



“TeamLease Services Q1FY2018
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the TeamLease Services Q1 FY18 Earnings Conference Call hosted by IDFC Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhishek Gupta from IDFC Securities. Thank you and over to you Mr. Gupta!

Abhishek Gupta: Good evening everyone and welcome to the Q1 FY18 results call of TeamLease Services. Today we have with us Mr. Ashok Reddy, MD & CEO and Mr. Ravi Vishwanath, CFO of TeamLease Services. We would follow the usual order of Ashok giving us a perspective on the quarter gone by and how we see the road ahead for different business verticals. Then we would take up questions from the participants. Over to you Ashok for your opening remarks!

Ashok Reddy: Thanks Abhishek. So just commenting on the Q1 results I think we are in line with what we had indicated and the performance on the topline and the margin improvement, so we have had 24% year-on-year revenue growth coupled with margin improvement coming both from the organic element of the general staffing business and also the IT staffing business starting to kick in and also the HR services have been positive and on a good traction as we see it. We have had about 3300 associate increase in the general staffing space, we have had about 200 associate increase in the IT staffing space and about 4500 trainee additions over the quarter. Just taking the June, July period there has been element of softness in the telecom sector and there has been element of GST uncertainty more than anything else while we believe in the long run the GST will play to the benefit of formalization and players like us who are large. In the short run we are yet to see how it will pan out, but our belief is that with the spread of the customer base with play to the industry that we have. We do see traction on business and potential growth.

The IT staffing business is growing well, we have got good demand and the aspect of additions are happening between 80 to 100 per month on that side on a base of 1200 per day and I think the NETAP also as we had mentioned earlier the trainee aspect has gained good traction with the corporates and we have seen approximately about 1500 incremental additions every month on that front. So I think broadly the integration of the three acquisitions done last year are panning out, the focus is to now increase the business at that end.

The general staffing business, while seeing some element of softness in certain sector is still playing out at this point as mentioned in the last call also while GST is a positive we think it will become a positive probably two quarters down the line not an immediate switch that happens and HR services businesses have also started kicking up on their performance, so that is the overview from my end. Happy to take any questions!

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir which are the industries, which we have seen good demand as well as hiring and do we stick to the 20% growth rate for this year?

Ashok Reddy: I think demand is across sector so there is not any one specific sector like we have always said that I think the 1900 plus customers and the diversification across industries and companies has held us in good state in terms of derisking us from any one sector or one company per se so the incremental demand that we see is kind of across sectors and not to any one sector per se. Having said that one sector that we are seeing some element of slowdown or reduced demand is the telecom sector and I think what we are aiming for is continuity in performance and revenue ramp up and that is something that we will continue to push for.

Madhu Babu: I think how the unorganized players are trying, what are the ways they are trying to come after this GST implementation to retain their position?

Ashok Reddy: Madhu too early for us to comment about it there has just been one month into the functioning so our belief is that either informal guys are going to have to become formal or the aspect of the companies who are outsourcing will move to the formal vendors, but I think the realization at the corporate end whether the filings have been done by the outsource partner or not and stuff of that sort. The reality will start kicking in after quarter, so I think it is a little early to say, but the reality of GST and the closure of the loop for taking input credit and whatever should drive formalization as we have said before.

Madhu Babu: Last one from my side, what led to the strong uptake in the average realization this quarter I think around 2% increase...

Ashok Reddy: It is not really a huge uptake in that sense of the word primarily there is up and down that happens it is also a function of which sector in our portfolio kind of increase, the intake of associates and maybe some of the like I said telecom has been relatively soft and some of our telecom clients stay a lesser realization than the others, so reduction on that front with some other customers who pay slightly higher coming into play leads to the uptake on the element of realization.

Madhu Babu: Thanks.

Moderator: Thank you. We take the next question from the line of Chockalingam Narayanan from BNP. Please go ahead.

Chockalingam N: Just on this new acquisition of 30% stake in Cassius Technologies what sort of company if you can just give a background and would we get some more stake at later point in time or if you can talk about that?

