"Quess Corp Limited Q3 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Quess Corp Limited Q3 FY2020 Earnings Conference Call hosted by SBICAP 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, 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. Prashant Tiwari from SBICAP Securities Limited. Thank you, and over to you, Sir!

Prashant Tiwari: Good afternoon, ladies and gentlemen, I am responsible for the midcap coverage at SBICAP Securities. We are pleased to host this call and thank the management for the opportunity. We have with us the senior leadership of Quess Corp, Mr. Ajit Isaac, Chairman and Managing Director; Mr. Subrata Nag, Group CEO and Executive Director; Mr. Suraj Moraje, Group CEO Designate and Executive Director; and Mr. Subramanian Ramakrishnan, fondly Ramki, Chief Financial Officer.

I will hand over the call to Ramki, who will run us through the mandatory regulatory disclosures, and he will then hand over the call to Ajit, who will walk us through the highlights of the quarter, which will then be followed by Q&A. Have a good day, everybody, and over to you, Ramki.

Subramanian Ramki: Thank you, Prashant. Good afternoon, everyone, and thank you for joining our earnings call today. Please note that these results and the press release have already been uploaded on our website. Anything we say which refers to our outlook for the future is a forward-looking statement that must be read in conjunction with the risks that the company faces. These uncertainties and the risks are included, but not limited to what we have already mentioned in the prospectus filed with SEBI.

With that said, I will now turn over the call to our Chairman and Managing Director, Mr. Ajit Isaac. Over to you, Ajit.

Ajit Abraham Isaac: Good afternoon, and a warm welcome to all of you. I am sure that many of you may have had an opportunity to review our latest quarterly earnings that was published yesterday post our Board meeting. As you would have seen in the presentation, this quarter saw us continuing to execute our corporate initiatives with significant improvement in business operations and our corporate structure, about which we will elaborate over this call. Let us begin by giving you a brief overview of our financial performance, followed by key corporate and platform-wise updates, post which, we will be happy to take your questions.

First, we crossed revenues of about Rs.2,950 Crores, a growth of 36% year-on-year with our EBITDA reaching Rs.179 Crores, which was an increase of 52%. We achieved a net profit of Rs.75 Crores, which was a growth of 12% and without Ind AS accounting adjustment, the net profit was actually Rs.79 Crores, which was a 22% year-on-year increase. Importantly, cash flow from operations stood at Rs.191 Crores for the 9 months of the FY2020 against Rs.124 Crores in the previous year, an increase of 54%, much driven by our focus on collections and our operating efficiencies. EBITDA to OCF conversion has reached a milestone 51%, up from 45% in the previous quarter, thus placing us in a comfortable position to achieve our target of 50% for this year.

Significant debt reduction of Rs.431 Crores was also achieved in the last 6 months of this year. Our gross debt at the end of this quarter stood at Rs.830 Crores, while net debt stood at Rs.313 Crores. Additionally, we have reduced our interest by 15% quarter-on-quarter to Rs.35 Crores.

Moving on to some of the key corporate updates. In the Ahmedabad Smart City Project, out of the total project cost of Rs.230 Crores, Rs.92 Crores was collected in during the year and additional Rs.40 Crores is expected by Q4 of 2020. The demerger of TCIL was completed during the quarter. Post the demerger, we are directly held by Fairfax Holdings, which is about 33% and through this process, we have forayed into the B2C segment in travel & hospitality and education space. In line with our strategy to simplify our overall group structure, 4 Indian substitutes: Aravon, CenterQ, CoAchieve and Master Staffing Solutions were merged into the parent during the quarter. Additionally, MFX Chile was wound up.

Our exercise of reducing intercompany loans and advances continues. What was Rs.442 Crores in the beginning of this year has now been reduced to about Rs.270 Crores and this process continues as we progress further. As many of you would have observed, we have also launched a new branding exercise in the company. The new brand promise of Winning Together comes from our continued focus on customers, people and investors along with our move to our platform structure.

I am also happy to share with you that we have been certified as a Great Place to Work, and we have been included in the Annual Best Workplace List for the year 2020. We are among the top 300 out of the 1000-plus companies. The certification is considered the Gold Standard and recognized world over by employees and employers alike.

I would like to now move on to some key platform-wise updates. In the workforce management, we remain the undisputed leader in staffing and continued to gain market share and surge ahead of our competition. This is driven clearly by exceptional execution and the leadership quality in our team.

Revenues increased by 52% year-on-year to about Rs.1,959 Crores. Our associate headcount is up 34% year-on-year to 260,000. The general staffing headcount specifically stood at 244,000. We deployed 20,000 associates to meet peak festive demands in a single month, demonstrating our strong hiring ability. 82 new logos were added with a combined ACV of Rs.94 Crores. Our core to associate ratio continues at industry leading efficiency of 1:333, up 11% as against the same quarter last year. In skill development, our exclusive IPR for the courses that we run now cover 61 courses out of 191. Although our operating asset management business saw only a 4%

year-on-year growth in revenues to Rs.448 Crores, our facilities business has constituted strong organic growth momentum with revenues up 11%.

