



“TeamLease Services Limited
Q1 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the TeamLease Services Q1 FY2020 Earnings Conference Call hosted by IDFC 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Dokania from IDFC Securities. Thank you, and over to you, Sir!

Rohit Dokania: Thank you. Good evening everyone, and welcome to the Q1 FY2020 Results Conference Call of TeamLease Services Limited. I would like to thank the management for giving IDFC Securities the opportunity to host this call.

The management team is represented by Mr. Ashok Reddy, MD and Co-Founder; Mr. Ravi Vishwanath, CFO; Ms. Ramani Dathi, Financial Controller; and other senior management personnel. We will start the call with a commentary from the management and then move into the Q&A. Thank you, everyone, and over to you Sir.

Ashok Kumar Reddy: Thank you, Rohit. Just as an update on the quarter, I think we have had a healthy growth in the staffing, general staffing and the specialized staffing businesses. They have grown at over 23% in general staffing and 30% in the specialized staffing, also partly contributed by the eCentric addition in there. I think we have had a bad quarter from a HR services perspective, both in terms of revenue and from the bottom line perspective, and we will come to that.

But I think in the staffing business, overall, we have added about 8500 head count over the quarter, and we did have a drop in realization last year. At the PAPM, we have been able to improve that from 714 to 730, while we have maintained our funding exposure at 14%. Our internal call to associate productivity ratio also has marginally improved from 270 to 277. And also, the recent Supreme Court clarification on PF remittance has been executed across our associate and core employee base.

I think on the general staffing and specialized staffing, the trajectory is kind of on track. The eCentric integration is completed. They contributed about Rs.16 Crores of revenue for Q1 with about Rs.1.8 Crores in profit.

The HR services businesses have been hugely impacted from a bottom line perspective on account of collection delays both from the government and some element from the corporate, and we have provided for the same. And our belief is that across Q2 and Q3, reversal of these provisions would happen.

A lot of the processes for getting these payments have been initiated, and we believe that we will see the element of the payments coming through in Q2, Q3. But from a conservative perspective, we said let us provide for them now and account for it as a reversal as it happens.

Otherwise, I think we do have a healthy pipeline and trajectory across the businesses, and we continue to drive on those fronts. The overall contributions from funding mix and from a percentage revenue mix and top 10 contributors in staff has not seen a quantum shift, and I think the hygiene aspects on those fronts continue to be monitored by us tightly as we go forward.

So, that is as a rough introduction. Happy to take any questions and answer them

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sudheer Guntupalli from Ambit Capital. Please go ahead.

Sudheer Guntupalli: Good evening Team, Thank you for giving me the opportunity. Ashok, my first question is about the economic environment we are currently in, especially the weakness in some of the sectors like consumer discretionary and DFC, etc. There, we might be having a decent amount of exposure. So how do you see that impacting our head count growth in FY2020?

Ashok Kumar Reddy: I think overall slowdown or the relatively cold outlook that many sectors have is not really impacting the demand on the staffing side. Like we keep saying, we are a springboard in good times and a shock absorber in bad times. I think whether it is some rebadging perspective or the uncertainty of the environment driving corporates to want to use the temping route, at this point in time, I think we have a healthy pipeline of demand, client and open positions, and this kind of is also playing out as feedback from customers over the next 2, 3 quarters clearly. So I do not think it should have a huge impact on associate additions. And if you see Q1, we did add over 8,000 associates. And it is the current pipeline that we have from different sectors support a healthy growth into the next few quarters.

Sudheer Guntupalli: Sure, Ashok. I think last quarter you shared this pipeline of open positions. Any number that you can share at this quarter at this point in time?

Ashok Kumar Reddy: We have about 12000 open positions at this point with us across and it is not a staff-reverse aspect. So at this point in time, we have over 12,000 open positions with us. And overall also, we are having one of the concerns historically was also our ability to deliver more to the open positions. We have been consistently driving up that element of closures, which is also leading to the number of head count additions that we are having.

Sudheer Guntupalli: My second question is in terms of the average market per associate, I saw an impressive improvement to Rs.730 this quarter despite the pricing pressure in the industry that is being talked about, so any color on what has driven this? And where do you see this metric extending for the full year?

Ashok Kumar Reddy: So I think if you look at it, the three elements to the mix on the PAPM, there are large accounts, there are medium accounts and there are small accounts. We have healthy mix between the three. The large accounts are really where the pricing pressure is the highest and the demand for lower pricing kicks in from. The medium and the smaller accounts have a higher PAPM by virtue of the

size that they are. I think we have had good additions. Last year, we did have few contracts that came onboard from a large account perspective, which put the pressure on the PAPM. I think we've got a healthy mix and a pipeline of growth coming in from medium and small this time, and those help to improve the pricing.

