Yes, so it is roughly the same. So if the revenue has increased by 7% and the cost has almost remained the same, the core employee cost has remained the same, which is the biggest cost item in your cost side, there is difficulty in understanding where the margin reduction of that extra 10 basis points is coming from.

**Ramani Dathi:** So I can give you the monthly breakup, I can mail you that monthly one. So except for December setback, so we do not have any cost increases between September, October and November.

**Prince Poddar:** Okay. So probably, we will take this off-line and try and understand where this came from probably.

**Ramani Dathi:** Sure.

**Prince Poddar:** Sure. Okay. And secondly, on the IT staffing, like there was some rationalization in Q3. How much of rationalization is still remaining? So I am assuming that a part of the margin expansion from the current levels will come from IMSI full year consolidation. But how much else is there more rationalization remaining to help IT staffing margins to grow more?

**Ashok Kumar Reddy:** So in IT, if you look at our specialized staffing now, we have clustered IT staffing, telecom and IMSI under one group leadership, which will create some element of commonality in functions and overlap among resources that otherwise were discrete earlier. So I think the integration of the 3 under one cluster will enable an element of cost rationalization with the core teams that were there. So Evolve had 70 employees, IT staffing had about 300 employees and IMSI has about 43. So totally, about 413 employees. I do not have a specific number, but that is what we are working on, but our belief is that there will be overlap resource variability that can be brought down over the quarter.

**Prince Poddar:** Okay. And we are expecting a significant improvement in telecom staffing margins? This quarter was probably a tad lower than what we are expecting, but going forward, Q4 and probably next year, the margin improvement should be more?

**Ashok Kumar Reddy:** It is not a quantum improvement. I mean, if you look at it, it has not been even a tad lower now. Like Ramani had earlier stated, we shifted a client from a 90-day funding cycle to a 30-day funding cycle. So while EBITDA looks lower, the PBT is actually higher.

**Prince Poddar:** Correct, correct. That is right. Okay. Okay. That answers my question.

**Ramani Dathi:** Prince, just to get back to your earlier question on staffing percentage margin, so the average salaries between Q2 to Q3 have gone up from Rs.22,000 to Rs.23,000. So though the PAPM as a rupee value has gone up, as a percentage, it has come down. So that is reflecting in the percentage drop in the net margin.

**Prince Poddar:** Okay, the average salary of the core employees, right?

**Ashok Kumar Reddy:** No, associate salary.

**Ramani Dathi:** Associate, associate.

**Prince Poddar:** Okay. While the markup remains more or less same?

**Ramani Dathi:** The rupee markup is going up, but as a percentage, on salary, it has come down, on associate salary.

**Prince Poddar:** Okay. While the markup remains more or less same?

**Ramani Dathi:** The rupee markup is going up, but as a percentage, on salary, it has come down, on associate salary.

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

**Sandip Shetty:** Sir, my question is on specialized staffing front. So it has been answered in a way in the previous question, but I wanted to understand, like if we see the run rate, it is around Rs.55 Crores for IT staffing and Rs.42 Crores to Rs.43 Crores for Evolve. It has been stagnant for the last few quarters. So what is your expectation? And what would be the key drivers driving it further? Or will it be just an inorganic part that would be driving the incremental revenue growth?

**Ashok Kumar Reddy**: No, like I mentioned earlier, over the year, we have not really grown on the headcount in the specialized staffing side and to some extent, in telecom, I had mentioned that we will actually degrow by virtue of giving up some mandates that are low margin or not working out from bottom line contribution perspective. But we do believe that as we stand, there is some element of additional demand that is coming up from the Evolve side that we believe we can look to close by the end of the quarter and effectively drive-up on the numbers. Similarly, in IT, we have been having additions, but there has also been attrition that is kind of negating the aspect of growth. I think at this point in time, we are looking at transitioning a larger percentage of resources more towards the product and captives, which are higher-margin businesses relative to services and I think the aspect of rationalization of team, given the commonality under the cluster, are the three variables that will effectively drive for margin improvement in the specialized staffing.

**Sandip Shetty:** Okay, Sir, one more question I wanted to ask is, in the last call, you had said that you are targeting a core productivity in the range of 300. So like now it has come to 266. What would be your target in the near term, you are looking at expand - huge quantum expansion there that 300?

**Ashok Kumar Reddy**: So we were looking at 300 on the back of the numerator growing substantially and the numerator has not grown in line with that. While as mentioned earlier, we will control some element of the denominator, but I do not think we will hit 300.

**Sandip Shetty:** Okay and Sir, I just wanted to ask on your recent acquisitions. So who are the main clients whom do you cater through IMSI staffing and what would be the key drivers for this growth?

**Ramani Dathi**: IBM, Wipro, Cognizant. So these are few of the top clients of IMSI and overall, they work with about 70-plus clients pan-India. They currently have about 1900 resources and the opportunity is coming from both existing clients as well as the new clients in the infra space.

