

"Quess Corp Q1 FY2021 Earnings Conference Call"

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MANAGEMENT



Moderator:

Ladies and gentlemen, good day, and welcome to the Quess Corp Limited Q1 FY2021 Earnings Conference Call hosted by IIFL Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijit Akella from IIFL Securities. Thank you, and over to you, Sir!

Abhijit Akella:

Thank you, Faizan. Ladies and gentlemen, very good afternoon and thank you for joining us on the 1Q FY2021 post results conference call of Quess Corp. It is my pleasure to introduce the senior management team of Quess who are here with us to discuss the results.

We have with us Mr. Ajit Isaac, Chairman and Managing Director; Mr. Suraj Moraje, Executive Director and Group CEO; Mr. Ramakrishnan Subramanian, CFO; Mr. S. Guruprasad, COO, India Region; and Mr. Lohit Bhatia, President, Workforce Management.

We will begin the call with opening remarks by the management team. And thereafter, we will open up the call for a Q&A session. I would now like to hand the call over to Mr. Ramakrishnan Subramanian, CFO, to take proceedings forward. Thank you, and over to you, Ramki!

Subramanian R:

Thank you, Abhijit. Good afternoon, everyone, and thank you for joining our earnings call today. Please note that the results and the presentation have already been uploaded on our website. Anything we say, which refers to our outlook for the future, is a forward-looking statement, and that must be read in conjunction with the risks that the company faces. These uncertainties and 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:

Thank you, Ramki. Good afternoon to all of you, and a warm welcome to this year's first quarter analyst call at Quess. My colleagues, Suraj, our Group CEO; Ramki, our CFO; Guruprasad, our Head of India Operations; and Lohit Bhatia, President of our Workforce team, join me for the call as well.

The last time I spoke to all of you was on the 28th of May in the middle of the lockdown and that was when many questions swirled around about the direction that the pandemic will take. Today, the 29th of July, exactly two months later, the same questions remain on



the direction that the pandemic will take and its total impact and effect on the Indian economy. Through such a hazy period, it is best to take the safest path and to secure and consolidate as much as we have got, rather than trying anything adventurous.

In line with the three issues that I mentioned the last time, that is: To grow our revenues by adding new logos to the customer base, one; two, to focus on cash flows; three, to pay attention to our balance sheet. We have worked hard on all of these three. We have added about 200 new customers for the quarter in existing and new service lines with a continued focus on cross sales. Customers with two or more service lines now account for more than 68% of our revenues.

The most significant achievement for the quarter has, however, been our increased OCF conversion at 152%, underpinned by prompt collection and reduction in our working capital requirements.

Lastly, our focus on our balance sheet has resulted in a net debt reduction by about Rs.100 Crores from Rs.355 Crores to Rs.254 Crores. All this has happened while we have transitioned through a leadership change with Suraj coming through admirably in the first quarter, while ensuring service continuity for all our clients who had been hit by COVID-19.

I also want to stress the positive long-term gains coming out of COVID. Quess has reduced its real estate footprint by about 35% and has reduced its SG&A to the extent of 20%, bringing long-term saves in our indirect costs. In addition, we have had extensive tech rollouts in almost all our businesses, some of which we will talk through to you in the process of this meeting.

Despite the challenges of the COVID-19 situation, we are grateful to report that with diligent work from our entire team we have been able to reduce its impact and contrarily develop strengths that will disproportionately benefit our business once life comes back to normal. I also want to emphasize that our focus on 20% ROE by 2023 is undiluted, and all of us are working hard to ensure that we reach to the margin of safety.

Leadership is everything in times like this. And our management committee and every business leader, along with their teams have lent their shoulders to the wheel, and this is our biggest insurance against pandemic like situations. To talk more about what we did and how we went about it, I would like to invite Suraj to share this with you. Over to you, Suraj!



Suraj Moraje:

Thanks, Ajit. Good afternoon, everybody, and thank you for making time to be on this call. I hope that wherever you are today, you and your families are safe and growing closer.

We do indeed live in interesting times. In this context, I actually want to start by saying a very big thank you to two constituents, our customers and our employees, for standing shoulder to shoulder with us in these times. Our employees from the management team right down to our frontline sales, janitorial staff have turned up each day, not in body but in mind and spirit. And not just in our core activities, in Q1, our employees sponsored and distributed 80,000 cooked meals and 1,600 ration kits through our Careworks Foundation. As the new CEO, I feel that the Quess Corp organization has really put its shoulder behind a very heavy wheel, and I am very grateful for this.

The COVID pandemic and the lockdown have had varying impacts across our business. While DigiCare, Excelus and the food business saw significant negative impact, our international IT and HRO businesses stood strong in this time. The power of our platform, I think, has come out as a result. Other businesses saw less impact than we had anticipated. Our total headcount is also less, down less than we had anticipated, at about 13% lower than its peak in March. We owe this to our enduring relationships with large customers, our focus on cost and service, and increased focus on go-to-market, which I will expand upon shortly.

As you have seen by now, Q1 saw our revenues largely flat year-on-year, with EBITDA falling about 12% year-on-year. Do note that our reported EBITDA is after onetime COVID costs of about Rs.6 Crores, lockdown impact of about Rs.21 Crores in Excelus and DigiCare and about a Rs.3 Crores impact of EBITDA in our food business versus a quarter ago.

Adjusted for these numbers, our EBITDA performance would have been more or less flat versus a year ago.

As committed in the last call, we have focused on OCF, and we have delivered 152% OCF to EBITDA in this quarter. Our OCF is up almost 2.5 times. At Quess, we remain committed to executing against the North Star of Winning Together with customers, people and investors. As Ajit said, achieving both a 20% year-on-year OCF growth and a ROE of 20% in the medium term. During this quarter, specifically, we continued our theme of focusing on customers, cost and cash and let me talk about each of these briefly.

On customers, I am happy to say that none of our businesses lost a single major customer in this time. And I think that is real testament to what everyone from the frontline



upwards has done in delivering superior service and the constant innovation that the Quess organization has.

