"Teamlease Services Limited
Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Teamlease Services Limited Q3 FY2021 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Sudheer Guntupalli from ICICI Securities Limited. Thank you and over to you Sir!

Sudheer Guntupalli: Thanks Faizan. Good evening ladies and gentlemen. Thanks for joining us today and our sincere apologies for a slight delay in opening the call. On behalf of ICICI Securities, I would like to thank the management team of TeamLease Services for giving us the opportunity to host this result conference call. We have with us Mr. Ashok Reddy, Managing Director and CEO of the company, Mr. Ravi Vishwanath, CFO of the company, Ms. Rituparna Chakraborty, Executive Vice President, General Staffing, Mr. Sunil Chemmankotil our Senior Vice President, Specialized Staffing and Ms. Ramani Dathi, our Finance Controller on the call. We will open up the floor for brief opening remarks from the management team and subsequently open the floor for questions. Thanks and once again thank you all for joining us today. Over to you Ashok!

Ashok Reddy: Thank you very much. Thank you and welcome all to the call. I think we have started to see demand coming back and I think our apprenticeship programme, the trainee programme that has take the biggest hit in Q1 has seen a rebound and we have recovered the numbers back to and crossed the pre March levels that we entered the year with. I think even on the staffing side, we have started to see growth in numbers and demand coming in from customers end.

I think overall, we have managed to drive the assets the productivity and cost management through this quarter also. So we have a marginal decline in our core employee headcount. While we have seen an overall 16,000 additions to our deployed resources, so staffing has grown by about 7000 associates and Netapp had grown by about 9000 trainees overall 16000 growth for the quarter.

The productivity aspect of an FT ratio is also improved to 334 and I think during this period, we have managed to sustain the level of PAPM and the funded percentage broadly. I think the big positive, which Ritu will cover on has been the big jump that we have had in hiring for our customers and the various strategies that we have been working on over the previous playing out for the aspect of hiring for the open position and delivery thereon complementing and supporting clients desire to ramp up.

Overall our quarter-on-quarter basis we have had a revenue growth of 13%, EBITDA growth of 8% and a PBT growth of 17% and even for the nine months we have had a PBT growth of about 4%. The PBT margins have also improved to about 1.8% for the nine months. We have also seen an EPS growth of about 24% from 10.9% to 13.5% as a quarter-on-quarter aspect.

I think overall that trajectory, which the open positions and demand that we are seeing from customers is quite healthy and we believe that we should be able to get back on an associates headcount and a revenue rune rate to the pre COVID levels soon and obviously the aspect of the cost rationalization and productivity aspect will help in the aspect of margin improvement or throwing back on the margins at a PBT level as we go forward. With that I would ask Ritu to give a commentary on the staffing side.

Rituparna Chakraborty: Good afternoon everyone. It has been a good quarter overall for us. We managed to consistently grow our associate base over previous quarter especially since September when we noticed a net jump. We continued to improve our productivity and also profit for the associates. After the last two quarters, spike in funding, we were able to plough back that exposure to a reasonable level and I think we do hope we will be able to sustain it. Our PAPM remains flat and while all parts discount of more or less seen reversed, we are seeing more long term downward rationalization expectation coming in from fund specific sectors; however, we are quite confident about maintaining our profit for our associates if not improved on the back of consistent investments in digitization, digitalization of our processors and various innovations to kind of kick up the operating leverage.

Our biggest improvement and turn around of course has been in hiring. I think we have tripled the count of TeamLease hire. For the last quarter we have rolled out almost 9000 offer letters and that is also a 37% jump over Q4 of the last financial year. We have improved the average per client conversion rate, which is about 60% currently and that is quite an improvement over our pre COVID level. Incidentally with some of our clients we managed to deliver up to 100% of the requirement. We have also successfully contributed to almost 21% of our addition through hiring as against 15% last quarter and I think one interesting thing, which obviously help us build confidence amongst our customers as well as within ourselves is that the fact that we have managed to successfully deliver some profile, which emerged as an opening for the first time in terms of a former tenth job and I think that has been an interesting experience for us.