**Sandip Shetty:** Okay, that helps. That is all from my side. Thank you so much.

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

**Amit Chandra**: Thanks for the opportunity. My question is related to the recovery that we have seen in the NETAP addition. So as you mentioned that FY2020 is going to be weak for NETAP, so can you please provide the color for FY2021 or how we can see the recovery in the NETAP additions for the next few quarters?

**Ashok Kumar Reddy**: Amit, it is difficult to project and forecast into that much into the future, but we believe the worst for NETAP is kind of over from a perspective that the adjustment or the knee-jerk reactions and the sectoral reductions that were happening kind of kicked in, in Q1 and Q2, I think, overall, in Q3 we have been able to show a marginal uptick of about 1200 headcount on NETAP and even as we stand, we are seeing some element of growth trajectory for NETAP across clients. But again, the underlying auto manufacturing has not yet started to pick up. They have cut back as much as they can. We are hoping they would not cut any more into the future. Some of the other sectoral clients is where we have kind of been able to add numbers and those are the sectors that we will continue to focus on as a way forward. But while we are looking at a positive number for Q4, I think we will have to wait and a lot of the clients that are also wait until the budget comes for me to know what kind of in there to decide the way forward as hiring expectations.

**Amit Chandra**: Yes, Sir, but historically, the NETAP addition has been at around 2x toward the general staffing. So can we see that kind of ramp-up happening or it will be in line with the general staffing business growth?

**Ashok Kumar Reddy**: This year has been far from being 2x and actually, one of the key elements of the relative slow growth in the numbers has come in from NETAP. So from 56000 that we had ended the year, we are actually at 52000. So we are still net negative for the year, so while Q3 has had 1000 pickup, Q2 was kind of the worse with over 6000 reduction. So I think it is going to be a gradual uptick from the NETAP side.

**Amit Chandra**: Okay, and Sir, on the HR services, like you have mentioned that we are not willing to do the government training business, but we are seeing increase in the HR services revenue. So what is contributing to that and we have not seen improvement in the margins there. So how we can see that improvement in margins coming in HR services?

**Ashok Kumar Reddy**: So HR services effectively had from recruitment and the training business. The training business had two elements to it, the government business and the corporate business, where we do corporate training and revenues are by billing corporate. So the aspect of the government business while we are not taking any additional mandates, there are mandates that we need to execute over the next 18 months and have a gradual sunset clause on the government side and we will focus on the corporate revenue aspect for ramp-up. The firm business has actually done well in Q3 and effectively also been positive in Q3 from a bottom line perspective. We believe that the firm business will sustain. It has got good mandates and RPO mandates, it should sustain the revenue growth into Q4 also.

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

**Abhijit Akella**: Good evening. Thanks a lot for taking my question. Just on the other income, there has been a fairly significant increase this quarter, so if you could just comment on what drove that?

**Ramani Dathi**: So we received tax assessment orders for 2016, 2017 year, along with an interest on tax refund of Rs.2 Crores, so that has been taken into the other income.

**Abhijit Akella**: Okay. So the one-off element would be about Rs.3 Crores, is it?

**Ramani Dathi**: Rs.2 Crores.

**Abhijit Akella**: Okay. Got it and would it be possible to just break out the eCentric headcount, revenues and EBITDA for the quarter?

**Ramani Dathi**: So for the quarter, eCentric has contributed to about Rs.14 Crores on revenue and on profit about Rs.85 lakhs.

**Abhijit Akella**: Okay and in terms of headcount, it would be?

**Ramani Dathi**: Headcount is about 800.

**Abhijit Akella**: 900 is it?

**Ramani Dathi**: 800.

**Abhijit Akella**: Okay. All right. Got it and last quarter, we had spoken a little bit about certain one-off expenses that we had, had to incur in terms of some additional hiring costs, some ESOP costs, some impact of loss of revenue because of the NETAP headcount decline. So any further granularity that you could share in those terms this quarter, if there is anything to share?

**Ramani Dathi**: As Ashok said between Q3 and Q4, we are expecting a further cost reduction of Rs.1 Crore so mainly on account of reduction of few recurring costs as well as some onetime costs not being factored in Q4. ESOP will be a recurring cost, so that will reflect in every quarter. So there were few onetime costs like some marketing events, some reports and NETAP huge reduction of headcount in Q2 that impact, so now that NETAP headcount being back on track, we are not factoring for further decline in terms of NETAP contribution in Q4. So overall, we are expecting about Rs.1 Crore contribution from cost saving in Q4.

**Abhijit Akella**: Thank you so much and wish you all the best.

**Moderator**: Thank you. Next question is from the line of Sumeet Gugnani, an Individual Investor. Please go ahead.

**Sumeet Gugnani**: Good evening. This is more a conceptual question, Ashok. Most of the HR outsourcing companies in India started because of labor law rigidities. Now with the Union Government notifying fixed-term employment, what does this do to your companies in your space and particularly to TeamLease because was not that the main rationale for your existence and for the benefit that you accrued and secondly, what are your expectations from this year's budget?

