"Quess Corp
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ANALYST: **MR. ADITYA BAGUL – AXIS CAPITAL**

MANAGEMENT: **MR. AJIT ISAAC – CHAIRMAN & MANAGING DIRECTOR – QUESS CORP**
MR. SUBRATA NAG – GROUP CHIEF EXECUTIVE OFFICER & EXECUTIVE DIRECTOR – QUESS CORP

Moderator: Ladies and gentlemen, good day, and welcome to the Quess Corp. Q4 FY2019 Earnings Conference Call hosted by Axis 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 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. Aditya Bagul from Axis Capital Limited. Thank you and over to you, sir.

Aditya Bagul: Thanks, Steven. Good afternoon, ladies and gentlemen, and a warm welcome to the Q4 & FY2019 Earnings Call of Quess Corp. Limited. The management of Quess Corp is represented Mr. Ajit Isaac, Chairman and Managing Director; Mr. Subrata Nag, Group CEO and Executive Director and Mr. Sangram Mallick – Investor Relations. I shall now hand over the call to Mr. Sangram, for his opening comments, post which we could go to Mr. Ajit Isaac for his opening remarks. Over to you, Sangram!

Sangram Mallick: Thanks Aditya. Good afternoon everyone and thank you for joining the earnings call today. Please note that the results and the press release have 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 risks that the company faces. These uncertainties and the risks are included, but not limited to what have already been mentioned in the prospectus filed with SEBI. With that said, I would now turnover the call to Mr. Ajit Isaac. Over to you Sir!

Ajit Isaac: Good afternoon and a warm welcome to all of you. Thank you for joining us on today's call. As all of you would know Quess as a company is very representative of Indian economy. 85% of our company's revenues are derived from our Indian operations and the Indian economy over the last few years has been seeing growth of about 6% to 7%.

Job creation and employment has been a subject of much discussion and with more than 300000 employees at Quess, we are among India's largest employers and a central part of this discussion. At Quess we hired almost 100000 employees last year, perhaps making our company India's largest hiring engine and therefore with significant visibility to most parts of Indian economy.

Added to this, Quess was coming on the back of our last round of fund raising in 2017 in an IPP where we raised about Rs.870 Crores. This capital was invested through the year 2017-18 and our priorities therefore in the last year ended 2019 March were one, to ensure that we have realized value from these investments; two, that we have an organic growth rate of about 20% against an economy that is growing at about 6% to 7%; three, to consolidate our operations and to ensure that cash realizations across the company grew by about 50%.

In this context and with these priorities Quess had a very strong year, we have grown our headcount by 22% to 318,000 in our headcount, revenues by 38% to INR about Rs.8526 Crores. In line with previous years our organic growth rate for this year was 24% which is about 2/3rds of our total growth rate. While our investments have been making good progress about which I will discuss later, I would like to add that our third priority of EBITDA to OCF conversion has improved significantly to 59% in the Q4 this year versus the end year number of 31% for the FY2018.

Some of the key initiatives taken up by Quess last year and most of which we discussed in the annual investor meet held a few months back in February this year were following – one, we have transformed ourselves into a platform structure by consolidating our operations into three platforms: workforce management, asset management and BPM & tech.

Our leadership and our reporting structures have been accordingly realigned. Our future reporting therefore will be as per the new structure. This consolidation has brought in more alignment across our services, streamlines our operations and will further expand our market share with a wider range of services to our clients. Two, our focus on cash conversion, with a track record of 45% CAGR over the last seven or eight years we have had a challenge to improve cash generation because a large part of the capital generated by the company went for funding growth, but we took cognizance of this and with feedback provided by the investor community, we have significantly improved our EBITDA to OCF conversion in the last 18 months without compromising on growth. Our conversion is more than 31% in FY2018 and we closed 2019 with 43%.

In the last few quarters we have significantly improved our conversion to about 59% for Q4 of the last year. This has consequentially enabled us to reduce our debt by about Rs.210 Crores to Rs.784 Crores in 2019 versus Rs.994 Crores in the year 2018.

There was also reduction of leverage ratio of our gross debt to EBITDA to 1.7 compared to 2.8 last year, optimizing our working capital cycle, improving cash conversion in an ongoing process and we feel that there is further scope for improvement.

One of the topics that have consumed much attention at Quess has been Monster. In the initial month post acquisition, there was some challenges turning around Monster, but over the last 15 months, substantial work has gone into it. We have revamped the core platform by launching Semantic Search. Two, we have launched a better together set of recruit model which includes the automotive interview solution called Quinton, pre hire assessment and curated profiles. We have also launched a Monster brand campaign called ‘Work-Life Balance’ which has gathered good traction with 600 million impressions, 7 million clicks and 4 million individual visits. All of these initiatives have resulted in improving business metric from Monster. Our traffic has gone up by 68% to over 11 million per month compared to our pre acquisition numbers, similarly new seeker registrations have increased by 76%. We are continuing to build and monitor the results the platform is delivering; we think that the initial heavy lifting is done to a reasonable amount. There is some more work to be done but we think a lot of work has gone into it and we expect Monster to deliver targeted results in the coming quarters.