Ashok Reddy: Fresher's World was primarily an investment that we made in order to it is kind of an acquihire higher position that we have taken where the team is strong, they have an opening platform for online hiring and a database build primarily catering to entry level profiles and that is kind of a

large segment that we need from our own hiring perspective, so today we do not do 100% of the hirings on the general staffing side while we do 100% of the hiring in the IT staffing side, but our belief is that increased hiring will create stickiness and value to the customers, but we have to do that at lower cost of hire on a recurring continuous basis because most customers are not paying for the hiring cost, so in the aspect of while we have a team that does the hiring we have vendor partners, channels and everything else that we use. One of the variables that we believe we should add into the portfolio is an online platform that can effectively leverage the technology the reach in a low cost manner for us to be able to hire better, faster and more numbers. In that line that we have made the investment in Fresher's World that it is one of the companies that has been bootstrapped has focused on revenues, is marginally profitable, not large numbers or anything, but they are not losing money. Our belief is that they can become the backbone for our hiring platform and database build into the future, so enabling us to hire better in a cheaper manner with an online platform is really the bet that we are taking on Fresher's World, so tomorrow effectively a teamlease.com can get powered by the Freshersworld.com platform and engine at the backend.

Chockalingam N: So the share of profit from associate of 2.35 lakhs is effectively this right?

Ashok Reddy: Yes

Chockalingam N: What sort of topline would this be at this point in time?

Ashok Reddy: Last year it was at about 5.44 odd Crores and effectively what we are also looking at is that we have a three-year roadmap to doing 100% acquisition subject to parameters of performance.

Chockalingam N: Otherwise in the IT business the margins how should one look at that, is there a quarterly seasonality or anything of that sort?

Ashok Reddy: Q1 has a slight suppression on margins primarily for the fact that the wage revisions for the old associates happen in Q1 and thereon as you build the incremental associate numbers and whatever it takes care of the margin, so I think we are confident that we will be able to sustain the margins and grow that business into this year.

Chockalingam N: Thanks Ashok and all the best.

Moderator: Thank you. We take the next question from the line of Deepak Kapoor, individual investor. Please go ahead.

Deepak Kapoor: I had two questions, one was I just wanted the data on the staffing associates general and IT. You said there was about a 3300 odd increase in general staffing and about 200 in IT staffing am I right, so would I be right to take the IT staffing associates at about 1450 odd?

Ashok Reddy: Yes.

Deepak Kapoor: And general staffing would be about 1.27 lakh odd?

Ashok Reddy: Yes.

Deepak Kapoor: And in your press release you have given a number of ratio of associates to core staffing as 204 this is associate of IT and general staffing put together?

Ashok Reddy: No this is associates and trainee.

Deepak Kapoor: Associates plus trainee divided by the core staff?

Ashok Reddy: Yes.

Deepak Kapoor: Both IT and general core staff?

Ashok Reddy: No IT we keep aside.

Deepak Kapoor: So the 204 is just the trainee and the general staffing associates divided by the...

Ashok Reddy: Divided by the core team for staffing business.

Deepak Kapoor: So the core team for the IT staffing has how many I think they were about 80 odd last quarter end?

Ashok Reddy: The team for IT staffing is 190 people.

Deepak Kapoor: 119?

Ashok Reddy: 190.

Deepak Kapoor: So this seems to be a big jump from last quarter is that the reason why your EBIT margins in the IT business and little much lower?

Ashok Reddy: The productivity is kind of flattish in this quarter compared to Q4. This jump has compared to the Q1 of last year so we had incrementally kept showing productivity increase in the quarter-on-quarter on a continuous basis if you compare to Q4 of last year if there is a marginal single digit increase.

Deepak Kapoor: No, the IT staffing EBIT to Q4 was close to 15% and now it is about 11.5% odd what explains that 50 basis points drop in EBIT margin?

Ashok Reddy: In the IT staffing.

Deepak Kapoor: Yes in the IT staffing.