IFM business EBITDA also grew about 33% to Rs.37 Crores. However, at the platform level, EBITDA has been relatively flat. In the IFM business, one of the movements that we are making is to have more SLA-related business than headcount-related contracts. In this, our ratio has moved up from 22% to 26% on a year-on-year basis for SLA-based contracts. In Tech Services, revenues increased 19% year-on-year, with a 13% increase of revenues in Conneqt and Allsec to Rs.544 Crores. EBITDA increased 131% year-on-year to Rs.66 Crores on the back of the Allsec acquisition.

In Monster, which has taken significant management attention, the search module is in the beta test with positive early reviews. We have a road map in place for the remaining module, and this is expected to be completed by early part of the next financial year. Sequentially, we have been able to reduce our EBITDA losses by about Rs.3 Crores. Our job views and organic traffic is up 102% and 83%, respectively, on a year-on-year basis, significant numbers for an improving website.

In DigiCare, our service network now covers 12,500 pincodes. I am also happy to say that our Xiaomi Delhi service center was awarded the best All India Service Partner from over 2,000 centers. We have also strengthened the management team with the addition of Suraj, who joins us with over 2 decades of experience at McKinsey and he will lead the initiative in driving the digital transformation journey at Quess. All the above summarizes the slew of positive outcomes that we have achieved in the quarter. This has been a significant quarter for us in terms of continuing our corporate actions and driving our operational metrics across platforms.

We would now like to take questions from the floor, and I will be joined by my colleagues from the corporate and finance functions to address the same. Thank you very much for joining the call, and I look forward to your questions.

Moderator: Thank you. We will now begin with the question and answer session. The first question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Congratulations for a good set of numbers in an otherwise challenging market. A few questions. First is in People & Services, I am talking about classification as per the old methodology. While we have a significant improvement in the revenue growth, both quarter-on-quarter as well as Y-o-Y, the EBITDA margins are probably lesser than expected. So can you comment on, one, how do you see the outlook going forward and number two, you say that there is a seasonality involved with the festive season-related recruitment so do you think then the fourth quarter may not continue like what we have seen in third quarter?.

Subramanian Ramki: Yes. Thanks, Rajesh. This is Ramki here. On your question of People & Services, I think a part of the answer you have already given. I think one of the things that happened is the festive season. If you look at the People & Services in terms of a headcount addition, even though it is not a big headcount addition, some of the revenues have flown because of the good headcount traction which we had in the first few quarters, first couple of quarters to be precise. Some of the revenue started trickling in subsequently and that is why the revenue numbers are much higher. Second, in terms of the festive season, there are also festive bonuses and incentives, which are paid, which also add up to the top line, but not necessarily to the bottom line because these are just purely pass-through payments. Having said that, it obviously brings down the EBITDA margin to that extent. Moving forward, obviously, the festive bonuses would come down. However, we will see the margins at People & Services business or the WFM level will be pretty much in line around the 5.5% or 5.3% to 5.5% kind of range.

Rajesh Kothari: So what kind of growth are you looking at for the P&S because December, of course, the growth has been 63% in the segment, so going forward, this number will also reduce significantly?

Subramanian Ramki: Yes, I think you must also appreciate the fact that in the workforce management, as a group we have grown about 36% year-on-year, and that is a significant growth. We will probably not expect it to grow further. Having said that, considering the current economic conditions, there is some degree of slowdown in the market, which is also reflected in customer sentiments, which is also reflected in some of the conversions. Having said that, in the People & Services business, we have a pretty strong leadership, and they continue to make sure that we get those contracts. However, there could be some pressures from the margin perspective but we will continue to focus on getting those additional contracts and hence will continue to see traction, but it will be muted traction is what I feel.

Subrata Kumar Nag: I just want to add a thing, I think in the People & Services the growth that we have seen, I think, in the next couple of quarters, we will see same kind of growth or maybe a little bit of additional growth because we have signed some new contracts, large contracts in December, so that will be flowing in Jan, Feb, March and overall, the last 9 months, we have signed almost 82 new logos in WFM so once you sign, normally, customers takes some time to ramp up. I think, slowly, the ramp-up will happen and I do not see any concern as far as the progress or growth in the People & Services business is concerned.

Rajesh Kothari: Okay so I am getting, sorry, a bit confused with different answers from different people; on one hand, you said that 36% growth is difficult to replicate and then you mentioned that a lot of new logos are added.

Subrata Kumar Nag: No, see, 36% growth is a good growth number and although it is very difficult to get 36%, 46% and 50%, that is not possible. However, with the way we have been growing, do not take only one quarter, take the last 5 years and see how we have been growing in People & Services business. I think that kind of momentum and trend will be continuing at least for the next couple of quarters definitely and then we will see how it goes.

Rajesh Kothari: Okay and my second question is on Industrial Asset Management, what kind of further write-downs you think are required because in this quarter also, we have reported Rs.4 Crores segment-wise loss at EBITDA level, so how do you see this going forward. Do you think in the fourth quarter, you will have 0 or some write-offs are still required?

