



“TeamLease Services Q4 FY2018
Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the TeamLease Services Q4 FY2018 Results 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aasim Bharde from IDFC Securities. Thank you and over to you Sir!

Aasim Bharde: Thank you Aman. Good morning everyone and welcome to the Q4 FY2018 results conference call of TeamLease Services Limited. I would like to thank the management for giving us the opportunity to host this call. The management team is represented by Mr. Ashok Reddy, Managing Director & Co-Founder, Mr. Ravi Vishwanath, CFO and Ms. Ramani Dathi, Financial Controller. We will start the call with opening remarks from the management post which we will move to the Q&A session. Thank you and over to you Sir!

Ashok Reddy: Good morning Aasim. Good morning all. Thank you for the call. I think we ended the quarter and the year and we have got 19% revenue growth and the margin improvement as best as continued, so we have got EBIT margin of 1.9% and PBT margin of 2% for the year. So I think the aspect of continued growth both organically and inorganic complementarity, adjacencies that come in have kind of contributed to the element of the revenue growth and the margin improvement. I think the two key variables that we said would drive the future the market opportunity exist. We did not have a very aggressive growth last year on the stopping head count, but we grew about 6000 associates we look to better that in the current year. We have had NETAP trainee growth happening exponentially for last year at about 20000 and that has added to the element of scale and productivity play at our end that helps the element of margin improvement.

We have also kind of been working on the integration of the telecom business that we got into, so new leadership has been brought in place, they are kind of stepping into take charge of the business and put a path for growth into the next year. The IT staffing business also has kind of been integrated and the team is in place and we look to continue the aspect of growth on that front and as we had indicated I think the margins for those businesses will be around 12% and 6% and that is where they are coming in at, but you know the fact that they are margin accretive relative to the general staffing business and also at an overall basis can contribute to margin growth.

Our training business has also been scaling up and I think we will see that element of exponential growth on the training business into this year also and Schoolguru online platform is getting integrated into the overall offering and we believe that into this year they will have a ramp up on the enrollments for the programs and which will kind of reflect in their revenues and their break even position as we go forward. So I think overall the right platform for us into the next year, we have had the growth, we have had the margin improvement, we have effectively continued to do cash flow positive and we continue to look at additional opportunities to complement our growth

in the M&A space while we will focus on the organic growth also, so that is it from my side and happy to answer questions.

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 Gundappali from Ambit Capital. Please go ahead.

Sudheer Gundappali: Thanks for taking my question. Head count growth in general staffing if you look at it is very anemic this year at around 5% on a Y-o-Y basis perhaps the lowest since global financial crisis times I understand a lot of it has to do with the softness in job outlook in the broader economy, but if you look at the head count growth rates in general staffing being reported by some of your competitors there seemed to be much higher than the growth rates that we are reporting, so few questions on this front, apart from the macro headwinds are we now steering at a possible scenario of market share loss to competitors that is number one and the second question is, is the management focus now shifting more towards NETAP/apprenticeship program and the focus on general staffing taking a backseat and thirdly I assume you must have had an internal review of the situation and you must have possibly set a roadmap to accelerate growth in the segment going forward, so can you please highlight what are the steps you are going to take the growth in the segment back to 13s or 15s or whatever it is?

Ashok Reddy: I do not think there is a lesser focus on general staffing and larger focus on NETAP I think we have two different teams that are driving the aspect of the two businesses and net additions, so yes belief is the opportunity in both the streams exist and we will continue to stay focused to driving up the numbers in both lines. We have had very soft growth numbers in associates, but I think if you look at our associate number growth and trainee growth directly reflects on to our revenues and the overall revenue growth I cannot comment for competitor growth in associate number, but I think the revenue growth will become a comparable figure to justify the associate growth and staff. Clearly for us two things that we are focusing on in this year to bring back the element of associate growth is aspect of sales and customer relations, which is trying to get larger share of wallet with existing customers and also doing new sales to get new customers on board. So I think there is a clear strategy and focus to get volume growth back on track and I think we will start delivering to that as we go forward, but clearly from our perspective we are looking at growth in both areas of NETAP and general staffing not one against the other.

Sudheer Gundappali: Ashok thanks and I am not asking for a specific guidance in terms of head count growth in general staffing, but is it fair to assume that it should be back to what is your growth rates have been over the last four or five years for FY2019?

Ashok Reddy: That is what we have worked back towards.

Sudheer Gundappali: Yes and one more question. So in terms of GST compliance unfortunately this being an election year probably we can expect multiple relaxations on compliance while I understand that we are positive on GST implementation favouring organized players over the longer term, for the next one or two years how do you see this playing out?

