



“TeamLease Services Limited
Q3 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Teamlease Services Limited Q3 FY2022 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode. 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Heenal Gada from ICICI Securities. Thank you and over to you!

Heenal Gada: Thank you Stanford. Good evening, ladies and gentlemen. Thanks for joining us today for the Q3 FY2022 Earnings Call of Teamlease. I would like to start off with thanking the management of Teamlease for giving us the opportunity to host this call. On the call, we are pleased to have Mr. Ashok Reddy, Managing Director and CEO; Ms. Rituparna Chakraborty, Executive Vice President, Staffing; Mr. Sunil Chemmankotil, Senior Vice President, Specialized Staffing and Ms. Ramani Dathi, Chief Financial Officer. We will start off with prepared remarks from the management, after which we will open the floor for questions. Thank you once again for joining us today. Over to you Ashok Sir!

Ashok Reddy: Thank you very much. Good evening. I just wanted to retrace that we had a strong quarter on headcount growth. We added about 22,000 associates and trainees across our three businesses of staffing, specialized staffing and degree apprentices for growth in headcount numbers.

Quarter on quarter we had 9% growth in headcount numbers and topline revenue growth of 16%. Our EBITDA and PBT seen a trajectory of growth in absolute and broadly packaged in percentage basis but at a PBT level, we had an 18% growth quarter on quarter in Q3.

I think our industry focussed approach to sales and hiring has been delivering on the growth results. We believe that we will continue to make investments in talent, technology and brand over the coming quarters to drive the volume price and productivity aspects. While we have the exploring the inorganic investment opportunities, nothing has been fortified on that front, multiple dialogues happening but no closures.

In the interim, we will effectively be looking at organic investments that have been enabling the growth. I think that is something we will continue to focus on for the various businesses with the results that we are seeing on the sales outcome and the hiring outcome. This will drive absolute growth in revenues and profits and we believe that could give us a strong footing as we go forward.

All our businesses, staffing, specialized staffing, Netap, degree apprentice have seen growth, some element of the flattish to a negative trend, in the profits of specialized staffing on the account of the seasonal impact of furloughs that have come in, which Sunil will cover. I think even our HR Services and businesses have started to deliver on growth and profits and will continue to deliver as we go forward.

Overall, our element of growth trajectory stays strong with the kind of demand we are seeing with our customers. Omicron, wave 3.0 has slowed down the demand a little bit, but we do not see it being a headwind at this point in time. Also coming together of the teams and various businesses structures are complimenting growth and volume.

We are also making some investments additionally in the areas of HR Tech, Higher Tech where we have hired new leaders and will complement with teams for future growth as we go forward. I think as we see the market at this point in time, we are positive about the growth and we are positive about our positioning to draw on that opportunity as we go forward.

Largely most of our other parameters on funding, operating cash flow and everything else stays healthy. More details will be covered by Ramani at a later point in time. I will call on Ritu to give input on general staffing, Sunil on specialized staffing and Ramani thereon before we open it to questions.

Rituparna Chakraborty: Thanks Ashok. Good evening, everyone! Hoping you are arriving the third wave cautiously. We continue to improve our filters best in general staffing. I am pleased to share with you that we manage to aggressively grow our base, in Q3 to around 15600 over the Q2 base. Each of the 6 business cohorts and staffing came together to deliver strong performance, in terms of absolute growth in business and also in terms of key financial matrix including exception of teamwork BFSI, e-commerce, telecom and consumer businesses are leading the way for us.

Growing contextual mastery of the 6 businesses is visible in various aspects; however, mostly in hiring. As we have been able to showcase depth, reach and spread nuanced to each business and job roles which are in demand. The pandemic had limited our options to hire using traditional channels and we were gainfully compelled to constantly innovate and change our mix which has improved our overall hiring delivery and efficiently. We witnessed the most aggressive net positive headcount, growth in BFSI, telecom, e-commerce and consumers. We maintain our sales aggression as we signed up to 53 new logos during the quarter, hiring contribution to gross additions continue to improve and is about 33% in Q3 a marginal improvement in Q2.

This should be an indication of future trends where more contribution to our growth shall come from those we ourselves hire for our customers. Contribution to highest to non-recruiter channels stays strong at about 54%, improving our fulfillment ratio which is almost over 60%, improving out time to closures as well as reducing cost per hire.

