"TeamLease Services Q4 FY'16 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the TeamLease Services Q4 FY'16 Earnings Conference Call hosted by IDFC Securities. As a remainder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Gupta from IDFC Securities. Thank you and over to you.

Abhishek Gupta: Good evening everyone. Welcome to the Q4 FY'16 Earnings Call of TeamLease Services. Today we have with us Mr. Ashok Reddy – MD and Co-founder of TeamLease and Mr. Ravi Vishwanath – CFO representing the management team of TeamLease Services. I would request Ashok to first give us strategic and financial update for Q4 and full year FY'16 then we would open up the call for Q&A. Thanks and over to you, Ashok.

Ashok Reddy: Thank you, Abhishek. Just as an overview on the element of the company and the way forward and also on the past I think we largely stay on track to what we had indicated prior to the IPO and also element of the product portfolio and the market opportunity that we have so the focus on the three ease employment, employability and education continuous from our end. The product portfolio across the three ease is quite comprehensive from our perspective so not really looking to get into any products per say but kind of consolidating our position and growing in that space. So in line with that we have had a nearly 25% year-on-year growth on the top-line which is kind of played out over the last many years and we believe the market opportunity to the space still continues to be quite large.

The second element of the HR Services business is that permanent recruit the regulatory compliance training operations and NETAP which was addition last year have effectively stabilized and scaled up over the last year all of them have got into break even aspect are in the positive now and we believe going forward will contribute to the bottom-line growth of the organization.

We consciously last year made a number of investments in technology, in people, in leadership, that would effectively position us to the element of growth and success to the future volumes which is really where we consciously incurred certain expenses which is why we have had a 25% growth on the top-line. Our EBITDA and PBTs are more or less borderline on the flat aspect. But our belief is that the investments made this year on those fronts will kind of cover and give us the economies of scale play as we go forward into the next year onwards.

Even the HR Services businesses have started scaling both on volumes cost management and the bottom-line contribution aspect. So effectively to reiterate we continue to be the largest staffing company, we have no effectively got over 110,000 employees for employees for whom we process payroll on a monthly basis, the NETAP model has scaled up last year we have got about 11,000 plus trainees on that front for whom TeamLease again process the stipend and the various payments. The customer base has grown to 1,400 plus while we have a physical presence across eight locations, our associate base is spread across 6,000 plus location.

The opportunity from a perspective of the market given the dynamics of 98.5% is in the informal sector is migrating and that is really where the growth opportunity exist for us continues to be there, the reality that while the GDP has been growing at 5%-6%-7% we have been growing at 25% is a reflection of the formalization that is happening in the market. This is outcome of policy context, the customer behavior, employee choice and the world of work changes happening so there is element of intend and interest from companies to be on the right side of the law and our ability to ensure compliance ability to be on top of Labour Laws and administratively ensure the element of delivery to the customers has been helping on that front.

We continue our focus to the aspect of the staffing space from the growth opportunity which is really the driver on our top-line for us so, the element of the match prepare and HR Services continue to be there. We are still a capital asset lite business, no large fixed investments, debt free high return on capital employed while all of the growth has been organic in the past we continue to look at the aspect of vertical growth that could potentially happen through inorganic but you know opportunities are still being evaluated, we have not finalized anything on that front. But our investments clearly on the people team, have been on making the element of technology intervention to create scalability has been on the aspect of growing our leadership or getting leadership where it is required.

Clearly for us technology intervention which has been developed internally has been a focus area where in the last year we have rolled out our new technology platform for administrating the aspect of our associates payroll processing and everything else which is called ALCS 10.0 got live in February of last year this year effectively and we see the element of benefits of automation and quality from that platform kicking in as we go forward from a productivity aspect and customer satisfaction side. We also rolled out our app for associates and clients for query resolution and information access because we realize that while historically we were doing the large element of query resolutions through e-mails and calls a large element of those queries were information related and that information exists in the system and we decided to work our apps to kind of make a push of this information available on the phones of the individuals.

So the app went live about five months back and we have had an effective 55% of the associates downloading the app we hope to increase that further as we go forward but one clear variable that it provides us one on the phones of multiple individuals and being used is also to move up the value chain in terms of providing some additional services to the customers which are productivity linked, which are productivity measurement aspect which are aspects of training, which are aspects of attendance management and so on, which customer seems to be willing to pay for. So we will look at those additional services being layered on the general staffing front. Coming out in this year and taking it to market as we go forward. Right now the app is primary information related looking at the aspects of doing push of information that people come to us being available with it.