Ashok Reddy: It is still falling into place like we said the compliance demand aspects are changing, some relaxations have been given, so I think it is like as we have said before it is early to call it as saying that the comprehensive GST compliance and formalization has kicked in, but these are first steps and it is always good to initiate, use the experience and the learning to take course corrections, but our belief is the two leaky buckets that existed earlier for informal sector of service tax and the statutory payments, with GST implementation the service tax leakage should get plugged and hopefully if the regulatory compliance got simplified and went into a PPC model of paperless, presenceless and cashless, the statutory payment leakages could also get plugged into the future.

Ravi Vishwanath: I just to add to what Ashok said, the number of GST registrations have gone up by about 50%. We had about 7.5 million registrations under all laws earlier, on the GST that number is now closer to about 11 million or 12 million, so obviously we have more number of informal players who are today registering themselves under GST, but that is just likely said just one part of the problem. The next half of the formalization will start with the digitization and PPC, paperless presenceless, cashless filings that will take place.

Sudhir Gundappali: Thanks. That is it from my side and all the best for the next year.

Moderator: Thank you. The next question is from the line of Vetri Raju from Equity Analyst Private Limited. Please go ahead.

Vetri Raju: Congratulations Ashok for the good set of numbers. We have been reading in pink papers that e-commerce sectors are across the board like good aggregation in e-commerce and everything is growing and we even have keenly referred in almost all those reports. I just wanted some colour on which sectors or in which sub areas we actually are related to the e-commerce sectors and what is the kind of volume growth we are expecting from e-commerce going forward?

Ashok Reddy: We do not categorize the specific sector growth per se, but I think what we are seeing is that across different sectors there is an element of a demand pickup that is happening and we believe that will translate into open positions for us and the aspect of net additions thereon. What we are seeing effectively is also that while we say especially in the e-commerce space we cater to the logistics kind of profiles, we cater to the customer support kind of profiles in stock the gross additions clearly exist, but there is also a lot of attrition that takes place in that sector at this point in time. So what finally shows up from me is net growth, but gross additions and open positions are very large with lot of the sectors, but the current attrition also takes away that element of growth.

Vetri Raju: I got it. Also you just talks about inorganic side also the management is focusing and I know from the past concalls we have been very, very cautious and we only do acquisition if it is fixed into the game plan, so is there any candidate right now you have been looked at or what is your take on the acquisition side?

Ashok Reddy: There is a continuous evaluation of opportunities that we do at our end and at any given point I think we have 10 to 12 opportunities that we are looking at. All of them do not come to fusion multiple variables there might not be a right way, there might be discoveries at a later point that you do not want to inherit or the valuation ask or the people fitment and stuff of that sort, so I think the variable of us being having money in the bank and also being cash flow positive and declaring the dividend at this point in time is that we believe there are opportunities that we can invest and that will complement and help the business grow and yes so while we continue to focus on driving the existing P&Ls to scale and performance we will look to complement with some investment into the future also.

Vetri Raju: Thanks Ashok. All the best.

Moderator: Thank you. The next question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir we have written multiple articles recently that sales will create a large amount of jobs in India so how are we aligned to tap this opportunity and second if you see lot of Chinese vendors are doing well on the mobile space so whether all these Chinese vendors whom are they relying on for the sales force?

Ashok Reddy: The effect of sales being a key driver even if you look at our existing numbers nearly 50% to 60% of our associate base comes from sales and logistics and that is really the two segments across industries that require large workforces, distributed workforce at the lower entry level and it is placed to our ability and capability to address the customer requirement. So into the future also we believe sales will be large and I think the fact that we are well diversified across industries and companies to effectively deliver and workup the relationship will position us to drawn those open positions as it start coming in and work with the customers for growth.

Madhu Babu: On Chinese players like?

Ashok Reddy: In telecom and in every other segment we do have players and they are using multiple vendors. We work with one or two players in the telecom space on this front. There are some contracts, which we cannot take because of exclusivity and stuff of that sort that we give to somebody else, but there are multiple vendors playing to the telecom sales requirements across different company and we are also in that space.

Madhu Babu: Government has recently fixed a term employment so companies can directly give this, so how do we see that as an implication over two to three years perspective for companies like us?

Ashok Reddy: I think all of this is good for formalization, will it take away the market opportunity for us not really will it expand the opportunity of formalization and more corporates willing to play to it I think yes. So as we keep repeating 98.5% of the outsourcing is in the informal space and the direct contract that customers have keeping off records and stuff with the element of fixed term contracts being available they could formalize that very easily. So our belief is that all of these

measures that come about on the regulatory labour reform front play to the aspect of formalization and effectively increasing the size of the formal players in the long run.

Madhu Babu: Currently we are more in the volume play in the market so how do we see transition towards more of a value play in terms of yields moving up for the realized deal purpose and moving up whether you see India moving into high values, contract staffing as well?