On the contrary, we have added about 200 new customers in Q1. Now note that not all these customers have translated into revenues yet because there has been a slower pace of transition with the lockdowns and economic activity. But we do expect that as the economy reopens and accelerates, this number will go up and we will start seeing the benefits. We have also strengthened our go-to-market, including (i) developing new service lines focused on client productivity, (ii) reaching out to new customers and (iii) significantly stepping up our focus on cross-selling and multi-tower deals. Our senior management is much more in the market, in line with our continued belief in the power of the Quess platform. As Ajit said, at this point, customers that enjoy two or more of our service lines account for about 68% of our total revenues and our efforts to increase this is showing good traction at this point.

On costs, our total indirect cost was down about 20% in the quarter versus our run rate in Q4. This has been achieved through a combination of salary and non-salary measures, including rationalizing our real estate footprint, we have reduced seats by about 35%; digitizing our invoicing and compliance processes; renegotiating IT and AMC contracts; increasing our focus on people productivity; and of course, savings on travel and promotions. We think this will translate to a structural cost reduction of about Rs.60 Crores versus our last full financial year. And we are working to further optimize these costs in this quarter.

On the cash side, as I mentioned, our OCF to EBITDA ratio was 152%. It is a onetime spurt to an extent driven by release of working capital, but our collections performance has come out strongly in this quarter and I think that is a testament to our historical focus on partnering with solid enterprise customers that are each leaders in their own industries.

Our DSOs are slightly up on a quarterly basis, but that is to a large extent, due to shrinkage in the actual revenue denominator, even while the numerator has come down. And overall, our cash situation remains comfortable, and we have had significant debt repayments in the quarter.

We have remained committed to reducing our exposure to low OCF businesses. In line with this, we have restructured our executive search and selection businesses. The Excelus business has turned down new mandates from the government. And we are shifting away from project-based businesses, sticking to our services knitting.



So that is a little bit on the themes for the quarter. Let me now just give you a quick flavor of the performance by platform, starting with workforce management. GS revenues were down about 21.8% versus the last quarter and the headcount down by a shade under 15%. Most of the reduction came in retail and BFSI, down 13% and 16%, respectively.

The mix of on-credit to collect-and-pay customers remained stable. I know many of you are curious, and I have received many questions on this in individual conversations to understand the nature of this business. And I do want to make a few comments on the nature of our on-credit business in general staffing. Number one, I just want to say that multinational companies and ET 500 domestic customers contribute about 95% of our on-credit revenues.

The customers have been very sticky here. The average tenure of customers is about five years for on-credit versus for collect-and-pay where it is more about three years. And the average service fee per associate from on-credit customers is a significant premium to collect-and-pay customers. In fact, much, much more than justifying the additional working capital locked into the space. We have had no cases of bad debt from these customers through the COVID period. And we do not consider there to be any credit risk at this time. I do hope that this addresses any questions you have on this segment.

Moving away from the on-credit segment, I am also happy to report that GS has acquired about 24 new customers in Q1. While it is very difficult to forecast even the next few weeks, we are hopeful that the headcount reductions will start to turn as we enter the festive season. And we are hoping anytime now that the button will be pressed on hiring at some of the new customers we have acquired. But that depends a little bit on the pace of lockdown and how COVID and how the economy responds.

In IT staffing, our domestic business for the headcount is down about 7%. The dip was attributable to the low-margin BPO and Telecom segments where we saw big dips, but partly compensated through the acquisition of newer, high-margin customers, where our focus on digital skills is beginning to pay off. And we reduced cost to serve by digitizing the back-end processes, introducing RPAs, automating compliance, changing our recruiting channel mix, paperless onboarding, helping us, therefore, by and large, keep the domestic IT services business on pre-COVID business plan. So it is by and large on the pre-COVID business trajectory as areour Singapore and Middle East businesses.

Coming to the training and skill development business, the revenues fell by 93% due to lockdown of training facilities. The government has committed to covering our fixed costs on the DDU-GKY program in this period. But we have not provisioned for that yet.



Instead, we have expensed the cost of running the business in this time. So as and when - if and when the government does return that money, there will be an upside that you should see on this. We hope that this business will progressively start operations in some states by mid-August, subject to, of course, state-wise clearances.

I would like to say that, in the meantime, we are making some good progress in our B2B business development, and we are starting to see a nice funnel developing, and we hope revenues from that segment will also start soon.

Moving on from WFM to our Operating Asset Management platform, I will start with facilities management as a business. The Q1 revenues fell by about 13% versus the last year. About 7 percentage points of this drop in 13% versus Q1 2020 was attributable to the food business, where we saw our revenue is about halved in the quarter with an EBITDA impact of Rs.3 Crores and this is largely due to the closure of education institutions and offices.

The housekeeping front itself has seen the IT services sector take quite a big hit of around 20% owing to work from home. But the manufacturing, BFSI, infrastructure verticals have seen revenues for the month of June almost start to come back towards pre-COVID levels. This business also has been very aggressive in upgrading its channel operating practices, service lines to protect our customers and their employees from COVID, has made some very good progress in introducing new clients. We have had about 75 new logos introduced in sterifumigation. The traditional business saw about 18 new logos being won in Q1. We will continue to focus hard on accelerating new logo acquisition. We do think that the impending flight to quality in this market will open up opportunities for us, although we are seeing stiffer price competition in the short term, especially as our customers move to reduce their SG&A costs.

Moving on to Terrier during the quarter, we completed our cash neutral increase of stake to 74%, allowing us better control and integration. Terrier is a nationwide security provider with a combination of man guarding and electronic security solutions. This business manages about 1,900 sites across India with significant technology solution capabilities in Terrier electronic security services, which conducts thermal imaging, for example, we have secured our touch-free access control system deployed at many of our customers, and we have our own command center with a remote monitoring system.