Just to give you some sense of the future outlook and how we have been seeing the markets. Clearly, the intent to hire is improved and vaccine has added to the optimism; however, a cautious is not being ruled out. Metro and Tier1 cities are likely to be in from the optimism with increase hiring in sales, marketing, technology, and blue collared roles. Healthcare and essential sectors such as FMCG and retail as well as technology intensive sectors like education and ecommerce are expected to scale up hiring. Manufacturing sector is actually leading the positive hiring outlook while services sectors are largely cautious. However the exception to the services would be telecom, essential retail, IT, and ecommerce. I think within manufacturing, FMCG and pharma companies are largely focused on hiring around the large cities. FMCD, engineering, chemicals, power, and utilities are hiring at the lower levels and it is a little more spread out.

From our structural change, I think some of the government announced initiatives PLI, PMV, REVA, easing of the SBI have definitely given boost to some sectors specifically pharma, education, and manufacturing. So our sense is that the sectors, which essentially have been contributing since the first unlock, we are seeing a magnified interest in hiring coming in from those sectors and few of the laggards, which were struggling a little bit. For example BFSI have also now started kind of open up.

A brief for some of the updates on what is going on the labor reforms side; I think the government is acting on war footing to close out the deliberation around their rule making for the labor force. Considerable pushback has been retrieved from the trade unions on the four poles especially OSH and the social security code. For the corporate side, there has been considerable pushback on the wage cost, and I think all of them are being factored in. I think from a staffing perspective we have had some positive movement and good progress that on the rule making process of our national licensing, our belief is that by April 1, 2021 most of the labor force with the rules will become implementable and by mid February we should be able to see the final rules.

I think in closing our focus for general staffing into the future shall be on organic associate's growth, aggressive hiring aided by non recruiter channels, improving operating leverage and sustaining capital efficiency. Thank you very much.

Ashok Reddy: Sunil will give an update on the specialized staffing business.

Sunil Chemmankotil: Thanks Ashok and Ritu. Good afternoon everyone. Specialized staffing business this quarter had a nominal revenue growth of around 2%. Headcount remains flat due to some drop in telecom staffing business. The PPT grew marginally from 8.3% to 8.5% however there is a sequential growth quarter-on-quarter on the PBT. Although this quarter our recruitment has doubled from last quarter in terms of the gross additions still the net additions did not happen as expected because we had a huge attrition.

This is also good indication that the market is opening up and there are new opportunities available for the resources. So we are just able to get as many on board as possible against the possible attritions. The good news is that the replacement provisions what we have done is mostly in high margin positions like Tata Sciences, MLAI, UI mobile application development, video production and so on, which actually in a way gives us a better overall margin along with this, we also had operational efficiency going on from the Q1 and which has resulted in a better PBT for us.

The change in requirements we feel that will continue in the coming quarters because we are seeing there is a huge change in the kind of positions, which customers are requesting us because of the adoption of digital technologies across the industry sectors following the business disruptions caused by the pandemic.

On the sales front, we have been very focused on our sales approach because we wanted to expand our client base. This year it was one of the major focuses along with operational efficiency and we were able to continue this effort. We added 17 new logos in Q3, which takes us more than 50% new logos for this year. Majority of them are long term and large customers, which are going to help us propel our growth towards our goal.

To sum it up, the strong delivery focus, sales approach and improvement in operational efficiency has ensured a consistent and good result in this quarter and I am confident that this will continue going further. Thanks. That is it from my side.

Ashok Reddy: Ravi will give an update on the finance front and then we can open up for questions.

Ravi Vishwanath: Good evening everybody. For a quick update on some of the finance matters. We continue to focus on costs while most the play, the cost play has been done. We expect some of the cost that we have not incurred in the past three quarters to slowly start creeping up though it is not indeed to the same level as what it was in Q4 or Q3 of last year. Some costs like I said will come back as offices reopen and that is bound to happen, and we are prepared for it and kind of factor.

Ashok Reddy: Sudheer we are open for questions.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Sudheer Guntupalli from ICICI Securities Limited. Please go ahead.

