



“TeamLease Services Limited
Q1 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to TeamLease Services Limited's Q1 FY2022 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 that this conference is being recorded. I now hand the conference over to Mr. Sudheer Guntupalli, IT & Internal Analyst at ICICI Securities. Thank you and over to you Sir!

Sudheer Guntupalli: Good evening ladies and gentlemen. Thank you for joining us today for Q1 FY2022 Earnings Call of TeamLease Services. On behalf of ICICI Securities I would like to thank the management team of TeamLease for giving us this opportunity to host this call. On the call we have with us Mr. Ashok Reddy, MD and CEO; Ms. Rituparna Chakraborty, Executive Vice President General Staffing; Mr. Sunil Chemmankotil, Senior Vice President Specialized Staffing and Ms. Ramani Dathi Deputy Chief Financial Officer. We will start off with opening remarks from the management team thereafter we can open the floor for Q&A session. Over to you Ashok!

Ashok Reddy: Thank you Sudheer. Good evening and thank you all for joining the call. Hope all of you and your near ones are healthy and safe. I hope that I would not have to repeat that again after last year, but obviously we have had the wave 2 and everyone is kind of recovering from that. We entered Q1 on a very positive note on the back of growth in the prior two quarters and also the industry sentiment. Corporates had made aggressive plans for growth and rebuilding the workforce for the opportunities ahead. COVID wave 2 and lockdowns were a surprise and a sentiment dampener at that point in time. However, I think the industry this time round responded very well, last year we did see a lot of knee jerk reactions and laying off workforce and cutting cost in multiple areas, but this round there was knee jerk reaction and there was a deferral not a cancellation of growth plans that the corporates had. However, attrition and deferral have impacted growth in associate numbers in Q1. We escaped broadly flat to the previous quarter with a marginal growth in general staffing, a very positive growth in specialized staffing, and negative impact in the trainees on the NetApp front. However, we have shown a healthy improvement of over 20% in headcount, revenues and EBITDA on a y-o-y basis and our EBITDA margins have also stayed healthy. We have added a good number of new client logos across businesses in Q1 and are confident of this edition of client logos and overall sentiment improvement post the end of the lockdowns driving growth going forward. We continued to stay focused on productivity, financial discipline, and digitalization to the future. This has played out with positive matrix on most variables we measure like PAPM, the FTE ratio, and so on and we will continue to improve over the coming quarters. We believe at the end of the wave 2 of the pandemic the industry sentiment is coming back and will aid growth in the coming quarters. We are seeing a lot of demand across clients and industry segments to which we are geared to delivering and enabling more employment in the coming months. I think overall as we enter the second quarter there is a lot of demand from across industry segments that is kind of coming in and corporates be more positive and are not really factoring or planning for a wave 3 at this point in time. We have also been thinking about the Board and building more diversity and capability

and direction for the future, towards this we have a new Non-Executive Chairman and an addition of three Independent Directors to complement the existing Board. We believe this would further improve the foundations of governance and long-term sustainability of the company. We are entering Q2 with a lot of positivity, given feedback from the corporate sector on demand growth and plans for employment generation. This should drive further growth in the coming quarters. I would like to ask my colleagues to give a brief update before we move to the questions. Ritu will cover on the general staffing, Sunil on specialized staffing, and Ramani a brief on the finance side.

