"Quess Corp Limited
Q1 Financial Year 2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Quess Corp. Limited Q1 FY20 Earnings Conference Call hosted by IIFL Capital 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 will now hand the conference over to Mr. Abhijit Akella of IIFL Capital Limited. Please go ahead.

Abhijit R. Akella: Thank you, Chris. Ladies and gentlemen, good afternoon and thank you for joining us on the Q1 FY20 Earnings Conference Call of Quess Corp. My name is Abhijit Akella, I am the Mid-Cap Analyst at IIFL and it is my great pleasure to introduce the senior management team of Quess who are here with us to discuss the earnings.

We have with us Mr. Ajit Isaac, Chairman; Mr. Subrata Nag, CEO; and Mr. S. Ramakrishnan, CFO, along with other members of the management team. We will begin the call with opening remarks by Mr. Vijay Rajagopal, Director M&A and Investor Relations.

I would now like to hand the call over to Vijay to take it forward. Thank you, and over to you, Vijay!

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

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

Ajit Isaac: Thank you, Vijay, and good afternoon and a warm welcome to all of you. Thank you for joining us on today's call and I am sure that many of you would have gone through our latest quarterly earnings presentation and financials.

From a contextual standpoint, our country is poised to grow significantly from where it is. While the economic survey for 2018-2019 had predicted gross domestic product growth to be around

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7% for 2019-2020, elements like the consumption story is slowing down and a liquidity squeeze in the NBFC sector have made the operating environment more challenging.

Despite such macroeconomic headwinds, Quess has continued to deliver healthy growth for the first quarter of 19-20. Revenues are at Rs.2395 Crores, a growth rate of 22% and EBITDA at Rs.147 Crores at a growth rate of 44% on a year-on-year basis. The company has adopted Ind-AS 116 standards with effect from April 1, 2019 and accordingly the PAT for this quarter is at Rs.60 Crores, which is higher by Rs.4.4 Crores than the reported PAT of Rs.56 Crores due to the impact of Ind-AS.

I shall now give you a summary of changes in key operating parameters during the quarter. Our revenues grew 22% on the back of an increase in employee headcount to 85000, which is an organic growth of 21%. Our quarterly EBITDA grew by 17% year-on-year to Rs.120 Crores, resulting in an EBITDA margin of 5.02. Our diluted earnings per share stood at Rs.3.9 for the first quarter compared to Rs.3.7 for the similar quarter in year 2019.

Significantly our cash flow from operations stood at Rs.52 Crores for the first quarter as against Rs.33 Crores for the same quarter last year, an increase of 60% on a year-on-year basis. The OCF/EBITDA conversion improved 45% during the quarter compared to 32% for the same quarter last year. The company's focus remains on consolidation while driving synergies across Quess platforms and we are not planning any fresh acquisitions in the near future. However, the company would continue to pursue strategic partnerships with leading global players or investors to scale up some of our growth businesses.

I would now like to give you some highlights for the quarter, sales wins. The company has added a total of 106 clients for the first quarter, aggregating a total contract value of Rs.2500 Crores. This gives us a good base for growth for the rest of the year.

Strong growth in staffing; In our General Staffing business, we registered the highest ever quarterly headcount addition of 32000 for this quarter as against a full year addition of 35000 for the whole year.

Also, the partnership between Amazon and DigiCare will help scale our business in DigiCare itself. The investment of Rs. 51 Crores by Amazon will drive the growth of DigiCare, enabling it to expand our service network from an existing 250 centers in 150 cities to about 450 centers. This will make DigiCare truly a pan India player while providing market-leading customer experience to its partners, particularly Amazon.

We have now built on a leading BPM platform through Conneqt's acquisition of Allsec, which has resulted in creating one of India's largest BPM platforms. Allsec has become a vehicle now for our HRO operations and International Customer Lifecycle Management business. In Excelus, our training business, we have built a strong pipeline for training. This year we have received an additional contract for a value of about Rs.31 Crores under the PMKVY scheme for about 31000 students to be trained for the rest of the year.

While moving further, I would like to take this opportunity to also give some key updates on some of the business initiatives and on some balance sheet items. Number one, Trimax loan recoverability. The project is now 85% complete and the field acceptance testing is ongoing. As per our escrow agreement with the bank, 99% of the amount received from the contracting profit would be due to Quess. An amount of Rs. 7.6 Crores has been recently received into the escrow account. The company is in discussions with the Resolution Professional to transfer this amount to Quess. A petition has also been filed in NCLT Mumbai asking Resolution Professionals to release the dues. Internally, a senior management team has been formed specifically to focus on the project completion and collection of dues.

Number two, loans to subsidiaries and associates: Several of our subsidiaries or associates are in various stages of evolution at business lifecycle. Smaller entities require working capital funding towards their growth and their business and their financial strength is not as much as their parent. Hence, we continue to fund these entities.