Sudheer Guntupalli: Ravi, I think you were saying something about margins and looks like the investor presentation had some pipe hoarse in terms of margins so any clarifications from your side on this aspect?

Ravi Vishwanath: Yes we have updated. Yes there was typo error. We regret it. The updated presentation is being uploaded now.

Ashok Reddy: It is uploaded. Just give the number.

Rituparna Chakraborty: The consolidated numbers have been mentioned as standalone Sudheer. So that is the error. So you should read standalone numbers have consolidated and consolidated is standalone. The rectification is already filed, and it is reflecting in the portal now.

Ashok Reddy: Affectively EPS has been on a growth quarter-on-quarter.

Sudheer Guntupalli: Thanks for the clarification. With that said in terms of margins, we had undertaken some cost rationalization initiatives earlier and we were talking about reaching FY2019 level EBIT margins by FY2021, but if you look at this quarter numbers two questions? One is, it looks a tad lower than what we were expecting let us say three to four months back and given this numbers in this quarter are you still confident? The second part of the quarter is you still confident that we will reach FY2019 level EBIT margins for the full year?

Ravi Vishwanath: I think we should be able to get to FY2019 margins by the end of Q4. We are reasonably confident, and we do believe that we have done all the necessary things for us to get to those margin levels.

Ashok Reddy: 2% on the EBIT margin and I think the aspect of sustaining that as going forward will happen and as a PBT margin level Sudheer at a nine month level, we have improved from 1.6% last year to 1.8% this year. So I think the overall trajectory of margin improvement both at an EBIT and PBT levels is in line with the play out for the year.

Sudheer Guntupalli: Sure Ashok thanks for that any moving parts that you want to add as to which would have impacted margins in this quarter versus the previous quarter be it pricing or what exactly would have impacted as a pass through?

Ashok Reddy: I think we have a provision that we have made in the learning services business for a part delayed payment from a government while we have received 50% of the payment. Some of it was delayed. So just as an abundant precaution, we have made a provision for that amount, which has impacted the profits for the current quarter, but we believe that amount should be collected in the Q4 and from that perspective would have a write back element in there. Other than that we have also had some element of continuance of the firm business provision that we have decided to exit on. For the earlier receivables that climb our delay in that separate. So other than these two, which will not be a running account as we go forward other businesses have all standalone improved on their numbers.

Sudheer Guntupalli: Sure Ashok that is very helpful. My next question is on the sourcing aspect. So sourcing is one of the key areas of micro level improvement for us for some time and as you mentioned the non-recruited channel seems to be picking up over the previous couple of quarters? How does our unit economics and sourcing look like right now and in the steady state what would be our aspiration in terms of the share of general staffing associates who would be sourced by Teamlease and not by the non-recruited channels?

Ashok Reddy: I think non-recruited channels are also managed by us, but affectively what happens is that we are not increasing resources at our end nor are we having a fixed cost play from our end so part of the non-recruited channels are free of cost and some of them have available costa attached to the element of deliveries that happens. So affectively, I think what it enables us to do is have a broader footprint at a lower cost and effectively ensure that we are delivering to the client open positions across locations. These channels are managed through technology and our team at the back end and from that perspective, I think the key focus for us is to ensure that we have a larger number of clients that we are delivering to and a larger percentage of their open position that we are delivering to on a consistent basis and I think clearly we have had that trajectory of improvement on number of clients and the percentage of positions that we have been able to deliver to, which is kind of complementing the element of the numbers that come from customers and also offsetting the attrition that is happening. So effectively over the last three months of the quarter, we have had consistent net growth in SAARC.

Ravi Vishwanath: From a unit economics perspective, the cost for higher trended to be in the region of between Rs.2500 to Rs.3000 for higher. I do not think, it would have down significantly, but our target is to take it down to any where between Rs.750 to Rs.1000 for hire.

Sudheer Guntupalli: Sure Ravi and will the clients be willing to compensate us for this or this is kind of going through our pockets?

Ashok Reddy: No it is a function of the client agreement. There are some clients with whom we have an element of a sourcing fee for the placements that we do. Some of it is factored into the existing pricing.