We continue to focus on building our hiring capabilities also from a perspective of right ramp up in the overall aspect of delivery to customer requirements on the open position that they have. Trying to look at that as not necessarily having more people at our end but leveraging various data bases, various training partner's external partners who can support us on the delivery front.

We had a good quarter end in Q4 but if you look at on a year-on-year basis while the operating revenue increase near 25% EBITDA grew by 17.6% and PBT 9.5% primarily as a function of the investments that we have made into the business which is really where on a percentage basis near about flat but our belief is that all the investments in people's, technology and the leadership team which were cost incurred this year will not be incremental cost next year and will effectively with growth in volumes lead to higher profitability margins into the next year/

Also, 2016 was a full tax year for us as against huge element of tax benefits that we had till 2015 which was kind of indicated before 4%-5% tax rate for previous year while it is a full tax rate so which is why you will see a huge dip in the element of the PAT aspect.

Between standalone and consolidated we do not have too much of a difference given that we only have one subsidiary that has an asset which has some income revenue other than that we do not really have too much of element of other subsidiary incomes at this point of time. From an associate base perspective, we have grown about 14,000 as compared to last year near 110,000 employees as on March end 2016, our average realization per associate in line with the past has grown by 7% and ended the year on an average of 687.

Like I mentioned the NETAP the trainee program that we roll out from the gazette scheme of the ministry has started gaining traction in the last year, we had about 16,000 trainees overall ended with near 12,000 trainees at the end of March. We levy at a Rs. 540 realizations per trainee on the corporate on that font.

Our client base increase from 1,200 to 1,400 while our dependence on the top 10 customers more or less stayed the same, our top ten customers account for about 17% of our net revenues so we still stake quite de-risked from a perspective of client concentration. We have been aligned with the element with the element of the fixed cost like I mentioned certain cost which we have put into corporate accounting for investments in additional of people and leadership which will get distributed this year after the stabilization phase what really account for the element of flat EBITDA and PBT.

If we really look at the technology aspects that I mentioned earlier of ALC is 10.1 and the TL connect going live give us strong platform to automate and quality which effectively will give us economies of scale for 2017 and going forward thereafter.

We have also started implementing on the sales force as CRM platform which again we believe will give us element of scalability structure at the back end. So our technology interventions are really what we bet on from a perspective of scale and productivity leading to the profitability margins as we go forward. Given again the investment and people last year if we look at it is our average productivity has more or less been flat number of associates, trainees to FTEs at 165 versus 156. Again, that was on account of the fact that we brought in more people at the transition time of the technology implementation of the TL connect and everything else but we will see an element of a productivity improvement of associates handled by an FTE going up this year.

From a perspective the outlook as we view it, sustainability, it is a market opportunity continues to be large, we continued to be focus on the India opportunity. We continued to be focused on being Mr. India or Miss India to the industry space that we effectively play to. We will focus on the top-line growth in line with the transition and formulization of employment and also the HR Services business scaling up. We do view the element of the margin improvement kicking-in this year from a perspective of scale various technology interventions and process platform and people contributing towards that. We intend to make our vertical foray this year which hopefully will further improve and play to the margin. And our HR Services businesses which have turned positive last year hope to sustain growth on that front which will effectively continue to contribute as we go forward.

So on the leg of these three variables we believe we stay strong to the element of a good performance for next year also. Investment have been made we believe these were the right investments which will pay off into the future years.

That is it from my end, happy to address any questions.

Moderator: Thank you very much, members of the management. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Jeetu Punjabi from PM Capital Advisors. Please proceed.

Jeetu Punjabi: You alluded it the couple of times during the commentary which was that you feel confident that margins will expand this year. Can you just articulate what are the reasons behind that and what gives you the confidence to say that?

Ashok Reddy: If you look at it the prior two years - three years, we have had the margin improvement primarily coming from growth and the cost of growth not being linier to that effectively that is to say that you know from our people productivity perspective or investments perspective we had done the needful for the past few years and there has been a consistent margin improvement over the past. Going forward again in 2016 I think we consciously decided to make those step-up investments on the technology and people and leadership front. We will not be making those same investments into the next year so into that extent the cost structure that we have incurred this year will kind of be flat. So when we have the growth that comes into the current year that growth will largely go into the bottom-line and that is really where the element of the confidence to the margin improvement have come in for the organic growth that we see this. In addition, that is on the staffing side largely, if we look at the HR Services businesses which is really the recruitment, the training the regulatory compliance and the NETAP businesses all of these four have seen a positive traction this year towards the element of the platforms that were created and also the turning into the positive in a marginal manner. Our belief is that all of these businesses have created that opening platform on which they can build further and as they build scale further they will be higher margins that come into the bottom-line. So I think the HR Services business will also contribute. At these point these are the two key variables that we look at that will contribute and give us the confidence to growth in the bottom-line. Like I mentioned the vertical growth is something that we continue to look at whether organic or inorganic we intend to take that live this year and that will be an additional play to the bottom-line.