In our industrials vertical, our segment has seen reorganization. First, we continue to focus on O&M contract in metal, power and oil & gas sectors. Second we have decided not to pursue any further smart city contracts. As far as the Ahmedabad Smart City project is concerned, the project has been well executed with initial phases have been completed. This project has also won multiple awards including transport and mobility award for intelligence transport management systems from India Smart City Awards in 2018. We expect to complete the project in August and commence the O&M phase of the project thereafter.

Before concluding, I would like to highlight some aspects of our future strategy. As mentioned earlier, this year will continue to be a year of consolidation in the platform structure with margin improvement and cash conversion. We do not expect to do any major acquisitions going forward and building on the investments that we have right now is our current focus.

Branding, we are planning to consolidate all of our Quess brands under our Quess brand umbrella. From a current brand count of about 28, we expect to come down to Quess plus maybe another 8 or 9 brands therefore significantly changing the brand architecture of our company. Speaking about individual platforms, our work force management, asset management and BPM and tech platform have all done very well over the last one year.

Some of the highlights of them have been our general staffing numbers going to about 192000 and an addition of about 200 new logos for the year. Our operational efficiency there has gone up with the core to associate ratio being 1:330 versus 1:260 in the last financial year. Our collect & pay contract share has also increased to 65% up from 58% of the last year. In Excelus our training division, we trained over 38000 candidates and with the additional focus on employment and skill generation in our country, we expect this business to gather great attraction in the future.

In the asset management platform, we have also seen significant organic growth momentum; we have added 120 new logos, with the healthcare and education vertical growing significantly better than the others. Our security services company has added 2400 new headcount over the last quarter taking a total headcount to almost about 20000 people. In the BPM and Tech space Conneqt Business Solutions has had a good year with an EBITDA of about Rs.74 Crores translating to a margin of about 8.6%, a significant improvement over the previous year's number of about Rs.55 Crores. We have also restructured our entities in North America which is Brain hunter, Mind wire and MFX into a consolidated firm and this will enhance the service offering that we have and should gain additional market traction by the cross selling that we are able to do.

Digi Care, our after-sales service business, our growth in our service centers has reached to about 250 service centers. The focus on this business will be in maintaining our growth momentum and expanding our margin structure. Recently we have also added Allsec Technologies and we believe that this addition will be a signciciant one to Conneqt where we are able to add another service platform in the HRO business and additional international business.

At this point, I would like to add that I am joined by my colleagues from my corporate office and the finance function and together we will address the questions that you will raise. So we are looking forward to an interactive discussion and thank you all once again for joining us on this call.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jai Nandwani from Perfect Research. Please go ahead.

Jai Nandwani : Sir I will be asking three questions, all in one order. First question is in Monster, how are we trying to differentiate from our competitor Naukri.com given it has a massive 70% traffic share and what synergy can we drive with our business?

Ajit Isaac : Yes, please.

Jai Nandwani: Can I continue?

Ajit Isaac : Yes, please. Go ahead.

Jai Nandwani: Second question is in terms of capital allocation is that according to the amount of investment proposed for Monster. Question three, as we focus on improving our cash flow conversion and tighten the working capital terms with clients, what adverse effect it could have on our growth on margins?

Ajit Isaac : On the first question that you raised, which is, what is the differentiation that we have with Naukri? I think the key aspect of this is the differentiation that any competitor with anybody else can build in terms of a user experience. So a number of the features that I had enunciated earlier in the call in terms of better together are aimed at driving this differentiation between us and competition. This is an ongoing process and I do not think any single differentiation as an aspect will make our conversation topic but we are hopeful that collection of some of the initiatives we are driving there will build sufficient differentiation. In terms of synergies with our existing business, there are I think two or three levels of synergies. One we are able to examine the requirements of a job market from a very close point because we are hiring 100000 people across many sectors, we are seeing patterns, we are seeing trends, we are seeing requirements, based on the feedback that we get from each of these sectors, we are able to factor those influences into the product at Monster. So therefore we are able to draw on the domain strength that we have hiring into our portal.

The second one is that with the hiring engine that we have got, we are hopeful that we can convert a large part of the requirements that come through an online model into also an offline delivery program,that's the second part. The third is at the staff function level in human resources finance etc., there is a fair amount of synergy between our shared service center at Quess and the requirements in Monster. So this is the response to differentiation synergies at Monster. In terms of capital allocation, Monster has been an acquisition that was done at values far differentiated from what its competitors are trading at. So we still have some headroom in terms of how much capital we need to put into it, we have cash, we have been very prudent and frugal allocators of capital over time as you would know from most the assets that we have bought in the past. We are cognizant of the fact that it is an internet business and it can draw and consume more cash than the conventional services business that we are use to at Quess. So we will be prudent in the amount that we will allocate to this.

In terms of cash conversion, I do not think the focus of cash conversion will reduce the margin structure. Our margin structure is dependent on the service quality, type of services that you deliver and the type of markets that you operate in. The results from the cash conversion effort that we are running is basically out a more streamline process, more management focuses on the topic and better commercial and contract structure.

I hope I have covered the question that you raised.

Jai Nandwani: Thank you.

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

Atul Mehra: Hi Sir, good afternoon and thanks for the opportunity. Sir just one question on Trimax, what is the current status on this particular receivable of Rs.150 Crores that we added given the parent has run into some kind of a problem and what is the level of confidence you have of the recovery of Rs.150 Crores given the case might go to NCLT etc., complications might be higher. So what is your internal level of confidence of recovering this Rs.150 Crores?