Sudheer Guntupalli: Sure Ashok. One last question to Ritu if I may, so Ritu I just want to understand in detail about how the overtime related labor laws are changing and how that would potentially impact the volume and numbers for us going forward? So will the allowances of higher number of working hours potentially deflate our head count numbers and how would the payment dynamics and how would the wage dynamics work in that station?

Rituparna Chakraborty: So I think first and foremost there has been considerable deliberations and push back as was expected from corporates on the timing of some of the changes that have been recommended by the government given that industry is already down and out and recovering whether they will be able to afford some of those things. I think we must admit that while on paper some of them like increasing their duty provision the fact that overtime as a concept has been standardized to try to twice the wages. I think all of that has while has happened the side-by-side government is also looking at opening up alternative avenues for organizations to manage their employee supplementation rates. Also from an EPO perspective, there is already a narrative in terms of whether the contribution on can be brought down from the current level of 12%. So I do not think while the rules will get notified, we expect it somewhere around the middle of February, but implementation horizon will take time, so it is not going to happen before April 1, 2021, so I think organizations do have time to of look at the alternatives and I believe that once the revenues kick up happens, which is already clear some of the apprehensions and worries that are being tabled shall be addressed. I personally feel that there are greater upsides, which organizations will see by reduction of their cost of compliance and those reductions and improvement for example on account of rationalization. If I were to take just the OSH course as against 123 compliances they will have to end up doing not more than six. There are cost benefits, which are coming in to play and some of the initial reactions of increase in wage cost and wage bills will in the long run get negated and I do not see any negative or adverse impact on account of that on staffing from where I stand Sudheer.

Ashok Reddy: Thanks and all the best for the future.

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

Garima Mishra: Thanks so much for this opportunity. I had a question first Ritu. Amongst your interactions with corporates do you think that corporates in general are getting more inclined to work general staffing post pandemic as this can be something that can help them save cost in general over the future?

Rituparna Chakraborty: Yes there is definitely an improvement in mood in organizations to disrupt and engage with us as this being a viable option for them to manage their work force. I think organizations are more inclined towards considering it on account of the flexibility it offers them given that they are right now quite affected by the impact and repercussions that the pandemic had on them. I think that is the primary factor. I do not think the starting options provides them an ability to have high cost arbitrage on account of the wages because the government is very clear even in the labor court that there cannot be much differentiation rates on jobs rewards, but I think there are implicit advantages of working on a starting organization on account of flexibility, on account of scale, and on account of hiring for example. Their ability to ramp up as well as ramp down I guess and also having a partner, a large professional organization who understands the law of the land well and would be able to guide them in the right fashion to be able to manage the needs of their business and yet keep them compliant. I think from that perspective dilemma there is definitely a growing interest in staffing as an option for meeting their work force requirements and I think clearly there is a shift from moving away from the traditional approach of having a last core of permanent employees. Organizations are looking at alternative options of managing their headcount based on the ups and downs of the business and staffing is probably is one of the most win-win bets for them at this point of time.

Garima Mishra: In terms of own pipeline are you already seeing some build up on account of this shift happening or currently the incremental your pipeline is purely because of some economic activity coming back? What I am trying to ask is I guess has there been some structural improvement already that you seeing or is a little too early for that to happen?

Rituparna Chakraborty: Yes so I Garima like I said at the moment we are in engagement stage with most of these organizations so even they are looking at it as along term play and they are non comitial at this point of. That is why I keep mentioning that we notice optimism, but we also notice cautious optimism. Net of it we have seen data points, which clearly suggest that while October and November where good month things started becoming subdued in December so we actually have to see how things pan out over this quarter for even organizations should bring their **(inaudible) 27:12** and at what point they are willing to commit. So I would categorize all of this as discussions and engagement rather than an active pipeline at this stage. We do have pipelines for this quarter, but I would not necessarily attribute it to these new discussions that we just mentioned.