Loans to related parties, the Rs.396 Crores on March 2019. Out of this, a total repayment of Rs.125 Crores has been received, including a Rs.103 Crores from our subsidiary in Singapore and other group entities. Loan of Rs.84 Crores taken is expected to be received by Q3 of this year. We have appointed one of the big four accounting firms to suggest a roadmap to streamline all intercompany loans. This exercise is expected to be completed by H1 of this year.

Number three, update on goodwill: The company has recognized goodwill of about Rs.1176 Crores as on March 2019. 80% of all goodwill pertains to entities which are profitable and whose future cash flows are positive.

The company has also taken a more conservative approach by using a higher discount rate for future cash flows. Also, the terminal growth rate assumption, which are key have not been changed. The entire goodwill impairment testing has been done by a reputed external valuer and inspected by our statutory auditors.

An update on Monster: Mr. Krish Seshadri has been appointed as the CEO of Monster. He is a seasoned executive with about 23 years of experience in the Internet space. During the quarter,

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Monster's average monthly visits grew by 37%, organic traffic grew by about 78%, new physical resume addition grew by about 26%, acquired a total of 471000 physical resume since June of 2019 and that's a high figure in recent times. The brand campaign was also successful and we expect this momentum to continue.

With the tight focus on cost optimization, we are estimating to exit Q4 at an operating breakeven level.

Five, an update on Quess East Bengal Football Club: The investment with the club was made with a three-year horizon, discussions are on with stakeholders to monetize this investment this year and the process is now ongoing.

Lastly, an update on the spin-off of TCIL Holding: We have obtained necessary approvals from SEBI and the stock exchanges. The scheme has been filed with NCLT Bengaluru. The court has directed us to have the shareholders and creditors meeting on August 20. The entire process is expected to get completed by November of 2019.

Post completion of the spin-off process, Quess would no longer be a foreign-owned and controlled company. One of the positive results of this exercise is that, this will allow us to increase our stake in Terrier from 49%.

We will now move on to questions to be taken from members on this call. I am joined by my colleagues Subrata Nag, our CEO; Ramki, our CFO; and we are now ready to start taking your questions. Over to you ladies and gentlemen!

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Sudheer Guntupalli of Ambit Capital. Please go ahead.

Sudheer Guntupalli: Good afternoon, Ajit, Subrata and other management team members. Thanks for giving me this opportunity. Firstly, loan and interest receivable from TSIPL was Rs. 93 Crores in March 2019 that seems to have increased by around Rs. 24 Crores to let us say Rs. 117 Crores in June 2019. So incrementally over this 3 months after Trimax has gone to NCLT what has resulted in this increase?

S. Ramakrishnan: The reported March 31, 2019 were numbers reported based on the project status at that point in time, which we had mentioned was about 65%, 70% of the project completed. Like Ajit mentioned in his opening remarks, the project is about 85% completed now. So obviously, we had to spend that additional money to bring the project to that status of completion. And that is what has increased in the additional expenditure, which you are seeing here which has resulted in the increase of ~Rs. 20 Crores.

Sudheer Guntupalli: If I understand it right, so there is an additional loan given to this entity over this 3 month period. Is that understanding correct?

S. Ramakrishnan: Yes.

Moderator: Thank you. The next question is from Sachin Kasera of Lucky Investments. Please go ahead.

Sachin Kasera: Good afternoon Sir. Congrats for a good set of numbers. If you could just give us some sense on what is the type of synergies we see from Allsec in our BPM business? And secondly, are you looking at consolidating all the entities in the BPM into one single entity? Will we be retaining the existing management or bringing some new management?

Subrata Kumar Nag: When we were looking for an acquisition in the BPM segment after we acquired TBSS, we had 2 objectives in mind. One is to get into a new practice-led revenue and also get a foothold in the international BPM segment, particularly in the CLM space. Fortunately, with this acquisition, we met both these objectives. Allsec has a very strong CLM business with centers in Manila and U.S. They are a prominent payroll processing company in India doing almost 500,000 to 600,000 records per month. I think along with Allsec and Conneqt, which is a very dominant domestic CLM player, we have three clear line of revenues between these two companies; one is a very dominant CLM in the domestic segment, a very dominant HRO business in the domestic market and a CLM business in U.SA and Canada. I think we have a very strong platform now and we would like to build upon this business which is a much higher margin business. If you see the Allsec result, it is almost a 27%-28% EBITDA margin business; Conneqt reports around 8% to 9%. I think if in the next 2 to 3 years, we can build this as a large business segment from the current contribution of around 20% of our overall revenue, we will be able to increase our overall EBITDA margin going forward. As far as the new management is concerned, we have a very strong operational management team. However, we always look for strengthening our management team and we will be doing the same maybe in near future in case of Allsec.

Moderator: Thank you. The next question is from Atul Mehra of MOSL AMC. Please go ahead.

Atul Mehra: Good afternoon. Thanks for the opportunity. Sir, just one question on the debt movement for this quarter versus 4Q - gross and net debt?