After a brief uptick at the beginning of the COVID period, this business also faced a downsizing pressure, especially in IT services, which account for about a third of its revenues. And this is because I think night shifts have been less manned, security guards on transportation are not needed in this period. The revenues were down about 4% year-



on-year for Terrier. Again, we have not lost any customers per se. We expect the numbers to bounce back as workers return to offices. And the team is driving new sales aggressively, especially man-tech combined deals. They are focusing very hard on improving the underlying operating processes and performance and digitizing our workforce. So that is on Terrier.

The third component of Operating Assets is industrial, where revenues were down about 21.4% quarter-on-quarter, largely due to continued demobilization in metal, cement and captive power, where we have seen scaled down operations and some delayed capital expenditure. However, with the gradual restart of the economy, we are starting to see some renewed activity, and we do hope the coming months will be better. The team has used this time to drive collections, digitize our end-to-end hiring process and workforce management. We have been driving a very focused program to cross-sell non-O&M services to industrial clients, which is showing early signs of progress.

Before I move on from the Operating Asset Management platform to the Global Technology Services platform, I would like to say that we are very optimistic about the medium-term prospects of the Operating Asset Management platform. Across service lines, we do anticipate that as we speak to customers who are working with maybe smaller players with not as mature operating procedures, not as digitized processes and not as strong balance sheets, we do see more and more customers coming to us and seeing that difference. We anticipate that as people start to focus on regrowth as the economy turns, we do think that the flight to quality will play into our favor.

Coming on to our third platform, Global Technology Solutions, our IT business has had its best quarter yet from an operating perspective. In addition to the 6 contracts we signed in Q4, we signed another 5 contracts in the U.S. in Q1. The Canadian business witnessed softness on account of work-from-home restrictions in the government segment. But here, too, we have seen good momentum with 9 contracts signed in Q1. And our go-to-market integration here under the Quess GTS brand is largely complete, increasing our sales momentum across IT and BPM services.

On the BPM side, Conneqt and Allsec together saw their revenues fall by about 4.3% year-on-year and about 22% quarter-on-quarter, driven mainly by a drop in the domestic CLM business, partly offset by expansion in volumes in the HRO business, which has stood very robust and a more rapid recovery in our international CLM business. Conneqt revenues fell by about 25% versus Q4 in Q1. The EBITDA decline was less pronounced because many of our clients and this is again maybe allude to the quality of our clients, many of our clients paid minimum guarantees during the lockdown and the team carried out some extensive cost reduction measures, such as seat consolidation and indirect cost



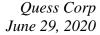
optimization. We are proud to say that Conneqt was the fastest in the domestic industry to enable work from home, moving about 10,000 systems home over the period.

Allsec's revenues fell by about 10.5% versus Q4, with most of the impact in the CLM business. Specific on the Allsec HRO business, it may interest you to know that on a same customer basis, the total number of pay slips processed per month in India fell by about only 4% between March and June, on a base of maybe 7 lakh pay slips. It shows that maybe so far in the formal sector, the loss in employment has not been as high as many fear. The largest drops we have seen, again, are in BFSI and Retail/FMCG. And we have seen an increase in IT/ITES and in e-commerce. Overall, Allsec is bouncing back faster than Conneqt to pre-COVID performance, given the all-weather nature of HRO and the quicker recovery of volumes in the international markets.

I will quickly cover Monster and DigiCare. Monster has had a difficult quarter, I would say. Search volumes are down over 50% quarter-on-quarter. Sales volumes are under pressure because, I think, the recruiter segment is seeing their own recruitment needs go down dramatically, especially small recruitment firms are slower to renew. Enterprises are renewing in smaller quantities. The EBITDA performance in this quarter has been well within the previous guidance. We have had a slight positive EBITDA in Monster due to saving of promotion expenses. Given the improved product performance, renewed recruiter enthusiasm, the operational tightness in this business, our focus is really now on driving sales and improving market share, this difficult market condition notwithstanding. And we are hopeful that as we come out of the economic downturn, we will come out with all guns blazing.

QDigi, despite the disruptions early in the quarter where we lost a little bit more than two months of revenue completely, our volumes have recovered to almost 100% in June, setting us up, hopefully, for the upcoming peak season despite intermittent lockdowns which obviously will play a role, and we have to see how those play out. The new business pipeline at QDigi is stronger than ever.

That was a little bit my update on the businesses. Before I close, I want to explicitly call out our increased focus on digitization. Q1 saw acceleration of our adoption of technology, be it in automation, digital invoicing, touchless attendance. We drove adoption of InEDGE, our workforce management app. It used to have about 118,000 MAUs in March. It is now at 186,000 MAUs. We have technology-enabled our recruitment with a very disruptive proprietary ATS platform that we have put in place in across 5 of our businesses already. And we have delivered a lot of superior services to our customers using Secure and other digital tools in the pipeline. And while these tools are primarily focused on improving productivity, they have also been powerful platforms





for extending benefit to our associates such as telemedicine, access to finance, et cetera. I would also like you to know we are about to start the process of upgrading to SAP HANA, which will progressively put our businesses on a single platform, both simplifying how we work and driving better uniformity in our processes.

I would like to close now, as I opened, by thanking you for our support and for being here today. We are excited about creating an enduring institution and a platform that drives our client productivity. And I want to assure you that as our society bounces back from this sad period, Quess is well positioned to disproportionately benefit given our sales capabilities, the high-quality customer base, flexible business models, tech care execution, scale and staying power to meet our OCF and ROE targets. Together, we will emerge stronger and more resilient, winning as a company, as a society and as a nation.

With this, I would like to take questions and answers. Thank you very much.

Thank you very much. We will now begin the question and answer session. The first

question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: I think the quarter has been quite an effort in terms of the focus on cost and the customer

wins, and congratulations for that.

Suraj Moraje: Thank you.