Sudheer Guntupalli: One last question. So I think industry is witnessing a decent shift of headcount from unorganized to organized space. So what are the typical sizes of large deals you are seeing in terms of general staffing headcount?

Ashok Kumar Reddy: Some of the large ones that we have had range between 2000 and 5000 to 7000. And if it is some other large management discussions in the pipeline, but you never know until they get done. But I think a lot of them also come with, some of them at least come with large open positions that we can work to deliver on and use this opening balance to build the numbers into the long run.

Sudheer Guntupalli: So 2,000 to 7,000 seems to be the range, broad range that you are indicating.

Ashok Kumar Reddy: The big clients.

Sudheer Guntupalli: Actually, some of your competitors seem to be talking about mandates with almost 30,000, 32,000 kind of head count. So are we not seeing any such deals on the system?

Ashok Kumar Reddy: I cannot comment on Sudheer because the volumes we are seeing are in the 2,000 to 7,000 range.

Sudheer Guntupalli: Thanks. That is very helpful. All the best for the rest of the year.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

Vimal Gohil: Thank you for the opportunity. Congratulations on a good set of numbers. Sir, my question is on your working capital position. Excluding the HR under recovery that we have seen in the HR business this quarter, what would be your working capital position versus FY2019?

Ashok Kumar Reddy: We stay the same. So one is in the general staffing business, the 14% funding continues to stay at the same level as the previous year. There is no change on that front. In the IT and telecom business, as volumes go up, the working capital funding exposure increases. And the eCentric addition with 800-plus associates has the funding exposure so other than that, there is no other incremental exposure on funding.

Vimal Gohil: Got you. And Sir, I just had 1 more question. Given the fact that your other IT services and specialized staffing services are expected to grow faster or maybe have a higher-margin business or probably they might even grow faster, what are we doing to maintain our working capital position in a tight leash? That is question number 1.

Ashok Kumar Reddy: So the specialized staffing businesses all work to our funding models. So one is, obviously, as volumes go up, the working capital requirement in those businesses will be a reality. But I think keeping a tight leash on collections to timelines thereafter becomes important, and that is something that we had control on. And there is no deviation on collections or bad debts on that front.

The second element is the higher margins that these businesses work at kind of demand the working capital requirement. And as long as those margins are kind of supporting the working capital requirement, we will have to do that. So given the general staffing business is a low-margin business, which does not support funding in a large way, we have been very controlled in that, and that we have been able to maintain at a 14%.

Vimal Gohil: And Sir, the Rs.6 Crores under recovery that we have seen in HR, could you just help me help us explain what exactly has happened there? And what could we do to prevent this in future?

Ashok Kumar Reddy: So we work with the government mandates, and they have granted system of giving 25% upfront. On utilization of 25% of the amount, we apply for the next 50% amount, and basis the utilization certificate. And the government process of review on the same they released the 50% amount. I think in the last quarter, we have had a huge delay, and part of it has also been attributed to the aspect of the general elections and most of the officers being out in the field and so on and not having the time to look at the validation process. So the 50% amount has been delayed from release perspective. And by virtue of that, we have a backlog of batches that we have been conducting, for which we cannot offset the aspect of collection to the revenues. So we have provided for that. Also, from earlier batches, there will be a certain element of dropout, which we replace in the additional batches that happen. We have not kick started those additional batches waiting for the next lot of the payment to come in, so when we get this 50% balance payment, we will initiate the backfill, and that will also lead to an element of a write-back on the provisions. So I think the largest element of the provisioning that we have taken at this point in HR services business largely relates to these two aspects, which we believe now with the element of dialogue that we have, hopefully, should lead to a closure in Q2 and Q3.

Vimal Gohil: And the last question on my front. When could we see an improvement in the specialized staffing? When could we see an improvement in the margins of specialized staffing business? We used to operate at around 10%, even the 7% range?

Ashok Kumar Reddy: We had the IT staffing at between a 10% and 11%. We had the telecom operating at about a 3%. Both of those continue to play to that. The eCentric business that we acquired, that is a 5%. So the cumulative margin has come down to 6.4%. But I think we will be able to pick that back up over the quarters. So I think the pulling down while both the earlier part of the IT staffing business and the telecom business are kind of at par with the previous year, I think part of the down-pull is from the new integration, but we will be able to bring that up as we go forward.

Vimal Gohil: So could you just give us a number, how much could that go up to?