Subrata Kumar Nag: I think we have mostly come out from whatever backlog of losses we had. We have almost cleared some of the nonperforming client contracts in Hofincons, once we get out of those contracts you will see the revenue also coming down and that is why, actually, the increase in the revenue in IFM or total asset management, operating asset management is not that much because we have let some of the clients go. I think now whatever losses we had on account of sale of material handling equipment, that also I think, we have crossed the bridge. So, I think now onwards we will be seeing an uptick in the current situation. However, I will not project a very rosy picture of the industrial segment. We may not make any losses further, but I do not see that we are making a lot of profitability because Vedang is in the telecom space and telecom at an industry level is going through a very rough phase, so we have to take the brunt of the industry as well. I think the industrial is in a steady state currently. I do think we will have more losses but not much profit as well, we will breakeven or maybe a minimum kind of profit is what we will try to achieve.

Rajesh Kothari: Thank you Sir. I will come back in the queue.

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

Abhijeet Akella: Congratulations on a good quarter. I just wanted to get your thoughts on the market environment for general staffing. This quarter, despite the festive season, we have added maybe about 2% quarter-on-quarter headcount in general staffing, it is a little bit of a slowdown and one of our leading peers has also commented that they have had a slightly difficult festive season so how do you see the market environment shaping up, which sectors are doing well and which ones are underperforming sectors?

Subrata Kumar Nag: There are 2 things here. Number one, the festive season this time came a little early because Diwali and Dussehra were in the early part of the October and so all the companies ramped up retail mainly in Q2 and end of Q2 and when the ramp-up happened (at the end of Q2), there was some spill over in the Q3 so that is why net increase, I think, we did 5,000, which was 18,000 last quarter so that has an impact. I will not say there is a slowdown, but people are not hiring, like in mining, we used to get 10%, 15% from the mining of your clients so that has been slowing down. Let us understand what steps we are taking. We are trying to widen our customer base so, this year, I think last quarter itself, we have signed almost 80-plus clients in WFM and we have been trying to penetrate in the Tier 2 and Tier 3 markets also, so that the concentration of few clients in the telecom and retail is evened out and I think every quarter, normally, we win a large contract. I think, in December-January, we started another large contract, not as large as what we started in Q1, but it was a reasonably large contract, and that will have an impact, which we will see in Q4 and going forward, I do not see any major impact in the headcount. The headcount growth will be there. However, very quarter, you cannot expect the 20,000, 30,000 number. One quarter it will be up. One quarter, it will be little bit of down, that kind of seasonality comes. But we are on that job, and we are trying to, as I said, widen our customer base and these customers will slowly go up, actually, that is what we have seen in the last 10 years.

Abhijeet Akella: Okay. Great and my second question is on the IT staffing piece. Like, the overseas pieces within IT staffing have been doing relatively well, whereas the Indian business has been under a bit of pressure, so if you could throw some light in terms of market environment for both of these regions and what your plans are in this regard, especially with regard to fixing the India business?

Subrata Kumar Nag: Yes. As you know, Magna was going through a little bit of a lean patch and we have taken some steps there. I think with this quarter also, particularly December, we have seen some momentum coming back. What happened in Magna and what we have been trying to do is to focus more on a high-margin and niche recruitment instead of going for 3 to 5 years kind of assignments, we are trying to go maybe 8-year or 10-year-plus assignments. It takes some time because you have to regroup your recruiter base. You have to create that center of excellence. Those are the things we have been working on. We have been bringing some artificial intelligence so that we get to ultimately understand that IT staffing business is the fastest finger first – who first pushes this to the customer portal or customer base; so you need to have that much IT backbone yourself so that you can get the right CV at right time so those things we have been working on. I think slowly market is also picking up and Magna being a leader, I am sure that it is not going to go down, the sliding scale what we have seen has stopped and I think from here, I think it will take some time. Do not expect that in one quarter the entire thing will change, but I think in the next couple of quarters, you will see the growth will slowly be coming back into Magna.

Abhijeet Akella: On the overseas side, how are things going on, Brainhunter and MFX?

Subrata Kumar Nag: Brainhunter, actually, it took some time, but I think we turned around the corner there. Brainhunter, Mindwire is always a steady stable business. That is a government, Canadian federal government business. We had the problem in Toronto and Western Canada, particularly our commercial business. However, as of today, all 3 regions are profitable. That is why in this year, I think, we will be doing around CAD 58 million to CAD 60 million revenue and, I think, CAD 2.7 million to CAD 3 million EBITDA so that is going well.

MFX, I would not say that the revenue has picked up much, but what happened in MFX, particularly, is that the profitability has come back. I think almost in February 2018, or 2019, we lost one of the major clients. It took some time to fill that gap, almost 20% of our revenue had gone by one client so it took us some time to recoup that revenue loss. We have done that over the last, 5 quarters and I think we are still around a $38 million to $40 million revenue but our EBITDA has actually gone up. I think this year, we will be near about $4 million.

Moderator: Thank you. The next question is from the line of Mihir Manohar from CapGrow Capital Advisors. Please go ahead.