Our HT productivity ratio for staffing alone improved by 12%, with improving operating leverage and associate growth, we also managed to improve upon our associate markup in absolute rupee terms through the quarter. Undoubtedly, there is optimism in the business outlook and the addressable market is wide, and hence we shall continue to invest in leadership, digitalization, sales and hiring capabilities to aggressively pursue the opportunities as we see ahead of us.

A bit on the Q4 outlook I think there is a stable faster GDP for 8.5% 2022 has spread considerable optimism sectors. The hiring intent is about 23%, this is based on the Teamlease outlook report studies which come out every quarter. 23% for Q4 of this fiscal compared to the previous and formal economies delivering on increased demand although we see an unprecedented churn in the technology sector the global demand for technologies services from India surged. The continued health of high-frequency indicators and positive credit growth of large businesses arising exports indicate a promising surge in hiring across the country in the upcoming quarter or rather the current quarter.

The recent employment outlook report captures the intent of hire for Q4 is at about 50% and the increase of 9% from last quarter. Some of the key takeaways I see educational services, healthcare and pharma, e-com, tech start-ups have the highest intent to hire. Metro cities and tier 1 cities are surging ahead. Bengaluru, Chennai are important hiring markets. Junior and entry-level hirings are outdoing probably all other categories, sales and IT roles very much in prominent. Of course here is an Omicron impact where there is a little apprehension on, but I think while we are cautious about it, we are also noticing that most organisations are still surging ahead, with that plans to higher there is no diminished sentiment as of now. Return to office plans might be unpredictable as of now but the business impact of the virus is not a big concern. We have not passed the pandemic and need to keep a close watch for the warning bells and hence we shall continue to act as prudence but we remain over actively optimistic. Thank you so much!

Sunil Chemmankotil:

Thank Ritu. Good evening, everyone. We had a strong performance in a seasonally weak quarter. We grew year on year 28% on headcount, 34% based on revenue and 25% based on PBT. We witness broad-based hiring across skill sets and industry verticals helping us grow our headcount base to 9,152. These both helped us increase the market share substantially.

Our sales team has been consistently delivering. We bagged 43 new deals including a few large HDD or High Drained Deploy and turnkey IT projects. The number of existing clients where we are the number one partners with the highest wallet share has doubled, reflecting a strong focus on customer-centricity. The investments we made in adjacencies like digital solutions, telecom technology, engineering technology, gaming, healthcare and other service lines has helped us to offer a one-stop-shop to fulfill requirements across the spectrum of our customers.

The investments we are making to improve the capability of our hiring team through various training programmes and digital interventions along with the capacity expansion has helped us to capture a substantial share of the available business in the market. In terms of headwinds, we have a 60 basis points sequential drop in PBT and a nominal 1% increase in the revenue due to furloughs, unplanned leaves taken by our associates, owing to the festival seasons and we also made some investments towards increasing the hiring capacity.

The impact of furloughs and leaves also led to a onetime impact on quarter revenues, however, this will not have an impact in the coming quarter as the same shall be recurring revenue. Overall

the demand environment continues to be robust. We are confident to continue to delivering better numbers in the next quarter and close the financial year 2022 on a high. Thank you!

Ramani Dathi:

Thank you Sunil. Good evening, all. We had a good quarter with 9% sequential growth in headcount and 16% growth in revenue also at PBT margin level we have an improvement of 1.77% in last quarter to 1.81% in Q3. So in this quarter we do not have any major non-recurring items or one-time impacts except for the seasonal impacts of furloughs in specialized staffing.

Our core employee headcount in this quarter has gone up by about 5% roughly translating to about 90 net additional core employees. So, this is mainly into sales and hiring teams, in line with the business growth and opportunities.

Overall, our operating cash flow conversion to EBITDA stands at 85% on a 9-month basis and the funding exposure in our largest business staffing stands at 14.5%. We expected some collections in the government training business for which the provisions are already been made, but those collections stood to the tune of 2 Crores to 2.5 Crores got deferred on account of 3rd wave impact which we are expecting by the end of Q4 and Q1 of next year.

We can move to the questions.

Moderator:

Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line Heenal Gada of ICICI Securities. Please go ahead.