- Ashok Reddy:** There has been one time revenues in Q4 where nearly 150 to 200 onboarding has happened so these are conversions as we call them where clients can convert the associates on to their rows and they pay us a onetime fee, so there was a lot of one time conversions in Q4 that happen.
- Deepak Kapoor:** Is there a Q4 phenomenon in this business usually?
- Ashok Reddy:** Yes and the other aspect is like I mentioned the wage revisions for the continuing associates happen in Q1 so the impact of both of these accounts for the difference between Q4 to Q1.
- Deepak Kapoor:** My second question was on the tax rate this quarter I think that as per the tax rate I think it is pretty low as such there is hardly any tax there. Under section 80JJAA benefit you usually take in Q4 right?
- Ashok Reddy:** No last year was the first time it became applicable to the service sector and it got introduced in the last budget and we were taking opinions and feedbacks from the audit firms and stuff and that is why it came into Q4 in entirety last year. We could not spread it over the four quarters. Now that it is approved scheme and signed off by the auditors and legal opinion and everything else the benefit is being spread across the four quarters.
- Deepak Kapoor:** So what can I assume like the average tax rate would be across the year?
- Ashok Reddy:** We have a tax benefit of about 20 Crores accruing to us because of 80JJAA over the year.
- Deepak Kapoor:** That is helpful. That is it for now. I will come back in the queue if I have another question. Thank you.
- Moderator:** Thank you. Next question is from the line of Vetri Raju from Equity Analyst. Please go ahead.
- Vetri Raju:** Congratulations on a good set of numbers. My question is basically the net margin, the net profit margin keeps fluctuating for example Q1 that is this quarter results you have a 2% margin Q4 FY17 you had something like 4% Q1 FY17 he has something like 1%, so why is this jump and what is the guidance for the net margin across the year this financial year?
- Ashok Reddy:** While the Q1 last year to Q1 this year is the element of the margin improvement both organic and inorganic business coming into play the Q1 of this year is really not comparable to Q4 of last year because Q4 of last year is like I just mentioned earlier we took the entire tax benefit in Q4 of last year, so there was a huge bump up of nearly 16 Crores that came in, in Q4 because of the tax write back. So the Q1 of 2017 to Q1 of this year from a comparison perspective is right and that 1% improvement in margin is organic economies of scale coming in to play, the IT staffing business and the HR business is coming into profit.
- Vetri Raju:** So what can we assume for the full FY2018?

Ashok Reddy: I have no guidance as such, but like I have always said that we do believe with scale we will get further economies of scale that will be dropped back into the bottomline.

Vetri Raju: And earlier in the day Mr. Reddy came on CNBC and we were very happy to note that you said that over the next three four years you are looking at a net profit margin of like 3.5%, 4% or so can we have any kind of roadmap on the confidence?

Ashok Reddy: That is a statement we have always been saying from the beginning that in a four, five year timeframe we should get our margins to 3%, 3.5% and that will come primarily on account of scale in the general staffing business where we have economies of scale where we are adding verticals and one of the verticals that we have added is IT staffing, which is a higher margin business and our other P&Ls that have started to kick in, which are higher margin businesses, So a combination of organic and inorganic business growth is what we will get up to the margins in the long run.

Vetri Raju: Also the India Nikkei PMI for July was some eight, nine year low in manufacturing and some three four year low in services, obviously in July when PMI is down obviously manpower activity should also be down, so what is the sense like is this quarter going to be a very soft quarter?

Ashok Reddy: It does look to be a soft quarter like I mentioned earlier telecom has gone very soft, there is uncertainty on GST and all of that, but the element of overall business confidence and new employment generation is not necessarily what drives our growth is also just formalization from where people have outsourced, so overall the sectors are looking soft we will have to wait for the quarter to play out to see how it goes.

Vetri Raju: It is somewhat not possible to comprehend when you say that GST to really know what it does to our business it will take two quarters because just from an outsider perspective I am sure you being the expert will have the answer from the outsider perspective it is no-brainer in the sense that 98%, 99% of the business is with informal company and there is no input credit if they do not become formalized and obviously all big companies who want to follow the norms will have to just not look at them and come to you it is a little bit surprising that you say that it will take two three quarters because from a commoner perspective it should be immediate it should be kicking just now can you just throw a little more colour on that?

Ashok Reddy: I wish commonsense prevailed in most cases by that we should not have 99% in the informal sector either it is a known reality and it is such a large revenue stream for the government it should have been something that should have been driven actively to have moved out from that. So my only point is that uncertainty comes from a variable that the informal guys might become formal themselves and start contributing and following the rules of the game and also the aspect of is there anything to fix in the system that can be done we able to figure out as time goes. Our belief is that these kinds of things are not switching on off the light to execution it is a gentle funda. If it happens sooner I will be the happiest person, but if it takes time we have always believe patience is a virtue.