Jeetu Punjabi: Sir, one quick follow-on here I mean what is the quantum of investments you made in let us say in the previous and the year before that kind of subdued margins to the extent you are talking about and two these investments go through the P&L versus going through the investment side?

Ashok Reddy: So these are about Rs. 6 crores - Rs. 7 crores of investments made and all of these are operational expenses going through the P&L. So frankly if you look at our market share we do not have much of an asset base primarily because we do not really have to buy or invest in hard assets per say, our investments are largely in people, in home grown technology, process and in leadership all of these are OPEX on a continuous basis. So you will see the so called investments that we talk of continuously hitting the P&L on a continuous recurring basis. The only thing that we intend to capitalize to some extent is our technology platform which we development internally the ALCS platform that is the only asset you will find in our books.

Moderator: Thank you very much. The next question is from the line of Abhishek Gupta from IDFC Securities. Please proceed.

Abhishek Gupta: Just a bit on the staffing business growth you have maintained your view that this business should grow about 22% to 25%. If you could give us any break-up on how the volume and average mark-up would look like in the years forward that would be great actually.

Ashok Reddy: Yes, so when we really, historically, also if you really look at it GDP is growing 5%-6%-7% but I think we have been able to sustain average 24%-25% growth year-on-year on average.

Primarily driven from the opportunity that we have of formulization of the informal work force that exists so reality in India is nearly 29%-30% of the work force is outsourced but 98.5% of that nearly place to the informal sector and gradual partial formulization of that really gives us the growth opportunity and that is really kind of what is being happening besides some new industries also coming into the tempting space. So I think our growth will be two-fold we continue to tag companies that do not work with us so while we have grown from 1,200 to 1,400 plus companies as a client base we still do not work with a large number of corporate in the India context so we are our BD focus continuous to be on client acquisition and we continue to reach out to the number of companies in various industry who do not work with us. we also reach out to many industries that are either starting up or have not adopted the staffing aspect so that is getting in more industries per say but also growth with our existing customer because no customer comes on board has 100% of the formularization with us but we will continue to focus on the element of larger share of wallet with our existing customer so new client acquisition, new companies, new industries and share of wallet and farming of existing customer will be the base for our staffing growth as we look at it going forward. From a margin realization perspective, we have a per employee, per month kind of a structure and the percentage model, we have been constantly trying to push the percentage markup model more with new customers and also in some element of the client renegotiation. Over the last seven plus years we have had about a 5%-7% increment as an average realization per associate per month which has also played out for last year so from approx. Rs. 648 we have gone to about Rs. 687 per employee per associate per month. So the sustainability of that also will be kind of focused on. So I think when we look at it from the organization perspective top-line growth will be fed by associate growth not necessarily liner but our net realization will also be driven by virtue of slight increase in the average realization per associate per month which we will continue to focus on and that comes about by virtue of getting new customers on board by some element of renegotiation of old contracts and also the aspects of the percentage model that we have for some of the client base. So if we look at it from the perspective of the client base that we currently have and opportunity is that coming from that plus the element of the overall BD pipeline in terms of the data base of potential customers that we are reaching out and have proposals open with is really what gives us the confidence of sustainability of growth rate as we go forward.

Abhishek Gupta: Just a quick follow-up on this, you alluded new industries coming to temping up which are these industries?

Ashok Reddy: So if you look at it in the last two years E-commerce has been a large play to the tapping space historically they did not even exists per say but I think they have taken to they have come in as a sector, they have come in a large play to employment generation and the have played to the staffing space in a very large way. E-commerce has also fed to an element of growth in the logistic sector per say so logistics companies either direct owned or otherwise have also started scaling up on the numbers front on that side. So these are two that I could immediately but if we look at also from an FMPG, FMCD perspective or agri there has been increased play on the staffing side from the various companies in those industries.

Moderator: Thank you very much. The next question is from the line of Hitesh Das from Axis Mutual Fund. Please proceed.

Hitesh Das: The first question is the investments which you alluded to the tune of Rs. 6 crores to Rs. 7 crores where did in FY'16 alone and could you highlight some of the areas in which the investments were made.