S. Ramakrishnan: The gross debt was about Rs.1294 Crores and the net debt was about Rs.336 Crores as compared to about a 116 crore, which was reported in March. Primarily, the increase came because of our increase in debt in Quess Singapore. If you remember, we had said last time regarding an intercompany loan given to Quess Singapore for the 36% Comtel acquisition. That got replaced by an external debt which was about Rs.102 Crores. The working capital increase which was there due to an increase in operations added a balance of about Rs.60 odd Crores. So that is the overall debt position.

Atul Mehra: So Rs.339 Crores net debt, right, 339?

S. Ramakrishnan: **Rs.** 336 crore.

Atul Mehra: Rs. 336 crore and this is against Rs. 116 crore?

S. Ramakrishnan: Yes.

Atul Mehra: Sir, just one clarification here. So this net debt figure is now…

S. Ramakrishnan: **Rs.** 336 crore against Rs. 176 crore last quarter.

Atul Mehra: Last quarter, right, Rs. 176 crore? Rs.176 crore in 4Q, right?

S. Ramakrishnan: Yes. But you also need to note that some of these amounts have come back during July. So, we are talking about Rs. 102 Crores, a portion of it which has come back from Singapore because of the intercompany loan getting replaced with an external loan.

Moderator: Thank you. The next question is from Abhishek Jain of Equirus Securities. Please go ahead.

Abhishek Jain: The first question is regarding the growth in the staffing business. Have we replaced any incumbent vendor or win resulting in a change in market share? And if yes, then is it at the expense of pricing?

Subrata Kumar Nag: Out of the 32000 new additions we have in the staffing business, one of the contracts, I think around 28,000, is a company which has just started the outsourcing or staffing business for the first time and hence, there is no replacement as such. It is a new expansion of the market and we were lucky enough to grab that market in this quarter. So, I think primarily we are gaining more market share. Also, we are seeing particularly after GST and demonetization that more and more companies in the Tier 3 & Tier 4 cities are entering the organized staffing space. So, overall market is expanding in India. Quess being the largest player in this segment, we definitely have an advantage to grab as much market share as possible and we are increasing our market share but not at the cost of margins, we are very conscious of our margin. I think, we have a healthy staffing margin compared to many of our competitors and we would like to keep it that way.

Moderator: Thank you. The next question is from Atul Mehra of MOSL AMC. Please go ahead.

Atul Mehra: Sir, just a follow up from my question earlier. So, net debt now is at Rs. 336 crore, does it all done with in terms of Allsec as well. Allsec concluded in July, in first week of July?

Subrata Kumar Nag: Allsec is concluded, the funding of Allsec has already been done before July. Actually we funded the entire 26% of the open offer that is Rs. 127 Crores. Out of that, we got 12%, 12.04% and so around Rs. 57 Crores. Around Rs. 60 Crores plus will be coming back on August 10 because after the deal is done, 30 days mandatory you have to keep the money in escrow. So, the money will be coming back on August 10 and that will be used for reduction of the debt. Also, we are expecting some of our IT refunds to flow in. So, I think over the next 2, 3 quarters you will see all that and some accumulation of this year's cash flow which will help reduce our debt level substantially.

Moderator: Thank you. The next question is from Shaleen Kumar of UBS. Please go ahead.

Shaleen Kumar: Thanks for the opportunity. I have a bunch of questions. So, with the 28000 employee coming from one vendor, I presume this will be a substantial vendor. I just want to understand how is the agreement, is it like a one-on-one kind of an agreement or is there a tender process? Have you placed all of them, all the 28000? I am assuming it is more of a shift of a payroll for those people or am I wrong here?

Subrata Kumar Nag: They had a subsidiary and I think these employees were housed under that. This is a large BSFI client and they also do aggregation. Although we are saying, it is around 28,000 but there are 5, 6 other companies also under that. The total of 6, 7 companies all came on one contract, at one go. Normally, in the private sector for a commercial contract, there is no RFP, basically you can say they call and because this is a large contract they will call maybe 3, 4 players who are the leading players in India and then we put forward our proposal and how we want to handle it. You have to do this entire exercise in 15 days on-boarding, so based on compliance and how to manage that, we got the contract. Actually, 2 companies got it, we got around 28,000 and the other leading player got 5,000 or 6,000. So totally ~ 34000-35000 roughly got transferred, we got almost 85% to 90% and one of our competitors got around 6,000-7,000 people.

Shaleen Kumar: So basically 28,000 are there and then the same revenue will be appearing for the next 3 quarters as well?

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Subrata Kumar Nag: Yes. That is the good thing because it started in April 1, so for the entire 12 months period, this benefit will come and that's why we are very bullish about the staffing business, particularly this year.

Shaleen Kumar: Now coming back to the other segment, what is exactly happening at the Industrial Asset Management? Revenues are coming off and it went into a bit of loss also for the first time. What is the management trying to do over here?