- Vetri Raju:** Thank you and congratulations again.
- Moderator:** Thank you. We take the next question from the line of Abhishek Gupta. Please go ahead.
- Abhishek Gupta:** Thanks for the opportunity. Ashok just one question on the telecom front. You said telecom has been going soft is it related to the movement to eKYC in terms of SIM activation and how big is the telecom mix right now for us in terms of the number of associates if you can give any rough percentage?
- Ashok Reddy:** So we have about 11% of our associates in the telecom space, even we have been trying to gage from the customers on the aspect of the softening that is there. I think one is towards the end of last year the telecom firms went very aggressive on increasing their headcount and I think there is some element of facts cutting that is kind of happening, other regulatory inclusions are also kind of accounting for the go slow, go soft kind of variables and no one is saying it is bad I think just a little bit of a softness that is there in the telecom sector when it will slip we will have to wait and see, but I think one of the variable is also just a fact that there was a very aggressive hiring in Q4 and there is an element of correction on that.
- Abhishek Gupta:** But what are the major areas that we service them on is it customer service?
- Ashok Reddy:** Sales first and then customer service.
- Abhishek Gupta:** The other question is on the IT staffing margins Q1 was little softer and you highlighted the key drivers for the same, but on a medium to long-term basis do we stick to our original thing of 15% to 18% guidance band?
- Ashok Reddy:** I think 15% is what we had and we said we would work towards growth and sustaining a 15% margin we will stick with that.
- Abhishek Gupta:** For the full year basis we would still ramp up to 15% you are saying?
- Ashok Reddy:** Yes.
- Abhishek Gupta:** How much should be the growth that should be model would be in line with the general staffing 20% growth?
- Ashok Reddy:** No, it should be higher because like I said we are starting on a small base there, we only had about 1200 odd associates as an opening balance, we are adding about 80 incrementally month-on-month, the value of those associates varies depending on the company and the sector that we are catering to, but we should have a more than 20% aspirational target on that front.
- Abhishek Gupta:** Your last quarter highlighted that there was some changes, which were happening on NichePro and the IT product side I guess we had lost out some associates over there how is the scene over

there you said 200 have been added in this quarter was it all related to ASAP on the IT services front or IT products has also picked up again?

Ashok Reddy: I did not say anything specific to NichePro last time, but we have had across the board ramp what happened in Q4 maybe what I mentioned we have had about 150 absorptions and that was in largely ASAP and NichePro, but the growth is across all three entities.

Abhishek Gupta: Just one book keeping question with Ravi maybe. We have restated the Q4 numbers as well and the EBITDA has come up from the earlier reported number of 14.7 Crores to now 12 Crores any major thing to highlight on the cost front because I guess revenue has not changed much?

Ravi Vishwanath: IndAS adjustments that we have done, which we had to give effect to for all the four quarters of last year.

Ashok Reddy: One element is the ESOP accounting that comes in so we have had about 1.20 Crores ESOP accounting that came in into Q4 that is the largest ticket known.

Ravi Vishwanath: ESOP accounting there was amortization, which actually has kicked into the current quarter as well. There were a couple of others, which have also been done over the last four quarters and the opening balance adjustment actually.

Abhishek Gupta: So do you mean we took the full year impact in Q4 numbers?

Ravi Vishwanath: Please pardon I lost you.

Abhishek Gupta: Do you mean that the entire impact of the full year was taken in Q4 financial year?

Ravi Vishwanath: No, we took it over the four quarters depending upon which quarter it impacted earlier.

Abhishek Gupta: So out of the major 2.7 Corers largely 1.2 Crores is ESOP accounting and then the rest is other expenses?

Ashok Reddy: That is right yes.

Abhishek Gupta: This D&A run rate would stick to about 2 Crores odd every quarter now?

Ashok Reddy: What is D&A run rate?

Abhishek Gupta: Depreciation and amortization numbers.

Ashok Reddy: Quarterly it would be around 93 lakhs

Abhishek Gupta: Thank you very much.