Ashok Reddy: So we have the verticals that are definitely higher yield players so that is IT staffing or telecom staffing placed to a higher realization and the rate card model largely as a revenue stream. In the general staffing space I believe we are not going to be value players in the near term it is a volume play and I think there is nothing wrong so I think we will play to volume and we will play to value in the vertical and the two coming together is really where the play to margin improvement and scale can come about.

Madhu Babu: Thanks Sir.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Other income has been down too much any specific reason this year?

Ashok Reddy: So we used the cash that we had for the various investments during the year so other income for us is largely interest income on the money that is in the bank so we did use part of that money towards investments into businesses and that is actually translated into the topline aspect.

Ravi Naredi: Any reason to skip the dividend this year also?

Ashok Reddy: Like I said we are evaluating opportunities in the market and we would like to believe some of those will come through in the near term and we would need that money for availing of those opportunities.

Ravi Naredi: Sir how takes credit convert into cash because we are taking net tax credit so can you explain us what is the reason behind this?

Ravi Vishwanath: So since we claim reduction under section 80JJAA we do not have a tax obligation, but having said that there is a MAT tax obligation because my regular tax is zero I do have a MAT tax obligation of about 22%, so the MAT tax has to be provided for in the books, but since the MAT tax is available at a credit over a 15-year period and deferred tax asset is created on the MAT tax provision that is made in the books.

Ravi Naredi: Thank you Sir.

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

- Abhijeet Akela:** Good morning and thank you so much for taking my questions and congratulations on a good quarter. Just a few bunch of housekeeping questions and a few clarifications actually. One something was the NETAP head count growth seems to have slowed down a bit on a sequential basis this quarter I remember we were adding 4000, 5000 candidates per quarter and this quarter it has dipped a little bit so anything we should read into that and what is your outlook for next year now on this front?
- Ashok Reddy:** Nothing specific it is just seasonality aspect of some attrition being higher than the onboarding aspect, but I think we are on track to growth into the coming year also.
- Abhijeet Akela:** So can we expect another close to 20000 kind of addition in NETAP for next year also?
- Ashok Reddy:** We should have good growth into the next year I think we have the pipeline of sales and growth with existing customers so I think we should see steady growth into the current year also.
- Abhijeet Akela:** Right and if you could just help us out with the markup per associate in NETAP as well as in general staffing?
- Ashok Reddy:** The associate markup is at about Rs.755 per employee per month and the trainee markup is at about Rs.570 per trainee per month.
- Abhijeet Akela:** Got it. Second just on the margin drop in other HR services quarter if you could just comment on that?
- Ramani Dathi:** Abhijeet other HR services in terms of EBITDA it has increased from Rs.2 Crores in Q4 FY2017 to Rs.2.7 Crores in Q4 FY2018. The Q4 thing is largely because of right back on account of collections, so these are all one time things and it is very difficult to bring in some kind of predictability and trends in this and the difference is also marginal some 70 lakhs that is all.
- Abhijeet Akela:** Understand, got it and in specialized staffing also we have seen some dip on a Q-o-Q basis in the EBITDA margin percentage, last quarter it was 10%, this quarter it is 7.2%, so anything specific there and if you could also help us out with the breakout of Evolve in terms of revenue, EBITDA and headcount?
- Ramani Dathi:** Yes, Evolve contribution to revenue in this quarter is about 43 Crores with an EBITDA of 2.1 Crores translating to about 5% EBITDA margin, so the margins of Evolve for this quarter are comparatively less because as Ashok mentioned in his initial comments, so we got a new CEO for Evolve and the parts of both the CEOs have been loaded into this quarter, so this is just for this quarter and going forward the margins will be back.
- Abhijeet Akela:** And the Evolve headcount would stand at what right now as of March 31, 2018?
- Ramani Dathi:** 4100.

- Abhijeet Akela:** Got it and last couple of quick things, how many associates under value added services now?
- Ashok Reddy:** That is about 16000.
- Abhijeet Akela:** Lastly the free cash flow number for FY2018, is it possible to share that?
- Ravi Vishwanath:** Around 120 Crores.
- Ramani Dathi:** Yes, from EBITDA to operating cash flow conversion is about 60% for this year, so we have free cash of about 120 Crores in bank.
- Abhijeet Akela:** Great. Thank you so much and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.
- Nitin Padmanabhan:** Ashok and Ravi, thanks for the opportunity. I just wanted to understand the general staffing growth last year, has it been lower, is it because of higher absorption by clients of our existing associates, is it one of those things or is it something to do with sales or how should one look at it broadly?
- Ashok Reddy:** It has been a combination in place, so like as we were saying there has been headwind on account of GST implementation, there has been an element of absorption, there has been an element of renegotiation under client shift, so I do not think there is one answer, it is multiple reasons that have led to the relatively soft growth in associate numbers for last year, but taking cognizant of that is really where we have decided to focus between the sales and client relation to driving growth for the current year and I think no unexpected surprises, we should get back to the past levels of growth into this year.
- Nitin Padmanabhan:** Sure, but would it be fair to assume that all these three elements that headwinds to revenue in a single year, it is unlikely that it can continue to repeat in consecutive years that would be a fair assumption?
- Ashok Reddy:** Yes, it is our responsibility to address those and work on them.
- Nitin Padmanabhan:** Just one last question was in terms of our general staffing business and the sales strengths that we have there, to your mind how does it compare with competition in terms of share numbers and spread?
- Ashok Reddy:** So, like I have always said we have two players with two different strategies and approaches to the market not right or wrong just two different strategies, so I think we have broad based our sales team and broad based our client to saying they have large accounts, MSME accounts and across industries and sectors and the top five accounts do not account for a very large percentage of our overall volumes and stuff is a conscious strategy, so I think we will continue to play to that

