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Putting India to Work

July 28, 2023

To Listing Department BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai - 400 001 Scrip Code: 539658	To Listing Department National Stock Exchange of India Limited, Exchange Plaza, 5th Floor, Plot no. C/1, G Block, Bandra Kurla Complex, Bandra(E), Mumbai - 400 051 Scrip Code: TEAMLEASE

Dear Sir/Madam,

Sub: TeamLease Services Limited (TeamLease/Company) - Transcript of Q1FY24 Earnings Call

Ref: Regulation 30 of the SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015

With reference to the captioned subject and pursuant to Regulation 30 of the SEBI LODR Regulations, 2015, please find enclosed the Transcript of Q1FY24 Earnings Call hosted on Wednesday, July 26, 2023 at 04:00 P.M. IST. The same is also available on the website of the Company at https://group.teamlease.com/investor/earning-call-transcript/.

Kindly take the above said information on record as per the requirement of SEBI LODR Regulations, 2015.

Thanking You.
Yours faithfully,
For **TeamLease Services Limited**

ALAKA CHANDA

Digitally signed by ALAKA CHANDA
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Alaka Chanda
Company Secretary and Compliance Officer
Encl: As above

"TeamLease Services Limited
Q1 FY '24 Earnings Conference Call"
July 26, 2023

MANAGEMENT: **MR. ASHOK REDDY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – TEAMLEASE SERVICES LIMITED**
MR. SUNIL CHEMMANKOTIL – CHIEF EXECUTIVE OFFICER –SPECIALIZED STAFFING – TEAMLEASE SERVICES LIMITED
MR. KARTIK NARAYAN – HEAD STAFFING – TEAMLEASE SERVICES LIMITED
MS. RAMANI DATHI – CHIEF FINANCIAL OFFICER – TEAMLEASE SERVICES LIMITED
MR. KUNAL THARAD – HEAD INVESTOR RELATIONS – TEAMLEASE SERVICES LIMITED

MODERATOR: **MS. ADITI PATIL – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the TeamLease Services Q1 FY '24 Earnings Conference Call, hosted by ICICI Securities. We have with us today. Mr. Ashok Reddy, MD, and CEO; Mr. Sunil Chemmankotil, CEO, Specialized Staffing; Mr. Kartik Narayan, CEO - Staffing; Ms. Ramani Dathi, Chief Financial Officer and Mr. Kunal Tharad, Head - Investor Relations. We will start off with the remarks from management, after which we will open the floor for Q&A session.

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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to the TeamLease management. Thank you and over to you Mr. Reddy.

Ashok Reddy: Thank you very much and good evening, everyone. I think we ended the quarter on a strong note from revenue growth perspective. At the group level, the revenue grew by 7% quarter-on-quarter and 16% year-on-year, and this is largely driven by strong uptake in the general staffing business in net headcount. We've added about 13,000 headcounts in Q1, taking the total billable headcount to a little over 2.37 lakhs and the Staffing revenue grew 8% quarter-on-quarter.

I think the downside of headcount from degree apprenticeship continues to play out. This is the NEEM numbers that we said would kind of sunset over three quarters and we did have a trainee headcount drop of about 8,000 in Q1 on that front and there will be some more that will drop out over the coming two quarters. But parallelly we have started seeing green shoots in the other elements of the service offering and products, where we bring trainees on-board under the DA business which should start seeing some traction in the coming quarter.

In the Specialized Staffing also, we -- the headwind continues to be there with limited number of open positions and decline in net headcount of associates. However, we have managed to sustain revenues and the profit level at the Specialized Staffing business despite the headcount, waiting to see a turnaround in the external market condition. There is a seasonality in the EdTech business coupled with also the IT training element going slower as an overall industry sentiment and that has impacted the revenues and profits for that segment in Q1.

I think overall, the drop in sequential EBITDA is on account of the NEEM headcount loss, the seasonality in EdTech and the core employee annual hikes. But I think overall with our improved sales and hiring capabilities, the general staffing business is on a strong growth trajectory, waiting for a turnaround in the Specialized Staffing macro trends for the open positions and growth to come back. And I think as NEEM headcount transitions out over the coming two quarters, we do start -- we will start to see green shoots in the aspect of the other elements of areas that we bring trainees on-board.