S Ramakrishnan: This is Ramakrishnan here, Deputy CFO at Quess. Thanks for your question. As regards the receivable from Trimax, Trimax as you have seen in the notes, has gone into the insolvency with the NCLT. But having said that we are working with both the SCADAL, which is the end customer in terms of implementation of the project and in terms of receiving the money. So SCADAL, like Mr. Ajit said, the project has been progressing really well and since the project has been progressing really well, SCADAL has also said they would go ahead and pay the money to us in terms of the fact that there is an escrow arrangement which is currently there between SCADAL, Trimax and our company. So that been the case SCADAL has said that they will have to uphold that escrow arrangement and hence the money will still flow once the project is completed and the project milestones are achieved. And we are also in constant touch with SCADAL in this matter and we are quite bullish about getting the money.

Atul Mehra: Sir would you have taken any legal opinion?

Subrata Nag: Yes, Atul couple of things here, first of all as Ramki said that we have an escrow arrangement and as far as the escrow arrangement whatever money we receive from SCADAL, 99% of that money will be flowing as per our agreement with the Trimax IT. So we are already in touch with the Axis Bank, we are in touch with the POC and also the insolvency professionals of Trimax. So we have that assurance and we have that kind of confidence that there will be no issue as such we have also had a discussions with the SCADAL and they know that we are executing the project and they said that they will make sure that the money goes to us and there should not be any issue. Over and above we have spoken with Deloitte, our auditor, they also have a large insolvency professional business, we also spoken to KPMG and also some lawyers in the NCLT and we don't see any issues in this insolvency process unless it goes to the liquidation. So we have time till 270 days and the project is in the final end and we are getting some of the payments and as I am speaking getting processed and I hope that most of the payments we will be able to get in the next 60 days, actually because of the election last 60 or 90 days we could not get processed because most of the things were as per the code of conduct so once the election results got over and we have the assurance that we will receive most of our payment. So from our side we do not see any issues about any write-off on this account and as you know the auditors also agreed with our viewpoints and whatever opinions we have provided. So we will try to get this money as quickly as possible and you will see that in the next one or two quarter results.

Atul Mehra: So August is the timeline right Sir?

Subrata Nag: August is the time, almost the projects is complete. If you go to Ahmedabad and you will be surprised to see actually, please do not jump the red light because you will get a challan automatically and you have to pay fine. The Municipality agency is getting Rs.10 lakh fine every month there and even there you will see that display board. So whatever project we have completed, we were running the control center, problem is as the metro work is going on, there has been some sites where we have to put the display board, they are not able to give us the sites. so most of the sites we have got, few are still pending so we think by August we will be closing the project and move on to the O&M phase which is five years from now, we have to do.

Atul Mehra: Thanks for the update. Sir secondly in terms of internet business, so 14 Crores of EBIT loss for the quarter obviously we were in investment phase for this quarter, but as we look forward next year and now that the launch has already gone through. So how will we see the profitability and if there is this level of burn which will continue or do you see that this is the peak burn and next year onwards we should at least look at some level of breakeven in this business.

Subrata Nag: Yes, see out of that Rs.14 Crores primarily as you know that we launched a digital campaign, the first digital campaign we want to test the product and actually we spend around Rs.8 or 9 Crores on that digital campaign. So operationally, I think our loss was around Rs. 4 to 5 Crores. So I do not see any major operational loss and that loss I think over the quarters going will come down and as we also on the day of our investors and analyst event, we told that by Q3 we are quite confident that we will achieve the operational breakeven. Having said that this is an internet business and we are revamping and relaunching the product so we have to take a call and we will take a call that how much marketing and other expenses we will do, but overall as I told on the investors day also that our final target is that we paid around Rs.100 Crores and maybe another Rs.30 or 40 Crores we will maybe burn. By the time hopefully whatever traction Ajit told, we have seen a lot of traction but it will take some time the traction to convert into new orders and new revenue so we hope that the Q1 will give us some benefits we are expecting and we are seeing the early signs that some traction are coming. So we are budgeting around Rs.20 to 25 Crores max EBITDA loss in this year not more than that.

Atul Mehra: And Sir one final question on this associate income for the quarter of Rs.9 Crores how much of this has to be with the East Bengal Football Club and…?

S Ramakrishnan: So the associate pickup, we had about three components, one component is the loss on account of East Bengal, which is about Rs.10 Crores and then we had some losses on Heptagon and then there was an offset by profits from Terrier which is about Rs.7 Crores so that is the kind of component you have on associate income.

Atul Mehra: But Sir would not Rs.10 Crores be too large so East Bengal has one particular quarter and how do we still see this going forward?

Subrata Nag: No actually, most of the expenses actually we did and payment made in this quarter. So overall annualized this year also our budget is between Rs. 10 to 12 Crores. Last year actually we came in the later part of the year when the league had already started and we did not have the time to get any sponsors and get our act together. So this year we think that we will at least Rs.5 to 7 Crores revenue we will have, last year we had Rs.2.5 Crores revenue, our overall exposure for this current year is around Rs.10 Crores between Rs.10 to 12 Crores.