**Ashok Kumar Reddy**: So I think if you really look at it, I made a point at the start that, largely, if you look at the global economies where staffing is a structured industry with simple labor laws, which are implemented, the entire outsourcing happens in the formal space, so while overall workforce outsourced is anywhere between 2% to 5% of the country's workforce tends to get outsourced, and these are for benefits outside of regulatory arbitrage. The regulatory arbitrage, when you have to comply with labor laws do not exist and in these instances, the 2% to 5% of the country's workforce that gets outsourced is for benefits on hiring, HR operations, compliance, just non-core activities being driven by the partners, the aspect of short-term project requirement, manpower being handled and so on. In the Indian context, because of the multiplicity of labor laws and complexity around it, we have had a large element of the workforce, over 30%, that is outsourced, and nearly 98% of that being in the informal space, so I think what labor law reform and enforcement and simplification will effectively do is bring down that 30% plus hopefully, I do not think it will get to the global standard, but it will bring it down substantially, but the 2% will go up substantially because then your choice to partner with a vendor is not for labor law arbitrage, but is for the services that a staffing partner can provide. So I think all the aspect of reform that can happen, clarity that comes in on labor laws and better enforcement will actually play to formalization and removing the leakage or the off the record revenues that informal players have that effectively creates a level playing field in which the formal sector will grow to having a larger share and I think from the budget perspective, our arc has consistently been just the element of simplification, rationalization and digitization of labor laws that will bring about better enforcement and hence formalization of the labor workforce.

**Sumeet Gugnani**: Thank you. I think that is very helpful. Just one clarification, because I have been tracking this company for the last five years. The GST was supposed to be the big game-changer from getting business from the informal players to the organized players like yourselves. But the fixed-term employment, as it stands, essentially means that your clients can pretty much do - are able to do what they would normally hire a team used to do. So Wipro or Microsoft or someone like that can effectively, due to the skills they already have in the HR side, get employees on a fixed term, provide them the PF and gratuity benefits, and then depending on seasonality, lay them off. So does not that share of the pie shrinks for a company like TeamLease on a long-term basis?

**Ashok Kumar Reddy**: So fixed-term employment as a route to employment existed even before this notification. I think just what the government did was notify that what was already in practice could be done. So it was not really a game-changer policy announcement to that extent. It just kind of said what existed could be done and as a practice, fixed-term employment, whether through staffing companies or directly by companies existed, so I do not think it changes the market landscape from a perspective of staffing companies. I think all it did was in a sense, said that what we were doing historically as a service is a permitted service and there is nothing wrong with having fixed-term employment. I think a lot of these clients that tend to outsource these resources on fixed-term contract is not because they cannot do it, it is because they value the service and the platform that we bring to the table around HR, around hiring, around compliance and I think that is the reason why they work with players like us, not because they could not do it earlier.

**Sumeet Gugnani**: Thank you. That is very helpful. I appreciate it.

**Moderator**: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

**Nitin Padmanabhan**: Thanks for taking my question. I think towards the end of last year, you had explained how the telecom staffing margins were at close to 2% to 3% and some time this year, we should get back to a 5% kind of a situation. I just wanted to have your thoughts on what the progress has been so far and what the moving parts are, how we approach that business in terms of the DSOs and the underlying margins so far and how should we look at it going forward?

**Ashok Kumar Reddy**: So I think, like we had said at the end of last year that we have gotten into certain projects and mandates that exactly contribute to the margins and our gross margins, which were at the time of acquisition, roughly at about 5%, has come down to effectively 2%, 2.5%. I think we have been able to bring that back to about 4% now and at PBT level, we were looking at about 2%, 2.5% coming in and I think that's the trajectory that we are looking to build the telecom business back on to. So at a gross margin, they will be at about 5% to 6%. At PBT, they will come back to about 2.5% to 3%.

**Nitin Padmanabhan**: Fair enough. Thank you so much.

**Rohit Dokania**: Thank you. Ladies and gentlemen, that was the last question. I will now hand the conference over to the management for their closing comments. Thank you and over to you.

**Ashok Kumar Reddy**: Thank you, Rohit. So like we had stated, we have not had a very healthy growth in associates, some of the cost structure that we had created for handling the growth and step-up structures have not really played out, so we are letting natural attrition take care of that cost structure and we look to rationalize that into Q4. But irrespective of cost structure play, I think our primary focus will be on growth, so the aspect of trying to effectively be more aggressive in the market, not from a price perspective, but from clients who give us the PAPM for a sustained result into the future. I think Q4 will be an important focus to make that a positive growth element. I think the HR services and the clustering of the specialized staffing will scale up as we go forward, will help to rationalize common overheads and effectively play to margin improvement. I think that will be the primary focus for us as we go forward and look to bringing the element of growth back on to the table. Thank you.

**Rohit Dokania**: Thank you for the opportunity.

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