Ashok Reddy: So yes, they were in I mean we continuously make them in FY'16 we have had higher than normal investment per say and if I look at it we have had about Rs. 1.5 crores investments in the element of people team increase in about 110 people in the organizational structure of staffing side of the business. We have had multiple leadership people join as lateral hires new head of operation and new head of customer relation, new HR head, new sales head, these decisions taken to beef up the organization for the coming volume growth that we effectively look at. In some locations we have also in advance of the growth ramped-up on our office sizes the infrastructure aspect primarily from a perspective that we needed to have this in advance of the element of the growth that we look at coming. Technology interventions and investments are the other variable like I said the TL connect app went live effectively in October November of last year but was an investment that took about six months - seven months - eight months of development that got done on that front. We have had ALCS 10.0 which has gone in live in February of this year but again has been in an investment mode for the past few quarters from a perspective of the build to automating a lot of things that were otherwise offline or manuals I think the key aspects that we look at three fold from an investment aspect is one the people getting the right people, getting them to scale obviously there is no scientific formula to that, the is a trial and error of getting people on board scaling them up, replacing them where required working with them on a continuous basis there is an element of infra structure and technology which is completely home grown in that sense, we try and buy way possible so like sales force implementation is an external thing that we are working on towards the improving our administration of e-mails calls information MIS flow and everything else. The third is leadership from a perspective of bringing in processes and process changes and control that gain will be deliver to the aspect of size and scale as we go forward. Because the key variable that we are betting on is that we are in volume business. Low margin business but the volume business requires us to have non-liner cost structures which require us to focus on technology process and people. So that as we go forward our cost will not be not be in liner tandem with revenue growth that effectively gives us higher margins.

Hitesh Das: Okay. On the second question, in terms of HR Services the HR Services grew close to 8% last year what is the kind of growth outlook for FY'17 and over the medium term and also on margins if we look at segment margins the probability has been impacted in the recruitment business if you could highlight what were the reasons behind that.

Ashok Reddy: So if you really look at the growth in a relative terms subdued at 8% primarily given the huge reduction on the training operation front from Rs. 15 crores and Rs. 7 crores and that was because we had indicated also that last year there was a large training program a one-time program that was driven the government which effectively gave that huge kick-up on the top-line. But if we look at it leaving the training business aside from a recruitment operations perspective and the other HR business the growth in the top-line has been quite substantial. The HR profitability is little subdued from the previous year if we look at it because in this last year we made investment in RPO vertical for the recruit business because historically we have virtualized the element of the recruitment business to four key verticals BSSI, EMPI, services and IT. But primarily all of them working on non-exclusive mandates with customer but in the last one year we have made an investment in leadership business development and people teams along with technology towards the asset of an RPO vertical that will fit on top of these four vertical, effectively the benefit of an RPO vertical playing across the spectrum is that we get exclusive mandate. The exclusive mandate gives us higher probability of billing and realization from the customer. The investment was made last year, the number of mandates and the flow of volumes on the RPO front across the four verticals is something that we have started seeing from this quarter onwards. So if we factor for the element of that volume coming in this quarter as a demand delivery happen in the second quarter - third quarter - fourth quarters and they will play out into this year. But if you look at it from the element of the training operations the margins have improved substantially and also from the other element of the training and NETAP businesses our top-line and the margins have improved.

Hitesh Das: Okay. So in terms of training the growth will kind of improve over the next year as you kind of have more government programs or…

Ashok Reddy: So last year I mean when I say year 2015 was an aberration on the volume by virtue of one specific mandate called star which was rolled out through NSDC and that accounted for the large volume overall but leading aside that mandate we have actually increased the number of states that we are working with the number of mandates that we have been working with and we have a healthy pipeline even into this year as we go forward. So we will clearly see a growth in the top-line of the training business.

Hitesh Das: Okay. And finally, in terms of working capital that seems to have increased in FY'16 in terms of receivables any idea…

Ashok Reddy: It will be timing aspect of just the March closure but not otherwise if we really look at it our DSO to the largest element of our staffing business continues to be two days to three days where it is a collect and pay model. The DSO for the funding cases continues to be 20 days to 25 days. So before the next pay roll cycle we will get that element of a collection. The element of other businesses DSO also stays the same. One variable into last year is the bonus the retrospective bonus element that got accounted for which would probably what you are looking at is invoiced but not collected. But that is you know retrospective thing that companies are taking cognizance of and will be paying over a period of time. But then that we have not had any deviation on our DSO or our receivables position.