Heenal Gada:

Thanks. Congratulations on the good quarter. My first question is in terms of the hiring trends. As mentioned in the last quarter as well because of the great resignation we are seeing a lot of job openings, which are more than the amount of unemployed people, especially in the developed markets and you did mention those trends had not really started in India, just wanted to get the updated view from you? Are we seeing the trends play out and how do you expect this to impact Teamlease?

Rituparna Chakraborty:

Heenal, this is Ritu! I think the fact that the technology industry today is going through the impact of high attrition is a fact but that is also of account of the fact that the demand is very much in excess of the available supply and the available skill set, so the pandemic definitely preponed some of the skillsets which were probably anticipated would hugely in demand three, four years, maybe five years down the line being in demand today. The skilling and upgrading programmes within the country have not really kept pace. So because of which every step by which every side killed youth is at the moment carrying 5, 6 job offers at any point of time; however that is the case for highly skilled job role particularly. Yes there could be certain sections and certain cities some amount of impact of the jadedness or the mental anxiety of associated with working from home which could lead to some kind of temporary lull a wish or an urge for individuals to quit, but I feel it is a temporary blip and as we progress, as normalcy is restored, we will see some amount of sanity around this. However, there are other interesting

trends we are observing where we feel that a lot of skilled work is currently centered around cities and bigger metros could actually move to a remote location. So organisations might move away from actually attracting talent only from the cities to more smaller cities where the talent currently exists so these are some of the emerging trends actually which are more relevant to India that we feel that we should be watching out for.

Heenal Gada: My next question was in the case of our PAPM so we have got further improvement over the last quarter in those numbers but again margins have still not shown an improvement so any colour on that will be good.

Sunil Chemmankotil: So two elements to that, Heenal. One is that; we had an absolute PAPM increase the salary reveals about the associates have been seeing consistent growth number. So we are seeing a lot of payouts whether its wage inflation or one-time payments happening to associates so from a percentage perspective the realization is actually lower than when we look at it from an absolute term perspective and the second element is that we had called out earlier about our strategy-to-market playing out we feel is a continuance that we should take to investing in more talent and people at this point in time to draw on the opportunities that is there. So, we do believe the element of leverage will kick in down the line and I call that out even in the last quarter but I think in the coming few quarters we will look at it as an investment phase in talent and leadership in absolute profits we will go up but as a percentage, given that salary levels outside our increase and we are maintaining the investment so it will be flattish from the percentage.

Heenal Gada: Right, if you could give us a rough timeline till when can we expecting such an increase from our side or when do you feel the operating leverage will start kicking in?

Sunil Chemmankotil: There are two areas where we are looking into to make investments one is in terms of talent and people which will continue to be there for the next two, three quarters and I think the lag thereafter return on investment should be kick in. The other investment we are looking at is technology and digitization. The investment itself will be phased out in an 18 to 24 months period and in the phased manner thereafter, there will be a return on that.

Heenal Gada: Just last question from my side, we had done a 75 Crores provision in the last quarter, how is the PF return looking right now and are we expecting any further provisioning or you see a reversal in the near term?

Ramani Dathi: So, Heenal on the 75 Crores provision as of now we are not anticipating anything and as we mentioned in the last quarter currently the yield shortfall is at 1% on the total portfolio, so we are also evaluating the options of migrating to the EPFO and as and when we have more clarity on the migration aspect we will come back and inform.

Ashok Reddy: But at this point in time we do not think that we will need any incremental provision on this.

Heenal Gada: Got it, that is it from my side. Thank you.

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

Alok Deshpande: Good evening everyone. One question from my side; We have seen a very good addition in a headcount not just this quarter, but even in the previous quarter, so can you clarify if there was any large contract win in this or was it spread across several clients?

Ashok Reddy: It has been spread across clients, Alok, so it is not any one or a few mandates like I had called out earlier we have seen growth across the three employment businesses and it has been across sectors and across clients.

Alok Deshpande: Sure and given the enquiries that we are getting from clients and the momentum that we are seeing for the past few quarters, would you say that to this kind of addition is not 15000 I mean no healthy addition anywhere between 5000 and 10000, is it that something which is a steady state now given the breaks that we have in terms of clients?

Ashok Reddy: Yes, so I think at this point in time the market sentiment to hiring and demand still seems to be good, Alok. I think like Ritu had called out there is the element of the uncertainty of Omicron at this point in time while thankfully the element of impact on individual has not been as bad as in wave 2.0 and hence there is still an element of business continuity and business plans that corporates are talking about, so no one has actually decided to taper or cancel their business plans and their hiring plans so I think at this point of time across the three businesses we still stay quite confident of a healthy growth as we go forward. This is also giving us impetus to make the investment in sales, account management and hiring team to leverage the opportunity that continues to play out.