Ashok Reddy: So Garima just to add to that it will be difficult for us to distinguish between the growth or demand coming in because of economic factors and because of structural change. I think overall the willingness to dialogue like Ritu said is a lot more even from existing and from potential new clients and you know frankly as the wait in response we find it for it to be structural and/or economic to be driving up the numbers as we go forward, but clearly our belief is that these kind of shocks to the economy tend to make corporates more open to dialogue given the benefits that the staffing element and outsourcing can bring to the team.

Garima Mishra: Understood and my last question is could you help us with some update on what is the latest as Schoolguru and IMSI?

Ashok Reddy: Schoolguru has turned profitable for Q3. We affectively looked at Schoolguru having three streams of revenue. One is the university revenue; one is corporate revenue and one elemental student revenue. Obviously, there is no physical training going on at this point very queue. Most of it is virtual instructor led training, leveraging, learning the platforms that Schoolguru has. So in terms of number of students, number of corporate and number of universities, there is a great acceptance and buys in and to some extent the seasonality of that billing has kicked in Q3. The business has turned profitable and has a healthy pipeline for billing in Q4 also. I think the technology platform investments have happened. Our further improvements as we go forward in line with feedback that we receive from the customers and from the users and that is a part that we will continue on, but I think effectively we do see the aspect of continuous growth in revenues and profit play as we go forward from the Schoolguru perspective and I think the team has also fallen into play compressively and will sustain itself to the future. From an IMS side perspective, I think that business also continues to be profitable. There is still like we had mentioned some element of scale that we will rise on as we go forward, but I think the aspect of productivity, the team being in place, the aspect of focusing on new sales as Sunil had communicated earlier will be focused for us. Effectively at a PBT percentage level for the quarter, the Schoolguru is at about 24% margin and IMSI is at a 14% cost.

Garima Mishra: Understood Ashok. Thanks so much for that.

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

Susmit Patodia: Good evening everyone and wishing you a very happy New Year. A few questions. Firstly on the reported EBITDA margin for the general staffing?

Moderator: This is the operator Sir. The audio is breaking from your line Sir please check.

Susmit Patodia: If you can just explain the general staffing Q-on-Q basis as reported in the presentation? I am asking this in the context that reported next not rolling back of discount and EBITDA, non EBIT because EBITDA is other income.

Rituparna Chakraborty: Your question you were asking for general staffing EBITDA Q-on-Q movements.

Susmit Patodia: Yes?

Ashok Reddy: So during the quarter we have had some billings on which the festival quarter, we have had some billings on which we would not have a market charge to some of our customers, which would then result in our percentage margins actually dropping. That is what has contributed to the drop in margins from the 2.1% to 2% between Q2 to Q3.

Rituparna Chakraborty: In absolute rupee terms, EBITDA for staffing has gone up by about Rs.1 Crores between Q2 and Q3, but however since 75% of our associates are on fixed markup model and during Q3 during the festive season, we process additional billing, but the markup being fixed so on percentage basis, there will be a slight dip in the EBITDA margin percentage. So 2.1% has come down to 2% in Q3, but however by end of the year on a full year basis we are confident that we will get to last year's EBITDA margin.

Susmit Patodia: Got it and the second question was on specialized staffing you know as the environment picks up, I am guessing the portability of specialized staffing is easier than general staffing because of that we have higher attrition so does this make it a little anti scale?

Rituparna Chakraborty: Sunil do you want to address this question.

Sunil Chemmankotil: So this is normally the model, which how we work in specialized staffing so since the markets have just opened up, there are a lot of employees who have been waiting for making the movements that is the reason the Q3 we got that hit normally the number of attritions are far lesser than the onboarding what we do so I think in the coming quarter this will be balanced and we will see more additions happening than the attrition. I do not think the kind of attrition what we witnessed in Q3 will repeat in Q4 because that is just you know opening kind of a syndrome of the market and which is a very good sign for us because you know it also tells us that you know there are a lot of positions available across you know, which is also visible across the job sites so we have ramped up our delivery teams and we are we are fully prepared to overcome this short term challenge, but on a long term I do not think that should have any effect on our overall growth trajectory.