- Ashok Kumar Reddy:** I mean 8% is the average across the three that we would be looking at.
- Vimal Gohil:** Thank you. Thank you so much Sir. All the very best for the rest of the fiscal.
- Moderator:** Thank you. The next question is from the line of Vaikam Kumar from JM Financial. Please go ahead.
- Vaikam Kumar:** Thanks for the opportunity. Can you provide the revenue and EBITDA numbers for IT and telecom staffing, along with the associate base?
- Ramani Dathi:** So in general staffing, the Q1 revenue is Rs.11.30 Crores, and specialized staffing...
- Vaikam Kumar:** Specifically IT and telecom.
- Ramani Dathi:** Okay. Yes, IT staffing revenue for Q1 is Rs.55 Crores. Telecom is Rs. 43 Crores. And in terms of EBITDA, IT staffing EBITDA is Rs.4.9 Crores, telecom is Rs. 1.4 Crores. That is in rupee cores, not the margin percentage.
- Vaikam Kumar:** Got it. And the associate base for IT and telecom?
- Ramani Dathi:** Yes. So in IT, we have 2230. That is excluding eCentric. And in the inorganic addition is 880 from eCentric. So both put together, we are at 3190. Telecom is about 3800.
- Vaikam Kumar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Piyush Jain from Samira Investment Advisors. Please go ahead.
- Piyush Jain:** So I have 2 questions. Firstly, there was a sharp jump in the depreciation and interest expense for this quarter. Could you elaborate on that?
- Ramani Dathi:** Yes. So there has been a new accounting change Ind-AS with respect to the lease accounting. So earlier, whatever we used to report as rentals above EBITDA line item, they have to get capitalized and depreciated over a time. So that is the main change for increase in depreciation and amortization.
- Piyush Jain:** Okay. And the interest expense?
- Ramani Dathi:** I mean, the increase in lease rental is broken down into interest and depreciation, into 2 components.
- Piyush Jain:** Okay. My second question was the EBITDA margins in the general staffing came down to around 2.1% for the quarter, right? So any particular reason for the drop on a sequential basis or is it the trend in the first quarter seasonally weak quarter?

- Ramani Dathi:** Yes. On an annual basis, it has improved from 1.7% to 2.1%. But however, if you compare to last quarter, typically in Q1, we do the annual appraisals like annual increments, which is close to about 9% increase in core employee salary cost. So because for that, there will always be a slight dip compared to Q4 and Q1.
- Piyush Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Shaleen Kumar from UBS. Please go ahead.
- Shaleen Kumar:** Thanks for the opportunity. I just want to understand, what kind of growth rate you are seeing in IT staffing and the telecom part?
- Ashok Kumar Reddy:** So telecom, we have not really been growing much. As we had mentioned earlier, some of the earlier projects that we have taken on, we have been reducing the head count on those fronts. While some of the businesses within the telecom are growing, the larger volumes that we took up as an experiment last year, we are reducing the head count. So from that perspective, it's kind of a flattish business at this point in time.
- In IT, we have added about 100-plus resources on an organic basis and 880 in an inorganic manner. But I think on the IT side, we still continue to see a healthy demand from customers coming in. But we are also seeing increased element of a conversion on to the rules of the company from the temping side, so while we are adding gross healthy and the net level, it is not as large, by virtue of conversions happening at the clients end.
- Shaleen Kumar:** So in terms of the growth rates, if you can provide like percentage-wise?
- Ashok Kumar Reddy:** We have grown at about 30% on the IT staffing front. But if I remove the element of eCentric, it would come down to about 13% to 15%.
- Shaleen Kumar:** My next question is with accounting recurring basically Ind-AS. So just want to understand what is that rental that has gone into depreciation and interest expense both at the standalone and console level? And is it the same kind of thing? Or is the position and interest has gone up higher because they made a different kind of a lease you have, so.
- Ramani Dathi:** Yes. So on consolidated level, between depreciation, there is an incremental Rs.2.8 Crores on account of the Ind-AS change. So there is a Rs.1.1 Crores impact.
- Shaleen Kumar:** Rs.2.2 and Rs.1.1?
- Ramani Dathi:** Rs.2.8 and Rs. 1.1. And the net P&L impact is about Rs. 15 lakhs because this is just a reclassification from above EBITDA line to below EBITDA line. And incremental P&L charge because of this accounting change is about Rs.15 lakhs in this quarter.
- Shaleen Kumar:** Ramani, basically, you are saying that cash outflow is Rs.15 lakh less?