Rituparna Chakraborty: Good evening everyone. Hope all of you are staying safe. In spite of the all around disaster caused by the second wave I would say as a business we withstood the storm resolutely while companies were better prepared; however, no one was prepared for the agonizing social impact of the second wave especially on the supply side. In spite of encouraging positive headwinds running into Q1 we got hit in April and May quite hard; however, managed recovery in June. Net of it we had a marginal growth in associate headcount and we are able to compensate for a significant associate exists in three ways, A with net growth in associates in three of the businesses where there was momentum, B maintaining aggressive high fulfillment ratios wherever there was hiring demand however nominal and thirdly aggressive new logo signups across all businesses. Diversified product portfolio and I think disciplined optimization has just maintained our PBT margin expectation. We witnessed net positive headcount growth in e-commerce, telecom, consumer, and healthcare. We have 47 new logo signups during the quarter, most number of logos signed up are in industrial, largely we believe led by a need felt to move from more credible and compliance staffing partner and e-commerce with a sheer need of scale up on headcount across the country. The impact of reorganizing the staffing business into the six business units are showing up in our sales aggression as new sign up, hiring contribution to **7:05** gross additions improving by about 6% quarter-on-quarter in spite of the ground challenges during the second wave and growing client intimacy with 43% of our customers showing net growth in associate over previous quarter last quarter it was about 33%. Contribution of hirings done through teamlease.com for gross additions went up to 24% as against 19% in the previous quarter. On rate discounts I am confident while there have been a few instances of corporate discount both temporary and permanent for customer during the quarter. Going forward we shall have minimal impact of such discounts. The trend diminished significantly between the first wave and the second wave. I just wanted to kind of add that in spite of the discount pressure we were able to maintain our PAFM realization at par with Q4 at 690. Our FTE ratio did dip marginally during the quarter and that is on account of planned headcount additions in sales and hiring right at the beginning of Q1 in line with planned associate additions; however, April and May exodus of associates pulled us back, but I am quite confident with the pipeline for the quarter we shall keep improving on this and side by side with continued progress on optimization I think we would see the FTE going down also from cost per associate perspective I think we are seeing an improvement. Talking about the Q2 pipeline for Q2 we are seeing improved hiring sentiments across most of the businesses. I am quite confident about how pipeline is looking for the current quarter. Aggressive hiring shall play a significant role across all verticals.

A bit on the regularity environment based on recent announcements and discussions with the Ministry of Labour it seems that a fresh attempt is being made to get the rules ratified and implemented around October; however, keep the success of the four labour codes would be the corporation shown by the state government, industry engagement with various stakeholders are on with Karnataka, UP, Haryana, Assam, Maharashtra, and Telangana as we see. Given the political climate we shall see a division between the earlier adopters and the naysayers hence 18 months after the rules ratification and notification would need our perseverance it actually starts showing the visible difference on ground. A mixed climate of compliance would have to be endured around labour laws till that time, so focus now for starting is to maximize upon the emerging positive momentum, ramp up hiring, keep improving our productivity through digitization and automation and ensure net positive headcount growth across the six businesses. Thank so much. Sunil over to you!

Sunil Chemmankotil:

Good evening everyone. From the specialized talking point of view it is a very good first quarter with robust year-on-year growth of 13% and sequential growth of 17% on the revenue front. Associate base grew by 10% as we continue to gain significant market share in this base. The PBT remained flat mainly on account of wage bill increase owing to increments and increase in capacity to support the future growth. The investments we made will pay off in the subsequent quarters however. IT, IT infra, and telecom staffing the three main verticals where we operate has seen a significant hiring activity. We have continued to focus on high margin business mainly in the digital skill, cloud, cyber security, design engineer, full stack developer, and 5G technologies which are kind of pushing our average bill rate and the realization thereby. We continue to improve our product portfolio by adding new customers across the gaming, mobitech, healthtech, energy and engineering verticals which we have constituted few quarters back and they are kind of paying us apart from growing the existing industry verticals. Overall we had 27 new deal wins; these additions will further foster growth in the coming quarters. We had a healthy pipeline of demands while we notice a demand supply gap in many skills we are addressing this gap with our higher trained, deploy, and managed product which is kind of taken out very well with all our customers and we are currently sitting on a good order book in this space. The strong momentum in the quarter, new deal wins, improved product portfolio mix, and strong pipeline of demands indicate great Q2 and a year ahead. Overall we are pretty confident that specialized staffing will perform very well in the coming quarter as well as rest of the quarters this year. Thank you.

Ramani Dathi:

Thanks Sunil. Good evening all. We improved our operating margins both on sequential basis and year-on-year basis through continued productivity enhancement and products, this is despite the flattish headcount and revenue that we have for the quarter. So during Q4 of last year we had a onetime non-operating income of about 3 Crores which is on account of interest on tax refund which did not recur in Q1 of this year because of which there is a marginal dip in PBT on sequential basis. Also in this quarter we have two exceptional items with a net impact of about 2.6 Crores which is one item on fair value gain on the investment made in Avantis Regtech, which is about 4.4 Crores and write off of old tax receivable of about 1.8 Crores. Barring these two exceptional items the rest of the PBT is recurring in nature and during this quarter in government training business we collected about 1.5 Crores of provisions that we made last year

and we are expecting more collections to come in Q2 and Q3. Operating cash flow conversion stayed strong on account of improved year so and tighter control on our financial controls and hygiene. The overall outstanding TDS receivable is currently at about 140 Crores out of which we expect about 50 Crores to 60 Crores of returns to come during this year. Our current free cash balance stands at about 200 Crores which we are planning to utilize for M&As and organic investments, so there are couple of active discussions on M&A again in staffing businesses which would contribute to scale and expansion of our product offering. Thank you.