Moderator:

Nitin Padmanabhan: I primarily have 2 questions. One is, from a revenue perspective, how much of the revenue

decline during this quarter was primarily due to shutdowns or, let us say, due to inability to even operate business that could just bounce back quickly? So that was the first. And the second is on the cost savings that we have had, I think there is quite an element of permanent cost savings. I think you alluded to 35% drop in real estate footprint and so on and so forth. So, when we think about a recovery, do we think about the business bouncing back with higher margins or do we think about you focusing on using these savings to drive market share and then assume higher growth versus the margin expansion? Those were the

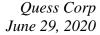
2 questions.

Suraj Moraje: Those are great questions, Nitin. Thank you for asking them. On the first question on

revenue, the bulk of the revenue decline was due to the fall in headcount numbers in GS, in Conneqt and in Facilities Management and training. Training would probably be about Rs.50 Crores or so, I think, over the quarter, right? So, it really is headcount. I think, to get the revenue back to the pre-COVID numbers, we have to work on our overall headcount

and activity. I think the EBITDA will bounce back faster as these businesses get back up

and running. I hope that answers that question. The second one on permanent cost savings





and how we think about it, I think that what we are aspiring to do is to come out of this episode as a fitter business with better margins. And we do want to keep that fitness in place, and we will keep some of this cost saving in place. I do suspect in the short term, as you alluded, we will end up giving some of this margin because the market has become a bit more price-sensitive in this quarter and we may have to give a fair amount of that away in the short term. But certainly, in the long run, as we think about this, we want to come out as a healthier margin business, and that is really where the focus is going to be. The way we are saving cost is not just on margins, it is also just adding agility to our business, Nitin. It is about just taking out unnecessary manual interventions, putting in place flow-throughs where we can and just making it a higher quality operation. That is also very important to

Nitin Padmanabhan:

Sure. That is helpful. Just on the first question that I asked, what I was alluding to was the onetime kind of impacts, like just as you alluded to training, I think we had a fair bit of impact because of closures on, let us say, catering or the food business, for instance, DigiCare, for instance. So, if you were to put all those together, what proportion of the total revenue would be just a straight bounce back as economic activity picks up? That is what I was alluding to.

Suraj Moraje:

No, I understand. I think that if you take the DigiCare and the training skill development businesses together, right, there are about Rs.100 Crores of top line or so per quarter, right, which is really not going to make a dent in the total pre-run rate of about Rs.3,000 Crores. What we need to do is to work back our headcount in GS, in housekeeping and it really is a headcount game, Nitin.

Moderator:

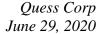
Thank you. The next question is from the line of Sudheer Guntupalli from Motilal Oswal Financial Services. Please go ahead.

 ${\bf Sudheer\ Guntup alli:}$

My first question is to Guru or Lohit. In a situation like this, where enterprises have a laser-sharp focus on cutting costs to the extent possible and government may actually go a little easy on the compliance part to ensure that businesses do not go bankrupt and people do not stay unemployed, so do you not see this construct to be very conducive for the reverse shift of market share from organized players like Quess to unorganized vendors? If not a major shift of market share, at least could they not translate into pressure on markups for organized vendors?

Ajit Abraham Isaac::

Just one question Guru before you start off, I think it is a hypothetical situation that in the event that the government does this. In the event that the government allows a more lenient system, we will react accordingly. But as of now, I do not think that exists. I think it is a hypothetical situation, so it is difficult to conjure an effective answer to that right now.





Srinivasan Guruprasad: Just to add some perspective to this, Sudheer, also this time has tested a lot of thesis during this last 3 months, right? It also depends on the kind of capability and the ability of partners. The local partner, the consolidation has to happen. So that is something that somewhere we are witnessing as we are hearing from the market and the discussions that are happening. We would rather see more consolidation that would happen with the larger and organized players. Coming back to compliances, while there could be some relaxation on the delayed remittances et cetera, but the rules to be followed would not change. Those would be much tighter, and they would get much tighter than where it is with the kind of digitization that is happening from the authorities as well. We are not witnessing, I think, the reverse migration on this front.

Sudheer Guntupalli:

Sure. That is very helpful. And my second question is that most of the large IT companies have been very vocal proponents of using this hybrid workplace model, where a part of the workforce may permanently remain at home. In fact, it seems to have benefited reasonably due to subpar facility expenses this time around. Since IT sector contributes almost 1/5 of our revenue for facilities and security services, any thoughts on what kind of permanent hit these businesses will see if such a structural shift happens in the way people work?

Suraj Moraje:

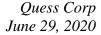
I think at this point, we are seeing two countervailing forces. We are seeing some clients talk about shifting to work, some companies talk about shifting to work from home and the hybrid model. I think, we are seeing others in the Silicon Valley and elsewhere, say we want to get back to work because being at work is an important element of our culture. And therefore, I can tell you at this point, we have not had an ITES client come and tell us they want to decommission a building permanently. We would be foolish not to anticipate some of it happening, which is why we are going all out on sales as well, Sudheer, and strengthening a little bit our focus on industrials as well. But as of now, we are not seeing that in terms of how customers are commissioning us or decommissioning us.

Moderator:

Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditva Bagul:

Congratulations on great balance sheet and cash flow management. I had two questions. First is just taking on further from where Sudheer left off, how are our interactions with our key customers going? I mean, what is the kind of reduction or otherwise that they are talking in terms of their temporary staffing needs, at least for FY21? If you could shed probably some color on that, that would be helpful. Also, from a very near-term perspective, if you could highlight how the month of July has gone? And now that we are in the last week, you would have some sense on August as well. Suraj Moraje: Lohit, why do you not take the question how interaction with customers is going?