Mihir Manohar: First of all, congratulations on a great set of numbers. Just wanted to understand your relationship with Amazon – what kind of relationship are you having with Amazon and out of their people, how much percentage are you supplying over there?

Mihir Manohar: Both DigiCare as well as on the workforce management as well so that is basically your delivery boys?

Subrata Kumar Nag: Yes, we have almost, 7,000 to 8,000 people we provide there as just the manpower, that is our responsibility with the manpower with Amazon Transportation Services and they do the delivery. We have Dependo, where we have almost, 1200 bikers and 300 four-wheelers, I think, around 40 or 45, DC, where we take the consignment, and we do average 80,000 deliveries and sometimes during peak, I think, 150,000, which was in October so that is the delivery where we take the consignment and deliver it by ourselves, so that is another relationship and the third relationship, is that Amazon has actually invested in Quess, as you all know, that is for the DigiCare services so whatever white-goods Amazon sells from their portal, we actually install and service those, say, TV, fridge, air conditioner through the DigiCare and you see that is why our DigiCare footprint has increased post Amazon. Today, we have almost 12,500 pincodes, covering 600 cities.

Mihir Manohar: Okay so the servicing portion gets accounted in the books of DigiCare?

Subrata Kumar Nag: Yes that is DigiCare business. Like we do for Samsung, we do for Xiaomi. Now, Amazon also we are doing that kind of work.

Mihir Manohar: Okay understood. Thank you.

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

Sudheer Guntupalli: Suraj, congrats and all the best in your new role. So, my first question is to you, are you contemplating any major strategic changes going forward or are you going to let the status quo continue?

Krishna Suraj Moraje: The status quo seems to be doing very, very well, Sudheer. I do not think this is about major, major changes. I think this is about an evolution of where the company is going. We are looking at a few things. I think we are looking at how do we bring more of an institutional identity as we sell, towards our customers. You have seen the rebranding in the last few weeks, and we hope we are going to roll that out more progressively to more and more of our companies, so we create one corporate identity. You will see a lot more technology coming into play, both with how we serve our customers and drive productivity there, and also with regards to how we manage our associates and build our database of talent and nurture our database of talent. I think you will see us continue to focus on growth as we have in the past. I think we want to make sure we are focusing on ROE as much as we are on EBITDA and you will see that balancing out a little bit more over time. But by and large, I do not think this is about major, major, major changes. I think it is a very healthy business, doing very well. It is really about taking it to the next level over the coming years.

Sudheer Guntupalli: That is very helpful and in Trimax, actually, post the completion of acquisition of TSIPL, we seemed to have recognized a provisional goodwill of almost Rs.40 Crores. Our understanding is that overall amount we paid for acquisition of 100% stake here is Rs.13 Crores, so goodwill is almost Rs.27 Crores higher than purchase price, does that mean the entity currently has negative net assets of Rs.27 Crores and a related question on that, your presentation seems to be hinting that the total exposure now is Rs.230 Crores, and this exposure amount has also been going up over the last few quarters, while on the other hand, we are expecting the amount to return so any color on this will be helpful?

Subramanian Ramki: Yes. I think your first assumption is absolutely right. The negative net worth was Rs.27 Crores, and we paid Rs.13 Crores. That is the reason that goodwill on consolidation comes to about Rs.40 Crores, number one. Number two, Rs.230 Crores, there is no further exposure. What we are talking about is the full project cost and the Rs.92 Crores we are talking about is all the collections, which have been done till date, which includes Rs.60 Crores last year and Rs.32 Crores this quarter.

Sudheer Guntupalli: Sure, Sir and one clarification in general staffing. Your presentation mentions that growth in general staffing was 37% on a year-on-year basis. However, if I look at the old segmental reporting, People & Services seems to have delivered almost 63% year-on-year growth. Given that general staffing is the biggest component within People & Services, what is the reason for this divergence and the growth rates across the 2 that is it from my side?

Subramanian Ramki: So if you look at it, what happens, Sudheer, I think we covered some of it in the first question. Obviously, the growth comes from twofold. One is the fact that the festivity this time was a much better season. So, obviously, some of those festivity-related numbers flow through the revenue, so that is kind of been a bigger number in the current quarter compared to the same quarter in the last year. Similarly, if you look at it, some of the revenues, which pertain to the headcounts which were added in the previous quarters, what happens is, when the start point could be just pure staffing but as we keep ramping up our suite of services to the customer to add on more services, then it also helps us to ramp up our revenue. So that is what is kind of flowing through and hence you are seeing the change.

Sudheer Guntupalli: But Ramki, I think the divergence is too high here. The reason I am asking is, I mean, I understand that you may also be offering some additional services rather than just general staffing. But if I understand it right, People & Services, the predominant component in People & Services is general staffing, and we are talking about a 37% year-on-year growth and a 63% year-on-year growth, and divergence seems to be huge. That is number one. And number two, the seasonality aspect you spoke about, there is some bonus-related payments, so on and so forth. I am assuming, previous year, this quarter also had that issue. And when we are talking about year-on-year growth rates, I think that is normalized. The seasonality trend is normalized?