Atul Mehra: And of which we will plan to make up Rs.5 to 6 Crores in revenues, so net you are saying…?

Subrata Nag: No. Our total cost will be around Rs.15 Crores, we are expecting between Rs.5 to 7 Crores in revenues so our net loss for the entire year for 2019-20 would be between Rs.8 to say Rs.10 Crores maximum.

Atul Mehra: Great Sir thanks and wishes you all the best.

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

Ashish Chopra: Hi, thanks for the opportunity. Firstly Ajit with the focus on mainly organic momentum right now, with the current portfolio of business could you share what would be the optimal level of operating margin and cash conversion in your assessment?

Ajit Isaac: So I will start with the second, we have reached in excess of 55% we think we can go up by another 4% or 5% in that it depends also in terms of how we can realign some of our current commercial contracts to ensure we can get to about 60 plus number. In terms of margins, our focus now is clearly in terms of how we generate more cash in the company so whether we generate 5.5% margin or 5.3% margin if we are generating cash we will choose the second option than choosing a higher margin structure and I think that is paying off because the return on capital is improving, cash availability in our business is improving and the metrics are looking a lot better. Sometimes when you increase margins inordinately you also have to give a larger credit times and that increases your working capital pressure. So we seem to be finding the sweet spot now in terms of margins versus cash conversion and I think this improvement would continue.

Ashish Chopra: Fair enough. And secondly on the technology solutions bit, looks like the technology staffing has had a soft year and you have made a mention of that in part in the analyst days so just wanted to understand as to what is the outlook on that piece going forward with the demand environment being fairly strong for technology?

Subrata Nag: See in the technology segment today, we have staffing is only a part of that, we have three components in the technology segments: one is the IT staffing in India, Singapore and North America and then our IT product and services business and the third largest components is Conneqt which is our BPM business. So I think we have had a very good year in Comtel, Singapore actually, initially after we took over there was a little slump but last year was a good results, we have a very good results in the Conneqt if you see after we took over, the profit has gone up substantially, revenue also gone up, we are signing new contracts and we are opening new centers, delivery centers, so I think overall technology segment last year had only soft spot little bit was our Indian staffing but we are seeing actually slowly Magna also getting its act together. So overall in the technology services business last year had a good year overall and we see that continuity will be continuing this year also.

Ashish Chopra: And just lastly from my side one clarification I think on the line item on the balance sheet which was noncurrent loans which seems to have gone up quite substantially if you could elaborate on what that pertains to?

S Ramakrishnan: Yes, so this pertains to inter-corporate where some of the inter-corporate loans have been moved from current. You will also see a corresponding reduction in the current loans. So some of it has been reclassified as noncurrent.

Actually one of that the Rs.100 crores basically we have given from us to Quess Singapore for acquiring the balance stake of the Comtel, so instead of directly because the acquisition was done through Singapore entity so that is the inter-corporate loan and that is one of the reasons that incremental amount you are seeing there.

Ashish Chopra: So the incremental would be 100 and the remaining would be reclassified from current…

S Ramakrishnan: Yes, right.

Ashish Chopra: Thanks. That is it from my side. All the best.

Moderator: Thank you. The next question is from the line of Haresh Kothari from ALFAccurate Advisors. Please go ahead.

Haresh Kothari: Sir this with reference to industrial asset management where we have reported a degrowth and that is my first question, if you can give outlook on that segment for FY2020. Second question is with reference to the JV share if you can again give the breakup of that Rs.- 8.5 Crores for the Q4 and how do you see full year FY2020 for your JV share with the component breakup.

Subrata Nag: On the industrial as Ajit was mentioning in his initial comment that we will not pursue any project in the smart city area, we will concentrate on O&M, originally we started our industrial when we acquired Hofincons and Hofincons is primarily specialized in the O&M space in the power, in the metal, ferrous and non-ferrous and in the oil and gas industry. So we will basically go back to basic we will try to concentrate our self on that and expand our business there in the O&M space and I think last year we had some of the incidence where we did not have any control as such like the incidence happened in the Tuticorin which put us in setback because that was a large contract so demobilization of that contract actually we had to take a lot of losses there hopefully that is in past now. So currently I think this year we are expecting a healthy margin and normally industrial use to give us around 7% to 8% margin. Last year it was I think around 3 to 4% margin I think this year we will bounce back to our original if not 8%, at least 6% to 7% margin, 6.5% margin we will be achieving this year. Whatever issues are there I think we are tightening our process and the telecom sector also last year was a really, really and particularly we have a large telecom business through Vedang and the Voda and Idea the merger and all these process the new orders actually did not come so that is now also got resolved and we are seeing the new contracts started coming in Q1 I think Vedang also will have a better year I think this year. So that is the industrial and what was the questions…?

Haresh Kothari: Just to continue on industrial. So in FY2020 considering you had a lot of impact in FY2019 do you think on topline also from here on over next two to three years is it safe to assume good made a double digit kind of a growth or how one should look at it?

Subrata Nag: I think industrial see understand one thing actually like we have been expanding in the general staffing or deputy management the industrial O&M space also and we work on basically in a very large format clients so getting contracts, the sales cycle is a very long sales cycle. So I will not say that we will have a very huge revenue growth. It may vary say between 8% and 10% revenue growth we can expect but definitely we will have a better margin expansion and the EBITDA growth from the business.