With that, I will have my colleague give an update and then follow it up with questions. Kartik, on the staffing side.

Kartik Narayan: Yes, thank you, Ashok. Good evening, everyone. I'm pleased to share the highlights from our Q1 FY '24 performance. During the quarter as Ashok mentioned, we witnessed notable progress in general staffing with a net addition of nearly 13,000 plus associates, marking the highest number reported in the last six quarters. We experienced a 6% quarter-on-quarter incremental growth in headcount and 8% quarter-on-quarter in revenue and 18% year-on-year, reflecting the positive momentum in our business and the market as well.

We continue to grow with our larger customers, which means they seek pricing efficiency for volumes, impacting our average realization on PAPM. PAPM is flat quarter-on-quarter but dropped about 2.5% on year-on-year basis. That said, we are innovating and doing several things for cross-selling and up-selling, and we are seeing some green shoots, but the full revenue impact and difference would need a little bit more time for it to actualize.

The BFSI or the banking finance and consumer business verticals continued to show promising growth and we anticipate further opportunities in these areas. Although, there was a degree of slowdown due to unseasonal rains in some parts of the country, which impacted the consumer business, overall growth has been driven by the formalization in large FMCG companies.

Given the highly fragmented nature of the staffing market, we understand customers have choices, but what we have seen these past two quarters is the return of customers who appreciate our strength especially in statutory compliance, apart from hiring a technology that we bring to the table. Needless to say, some amount of consolidation is inevitable in this market and its increasing push of compliance and formalization, the question really is when rather than why.

Financial services and consumer goods are two top segments from a base perspective and also in terms of absolute growth in associate count, closely followed by retail and telecom, both consumer goods and BFSI achieved growth rates of over 7% and 6% respectively in terms of associate growth compared to the previous quarter.

Our sales effort resulted in 42 new logos sign-ups, primarily in the retail consumer and BFSI segments. Another interesting aspect is, we hired around 19,000 individuals during Q1 through our own sources, which is a 30% increase from the previous quarter and 32% of them were hired through non-recruited channels, leading to a decrease of 11% in our cost of hiring as compared to Q4.

Our FTE or full tariff wallet improved by 4% driven by a 6% increase in associate headcount. Our investments in digitalization initiatives have shown some positive efficiency gains, allowing us to cater to a larger client base, while maintaining our core employee strength. Therefore, we witnessed a 2% reduction in our cost per associate quarter-on-quarter, indicating progress in our ongoing process improvements.

As we move forward, we see positive signs around hiring in telecom, led by 5G growth, Financial Services in the services sector, as well as the FMCG and FMCG retail space. There are specific opportunities around manufacturing, led by Government of India, PLI schemes. These open positions are field recruitment in non-metro locations, and we are working on improving our execution capability in hiring in this sector.

Looking ahead to Q2, we have a healthy pipeline and see emerging demand across most of our customers. While the challenge in certain sectors persist, we believe in the opportunities presented by the continued normalization in the consumer space, along with anticipated capacity increase in electronics manufacturing. Our focus remains steadfast in execution, particularly in sales and hiring, the benefits of digitalization and process improvements are starting to manifest, and we are optimistic about the impact they will have in the future.

Thank you so much and over to Sunil.

Sunil Chemmankotil: Thanks, Kartik. Good evening, everyone. From the Specialised Staffing perspective, most of the customers have slowed down on hiring and are focused on improving the utilization factor through effective capacity utilization, rather than adding headcount. Even the replacement hiring's have been very selective off late. The open demands continue to hover around 40% to 50% of what we used to service earlier. While we have witnessed a huge drop in requirements from IT services customers, we saw some green shoots with global capability centres and non-tech clients.

However, the volumes are not very comparable, anticipating a prolonged slowdown in tech hiring, we are embarked on cost rationalization activity from end of last fiscal. The impact of the same continued in Q1, resulting in a much leaner team at for the current market conditions. As far as sales is concerned, we have won 13 new clients out of which seven are large clients. We have built a strong pipeline and we expect to continue the sales momentum in the rest of the fiscal.