Alok Deshpande: Sure and Ashok any in this last two quarters that in September quarter and the December quarter any one or two standout sectors that you have seen has really come back very sharply in terms of growth and has stood out for you in terms of headcounts?

Ashok Reddy: Before Ritu answers on the specific sectors, just answering for Sunil, IT has been consistent all year, so I think IT did not have a downturn in Q1 either and actually as I mentioned to the earlier question, the demand in IT has been very aggressive and healthy and we have been delivering consistently across the quarters to IT that is on the specialized staffing side, on the general staffing side, Ritu.

Rituparna Chakraborty: So, on the general staffing side I think the standout sector in terms of net growth obviously is e-commerce, but I would not call it as a turnaround sector, it has been like this and the entire start off ecosystem buzzing hyperlocal business models emerging there is a constant requirement for hiring, I think the couple of sectors which I can call the bounce back sectors have been BFSI and telecom and the other cluster where we are seeing obviously a lot of consistent sustained demand will be and it may not be a huge big bang, but what sustained and would be consumer and healthcare so in a nutshell that is where most of the action as well.

- Ashok Reddy:** And also in degree apprentices we have seen an uptick from the manufacturing sector.
- Alok Deshpande:** Sure, understood. Thank you so much for the responses and well done on a great quarter. Thank you.
- Moderator:** Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.
- Yogesh Kirve:** Congrats on good set of numbers. Sir, I had a question related to, if I look at matrix of realization per associate in general staffing it has grown by cumulatively about 20% over the last two years, so how should we look at, what should interpret in terms of this various levels which is going up from some more higher bonus payout, anything that is related businesses during this quarter and secondly related to PAPM started growing at a more steady rate, so is there any attempt or previously you talked about trying to move towards more finisher kind of a deal of a percentage share kind of a deal, has there been any movement over the last couple of quarters?
- Ramani Dathi:** Yogesh, first let me cover the second point, while our default offering or our preference for signing up a client is on variable markup model, there is a push back and as of date only 28% of our business is on variable markup model and over the last one and one-and-a-half years we have not made any progress on improving the variable markup conversation and in terms of PAPM growth in Q4 of last year and Q1 of this year the PAPM got impacted with COVID discounts on which means that it would take at least three or four quarters to get back to the previous levels of 740, 750 kind PAPM level on which we are making quarter-on-quarter progress, however, the wage inflation associate salaries is much higher than the growth that is happening at PAPM level, which is a kind of having the pressure on gross margins in staffing; however, with the productivity enhancement that we are doing at our backend in terms of our core employee and other costs so that is helping us at EBITDA and PBT level to improve the margin and also at overall portfolio level the margin expansion will continue.
- Ashok Reddy:** I think just from I mean intent is obviously to try and increase realizations at the PAPM level, multiple approaches in terms of negotiation, new contracts in terms of the aspect of partly the person contribution all of these are being tried out Yogesh, no one driver, but like as Ramani pointed out and as we had called out earlier we are seeing the wage inflation happening which is effectively also from a percentage perspective dampening that element, but we are compensating that by the productivity enhancement that has happened.
- Yogesh Kirve:** Going back to the point that I started to interpret, realization per associates so the kind of increase that you are seeing for two years, is it really only the function of the inflation which has happened or has there been any sort of change in profile or almost which are getting involved, I understand our earnings are really related to PAPM and just want to understand this matrix?
- Ashok Reddy:** Not a huge change of any sort in the composition of our associate base so while we are continuing to deliver to the volume requirements across various industries sectors and obviously

there is some element of sectoral composition mix that changes depending upon the outlook or employment that the sectors are doing at a broader level there has not been a functional composition mix change that has happened, I think it is just the element of wage inflation that we are seeing are coming through on the asset of the talent that is being on boarded.

Yogesh Kirve: The second question is slightly related to this, so as this wage inflation keeps playing out so if you out of our in terms of benefits under section 80JJAA sort of link to certain salary threshold, so based on this inflation trend so are we confident that over the next 4 to 5 years we would be sort of close to zero tax rate in terms of the effective tax rate?

