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JM Financial Institutional Securities Limited, Research Division - Research Analyst

Ladies and gentlemen, good day, and welcome to the TeamLease Services Limited Q2 FY '19 Earnings Conference Call hosted by IDFC Securities. (Operator Instructions) 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.

Thank you, Stanford. Good morning, everyone, and welcome to the Q2 FY '19 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.

We will start the call with the commentary from the management and then move into the Q&A. Thank you, everyone, and over to you, sirs.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [3]

Thank you, Rohit. I guess, I think we've had another quarter of consistent performance across the various segments of the business, highlighting the staffing business has grown in associate headcount, the revenues and margin improvements and that's kind of been more broad-based across industries, existing clients and new clients that have come on board.

And I think we continue to have a heavy pipeline of open positions and plan conversions to the same element of growth as -- to I guess, as has happened in the past.

I think even in the specialized staffing, I think staffing segment has performed and is consistent on the margins front. The telecom business continues to be lower. It's at a 3% lower margin than originally anticipated.

I think 2 elements to that, as we have mentioned, in the last quarter, we have been bringing in the new leadership team and costs associated with that and some element of new mandate experiments to see the structuring of the future business on that front.

While we thought it would adjust itself between the first and second quarter, I think we will see some element of continuing cost and experimentation in that business over the next 2 quarters, but I think we continue to have demand and growth opportunities in that segment also.

HR services business as expected and as I commented last quarter, the continued performance on revenue scale and on margin scale has been happening. And I think it all bodes well from a pipeline of business that we have for the future also on that front.

The Schoolguru work and ramp up in university connect and student numbers have been an uptick. There -- maybe there's coming down, we should see hopefully happen in the profits before the end of the year.

Our Freshersworld performance continues from a revenue perspective and also integration to the back-end element of the candidates sourcing and the open-position [abation] and everything else. So I think we will see a increased element of activity or something needed on Freshersworld and integration of the Freshersworld database for our users.

So I think overall, we've had a quarter that is consistent to the accepted performances on growth, margin improvement, our core employee headcount at pace consistent which effectively adds pace to the element of the staffing business productivity. And I don't think we have any surprise, per se, in the quarter on the numbers side.

I'm happy to answer any questions, but I think there are larger elements of the trajectories here.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of [Demetre Raju] from Equity Analyst.

Unidentified Analyst, [2]

Sometime back, maybe about a few months back, there was a video from your official [YouTube] panel showing Software-as-a-Service cloud profit for a HR ERP kind of a thing. Can you just elaborate whether it has some -- what is the context during the -- how does it fit into this business and whether it has some impact on the revenues.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [3]

So we -- besides the general stocking and employees in the [beat last quarter] that we have, we also have a compliance and payroll outsourcing business, relatively small, but I believe has been a sustainable business to the future. And while both of those businesses that you saw HR at the quarter, our experience has largely been driven as a do-it-for-me services, which is saying that corporates outsource these activities, and we execute the activity at the back-end in Bangalore. While there are asks that have been clearly coming in from customers, which will have a fasttrack form for do-it-for-myself kind of an offering on compliance and sales. And our belief is that if we create the technology variable on that, it also expands the market substantially into the MSME segment of the corporate, who might not be willing to outsource but willing to do it on their own using the SaaS platform that we are able to offer to them. So our investment that we mentioned last quarter that we're looking at in Avantis technology was largely driven around aspects of SaaS platform that they have for execs, and we will marry our outsourcing capability on regulatory compliance with the online platform that Avantis has. So that comprehensive offering of do-it-for-myself and do-it-for-me can be given to customers and given a choice. Similarly, while we have a do-it-for-me in payroll, we are looking at our technology build out requiring that will create the fasttrack.

Unidentified Analyst, [4]

So essentially, you're saying it's another avenue for revenues in the future? Can I -- is my understanding, right?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [5]

Yes.

Unidentified Analyst, [6]

Okay. And nothing has happened in this quarter?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [7]

Nothing yet. Nothing is going to happen in a quarter, of course, this will take time.