We were able to mitigate the erosion of base in IT services clients through additions in the GCC and non-tech customer base, thereby maintaining the revenue numbers sequentially, while there has been a dip of 3 percentage on year-on-year basis. Our headcount has dropped 3 percentage sequentially and 15 percentage on year-on-year basis. The substantial difference you've seen headcount compared to last year is due to the fact that we let go a large telecom mandate which was around 1,000 headcounts in the last fiscal.

Our EBITDA grew nominally by 2 percentage sequentially, while on a year-on-year basis, we have a substantial dip of 26 percentage. Overall, economic downturn has affected hiring activities in the tech sector, leading to a decrease in the demand for our services. With prolonged uncertainty, our clients have taken a very cautious approach and we understand that hiring will continue to be under pressure in the near-term.

In the previous year, we have undertaken a comprehensive review of our operations to identify areas where we can optimize cost and leverage technology, which has helped us to sustain the business. We shall continue to take adequate measures based on the business scenario going forward. We shall put in our best efforts to weather the current headwinds and deliver optimum results. Thank you.

Ramani Dathi: Thank you, Sunil. Good evening, everyone. We have completed the buyback process in this quarter with a total cash outflow of INR120 crores, including taxes. Also during the quarter, we have received INR36 crores of income tax refunds for assessment year 2021, taking the total cash balance to over INR300 crores. Total outstanding TDS receivable as of date is INR230 crores, including current financial year 2024.

In terms of sequential performance, there are few items which impacted the EBITDA, main item is seasonal drop in the revenue on contribution of EdTech business by about INR3.5 crores. Secondly, drop in NEEM headcount in DA business has contributed to a drop of INR3 crores in net revenue. The last item is annual employee hike to the tune of INR2.7 crores in Q1. There has been no increase in the overall funding exposure of capital employed across the businesses compared to last quarter.

Operating cash flow conversion to EBITDA stands at 85% for the current quarter. FTE productivity in staffing has improved from 350 to 355 on Q-o-Q basis. Core employee headcount decreased by 8% year-on-year, in-line with the cost optimization measures taken-up.

Current quarter had 36 headcount reduction on core employee front. With the combination of business growth and initiatives on productivity and optimization, we expect steady improvement in absolute profits from Q2 sequentially and thereon on. Thank you.

Ashok Reddy: We'll go for the questions now.

Moderator: Thank you very much, sir. We have the first question from the line of Mukul Garg from Motilal Oswal Financial Services.

Mukul Garg: Yes, thank you, Ashok. Kartik, first on the general staffing profitability, how should kind of we see the profitability improvement measures play out over next few quarters. If I see your I mean qualitative numbers, the PAPM has now -- is flat, I don't know whether it has stabilized or not, but how do you see that play out going forward, your staff productivity has also improved, but still there was a fairly big drop in margins.

How should we see the margins play out over next few quarters and when do you expect them to kind of normalize their two historical level? And also if you can just help us understand, is there a kind of a -- a kind of choice, which you have to take between growth and margins -- your growth in general staffing is fairly good, but margins are not following that. So if you can just help understand, is the growth coming at the cost of profitability?

Ashok Reddy: No -- so I don't think there is a choice to be made between growth and profitability, while clearly as Kartik did call out as some of the bigger customers, as big customers get bigger, there is competitiveness on the PAPM. However by virtue of customer mix and some element of innovation on pricing, we have been able to hold the PAPM across the quarter. There will be and there is still competitive pressure on the PAPM and it's something that as a conscious effort Kartik has multiple things playing out at the P&L level to sustain and grow as we go forward.

I think also from the technology digitalization productivity aspect, we'll continue to play out for the business, where the FTE ratio will improve and the overall cost to servicing will come down. But I think at a marginal level, it is largely from a perspective that wages are going up and at a percentage level while we clearly do believe that we scale absolute profits for the business will go up. At a percentage level, they are looking depressed primarily as a function of wage levels and the flat PAPMs. So I think increased element of productivity, coupled with the portfolio coming to play, which is Specialized Staffing and DA starting to grow is what would leverage the margins over a period of time.