Subrata Kumar Nag: Okay, Sudheer. We will get back to you on this, Sudheer.

Sudheer Guntupalli: Thanks and all the best.

Moderator: Thank you. The next question is from the line of Amar Mourya from AlfAccurate. Please go ahead.

Amar Mourya: Firstly, Ramki, I just wanted to understand, if I see in our new classification, our workforce management, in that the global technology services sequentially there has been an improvement, I believe we had also shown an improvement in the EBITDA. So, is it fair to assume that now Magna and Comtel from here on is going to see a steady growth and improvement in the profitability?

Subramanian Ramki: You are talking about the new segments or the old verticals?

Amar Mourya: I am talking about the new segment. I believe, in the new segment, workforce management, there is a part of Comtel and Magna, correct?

Subramanian Ramki: Yes, Comtel and Magna are sitting there. You are right, absolutely right.

Amar Mourya: Correct. So I am talking about that. If I strip the number, I see Rs.340 Crores kind of a revenue, which was Rs.308 Crores sequentially, and I see EBITDA of Rs.19 Crores versus Rs.16 Crores. Obviously, year-over-year, we are down on EBITDA front, but on a revenue and EBITDA from a sequential basis, there is an improvement. So I am just trying to understand, from here on, what is the kind of status for both those businesses?

Subramanian Ramki: Yes. I think you know what you should also keep in mind is that it is not just Magna and Comtel which are sitting besides the general staffing there. You also have the other overseas locations of general staffing and they have also contributed to the numbers this time, be it in the terms of Middle East, in terms of Philippines, Singapore, Lanka business. So other sets of businesses are also contributing to the growth. And that is what is making the difference this quarter. I can give you the complete split off-line. It is not available at the moment.

Amar Mourya: Fair enough, fair enough, fair enough. So that is one. So you are not saying that steady state, Magna and Comtel has not made any difference this quarter also?

Subrata Kumar Nag: No. They have been making a difference but in this particular quarter, others are also pitching in. And for your question that whether we can take this as a new normal and further growth from here, I think you are right there. I think you can see further growth because, as I already said in an earlier question, Magna is coming out from the slump and Comtel also, I think there is substantial growth in Comtel. So you can expect this business to contribute more positively going forward.

Amar Mourya: Okay. May I squeeze one more, Sir?

Subrata Kumar Nag: Sure.

Amar Mourya: Yes. So Sir, now in IKYA business, I mean, if you can help us understand, I mean, in this overall People & Services, how much would be the IKYA contribution?

Subrata Kumar Nag: IKYA means staffing contribution you are saying?

Amar Mourya: Yes, yes. So like and how the business would have done in that?

Subrata Kumar Nag: So in IKYA, we do staffing and also recruitment. Those are 2 segments in IKYA, which one are you are talking about?

Amar Mourya: Staffing, I want to understand staffing and recruitment both.

Subrata Kumar Nag: See people business is mainly IKYA staffing and a little bit of recruitment and in the other component there is only the skill development business. For skill, the revenue in on an annualized basis, skill revenue, I think this year, on the full year basis, is around Rs.180 Crores but it will be a 20% margin business from the skill, rest entire thing is from staffing and recruitment.

Amar Mourya: Okay. So that is basically you are saying rest is the IKYA barring the subsidiaries?

Subrata Kumar Nag: Yes. There is no subsidiary as such. Only the skill that has a little bit of Excelus part.

Amar Mourya: Okay, So Sir, in this what should be the margin trajectory? Like, why I am asking you, like there was a margin of 5.2% in this quarter, whereas if I mean sequential margin 5.1%, 6.2%. So the margin has slightly decelerated on a sequential basis. So is there some seasonality also involved? Or how we should see the margin trajectory?

Subrata Kumar Nag: Seasonality is there in the workforce management, if you see the workforce management, there is a little bit of seasonality because December is the furlough and other things also come around last 10 days-15 days of the month.

Amar Mourya: I am purely talking about workforce management part of People & Services management.

Subrata Kumar Nag: People & Services business, I think we get around, you will see the 5%, 5.1%, I think that kind of margin, between 5.25% to 5.5% is a steady-state margin for the time being that we should consider.

Amar Mourya: Okay. And Sir, now in this quarter, I mean the debt has slightly gone up, but your interest cost was low. What should I see for the fourth quarter? Will you stick to your guidance of the debt level?

Subramanian Ramki: I am not sure why you are saying the debt has gone up, in fact, the debt has gone down. The gross debt, which was about Rs.920 Crores as of last quarter, has come down to about Rs.830 Crores. So that is a good Rs.90 Crores reduction, and that is what is contributing to the reduction in interest cost also from Rs.41 Crores to Rs.35 Crores. We should also keep in mind that this debt reduction is after paying out some of the terms, for which we had to make the payments. We have also paid about Rs.38 Crores, Rs.40 Crores for Golden Star. We made a payment of Rs.13 Crores for Trimax. We made a payment of about Rs.10 Crores for Vedang. And still, we are talking about this kind of a debt reduction and interest cost reduction. So, moving forward into Q4, we do not have any of those mixed up payments. That being the case and with the current cash generation and with Q4 being a strong quarter, generally, we should definitely see a downward trend on the debt further, like, I have given the guidance, we should be able to hit the March 2019 numbers, if not better it.