Haresh Kothari: My second question was with reference to the associate breakup for Q4 and also how do you look at FY2020 your share in associates?

Subrata Nag: Yes, so on associate pick up as we were just telling earlier that I think total around Rs.10 Crores loss from the football club East Bengal, Heptagon is basically around Rs.5 Crores loss and Terrier is Rs.7 Crores profit so that gives us around Rs.8 Crores negative loss. Now one thing we have to understand, please do not think that the East Bengal will lose if you extrapolate the loss to Rs.40 Crores in East Bengal. We got into East Bengal in the last year and we started our spending also that the most of the spend came in the Q4. Overall East Bengal as I just mentioned that yearly loss this whole year we expect will be only Rs.10 Crores. So Q1 also on what you will see that there will be a substantial reduction in that as far as the loss in East Bengal is concerned but I think the Terrier has been doing very well and I think there are lot of in last year actually the Terrier our headcount has gone up substantially touching almost 20000 but we are making a lot of investment in Terrier, understand that Terrier is primarily a very, very manguarding company but we would like to convert into a company in the security services with like our integrated facility management at full fledge security services along with the east surveillance and east security. So there is a knock we have command and control center and others lot of technology we are bringing so that has an impact though we have added almost Rs.7, 8 Crores profits but that has an impact in the cost I think this year Terrier will give a more EBITDA so I think overall last throughout the full year I think we have a positive income associate income over this 2019-20.

Haresh Kothari: So your -10 will remain you are saying 4Q was -10 East Bengal Club that you are seeing for FY2020 to be -10 and other two the -5 Crores loss how, what will happen to that so in the quarter we will have the -5?

Subrata Nag: Yes Heptagon loss will be that is will come down also because they are also in some of the project and they have started and working I think that to you can expect overall remain between Rs.15 and 16 Crores loss but that loss will be offset from the overall Terrier income.

Haresh Kothari: so Terrier from 7 in 4Q whether we should see sequential improvement from 7 over next four quarters or you are seeing?

Subrata Nag: You will definitely see sequential improvement…

Haresh Kothari: So about Rs.35, 40 Crores kind of your share that is possible from 7 quarterly for FY2020 full year?

Subrata Nag: Let us talk offline, I can give you quarter-to-quarter it is not, let us discuss but overall definitely we expect much more positive results from the associate company, on an overall. It should contribute positively to our overall EBITDA.

Haresh Kothari: Because this is a big drag to your overall numbers.

Subrata Nag: No, this is just a one quarter because East Bengal but that will not be there so you will see a positive movement there, but if you want more a detailed analysis just get in touch with us we will provide you the information.

Subrata Nag: Sure. Thank you Sir.

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

Snigdha Sharma: Thank you for taking my question, congratulations for a good set of numbers. Just my questions are related to the people services business. Just one, we have seen a very strong growth of 35% on the topline and I believe this is purely organic in nature, can you talk a little bit about what sector, segments are driving this growth that is one and then on the core two associate ratios well. We have seen a very smart improvement going to 1 to 330 how much higher can this number go and has some of the margin that we benefited as a result of this gone because our collect and pay share is going up and whereas that number go from the current 65%?

Subrata Nag: Hi Snigdha, this last year actually in the initial year we were little weak in the BFSI segment so here I think 18 months, 24 months back we took a call that we have to get into BFSI segment that is a large segment and we started pushing and making a lot of inroads so last year a lot of our growth came in the BFSI segment other than as you know we are very strong in the telecom FMCG retail sector so those sectors also contributed substantially but BFSI is a focus sector and we have been growing and April this year also I think we will see strong growth in that sector and also new sectors like healthcare and manufacturing sectors particularly we have been post GST we think that sector will open up and it is opening up particularly in the manufacturing sector and I think the next set of growth numbers will be coming in the manufacturing apart from our normal where we are very strong. Your second question was that collect and pay, I think 65% collect and pay our ratio used to be 50/50 but we have been working on that and today March end which is the 65% but with April numbers, it is going our initial target at least to end of this year between 75% to 80%, but having said that I just want to highlight one point for your information and for the larger audience, there is an apprehension in the some of your analyst mind that collect and pay is a anti margin if you emphasis on collect and pay, you have to dilute the margin I think that is not the way we are looking into that. We think that with the collect and pay also we can keep our margin and we can increasing on margin by more efficient operation by bringing more technology into our services and reducing our cost to services and bring more manage services not only just manpower, pay rolling but bring more managed services like our InEdge product and many other services what we are providing so that at the same time will keep the margin at the current level or maybe at higher level if even with our collect and pay which will help us our working capital and our cash flow generation.

Snigdha Sharma: Perfect Sir and the core two associate ratios; do you have a target on mind?

Subrata Nag: See this is the I will not put a number became we have when we started five years back I think we are 1:180 today we are 1:330 I do not know where is the final point. Our effort will be to keep our services at the same time bring more technology and more efficiencies in the system and see where we can go because that operating leverage is the one of the tool pivot for increasing margin. So I think if everything goes well we can touch maybe definitely we will touch I think 1:400 by this year but there is a possibility we can breach that and there is possibility maybe 1:500 also we touch sometime but we will be working on that, the goal is already to go up and but where I do not know let us see I hope that we will be doing good on that front.