Lohit Bhatia:

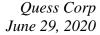
Okay. Aditya, I think you have a fair point in terms of what the customers are talking about. We would not call it so much as about downsizing as we would call it about rightsizing. I think in the last 100 days, a majority of clients looking at which sector they belong to and whether they were fully impacted by lockdown; were they partially impacted by lockdown; were they not at all impacted by lockdown or rather positively impacted by lockdown. Every customer has had a different trajectory. Barring the Telecom and the e-com, where we saw business as usual and maybe even increase in certain pockets, almost all the other sectors have had a rightsizing. I can give you an analysis that for every 1 customer in 2, there was a rightsizing which happened while at the same time in the last 100 days for every 1 customer in 9 only added to the headcount. So, if you really see it from the number of declines to the number of increases, the number of clients declining headcount far outstripped. But to more specifically answer your question, I think, broadly, the rightsizing has been in the tune of between 5% to 15% and which is what is the blended number which is visible on the WFM platform, which is overall down by about 38,000 or about 14.5% that Suraj opened his commentary with. Going forward in the next three quarters, I think the clients are looking at the scenarios as keenly as each one of you, and we are watching out for. One, I would say that a lot of planned downsizing and rightsizing is possibly, in a manner of speaking, behind us, but for the fact that we may have still some more states or cities going in for extended lockdown. We do not know the color of Unlock 3.0 that the government announces, and it will depend on that and some sectors are not yet functional because of that. I think we will have to watch how the government allows more unlocking or whether any further lockdown does not happen. We must also spend a minute to understand that we are weeks away from what is otherwise India's start-up season. As August and September comes in, there are more and more clients which start to give orders in terms of hiring positions. If I were to, because you specifically asked how do we evaluate July, I think where we were in June versus where we are in July, we are looking at about 2x growth in new open mandates, July over June. But this is still about 60% of pre-COVID times. So are we getting there in terms of more clients adding to new orders? Yes, the answer is yes. But is it broad-based enough for us to say that the problem is completely behind us and everyone is coming with new POs? I think there is a few more weeks of wait and watch as far as that is concerned.

Aditya Bagul:

Okay. So as I understand what we are trying to say is that July, possibly August is likely to be a little soft but all the client wins that we have had in the last few months are likely to have a back-ended addition in terms of workforce management, especially towards maybe Diwali or later on in the year. Is that a fair assessment?

Lohit Bhatia:

It is a fair assessment, like Suraj also mentioned that overall, at an organisational level, we added around 200 customers and at a WFM or a GS specific, we added about 24 customers. But most of these came with very small values of POs, obviously, for the right reasons.





However, if we see the commentary of Indian industry itself going into Q2, most of Indian industry has been saying that they are expecting better revenues going forward into Q2 and Q3. And we must accept the fact that people come before revenues do. You have to get the workforce to start getting those revenues. So with fingers crossed, hopefully festival 2020 do take away some part of this COVID and then we are better placed.

Aditya Bagul:

Great. Understood, Lohit. Sir, my second question, Ajit, Sir, and Suraj is to you, right. We have had a reasonably good mix of WFM, OAM and tech platforms, right, at 60-20-20 sort of a revenue mix. Considering where we want to get in terms of ROEs, cash flows, do you think we are at the optimum mix or do you think that the mix is likely to change? And a corollary to that question is within these 3 platforms, what is the sort of a steady state sort of a margin level that you would envisage?

Suraj Moraje:

I think that at this point, we want to get to better growth on the latter 2 platforms. I think the WFM platform has grown well the last couple of years. We want OAM and we want GTS to also kind of grow at that same pace because that just helps us keep the EBITDA profile the same, right? I do not think we see at this point, the mix changing dramatically right now, Aditya. I think what we would like to do is see the EBITDA margins nudge up over time as we digitize better than kind of get better at solution selling. But that is going to be an overtime thing. I think in the short term, the margin pressures are real in some of our segments because our customers are facing real economic pressures, too. I think in the short term, it will stay muted is my sense. And over time, it will go up, it should go up.

Aditya Bagul:

Okay. Sorry. I think I will sort of rephrase my question the way we expect our margin trajectory to go, especially with our target of 20% ROE. If we were to sort of change the mix towards tech and OAM, we will see a natural improvement in terms of margin purely on account of change in mix.

Suraj Moraje:

That is right.

Aditya Bagul:

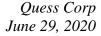
I just wanted to understand how much of what we are building into depends upon this mix change.

Suraj Moraje:

At this point, if you look at our internal goals, I think we are trying to grow all the platforms. And we want to grow IFM slightly faster than the blend. But I do not think the mix will change dramatically in the medium-term, Aditya, because I think you cannot hold GS back.

Aditya Bagul:

Maybe I will take it off-line later.





Moderator: Thank you. The next question is from the line of Amar Mourya from Alf Accurate

Advisors. Please go ahead.

Amar Mourya: First question is, in our WFM business, how did Comtel and Magna profitability and

revenue behaved in this quarter?

S. Ramakrishnan: Yes, so Comtel was about Rs.132-odd Crores of revenue and profitability is about Rs.18-

odd Crores on Comtel. And Magna, the profitability is more in the range, for the quarter, is

around Rs.5.5 Crores, Rs.6 Crores.

Amar Mourya: Okay. And the revenue of Magna would be?

S. Ramakrishnan About Rs.130 Crores, Rs.140 Crores.

Suraj Moraje: This is operating EBITDA, not Ind AS EBITDA.

Amar Mourya: Okay. These are operating EBITDA.

Amar Mourya: So then, Sir, basically, then you are saying that Rs.260 Crores, so overall GTS revenue is

Rs.260 Crores, correct? In workforce management, the GTS part would be Rs.260 Crores,

correct?

Suraj Moraje: GTS is a separate platform. You mean IT staffing?

Amar Mourya: Yes, IT staffing, yes.

Ajit Abraham Isaac: Yes, that is right. That is about Rs.260 Crores, yes, Rs.265 Crores of revenue.

Amar Mourya: Yes. So Rs.265 Crores of revenue, then what I am trying to understand here is that I think at

EBITDA level, then it would have reported loss, right?

S. Ramakrishnan: The EBITDA of both Comtel and Magna put together is about close to Rs.23 Crores, which

is what I think we alluded to Ind AS impact.

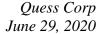
Amar Mourya: And with Ind AS how much would it be, Sir?

Subramanian R: I am talking about the reported numbers only, Rs.23 Crores, that there is hardly any Ind AS

impact. The operational Ind AS will be the same.