Subrata Kumar Nag: The Industrial Asset Management, as you know, we have 2 large businesses there, one is the Hofincons business and we had got into some trouble when the Tuticorin project closed. So that has had some effect on our overall profitability. We had to let go and rationalize the workflow, we had to pay them some money. So that has one reason. In India, as there is no new capacity in the steel or copper or power sectors coming up, so you are not getting any new large business. So that is another problem we have. Secondly, the Vedang and our telecom business. As you know, the entire telecom industry is going through a very, very rough patch and that has a direct impact on the pricing and the margin, the margin is coming down tremendously. These are the 2 main factors that are the headwinds we are facing in the industrial segment. We have been trying to actually ring fence ourselves and some of the businesses which we started, like utility and others are now trying to sync that business so we will be concentrating only on the core Hofincons that we have and a little bit of the telecom business. So, overall our loss should not go beyond this Rs. 1 Crores, Rs. 2 Crores maximum. Also, we have done some restructuring in the management and leadership as well. We have brought Guruprasad as COO, looking after this also. We hope that the next quarter and quarter after, we will be able to cut down the loss and maybe turn the tide.

Shaleen Kumar: So basically, if my understanding is correct, was it more of a one-time loss in this quarter or is it like a recurring loss because of a loss of contract?

Subrata Kumar Nag: The first one there is a one-time loss because of the Tuticorin impact but overall, if I say, it is on a going concern basis. Honestly, if I say, I think this business is at the breakeven level. It may not lose much money but it will not contribute to a large extend to our overall revenue or say EBITDA also. Anyway, the impact in the overall business is very miniscule because our 3 large businesses in the staffing, facility management, which is a part of asset management and particularly BPM segment have been doing extremely well. I think that given that, the industrial segment will not have a very large negative impact on the overall profitability of Quess.

Shaleen Kumar: Now coming on the tech segment, when I look at the way we have reported now compared to way we were reporting earlier, primarily, additionally I can see that the revenue contribution from Comtel and Magna or the EBITDA contribution from Comtel and Magna is roughly Rs. 15

Crores versus it was Rs. 24 Crores in the last year Q1 and roughly Rs. 34 Crores in last quarter. So that is a massive decline?

Subrata Kumar Nag: Magna and Comtel did not have massive declines, there has been a little bit of drop in Magna, but it is not that (which is contributing to the decline). Particularly, in the last Q4, we had some of our selection business also forming part of the technology business, also our search or RPO and all those business were part of the tech business. We had some of the large RPO, particularly one or 2 contracts, one government contract and one of the large industrial house contracts we executed that quarter. So, there is some one-off revenue and EBITDA which was there in the Q4FY19 quarter. So, that is not there in this quarter and that is the main impact in this quarter.

Shaleen Kumar: So what kind of EBITDA, like if I say Rs. 15 Crores is for this quarter, what kind of an EBITDA can we expect coming from that vertical? I know we will not be reporting going forward in that?

Subrata Kumar Nag: Technology today, I think what we have today is on a very strong foot, particularly on account of Conneqt which has been doing very well. Conneqt last year, as you know, almost did Rs.860 Crores and Rs.71 Crores to Rs.72 Crores. I think they have done a couple of large contracts. We have already transitioned in this quarter with another large BFSI 800 plus seats. In Allsec, we have been adding 100 and 200 new seats. We have got one of our 2 international customers and have been increasing their seats also. So, between Allsec, Conneqt, MFS and Brainhunter, I think we have a strong year in the technology business and yes, I think what you have seen this quarter, Allsec also you have only seen an impact of only around 3.5 weeks, basically a one month impact, so the full impact of this will also come. I do not want to give a forward number but it will be a very strong quarter and year also.

Shaleen Kumar: Yes, that is it from my side. Thank you.

Moderator: Thank you very much. The next question is from Aditya Bagul of Axis Capital. Please go ahead.

Aditya Bagul: Good afternoon gentlemen. Congratulations on a very detailed set of disclosures in the PPT and the press release. Just a couple of questions from my end; can you describe or can you elaborate on the impact of Ind-AS 116 across the 3 segments that we have reported?

S. Ramakrishnan: Yes. Let me just probably summarize that at the company level and then break it down more at segment level. At a company level, if you look at it, primarily, the rental expenses came down by about Rs. 27.5 Crores and the corresponding incremental in terms of depreciation was about Rs. 24.5 Crores and interest was about Rs. 7 Crores, resulting in the impact at the PAT level negative of about Rs. 4.6 Crores that's more at a company level. Bulk of this Ind-AS impact, if you look at it, nearly about Rs. 6.8 Crores or Rs. 7 Crores is for the workforce management. For the tech services, that's where the balance portion of the Ind-AS has gone. This is because bulk of the contracts we have, majority of the contracts we have is from Conneqt business which is contributing to some portion of the Ind-AS and that is why the impact has gone primarily there.

Aditya Bagul: The second question is on the East Bengal Football Club, we have talked about ways in which we are trying to monetize this asset, just wanted to understand two things. What is the future plan of action and if you can just help us understand some timelines on that?