Susmit Patodia: My last question to Ritu you know in the interpretation in the new labor court that BFL gratuity may have to be calculated on total CTC and not on basis and this will lead to a lower salary in hand than on paper so is this a issue that you see and this could actually be anti formularization?

Rituparna Chakraborty: So I think I know this particular narrative has been overplayed and if I may say misinterpreted as well. In February of last year, the Supreme Court judgment clearly spelled out what constitutes the PS wages, which essentially incorporates everything that is part of an individuals gross wages excluding HRA from the calculation so from if organization has already started to follow that norm I do not see too much of an issue RS3 on this chart. What essentially has happened is that the labor courts have mandated that the allowances cannot be more than 50%, which in effect has ensured that your basic plus DA will definitely go up because gratuity calculation is not on CCP. It is on your basis plus DA. There will be an increase in the provision that companies have to make on account of this. So that essentially what has happened, and I guess that we have what has ended up happening is organizations have mixed up all of them and that is why the narrative sounds the way it does. Does it increase the cost of organization cost of company of organizations yes? Does it increase the net take home? It actually reduces however employees definitely stand to benefit though it is a kind of a hit for organizations who were not complying by the rules as mandated by the Supreme Court and those whose pay structures were highly allowance dependent and to keep the PF low in the price structure. Does that answer your question?

Susmit Patodia: Yes so thanks for explaining Ritu this, but is this a little anti formulization like something what happened with a six month maternity leave? You have unintended consequences?

Rituparna Chakraborty: It is short term impact of course, but the thing is the government is also side by side opening avenues to reduce for example the PF contribution from the current 12%. So I think yes, I see it has already reduced. So essentially it is going to be a dance between what should be about and what you will get.

Susmit Patodia: Thank you very much and all the best. Thank you.

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

Abhijit Akella: Good afternoon. Thank you so much for taking my questions. Just a clarification on the margins this quarter there seems to have been a fairly sharp jump in the other expenses sequentially on the P&L from about Rs.21 Crores to Rs.22 Crores to about Rs.26 Crores and then similarly when we look at the segment reporting, if we calculate the unallocated expense that also seems to have increased from about Rs.3 Crores to about Rs.6 Crores? Is there any element of like just expenses coming back now that business is recovering or any one off items within that?

Ramani Dathi: Our operating expenses have the combination of the overheads the general overheads as well as business expenses of other HR services. So if you notice other HR services revenue has gone up by almost 38% sequentially, which is almost a Rs.4 Crores growth so that has a corresponding increase in their operating expenses by Rs.3 Crores. So the balance Rs.40 lakh to Rs.50 lakh overheads has gone up with the offices opening up and capacity being operated at a 50% capacity.

Abhijit Akella: Thanks Ramani. Just to clarify when I look at the overall segment level EBITDA, it seems like unallocated overhead position has increased quarter-on-quarter so is this the good run rate, which will work with going forward Rs.6 odd Crores per quarter?

Ramani Dathi: Yes. So around Rs.5 Crores to Rs.6 odd Crores will continue as the run rate.

Abhijit Akella: Got it. Just one last thing from my side in terms of the growth and revenues this quarter sequentially it has been almost I think 13% to 14%, which is significantly faster than the growth in head count we have seen and I am just trying to reconcile that with the fact that you mentioned

PAPMs are actually flat so was there some element of seasonal hiring and then lay off again or what exactly resulted in this?

Ramani Dathi: It is not seasonal hiring Abhijit. It is seasonal billing. So there is an incremental billing that happens during the festive season, which has led to almost a 13% to 14% growth in start and sequentially whereas head count growth is only 5%.

Abhijit Akella: Okay got it. Thank you so much. Wish you all the best.

Moderator: Thank you. The next question is from the line of Jonas Bhutta from PhillipCapital. Please go ahead.

Jonas Bhutta: Good afternoon thank you for taking my questions. Two questions. Firstly Sir pre COVID we had the specialized staffing share of revenue short of going up and that being one of the key levers to our margin trajectory towards 3% however post COVID the narrative has been more on the cost front on the GS side? I wanted to get your views on specialized staffing because I see that both the IT service and the IT infra business are already at 14% EBITDA margin so do we see any further scope of margin improvement in these two business verticals and how should we look at percentage increase in specialized staffing as a percentage of total sales going up from the current 8% to 9%? So that it trends toward 15% in the next two years or will it go over and around the 10% mark? That is my first question?