Ramani Dathi: Yogesh, while the average salaries are going up consistently and currently standing at 23000, our medium salary is still about 18500, so it takes a while to get to the 25000 limit, so at least for the next 4 to 5 year timeframe we do not see any major change in the quantum of tax benefit that we are availing.

Yogesh Kirve: Thanks a lot for the responses and wish you all the best.

Moderator: Thank you. The next question is from the line of Nilesh Jethani from BOI AXA MF. Please go ahead.

Nilesh Jethani: Thanks for the opportunity. My first question was across business model I wanted to understand what is our share do we take as a percentage cut or it is fixed in general, the reason I am asking this is just wanted to understand say the salary growth continues for the next 2 to 3 years, we would be in a position to enjoy double benefit of headcount increase plus the salary increase or it is generally fixed in nature?

Rituparna Chakraborty: So, in general staffing Nilesh, 72% of the business is on fixed markup model so where we really do not get benefit of inflation naturally; however, every year when we go back to client on renewing the contract so we ask for increasing the PAPM, but largely 72% is on fixed markup model. In specialized staffing it is on rate cut model so wherein I mean add share of margin is baked into the overall cap that we charge to the client.

Nilesh Jethani: Got it and second question it is related or relevant at this point of time but what is our strategy on the online side, so I read about few articles on newspaper about an app called Penna, which conducts more than 18 million job interviews on a monthly basis so where are we on this online platform or online investment and what is our thought process in the next two to three years because largely lot of the blue collar job, etc., can be easily transitioned to online that is my belief is at this point the time, so wanted to understand management thought process on this?

Rituparna Chakraborty: I think we welcome innovations of this sort of apna that has come into the ecosystem because it improves the entire engagement and the quality of the ecosystem services, so we do view them with as allies in our own journey and there are common synergies that we are already seeing like we work very closely with for example, apna.co and there are many various such aggregating

models that we are also seeing, it gives us an opportunity to learn, engage as well as innovate at our end in terms of our own journey towards creating better matching techniques given that clearly blue collared or less skilled, remote hiring, rural hiring is one of our future current as well as future priorities, so honestly these are models which we absolutely welcome, they are actually improving the entire staffing ecosystem today and this learning process was absolutely essential to kind of address one of the perineal challenge that the entire employment ecosystem in this country has been struggling with, which is how do we get the get the non-Naukri, non-Monster and the allied kind of profile into a digital environment, so I think we are very optimistic and hopeful that this is going to overall improve the quality of matching in the country.

Ashok Reddy:

Just to add to that Niles, this criticality for us from a hiring perspective that we have to achieve the trinity of scale, which is volume, the reach which is multiple locations and cost is being at the lowest cost for it to be viable in the long run, so I think one of the investments that we made in an earlier business fresher's world was with the belief that the technology is going to play a key role in the aspect of hiring and we need to while we will use the learnings and experiences of others at our end, we also need to innovate and kind of drive on the platform, so I think the past two, three years a lot has been done internally around hiring of being a technology driven and the framework of that is kind of working for us to drive productivity and volume delivery. I think one of the investment that we are looking to make as we go forward in higher tech is also to improve higher tech as a variable that compliments hiring operations to enable the trinity of scale reach and cost like as I said we will obviously leverage on innovation that is happening in the space outside, but we will compliment that with our own platforms also.

Niles Jethani:

Got it and so the follow up question on this, just today if you want to say today we would working or associated with many sectors, so just wanted to understand any low hanging fruits which are there that receive transition some of the businesses or some of the recruitment towards online and savings which we can do at the start and second month clarification so technology hiring at TeamLease or using technology for hiring for the client so we do and I did not get it?

Ashok Reddy:

This is hiring actively for client requirements. So hiring our own requirements is not that large volume growth that typically at this point in time we are nearly 18000 plus open positions with us across sectors, across profiles, and across different location, we cannot throw people at the job, it becomes very expensive proposition and leveraging technology as an intervention for hiring off and hiring tech is really what will drive down the cost of hiring and improve the fulfillment ratio, so it is leveraging technology for the open positions that customers give us that becomes our growth engine as we go forward.