Amar Mourya: In General Staffing, how are the margins in the first quarter? And how do you see that over

next 3, 4 quarters?





Lohit Bhatia:

The general staffing, Amar, I will come in, this is Lohit there. The general staffing against last year, for the same quarter, has seen about close to 3.5%, 4% expansion at an EBITDA level. And on a sequential basis against last quarter, about 2%, 2.5% decline against Q4. However, I think your confusion lies in the fact that you are not adding the Excelus business which is a negative Rs.21 Crores change from last year when they were operating to this year when they are completely in shutdown mode. I think when you factor for that, I think that is where the differentiation is coming. The second business which would have moved in the WFM platform from a positive EBITDA same quarter last year to this time would be the selection and the search business, which in the opening commentary Suraj had alluded to, that we have right sized and downsized that business. We have kept about 80% of the revenues in the customers and merged it with a larger business of ours, which is Quess IT staffing. So I think if you want to compare across platforms, which were there last year under people and services and this year's platform, which is WFM, you will have to, obviously, look at the papers separately, we can take it off-line or Ramki can send it across to you. But from an answer perspective, I think if you want to know, has GS seen shrinkage? The answer is no.

Amar Mourya:

Okay, great.

Lohit Bhatia:

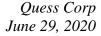
Yes. And just to give you a little comfort, I think, primarily, what has happened is while the headcount has shrunk, what Ajit and Suraj opened with was about the measures that we took on the cost control. A lot of our work on the cost control has been able to allow us to meet at least the EBITDA number very flattish, irrespective of the decline of about 14% headcount.

Amar Mourya:

Great. If I can squeeze a second question on the outlook on this segment. How do you see the outlook in terms of the manpower in of GS segment? And secondly, you talked about some pricing pressure. So even in this segment, do you see pricing pressure, or you think these are sustainable margins?

Suraj Moraje:

Let me answer the first one. I think across the business, the outlook across all of our segments, Amar, as you will probably appreciate, and I am sure you have heard from other business people and in your own models are factoring in, it is difficult to say, right? I think that we are hoping we are close to the bottom or maybe even beyond the bottom, but week-on-week the sentiment of the business community seems to be changing. We are focusing, at this point, on acquiring new customers, expanding our base so that as and when the rehiring happens, we are in a good position to benefit from it. But it is very difficult to tell you what this quarter will look like, as you will understand. Your second question is on pricing. Maybe, Lohit, you can take the question on pricing.





Lohit Bhatia:

To give you a flavor on this, as Guru also mentioned in his comment a little while back, you would realize that there is a pricing pressure in the market and the customers have come for a discount during this period. While we have agreed to some of this discount, it has a sunset clause to it. So, in the coming months or in the coming quarters, that discount which is offered as a COVID discount, as a lockdown discount will come to an end in itself. That is number one. 1/3 of the pressure the business has seen from a margin perspective is because of the discounting. 2/3 has happened because of reasons that no sales happening, and hence, no value-added sales projects, InEDGE, sourcing, some of that value-added segment of earnings for the business has been eradicated in these 100-odd days. However, you would also remember that Suraj did mention that our businesses outside of India in the WFMS platform, whether it is the APAC, Comtel as well as the Middle East are going as business as usual. They have been performing even on FY2021 trajectory, which was business plan we made back in January pre-COVID days. While Magna is doing better than last year, and we continue to see strengthening of Magna assets, General Staffing is predominantly a headcount thing. I think we have been able to protect our downside on General Staffing fairly well as far as the headcount is concerned. And with the cost initiatives and measures, we have also been able to protect ourselves on the profitability and EBITDA front. We are far stronger in the recovery and the rebuild period than any other partner, local or national, available to a customer today when the rebuild happens. And the rebuild as India is saying can be U-shaped, W-shaped, bathtub shaped, V-shaped, J-shaped, any shape. I think, if you expect as a customer to recover, most often than not the conversations would happen with the Quess staffing team. So that is where our sales team is concentrating and we are confident that we will be partnering with the clients, both existing as well as new.

Amar Mourya:

Great, Sir. Wish you all the best and commendable performance. Congratulations to the entire team.

Suraj Moraje:

Thank you. Thank you, Amar.

Moderator:

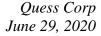
Thank you. The next question is from the line of Keshav Garg from Counter Cyclical Investments. Please go ahead.

Keshav Garg:

Sir, wanted to understand about our subsidiary Allsec Technologies. Sir, like you mentioned that the HRO segment has done really well. Sir, so going forward, when do you expect the company to achieve pre-COVID level? And where do you see growth coming from?

Suraj Moraje:

Allsec has been a very resilient business for us. It is got 2 components, Keshav. About half of its EBITDA comes from HRO and about half comes from CLM. Now the CLM part of that business is mostly international customers, and they deliver out of Manila and India,





both. Okay. That is a little bit the makeup of the business. The HRO business is, again, largely domestic with a small international component. It is kind of the HRO business has actually it been very steady. In this quarter, we have had some transitions that are also coming through. So, it should see growth even in this time. So that part of the business will be fine. I think the CLM business actually got hit first in March. You would recall our March results around GTS were a little bit muted because Manila got hit first around the 15th of March. In fact, I think part of the reason why we responded so quickly in India on the CLM business was because we learned from that part of the business. Now the international business has also bounced back faster. Partly because I think the U.S. markets, our customers there have been more resilient. The economy has been a bit more resilient. I think partly because we were able to get the Manila facility up and running faster. We should be up to pre-COVID levels, I think, by the end of this quarter if there is nothing unforeseen on that front.

Keshav Garg:

Okay, Sir. And this company has around over Rs.160 Crores of net cash. Sir, so what is the idea going forward, Sir, any share buyback or then acquisition?

Suraj Moraje:

Look, I think we are not looking to make any huge acquisitions right now. I think at this time, we are looking at all the options to figure out what is the right way to use that cash, I think we have taken nothing off the table. As and when we have plans, we will update you on this, Keshav. But as of now, no concrete plans. A part of it is lying in Manila; part of it is lying in the U.S.