Amar Mourya: Okay. No, why I am asking, Sir, like, you are right that on a sequential basis, but your other income has also reduced in this quarter?

Subramanian Ramki: Yes. Other income has reduced but debt has got nothing to do with this. Having said that, the other income has reduced primarily because some of the interest income, which was recognized on the intercompany loans, which have since got converted to CCDs are no longer there. So that is the reason why the other income is reduced. But from a debt reduction, I think I had already answered.

Amar Mourya: Sir, in your tech services, what would be the growth driver for you? Because in tech services, if I am not wrong, there are 3 segments. One is Global Technology, one is Allsec and third is your Internet business. So overall, what will drive the growth from here on? Like, is it the Allsec which is going to be the growth driver? Or is it the Global Technology part, which is fitting into the business side?

Subrata Kumar Nag: I think majority of the growth will come from our BPOs, our BPM business. That is Conneqt and Allsec together. Conneqt, I think this year is a very good year compared to last, we are already seeing a 13% or 15% growth. Allsec, only 6 months with us, and we are banking a lot on Allsec. So most of the growth will be coming from Allsec and Conneqt together. Currently, our profitability is getting a little bit muted because of the loss we are suffering due to Monster. Though the loss is coming down, I think going forward, once Monster will start contributing positively, I think the growth will be at a much greater degree than what we currently have.

Amar Mourya: Okay, thank you Sir.

Moderator: Thank you. The next question is from the line of Anish Jobalia from Banyan Capital. Please go ahead.

Anish Jobalia: In terms of the People & Services business, in the last quarter, it was mentioned that in H2 as in Q3 and Q4, we would actually cross 6% EBITDA margins, mainly helped by the Excelus division, which has 20% margins. Despite of such high growth and also, as per our expectations, why are the margins not coming through? And are we resetting our expectations of our margins in this division from 5.3% to 5.5% even going forward, say, FY2021?

Subrata Kumar Nag: Yes. I think on average, if we take the margin in the general staffing business, I think I will keep it around 5.5%. That is the right margin to be considered.

Anish Jobalia: But why is the difference between just one quarter before, we were expecting 6% margins, we are going to cross that and in just one quarter after because 0.5%...

Subrata Kumar Nag: What happens in general staffing is that you do not see there are many components in general staffing. There is sourcing revenue, there is a recruitment revenue generally, there is a search revenue. So one quarter, that is, I think, we did well. But I think going on a steady-state basis, if I consider, if you ask me what we will be doing quarter after quarter in the next couple of quarters, I think 5.5% will be a conservative margin and is what we should consider.

Anish Jobalia: Okay. And in terms of the overall margin expansion that we are working towards that direction, so the question around that is, in the next year then what will be driving these margins? I mean is there any margin drivers now going forward? I understand that Monster and Industrial Asset Management, some of the other loss-making would come down, but that would not be good enough to expand our margins by what you were anticipating around 0.5% per year?

Subrata Kumar Nag: Yes. See, margin expansion will be coming up on the many fronts. The #1, as you rightly said, the Monster and Industrial space, Monster, for this year, already in Q3, we have a Rs.20 Crores loss. I think next year, those losses will not be there. Industrial also, we had a loss from the 9 months. Secondly, I think Allsec, which is almost 20% margin, which came 3 quarters back, we will get another full quarter in the next year. Additionally, we are hoping that Allsec and Conneqt will help, Conneqt is around 8%, 9% margin and Allsec around 20% margin. What we are trying to do is to increase their revenue base in our overall revenue parameter. So, if that percentage goes up, definitely, that will push our margin. Also, there is a lot of IT, technology intervention that will increase the productivity and further there will be improvement in the core to associate ratio, everything will be working towards increasing the margin. I think there are many levers to increase the margin, what I mentioned are just a couple of them.

Anish Jobalia: Okay. And the unallocated expenses, I think, is around Rs.88 Crores. I mean we are having a run rate of Rs.22 Crores per quarter, will this also be growing in line with the revenue? Just to understand the extent of the operating leverage...

Subrata Kumar Nag: No. I think that is the operating levers. These are the fixed cost. I think that will definitely not grow linear with our revenue. That will be growing much lower. This year also, we had a large assignment which we worked with Accenture. We spent a lot of money and I do not see it growing as a normal expense process, it will definitely not be proportionate to the revenue. There will be some operating expenses, of course.

Anish Jobalia: Okay. And let us say, going forward, let us say, FY2021, let us say, some headwinds, if our growth rate, do you maintain the guidance of 20%? I mean at least like 20% growth rate going forward considering the macro environment?

Subrata Kumar Nag: I think as of today, we are confident on what we have always been telling, that our aim is to generate a 20% EBITDA growth year-on-year and we stick to that. I think we will be able to do that.

Anish Jobalia: Okay. Thank you.