Subrata Kumar Nag: Yes. East Bengal Club when we invested, we had around a 3 year investment horizon and this is the second year. We have already started talking to our other relevant stakeholders and looking at options on how to monetize this asset. We have also been talking to few possible investors. So, it will take some time, maybe another 2 to 3 quarters, but at the end of this season, say May to June next year, we are confident that it will be end of this. We are sure that we will not be in the club from the next season and we will be out of this arrangement. However, this year we have been trying to actually increase our sponsorship income, initially last year as a first year, we did not have much time. We have already signed 3 sponsorships this year and our idea for the current year is 2-pronged, one is to contain our loss this year and make it as minimum as possible and at the same time look for an exit from this investment.

Aditya Bagul: So, the timeline on this is likely to be by the end of this year if not beyond?

Subrata Kumar Nag: Yes. That is the ultimate but we will try to do it as early as possible.

Aditya Bagul: Just one last question. We have had a healthy addition in staff count in the general staffing business. Just wanted to understand going forward would we have any training or any other upfront costs that we would have to bear which could possibly impact the margins in Q2?

Subrata Kumar Nag: No, I do not think so as there is no such training scheduled. Even if we do our training in the staffing, primarily, we do this only with the instruction of the customers and we then charge this to them also for that kind of training. So, I do not see any cost coming in the Q2 or after the next quarters also.

Aditya Bagul: Thank you so much and best of luck for the quarters to come.

Moderator: Thank you. The next question is from Abhishek Jain of Equirus Securities. Please go ahead.

Abhishek Jain: Thanks for the opportunity. So, two questions here; the first one is regarding the financial services client that we are talking of in the general staffing business, which gave you that substantial number. Just to understand is it coming because of our acquisition of Allsec? Is there any relation between them?

Subrata Kumar Nag: No, this is our sales effort and came just on the basis of our sales initiatives. This has nothing to do with the Allsec contract.

Ajit Isaac: Primarily to win a contract of this size and scale and complexity an organization need to have a certain set of strength. One of them is geography. The second one is account management and how you manage the relationship. The third one is technology. The fourth one is on-boarding and scale to do it at this level. Very few organizations have that to do that in India today and that's really how this project came to us.

Abhishek Jain: That's helpful. Secondly, if you can just give some color in terms of the growth rates because we have reclassified the way we look at the business. So historically, you used to give commentary about each of your segments and the growth rate that you would kind of achieve. So if you can again share some thoughts on the 3 segments that could be helpful?

Subrata Kumar Nag: The workforce management segment, you have already seen there has been substantial growth in this segment and you have to understand this segment normally from the EBITDA percentage basis point, it is a little soft because of Excelus, which is our training business and normally we get most of that mandate in this quarter which gets executed in the Q2, Q3 and Q4. So, you will definitely be seeing an uptick in the margin in the workforce management going forward. I think in our staffing business, every year it has added more numbers than the previous year and I think that trend will continue and we will have good traction in the Q2 also. I am coming to the second question with operating asset management, our facility management was a very good year last year and it is continuing the good run this year also. We have owned couple of very large contracts this year and one or 2 contracts are getting into operation in September. One contract which will be our largest contract for the time being, almost Rs.30 Crores contract in the FMS space. So FMS and security both are doing well. I think we'll be growing almost 20% plus margin. The overall margin maybe a little less because I do not think that industrial segment will be doing that great, our idea is to contain there and keep it at breakeven level. I am very bullish about the technology segment. Technology, Conneqt when we took it over, it had Rs.57 Crores turnover EBITDA, last year Rs.71 Crores, this year we are expecting that same kind of growth. For Allsec, you have seen the first quarter, they have done Rs.18 Crores. I think the run rate will continue. So overall as we always say that organically you can expect around 20% growth as far as EBITDA is concerned and we are sticking to that. I think we delivered much more previously but though the base is much higher, larger than previous year but I think keeping these three large segments in mind we will be able to achieve that kind of target.

Abhishek Jain: That is very helpful. Thank you for taking my questions.

Moderator: Thank you. The next question is from Pritesh Chheda of Lucky Investments. Please go ahead.

Pritesh Chheda: Sir in your previous question you mentioned FMS growth will be 20%, right?

Subrata Kumar Nag: See our overall growth is always more than 20% and FMS has been contributing handsomely. So yes, I think if we have to grow 20% plus, FMS has to grow at least in that same direction.

Pritesh Chheda: One question is on ROCE. So if you see the capital which is deployed in FMS and industrial is a fairly large portion of capital invested and the ROCE is fairly low, so what are your comments or directionally where do you see the ROCE of these 2 businesses improving, not improving, if you could give some thoughts there?

Ajit Isaac: I think the first point here is that as an organization our focus is clearly on getting back to some of our pre-IPO ROCE levels. So, we have a number of initiatives that we are driving. Some of it I think we will start seeing results and being able to tell you what they are as they come along but our objective is to get back to about 20% number at ROCE level.

Pritesh Chheda: So that would mean a substantial improvement in ROCE of this facility management & industrial because half of your capital is employed there which has a fairly low ROCE, so just on the thought process side, will it be a function of margins? will it be a function of a slightly tighter capital in these two businesses or it is something else which would drive up the whole ROCE so you might even review the capital invested in these 2 businesses. So if you could give slightly more granular thoughts on how the ROCE will improve?