Rituparna Chakraborty: Just to add to that in our opening remarks that I was mentioning something called the contribution of non-recruiter channels to our overall hiring. Now it just from using Teamlease.com that is almost 20% of our overall hiring and as we continue to hire more and given our optimism in terms of growth that will come or addition that will come for own hiring large part of it we intent to do an increasingly and progressively we would like to do it using online channels like Teamlease.com and if we can make penetrate into being able to do so across

from much more diverse set of profile through online platform it is obviously brings in a huge leverage for us, so it is not only does it improve the thing that the three things that Ashok mentioned it helps us reduce our costs for hire, it helps us be able to hire faster and in remotest part of the country so it is already in motion.

Ashok Reddy: But just to add that Nilesh and to your first question about any specific low hanging sector that plays to this as of now no, we are using it across the board.

Nilesh Jethani: Got it, Sir and one last clarification, you said you had 1% shortfall in our PF book, so largely if my maths is correct the book size is 1300 Crores, so broadly 13 Crores could be additional provision if we move to the PFO that could be coming in from the operating revenues in future, is the expectation right, this is the current number?

Ramani Dathi: Nilesh, when we created the 75 Crores provision, we also factored for this yield shortfall of 15 Crores for the next 2 years, so if we move to EPFO we do not have to create any additional provision in future.

Nilesh Jethani: Got it, so those are my question and thank you so much for patiently replying to each one of them. Thank you so much.

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

Vidit Shah: Thank you for taking my question. Sir, the first question was on the specialized staffing business, so we have seen a healthy growth but hardly any growth in revenues so you said it is largely due to the seasonality, but could you shed some light on the seasonality like is a large part of this headcount addition towards the end of the quarter or is there just the discount that we give during the third quarter?

Sunil Chemmankotil: During this quarter, in December you have a huge furloughs, 15 days furlough is given to employees, so it is our costs and revenue as well. Similarly there were some unplanned leaves which normally they take during the festive season so that the reason in spite of the headcount addition, the additional revenue got out adjusted against the loss in the revenues towards the furlough and the leaves, but on ongoing basis this will come back.

Ashok Reddy: At 400 headcount addition that we have had has been kind of spread across the months but the IT staffing, which has the largest wage brackets taking the hit on the unplanned leaves and furloughs is the only reason for the aspect of a flattish quarter, but this would correct itself in Q4 where there will not see this impact.

Vidit Shah: Got it and you previously stated that steady state EBITDA margins of the segment of around 10% to 11% like we have basically done 9.1% in the first two quarters and roughly 8.5%, so like what are the expense or cost cutting will be done to take these margins up or when can we see this margins sort of you know start increasing?

Rituparna Chakraborty: In specialized staffing now that we have telecom and IT infra verticals added, which are relatively lower margin businesses to it, compared to IT staffing, so we said that we are currently at optimal levels of margins in specialized staffing so our focus is more in terms of improving the absolute profit because at margin front 8% to 8.5% is an optimal level for this vertical.

Vidit Shah: For the vertical including the infra and the telecom?

Rituparna Chakraborty: Yes, that is right, on a blended basis.

Vidit Shah: Understood. Fine, thanks. That is helpful and just a couple of questions, one was regarding the shift from in hiring from metro cities to small cities that Ritu kind of talked about earlier, so just wanted to understand that like is there enough presence of these large companies across the small cities will this sort of need more investments to be made across the country to hire from smaller city?

Rituparna Chakraborty: Obviously, this is an emerging trend that here it is looking like that organization obviously are still conflicted on whether work from home is better, back to office is better, the impact on engaged, impact on things like mental health on and so forth, but then a large number of employees and this is obviously not a trend across any and every sector, this is largely centered around the knowledge workers I guess, where a lot of people come to the metros from different parts of the country and with this pandemic phenomena many of these people because of work from home, remote working has chosen to go back to their home town and a preferring that ecosystem, so there is an emerging trend where organizations are seeing that rather than having large office spaces in bigger cities, why not have smaller cohorts in smaller towns and cities which are essentially places from where a large number of people are actually migrating to the cities and whether that is a more viable model to ensure that there is some kind of a physical connect with these employees, so it is like an in between kind of a solution, which might blow up into a bigger trend, but honestly we have to see how the next three, four quarters go, as of now we are seeing that as a trend around for knowledge workers, for technology and some similar kind of roles.

Vidit Shah: Sure, but let us say if it does blow up, do organizations have sort of capabilities so on and the database to start hiring from these places that need to be built up?