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

Dipan Anil Mehta: Congratulations on a very good set of numbers. I just want to draw your attention to Slide #26 where you have given the breakup segment wise. So first, a quick question is that when you are comparing the EBITDA margin for December 2019 with December 2018, so December 2019 has got Ind AS and December 2018 is without Ind AS, or are they really comparable is my first question?

Subramanian Ramki: December 2018 definitely does not have the Ind AS element, but December 2019 has got the Ind AS element.

Dipan Anil Mehta: Okay. So considering that post Ind AS, your EBITDA margins have gone up, then, please, can you explain in workforce management from 6% to 5.3%, why we have seen such a sharp decline and if you do not consider Ind AS, then the drop would have been even more?

Subramanian Ramki: No. But there is no big Ind AS impact in workforce management. The Ind AS impact comes from our Conneqt business, which is all in technology.

Dipan Anil Mehta: Okay. But nonetheless, I think you have seen a 0.7% decline and normally, one would expect positive operating leverage given the 55% increase in revenue?

Subrata Kumar Nag: No. I just explained sometime back and you must have heard that. Do not take 6% which we had, maybe one quarter, our recruitment did very well, or Excelus did some additional revenue but generally, I think 5.5% is the steady-state margin from the WFM business and we should consider this.

Dipan Anil Mehta: No, Sir. But if you look at March 2019, June 2019, September 2019, it has been consistently declining, whereas revenues are going up. So, is there something that we have taken contracts at lower rates or there is some unusual expense in December 2019 quarter?

Subramanian Ramki: No unusual expenses. There are no unusual expenses in December quarter or anything of that sort. But I think one of the things which we have told in the previous calls also is that when we are taking initial large contracts, obviously, we also see how much margins we can manage. Those do not come with the same kind of margin levels which some of the smaller contracts come with, that is an entry point and like I said, it does not stay there. As we keep ramping up the various services, over a period of time, the margins catch up. So you are right. When we go for some of those larger contracts, the margins are definitely much lower than what it is in the case of smaller contracts. Because it could also be a mix in terms of how many of them are pure staffing contracts versus how many of them are also in terms of a comprehensive contract. So it is a mix. The mix of the delivery also will change.

Dipan Anil Mehta: Okay Sir, thank you very much.

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

Nitin Padmanabhan: On the general staffing business, we have been winning quite a few large contracts over the course of this year. When you look at the metrics within those contracts, how are they different? Are we seeing a higher proportion of variable markups there? Or do they come with a fixed price markup? Second, also, if you could just give us a sense broadly from a business standpoint for this business, how are the variable and fixed price markups? And how has the markups been trending through the year?

Subrata Kumar Nag: I think we have told that our preference is to go for the variable percentage, but you cannot just ignore the market dynamics. So, I would not say that the contracts we are getting are too many on the variable side, these are mainly a fixed price based contract. Large contracts normally come with a fixed price based contract. I think 65 will be in the fixed base and 35 with the variable contract.

Nitin Padmanabhan: Sure. The second is, in the context of the broader environment and the environment being tough, strategically, are we seeing markups actually becoming more difficult to sort of get by? Or how are you approaching the market?

Subrata Kumar Nag: See, one thing, definitely, we do not want to play the price game. We do not want to take the contract and cut that. We have a certain cost of services, and we have a certain margin profile that we would like to maintain keeping the market dynamics in mind. We try to see what we can do for each of our business segment, we try to see how technology can help more. Another is on how we can increase that further, now it is around 330, how can we take it to, say, 370 or 400, that will be an another effort. How we can get a little bit of more managed services, services where we provide not only the people, but some of the stock (or staff?)(52:17) we take along with that, how our image product which is many things an associate company can do in managing their large workforce, that image also we are pushing more aggressively with additional prices. So those are the components that will help increasing our overall realization. Currently, I think it is around 700, 730. Idea is to work on ways to increase that realization bit by bit over a period of time.

Nitin Padmanabhan: Sure. That is helpful. Just 2 more quick questions, if I may? One is, are we sort of consolidating Terrier from Q4? And the second is any updates on the divestments that you had talked about, East Bengal and so on and so forth.

Subramanian Ramki: So Terrier, we are not consolidating because TCIL demerger has happened, and we were expecting, we are now kind of looking at how we could go ahead and do the buyback from Heptagon and then invest it in Terrier so that then we can start consolidating. Having said that, what has also happened is that our foreign shareholding because of some of the newer shareholders who have come in post TCIL demerger, and off late this has happened, our foreign shareholding still continues to hover very close to about 48%, 49%, which was not expected. So that is the reason we are just waiting and watching. And once it kind of reaches a particular level where it is manageable, then we will definitely do it. But we are ready to do it. It is only the shareholding, which is kind of, at this point in time, making us think a bit. And your second question was on East Bengal?

Nitin Padmanabhan: Yes.

Subrata Kumar Nag: Yes. QEBFC, as we told, that the 31st May of this year is the last day, our contract with the club terminates. We have no financial liability post that. But meanwhile what we have been trying and we are also in discussions with a couple of investment bankers is to get a suitor so that we can divest. So, we will be trying our best to do that. Hopefully, we will get somebody to offload our share. And if nothing happens, 31st May, post that, we have no financial liability.