having a larger sales team, having a larger client on boarding and a number of clients and being present across industries and hopefully not having a very large concentration in a few customers.

Nitin Padmanabhan: Thanks Ashok and all the best for FY2019.

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

Ashish Chopra: Thanks for the opportunity. Just one question from my side, so Ashok just wanted to understand that would you be observing anything different in the general staffing space with respect to the competitive intensity, last year there have been a lot of incentives that are out there and that may be at the bottom line as a result of taxation, but it could probably compel some of your PLs may be to take that hit on the gross margin and attract at least the larger clients with the lower pricing, is that at all play as per your observation or what you think it is pretty much status quo?

Ashok Reddy: We have anyway been at the bottom of the pyramid on the pricing front, so the leeway to play on a pure price aspect for getting more mandate there is a limitation on that, so I think what we should look at is not mandate specific, but more on an average basis as there has been an improvement on the realization and I think that aspect will continue to play out. There will always be some player who will come in to dress the bride up or kind of be unrealistic in the market to pricing, but those are passing showers and hopefully will not impact a longer.

Ashish Chopra: Right, so generally what is the approach or strategy from your end in that situation even if it is may be on a very client specific basis, do you generally react or do you really believe that it is not something that is sustainable any which way, so you would probably continue to focus on maintaining probably your gross profit?

Ashok Reddy: We look at it in two ways. Obviously my intent is to stay profitable and continue to improve my margin and if there is a competitive pressure on price for a specific mandate. There are situations where we had bid for the mandate in the belief that even at the lower price the margins are sustainable for us at the service asked that the customer has or at a lower price we can reset the element of service deliverables that will happen to reduce our cost of delivery and the third element is sometimes we let go off the mandate in the belief that it is better to be kind of losing the mandate in the short run to win in the long run, so all of it is very case specific in terms of decision and at that point in time.

Ashish Chopra: Got it, so in terms of the overall growth rate of associate headcount while that appears to be may be lower than what the peers of the industry may be doing this year, we should treat that as an anomaly, right, I think the volume growth should be expected to be higher than the industry going forward?

Ashok Reddy: Yes and also if you really look at it typically industry that we are in the associate growth has a direct relationship to the revenue growth, so yes I have had soft growth in associate numbers, but

I think we have come good on the revenue growth at 19%, so if somebody else has a very aggressive growth on associate numbers it should reflect in a very aggressive growth in topline.

- Ashish Chopra:** Understood. That is it from my side. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Soumil Zaveri from DMZ Partner. Please go ahead.
- Soumil Zaveri:** Mr. Ashok and Mr. Ravi, good morning. My first question is on the top 10 contribution that we see, other constituents year-after-year we see it is around 19% or 20% are those constituents relatively static or is it revolving the contributors to that top 10?
- Ashok Reddy:** Some element of change in it, new clients might have come, enters the top 10 by virtue of size and hence pushes somebody else down, somebody might downsize, somebody might increase their headcount, so while the top 10 at a gross level has stayed kind of the same on contribution the constituents do change and it will be probably two or three changes in the top 10 that will change depending on the years.
- Soumil Zaveri:** Got you and in terms of tenures this might be a bit of a nice question, but in the general staffing business what is the traditional tenure of a mandate?
- Ashok Reddy:** Like we have said 96% to 97% of our customers tend to continue year-on-year, so there is a long runway and I have not actually calculated across the 1900 customers the average tenure, but we do have long tenures unless company shutdown or move out of the aspect of staffing per se.
- Soumil Zaveri:** The contracts though are actually signed for annual in nature, more in terms of the contracture.
- Ashok Reddy:** That is right.
- Soumil Zaveri:** Fair enough and the final one may be looking at all the news about artificial intelligence and machine learning and the impact this has on entry level jobs, do you think about those things do they impact our business model in anyway?
- Ashok Reddy:** We definitely think about them and we actually try and work some of those into our processes in order to play to productivity overall, but will it kill the element of jobs and employment outside I do not think so. Certain jobs will get done away have to transform into something else, but I think overall employment per se will continue to be there because people have to live and the element of which sector, which job. A lot of the jobs that are there today did not exist 10 years back and did not exist 20 years back, so underlying belief is that employment generation will happen, will it happen in the same sectors and same skills that is probably not, which is why we keep saying that at TeamLease we are waiter in the restaurant and not the chef.
- Ravi Vishwanath:** Also if you are going to look at the total mix of our associates we always said that 65% to 70% of our associates are across sales customer support and logistics and no matter what extent machine

learning or artificial intelligence comes in the function of sales customer support in logistics would continue to remain for some more time actually.