Ashok Reddy: I think that broadly we have had mixed bag given the COVID impact on the associate growth but I think the foundations that were laid last year have held good around delivering to the EBITDA, the PBT, the element of the metrics around FTE, PAPM, and so on. In specialized staffing we are clearly seeing a good traction on demand which effectively should enable further growth as we grow forward and I think as a company we are geared and gearing ourselves to deliver better and stronger into the coming quarters. With that Sudheer we are open for question.

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. Please go ahead.

Sudheer Guntupalli: First question to you Ashok and Ritu compared to your outlook and commentary during the last quarter, the commentary now seems to be significantly upbeat in terms of the demand outlook so on and so forth, apart from the COVID second wave as a variable is there any other variable which is driving this confidence or just that COVID second wave related uncertainty is behind so we are seeing a much better visibility of growth ahead?

Ashok Reddy: There are two elements Sudheer, one was obviously when we made the last commentary we were going through the second wave and there was an element of uncertainty about how long it would continue, so I think we were a little cautious but like we had said industry was deferring their plans not cancelling their plans. I think as we have started to see the lockdowns ending from June onwards we have started seeing the industry coming back with demands and need to hire and drive employment so I think it is just element that wave two is behind us and the lockdowns have ended is bringing back element of demand and sentiment, coupled with that as Ritu had mentioned earlier there has been a lot of focus on adding new client logos, so I think onboarding of the client logos is also going to drive demand for growth into the future. I think complementing that as Ritu had mentioned whatever demand had come in we geared ourselves up to a higher fulfillment ratio, so I think what we are looking at is saying that irrespective of which industry, which company, which sector and some of them are more positive than others, we stay geared for delivering to them and that delivery is also something that is foundationally in place to be able to drive growth into the future, so I think on the back of all of this we are quite positive into the future as we look at it around ability to drive growth on the associate count.

Rituparna Chakraborty: Sudheer in addition essentially the decision and the choice that we made at the beginning of the last quarter in terms of reorganizing the business across the key high growth six clusters, also we

have seen during the course of Q1 that in spite of the challenges of the second wave some of the expected outcome, the client intimacy, our ability to gear our hiring specifically for those segments paying off for us. Unlike Ashok said that for us the fact that logo sign up momentum remained, so a lot of these customers who had earlier intended to grow and our headcount during the first quarter they just temporarily postponed their plans and we are seeing headwinds of open positions going up and our approach also has been now given that the COVID uncertainty remains we do not know and hence the organization had to build capability to maximize the present opportunities and I think we have demonstrated that which helps us be confident that as long as the opportunity exists we will be able to maximize our gains through it, so I think that is pretty much the reason why we feel confident running into this first quarter and the months to come.

Sudheer Guntupalli: Thanks Ritu. Just as a followup on the onboarding of these new clients any further color on this client industry, sizes of these companies and what has driven such strong new client sign ups after a period of time that is first part of my question and on our PAPM Ritu last time when you spoke you seem to have indicated that some of the COVID led discounts on our PAPM front may become permanent and we may see pressure on our PAPMs let us say for the next one year but now you seem to be suggesting that incrementally you expect very minimal pressure so is it fair to assume that our PAPMs may stabilize at Rs.690, Rs.700 number?

Rituparna Chakraborty: I confidently can say that the PAPMs for sure will stabilize; however, we feel that if we are able to improve upon the product mix we might just be able to improve upon it as well Sudheer, so I think those opportunities and those discussions exist for me to be confident about it. On your first question on the new logo signup, I think the entire focus around creating the six segments which is actually having distinct capabilities of customer acquisition hiring actually has led to us having greater intimacy of these domains and hence the response that we have gotten from customers have been quite encouraging so that also has led to the spike in terms of our ability to sign up new logos and I think we are trying to give solutions which are very specific to the clusters and the businesses and their needs. To give you a little more color on which industry is maximum I think two industries where the quantum of signups were maximum where e-commerce, food tech, and the industrial staffing segments.