Ashok Reddy: I think the accent of specialized staffing being a margin contributor to the business will continue to play out and I think for the year we are focused on as we had said in the start of the year that we will work on consolidating the various units of the specialized staffing and bring about rationalization around the aspects of the team, the productivity and the working and I think that has kind of played out. We had also said that certain low margin volume businesses, we would exist in the specialized staffing business and that has also been playing out so while at a net head count income growth level, we have been kind of flattish. I think clear margin improvement and profit improvement has been there. So even if we look at nine month like to like comparison, there is a part of 14.8% that has gone to 24.6% and I think that trajectory of profit improvement has been positive. I think overall moving the PBT percentage to about 9% to 10% and sustaining it there will be the primary focus and our belief is that we should be able to do that as a mix of the prime portfolio, the mandates, the margin structures and the cost structures that we had at our end. Obviously as Sunil said the focus now has been in adding on new customers who have potential to grow with us and effectively now that we have signed a number accounts and we continue to have the focus to sign more accounts, it will be on ramping up the numbers for them. So I think overall even at the back end, the hiring, team size play and hiring team productivity is the key focus area that we are driving on. So I think while we do not have too much of a control on attrition what we are focusing on is the gross edition and that comes by effectively adding a higher productivity that ensures that we are putting more into the market of joinee so that even if there is attrition, the net growth becomes the corollary thereafter so I think growth will be key.

The cost rationalizations are done, the productivity aspect there is still some element of play on that front and driving the PBT to a 9% to 10% is going to be the key focus for us.

Jonas Bhutta: Sorry just to add on that so the Rs.400 Crores average so Rs.100 Crores per quarter kind of a run rate do you see that trend closer to Rs.500 Crores in two years time based on what the new account additions are or the synchronization of the sales and everything?

Ashok Reddy: I would love it if Sunil were to do the Rs.500 Crores next year. So I think the market is opening up. Clearly new accounts take a little more to affectively ramp up in numbers so it takes between 12 to 18 months to wrap up new accounts, but you know the focus will also be on driving numbers up with existing accounts. So yes we will exist with about Rs.400 odd Crores this year. At least 20% to 25% growth should get us to a Rs.500 Crores and that is what we will be targeting as we go forward.

Moderator: Thank you. This is the operator. Sorry to interrupt you. Mr. Bhutta maybe request that you return to the question queue for followup questions. Thank you. The next question is from the line of Amar More from Alf Accurate Advisors. Please go ahead.

Amar More: Thanks a lot for the opportunity. Sir my question is on the specialty staffing and primarily from the productivity side, so I believe in this quarter we have seen around about 11% increase in the specialized staffing productivity? So do we see this kind of you know the productivity to continue from here on? So I will tell you what I am doing is specialized staffing revenue divided by number of employee's total ID staffing plus telecom staffing plus IT infra?

Rituparna Chakraborty: Yes Amar so we expect the productivity in specialized staffing continues to improve because we are not adding fast linear to the growth in revenue. So this will continue but may not be at this rate because this year we have done substantial rationalization in terms of cost and head count not at this rate of the current year's rate, but definitely the productivity enhancement will continue.

Ashok Reddy: So just to understand like if I see probably by the end of the year your yearly productivity would be around about Rs.54000 Crores approx so is it fair to assume that at least next year you will at least maintain that?

Rituparna Chakraborty: Sorry what is the Rs.54000 Crores that you are referring to?

Amar More: So basically what I am doing here is that the annualized revenue of specialized staffing divided by the total employee base?

Rituparna Chakraborty: Are you taking total employee base of specialized staffing.

Amar More: Yes specialized staffing?

Ashok Reddy: You are taking the place associate base right not the core employee number.

Amar More: No I am taking the whole associate base IT staffing total?

Amar More: That does not reflect productivity in any manner.