Unidentified Analyst, [8]

Okay, okay. And my next question, Ashok, will be on your EBIT margins. So while I understand that your general staffing EBIT margins kind of steady and keeps moving up and down, the other 2 verticals, the HR services and the specialized staffing is quite volatile. It's like from minus 2 from plus 10 and it's like plus 14 to minus 12, like plus 14 to plus 7, plus 6 kind of a thing. So is it something, which is cyclical and with some quarterly lumpiness part of this? And this is how we expect it going forward?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [9]

So the HR services businesses were in their feedings in the previous years, and they were actually lossmaking and getting to breakeven. I believe all that while these can be a 10% margin businesses, they will slowly scale to get into that. And I think that scale is what we are seeing in this year. So going forward, we hope to keep it at that level. We won't see too much of a volatility going forward but when you do a year-over-year comparison, there will be a huge volatility.

Unidentified Analyst, [10]

On specialized staffing, the shock?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [11]

On specialized staffing, the 2 elements is IT staffing and telecom, which are the 2 verticals that we have. I think staffing is kind of being consistent. We have effectively said that our margins there will be at around 12% to 13% and that's probably where we are at on a consistent basis. With telecom, we are -- had acquired it at a 5% margin, and that's what we expected it to stay at. But given the investment phase we are in right now, it will be in a 2% to 3% range for this year and in the next year, we'll again get back to the previous levels.

Unidentified Analyst, [12]

Okay. Just one last question on the -- on a macro front. How do you see the jobs -- the demand for employees in the coming maybe few quarters?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [13]

So I think as things stand, and this is a statement I'm making, of course, to various industry segments that we cater to, we are seeing a lot of demand coming in for the kind of profiles that we provide. And our belief is that consistency in demand uptick and demand fuel will continue to be there, so we don't -- unless there's a major surprise in the 2019 election campaign and something comes up. Given any external variable that we don't know as of today, I think the demand will be good.

Operator [14]

(Operator Instructions) The next question is from the line of Sagar Lele from Motilal Oswal.

Sagar Lele, Motilal Oswal Securities Limited, Research Division - Research Analyst [15]

This time we've seen very strong headcount growth in the associates bit of business. Any particular changes in the demand environment or your approach towards the market that selected a sudden uptick? And also, could you highlight what you expect what for the second half given the fact that it's seasonally strong for you guys?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [16]

Well, like we said, we've been focusing on existing customers, focusing on new sales and client acquisitions. So the growth in associates has been broad-based. This isn't some any one specific sector or region. So I think that element of growth is something that we believe should sustain itself into the second half of the year also, given the current feedback that we have from client open positions and demand that kind of on the table. So I think just a continued focus on customers and new client acquisition, the market demand for employees playing out is what is kind of supporting the growth. Different segments I mean, in some of the segments actually the salary levels have been much lower than our average salary levels in the past, but we are a taker on salary levels and salaries we are PDC. But our belief is that the demand has been consistent and strong, and we will continue to deliver to that.

Sagar Lele, Motilal Oswal Securities Limited, Research Division - Research Analyst [17]

Sure. The second thing was on realization. You haven't given the number of [salary professional] back calculated using the revenue and the headcount. It appears to have inched up compared to the last quarter, whereas last quarter I think you alluded to some contracts being taken up with lower realization that really -- and that is expected to impact the realization in the near term. So could you just help me reconcile these 2 things?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [18]

Yes, salaries actually kind of stayed flat from the previous quarter. The element of -- the mandate to employ, like I had mentioned last quarter, we've had some mandates, large mandates that has migrated some competition play and we were the price takers on that front to what was earlier there. That kind of drawn down the average markup. But the second quarter has been more or less consistent level around 7 35, 7 38 on that front as for associate per month realization.

Sagar Lele, Motilal Oswal Securities Limited, Research Division - Research Analyst [19]

Sure. And this would remain at this level in the second half or are you done of [lowering] those low mandate contracts?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [20]

It's what the market brings to me. So effectively, like I said, on PDC, we are a taker of PDP. We don't dictate that. So while technically the per associate per month realization has come down as a consequence we've kind of stayed flat in the period here. So to that extent, I think sometimes the price on that PAT getting dictated at the salary levels that the associates are coming in, so our existing mandate growth will be at the markup that we have. The new markup and the new clients that we are getting on board, we have to wait and see, but I don't think we'll have a huge reduction on this side.

Operator [21]

The next question is from the line of Dipan Mehta from Elixir.