Ashok Reddy: I think just to add to the PAPM question Sudheer a lot of the discounts that were given last year have either been reversed or factored into permanent rate structure at this point in time. In the wave 2 aspect there has not been as many discount request or repricing request, there have been a few and they have been implemented and factored for. There are a few large RFPs that we are bidding for and typically large RFPs do come at a lower price point, so should those come about as the companies decide it might have some marginal effect on the element of the PAPM, but I think largely we should be able to hold the PAPM as we go forward.

Sudheer Guntupalli: Sure Ashok and one last question on margins, so PAPMs you are very confident either they will remain stable or improve and actually both in general staffing and at overall level also the margin improvement in this quarter seems to be impressive and we have given some wage hikes and

there are some upfront investments which we are expecting to give some back-ended benefits, so is it fair to expect Ramani that the margin expansion for this year FY2022, is it fair to expect a strong margin expansion in FY2022 over FY2021?

Ramani Dathi: Definitely Sudheer again with a combination of productivity enhancement in staffing and contribution from other high margin businesses like specialized staffing and HR services we expect further margin expansion during the year. HR services this quarter there is a slight dip on their expected numbers because of delay in billings for a few of the businesses on account of second wave of COVID, but starting Q2 we expect HR services also to start contributing meaningfully at the bottomline.

Sudheer Guntupalli: Why is this contribution increasing from other HR services, ideally we would have expected it to decrease because we exited some of these businesses?

Ramani Dathi: The profit contribution would go up because the businesses that we have exited used to give us losses since those businesses are completely exited and the Edtech and Regtech businesses have turned positive so we expect profit contribution to pickup from HR services.

Ashok Reddy: Also the businesses we exited Sudheer permanent recruitment did not have much revenue, the decision was taken last year because of some element of carry forward revenue that was there in Q1 but thereafter we have not had revenue recognition there and the government business is in a sunset period so we did not have much training happening last year and currently also because of the pandemic but there will be some revenue bookings out there, but I think as Ramani was indicating we are looking at the investment phase in these businesses having been completed and with the revenue ramp up that they have in the focus segment we expect to be more profitable there.

Sunil Guntupalli: Thank you Sir! That is it from my side. Thank you and all the best.

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

Susmit Patodia: Good evening everyone. Thank you for the opportunity and congratulations from me again. My first question is you had mentioned that you had done some investment in specialized staffing so I just wanted to check if the hired skill fulfillment is at least giving TeamLease higher gross margin while EBITDA margins may not show up currently because of the investment is that understanding correct?

Ashok Reddy: I think before I hand it over to Sunil the investments made are primarily in terms of certain vertical focus and people deployment, so a lot of the element of hiring for different verticals is dependent on having skill sets at our end to be able to identify and hire the resources so we have actually made investments in Q1 one is obviously the revisions and the salary corrections done given the fact that we had not done any last year, the second element is the ramping up on the hiring team and some element of the vertical leads are to give direction and focus for the open

positions that seem to be coming up quite aggressively from the clients end. So these investments are really what will pay off for us as we go forward in terms of higher fulfillment and even in specialized staffing we have had good client logo acquisitions in Q1 that will further aid the element of open position.

Sunil Chemmankotil: Just to add on the margin front if you look at the large industries where we operate IT staffing, IT infra, and telecom in the IT staffing space obviously because of the digitalization wave across our customers and the deals which they have won, most of the requirements what are coming to us are on high end business and we have already decided not to take the low end margins a few quarters back and that is the result we are seeing an improvement in our overall margin and adding to that all the new requirements which are coming with around 15% to 20% up on the bill rate the realization also to that extent will increase in the IT staffing space. In the IT infra space we were operating on the IT infra and network support for quite some time and now we have moved up the value chain into cloud, cyber security, and data storage space where the bill rates are high, so again there we are pushing the margins up. In the telecom space we have a predominantly large workforce in network and distribution space; however, with 5G adoption happening in many countries across, we have back offices in India, GCCs where we provide lot of 5G support and 5G technology related fulfillment there which come at a higher margin. Along with that as I mentioned in my earlier address that we have expanded our verticals in gaming, OTT, energy sector, and we also have now presence in health care tech and mobitech, so these all positions where staffing is just kicking up and the requirements are mostly digital in nature and with a technology blend so where we again get a high margin business. So if I look at overall portfolio there is definitely an increase in the average realization and thereby since we work on a model where the bill rate goes up and we also get a better realization. So we see a strong improvement in the margins and as Ashok explained because of the investments what we have done in Q1 obviously it may not reflect in the EBITDA, but I think this is an investment which will pay off in the subsequent quarters and overall the product portfolio will help us to push the margin higher. I hope I answered your question.