If you really look at it because DA has also element of service from a common end, the DA headcount have been reducing like I called out, I think as we look at the NEEM transitioning out over the coming two quarters, other vectors should start giving a net positive growth towards the end of quarter two and that again should start helping to improve the margins.

Mukul Garg: Understood. Thanks a lot for taking my question. I'll get back into the queue.

Moderator: Thank you. We have the next question from the line of Vidit Shah from IIFL Securities.

Vidit Shah: Just staying on the margins that you spoke about, just trying to understand the dynamics of the business here. So EBITDA of staffing and allied services fell from INR29 crores to INR25 crores, which is a INR4 crores drop and I think Ramani explained that about INR3 crores, INR3.5 crores comes from the loss of the NEEM apprentices, but shouldn't you also expect some offset from the 13,000 odd headcount that we added during the quarter expect the EBITDA to remain flat Q-o-Q ignoring the margins, but just the absolute number.

Ramani Dathi: Yes, you are right sequentially, there is a INR3.5 crores drop in the EBITDA of staffing segment, which is mainly driven by the NEEM headcount loss, so that itself is a INR3.5 crores impact. And on top of that we have core employee appraisal pertaining to staffing segment, which is close to INR2 crores. So we got almost a INR2 crores growth on these 13,000 headcounts in net revenue, but that got negated with INR3.5 crores from the NEEM business loss and INR2 crores from core employee appraisal.

Vidit Shah: And in this INR25 crores that we report, how much for the NEEM EBITDA there that, that is potentially at risk?

Ramani Dathi: We still have another 10,000 headcount and we are expecting that it can be completely phased out in the next two quarters.

Vidit Shah: So that 10,000 headcounts would be roughly another INR3 crores, would that be right?

Ramani Dathi: Yes, about INR4 crores would be the incremental impact.

Vidit Shah: And so, you know if given that you've streamlined your cost structure and the core employee increments are one-time process, sequentially can we expect any headcount multiplied by, let's say a INR670 odd PAPM to be a straight addition to EBITDA or like am I getting the math wrong?

Ramani Dathi: Ideally yes, Vidit, because we are not planning to increase any headcount in the margin.

Ashok Reddy: Other than hiring.

Ramani Dathi: Yes, other than on the hiring front. So, ideally, the net revenue should directly contribute to the EBITDA in staffing business, excluding the DA impact.

Vidit Shah: And just if you could provide some outlook on the Specialized Staffing business, understand there has been a prolonged level of weakness in the industry, but any signs of recovery that you're seeing and when do we expect this just to recover by. And also the 13 new customers that we added are these IT clients, non-IT clients or what is the nature of the work that we're doing there?

Ashok Reddy: On the Specialized Staffing front, we still don't have a very clear understanding on how the market is going to pan out in the near-term. However, we are confident that on a long-term basis, the idea has always been cyclical. So we are anticipating that this downturn will very soon get over and we will start seeing some kind of hiring, because on one front, if you look at the utilization factor, most of the IT services companies have reached 85 to 90 percentage. So -- and they are also bagging new deals, so under those circumstances they might require more headcount additions to be done to deliver to those projects. So we are anticipating that maybe one or two quarters down the line IT services companies will definitely start hiring.

On the GCC front, we see that there are lot of new GCCs coming into India and they are hiring, but the volumes are not comparable with IT services as I mentioned in my commentary. But we are targeting to acquire lot of these GCCs. Coming to the sales point, yes, the logos are all GCCs actually. We have been going behind the GCCs and the seven large GCCs are potentially a very big opportunity for us to get the growth in the near-term.

Vidit Shah: And then margins of GCCs are comparable to the tech companies?

Sunil Chemmankotil: GCCs in terms of volumes are not comparable with IT services volumes, however they come at a better build rate and margin. So what I meant is that we may not be able to match the headcount, but you will see that the results also are reflecting that we are able to maintain the revenue despite losing some of the headcount.