Soumil Zaveri: Great. I will try to squeeze quick one in. In terms of general staffing productivity across global piers where do we stand and what is the headroom you see in terms of productivity from the 200 odd counts we are at right now?

Ashok Reddy: The global piers number is not really published, but when we look at the aspect that they have very high margins and their PBT comes down to about 3% to 3.5% effectively reflects interest cost and also reflects the element of low productivity, so our belief in the Indian context is given that we started at low margins and we have to work up on productivity in order to improve the bottom line. I think we have just started our journey on the productivity factor and we can take that up quite substantially as we go forward further take it up as we go forward by various interventions through technology, digitization, process changes and stuff and that is the trajectory that we are very focused on.

Soumil Zaveri: Thank you so much Ravi and Ashok. This is fascinating. Thanks.

Moderator: Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Sir, thanks for the opportunity. Just wanted to understand that if you see the contribution to our associates in terms of the core staffing and NETAP associates it is like 75 and 25, so as you see that the markup for core staffing business is Rs.755 and for the NETAP is Rs.570, so in terms of gross margins, so how do compare the gross margins in these two segments so the gross margin splint would be 75, 25?

Ashok Reddy: Not really because our average salaries in the staffing side are about 21000 odd and average stipend on the trainee side is about 10200.

Ravi Vishwanath: So the gross margin we make in general staffing is about 3.2% to 3.3% while the margin that we make in NETAP is about 5.4% actually.

Amit Chandra: So, as we see the more ramp up in the NETAP associate it can reflect in the increase in gross margins going forward?

Ashok Reddy: It is just like my net margin, yes.

Amit Chandra: So, that is why in FY2019 like we have seen 84% rise in the associates and NETAP?

Ashok Reddy: One of the reasons, correct.

- Amit Chandra:** Great Sir and I just want to understand how much of total associates are in the cost and markup model and how much are in the salary funding model, so earlier you said that it is 80, 20, so has it changed or that remains the same?
- Ashok Reddy:** About 26% are in the variable model and I think marginal move that is happening on an incremental basis and the funding proportion also has not changed much for us.
- Amit Chandra:** How do you read it like if the cost and markup model goes higher, is it margin equity because it have impacted the working capital basically?
- Ashok Reddy:** If the funding as they goes up we will need more working capital, but we have managed to keep it relatively low compared to industry peers and I think we will continue to stay on that trajectory obviously the vertical businesses that we get into our funding requirements, but they have higher margins to support that.
- Amit Chandra:** As in terms of verticals you are in, if you can provide some flavour as in which verticals are doing better and which has been the laggard, so 5% growth in the core associates, so which are the verticals where you see some increased pressure as compared to last year?
- Ashok Reddy:** Like I said no specific sectors that impacted us in a negative or no specific sector to the positive. Our belief is that there is general demand across sectors and we should deliver to that to bring the growth back.
- Amit Chandra:** So 80JJAA benefit till when you expect that this benefit will be there or like earlier it is going for three years and we have already taken two years benefit?
- Ashok Reddy:** No, it is actually open ended benefit as of now, each year it gets calculated for taking over a three year period.
- Amit Chandra:** Thanks and best of luck.
- Moderator:** Thank you. The next question is from the line of Atul Mehra from Motilal Oswal AMC. Please go ahead.
- Atul Mehra:** Good morning and thanks for the opportunity. Sir, now we had some time around say GST getting implemented on the ground and things have begun to move on the ground so in your experience for your industry what has really changed?
- Ashok Reddy:** Nothing much actually like we had been saying that the element of the GST implementation is not going to be switching on and off the light kind of an event there are multiple things that needs to happen in a parallel manner from the government and the element of formulization in the larger scheme of things is going to be event that happens because of various variables being corrected. GST was one of them and like Ravi mentioned earlier the number of now registered enterprises has gone up 50%. I do not think these are new enterprises that came into being in the

last six months, these are enterprises that were kind of under the radar and now have decided to come above the radar towards the payment of GST. So I think these are all steps, which are good in the long run for formalization, but the ultimate objective of formalization and depth of informality will take longer.