Subrata Kumar Nag: See if you take the case of the facility management business, particularly, I would say 50% of facility management business and if I go further down, the ROCE will be very high because that involves portions where we organically grew. What happened was that the ROCE came down because we did the Manipal acquisition which was a large acquisition and substantial amount has been invested. So currently our objective is two-pronged. Number one, as I said, to increase our overall EBITDA and at the same time increasing the margin. We are diversifying in more in the healthcare and hospitals space. Today, I was checking 45 units of healthcare units are managed in pan-India, almost 15,000 beds and there is a margin of almost 12% plus. So, our idea is to get more and more in that kind of business so that the overall margin can go up. Secondly, what we have been trying and internally doing is bringing more efficiency in our invoicing and collection, so that my working capital cycle can be contained and brought down from what is currently around I think 55 days - 56 days to around 45 days. So these are couple of things, the initiatives we have been working on. It may take a couple of quarters, but we are confident that you have to give us maybe some time and you will see that the ROCE will come back to a level where it should be.

Pritesh Chheda: And same comments on industrial management? This you gave for facility.

Subrata Kumar Nag: Yes. See industrial, as I was telling is going through a little bit of a rough patch. Firstly, honestly if you ask me, I think ROCE will be our second objective, a little later. Our current objective is to not bleed any cash there and make it a breakeven and profitable because if they lose any cash, that is actually taking away my other businesses' profit. So that is the primary objective for the next one and 2 quarters. If we are able to turn it around, I think we will be able to improve the ROCE from there. But for the time being I think our immediate objective is to make it a profitable venture.

Pritesh Chheda: And on the cash flow side, you mentioned that the cash conversion for the quarter was about 42% and on the other hand, we have this net debt increase. So I just wanted to know the utilization of cash flow and the consequent increase of debt if you could give some idea where was the cash flow utilized?

S. Ramakrishnan: So let me just explain this. Our cash conversions were not 42%, I think they are more about 44% for the quarter and again some of the cash conversions for the quarter had been through much better receivables management like what Subrata said. Our DSO days have dropped again this quarter.

Pritesh Chheda: That I got sir. I wanted to know where is the cash utilized for the net debt to rise?

S. Ramakrishnan: Yes. So the cash basically let me tell you, there are 2 places where the net debt has risen, I think I covered it in the first question. In terms of our working capital requirements, we have got about close to Rs. 60 Crores or Rs. 65 Crores, where we had to utilize on our working capital requirements because we have got all these bigger contracts now. So, there is an initial working capital spurt there and additionally I also said on the debt side, the debt in terms of Quess Singapore where we had initially the amount which was there that portion of it. And other than that there are some expenses which we also incurred internally which is towards the Allsec.

Subrata Kumar Nag: The acquisition of Allsec was also funded through the internal accruals. So, some of the cash has gone for acquisition of the Allsec also.

Pritesh Chheda: Lastly on the general staffing side what is the growth expectation now since you have added 32,000 in the quarter one through a bulk contract. So I just wanted to understand what is the expectation on growth from the general staffing?

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Subrata Kumar Nag: See, as you know, 60% of our business comes from the general staffing. And previously if you see, we have been growing 40% plus. And that growth primarily came, a large, large part growth came from the general staffing. So this quarter also if you see, a large part of growth came from the general staffing. I think instead of without going into any specific forward-looking numbers, I think that trend will be continuing. If you want to get 20% on the overall growth, general staffing has to contribute a substantially higher number than the 20%.

Moderator: Thank you very much. The next question is from Kishore Agarwal of Fiera Capital. Please go ahead.

Kishore Agarwal: Thank you for the opportunity. I just wanted to go back to the Trimax JV. So your receivable to Trimax increased during the quarter, you clarified on that. So just wanted to understand what is the total contract value of the Smart City project? And because you have completed only 85% of the job, do you expect more support to the JV going forward?

S. Ramakrishnan: Yes. So let me clarify, let me take the second question first, that is easier because like I said, the project is about 85%, 90% completed and I think most of the expenditure is completed. We probably expect another about Rs.10 Crores to Rs.12 Crores, max if it is on the capex portion. And of course later on, once the capex is over and the FAT is completed then we have the O&M piece, which is for five-year tenure. That is in terms of what is the residual. In terms of the overall contract value, all inclusive including GST and everything is about, little about Rs. 20 Crores,

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

Abhijit R. Akella: Just a couple of questions from my end, one is on the OCF-to-EBITDA ratio, which has been improving continuously the last few quarters. So what would your target be for this ratio by year-end? And consequently, where do you see debt position ending up by the end of the year?

S. Ramakrishnan: So let me tell you in terms of the OCF/EBITDA ratio, I think we have been consistently improving and you will continue to see this because there is a lot of focus on our working capital management and on our cost management. So, there has been multiple focus and very dedicated teams which have been working towards this. So this trend would continue. If we go as per plan, we should be getting somewhere closer to the 50% mark by the end of the year. In terms of our debt levels, there is an increase in debt in the interim, but you will start seeing some of the debt levels coming down starting Q2 itself and moving forward. Again, we have some very good plans on the debt side also to bring down our debt numbers because our collection is kind of really going very strong. If things work well, we should be probably ending up at debt levels

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which are equal to our last year debt number, if not better and that with an increased working capital requirement.