Snigdha Sharma: Okay, perfect Sir. Best of luck.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: Good evening sir thanks for giving me the opportunity. Sir my question is again on the margin front, that we are seeing improvement in the mix because some of the acquisitions which have better operating margins they have consolidated and they are doing extremely well for you and going ahead you are also expecting the industrial asset management margins to improve. Even Monsters losses are expected to come out and second half is going to be good. So considering all this should we not expect little better margins in FY2020 at least we should on a conservative front 40 to 50 bps improvement in the operating margins on the consol level.

Ajit Isaac: That is a good question I think the core of this answer lies in this issue of business mix as our staffing business continues to grow it is a fairly large size business for us and a lesser margin than the other businesses. So if its rate of growth continues at the rate which is growing and which is a good problem because it is a good business run by a good management team, it is number one in India and expanding in professional staffing to other geography as well. If that continues to grow at a pace that which it does then I think it will overshadow the higher margin business they grow at a slightly lesser rates that is really the effect of the problem, but having said that our newer investments that we are making is also in margin accretive businesses, business like Allsec is at about a 20% margin, Conneqt that we invested in last year is approaching about 8.5% - 9% and the target that we have recently had have all been of that type. So we think there is an upside possibility but we would rather be a little conservative on this right now.

Kaustubh Pawaskar: Got your point Sir. My second question is on the cash flows. So what are your operating cash flows at the end of FY2019?

Subrata Nag: Rs.202 Crores.

Kaustubh Pawaskar: And considering that we are expecting cash flows to improve going ahead and there are no major acquisition plans, so can we expect debt to reduce in FY2020 at least by about Rs.150 to 200 Crores.

Subrata Nag: See last year we already have reduced our debt by Rs.200 Crores and that our of course that will be our target but this year some money will go for Allsec acquisition and mostly that acquisitions will be funded from the internal accruals. So after Allsec acquisitions our next target definitely will to reduced the debt over the next period a couple of months but we have to see that how much we can reduce the debt.

Subrata Nag: But you are right that we will reduce debt from the cash flow numbers.

Kaustubh Pawaskar: And Sir when can we expect Allsec to consolidate?

Subrata Nag: Allsec if everything goes when as per the plan next 15 days we are expecting to close other than the open offer first two transactions from the Carlyle and from the promoters. We will be acquiring around 61% and in the Q1, I think we will do the first consolidation for a period of maybe a month or little less than a month and then that post that the consolidation will go on.

Kaustubh Pawaskar: So from quarter two we should expect the entire for the entire quarter also…?

Subrata Nag: Yes, sure, yes we can expect it.

Ajit Isaac: That is the target.

Kaustubh Pawaskar: Okay thank you Sir. Thank you very much.

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

Abhijit Akella: Good evening, thanks a lot for taking my questions and at the outset I just wanted to complement you on your new look investor presentation with all the new data it is extremely helpful, so thank you for that. The question was first on the performance of the facility management and the technology segment FM, we have seen a little bit of a slowdown in growth this quarter to about 13% but the margins have improved substantially so if you could just comment on what is happening there and similarly margins have improved across P&S and technology as well this quarter so if you could just shed some color on that?

Subrata Nag: See facility management the most of the contracts actually comes in the first two quarters so Q4 you do not get any major contracts as such because as of last end of the year so people normally do not change their service provider, so but still it is 13% quarter we have a growth but overall I think if you just the fact that we are seeing a very substantial traction in this particular quarter and another thing in the facility management our full concentration only in that direct business if you know four, five years we have a indirect business of 30% plus, we brought it down to almost less than 10% today and we are competing in the all the large contracts in India today. So I think the facility management in this year will be also a very robust year as far as the growth is concerned.

Abhijit Akella: And in terms of margins can it be sustained at the 7%?

Subrata Nag: Yes margin certainly I think we can, whatever around 7 plus of margin I think, yes 7 plus margin we can sustain the margin but our last year margin included our new addition with the Green piece and we hope with the Green piece as a part of overall offering there is a possibility but I am not telling that but we will be try, there will be definitely strive to increase some margin there.

Abhijit Akella: Okay great. Second I also just wanted to clarify you mentioned about moving towards your platform-based structure. So does that mean that the segment reporting format is going to undergo a change during the year?

Subrata Nag: Yes, from the next quarter the Q1 results you will see the result in the three segments that workforce management and asset management and the BPM and Technology.

Abhijit Akella: Understood and one last clarification was regarding the footnote number 10 in your financials about the Supreme Court decision on the PF liability. So how if you could just elaborate a little bit on that and how we should think about any possible risks that may arise because of this, I presume it for the entire industry?

Ajit Isaac: One of the points that we must keep in mind while we are addressing this issue, that this is an industry-wide issue not restricted to Quess alone but to industry in general, one. Second is that at Quess all employee costs are pass through so let us say that the bonus to be paid or there is an increased allowance to be paid or a change in the retirement benefits or benefit structure of an employee who is an associate of the company that cost is passed down to clients as part of a contractual agreement that we have with them. So while this is a note of information it is not something that is applicable to Quess as of now.