Kartik Narayan: Also if I can just add to what Sunil was saying, the element of outlook on the IT industry is at this point still kind of muted and I think that kind of visible with what the IT services companies had been calling out to market. We believe that the cyclicality will take some more quarters to turnaround, but the element of being prepared for when the market turns around with the larger client base and your question about the new logo signed up, most of them are in the product/GCC bucket.

And I think while the absolute numbers will not be large, it is starting to work with them and building the traction on their requirements, these are specialized staffing rate card model kind of mandates. And at least basis the current outlook on open positions and the new client sign-ups, the view is that decline in number should get stemmed in Q2.

Moderator: Thank you. The next question is from the line of Gaurav Nigam from Tunga Investments.

Gaurav Nigam: I don't know whether you answered it previously, what is the PAPM for general staffing and for the DA business for FY '23 and this quarter?

Ramani Dathi: The PAPM has been flattish for the last two quarters, Gaurav. For staffing business, it is currently at INR680 and for DA business, there has been a decline because NEEM is the highest PAPM contributor for us in DA business, currently it is at INR550.

Gaurav Nigam: INR550? Okay. And that also has been flattish?

Sunil Chemmankotil: Yes.

Ramani Dathi: Yes.

Gaurav Nigam: If you don't mind...

Sunil Chemmankotil: That is a lower headcount there.

Ashok Reddy: So the only thing, Gaurav, there is -- while it has been flat for staffing at INR680, it is on a growing headcount net. On the DA front the flatness comes with a lower headcount.

Gaurav Nigam: And maybe just a second question on the DA business, is there -- what is the outlook for the -- like where we'll end the year at, is it like declining business which will go down to zero or we are expecting it to like have some kind of some employees will get retained on the DA side?

Ashok Reddy: So I think to the end of the year, we are clearly looking at a positive headcount play like I actually called out, given the current trajectory of client acquisition in our finance and other service areas, we should be able to net stem the NEEM losses in Q2 itself, work -- by end of

Q2 and probably getting to a positive trajectory from Q3. So from a larger P&L and headcount perspective in DA, we look to end on a positive note for the year.

Gaurav Nigam: And this new DA business that we plan to occur, will that be at a similar PAPM, or it will be different?

Ashok Reddy: No, it will be at a slightly lower PAPM, Gaurav, primarily from a perspective that NEEM was the highest margin element of the business, these will be at a slightly lower.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Goldman Sachs Asset Management.

Ashish Chopra: Ramani, just wanted to check with you on the trajectory of absolute EBITDA while you articulated that you expect it to grow another INR4 crores of impact from this DA segment. So -- and I guess associate increase of 13,000 also let you with -- let you to a INR2 crores incremental EBITDA. So, could we see this kind of getting offset by DA over the next couple of quarters before the absolute EBITDA grows or if you could help us with the bridge of how do you more than offset the INR4 crores going forward?

Ramani Dathi: So, Ashish, this INR4 crores will be spread over two quarters and mainly in this quarter we had EdTech seasonality almost INR3.5 crores, so that will be gone from next quarter. So, and also the staffing -- on staffing front since we are not adding any further costs in the back end, except for marginal hiring related direct costs. So there should be a direct growth in EBITDA coming from net revenue of headcount addition. I cannot quantify the number, but sequentially there will be an improvement in EBITDA quarter-on-quarter from Q2 onwards.

Ashish Chopra: And also wanted to just understand what's really happening in the Specialized Staffing margins, so they are still below 7% and you've brought the core headcount down from INR520 to INR370, almost 29%. So any operating negative operating leverage is taken care of, you have let go off thousand employee associate telecom projects as well. So that should have added positively -- you're incrementally winning more from GCC, IT services is low, which is better bill rates and margins and yet the profitability is down from nine to less than seven. So despite all of this, so how should we really think about this growing further, I mean, what are the other levers that could take it actually?

Ashok Reddy: It's really, largely driven around the productivity aspect, Ashish. I think the reality there is, we have to maintain a certain headcount for the demand that is there, and the demand is only kind of replacing at best what is being launched as against leading to a net growth. So I think as demand comes to the table and the team is able to drive higher productivity, we will be able to have the margin improvement come in. I think we could make a choice to reduce further headcount and cost, but they have been retained on the back of expected demand and capacity retention at our end. So I think certain volume economies come into play and I think that is really what has depressed the margins and we'll adjust as demand comes back in.