Rituparna Chakraborty: It has to be core employee.

Ashok Reddy: A division by core employees will reflect revenue per employee, but the division by the associates count will give us actually broadly the cost and the Billings per employee.

Amar More: So basically that is what probably my question is, the bill rate per employee, which has gone up this particular quarter? Do we at least can maintain that kind of bill rate going forward?

Ashok Reddy: So we will largely sustain the bill rates per employee because as it has been state before, the bill rate is a combination of the three to four verticals that are there in the specialized staffing business and we are focusing on getting higher rate card mandates from customers and taking it on. However you know specific to telecom and network security, the bill rates are lower so should the volumes go up substantially in those two lines, it could impact the bill rate for associates, but I think for us the focus is really on the gross margin and the aspect of the employee productivity that leads to profits.

Moderator: Thank you. This is the operator. Mr. More may we request that you return to the question queue for followup question. Ladies and gentlemen, we will take one last question from the line of Alok Deshpande from Edelweiss Financial Services. Please go ahead.

Alok Deshpande: My question was more on the competitive landscape I mean when COVID came in the picture there were these talks about how small players would small stopping companies would actually suffer because of that? Now eight or nine months down the line what is your sense on the competitive landscape you know probably barring the top three or four companies has the landscape really deteriorated with the smaller companies or given the recovery we have seen in the last quarter or so even they have come back to normal just your sense of that?

Rituparna Chakraborty: Yeah so I think if I were to give you I mean approx we would not be able to comment on quantification from what is happening in the outside market, but yes from the client acquisition that we have noticed happening or the consolidation that has happened in some of our existing mandates suggest that there is some movement from these smaller organizations to professional the organized companies like ours and the thing is I mean at this point of time, we see that we have to see how it goes in the near run. I estimated it that we would definitely even if it is not a rapid or a massive shift this chipping in of the smaller companies moving away from the smaller entities to companies like our will happen. It will be Eureka moment, but it will be a gradual shift that we are looking at.

Ashok Reddy: Also just to add I think the overall landscape of large players and some fragmentation of the market will never disappear, but clearly some of our growth in numbers have happened as the transition from some of the smaller players is an element of a consolidation discussion that is happening with some of the other customers. So like I had said earlier to a question that we will not be able to unpack what structural growth is and what is effectively economic activity growth. To some extent it will be difficult to quantify the transition growth also in this situation, but I think by experience on the field, we do see some element of a consolidation, but that does not mean that the small players will disappear.

Ravi Vishwanath: Alok again here when one of you asked that we have been having for a long time is for the invoice matching or e-voice seem to go live. October was when it was made mandatory for companies with turnover Rs.500 Crores. January was when it is being mandatory for companies with over Rs.100 Crores and April is going to be made mandatory for everybody. That coupled with the labor codes going live will probably aid a lot more formalization than what you have seen before. Like Ashok said that some of the smaller players will probably you know turn a new leaf and become common formal before the informal guys could probably turn formal, but these are things which need to be done for the formalization story to continue.

Moderator: Thank you. Ladies and gentlemen due to time constraint, we will take that as a last question. I would now like to hand the conference over to the management for closing comments.

Ashok Reddy: Thank you. So I think overall, like Ritu was mentioning and we have been stating there is cautious optimism and demand coming back into the market. Overall I think from a head count and revenue run rate, we are going to be soon getting back to the pre COVID level. Our free cash flow reserves have improved substantially as a function of operating cash flow and TDS refunds that we have got. We will be continuing to focus on driving margin expansion through operating leverage and the turnaround of the HR services that we have been seeing. The drive park business is more or less completed. The institutional business will reinitiate activity once classroom training start, but clearly we are not taking any more mandates and we will be existing that to focus on corporate training activity. I think the future growth and volume increases, we will work to support through our core employee headcount. We do not look any major increase in head count happening at our end and I think the sustaining of that growth through the current employee count will aid productivity and will support the element of margin improvement. We are quite bullish as we go forward in the current element of the market feedback. We do look to the demand sustaining and we are driving up the numbers basis that as we go forward. With that thank you very much.

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