Abhijit Akella: Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Sandeep Baid from Quest Investment. Please go ahead.

Sandeep Baid: Good evening. I just wanted a bit more color on the technology solutions please I guess there are three parts to it like Magna, Comtel and US piece, US and Canada piece if you can talk about how each of them have done and growth prospects going forward for them?

Ajit Isaac: I will give it a shot initially and then I know Subrata can come in. In Comtel for example in Singapore, the economy itself has been growing between maybe 2% to 3% so it has been a rather subdued session of economic growth and hiring has been a problem there because of the issue of employment passes which the government were restricted in granting them. We see now a greater throughput of passes, we think with the hiring per month has also increased in fact for the last month for the first time I think we touched about a 100 per month after about a few months. So we are seeing a progress in the numbers. Comtel's numbers will increase in the next few months for sure. In Magna which is the Indian IT professional staffing business while the sentiment on hiring in the IT segment has improved, a large part of the business of Magna actually comes from captives and from a combination of direct users of IT services and IT services industry themselves. So while we are seeing green shoot, we will wait for another quarter to give you a more affirmative comment on the rate of change in this industry. We are also undertaking some changes within the business in terms of structure, people, leadership to give it more momentum and this we hope will start reflecting in the results that Magna has. At MFX, it has a combined business with Mindwire right now so it is able to give campus of both combination of insurance services, IT asset management services, and staffing services. We think that the margins will improve there we have a combined sales team in the US and across USA and Canada; this should be a better year for us.

Sandeep Baid: So Ajit what kind of growth do you think is possible for this segment going forward and also on the margins if you can give some more color going forward?

Subrata Nag: Before getting into I will just tell you from the FY2019, Magna and Comtel will be part of the work force management. The technology segment from now onwards basically will have the two major parts one is our insurance and services business that is the MFX and our BPM business that is Conneqt and I think in our technology business our focus actually to build a large BPM business. Allsec, the acquisition actually is to make that happen and with Allsec and Conneqt, I think this year will be a great year for the technology business as you see the last year itself we have made a substantial progress either in the revenue as well as in the margin and EBITDA in the Conneqt business and I think with Allsec that international exposure, CLM and HRO business, I think we can expect definitely a margin which is in a double digit which is almost.. Conneqt itself is an 8%, 9% but with Allsec we can expect in technology, a double digit margin and MFX actually last year in February we lost one of our clients because of the merger and acquisition happened in the insurance segment in USA but that took us some time to recoup our revenue and subsequent EBITDA. So this year we expect in both overall technology will be a much better year than the previous year.

Sandeep Baid: Like and the Comtel and Magna piece I guess that will get combined with the people services business?

Subrata Nag: That is workforce management yes.

Sandeep Baid: But if you can maybe talk a bit about what kind of margin trajectory are you seeing in that business going forward I know from next quarter onwards one may not be able to differentiate but if you can just talk about it?

Subrata Nag: Well Ajit told actually Comtel after we took over the first year there was a little bit of restriction on the EPs in Singapore so that has an impact in our Comtel business but that restriction has eased out much last couple of months. We have seen there are a lot of tractions happening in Singapore and it gives us almost 7%, 8% margin in the Comtel. I think that margin will remain in that it will not increase substantially but we will have a better year there. Magna, we are currently around 9% plus margin and I think we will be around 9%, 10% margin. So overall between Comtel and Magna, our margin will be around 9% between 9% to 10%.

Sandeep Baid: Thank you. That was very helpful.

Moderator: Thank you. The next question is from the line of Haresh Kothari from ALFAccurate Advisors. Please go ahead.

Haresh Kothari: Sir just one question in terms of if I look at your overall debt which has reduced but your interest cost in Q4 has jumped significantly so can you guide how do you see FY20 in terms of overall interest cost?

S Ramakrishnan: See the overall interest cost the debt levels of them, but most of the interest cost we are talking about here is pertaining to our intercorporate loans that is what has the interest cost and secondly what has also happened is compared to last year to this year the utilization of debt lines has been more in the sense that we had some of the IPP money and sometimes in the previous year so the debt lines were not kind of utilized which meant that the interest cost was only for part of the year in the current year the lines were more fully utilized that is the kind of reason why we had..

Subrata Nag: And also I think during the year that the PLR also gone up by about 1.5%, so that has an impact but we are trying to reduce our working capital and you see that DSO level, which came down from 54 to 39 days which is helping us in cash generation and I think that will also help us to reduce our interest cost this year.

Harish Kothari: So from quarterly now 32 Crores run rate how do you see this number because your cash to be use for Allsec of course Allsec numbers of course will quite comes out to that extent it might be not much impact on EPS from Allsec perspective, but your interest cost from 32 will it be a quarterly base that is a new base that is what you are trying to interpret.

Subrata Nag: Yes, I think it will come down to whatever…

Ajit Isaac: The interest cost is a function of two things one is the quantum of debt utilized on the interest rate at which you have planned so if interest rate go up we have more control on that, but what internally we are working at is reducing the debt utilization so I think if interest rates remains constant the amount of interest cost that we will have should only come down because we will utilize that.