Ashish Chopra: And just lastly from my side, could you just give us a ballpark estimate of what is the break-up of the specialized staffing headcount between IT services, GCC and non-tech?

Ashok Reddy: So currently we have 37 percentage is the IT services and we have non-tech around 13 percentage, tech and non-tech and balance is GCCs.

Moderator: Thank you. The next question is from the line of Alok Deshpande from Nuvama Institutional Equities.

Alok Deshpande: So, few questions from my side. One, first starting with the general staffing, I wanted to understand now -- wanted to understand the dynamics of once you start getting into the festive season etcetera, when do you first start seeing the build-up all in lines in terms of what sort of headcount?

Ashok Reddy: Sorry to interrupt, but your voice is not clear, I couldn't get the question.

Alok Deshpande: Yes. Is it better, Ashok?

Ashok Reddy: Yes.

Alok Deshpande: So, my question was on general staffing when you start getting closer to the festive season, when do you start seeing interest from the clients in terms of what headcount they'll be needing etcetera. And what are you hearing at least the initial indications from some of your clients which are more related to festive season. That was my first question, Ashok.

Ashok Reddy: Yes, so I think it's a little early for getting input on festive season from customers because most of the festivals this year are coming into Q3. So I think towards the end of Q2 is when organizations will start planning for the aspect of the festive season hiring. But having said that, I think just independent of the festive season demand, Q1 did see a strong growth trajectory in the staffing headcount as a function of the verticals and clients that we are working with. Q2 also has strong demand pipeline, and we believe ideally Q3 should have it stronger given the uptick from the festival hiring. But as of now, we don't have the view on festival hiring outlook from the corporates.

Alok Deshpande: No, that is exactly what I was getting at, I mean you started the year very well with the headcount addition. So just trying to figure out whether we can sort of finish the year or at 25,000, 30,000 kinds of addition, I mean is that the number you are looking at for this year?

Ashok Reddy: Yes, yes, I mean, our belief is we should be able to -- given the sustainability or demand over the quarter.

Alok Deshpande: Ashok, second question was, I mean if you look at the last four, five years, you have seen the trend of PAPMs come down and basically as you also mentioned that as clients get larger, they sort of look for slightly lower markets also, but historically they have always guided towards a 75:25 mix in terms of fixed PAPMs and then 20%, 25% which is variable. But given the trend in PAPM, is it fair to say that variable pricing is something where there is a lot of resistance from clients because we haven't seen that play through over a period of time.

Ashok Reddy: Yes, agree with you on that, because as we have been calling out our transition from a 100% fixed to being able to get 25% variable happened over a number of years, we've been able to sustain and hold at that 25%, but we have not been able to increase it. I think clearly from a sales agenda perspective, it is better for us to have a variable mark-up primarily that it protects us from wage inflation element. So, I mean Kartik is looking at trying to see how that can further get driven, plus I think as he called out, we are trying to innovate on various other upsell, cross-sell opportunities that hold or improve the PAPM over the coming quarters.

Some of the initiatives he has started taking live, early green shoot play out, but I think as we get to the latter part of the year, we should be able to comment more clearly on how those interventions, innovations are playing out.

Alok Deshpande: And just if I may squeeze in one last question, near -- you should give a number out in terms of what business you are doing in terms of where you for -- pay the employees first and then where you get the payment later from the client, I think that was 85, 15 -- 85% and 15% or 87% something of that sort, where is that number right now?

Ashok Reddy: So we now are at 40%, 60% where we do 40% of the hiring as Kartik called out last quarter we did 19,000 hires, on an average we are doing about 6,500 hires now and we see that number steadily increasing as we go forward.

Alok Deshpande: No, Ashok, I was referring to the part where you guys pay the salaries first and then you get paid from the clients as opposed to...

Ashok Reddy: That just being the same, there hasn't been no major change on that front, so about 13%, 14% is funded and about 86% is collect-and-pay.