Dipan Anil Mehta, Elixir Capital Limited - Chairman [22]

As compared to some of the other staffing services companies, which are also benefiting from 80JJAA, growth was before deferred tax and now tax is anywhere from 115%. But in our case though, the volume that we are working forward for in Q2, that we need a PAT is in fact higher than the PATs are in the PVT. So why are we not voting for deferred tax in our books?

Ramani Dathi, [23]

This is Ramani. So under 80JJAA in order of advance deferred taxes for future years, we have to establish the fact that for the future years also that there will be an uptick in the headcount, that there is a faulty headcount growth. So going via a conservative approach, we are not taking deferred tax asset on 80JJAA because that's not been advice given by our tax consultant, because it's subject to future events, which are not certain.

Dipan Anil Mehta, Elixir Capital Limited - Chairman [24]

Okay. And I just want to understand what rates around this 80JJAA because I believe none of these -- none of your companies are being assessed by these contacts as far as your returns are concerned because the recent (inaudible). So what -- have you enjoyed the income tax buffer from advance holding or otherwise? Because not the -- can have a major impact on the earnings per share if there was some regulatory issue or disallowance on the part of the income tax department or maybe more in the budget as they go ahead and change or amend a particular section, thereby they exclude passing companies. It can have a major impact on the per share of the company and the total valuation too. I just want to understand your thoughts on how do you see this section panning out for you and perhaps explain the risks involved and what kind of you spade work you have done before you entered in a private section 80JJAA.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [25]

Within -- the section is not a new section, it actually has been in the tax book for the last 20 years. It was applicable only to manufacturing companies until a couple of years ago, when the section was amended to provide this benefit to the service companies as well. So it's not a new section. Lots of companies are actually -- manufacturing companies are actually claiming the benefit in the past. It's just been extended to further companies. So from that perspective, I think we are very well covered. There are even some favorable judgments on 80JJAA that have gone in favor of the taxpayer, which we have kept as part of our documentation. So adequately, we've been advised by not just one, but by many consultants and by experts on particular aspects. And some of the approaches we have taken for recognizing the advantage itself is conservative. But is probably what is the right thing to do, and so we don't expect any problems as far as this is concerned.

Narayanaswamy Ravi Vishwanath, TeamLease Services Limited - CFO [26]

And also extension to that is obviously the law changes to exclude staffing companies or any industry service segment. Then, obviously, we will not be able to take that but that's something we will have to approach at the time that the government modifies the law for that. But I think the reason for the extension of the benefit to service companies is largely from a perspective of creating formal employment and directly contributing to the government around the various factory compliance payments. So as an individual company to just look at TeamLease for last year, while our tax benefit was about INR 20 crores, the category payments that we made to the government on account of various deductions and payment was in excess of INR 1,000 crores. So I think the uptick that the government has through formalization and through various elements of the compliance payment is a much larger benefit than what is kind of being given to an individual company.

Dipan Anil Mehta, Elixir Capital Limited - Chairman [27]

You're right. And in the end the exact debts and other government 0 tax companies generally tends to create very high growth and has other ramifications and we have seen it with long-term capital being served and all the other export profits and then [FUZs] and...

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [28]

So a point here and that's what we keep saying, is there a context clause right now to the 80JJAA benefit? No. Can the government create a context clause? Yes. But when will that happen, we don't have an idea.

Operator [29]

The next question is from the line of Alok Deshpande from Edelweiss.

Alok Deshpande, Edelweiss Securities Ltd., Research Division - Research Analyst [30]

So I had a question on...

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [31]

A little louder please.

Alok Deshpande, Edelweiss Securities Ltd., Research Division - Research Analyst [32]

So my question was on the headcount addition again. Just wanted to understand any specific verticals that you're seeing this growth from, in H1 specifically. And also just give us a flavor of the 3 or 4 large verticals that we are exposed to and how things are, maybe BFSI, and which we are then -- how -- what do you see there and what it is?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [33]

Well, like I said earlier, I think our growth has been across the client and industry segment that we have. And the element of our consumer BFSI, telecom and retail and e-commerce, these 5 sectors being our largest 5 sectors, continue to play out. But the element of our top 10 customers continue to account for about 19%, 20% of our overall revenue contribution. That kind of has played consistent. Our top 5 revenue contributors being at about 13% has continued to play out. So I don't think we'll have a huge change in the aspects of the industry mix. But even if we look at our current demand that we are getting from the various clients and segments, I think that will play out that we will be a distributed player.