Suraj Moraje:

And a part in India. We are trying to figure out what is the most efficient way to use it in our shareholders' interest.

Moderator:

Thank you. The next question is from the line of Alok Deshpande from Edelweiss. Please go ahead.

Alok Deshpande:

A couple of questions. First on general staffing. You mentioned that the focus has been on adding customers and you have indeed added quite a few customers this quarter. Just wanted to understand this customer addition, is it largely a switch for a customer from some other vendor to you? Or are there any customers, which are all together new which are changing from a fixed employee model to a variable employee model? And what is the value or an offering that we are offering to a customer in this tough environment that is really making customers switch?

Lohit Bhatia:

Yes. You alluded to the answers in your question itself. Quess staffing has always been an attractive proposition to clients across the country because of our reach, our compliance, our treasury operations, our scale, our bandwidth. One of the advantages, if I can use the word,



and I do not want to necessarily use that word generally when a pandemic is going, but just to explain, I am using that. One of the advantages a company like us sees is we are the newest kid on the block even today when you look at us, we are just 12 years old. In the last 12 years, there would have been opportunities of working with clients that necessarily would not have come to us because they would have been working with other regional, local partners or they would have been working with a multitude of companies. And when a pandemic like this comes or a shock like this comes, I think customers evaluate relationships greatly. The fact that most of the meltdown has not happened to a Quess' portfolio is because our customers have realized that Quess has come forward with every support that is necessary during this period of 100 days, looking after our associates, looking after the clients, being compliant, ensuring that the wages, salaries, everything is going on time. But that may or may not necessarily have been the experience of the customers with rest of the market. So, when they relook at a rebuild period, I think one of the other questions which come in everybody's mind is, were we working with the best-inclass? Or can we better ourselves now that we have a choice to restart again? One of the cases is an ability to transition contracts because of that. The second is what you rightly said, every time there is a shock in the world, and you can go back, I mean India will not give you those answers. But if you look at the globally listed staffing companies and compare to 1999, 2000 as a base and the shock of 2004, 2007 and 2009 onwards, you will realize that every time there is been a shock anywhere in the world, disproportionately thereafter when the economy rises, staffing does better and people do try to arbitrage fixed cost of employment with a more variabilization of employment, which is outsourcing. See also the third factor, which is very, very essential for a Quess is back in Q4 of last financial year itself, we had started saying that strategically as an organization, we are now selling solutions which cut across platforms to answer a question for a customer to achieve a result or an outcome. And I think some of the results that will be seen in the coming months and in the coming quarters will be related to that. Today, the customer sees that there is an ability for Quess to work in service lines which cut across this beyond just one category of service, and that is a very unique to the mix that Quess offers and no other partner offers that. Some of the conversations are because of that. I think it is a combination of each of these.

Suraj Moraje:

Thanks, Lohit. Just maybe, Alok, stepping back a little bit, I am just reflecting on the last few customer conversations I have had. I think there are 3 categories of conversations we are having with customers at this point. One is a variablize conversation; I will give you an example, in retail, if people want to keep a store open for longer because that is the only way they can keep same-store productivity up. They cannot afford to staff 2 shifts. They actually need to think about how they overlap people better, how they combine different roles in different ways. And they come to us asking how they can variablize and



variabilization has become an important conversation with many clients. I think our second reason customers are coming to us is to virtualize. And I will give you a couple of examples. I think our conversations on F&A outsourcing in our BPM business have gone up. I think Indian customers traditionally have not really been looking at it that much, but now they say, well, we have got to get our costs down. Anyway, people are working from home, so why cannot we just outsource people to a different location? F&A has been one virtualization conversation. A second virtualization conversation has been around sales force. A lot of FMCG companies are talking to us saying, historically, they have had feet on the street, pushing merchandising and sales to kiranas. Some of them are looking at, can we do this now through an inside sales model rather so kind of getting people off the street into the call center. So that is the second, variablize, virtualize. I think the third is really around productivity and technology enablement. And this comes down to general staffing. Like Lohit said, can we use the fact that we have a workforce management app in the hands of 180,000 people. Can we use that to drive their productivity, drive their tasks harder? We are having more conversations with customers. Today, we are on the phone with a customer saying in facilities and security, how much productivity can we get out for them if we put in place technology, digitization, central monitoring and so on and so forth. There is a lot of conversations around that. I think where the pandemic has sort of pushed people hard is to say, how do businesses change their operating models to get better productivity out of their people, and a lot of that is playing in our medium-term favor, although in the short term, it translates into pricing pressure, right, and headcount reductions. I think in the medium term, it is just going to make India a lot more sophisticated about how we put gray collar labor to work.

Alok Deshpande:

Just one more question. I just want to dig a little deeper in the facility management. A question for Guru - we are still sort of grappling with how that space is panning out because anecdotally, when you think about it, you would be having more housekeeping people in any commercial building, right? More people for frequently cleaning, etc. But in the short term, I think there will be a lot of people who will be cutting out or cutting down on that headcount. But structurally, do you see that there will be more number of people per site after this immediate term?

Srinivasan Guruprasad: Good question. I will take this in 2 parts. In commercial establishment, as you said, initial days, there were multiple jobs done by the same associate. For example, earlier, it used to be a basic cleaning then from there, it has gone into an intensified cleaning, right? So, the number of activities are increasing number of activities that we do at a site are increasing. Because sites are not completely operational, the strength for the time being either it is half or one-fourth so depending upon the site operations. So that is very interim, that I would say. Coming back to the point, a lot of automation is going to play again in this particular space. What is going to be the ratio between the square feet to number of people deployed



versus how much of automation that we can bring in to see the kind of the efficiency even in cleaning can get better. That is where the play is going to be. If you ask me, would people deployment reduce drastically? I mean, at the moment, we do not see that happening. But bringing in automations also means the type of mindset and the contract has to change. And the kinds of structure that we have on the contracts have to change. So that is where the discussion is going through that. How much of automation we can bring in, who is going to bear the CapEx up? And how is it going to be an asset-light model? This is exactly what we are working on and to reinforce more on bringing in UV cleaning equipment. So those kinds of discussions are in very advanced stage with customers and with few pilots that we have already started. Probably, when we discuss in couple of quarters down the line, we will clearly have a visibility on this to say that what percentage of people and what percentage of equipment is going to play. But definitely, there are discussion happening on that front.