Susmit Patodia: Yes. Thank you for that. Ritu I have a couple of questions for you, the first one is are there any new sectors opening up like maybe real estate that is first and second is when you talk about 47 additional logos what is the base so that just gives us a better perspective of this number of 47?

Rituparna Chakraborty: We currently have about in staffing alone around 2000 odd customers that we are talking about and I think this particular growth in this quarter is significant of course in comparison to previous quarter, hence for us that is a good sign. Then the other question that you asked was is there any sectors in real estate so on and so forth I do not think there are any new sectors right now which are emerging amidst all the tepidness that is there in the environment; however, what we are banking on our sectors which are having more resilient and the sectors that have had the growth track record they are the ones who will be contributing towards the future growth. I think real estate construction remains quite affected and highly fragmented at this point of time so if you were to ask me that in the immediate future am I looking at it as a sector to kind of give us large volumes not likely to be.

- Ashok Reddy:** What we will focus on is what we call emerging sectors as key focus area to keep identifying any industry or company that is coming into play for staffing and kind of work on getting them on board so that we can initiate and kind of build growth along with their growth.
- Rituparna Chakraborty:** Yes absolutely EV being one of those sectors.
- Susmit Patodia:** Last question for Ramani get back on this provisioning thing did you make any provision this quarter?
- Ramani Dathi:** This specific quarter we do not have any provision and in HR services as I said we reversed about 1.5 Crores of provision.
- Susmit Patodia:** That shows up in other income right?
- Ramani Dathi:** So since it is in the same year in less than 12 months since we reversed the provision it is being taken in EBITDA.
- Susmit Patodia:** Okay thank you very much and all the best. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers please go ahead.
- Bharat Shah:** If you look at the pre-pandemic period our consistent belief has been with a scale anti-formalization is a persisting theme, margins would inch up period after period, we will not have the growth of business but profits will grow today much faster so where are we in the journey from the margins today if we were to take a 3 to 5 year view what kind of improvements can we realistically expect?
- Ashok Reddy:** So Bharat from our perspective we really looked at margin improvement coming in two fold one is volume growth and scale and the second element is product portfolio mix that we have been working on and building up too. I think obviously relatively speaking last year was quite flat and Q1 has been flat but as we had made investment in cost optimization and productivity and other aspects over the last five quarters it has played to margin improvement despite the fact that overall numbers were rather flat but I think as we go forward and we look at the element of growth the cost and headcounts are not going to be linear and by virtue of that we do see the element of margin improvement coming in by virtue of volume growth. As Ramani mentioned earlier besides the element of growth and the margins on the general staffing business, specialized staffing has seen a very good traction on growth, it is a higher margin business which is also going to be complemented by the HR services businesses that have turned positive and are quite optimistic to the coming quarters around growth and margin contribution. So I think a combination of growth leading to productivity and the play up of the product mix will contribute to the margin improvement as we go forward and we are quite confident about that.

Bharat Shah: Is it fair to say at least 25 basis points if not higher on a 3 to 5 year basis per annum that kind of an improvement can be in research?

Ashok Reddy: I do not want to give guidance around that but I think we have shown that there can be a clear margin improvement by virtue of the combination of these two variables and our strong belief is that will play out as we go forward.

Bharat Shah: The reason why I am asking is during the pre-pandemic era we were not shy about saying this and rather we were pretty confident if that should occur as a logical outcome, which is why I am asking?

Ashok Reddy: We are still confident that the margin improvement story still plays out for TeamLease I am not being specific to point 25 basis points is really what I am saying.

Bharat Shah: Second thing clearly pandemic has been interruption and shock for everyone, prior to that also some of the strategic choices we made probably were less than ideal, government business, HR services which includes provisioning and then the write offs and all of the challenge induced by the pandemic can we say structurally today we are far more resilient, far more robust and strategic in other issues and some of those non-defined items which can hit our provisions and erode away profits that kind of a picture of difficulties occasion time to time and challenges time to time are behind and we can now look at assuming no more route supplies on pandemic, in the next 3 to 5 years we look at our business in a far more structurally stronger shape than before?