- Moderator:** Thank you. We take the next question from the line of Sudhir Guntapali from Ambit Capital. Please go ahead.
- Sudhir Guntapali:** Sir congratulations on a good set of numbers. I have just one question what is our long-term strategy in terms of getting into managed services?
- Ashok Reddy:** As of now we have no strategy for that I think we have consciously chosen to stay to the aspect of general staffing and aligned HR services businesses I think while managed services is a higher margin business we do believe it is a very different business altogether and our belief is that staying to the aspect of employment, employability and education, which are the three verticals into which our P&Ls fall, complement our strength and synergies well and we will continue to focus on that front.
- Sudhir Guntapali:** My second question is regarding the uniform wage code that central government is proposing to bring forward so do you think it will result in a spike in wages, which can ultimately inhibit employment growth in the system as a whole?
- Ashok Reddy:** We totally believe that. We are not in favour of a uniform minimum wage across the country and across the industries it is a bad idea and that is something that we have been speaking up about on a continuous basis and giving our feedback in the consultative meetings that the ministry has been conducting so while labour court consolidation the aspect of GST, demonetisation and all of those are good for the formal sectors we believe that the uniform minimum wage nationwide could be a bad thing.
- Sudhir Guntapali:** One last question from my side. So we spoke with few firms who have mentioned that earlier they did not have any service tax related liability to set off their input tax credit again because of which they were hiring permanent staff, but now they can actively go out and hire temporary staff because whatever input credit that they are getting on the service tax paid here they can easily offset it in the GST regime, so few firms in entertainment industry, which were earlier paying only entertainment tax and VAT, which can now do that, so can you add some more colour on that pent-up demand in the system?
- Ashok Reddy:** Like the sectors that did not have the credit clearly have the credit now on all expenses and tax paid thereon, so yes it widens the element of acceptability of outsourcing, but like I mentioned earlier most of these sectors while not working with the formal staffing companies had a informal play in terms of outsourcing, so how soon and how quickly that transitions into the formal outsourcing space is something that we should wait to see, but yes I do take your point and do believe that new sectors do open up for us on this front.
- Sudhir Guntapali:** One last question if I may squeeze in. Sir till when is this 80JJAA benefit expected to continue till FY2020 or 2021?
- Ashok Reddy:** Right now it is an open-ended scheme until the government makes a notification otherwise.

- Sudhir Guntapali:** Understood thanks and all the best for the next quarter.
- Moderator:** Thank you. We take the next question from the line of Hiten Jain from Invesco Mutual Fund. Please go ahead.
- Hiten Jain:** I have a question on other HR services we have been working on this piece and because this is actually value added services, which can help us drive the margins, but if you see QoQ basis this has come up from 18% to 5.7% this quarter, so Sir what is happening in this part of the business?
- Ashok Reddy:** Again I think you are comparing it to the Q4 to Q1, but if I look at on a Q1 to Q1 basis we have actually gone from 1.5 to 6.6. The Q4 for the HR services business are normally the best quarter. So belief is that having opened with 6.67 we will go stronger in the following quarter and end the year on a much better performance.
- Hiten Jain:** So you are saying Q1 is seasonally weak for this business?
- Ashok Reddy:** It is the lowest, if you look at the YoY comparison we have gone effectively from 1.5 to 6.67.
- Hiten Jain:** Just I wanted to understand this IT staffing margin so the two reasons that you highlighted was that one is our one time revenue in Q4 and you have this wage hike, which it seems that you have paid to the employees and in turn you will get it in Q2 from your clients is that correct?
- Ashok Reddy:** So the general staffing business works on a markup model, the IT staffing business works on a cost to company model, so we charge lump sum to the corporate customers and effectively the aspect of salary within that is our cost to manage, so when we give a hike to an employee that goes out of our margin, so in Q1 when the hikes happen the element of the gross realization comes down marginally on that count, but with incremental associate growth new additions and attrition that happens that kind of gets adjusted into the following quarter.
- Hiten Jain:** So it is like you would be adding more experienced people going forward like how an IT company manager it is pyramid?
- Ashok Reddy:** Yes.
- Hiten Jain:** You said that there were few onetime revenue in Q4 so what could be that?
- Ashok Reddy:** That is absorption, so when we depute resources to client they have a leeway of hiring them on to their rolls if required so when they hire them onto their rolls they pay us a one time hiring fee.
- Hiten Jain:** So this generally happens in Q4?
- Ashok Reddy:** Yes, because that is normally for IT companies a year end in that sense and that is when they try to close on their budgets and their hiring counts and everything else.

Hiten Jain: Last question is on this unallocated part so what would constitute this?

Ravi Vishwanath: See basically interest income and few other items that cannot be specifically allocated.

Hiten Jain: So in our P&L other income of 6 Crores and in this unallocated part we have it as 1 Crore so I could not understand like how does the entire other income flow into unallocated part?

Ravi Vishwanath: It is basically the interest income, dividend and all the related party interest that we charge to the universities, etc., all those come as part of our unallocated EBITDA.

Hiten Jain: But our other income is 5.8 Crores right?

Ravi Vishwanath: Correct.

Hiten Jain: So what would be the rest part of it you are saying 1 Crore is your interest income and dividend so what would constitute the remaining part of other income because that number is 5.8 Crores?

Ravi Vishwanath: It is dividend and other related party interest and my regular bank interest as well, which we have from our investments.