Ashok Reddy: Even today with your talents for companies is coming from all places so what we have been doing historically is migrating talent from home location to the metros, I think what we are now talking about is that there will be a dispersion of employment base to probably the Catch B kind of location, so historically also the talent was not purely constrained only to the big cities. It was coming and it was a migratory population that was there. I think what the opportunity this provides is an element of being able to halt that element of a migration and our belief is that as you are able to take jobs to the people your quantum of talent pool would actually increase.

- Vidit Shah:** Just one last question on the couple of leadership hiring position that you filled in the HR Tech Space if you could shed some light on the broad strategy in the space, how quickly will it grow and are you looking to monetize it or it is largely for cost efficiency?
- Ashok Reddy:** Two elements both we made leadership hirers in hi-tech and HR-tech, Hi-tech, we have discussed slightly earlier around how we view it as adjunct to our employment cluster and our hiring capabilities to deliver to open positions as a function of scale, reach and cost, so they will make investments to enable scale productivity, to some extent they will have external independent market focus, but will have TeamLease businesses as their largest customer to drive volumes. In HR-tech, historically we have been talking about the element of the DWS Solutions that we have been doing to give value to the customers in different areas of people management, which are today we have a minimum viable product in certain areas, which are being used across customers and across associates, there the clear idea is to monetize it to some external clients and non-associate employees who are outside while we were also parallely make investments in innovation around future product pipeline so in both the businesses they will be future roadmap of investment that we would do on product and innovation, but they will be called out at P&L.
- Vidit Shah:** Understood, thanks. That is it from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Utsav Mehta from Edelweiss AMC. Please go ahead.
- Utsav Mehta:** Thank you so much for your time. I have just noticed that your spread per employee has been going up quite steadily in the last few quarters it is almost like a 1000 bucks per month, it is almost up 20% year-on-year. Do you think this number is sustainable or it is just a function of staffing mix or has there been an improvement in pricing?
- Ramani Dathi:** Utsav when you mean employee spread are you referring to the salaries or the volume growth.
- Utsav Mehta:** I am just netting out the realization for employee from the cost per annum.
- Ramani Dathi:** Can you please repeat your question?
- Ashok Reddy:** Basically we have called out that we have about a Rs.700 odd realization in general staffing which has incrementally been improving, specialized staffing has higher margins so I do not know if you are combining a combination of both but I am not clear how you are coming at the Rs.1000.
- Utsav Mehta:** No I am just using the overall numbers, I am just taking your revenue number and dividing it by average employees and you cost, your total employee cost divided by the total number of employees, just a rough map to see where your spreads are heading.
- Ashok Reddy:** I am not able to understand the question and rough math at the back end, but we could take this offline and Ramani could answer that.

- Ramani Dathi:** Yes Utsav I will take it offline with you.
- Utsav Mehta:** All right, perfect. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Sumit Jain from Goldman Sachs. Please go ahead.
- Sumit Jain:** Thanks for the opportunity. Sir, firstly I wanted to just check on your specialized staffing head count you mentioned that in IT staffing you had a very strong growth but when I look at your disclosure these specialized staffing has gone up by 4.9% quarter-on-quarter so shall we assume there was a decline in telecom staffing or it infra how should we look at it.
- Ashok Reddy:** The telecom staffing and the IT infra compared to IT staffing there has been a little less number additions but predominantly we have been adding more numbers on the IT side.
- Sumit Jain:** So can you quantify I think you stopped giving that disclosure so any reasons for that because I think IT staffing head count growth used to be a pretty decent number for you.
- Ashok Reddy:** So we have just now combined the three businesses and are working under a single leadership and not specifically vertical focused as a linear line thereafter so that is really why they have been combined together now.
- Sumit Jain:** Got it that is helpful and my second question was around your margin profile in terms of EBITDA margins if I look at the HR services has gone now into profit whereas general staffing and specialized staffing both have seen a bit of a decline for last three to four quarters so I guess despite a very strong Q-o-Q growth trend and improvement in realizations as well we have not seen the margin benefits coming to general staffing and specialized staffing so is it because of the investments what you are doing or any other competitive factors out there in the market.
- Ramani Dathi:** Firstly in general staffing I mean before we even go to the investment level on PAPM itself there is a continuing pressure till Q-o-Q. So in fact we gave substantial COVID discounts in the last 12 months of time frame and that has impacted the gross margins, so while we are enhancing the productivity and contributing to a higher profitability at the bottom line so there is a slight impact on the PBT margin which is essentially percolating down from the COVID discounts on PAPM. Specialized staffing in this quarter there is a drop in the EBITDA margins because of the furlough and this is one off otherwise they will continue to maintain these of EBITDA margins of 8%, 8.5% eight in coming quarters. HR services the long-term aspiration or the long-term margin target for HR Services is upwards of 10% and again this is subject to the new investments that we are planning to make in higher tech and HR tech business lines but however under EdTech and Regtech and compliance businesses all put together we should be able to maintain a steady state of upwards of 10% of net margin.