Ashok Reddy: I think structurally being focused around what we believe is the future has been the core for TeamLease and we have not ever made unrelated diversification as a strategic choice. There are some businesses that did not work out and we have chosen to exit them but certain experiences come only from bad choices, so I think at this point in time the clusters and the businesses that we have chosen to play we believe have the market opportunity, I believe we have made the investment, have the team to deliver on the outcome for them given what the market holds on that front. Going forward I think it would be right for us to continue to experiment like we have said we are from a staffing perspective looking at industry verticals from the specialized staffing we are verticalizing and looking to build additional verticals. None of these are large investment areas but these are investments that we make to explore opportunities that could play out to growth in the future. So I think incremental choices to make around opportunities that could become large will be made and tried out, some of them will play out and some of them might not but I think none of these choices that we make will be a make or break kind of a thing for TeamLease. They will complement and supplement our existing business.

Ramani Dathi: Also to the point on unplanned provisions that hit our profits in the past those provisions are mainly on account of two businesses permanent recruitment and government training business. Permanent recruitment we already shut it down and government training we are in transit mode and all our current businesses, continuing businesses, annuity revenues with recurring billing month-on-month and they are all asset light with minimal working capital, high cash conversion

and high ROCE, so yes to your question so now our structure and portfolio is more resilient with very minimal surprise elements on any kind of one off provisions and other things.

Bharat Shah: Thank you Ramani for that. One last question, in the journey of the next 5 years apart from potential improvement in the character and the strength of the business with not just by way of addition of more clients but diversity and conscious choices made and deployment of greater technology to improve the strength and the character of our own business will the return on capital employed also we should expect similar or more than proportionate improvement in the journey of 5 years ahead?

Ramani Dathi: So Bharat if we exclude the free cash that we have on our balance sheet written on actual working capital deployed is currently at about 35% to 36% and this would remain at this rate because we are increasing our growth in specialized staffing and HR services, which has an average of 60 to 75 days of DSO, so while starting the DSO is very minimal it is only 6 to 7 days so with growth in other businesses non-staffing businesses the overall DSO at company level will slightly go up, so our next 5 year ROCE target is also to remain upwards of 30%.

Bharat Shah: So we will witness growth and cash flow is improving but capital efficiency probably will remain in the current range?

Ramani Dathi: Yes capital efficiency we would target to sustain at the current range of 30%.

Bharat Shah: Thank you very much.

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

Abhijit Akella: Good evening everyone. Thanks so much for taking my questions. First one just a quick query on the P&L, this quarter it seems like the other expenses have gone up quite significantly sequentially from 26 Crores to 34 Crores and offsetting that it seems like the cost to sales ratio has fallen significantly quarter-on-quarter so just wondering if there has been some reclassification or something like that in the expense line?

Ramani Dathi: This quarter HR services had a higher revenue growth even sequentially and the other expenses growth is corresponding to the HR services line of businesses like our Edtech business and a few other operating expenses of other businesses, so these are all directly linear to the growth in revenue that we have.

Ashok Reddy: There is no abnormal increase, these were expenses directly related to certain P&L revenue increases that we had.

Abhijit Akella: Okay got it, second just finally on the margin improvement outlook for this year for both specialized staffing as well as general staffing, are there any numbers that we could sort of put out as a target for this full year for these two segments?