Moderator: Thank you. The next question is from the line of Vinay Paharia from Invesco Mutual Fund. Please proceed.

Vinay Paharia: I have two questions, one is regarding the core employees, in the Investor Presentation you have highlighted the productivity especially with regards to core employees handling the overall associates so while the employees we appreciate that the productivity has improved. What I want is what is the total cost of or total staff cost for the core employees?

Ashok Reddy: Actually the productivity has not improved it is improved by 1% so it has actually been more or less flattish.

Vinay Paharia: Over a five years to seven years it is ….

Ashok Reddy: Over the five years to seven years' time frame it has definitely improved and we see that going up as we go forward also but in the overall scheme of things the core employee cost is Rs. 57 crores last year.

Vinay Paharia: In FY'16 it was Rs. 57 crores.

Ashok Reddy: As against the Rs. 16 crores in FY'15.

Vinay Paharia: Okay. So that has increased pretty sharply.

Ashok Reddy: Yes, so that is really where I mentioned there is one element of natural wage inflation part of it. The other part is the 210 people core team that increase between '15 and '16 and an element of high cost resources of leadership that were on boarded last year.

Vinay Paharia: So that was about Rs. 5 crores - Rs. 6 crores which you were referring in the initial discussion these should not increase on a linear basis every year, right?

Ashok Reddy: Will not increase this was a one-time variation to last year because of our conscious choice to invest. Other than you know the normal wage inflation and some margin increase we will not be quantum jump on this front this year.

Vinay Paharia: Over a period of five years to seven years what has been the normal wage inflation in the core employees?

Ashok Reddy: On an average between 8% to 10%.

Vinay Paharia: Between 8% to 10%.

Ashok Reddy: Yes.

Vinay Paharia: And that should continue over a period?

Ashok Reddy: Yes.

Vinay Paharia: So do you see the productivity also going up by 8% to 10% annually or that should stabilize at what it is currently?

Ashok Reddy: No, actually the productivity would increase so, like I mentioned the various technology inventions that we have implemented towards the end of last year ALCS 10.0 and the app will play largely towards the productivity enhancement of associates. So just to give you an example, historically the offer letter that we rolled out for all associates has an element of manual intervention from the Teams. Today 70% of those offer letters because of 10.0 implementation go automatically from the system with no manual intervention. Even the 30% we hope to make another 15%-20% automatic into the system, what that enables is a productivity enhancement on also improved PAT and quality from the backend perspective. Also the time to taken to process has improved substantially by virtue of the 10.0 implementation and there are a lot of other nuances around automation that have happened which reduces the need for manual engagement which improves productivity which improves the element of tax which improves the accuracy and the need for rework. So going forward our belief is this 166 associates to an FTE will improve on a number basis.

Vinay Paharia: Okay. And effectively your overall core cost should rise by about 8% to 10% per annum.

Ashok Reddy: Will not increase in line with the growth in associate numbers or revenue growth.

Vinay Paharia: Okay. Also if I were to look at your segmental results I notice that the corporate costs have gone up pretty sharply.

Ashok Reddy: Yes, so this is what I mentioned a large element of leadership team and technology investments, office investments that we make in advance of the business actually scaling up we do not allocate to the P&Ls on an immediate basis so effectively they sit in the corporate as a side which is really why the corporate expenses have gone up but into 2017 all of these expenses will get apportion to the P&L.

Vinay Paharia: So the technology and the office investments I thought would predominantly should flow from the balance sheet?

Ashok Reddy: No, if you look at what we capitalize will go into the element of the balance sheet but like I mentioned earlier we also OPEX the large element of our cost.

Vinay Paharia: The technology cost?

Ashok Reddy: I mean when you look at technology it is all our internal teams working on it. This is not something what we buy off the outside spending a lot of money. So from that perspective a part of it gets OPEXED and what we can capitalized gets capitalized.

Vinay Paharia: Also you had intended for a longer time to enter into the IT staffing services business, any progress made on that and what are your views on that?

Ashok Reddy: So there were two verticals that were clearly looking at – IT and hospitality. We were looking at either organic growth or inorganic growth into both these verticals. On the hospitality we have manage to sign up two of the large groups for a staffing and for a regulatory mandate which goes live effectively this quarter which gives us an opening balance into the hospitality cycle so intend right now is to leverage that opening balance to expand play into the hospitality sector in organic manner. On the IT front our belief still is that inorganic growth enables us to get a team delivery platform and existing client relationship that we can leverage on. So we continue to explore acquisition opportunities into the IT vertical, multiple discussions but nothing signed off yet but we hopefully will try and come to a conclusion on that front in this year.