Moderator: Thank you. The next question is from the line of Vivek Sethia from HDFC Securities. Please go ahead. Mr. Sethia, I have unmuted your line, kindly proceed with your question.

Vivek Sethia: So just wanted to get a recap of the two points which you had mentioned earlier, I missed out on those. So recruiting from non-recruiter channels and the net cash balance an ideal refund if you could repeat those, then I'll go forward to the next questions.

Ashok Reddy: Sorry, Vivek, you were not clear on that question, could you just repeat it?

Vivek Sethia: So the data point on net cash and the non-recruiter channels like as a percentage of total hiring.

Ashok Reddy: Okay. Net cash, Ramani?

Ramani Dathi: Yes. So on the net cash balance, as of June 2023, we are at INR330 crores, out of which almost INR220 crores is free cash. The remaining is into working capital. In terms of non-recruiter...

Kartik Narayan: Yes, Vivek, like Ashok mentioned I think the first metric is the overall hiring has gone up, which is that we're doing ourselves INR15k to INR19k, which is from Q4 to Q1. The non-recruiting is 30% of that number.

Ramani Dathi: Vivek, just to clarify on that, the cash balance of INR330 crores is after the buyback payout of INR120 crores. And on top of this...

Vivek Sethia: Got it.

Ramani Dathi: We have TDS receivable of another INR230 crores.

Vivek Sethia: Just to clarify, I guess, in our last call, you had said that non-recruiter channel is almost 52% of the associate hiring, is that correct?

Ashok Reddy: It varies depending on the profiles and the industry that we are catering to on this front, Vivek. So it won't be the same -- it -- depending on the profile it varies.

Vivek Sethia: So a couple of more questions I had one was with regards to your client concentration. If you could provide that data as to how much your top 10 clients contribute in terms of associate volume? And if you could break down the total additions in terms of your like the total new logos that you have acquired during the quarter into small, medium, large, like you did last quarter. And also my third question like if you could throw some light on the HR Services segment and how do we see that moving forward because this quarter it has reported a negative EBITDA if I'm not wrong. So, yes, just those three questions.

Ashok Reddy: I think I don't have the immediate data point on the top 10 as associate numbers, but at a revenue level, it's about 33% and that is kind of stayed the same across the quarters, not a big change on that front. I think from an HRTech perspective, they are three businesses in there. There is the element of RegTech, EdTech and HRTech. The RegTech business has been steady and has seen incremental growth. The HRTech has kind of been flattish over the period.

The seasonality is really in the EdTech side and there are two elements to that. One is the aspect of corporate training and university mandates. Quarter one is really not when admissions and renewals of students happen and that leads to lesser billing in Q1, which has been the track for the past many years and that continues to play out.

The second element is also -- we do a lot of corporate training, especially in the IT area and overall IT training budgets were lower and the training numbers have been lower. But we've started seeing some element of attraction to mandates and requirements on that front. So I think that will play out as we go forward. I think even on the university side, the -- Q2 should see a larger billing and typically Q3 is normally their highest billing as a function of admissions and student renewals.

On the new logo acquisition, I think Sunil called out for Specialized Staffing, but in general staffing, it's been across various sectors, but BFSI, consumer and industrial coupled with retail have been the four verticals where we have really added new logos. Some of them have come in with healthy demand and that should complement what Kartik called out earlier of his outlook for Q2 for headcount growth.

Vivek Sethia: Yes, so just wanted to get a better understanding on the EdTech segment like if you could maybe give an understanding of how we see that moving forward in this year and maybe going forward the next few years? Obviously, year wise we get to include the impact of seasonality, so if you could explain it that way as well, it would be great.

Ashok Reddy: Yes, so I think on the EdTech side like I called out, there are two verticals or revenue streams, one is the corporate and one is the universities. On the university side, the seasonality of student intake and renewals are more or less skewed towards Q2 and Q3 and that will play out as we go forward, but I think the key focus for us is to sign on more university. So we work with about 20's -- last year we worked with about 26 universities. We are looking to add about 10 to 12 universities to that pool this year. And as we go forward, we will look to add more universities where we are providing the services and hence the student numbers.