Subrata Nag: Yes see primarily understand one thing our debt level last year almost came down to 100 and we do not have any plan to increase our debt level actually plan is to deduce that so that will have an impact to in the interest cost so it will get reduced that is our assumption.

Harish Kothari: Sir you are absolutely right, your operating cash flow conversion has improved and which is definitely very good thing but the only thing which is a little bit got confused which you explained that there might be more limits to utilization and therefore at times it is not possible to have direct correlation of interest on your debt because the debt is anyway reduced but this interest has gone up by 52% so even if I look at Q-o-Q and Y-o-Y 4Q is also 32 see if you say 32 is a new base or even 30 is a new base that is a big number because then again your overall interest cost will look significantly higher in FY2020?

Subrata Nag: Yes fine we noted and we will see that, but I think overall you can expect that annualized interest cost will not go up actually and maybe it will come down on a year-on-year basis.

Harish Kothari: Okay fine, perfect, thank you.

Moderator: Thank you. We take the last question, which is from the line of Atul Mehra from Motilal Oswal Asset Management Company. Please go ahead.

Atul Mehra: Hi sir thanks for once again the opportunity. Sir just on Allsec so in terms of could you talk a little bit about prospects of this business going forward as you see it given one is we have seen some level of volatility in earnings and numbers for them in the past even this year has been very weak and secondly this is also had one impairment in the last quarter if you could explain little bit on what is to do with this impairment in the subsidiary and something on that side as well? Thanks.

Subrata Nag: See Allsec had a business in the US, they had acquired a company couple of years back in the mortgage space and that business is no more there so there is actually we as per when we discuss so that is as the business is not there, there is no point in carrying that good will so they cleaned up their balance sheet primarily before we took over so that is already done we know that so I do not think that will have any impact in the Allsec going forward. Now Allsec as Ajit was telling it is around 250 between 260 Crores overall revenue with a 20% overall margin and it has primarily three line of business one is the CLM international business, which they service from Manila and little bit from India, one is CLM India business domestic business and a large HRO of business, which is almost between 35% to 40% margin so our emphasis will be to use Allsec for international CLM and the HRO to work on the HRO business and see how and we know we are a large HR services company we started with and the payroll was one area where we did not have any presence so this gap I think will be filled by Allsec there also. So I think in India payroll outsourcing is a large area and Allsec is very rightly placed there to expand that opportunity. So we think there will be Allsec will definitely as I told will add into our BPM space to a large extent.

Atul Mehra: And Sir who will run the show because the promoter used to be the one over here initially in terms of going forward on an ongoing basis who will run the Allsec as an entity how will it be consolidated from a management perspective?

Ajit Isaac: Yes, one of the product is for this year is combined business of Conneqt and Allsec that we will build together that will be a business of about 130 Crores of EBITDA employing maybe close to about 35000 people so with a margin level the growth up to about 12% or so. So it will be among the larger BPO businesses in India, the structure is emerging we will make an announcement about that shortly.

Atul Mehra: And Sir one final question on Allsec. So do you see growth returning back where in terms of strongly given that we are buying it on a 20% decline here in terms of growth. So how confident we are in terms of reviving growth significantly in this particular business.

Ajit Isaac: One way to witness that if you look at the previous track record of how we have done with investments that we have previously done we have about 20 odd investments that we have made most of which were assets that needed injections of capital, management, process, structure, etc., we have succeeded fairly and turning them around which is what has encouraged us to do many of these acquisitions, we believe we can repeat that here. Conneqt has had a terrific year last year it grew from about 55 Crores to about 70-odd Crores of EBITDA substantial growth in spite of the fact that three years prior to our investment it had remain fairly constant in terms of earnings. So we think that we have a good platform to build out from here and also it should return to some growth. Additionally one of the segments of business at Allsec is which is the HRO business the business is very well known to us they have almost about 50-odd Crores of sales in that works at a fairly high margin structure is in the payroll space and we think we can take that out to a large section of the clients we have in our larger HR services portfolio. So all said we are constantly optimistic about what we can do at Allsec.

Atul Mehra: Great Sir thanks and wishes you all the best. Thanks.

Moderator: Thank you. I would now like to hand the conference over to Mr. Aditya Bagul for closing comments.

Aditya Bagul: Thank you to the management and all the participants for taking the time to attend this call. I will request Mr. Isaac for any closing comments.

Ajit Isaac: Sure. In closing I would like to say that the management's attention continues to be on the three platforms that we have built, in terms of generating cash from our existing operations and ensuring that the consolidated business of ours in each of our business the leadership position that we have in each of the business that we are in India continues to grow in professional staffing, general staffing, facilities management, food and beverage business, in security service business we are all in the top two or three positions sometimes even number one in some of them we would like to see how we can grow the lead. We will also want to work the successful integration of Allsec Technologies and Conneqt to ensure that this investment pays off. We think we have got two good assets in which combined one will be a post reckon within the market. The turnaround at Monster and industrial asset management is important to us. Collections from the Trimax project is on our mind and these are the things that will occupy our attention and will be the focus of our efforts at Quess. We want to thank all of you for being investors in our company for the support we have had from the investors and we think that this year is going to be a year in which some of the efforts, which we are putting in, into the consolidation of operations, cash generation and then turning around the assets will pay off so we are happy to be with you in the journey and thank you once again for joining us on this call.

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