Abhijit R. Akella: Second on new order wins, you have already announced something large in general staffing and then there is also something upcoming in facility management. And I think your disclosures talk about Rs. 2,500 Crores TCV that you have won. So what timeframe is it executable and how do you see the pipeline going forward in terms of new order wins?

Subrata Kumar Nag: Yes. Of the 2500, few were 3 years, most of them like one year contract, it depends on what contract tenure we sign, so based on that we get that calculation. That is number one. But we have a very strong sales pipeline Abhijit today, whether it is our general staffing, facility management and security and also in our technology, particularly BPM segment - Allsec and Conneqt. So I think this number, we hope we will continue this kind of number. It may not be 2,500 every quarter, but a substantial increase in every quarter. And we have formed a cross-sell team, which has been actually doing well, they are getting more traction. And now primarily all the India business other than technology we have brought under one leadership umbrella and that is also helping us facilitating more, selling more cross-sell between the facility management, staffing and Conneqt business. So that also will help us getting some of the large contract.

Abhijit R. Akella: And lastly, given that we are not planning much by way of M&A activity going forward, can we assume that the 20% EBITDA growth aspiration that we have year-on-year is basically going to be pretty much entirely driven organically?

Subrata Kumar Nag: 100% organic I do not see any acquisitions we are doing in the near future. So whatever we are discussing today is organic growth.

Moderator: Thank you. The next question is from Ajit Motwani of Bharti AXA. Please go ahead.

Ajit Motwani: Your migration to Ind-AS 116 which has a differential EBITDA of about Rs. 27 crore. So if I go to slide 19, it has reporting based on old structure. Where exactly are those housed in this people services technology and facility management?

S. Ramakrishnan: So I think again the Ind-AS impact primarily and if you look at the workforce management it was only about Rs. 7 Crores at workforce management level. And the majority of the Ind-AS impact is in the tech services and that also primarily being driven by Conneqt business.

Ajit Motwani: So of the 27, you are saying Rs. 7 Crores is only in workforce management?

S. Ramakrishnan: Yes.

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Ajit Motwani: Okay. So would it be then fair to assume that the workforce with this people services business is in large part has seen expansion in underlying margin despite improvement in collect and pay?

Subrata Kumar Nag: Yes, 100%. We have been always telling that we have a focus to improve the Collect & Pay from the working capital point of view to reduce our working capital cycle, but we have never said and we do not encourage our team also that Collect & Pay at the cost of the margin. We have to go to the Collect & Pay, simultaneously, we have to protect our margin and increase our margin. So it is not mutually exclusive that you have collect and pay and you lose your margin. So that is not our philosophy. We do not work on that and we would like to have both.

Ajit Motwani: So on slide number 20 when I look at the workforce management, 4Q you had a Rs. 95 Crores EBITDA, you have done Rs. 100 Crores more sales, you have benefit of Rs. 7 odd Crores on Ind-AS and still your EBITDA is Rs. 90 Crores. So can you give some sense on the delta?

Subrata Kumar Nag: Yes, yes, I know. See primarily, you have to understand that this business has 2 components, one is the general staffing, one is the skill development. Skill development, Q1 is always a very, very soft quarter. Like, when the company budget comes and the allocation happens, most of April, May and June goes for state-wise or the central wise to get the mandates of the students you will be training for the year. So most of the training, mobilization pickup and other started in the Q2, but majority of the net, 80% of the training happens in Q3 and Q4. So there is a high variation of the training business EBITDA between Q1 to say Q4 and that is 20% of margin. Last year if you see, we did almost Rs. 22 Crores; Rs. 23 Crores I think EBITDA in Excelus and that mostly came in that last quarter, last 2 quarters. And this year we are expecting much more revenue & EBITDA from that. So that is the primary. Though general staffing did very well, but EBITDA wise you are not seeing that jump of escalation because the drop in the Excelus business or skilling business. You will see that impact come in Q3 or Q4 where general staffing will be doing well at the same time skilling business will be reporting the EBITDA which is normally done in the year.

Ajit Motwani: Because the delta is very large, see the people service business moved from Rs. 61 Crores to Rs. 74 Crores, it is a Rs. 13 Crores impact positive, whereas here we are seeing a negative impact. So does the skilling business incur losses in Q1, Q2?

Subrata Kumar Nag: May be some losses or break-even in some sort of way. I can give you the exact details if you want, you can contact Ramki.

Ajit Motwani: I will connect with you offline on this. On the milestones, that you are saying, you are saying that post to 43% OCF/EBITDA last year, this year you will be targeting about 50% for the full year, right?

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S. Ramakrishnan: That is right.

Ajit Motwani: So basically last year you generated Rs. 200 Crores cash, this year you would be far better and then also you are saying that the year-end debt will remain flat in the sense?