Sumit Jain: Got it that is helpful and I guess Ashok in the past you have mentioned your aspiration to take EBITDA margins to north of 3.5% to 4% we are still operating at 2.1% kind of levels so can you just help us understand what will be the key levers for profitability to go up to maybe 3.5% to 4% in the longer-term I am not asking the duration by when it will go but at least the levers which will take you to that path.

Ramani Dathi: So north of 3% is what I have always been saying and I think that is the trajectory that would happen with the portfolio mix of the various P&Ls and scale that comes about so I think a combination of those two is really what would be the driver so HR services has now come into profitability now we are focusing on scale for them and since it will be a higher margin business and it would not really be a large mover on the topline it will lead to margin improvement, specialized staffing has reached that steady state but now we need to drive on growth I think the immediate quarters where we are making the investments in talent and team and other areas do not give operational leverage but those will also start playing out down the line. So I think a combination of these is really what would move towards the company delivering on the 3% plus kind of margin.

Sumit Jain: Got it that is helpful and also can you also talk about the consolidation in the market happening because we generally do not get any industry level data as to how the overall staffing industry has performed so given that you had 9%, 10% quarter-on-quarter growth I am assuming you must be consolidated the market at a broad level so maybe Ashok. Ritu if you can comment something as to how consolidation is happening at the ground level.

Ashok Reddy: I would not say consolidation is happening at this point I like their demand has come back into the market I think the tepidness that was there at the start of the year on account of wave 2 is behind us our clients have resurfaced their plans for growth and volume leading to hiring I think hiring is happening across the spectrums of on-roads outsourced formal informal all area I think it is for us a function of having strong sales and account management teams on the ground that can leverage the aspect of the positive outlook in the market. Giving us or getting us more clients getting us more open positions and our ability to deliver better on the open positions that giving us the growth at this point in time. I do not think I am still at a point in time to be able to say that there is a strong element of a consolidation from informal to formal or from smaller players to bigger players that is happening at this point in time.

Sumit Jain: Got it that is helpful Ashok and I think in terms of FY2023 I mean clearly we saw v-shaped recovery in FY2022 and of course the head count growth has been pretty strong in that perspective so what is the sense you are getting from your top key customers in terms of their growth addition for next financial year would it again be a strong year or you think the pent-up demand related phenomena has already played out in FY2022.

Ashok: No I think the outlook from industry is quite positive leaving aside any uncertainties that could crop up down the line with the aspects of the given facts on the table the outlook overall on India seems to be strong and translating that down at industry levels and company levels the outlook is

quite strong so we do not see it tapering off at this point in time unless some external variable comes to play on that.

Sumit Jain: Got it, that is very helpful. Thanks for taking my question and all the best.

Moderator: Thank you. Ladies and gentlemen as there are no further questions I would now like to hand the conference over to the management for closing comments.

Ashok Reddy: Thank you. So as I think it has been called out we have had a strong quarter on growth in line and in continuation of the earlier quarter there are no exceptional item call outs in this quarter all parameters of P&L and balance sheet are healthy and with the current outlook on industry and company aspect we do believe this opportunity for sustaining the element of a healthy growth as we go forward into Q4 we obviously are working on improving the absolute profits at this point in time the margin percentage aspects as the levers of the current investments that we are looking at start to play out in future will lead to that operational leverage and margin improvement happening but we believe that just given the market the market opportunity it is the right time to make the organic investments in technology, in digitization, in team that we will continue to drive on. We look to the aspect of no surprises in the future around the pandemic or anything else and with the sustained positive outlook we stay positive to the future. Thank you very much.

Moderator: Thank you very much, Sir. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference. We thank you all for joining us and you may not disconnect your lines.