Vinay Paharia: Okay. And problem is mainly evaluation?

Ashok Reddy: Not, combination because if we really look at and we had indicated this earlier also the nature of the industry is that there are eight to ten large players and then there is a huge vacuum in the space in the middle and then it is a highly fragmented market with multiple players in the bottom. So these are 500; 1,000; 1,200 kind of associate numbers. The drivers for sale could be many fold at this front. It could be people have just gotten old and want to exit or they are not able to scale beyond a certain size or just looking at liquidity to what they have built over the years so on. So different dynamics driving the element of the sale intent from the other side which also kind of determines the valuation expectation but through we told I think post our IPO two - three of our discussions have sat on a high horse on their valuation expectations, we did not believe it make sense to pay the kind of price that they were asking for and we have kind of called off discussion with them. But they are still many other opportunities that we continue dialog with.

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

Garima Mishra: Just wanted to check is there any guidance of utilization of cash beyond the inorganic acquisitions for the company where we are looking at?

Ashok Reddy: So even if we had look at it earlier, we were looking at utilization of our cash for three things – one is acquisition, so that discussion continues and we stay on track to that aspects. Two is the working capital requirements towards the increase in funding of the one-month cycle or when we get into the IT space, the funding cycle is actually increased to 60 days and 90 days. So that aspect is second element. Third focus is primarily just in terms of our increase internal investments but those like I said primarily get OPEXED and do not require huge element of cash so the element of inorganic growth, element of the working capital towards the funding clients or vertical growth as we go forward are primarily where we would look at it as we go forward. Some element of technology which we buy from outside which like Salesforce is one product that we have bought outside and we are kind of making the investment on that front which is our CRM platform. So these are the three that we will continue to say focused on towards the element of utilization of the funds that we have.

Garima Mishra: Okay. But if I see your cash balances it was already around Rs. 260 crores as of March 2016 given that we will still be probably cash generating barring any large acquisition that is done if there is any management thought on paying out dividend, etc., in the short-term?

Ashok Reddy: So I think we do have cash on the books and we will be cash positive as we go forward subject to not having an opportunity for investment, we would definitely explore opportunities of dividend or share buyback which ever makes more sense as we go forward into the next year but I think for the current year we will stay focused on trying to leverage the available cash towards investment into business organic, inorganic, and technology that we believe will give higher dividends in the element of payback.

Garima Mishra: Okay, thanks. Also on the NETAP program and your investments in TLSU could you tell us how much was invested in TLSU in FY'16 and the guidance going forward and also if you could throw some light on the lifecycle of an apprentice because you said there are 16,000 trainees overall but you ended up with 12,000 because some of them sort of certified. So could you just tell us throw a little bit more light on that aspect.

Ashok Reddy: So from the TLSU perspective we have about Rs. 16 crores of advances that we have given on a cumulative basis to the university. All investments into the university are given as loan from TeamLease so that we can recover interest and recover principle as scale kicks in at the university front. Key program at the university is the NETAP Apprenticeship Program. The scheme enables us to deploy apprenticeship for periods between 3 months to 24 months. So it is really a corporate decision depending on the function and the industry to what duration trainees are deployed. On an average again we have them right now between eight months to nine months. People could either complete that tenure get certified and move on or traineeship could be extended if the person has not learned what he should have learned during that period or could even be moving out prior to the completion of the training period. Which is really were wile on a gross basis we have 16,000 trainees we needed with near 12,000 at the end of the year. So it is an element of completion of the term and on completion people could either be moved as a temps or could be moved on to the rolls of the company or could have found alternate employment otherwise by virtue of the fact that they have learn the skill which enables them to be better positioned to the aspect of the market requirement.

Garima Mishra: Okay. I will just take one follow-up question. So on NETAP is there any guidance or any expectation that you have for the ramp-up of apprentice say by the end of FY'17 and FY'18?

Ashok Reddy: Not really a guidance but if you really look at it last year for us was a large element of concept sell because the NETAP program itself and the NIM gazette notification was new to the market. So corporates and industry were coming to term with what is this scheme? How do I deploy? What does compliance mean? How do I get resources on this basis? How do I train them and everything else? The fact that today we have got over (+160) companies who are working with us on this scheme front spread across different industries the 16,000 trainees who have gone through this mechanism, give us the opening balance and an acceptance of the concept. So today the team is no longer selling the concept they are selling to people who have already bought the concept. So we have the 160 customers that we could effectively look at a larger share of wallet with or/and the element of getting new customers on board basis the fact that we have already sold this to 160 customers and it is an accepted and well-regarded scheme per se. So I think on the back of you know new client acquisition and larger share of wallet with our existing customers given that we have technically a low opening balance on the NETAP front we will be able to see some element of exponential growth.