- Ramani Dathi:** Not really. Actually, cash outflow is exactly the same. There is no change in the rental. It is the same. It is just the way that we are accounting. Like earlier, we used to report our rental of, say, Rs.4 Crores. That has gone up to Rs.4.15 Crores, Rs.15 lakh increase.
- Shaleen Kumar:** This is at consolidated level and standalone?
- Ashok Kumar Reddy:** Standalone. We can get back to you with that.
- Ramani Dathi:** Standalone. I will get back to you because for subsidiaries, we don't have much of depreciation on account of lease rental because they are all very small offices. A large part of it is in standalone. I will get back to you separately on the exact breakup on standalone and consolidated.
- Shaleen Kumar:** Okay. Sure. So just on this then, the EBITDA we have is actually not comparable any way, right, with the margin of..
- Ramani Dathi:** Yes, that is right. So we have to adjust Rs.2.8 Crores to get the right conversion of EBITDA.
- Shaleen Kumar:** Rs.2.1?
- Ramani Dathi:** Rs.2.8 Crores to get the right comparison of EBITDA.
- Shaleen Kumar:** Why Rs.2.8 Crores? Ramani, is not Rs.4.1 Crores, rental was Rs.4.1. Is it adjusted?
- Ramani Dathi:** This is below line only
- Shaleen Kumar:** Yes. Both the interest as well as depreciation has gone below line. So we need...
- Ramani Dathi:** No. Here earlier, the Rs.2.8 Crores, which got reported as depreciation now that used to get reported as rental.
- Shaleen Kumar:** Correct. And Rs.1.1?
- Ramani Dathi:** Rs. 1.1, a part of that is always interest cost.
- Shaleen Kumar:** That was always an interest cost. Fair enough. That is it from my side. Thank you.
- Moderator:** Thank you so much. The next question is from the line of Garima Mishra from Kotak Securities. Please go ahead.
- Garima Mishra:** Thank you so much for the opportunity. Would you please help me understand what was your median wage level in the temporary staffing business?
- Ashok Kumar Reddy:** So we have an average of Rs.23700. Median will be Rs.18000 also. But the average is what we normally track, Garima, and that is about Rs.23700.

Garima Mishra: Got it. And Ashok, could you also touch upon on this PF issue, which you alluded to in your opening comments? And also some comments on this wage core business, which has been recently passed. It had been, I understand, in the works for quite some time. So what do you see as the progress on that going forward?

Ashok Kumar Reddy: I think earlier, definition and application, the way companies are structuring CTC was factoring certain line items of income for provident fund calculation. And there was a grey element in dialogue across companies in how salaries were structured and on what heads the PF was calculated. And the Supreme Court gave judgment on the case in saying that a lot of the income heads should be considered for provident fund calculation. And we have kind of gone with that liberal approach to revisit our core employee salaries and associate salaries to factor for calculation of the provident fund amount. This has an impact from cost to company and also has an impact from a net take-home of the employee. So in as many cases as possible, we have tried to protect the net take-home of the employee to factor for higher provident fund contribution that comes in by virtue of the calculation. What we will also do is we forward the notification on that front, the PF Supreme Court judgment notification, and that would also clarify the matter.

Garima Mishra: Okay. Just on this, does this need the creation of any kind of receivable from your perspective in terms of is the amount is higher or lower than what the ultimate employer has been paying the associate employee?

Ashok Kumar Reddy: It has all been approved by our clients, and we have factored it into the invoices. And this has been happening since April, so we have no accumulation of receivables on this count.

Garima Mishra: Perfect. That is great. And if you could comment a little bit on the wage code, please. That is it for me.

Ravi Vishwanath: Garima. The four labour codes the government has actually introduced: the 1 on wages, 1 on social security, 1 on working conditions. And so these have been in the work for a long time. It is called to subsume a lot of other individual codes. For example, if you take the code of wages, it is going to subsume Minimum Wages Act, Payment of Wages Act, Payment of Bonus Act, Equal Remuneration Act. All these things are going to get subsumed into 1 law. Essentially, what the government is trying to do is to simplify the entire all labour laws then to facilitate either doing business. Essentially, what they are also trying to do is to see if they can generate employment without diluting basic aspects of safety, security and health of workers and more importantly, to increase outreach of schemes to the unorganized and to the informal sectors. So this is what the government is trying to do. This is what we have been saying for a long time that these 44 different labour laws will need to be simplified. And I think it was in that direction that this law has been done.

Garima Mishra: Thank you.