Moderator: Thank you. The next question is from the line of Mohit Sharma from Motilal Oswal. Please go ahead.

Mohit Sharma: I just had one quick question. So pertaining to the Monster business, it is good to see the loss run rate coming down. But at the same time, the revenue has also seen some downturn. So is this because we are consciously deemphasizing some part of the business? Or given that this platform has a high fixed cost, so in a declining revenue environment, how sustainable it will be to avoid a negative operating leverage from coming into play?

Subrata Kumar Nag: See, Monster is a product business. And the problem that we actually had in hand is that our product was damaged a little bit. What we have been currently doing is to actually trim the losses, so whatever the flab is, we are just cutting that and bringing it to the right size of the company, though revenue has been coming down. We believe and that once our product is ready, and which will be launched in say, next 30 to 45 days, I think the sales will pick up. We did some reorganization in our sales team also, and we are revamping and increasing our numbers also going forward. What you need to understand is what happens in the Monster, if I book a sale today, the revenue flow takes time because it is a 12-month cycle and you can do the amortization. So, the new booking of sales, I think last month, last 2 months that slide stopped. And last 2, 3 months, we are seeing that there is a slow steadiness coming up. We are seeing that early signs of winning. So, we hope that going forward, sales will pick up and the new product and new search will help us. One thing you need to understand is that the traffic in the job posting and the application have gone up and are almost 80%, 100% growth year-on-year basis. I think, we are sure that will reflect in sales.

Mohit Sharma: Okay, thanks.

Moderator: Thank you. The last question is from the line of Manoj B. from Carnelian Asset Management. Please go ahead.

Manoj Baheti: Just a couple of questions. First one is like a few quarters back, if I look at industry dynamics, there was a competition in terms of number of credit days or the credit, which the competitors were offering. Now looking at your cash flow improvement and margin contraction, especially in the workforce management business, is it linked to that now we are very, very choosy in terms of giving lesser credit or saying no to the business which are asking for higher credit? And also, is there a change at industry level on this phenomenon? This is my first question.

Subrata Kumar Nag: As we told earlier, we put a lot of emphasis to increase our collect and pay in a percentage terms in the business and you saw that it has increased to 72% today. That is one of the reasons for increasing working capital, but I do not think that is the only reason. Overall, IFM business, the vigor, the efficiency and the productivity I think has increased in the last 6, 7 months, and our emphasis on collection and making sure that the invoicing is done at the right time correctly. So those things have also helped a lot in decreasing our DSO level and increasing our cash conversion.

Manoj Baheti: Okay. But is there some impact on margin on account of this?

Subrata Kumar Nag: No, I do not think it has any impact on the margin. If you see overall margin, 6% is there. So I do not think it has any major impact on our overall margin as of now.

Manoj Baheti: My second question is, in terms of inorganic growth strategy, what will be the strategy of the company in terms of future capital allocation over short to medium term. I think in short to medium term, you have clarified over last con call that there would not be any more inorganic opportunities where you will be allocating capital. So if you can just give some color on your capital allocation strategy going forward, given the fact now balance sheet is getting healthier and healthier quarter-on-quarter basis?

Subrata Kumar Nag: See our priority, other than the business and the EBITDA profit is increasing our cash conversion. We set a target for this year for 50%, I think surely we will cross that. But we believe that there is enough runway there to push that cash conversion further. We will also reduce our debt position. Whatever cash internal accruals we generate now, we do not have any stock purchase other than a very small one in the Vedang. So that entire money will go in the reduction of debt and in the next 6 to 8 quarters, we will try our best to convert ourselves from a net debt to net cash position. Then, our other major idea is to increase our ROE to 20%. So that is the goal we set for ourselves, and we will work towards that. I do not see any immediate acquisition we are doing. But as we told, that if a situation comes, if we get a very great opportunity, if we see there is a strategic fit, we will think of that. It is not off the table, but not in immediate future. Our idea is to first declutter the balance sheet, reorganize, reduce our subsidiaries, increase cash conversion and increase the ROE. So, these are the 5, 6 parameters we will be working on.

Manoj Baheti: Thanks for the elaborate answer and wish you all the best.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Ajit Isaac for closing comments.

Ajit Abraham Isaac: Thank you very much. I believe we are moving in the right direction, and this is evidenced by our strong operational and business performance. Overall, our model shows that we have competitiveness in each of our business segments and the fact that we have been able to continue revenue growth at 20% in spite of headwinds is testimony to that. Our focus on improving our financials remains strong, and the same is evidenced in our reduction of collection days, resulting in our increased cash collection also. We are on track to achieve our year-end cash conversion of 50%. Our digital transformation process inside the company is gathering steam. We believe that all of these initiatives will make the company well positioned to achieve the results that we have been talking about in the call. I would also like to take this opportunity to invite each of you to our upcoming Annual Investor and Analyst Day on the 5th March 2020 at the Grand Hyatt, Mumbai. We look forward to meeting you there, and thank you once again for joining this call.

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

(This document has been edited for readability purpose)

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