- Ramani Dathi:** No Abhijit we do not give any guidance but both the businesses have a clear plan on their margin expansion and we will expand our margins quarter-on-quarter.
- Ashok Reddy:** I think it is also largely driven by the aspect that the investment in people and cost has been upfront factored in Q1. We do not expect much more cost increases as we go forward so as we look at growth the nonlinearity of the cost should work on the margin improvement.
- Ramani Dathi:** On specialized staffing margins we are already at optimal level of 10.5%, so while our absolute profits in rupee terms would go up substantially, in terms of margin percentage we believe sustaining this 10%.
- Abhijit Akella:** There was this recent news in the press about one of your peers having to face income tax kind of survey, etc., relating to their tax deductions and all that, is our accounting treatment and accounting practices broadly similar to what is being followed there and do you see this as somewhat of risk to the 80JJAA benefits for the overall sector or you think that is not really an issue going forward?
- Ramani Dathi:** Firstly what we came to know is this is more of interpretational difference while the income tax department has taken quietly different interpretation of some of the clauses under 80JJAA section but at the same time at TeamLease we have taken a more conservative approach while claiming for 80JJAA benefit and that is also because our profitability in the past year is relatively lower compared to our competition and we have evaluated our numbers in detail and took legal opinions and other consultations on this matter over the last 2 weeks after getting this news out and we are confident that we are fully protected even with the far extreme interpretation which the department has taken.
- Ashok Reddy:** I think the relatively conservative approach to arriving at the benefit value and adjusting is to our profit even with element of opinion and approach that the income tax department has, our working is done over the last 2 to 3 weeks show that we are protected to what we have gained.
- Abhijit Akella:** Okay understood. Thank you so much wish you all the best.
- Moderator:** Thank you. The next question is from the line of Jonas Bhutta from Philip Capital. Please go ahead.
- Jonas Bhutta:** Good evening everyone and congratulations on a great set of numbers. Couple of questions Ramani if you can help us with the bump up that we have seen in the HR services particularly in the subsidiary is that largely on account of the merger of Avantis coming in as a new accounting for the revenues of Avantis and whether this 15, 16 Crores kind of quarterly run rate is something that we should work with for the year or you expect that would sort of progressively increase and also noticed that the implied EBIT on that 15, 16 Crores is negative 1.7 Crores roughly while you mentioned that both Regtech and Edtech have turned positive so just wanted to understand this disconnect?

Ramani Dathi: Firstly on the sequential bump up in HR services revenue Avantis contribution is very minimal, so their quarterly revenue is about 2 Crores for this quarter and the rest is purely on account of growth in our Edtech business both in corporate training and Schoolguru university link and the quarterly run rate of 15-16 Crores that you see in Q1 is recurring in nature and can be sustained. In fact because of second wave and delay in admission for the university and even postponement of examination, some of the billings that are supposed to happen in Q1 got deferred to Q2 so we are expecting this kind of sequential growth to continue for next two quarters as well as HR services.

Ashok Reddy: I think this element of deferred delayed invoicing on account of the second wave is really what has hit the bottomline of the HR services but as we go into Q2 and the sequential growth in revenues we should be able to cover that going forward so I think when she mentioned that we are at profitability in these businesses on annualized basis we are, there is an element of seasonality and also the wave 2 impact in Q1 which we believe will get corrected as we go forward.

Jonas Bhutta: Sure that is helpful. My second question is to Ritu I missed out on the comments that she made on FTE productivity which sort of sequentially has gone down which I think is more on an investment or it is more long term in nature but generally when we started the year the indication was that we will trend closer to 380, 400 by the end of FY2022 in terms of FTE productivity whether that still stands or there is a change in that and added to that again the growth when we started the year or at least when before the second wave hit us what is likely to come in NetApp primarily because you are seeing a transition happening in the manufacturing days where clients were focused more on taking on apprentices rather than the general staffing business associate, so whether that trend is again coming back or not that is my second question and then I have one more?

Ashok Reddy: So let me just answer before Ritu takes over. I think on the NetApp front given the impact of lockdown in the manufacturing and auto sector we did see a large impact in Q1 of last year, similarly we are seeing an impact for NetApp in Q1 of this year also. However what we have seen has it played out last year is that the rebound thereafter is faster for NetApp and we have started kind of seeing that starting June in terms of the demand that is kind of coming in on that front, so I think as we go forward with no more lockdowns and waves we should see healthy growth coming in on that front. I think a marginal reduction in the FTE is a function of certain hires having happened as an investment towards sales and customer relations to drive growth into the future, obviously because of second wave we are kind of being flat on numbers and that has marginally reduced the FTE, but as we go forward and growth comes in we do not have plans for large headcount growth internally and that should effectively ensure that we have incremental growth on the FTE front. I will have Ritu answer it.

Rituparna Chakraborty: I think pretty much is that we made from upfront investments in sales, customer engagement hiring at the beginning of the quarter and on account of the impact of the second wave headcount did not play up, but we are very confident that the way we have been focused around

optimization of our internal productivity, the kind of automation and digitalization projects that we are constantly taking live for our internal employees as well as for customers and we will be able to significantly improve the FTE productivity ratio by the end of the year.