Hiten Jain: So the whole idea to understand is that this is 1 Crore in unallocated part and your P&L other income is 5.8 Crores, so I am just trying to reconcile the two, so I think perhaps you have something more in your other income?

Ravi Vishwanath: My interest on fixed deposits is about 2 Crores actually it is about 2 Crores and rental income of about 12 lakhs and some provisions no longer require return back, doubtful debts no longer require return back, these are provisions actually and dividend from mutual funds.

Hiten Jain: How much is provisions for doubtful debt?

Ravi Vishwanath: That is about 2.7 Crores.

Hiten Jain: When is the interest income on fixed deposits is 2 Crores this entire interest income does not come in unallocated part?

Ravi Vishwanath: No it is not. The entire interest comes into the unallocated part.

Hiten Jain: But that number is just 1 Crore right?

Ravi Vishwanath: No it is 2 Crores.

Hiten Jain: Maybe something.

Ashok Reddy: Maybe if you can just send a specific query in mail Ravi will respond.

- Hiten Jain:** Alright Sir! Thank you.
- Moderator:** Thank you. We take the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.
- Madhu Babu:** Sir I think two quarters ago we talked of value added services and that traction will happen so how is the progress happening there?
- Ashok Reddy:** We have got about 14500 associates currently on the app and the value added services. We have also like I said we are specifically targeting the customer base on the aspect of the rollout of the products, so that continued focus is there and we believe to the end of the year we should have a much larger number of the associates coming under the ambit of the value added services.
- Madhu Babu:** On the net cash and acquisition strategy because we talked that IT we do not need to acquire further so what is the current net cash and on the capital allocation strategy?
- Ashok Reddy:** We have got about 155 Crores of cash available with us. We have some other incremental discussions happening on the M&A front from twofold one from a vertical build perspective to other potential verticals and also some complementary services. So while IT per se we are not looking at any acquisition at this point in time and we would like to grow it organic incrementally, we are looking at other vertical opportunities and some complementary service opportunities.
- Madhu Babu:** How much is amortization for the current quarter because I think 2 Crore is a depreciation and amortization?
- Ashok Reddy:** The amortization charge would be about 93 lakhs going forward on a quarter-on-quarter basis.
- Madhu Babu:** What is it for this quarter?
- Ashok Reddy:** It will be 93 lakhs for this quarter.
- Madhu Babu:** So 1 Crore is depreciation and the remaining is depreciation?
- Ashok Reddy:** Yes.
- Madhu Babu:** Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Garima Mishra from Kotak Securities. Please go ahead.
- Garima Mishra:** Thank you for the opportunity. Ashok could you give us some sense of what are the kind of employers who are employing these apprentices under NETAP?

- Ashok Reddy:** Again we have got about 350 companies that are currently working with us on the NETAP front across sectors again similar to the aspect of the staffing side we do not have a concentration in any company or sector, but manufacturing, FMCG, banking, the element of telecom, all of these have become clients now on the NETAP front. Obviously like I have mentioned earlier early stages of the NETAP was concept sale where people were hearing it for the first time and it was a gazetted notification and all of that, but now with the element of feeding the virus in companies across sectors the others are easier to convert. One place where we do not have NETAP is in the IT sector and that is the focus area that we are kind of driving on to try and get an IT anchor customer onto NETAP who can then seed the concept for other companies in the IT side.
- Garima Mishra:** In IT what kind of role would a NETAP apprentice has?
- Ashok Reddy:** These would be normally the fresher hiring that happens in IT companies where they normally tend to bring people on board on a probation and stuff so we are saying instead of bringing people on board as a probation why are not you bring them on as NETAP trainee, evaluate them, train them for a period of time and basis their performance do the conversion on to roles or whatever else happens thereafter.
- Garima Mishra:** You spoke earlier about some slowdown happening in the telecom space, but GST implementation can be an opportunity for market share gain so do we still stick with the 14%, 15% targeted growth rate as far as associate employee volume is concerned?
- Ashok Reddy:** Any rocket on a backside will always be a pleasant surprise, but at this point in time we would not like to bet ourselves on surprise benefit, so if that happens like I said the immediate impact of GST to our business growth we have not been able to see in the first month so I will wait for a few more months to see how it pans out.
- Garima Mishra:** Ravi I had one question for you now on the tax rate Ashok had earlier mentioned that the tax benefit for this year will be to the extent of about 20 Crores, but should not that there should be some over and above the 20 Crores to account for the benefit that you would get for this year?
- Ravi Vishwanath:** We will be able to know what is the net increases headcount only on March 31, 2018.
- Garima Mishra:** Understood, but there should be something over and above?
- Ravi Vishwanath:** Garima we said that it is 20 as a carry forward from last year, this year if there is an increment we will only know towards the end of Q4.
- Garima Mishra:** I also wanted to check with you about the accounting of this now should not you be ideally paying MAT and then claiming this benefit in the future that seven year window that is normally available?
- Ashok Reddy:** We have done that so we take a MAT so while we account for the MAT we also take a MAT credit for an equivalent amount.