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

Abhijit Akella: Good evening. Thank you so much for taking my question. First, Ravi, I just wanted to seek some more insights from you on that same topic, the new labour codes. Obviously, I heard your comments about how it is likely to drive a significant increase in formalization of the sector. I just wanted to get your specific thoughts on which specific aspects of these codes do you think will drive this. I mean I noticed that in the code on wages, for example, there was some mention of having a compulsory appointment letter for all employees or some such things. Is this the 1 element that will make it more difficult for informal players to sort of continue doing business the way they have been? Or is there some other aspect that you think could be the biggest driver of the spur towards increasing formalization?

Ravi Vishwanath: Yes. I think it is not any of these things that will probably drive it. It is the enforcement of these, which will actually drive formalization. You can have the best law in the world. But if you are not enforcing it the way it is supposed to be done, the best laws will not work.

Ashok has a point to say. I mean, I will just hand it over to him, yes.

Ashok Kumar Reddy: I think what the unification of the code is that it simplifies the multiple labour laws that we have today and the multiple definitions that exist today. But like Ravi said, at the end of it, while simplification is one of the desired objectives towards formalization, enforcement of the simplified labor laws is as important. So I think while we appreciate the simplification, the next step to drive formalization will be the enforcement. While a lot of the things indicated in there are positive towards simplification, I think we continue to have a negative feedback on the national minimum wage, which was again talked about in there. We believe that, that is not a good idea. But it is there, and we will have to see how that will play out.

Abhijit Akella: And on that topic, given that the central government seems to have given states the freedom to set their own desired minimum wages, do you still see a risk that there could be too higher floor, which would sort of discourage employment generation?

Ashok Kumar Reddy: Which is exactly why we are saying that the national minimum wage is a bad idea because the cost of living, variables across different states and different locations are different. And if you are going to mandate a floor of the national level and if that is set very high, many corporate might resort to informal employment as a way to get around that.

Abhijit Akella: Second, the other thing I wanted to ask was on a completely different topic. Just going through your annual report, which came out today, and I just wanted to seek a clarification on the cash flows. So it seems from the cash flow statement there has been a significant increase in working capital last year and therefore, negative cash from operations for the full year on a consolidated basis. So if you would just comment on what are the key drivers of this and how you see this going forward?

Ramani Dathi: Yes. So Abhijit, last year, if you remember, we moved our registered office from Mumbai to Bengaluru. So because of that process, our lower TDS certificate got delayed by about 3 months. So if you compare with the last 2, 3 years, we used to have a TDS of about Rs.15 Crores in the

first to 3-months period. But last year, it has gone up to almost Rs.60 Crores because of the delay in lower TDS certificate because of shifting of registered office and stuff. So that's the main impact on the operating cash flow. So if you exclude the TDS impact, our conversion of OCF to net profit is almost 75% to 80%. And increase in working capital is in line with the increase in the specialized staffing businesses and HR services. So last year, our HR services have grown by more than 100%, and the working capital requirement also has increased.

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

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

Ashish Chopra: Thanks for the opportunity. I just had a question as a follow-up on 1 of the questions asked by the previous participant. Just for the purpose of clarity and bookkeeping, if you could share what would be the like-to-like EBITDA margin adjusted for the accounting changes because while the general staffing margin seems to have increased by 40 basis points, I just wanted to understand in a Y-o-Y basis, what would that expansion do?

Ashok Kumar Reddy: We do not have the exact number on that. But just as a rough indication, it will be about 22% to 23% EBITDA growth in the general staffing; will be about a 5% growth in the specialized staffing; and then the balance would be the impact in that, the HR services, which is already negative. And we have also managed to reduce the unallocated by virtue of direct hit to the P&Ls. We are trying to transfer as much of the unallocated as possible into the P&Ls. While this will vary quarter-on-quarter, but clearly identified, we have been able to reduce that in this quarter.

Ashish Chopra: Understood. And just secondly, Ashok, you mentioned the target of maybe taking the overall specialized staffing margin to 8%. Any time lines that you set yourselves for getting to that number?

Ashok Kumar Reddy: I think that end of the year, we should be at that.

Ashish Chopra: That is helpful. Thanks so much. Wish you all the best.

Moderator: Thank you. The next question is from the line of Aasim Bharde from IDFC Securities. Please go ahead.

Aasim Bharde: Sir, I have a broader question at the industry level. So yesterday, Maharashtra recently announced a minimum wage hike, almost doubled it. This risk has come up again where all players could possibly see margins shrinking with salaries in the state and for us, other states going up. I know this keeps coming up every now and then. But could you let me know how you are seeing this? Does this benefit organized players as a gap between unorganized and organized shrink? And then also, could it lead to a hit in margins in the near term for you guys given that the macro consumption environment appears to have turned sluggish in recent times and it

possibly might take some time to recover? Maybe not in an existing mandates that you may have a price inflation pass through, but in future mandates. Just want to know your thoughts on that.