Moderator: Thank you. The next question is from the line of Pritesh Cheddha from Lucky Investment. Please proceed.

Pritesh Cheddha: Sir, those three acquisitions that had come on board which you are evaluating can you share what valuations the expectation for us?

Ashok Reddy: On the acquisition front nothing is done till it is done frankly by virtue of the fact that like I mentioned earlier different motivation for different people to effectively sell so I think at this point given that we are at early stages of discussion with no formal sign off with anyone it would be premature to kind of talk about valuation norm. But obviously, we do look to getting bottom-line accretive businesses that have a strong opening balance on client base associate numbers, core teams on which we would be able to aggressively scale up as we go forward. Evaluation norms are too early to be discussed on that front.

Pritesh Cheddha: Any transactions that have happened in this space valuation range do you have and you can share it?

Ashok Reddy: Not really because like I mentioned the effect of motivation for the buyers and sellers are normally very different so if we look at I mean in the IT vertical per se while some acquisitions have happened many years back multiple are kind of not really on the table because these have been private deals that have not been on the table from our numbers perspective.

Pritesh Cheddha: Okay. My last question is I actually joined late. Can you tell us the total associate that we bid for in FY'16 and in that what would be IT hospitality or other area?

Ashok Reddy: So we ended with about (+108,000) associates in March 2016. IT and hospitality for us really do not contribute at all. We do deliver to the IT industry but on support functions we don't to work in the IT industry for IT profile. So that is really where I had earlier mentioned saying that IT and hospitality as a vertical are something that we are looking to build as we go forward. We have managed to sign with one hospitality or two hospitality players we do intent to see some numbers coming in this year on the hospitality front. IT vertical we still believe make sense to go inorganic as a way to build the numbers and we will continue to focus on that.

Pritesh Cheddha: So the 108,000 is largely support staff in a lot of industries.

Ashok Reddy: We tend to cause general staffing, yes.

Pritesh Cheddha: General staffing.

Ashok Reddy: Yes.

Pritesh Cheddha: Lastly, I just wanted to understand in your current scale of business and the current business profile what are the margin drivers? And is the associate profile changes then what are the margin scalability?

Ashok Reddy: So if we look continued focus on general staffing will continue to play out for us and that is really where margins will come by virtue of managing cost, the economies of scale and that is really where we mentioned in saying that we have made the investments in people, in leadership, in technology, in processes last year which will effectively give the results into 2017 and 2018 and thereafter.

Pritesh Cheddha: Can you quantify those economies of scale even if we 10 basis points, 20 basis points, 50 basis points, and 100 basis points.

Ashok Reddy: That will be guidance statement I think we will avoid that at this point in time but we do believe that economies of scale have played out in the past and will play out in the future. The second element is the vertical growth. IT is a higher margin business but again for me to a put a number on that will be difficult while we do believe this year we will make an entry in to the IT vertical. It will be an element of when we duet at the scale and size opportunities that we have that will play to their element of the margin improvement. The HR Services businesses that we had been investing-in in the previous years have all stabilizes last year have nearly gotten all into the black. We believe they will continue that element of growth and contribution to the bottom-line. So the three variables that will contribute to margin improvement is economies of scale, vertical growth and vertical creation and the HR Services businesses.

Pritesh Cheddha: What is the differential margin between general staffing and IT in the hospitality?

Ashok Reddy: So again the average realization of about 3.5% to 4% mark-up that we realize in general staffing IT on an average realizes between 15% to 22%. Cost management thereafter is really what lease the element of our bottom-line but in some of the companies that we have seen the bottom-line is anywhere between 5% to 12%.

Moderator: Thank you. Ladies and gentlemen, we will take the last question now which is from the line of Atul Mehra from Motilal Oswal Securities. Please proceed.

Atul Mehra: My question is in terms of if you were to look at the headcount growth for the year it would be about 14%-odd so, as we perhaps head into next year so what kind of say visibility you would have in terms of say headcount growth going forward?

Ashok Reddy: Headcount I am assuming you are talking about the associates headcount?

Atul Mehra: That is right, yes.