I think on the corporate training front, the trajectory is normally -- there is no seasonality impact, but I think this time the impact is really purely from a perspective of the IT industry downturn and budget constraints, but as that starts to open up, we should start seeing the element of revenue uptick happen there.

Ramani Dathi: Yes, in terms of growth on revenue in EdTech business year-on-year on average it's about 30% growth and at an EBITDA margin of 8%. The Q1 seasonality, if you take out the Q1 seasonality, the rest of the three quarters contribute to almost 90% of the billing. So that's where the impact of negative margins come in Q1 for EdTech business.

Vivek Sethia: So just to conclude, you are trying to say that on an overall basis -- on an yearly basis you see yourself doing of a 30% growth in revenues and an EBITDA margin of around 8%?

Ramani Dathi: That's right for EdTech segment, yes.

Vivek Sethia: For EdTech, yes.

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

Amit Chandra: Yes, yes. So, sir my first question is on the attrition in the general staffing business. So, have we seen like moderation on the attrition in the general staffing? And also if you can state how has been the gross hiring there in the general staffing. And also in the DA business ex of the NEEM impact, okay, so around like 30,000 associates that we have ex of NEEM, how do you see that growing in say in the next two years, because if I'm not wrong, the composition there is very different from what we have in general staffing and there we are focusing more on the manufacturing side, mostly on the PLI and the electronic manufacturing side. So how do you see that growing over the next two years?

Ashok Reddy: Yes, Amit on the staffing front, attrition hasn't really reduced much. So I think as a play out to the various verticals that we cater to attrition still stays high. I think the only way for us to get larger net growth is increasing the gross adds and that is really what the focus has been. So I think the element of the roughly 13,000 headcount growth has come from increasing the gross adds as a combination of the hiring increases and the numbers that are coming from the customers.

At this point, our view is that attrition is not something that we can address. We have to take it for what it is and just focus on the gross additions and that's something that we are kind of consciously driving and I would say the aspect of having taken the hiring gross adds to 19,000 and looking to increase that further as we go ahead, and stuff is -- are all measures in that direction. From a DA perspective, we focus not just on manufacturing, we focus on manufacturing and services sectors as a customer base, and I think both of us -- both of them are potentials for us to be addressing growth for the future.

So while NEEM as a scheme has a sunset and we'll see headcount reduction, other areas is really what we have been focusing on and we have done client acquisition, we have started feeding the element of early growth, but larger numbers will happen over a period of time and which is why we believe that we will end the year on a more positive note for headcount in the DA business and by which time we would also have exited NEEM comprehensively and hence we will only be looking at net adds thereafter. But we will cater to both services and manufacturing in the DA sector.

Amit Chandra: And sir, in terms of the investments that we have already done at the start of the year and also at what point we can see again the investments coming back because in last one year we have not seen much in terms of pick-up, but at what point of associate, total associates, we are invested in the business?

Ashok Reddy: So, if you really look at it, I'm assuming you're referring to the investment in terms of the headcount increase choices we had made last year across businesses and those have largely kind of been rationalized over the years and corrected to the capacities we believe we should run with. The view at this point, Amit, is that we hold the headcounts factoring for growth that we see coming.

They will not be a large headcount increase at the core level for this whole year and we will manage the growth on that. I think the earlier call out that Ramani did in saying that the addition especially if we look at staffing without much of a headcount growth should ideally start flowing to the bottom line. So I think that's a similar statement for most businesses as we see it this year.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you.

Ashok Reddy: Thank you very much. I think as we had called out, the -- some headwinds in businesses and seasonality has played out for quarter one, which has been to an extent compensated by the strong growth that we have seen on the staffing side. The core headcount rationalization and bandwidth prep for the current market situation is what we are at. We believe we will be able to sustain the growth for the year with the current headcount and cost that we have with marginal changes as we go forward.

Clearly, with the change in seasonality in the HRTech front and the continued growth projected with the current outlook in staffing coupled with at least stemming of the losses in the DA and the specialized staffing businesses, we should start seeing an absolute EBITDA improvement as we go forward. We expect no surprises, and we will stay focused on driving the growth into the coming quarter. Thank you.

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