Ashok Kumar Reddy: Most of our mandates are a cost-plus structure. So effectively, whatever the wage is, it is a direct pass-through cost to the client. And over and above that, we earn our markup. So when minimum wage revisions happen at the state level, we do go to the clients for approval for revision of the same, and it is then incorporated into the salary structure and invoicing to the customer. So per se, it does not have impact on our margins at an absolute level. But at a percentage-statement level, it could be marginally lower because the PAPM relative to an increasing wage salary could look lower as a percentage.

While it is a reality today that every state can make revisions to its minimum wage, and there is no control from our end or otherwise on what revision could happen, we had a similar incident 1.5 years back in Karnataka where the minimum wage hike was a large kick-up that happened. Like I mentioned in my earlier statement of national minimum wage and a very large high capping on the minimum wages front, it does tend to, at times, have a knee jerk reaction from corporate to try and drive employment through the informal route, so that they can circumvent minimum wage payment. But I think in the long run, if the enforcement from the authorities on the labor laws and the compliance requirement gets better, the formalization would have to happen. So there is a cost to corporate being in the formal space by virtue of the hike in minimum wages. But it does not have a direct impact on our margins at this point in time.

Aasim Bharde: Okay. Yes, that is very helpful. The second question is on the general staffing business. This of course is like a futuristic question, but what can be done to raise the margin profile of this business from current levels? And theoretically, what can be a ceiling to margins in this business?

Ashok Kumar Reddy: From a percentage or PAPM perspective, there would not be a huge change on this front, and I think we were marginally increasing it by about 5% year-on-year. We had a dip in PAPM realization last year. We have been able to cover some of that again into this quarter. But the bet for margin improvement in the volume staffing business is really going to come from volume growth and productivity of the team. So the way we measure productivity is the number of associates who can be serviced by a core employee. And that is something that we have been continuously looking at on a year-on-year basis and showing progress. And we have now effectively been able to have about 40, 50 improvement in productivity year-on-year, so we have now brought that up to about 277. We do believe that through technology interventions, process changes and dialogue with customers on a recurring basis, the headroom for improvement on that front continues to play out to the long run. So it is difficult to peg a cap to that, but our belief is that continuous improvement year-on-year on that is possible. And that is really what will play to margin improvement in the long run where our costs are not linear with the revenue growth.

- Aasim Bharde:** Okay. And finally, do you have any plans to enter new verticals in the future like in the new industries within such like staffing or maybe, let us say, facility management and security services? Are there any plans?
- Ashok Kumar Reddy:** So I think our plan to continue to play to our 3 verticals of employment, employability and ease of doing business are still our focus areas. At this point in time, we have no plans to get into managed services or into any unrelated businesses. If we can organically or inorganically look at options for more specialized staffing verticals or opportunities, we will continue to keep our eyes open for that.
- Aasim Bharde:** Thank you. That was very helpful. Thank you very much. Wish you guys all the best. Thanks.
- Moderator:** Thank you. The next question is from the line of Mihir Manohar from CapGrow Capital. Please go ahead.
- Mihir Manohar:** Thanks for taking my question. Just wanted to know 1 thing. The recent legislation, which Andhra Pradesh government has passed regarding the 75% utilization so how would that impact us?
- Ravi Vishwanath:** I am not sure how it is going to impact our business. But definitely, it is going to impact mobility of labor as far as Andhra is concerned. I mean, overtime I guess, it is a very, very new thing that they have done. We need to visit to look at the law, the way in which it has been passed and try and see how it is going to impact us. But our initial reaction is that these things should not matter really. We will probably need to assess it a lot more in detail. And once again, I will leave you with Ashok.
- Ashok Kumar Reddy:** And also, the other reality, at least in India, that we have been facing and delivering to on a recurring basis is that we take people to jobs. We are not able to take jobs to people. So obviously, if states that mandate a reservation for local employment are able to generate that volume of the jobs, we are more than happy to be hiring locally. But I think the reality at this point is a lot of the migratory population taking the jobs. And I think we do not see an immediate impact, but we will have to take it forward if it comes about with more states.
- Mihir Manohar:** Got it. Got it. Perfect. And what would be our exposure to Andhra Pradesh, the amount of the total labor force that you are having?
- Ashok Kumar Reddy:** Very little, actually because historically, most of the industries were in the bifurcated State of Telangana. The exposure in Andhra Pradesh will be very limited, but we could come back with that.
- Mihir Manohar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Chandra from HDFC Securities.