Ashok Reddy: Yes, so if you look at even historically while we have had a top-line growth of near 25% our associate growth has been I the 15 % to 17% range. So the associate growth is never liner to the element of the top-line growth primarily driven two hold one is that again as there is a wage inflation for our core employees there is a wage inflation for the opening balance of associates that we have. Also the fact that depending on the mix of industry or functional profile that we get the wages might vary, so as an organization while we believe associate growth is what contributes overall to our growth, the metrics that we give to the business development team and we monitor internally is the top-line growth. The element of associate growth and everything else is incidental thereafter. So while you do have a 17% growth from the associates front you will see that our trainee base has gone up nearly 10,000. So that is a substantial growth on that front. So overall we have had a 25,000 associates plus trainee growth that has happened last year.

Atul Mehra: All right. And in terms of as we look at some of the industries for instance may one the E-commerce side things beginning to a not completely but a little bit flattened out a bit. So how do you see perhaps various industries at this point in time and what kind of visibility you would tend to have from the client in the sense that so if they were to hire or if they have requirements for say couple of thousand people so, how much advance notice would you have**?**

Ashok Reddy: So typically what happens for us is like I mentioned earlier growth of new employment is not necessarily what drives our growth. Our growth has also largely been driven by the element of formalization of the informal sector that exists across various industries and companies. There are various sectors that get subdued, some that get more aggressive but having said that within their current employment structures itself there is a large farming opportunity with many companies and that is something that we will continue to focus on so we do not necessarily need them to be growing aggressively but you know the very fact of the employment that they have itself gives us an opportunity to growth. If we look at it across sectors and this is also playing out over the last few years is that there is no aggressive optimism anywhere. It is cautious optimism which is to say that people are positive but aren't gung-ho about anything right now while a lot of sound wise policy statements from the government about "Make in India" "Skill India" and all of those are positive people are also waiting to see the translation of that onto the ground in policy and execution. So to that extent I do not think we are betting ourselves on one specific variable driving up the aggression to market but I think what we are really betting on is the aspect that our distributed focus on various industries and companies will enable us to grow as a share of wallet and as acquisition of new customers as we go forward.

Atul Mehra: Right. And one final question in case of IT so, while you evaluate and continue to evaluate acquisitions on the foray in IT, so why not in the meantime start to build it organically as well so what are the constraints to that?

Ashok Reddy: Yes, so two key variables from a servicing perspective that the IT industry has – One is the funding that I mentioned earlier, they have cycle of 60 days to 90-day funding that is the easy one for us to do. The second element is a 100% hiring of the profiles that they need and these normally four years to eight years to ten years of experience profile and that is a specific skill set that we need to build that takes time and element of focus and that is something that we have to effectively evolve over a period of time. The second element is also with IT companies on IT staffing, then there is a natural progression that a vendor has to go through from a perspective of the level at which you come in so any new vendor coming in year one is treated as a new vendor and with tenure of working with a company you move up in the hierarchy of the preferred vendor. So while we will continue to explore organic the challenge is that you do not start with larger mandates or the ability to cherry pick your mandates when you are new vendor whereas if you have been playing to the space or to the company for a few years you become a preferred vendor and that preferred vendor status is very good from a growth perspective.

Atul Mehra: Right. And just one final if I may, so generally have been growing at say 25 %-odd growth over the past few years and this year as well. So what are the constraints in terms of if you were to grow at perhaps may be at the same rate or even higher rate going forward. So what are the constraints to growth over here?

Ashok Reddy: Constraints to growth for us as we have always stated has primarily been our operation keeping pace with the element of the market opportunity and the element of growth that we have seen. So the challenge that the operation engine faces when we were 20,000 was very different from when we grew to 50,000, we were different when we went to 100,000 and we truly believe we will different when we go to 150,000 and so on. So the constant need to reinvent yourselves from a process, from a technology, and from a people perspective becomes the key variable and that is really where there is an element of betting on your existing resources to scale with you and for the business over a period of time and some people do and there is a need at times to bring in lateral higher to enable the element of handling that volume growth and scale. So operational, deliverable and operational excellence is really the key focus area to drive on as we scale.

Moderator: Thank you very much. I now hand the conference over to the management of TeamLease Services for closing comments. Over to you.

Ashok Reddy: Thank you all for coming on the call and for the queries. We hope we have addressed the concerns to the aspect of your requirement. We truly continue to believe in the opportunity of space. We continue to believe that the addressable market is very large. We are well-positioned as a company, as a team well-capitalized and with clear focus to a long-term clay on this opportunity and we believe that we will be able to deliver and perform into the future. Thank you for the support and the element of trust repose during the IPO time and the continued support thereafter. We seek your support into the future. Thank you.

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