Garima Mishra: And you will do the same thing this year?

Ashok Reddy: Yes we will do the same thing this year as well.

Garima Mishra: I am talking on very hypothetical numbers here now 20 Crores is the benefit that you have from the employees that you added last year, say you have the same benefit for FY2018 hypothetically that total benefit would still be limited to your overall PBT right?

Ashok Reddy: That is right.

Garima Mishra: So whatever it is that should be a cap to that extent?

Ashok Reddy: Yes, that is right.

Garima Mishra: Understood. I think those were all the questions from my side. Thank you so much.

Moderator: Thank you. We take the next question from the line of Deepak Kapoor, Individual Investor. Please go ahead.

Deepak Kapoor: Just some more questions. What is the average wage hike you would have taken across your core staffing employees this quarter?

Ashok Reddy: Core staffing employee cost has gone up about 9%.

Deepak Kapoor: This is a wage hike?

Ashok Reddy: Yes the TeamLease employee cost.

Deepak Kapoor: Your press release showed 1467 as a total core employee how much of this will be staffing employees?

Ashok Reddy: About 760 odd.

Deepak Kapoor: What is the markup on NETAP apprentices this quarter?

Ashok Reddy: It is about 544.

Deepak Kapoor: Also since for you the GST registration will be across all states right?

Ashok Reddy: Yes, multiple states, but...

Ravi Vishwanath: We have registration only in eight states that we operated.

Deepak Kapoor: How many states we operated?

Ravi Vishwanath: Eight states.

Deepak Kapoor: And you will be increasing manpower?

Ravi Vishwanath: We have offices in eight states, we have physical presence in eight states.

Deepak Kapoor: You have physical presence in eight states, but your clients can be from allover right?

Ravi Vishwanath: Yes they can be from all over.

Deepak Kapoor: If you providing a service then will you require registration in that state to be able to yourself claim some input tax credit on the GST?

Ravi Vishwanath: No, so we will be able to get the input tax credit for whatever we are doing, but we still have awaiting for customers to revert to us in terms of their ability to claim the GST credit on the invoices that we raise on them. As of now there does not seem to be any requirement for us to open offices in other states, but we are open to what if it required.

Ashok Reddy: Right now the invoices are largely getting driven being raised from a central end and the states, if the requirement is that we open and register at every state then we will have to go down to that.

Deepak Kapoor: What is your hiring plan for core staffing employees for this year?

Ashok Reddy: We will largely be flattish now we increased marginally on that for certain requirements around the operational efficiency improvement, but hereon I think we will be flattish.

Deepak Kapoor: In your press release you have shown an acquisition of 30% stake in a company during this quarter, what is that acquisition what is the intention behind that?

Ashok Reddy: That was Fresher's World in the last quarter.

Deepak Kapoor: Quarter ending June 31, 2017?

Ashok Reddy: That is Fresher's World. The earlier question that was asked and Fresher's World. Online hiring platform that we have made an investment in.

Deepak Kapoor: That fits into what, that fits into IT staffing bit, general staffing bit?

Ashok Reddy: More to general staffing bit and the NETAP because these are all largely fresher profile.

Deepak Kapoor: Got it. Alright. Fine that was the last question. Before I go there is somebody asking a question on the segment revenues and problems reconciling the unallocated EBIT.

Ashok Reddy: Yes once we get the details on that question we will circle back with the response on that.