Amit Chandra: Thanks for the opportunity. We have seen recovery in the additional core associates in the quarter, but if I see the number of associates in NETAP after 2 quarters, strong growth. We are seeing some slowdown there. So what is happening there? So is it going to pick up? Or is it a new normal now?

Ashok Kumar Reddy: I think there has been an element of a slowdown in number growth twofold. One is we have had higher attrition in trainee numbers, and that has led to lower net growth; and two is some of the corporates received provident fund notice for coverage. And I think some of them have gone through subject to clarification from the AICTE on this front. And I think that clarification should close out from the ministry of HRD and the AICTE in Q2. And post that, maybe we will again see an uptick in the proactive approach from clients. So I think and we do hope that the market's opportunity is still very large, and we will play to that opportunity. Attrition is something we do not control, but we are working actively to see how we can reduce that. The second element is the regulatory clarification, which, when done, should again open opportunity on that front.

Amit Chandra: So attrition in the NETAP is higher than the core associates. So if you can quantify what is the attrition overall for the company, attrition rate?

Ashok Kumar Reddy: It is not higher than for the core. We also have a high attrition in general staffing. In the associates front, as the volumes have been going, our early-stage attrition used to be only 5% to 10%. That has now gone to nearly 30% to 40%. So it is not that our gross additions in volume staffing is actually very high. But the attrition being what it is, the net addition turns out to be coming around the 7,000-odd number. But when I say the attrition here has gone up, it used to be 5% to 10%, but over the last 18 months, has got to nearly 30% to 40%.

Amit Chandra: Okay. And third, I know for the NETAP, what is the markup that we have this quarter?

Ashok Kumar Reddy: So it's the same, about Rs.570 as an average realization, and the average stipend also stays the same at about Rs.10500. No difference from the previous quarter.

Amit Chandra: Okay. So the Rs.550, Rs.570 is the range that you have seen for the last many quarters. So is it going to be in this in whole year? Or we can see some uptick here?

Ashok Kumar Reddy: I think it will be the same. I do not think there will be a huge uptick on this front. It is about 5% margin. I mean, relatively speaking, it is a competitive space with about 40 players permitted to provide new agents. And I think protecting this will be what we would look at.

Amit Chandra: Okay. And so my last question would be on the income tax refunds that we are expecting this year. So what is the total quantum of the net income tax refund that we are expecting from all internal department and also the time lines if you can provide us?

Ramani Dathi: Yes. So we have a total TDS receivable of about Rs.270 Crores, Amit. Out of that, we are expecting about Rs.30 Crores refund this year.

- Amit Chandra:** Okay. So Madam, after the 80JJAA benefit that you started to receive, so this Rs.270 Crores is the cumulative amount that we expect from the income tax department or this Rs.270 Crores is only for this year?
- Ramani Dathi:** No. Rs.270 Crores is the cumulative TDS receivables over the last 3, 4 years put together, and the Rs.30 Crores refund, which I mentioned, is the first year with 80JJAA, first year of adjustment with 80JJAA.
- Amit Chandra:** Okay. So as of now, we have not received anything related to 80JJAA from the income tax department, any receivable from the department, income tax department?
- Ramani Dathi:** No.
- Amit Chandra:** Okay. So this Rs.30 Crores will be first installment.
- Ramani Dathi:** That is right.
- Amit Chandra:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rohit Dokania from IDFC. Please go ahead.
- Rohit Dokania:** So I just two questions. So Ashok, you did allude to the fact that the slowdown should not have a sudden impact on us, and we are kind of a springboard and also a shock absorber. But I just wanted to sort of understand if I am not wrong, I think, for the FY2010 and FY2011, we did see sort of falling associates. So I just wanted to understand what the environment was then and what is different now, which makes us confident that as far as these sorts of additions are concerned, that would continue to happen?
- Ashok Kumar Reddy:** 2009-2010, I think, was a global recession. The likes of which no one had in a generation had experienced. And also, it was widespread across industries. And at that point in time, even if we look at TeamLease, a larger element of our volumes came just from 2, 3 industries without a wide exposure to multiple industries and multiple clients. So when the recession hit and hit across sectors and more so the 3 sectors that we were prevalent in at that point in time, and there was a knee-jerk reaction where people pulled back. Also, the ramp-up to 2009-2010, I think was a scenario where there was a huge element of employment ramp-up that had happened without necessarily monitoring on the productivity aspect. At this point, I do not think there are many industries that have created employment as a large flab in the system. And the cutbacks, our belief, will be more controlled in that sense. Also indicated at this point in time, do not seem to be a global recession of the like of 2009-2010, and we will have to wait and see how that plays out. And I think as TeamLease, we are more broad based across industries and clients at this point in time. We do have a long tail of customers without major concentration to a few customers or industries. And we have other P&Ls that complement the organization at this point in time.