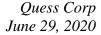
Alok Deshpande:

Yes. But Guru, whichever way you look at it, do you foresee your per square feet pricing going up eventually? Whether it is through more people or whether through more automation? I think if your activities are going to intensify and they are going to remain a little intensified for probably a year or a couple of years, then the per square feet pricing, whichever way through people or automation should be higher, right?

Srinivasan Guruprasad: Honestly speaking, I think what will happen is the cost pressure is going to play, and we will have to see how to reduce cost to serve, right? So that is something that we will have to be mindful about in any of our service lines, which is where we are working on the cost side and bringing in. Player like us will be able to provide an integrated solution faster, which is what Suraj and Lohit were talking about to see. The conversations that are happening in past with most of the customers is to see that how can we become an integrated player starting from GS to FMS to security where the overhead cost if a customer is today is dealing with multiple partners, dealing with 1 will bring in definitely cost efficiency in terms of the overhead that will be deployed to manage those set of people. In a nutshell, I think that there is going to be a pressure on per square feet. By integrating, we will only be able to pass on those benefits back and continue to gain more market share.

Suraj Moraje:

Let me give you an example, Alok, of what we mean by multi stack, right? For one of our retail clients, the conversation we are having is, can we have a person who is cleaning, for example, doing a bit of wiping during off-peak hours also then be a salesperson during onpeak hours. Like can you actually get people multi-skilled so that you are able to get more productivity out of them while not taking the cost up much? I think we have to find creative ways out for our customers because they are looking for them now.





Moderator: Thank you. The next question is from the line of Mythili Balakrishnan from New Mark

Capital. Please go ahead.

Mythili Balakrishnan: I had a couple of questions. Firstly, on the General Staffing business, if you look at our

headcount, it is only down around 15%, but revenues for the quarter are down 22%. So, is this something that we should expect going ahead as well where the decline in revenues will

be faster than the decline in headcount?

Suraj Moraje: The key reason here is that Q4 saw a lot of incentives being paid. And therefore, the

revenue per employee has gone down in Q1 because the incentives have actually come out. Number two, some customers in this time have moved to paying on actual attendance rather than for the full month. And so, some employees have not gotten full salaries in some months where there is absenteeism. So those are the 2 things that have played in Q1. It should not fall further, Mythili, at this point. But this is partly offset at some customers, for instance, as they reduce headcount, they are reducing the more junior people or the least

experienced people. So that is a bit of a countervailing force also on per associate salary.

We think they should flatten out now.

Mythili Balakrishnan: My other question was on revs in terms of customer business has been where they are we

are seeing, especially just in terms of payments from certain customers in Telecom. I just wanted to get your sense on how are you thinking about that? And how do you factor that in

when you are dealing with these customers?

Suraj Moraje: We are keeping a very close eye on collections at this point. I think Guru reviews every

business every week by customer. I review every business every 2 weeks by customer. We have a very good sense of where things are going slow and where things are not. At this point, we are not concerned about defaults in any particular part of the business or there is

nothing that keeps us awake, Mythili. But you should know we are really kind of close to

this, and we are staying close to it. And by and large, our collections performance has been

in some months.

Mythili Balakrishnan: No, it has been outstanding. I think in this environment, I think it is quite good. My last

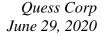
question was on OCF, which is that is there any one-off in this particular quarter that has

been such a significant improvement in terms of either a refund or any such item?

S. Ramakrishnan: Payments are due and so we have refund of about Rs.36-odd Crores during the quarter. That

is one thing which is included in the Rs.148 Crores, which you see.

Mythili Balakrishnan: And there would be some working capital release due?





S. Ramakrishnan: Yes, so there is also working capital release of close to about Rs.55-odd Crores, which is

from the business as the business shrunk a bit. And the third one is in terms of normal movement between receivables and payables, if you see that itself accounts for another

about Rs.57-odd Crores. So those 3 put up together, it is about Rs.148 Crores.

Mythili Balakrishnan: Got it. And what will be the contribution of Terrier in the quarter? Just to get a sense

because this is the first time that it would be properly appearing in the OAM revenues,

right?

S. Ramakrishnan: Yes. For Terrier, there are 2 folds to it in the financials. Terrier is appearing as up to May,

there is a share of loss. That is about close to Rs.8.4-odd Crores. And starting June 1, it is become a subsidiary, wherein there was about Rs.2.23 Crores of EBITDA for the month of

June, which got added back to our EBITDA line.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I would

now like to hand the conference over to Mr. Ajit Isaac, Chairman and Managing Director,

for closing comments.

Ajit Abraham Isaac: Thank you. So, this was a quarter in which the economy was shut down for 60 out of 90

days for large parts of our business. Its impact cannot be understated in terms of the circumstances that we were operating in. I hope all of us see better quarters coming up. I want to thank you all for a very participative session and for the many questions that you asked us. I want to tell you that we are taking a long-term view at Quess in many of the decisions which we are taking. None of the decisions in the context of the pandemic are short-term in nature. We are focusing on cash, the balance sheet and growing the customer base, as we have mentioned earlier today. Our team and Suraj is working very hard to get to our goal of 20% ROE and a 20% OCF. We thank you for your support and look forward to

interacting with you like today in the future, as always. Thank you very much.

Suraj Moraje: Thank you.

Moderator: Thank you. On behalf of IIFL Securities, that concludes this conference. Thank you for

joining us. You may now disconnect your lines.

(This document has been edited for readability purpose)



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