Atul Mehra: And in your experience as you do in terms of ground checks for piers and unorganized players so the traditional way of working where they could bypass the entire regulatory chain and is there something that is continuing even now?

Ashok Reddy: So, the effect of the GST payments will regularize themselves over a period, but I think the statutory payment delays or nonpayment still exists as leaky buckets for alternate revenue streams for players in this way.

Atul Mehra: If you are going to think about the general staffing and NETAP, so is it right to think about it as a combination or is it right to think about it being isolated business?

Ashok Reddy: We run them as isolated business with separate teams, but the backend support in terms of operation, technology platforms and everything else is common.

Atul Mehra: I am just talking at growth so if you look at just the general staffing piece and it would say add a 5% growth, but if you look at it on a combined piece about 20% growth?

Ashok Reddy: So, to look at margin improvement for the company and profitability the combined thing should be looked at.

Atul Mehra: No, where I am coming from is say if you were to approach a client, so is it that they are substituting general staffing with NETAP as a trend?

Ashok Reddy: No, not really. It is two different segments in that sense. A little bit there will be 10% to 20% overlap, but not to 100%.

Atul Mehra: Right, and how do we think about general staffing growth over the next three to five years now, so is it similar level of 10% to 15% that we have had in the past?

Ashok Reddy: We would like to get back to that for sure.

Atul Mehra: Right and this year the key reason for this say softness in general staffing would be any particular sector or how is it like?

Ashok Reddy: Like I mentioned earlier not any specific sector, it has been more specific to certain company and certain events that happen, but it is not any specific sector going slower.

Atul Mehra: In terms of now that we look for acquisitions even from here on, so which are the other verticals that we plan to add and where are the whitespaces and overall scheme or thing?

- Ashok Reddy:** So, I think three verticals that we still are not present in and where opportunities do exist is healthcare, hospitality and engineering services. Whether we do organic build in those fronts or if you look at inorganic we are keeping our options.
- Atul Mehra:** Great. Congratulations on the results and wish you good look.
- Moderator:** Thank you. The next question is from the line of Dipanshu Mandan from TR Capital. Please go ahead.
- Dipanshu Mandan:** Sir, thank you for taking my question. Forgive me if the first question sounds a bit naive, but if I understand you have Rs.570 sort of per month gross revenue from the NETAP applicants that you get if you were to help me with what is an EBITDA contribution level to the company today, what would be the contribution level at EBITDA from the NETAP business, so let me share a few numbers that I calculated and you can let me know if that is correct or not. So at 42000 NETAP applicants you would do about 7 Crores to 7.5 Crores of revenue per month and this is my understanding the net on that would be about 5.5 Crores per quarter, so from per quarter 7.5 Crores of gross and 5.5 Crores of net contribution, so would that directly then start contributing the EBITDA more or what do I miss from EBITDA?
- Ashok Reddy:** There is nothing else that will be in yourself. Like I said the cost of administering the stipend and the trainee is done by team leader at the backend.
- Ravi Vishwanath:** Team leadership of the NETAP margin is about Rs.450 per trainee per month, the balance 120 is actually retained by the university, which is when they use it to meet their expenses, of the Rs.450 a month that we earn or the margin we make is roughly about 30% of that actually.
- Dipanshu Mandan:** My next question, which is striking a longer term, but just wanted to get your view on this, if you look at full scale revenue and EBITDA contribution from Schoolguru and then Freshersworld what do you think that would reflect let us say in the next two, three years and especially from Freshersworld how do you see cost of acquisition for your staffing business to go down, so some sense on how that will impact profitability positively over the next two, three years it will be really helpful?
- Ashok Reddy:** The Schoolguru has been investment phase and on boarding of the university as customers has been done, so about 19 universities that they provide the services too and I think our outlook is that into this year they should get into a breakeven more especially after the admission season gets completed and their own work on the trajectory of aligning the online education to the onsite university and on the job learning that we have, so I think this year is the ramp up phase from a revenue perspective and breakeven for Schoolguru and early indication they should be on track for that. From a Freshersworld perspective I think what we were looking at was largely it is complementing us with the digital platform and larger database access to being able to hire for our own requirements while also providing the service to others, but I think the element of integration of the ATS and the database system is work in progress and again into this year we should see early gains of being able to hire more from our own internal databases and data

structures that we have created and as we go forward we would like that percentage of hiring and closures per se against open positions to increase from the Freshersworld.

Moderator: Thank you. The next question is from the line of Choklingam Narayanan from BNP Paribas Mutual Fund. Please go ahead.

Choklingam N: Hi Ashok and Ravi, just to get your thoughts on this minimum wage bill if it gets done then how does a kind of impact, how is it there in your contracts and is it there on a margin level that you make a margin or you have an absolute spread that you make on the general staffing business?