- Rohit Dokania:** Sure. This is very helpful. The last question that I had from my side was, so if I am not wrong, and please correct if I am wrong, the sort of 80JAA benefit is for sort of salary below Rs.25000. I think our average now is about Rs.23700-odd. So which means we will probably be reaching that cap probably in the next, I do not know, 2 years maybe. So then how does the whole sort of tax piece work out, will the incremental hires still be able to ensure that our tax rate is almost close to 0? Is it on the P&L side?
- Ashok Kumar Reddy:** Yes. Rohit, while the average is about Rs.23000, the median is still at about Rs.18500. So we still have a long way to go to catch up on the Rs.25000. So we believe that, at least for the next 2 to 3 years, we should not have any problem as far as the Rs.25000 limit is concerned.
- Rohit Dokania:** So Ashok, just can you confirm, so the sort of new hires, are they coming towards the sort of lower end of the band?
- Ashok Kumar Reddy:** At the lower end of the band. At the lower end of the band.
- Rohit Dokania:** Thanks a lot. Tanvi do we have more questions in the queue.
- Moderator:** We have one more question from the line of Akshay Bhor from Premji Investment. Please go ahead.
- Akshay Bhor:** Good evening. I have a couple of questions. First one is on the HR services. Even the topline is a bit soft in the quarter. I am sorry if this was called earlier. Just wanted to understand what is the reason for that. And on the margin front as well, what should be a more sustainable margin going forward for the rest of the year?
- Ashok Kumar Reddy:** So like I said earlier, we, on non-receipt of the money, do not take charge the new batches and hence, our ability to bill also comes down, so no new batches were started, and hence, the billing does not happen, and that kind of pulls down the overall billing. And that is primarily the reason why there is a reduction in revenue per se. Typically, the business works to about a 10% margin, and I think once we have a reversal on collections and that chain is kept on track with the multiple states that we work with, the 10% margin is really what we target on the other HR services.
- Akshay Bhor:** Understood, understood. When I look on the third item of the last quarter, it was about Rs.5.5 Crores, and how do we understand about this because it is not helping us comparing the margins on a sequential or on a year-on-year basis. Adjusting for that unallocated, how would our general staffing margins look like as compared to 2.3% last quarter?
- Ramani Dathi:** If we adjust for the release accounting on a like-for-like basis, the general staffing margin for this quarter would be about 1.95%. So there is the overall 25 BPS improvement in general staffing margin on a year-on-year basis, EBITDA margin. Unallocated, so if you mentioned, last time, Ashok mentioned over the call that we have been reducing our unallocated expenses by pushing all expenses maxed to their respective BUs to the extent possible. So except for very few

corporate employees like the MB, CFO salaries, we do not have any other material expenses in unallocated. So everything has been allocated to their respective use. So right now, we are at about Rs.1 Crores per of unallocated per quarter, and we expect this to more or less remain at the same rate.

Akshay Bhor: Understood. I will take this one offline, but I have just one last one. In terms of your pipeline, which subsegments are currently driving your demand and just wanted to understand is there a meaningful exposure to the auto or the auto ancillary space at this point?

Ashok Kumar Reddy: I think, like I mentioned earlier, we do not have concentration to any industry, and we do have open position pipeline and growth coming from across sectors. So there is manufacturing. There is BFSI. There is consumer. There is the digital. So I would not say there is 1 sector that is kind of giving us the maximum volume at this point in time. As I mentioned earlier also, some of the larger dialogues that we have are in the 2000 to 7000 kind of range. They are not that many. They are not concentrated to any industry. The medium to small client spread is across industry. So there is no major concentration at this point.

Akshay Bhor: Thank you.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to the management for closing comments.

Ashok Kumar Reddy: Thank you very much. So I think like we would continue to focus on building the general staffing and the specialized staffing services, playing to the productivity improvement and margin play on that front. Obviously, the integration of eCentric is done in Q1, and we will work to ensure that the scaling up of the IT staffing business happens over the year. I think the focus for us is clearly going to be on the HR services front over Q2 and Q3 to ensure that the collections and the claw back of the provision happen. And we will focus on that as a clear attention to ensure that, that loop gets closed out. But I think, overall, the trajectory currently for the coming quarters seems healthy, and we will continue to chip away on that front. That is it for me. Thank you.

Moderator: Thank you, Sir. On behalf of IDFC Securities, we conclude this conference. Thank you for joining us. You may now disconnect your lines.