Subrata Kumar Nag: No, no, we did not say that year-end debt will remain flat. What we have been telling is that and you have to also understand that we have just recently done Allsec, so lot of internal accrual has gone there. As you know, we have 2 other buyouts in this year, one is the Golden Star, we have already told and other is the Vedang project this coming November, so both together will be Rs. 50 Crores - Rs. 60 Crores to buy that out. So that commitment is there. Still after doing that, we are very confident that last year we reduced the debt by Rs. 200 Crores and same kind, I do not know the exact amount, but definitely there will be a substantial reduction because the cash that we will be generating, we are very determined that going ahead we are not doing any more acquisitions, so most of the cash will go to paying of the debt.

Moderator: Thank you. The next question is from Atul Mehra of MOSL AMC. Please go ahead.

Atul Mehra: Thanks for the opportunity again. Sir just one observation on Monster, so we have reported very good metrics in terms of traction on the platform, but it is not translating into revenue in any form so far so if we look at on a sequential or on Y-on-Y basis, revenue is largely at that similar run rate of Rs. 36 Crores. So could you just help qualitatively what is happening in this business now given that this was perhaps the first quarter of the revamp platform?

Ajit Isaac: There are 3 levels of activity at Monster; one is of a technology level to ensure that the search engine and algorithm is working at a specific efficiency level. The second one is in terms of sale and in terms of the site activity level, like how many visitors and the metrices related which you have seen improve. The third is finally financial. Unless you get the first and the second right, the third will not happen and there is a lag time to it. So what we are actually doing right now is getting the technology and the metrices on the site up and ensuring that our financial losses on this are minimal. If we go on the basis of our plan, we expect in Q4 this year to reach a breakeven level in terms of financials on the site. So that is our goal that we are working towards.

Atul Mehra: Sir, have you expanded the sales team and already ramped in order to make sure that the revenue from this particular business comes about as per your plan. So has there been a substantial addition to the sales team as well apart from the tech investments?

Ajit Isaac: No. Our sales team will not be expanded from where it is right now till our product acceptance levels in the market increase and we are happy with the type of differentiation we are able to show with competition. So contingent on these 2 issues, we will go back to market with an additional sales force.

Atul Mehra: And just one question on the industrial asset management business. So when do we see things coming into the business because it is been slow for some time now and this quarter we have seen obviously profitability come down quite a bit. So when do we see recovery in this business going forward?

Ajit Isaac: So I think we are about one quarter away from seeing this business turn around. I think if you view Q2 of this year and then we have start seeing some results, the changes that we are making in Q3 and then we would be able to hopefully put a runway for growth after that.

Atul Mehra: Sir, just one final question that as we are now at the start of the year. So how do you look at say profitability for the end of the year, for this financial year given that there are too many moving parts now? So as you guys see it and you have always guided in terms of numbers in the past. So any numbers that you would like to guide for in terms of EBITDA, PAT, OCF, FCF for the year, for the entire financial year, fiscal 2020?

Ajit Isaac: Given the fact that we do not have guidance as a policy in our company, we do not want to give specific numbers. But what I can tell you is that we've got goals in our company that we are working, but we want to work towards OCF-to-EBITDA conversion level of 50%. We want to work towards an EBITDA growth of about 20% from the previous year. We want to work directionally in terms of reduction of debt and reduction of interest costs in our company. We want to work towards the consolidation of our subsidiaries, a project that we have engaged with one of the big 4 firms. So I think there is substantial effort level in some of these things that will translate to numbers towards the end of the year.

Moderator: Thank you. The next question is from Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Good evening. Thanks for the opportunity. I wanted to understand with respect to Conneqt. I went through the annual report and it says that 2019 revenues were around Rs. 850 Crores and profit before taxation was negative Rs. 10 Crores, whereas somewhere in the earnings call, one of you mentioned that the EBITDA was around Rs. 70 Crores, Rs. 71 Crores. So just wanted to understand why is there such a huge differential between the EBITDA and profit before tax?

Subrata Kumar Nag: I think somewhere you are making a mistake, it is definitely not negative in the PBT, but I think we will check that again and come back to you offline.

S. Ramakrishnan: It is definitely not negative. If you look at the March quarter alone, Conneqt had about close Rs. 13 Crores of profitability.

Tarang Agrawal: Sir, I am on page 246 of the annual report. Okay, we can take it offline.

S. Ramakrishnan: Yes, let us take it offline and I can clarify this.

Moderator: Ladies and gentlemen, that is all we have time for regarding questions for today. I would now like to hand the conference back to the management for some closing comments.

Ajit Isaac: Thank you very much for having joined us on this call. In closing, I would like to say that we are committed to maintaining a similar level of disclosure in our reporting. We are committed to improving the business metrics that we have spoken about. And I think as a management team, our focus is clearly towards ensuring that some of the goals that we are mentioning on this call come true. We would encourage any of you to come back to us with questions that you will have. Our IR team is available to take your questions at any point of time. Thank you again for joining us on this call.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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