- Deepak Kapoor:** Yes so I just had a comment because I had a similar confusion I think two quarters back and I written to you guys I think the other income shown as 5 Crores odd and the unallocated EBIT is 1 Crore odd I think that because what I was told last time was that certain overhead expenses, which are not expensed out in the other three segments netted off and then this 1 Crore has shown, so I think that is why the confusion largely just before I make this comment because I think that was the confusion.
- Ashok Reddy:** Thank you for answering that.
- Deepak Kapoor:** Thanks a lot.
- Moderator:** Thank you. We take the next question from the line of Rajesh Singhvi, Individual Investor. Please go ahead.
- Rajesh Singhvi:** Congrats on the quarter. A couple of questions Ashok. One was that ours is a kind of a leaner model right for us to grow our topline we need to add more and more associates we are already had 130000 where do you see the upper limit how much we can grow in terms of number of headcounts beyond which it would be difficult to manage from operational perspective as well as the incremental growth would be difficult to that so where do you see that kind of a limit from that perspective?
- Ashok Reddy:** So from a headroom for growth I think the market opportunity is tremendously large and we do not have the limitation on that. Obviously the key variable from our end is going to be how we build our processes, technology and people capability to be able to deliver to that growth in volumes, obviously experience in handling such volumes at a retail level do not exist in India and I think we are constantly making the investment on the technology platforms, on our processes, on clawing back the element of the experience to make things better, so I would not say that there is a limit on number beyond which we will not be able to manage, I think the aspect of TeamLease reinventing itself and ensuring the platform processes and people exist for future growth is the key variable that we would drive on.
- Rajesh Singhvi:** If I try and compare it with the similar model let us say Information Technology or Software when these companies started they only started within a kind of a resource augmentation we made a staffing model and all of them over a period of time after a maturity they will move to kind of a non-linear moving business that has moved towards non-linear model because beyond a particular threshold it becomes difficult or challenging to grow it incrementally and do not you see that kind of a challenge coming to us as well?
- Ashok Reddy:** I do not think the element of a move was because it was difficult to handle large volumes it was a conscious business strategy to move up the value chain in that sense for the IT companies, but if you look at it in the general staffing space the largest global staffing company has 900000 plus employees so even if we say that just as a photocopy of them that is the limit of growth at this point in time we have a long traction to go to the future.

Rajesh Singhvi: Second is that we have always kind of a given guidance of kind of 20% to 25% in terms of organic growth looking at from the medium-term perspective with the things, which that the policies and the reforms, which government has done in terms of GST, demonetisation, labour reforms do you see that growth kind of accelerating with movement from informal to formal economy and informal share being currently more than 98% this year registered that in the shorter-term we are not in a position and you will have to recalibrate, but probably from the longer-term medium to long-term do you see that accelerating that kind of a growth, which we have been seeing in the past for which TeamLease track record, but with all this tailwinds materializing into tangible results like in over next one year from medium-term perspective from one to three years to five years can it accelerate?

Ashok Reddy: So the 20% to 25% has not been guidance from my end, but like you said it has been a track record for TeamLease and we have been able to achieve that in spite of what the labour loss and the regulatory regime has been. Our belief has been that any labour law reform or drive towards normalization can only be a supporting driver for our future growth and we welcome that, but how things will play out, we were very happy about GST, we were very happy about the labour court formation, but then the surprise of a uniform minimum wage was a total surprise out of the blue for us. Now how that will impact the element of employment and formal employment we will have to wait and see, so from that perspective any of these benefits so called from a labour law regime change perspective we are a little weary about in terms of factoring that in to our growth plan, but should it happen we will be the happiest for it.

Rajesh Singhvi: We will be as well. One last question you talked about you are looking for some kind of some verticals as well as some complementary services, some acquisition prospects can you give a little bit more colour what kind of verticals or what kind of services if it is possible?

Ashok Reddy: Like we said we just did Fresher's World, which complements our service offering and our product portfolio that we did not have earlier as an online platform. Similarly there are other areas that can complement us on the business products that we have so vertical perspective we have been talking that there are multiple verticals to the staffing space the only one that we have made an entry into is IT staffing, but there is a telecom vertical, there is a hospitality, there is healthcare, there is engineering services, so we are open to keeping our options open and having multiple discussions what works out one never really know so we will wait and see how that plays out.

Rajesh Singhvi: Thanks a lot and wish you all the best.

Moderator: Thank you. Well that was the last question. I now hand the floor over to the management for their closing comments.

Ashok Reddy: Thank you all for coming on the call. I think as we committed we have delivered a good quarter, but obviously onus is to continue to do so and especially when the market seems to be a little soft into Q2, but we will work on that and we do believe IT staffing and HR services will kick in

better as we go forward and we will continue to focus on the organic business and continue to look for further acquisitions that compliment our future growth. Thanks.

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