Ashok Reddy: National minimum wage aspects were to be implemented I think administratively it is easier for us to track and execute and any revision in minimum wage by law the liability to effectively take care of that composite payment is on the client and we go back to them with the notification and make the revisions in CTC and structure accordingly. Where we have percentage markup against customers it will benefit us in terms of net realization increase when the CTCs go up where we have a fixed realization it will not have an impact at all.

Choklingam N: How does this kind of impact your volume growth is historically whenever such instances have happened say for example, Tamil Nadu and Karnataka which we have recently seen this kind of instances, how is this kind of flow through into volume of business, does it increase your move from unorganized to organized and how does that?

Ashok Reddy: The existing numbers do not change, but does it aid formulization for sure not. Our comment continuously has been the concept of a national minimum wage is a bad idea because the cost of living across cities, states and regions is not the same and the minimum wage should be a reflection of the cost of living in location, so a national minimum wage at a very high level being implemented could be a bad headwind for formulization.

Choklingam N: And how much is Tamil Nadu and Karnataka for you overall business in broad sense?

Ashok Reddy: South is about 32% and I would say largely it comes from Karnataka, Tamil Nadu and Andhra Pradesh. I could give the breakup, I will have to check on the specific two states breakup and get back to you.

Choklingam N: Sure and in some sense the margin lift is aided by this minimum wage number or it is not really the case?

Ashok Reddy: Not much and answer to other question, we do have it provided for in our contract that any increase in minimum wage is actually passed through to our customers and clients.

Choklingam N: Understood. Thanks a lot Ashok and Ravi.

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

Alok Deshpande: Good morning guys. Good morning Ashok and Ravi. Two questions, one is on the acquisition strategy, so without getting into specifics can you just give us some colour on what sort of businesses broadly that you are interested in terms of right fit that is one and secondly on the markups or the margins, what is the environmental like, what was it for the last two or three quarters and when you are renegotiating those markups with your clients what sort of environmental do we have, do we have extremely competitive environment currently or just wanted some colour on that?

Ashok Reddy: So, on the roadmap for TeamLease whether organic or inorganic I think we stay focused on the staffing and adjacencies that compliments the business whether it is vertical or products that can kind of drive synergy and I think that really where we are looking at opportunities in the market, so if you look at historically what we did acquisitions in the IT staffing vertical complemented our overall staffing business, the telecom staffing was the vertical growth. The investment in Schoolguru was driven by the complementarity that it had with the other three learning platforms that we had up onside, on campus and on the job and we married it with the online. Freshersworld was an aspect that complimented our hiring capability, so I think we continue to look for businesses that compliment us in service offerings or if they could compliment us for vertical inclusion or a team or a technology platform and could accelerate our growth by a year or two those are the kind of opportunities that we would effectively look for on a continuous basis.

Alok Deshpande: Sure and on the markup sector?

Ashok Reddy: So the markup aspect has always been competitive, so I do not think that element of leeway of pricing power into our hands is going to happen in the near term, you know whether it is from other organized players, whether it is from the unorganized players, whether it is from the smaller players, it is a competitive landscape in the staffing space and I think we will continue to see that as we go forward, so most customers are very happy to have discussions of a downward price revision, upwards is a tough task whenever we go for it.

Alok Deshpande: Sure, just one small bit. You mentioned that you are strategizing how to sort of get back to the normalized growth rate in the general staffing business, so broadly if you are looking at a 15% kind of growth rate, which was the historical number, you will need about 20000 additions, so can you just get into a broad strategy and is this is going to be more of drilling down more into some specific vertical or is it some bit of pricing or let by pricing kind of strategy I just wanted to understand that?

Ashok Reddy: It was not going to be led by pricing strategy and clearly like I have always said it we are at the bottom of the pyramid on pricing and I do not think it make sense to go further down on that front. Clearly two elements that we will be focusing on, one is new sales and the second is share of wallet with existing customer so there is a clear roadmap that we have drawn out in terms of regions, verticals and company specific ownership that has been created. For new customers it is an element of identifying the potential and getting them on board with the existing customers it is a lot more of engagement to detail and go mile wide and mile deep with each of them rather than

staying limited to the number that we have, so I think the strategy that we are adopting is largely around hunting and farming with clear focus and accountability created to individuals on numbers. I think we should see that playing out into this year.

Alok Deshpande: Sure, understood. Thank you so much guys.

Moderator: Thank you. The next question is from the line of Sagar Lele from Motilal Oswal Securities Limited. Please go ahead.

Sagar Lele: Thanks for the opportunity. In the IT staffing business from the acquisitions already made, what kind of growth you are seeing in these companies post integration on an organic basis, have we been able to get a decent number of new accounts and seen a satisfactory performance on these so far?