Jonas Bhutta: Quickly on the acquisition strategy because there again we mentioned that we are actively looking at options in both staffing and specialized staffing if you can elaborate on the gaps that we are actually evaluating these opportunities because as we are incubating these niche verticals in gaming, OTT, whether those are now off the table in terms of acquisition, so just wanted to understand where are the gaps if you are incubating most of these businesses verticals such as OTT, etc., if you can touch upon that that will be great and that is my final question?

Ashok Reddy: Incubation will be a continuous focus for us to enter into new industries or new verticals. We will also continue to focus on the organic growth but what we have seen is that M&A and organic opening balance enables the platform for a faster growth thereafter and I think that is really where we are looking at M&A in two buckets, one is either just scale which will give us certain clients and volume along with some element of managerial bandwidth that can be driven for higher growth in our hand and the second element is what we call transformation which could be new verticals of products that we will be able to hit the market running with so that we are able to build on that. What we have seen as reality is that when you are starting from scratch irrespective of your pedigree and how big the company is the opening runway is always low whereas when we are able to hit the ground running with certain numbers and clients we are able to drive that faster to growth so I think that is really where we are looking at the M&A strategy.

Jonas Bhutta: Sure that is helpful. Thank you.

Sunil Chemmankotil: So just to add to what Ashok said when we look at M&A strategy one is of course scale, second is transformation and third we also look at leadership because it comes with lot of expertise people who have been running those new verticals and products in the transformation space that adds to our overall team. If you look at specialized staffing we do have a good set of leadership which has come through M&A and they are organically growing the verticals which they were managing so that is again one of the key focus when we look at M&A.

Moderator: Thank you. The next question is from the line of Yogesh from B&K securities. Please go ahead.

Yogesh: Thanks a lot for the opportunity. I have a question for Ashok I wanted your thoughts regarding our strategy in the specialized staffing. Use of staffing firms for this specialized staffing requirement is relatively a newer category we are still in nascent stage so why not go for the entire spectrum of revenue opportunity rather than just focusing on the higher margin one, so in generalized staffing we operate at such a low margin but still is a very good business so what stops us from going down the margin as well as the specialized staffing is concerned?

Ashok Reddy: So I think in a sense that is really what we are doing even today in saying that the same client might have a requirement for certain specialized skills, at a rate card model which will be addressed by the specialized staffing business and they might have certain volume requirements

at a low margin which will be addressed by the general staffing business so I do not think what we are really trying to focus on between specialized staffing and general staffing is the kind of profiles the level of candidates and the wage bracket at which people are deployed. We would like to address the entire spectrum of requirements for the customer but in the process we do not believe we have to cannibalize the high margin business towards the low margin so I think there is a continued focus to deliver the volume at the lower margin, we would love to get those margins up but clients are very price sensitive around that and in the specialized staffing business the margins are higher but volumes are low and having said that it is not a good business to be in, so we entered the year with about 7000 odd associate in the specialized staffing space. We have added 10% associate base in Q1 and we are seeing a healthy demand on that side just given the fact of work from home, the cognitive skills of the higher end of the workforce in specialized staffing and so on, so I think for us it is not to cannibalize that we have created the two separate focuses and we believe that we will address the entire spectrum of needs for the customer as they have it.

Yogesh: Regarding the specialized staffing so what has been the trends in the working capital cycle so has it been stable or any comments regarding the receivables in that business?

Rituparna Chakraborty: Two years back the working capital cycle used to be at 90 days when we were trying to integrate all that position under specialized staffing cluster so that working capital cycle has been consistently brought on quarter-on-quarter and we are currently at about 65 days and we believe that this cycle is something which we can sustain on a long run.

Ashok Reddy: I think the discipline around working capital cycles, payments and collections have been quite rigorous from our end and I think that element of rigor will continue in all businesses while clearly specialized staffing needs more focus just given that it is a 100% funding business I think we are at an optimal 60 plus days around the DSO and we should be able to sustain that as we go forward.

Yogesh: Sure thanks a lot for responses wish you all the best.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for today. I will now hand the conference over to the management for closing comments.

Ashok Reddy: Thank you all for participating in the call. It has clearly been a difficult quarter for the industries, employees, and families in the second wave of pandemic. We at TeamLease had over 25% of our core employees testing positive and we having to help them through this period, but I think the mutual support, resilience, and hard work has seen us through this period. We believe the end of wave 2 will be very positive to industry sentiment and we will build on that for growth and continued focus on productivity, financial discipline, and investments for the future. Look to your continued support as we forge ahead to putting India to work. Thank you very much.

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