Ashok Reddy: I think we are looking at it in two ways. The integration is complete, the team is in place, some incremental hires that will continue to happen, but I think like I have mentioned earlier too in the IT staffing most of the relationships were kind of inch wide mile deep the aspect of working with multiple lines of business, multiple line managers and getting a larger share of wallet was not comprehensively in place. The first affect that we address was improve the element of the relationship with the existing customers and get larger numbers from them, so I think that part of the strategy has worked well. We have had about 500 net increase in associate headcount 500 plus net increase in the associate headcount on the IT staffing front. The second element that we are now focusing on is are there customers that we do not work with and have large potential while we added some last year we will be adding a lot more into this year, but the growth with new customer takes time because you would normally start small and you have to build your track record and traction with the customers, so I think the way we would look at it is growing aggressively with the existing customers, but increasing the number of customers so that into future years that becomes an additional pool on which you can grow.

Sagar Lele: Sure, that is helpful.

Moderator: Thank you. The next question is from the line of Jay Shah from OHM Portfolio. Please go ahead.

Jay Shah: Good morning. My question is that when I look at margins on specialized staffing services, I see that the margins have dropped from 15% to 7% this quarter and averaging at around 9.9% is there any reason and where do this settle down and similarly if I look at other HR services we have seen a bump up in the margin only in the fourth quarter, but not on an annualized basis?

Ashok Reddy: I think if you look at the IT staffing and telecom we have said that there will be intra-quarter variations on account of salary revisions or absorptions or business variability, but we said overall when we look at it in the IT staffing we would like it to average out around 12% to 13% and that is really where we continue to stay focused on and delivering and in the telecom it was expected to be in the 5% to 6% and that is also how it is playing out, so there will be intra-quarter

variation on account of certain cost or certain salary revisions or a certain level of absorptions at the customer end and stuff of that sort, but they get evened out over a year.

- Jay Shah:** So, basically it is a function of mix?
- Ashok Reddy:** Yes.
- Jay Shah:** And where would for this verticality margins would settle down or what would be your target because this is key to the overall blended margins?
- Ashok Reddy:** 12% PBT for the IT staffing and about 5.5% for the telecom.
- Jay Shah:** No, my question is that at a company level would you look at some target mix to protect the overall margins?
- Ashok Reddy:** Come again on that question.
- Jay Shah:** I said from the company level would you target a certain mix between IT and telecom because to the extent that you can grow your IT business, you can actually increase the blended margin?
- Ashok Reddy:** It is a focus for us, like we said and if you look at it the growth in the IT staffing has been at a percentage level much higher than in the general staffing aspect, but the base is very low, so from the staff perspective the focus is to saying that we should build the adjacent businesses or vertical businesses at a higher margin businesses faster is clearly on the table as a deliverable from our end.
- Jay Shah:** Right and the three verticals that you have talked about healthcare, hospitality, and engineering services would they also have similar margins as in IT?
- Ashok Reddy:** Not as IT they will move towards the telecom.
- Jay Shah:** How about HR services, so the annual margin is what we should look at and we should ignore the quarterly margins?
- Ashok Reddy:** Yes, because there are some element of billing delays that happen, billing commitments that come in from different customers, so overall again as we said the HR businesses are higher margin businesses and on a year basis they do not move the topline that much, they will start contributing to the bottom line, but on an annual basis they will average out.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints we will take last question that is from the line of Vaikam Kumar from JM Financial. Please go ahead.
- Vaikam Kumar:** Thank you Ashok and thank you for your opportunity and evaluation on good set of numbers. My question is on the overall strategy, what is the view on the recent consolidation in e-

commerce given that it is a big contributor to our revenue and also what are the certain risk factors that could impact our growth in the next six months to one year?

Ashok Reddy: So, e-commerce it is not really consolidation, I think it is more aggression and funding into the space and our belief is that it gives a longer lease of life and the competitors fitted into the play that could play out to larger employment generation into the future and you know we will wait and see how it translates in terms of number demands and how kind of are able to deliver to them as we go forward.

Vaikam Kumar: And regarding regulatory risk factors to growth?

Ashok Reddy: Regulation today does not really work to supporting formalization and growth. We exist in spite of the regulatory environment at this point in time, so any change that happens on the regulatory front towards labour reform or the whole paperless, presenceless, cash element will for us in the long run help the growth of industry and I think we are well positioned to grow as a company within that.

Vaikam Kumar: That was helpful. Thank you very much.

Moderator: Thank you. Ladies and gentlemen that was the last question and I now hand the conference over to management for their closing comments. Thank you and over to you!

Ashok Reddy: Thank you all for the questions and I hope we answered them. I think the key variable and we stay focused on that is getting back to the element of the associate growth. We will continue to grow the other businesses, bottom line leading to the element of margin improvement, profitability and cash flow generation and I think we say true to that course of return on capital and positive cash flow generation driven by organic and inorganic growth and I think the last year will hopefully be addressed into this year as we go forward. Thank you all.

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