Alok Deshpande, Edelweiss Securities Ltd., Research Division - Research Analyst [34]

Sure. And one question on pricing. Now we are aware that (inaudible) industry where pricing is very competitive. What -- if I can ask what is the pricing density currently or environment currently, let's say, compared to a couple of years back? Are we status quo on that? Or has the intensity gone up, especially among the top 5 or 7 players?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [35]

It's kind of been the same, Alok. Not much of a change. I think the segment has always been a price-sensitive and price-competitive play. There are always -- and as I said earlier, it is a segment that is also high -- industry that's highly fragmented and very low entry barrier in that industry. For somebody new to come in, it's relatively easy and kind of dress it right up becomes easy by lowering the price. But I think to stay consistent to the long run, some element of being able to select the price is important. And I think that is something that we've been working on at -- on a standalone [vanilla] offering coupled with the aspect of the value add that we can drive on the services channel.

Alok Deshpande, Edelweiss Securities Ltd., Research Division - Research Analyst [36]

And what would be your 3 sort of a [hire] target or remission as far as your other HR services vertically or segment is concerned? I mean what should we sort of look at that segment?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [37]

On the revenue growth or on the margins?

Alok Deshpande, Edelweiss Securities Ltd., Research Division - Research Analyst [38]

Well, revenue growth also. I mean currently, it's very small impact, how should we look at it 3 years out of [ISR] growth? How are you...

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [39]

So I think, like we have said, margin play there can be between 10% to 15%, and I think that is really what we would like to drive the businesses to. We are also in that segment, like I mentioned earlier, looking at creating a staff platform around 2 of the P&Ls of compliance and payroll. Again, lower cost but high investment upfront and longer trajectory for high-margin payout. So I think, given that it's a low revenue base, but there can be consistent growth on that front and the margin improvement is something that we've clearly seen into this year. And we will hopefully continue to sustain that as we go forward while we make the investments into the new areas in that space.

Operator [40]

The next question is from the line of Madhu Babu from Prabhudas Lilladher.

Madhu Babu, Prabhudas Lilladher Pvt Ltd., Research Division - IT Analyst [41]

I miss your opening remarks, but the specialized staffing, the headcount has come down quarter-on-quarter. Any reason for that? And second, I think we have talked about strengthening our recruitment on the general staffing, some news on that.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [42]

So I think effectively, the element of headcount on the IT staffing front, we've actually been seeing continuous growth. So 1,700-odd went to 1,800-odd went to a 1,900-odd. We've had a seasonal element of associate count of about 400 that came in, in the telecom business and that has gone up in Q2. So otherwise, we have been consistent growth that we've had in the IT staffing and in the telecom aspect has been kind of flattish. But we had a seasonal increase of 400 in Q1, that's kind of gone off in Q2. And I think the element of the staffing -- IT staffing business staying consistent on margins will continue to play out. I had mentioned in my opening comment that on the IT staffing and the telecom staffing front, we continue to make some investments on some new mandates and on building a new leadership team and that will play out for the next 2 quarters

also. And I think that is something that we will stay consistent on. On the hiring front, I think -- in Q -- as against Q1, our volume of hiring in absolute numbers and as a percentage to client requirement has gone up, nearly doubled. And the continued focus of some perspectives of trying to hire more and at the lower cost will be the focus area for us on the hiring side. And I think we're doing multiple projects, which again, one of them I have brought about in the opening comments of the linkage with Freshersworld, with the digital platform that we have there and stuff. And I think we are getting also some new leadership on that front, who will be joining us next quarter, who will drive certain other projects and initiatives that will play out into the next year.

Operator [43]

The next question is from the line of Abhijit Akella from India Infoline.

Abhijit R. Akella, IIFL Research - VP [44]

I, first, had a few number-related questions. But before that, just to clarify what you just mentioned from the previous question. The hiring volume you said doubled in Q2 versus 1Q, was it?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [45]

Yes.

Abhijit R. Akella, IIFL Research - VP [46]

What's the absolute numbers there in terms of headcount?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [47]

About 3,500.

Abhijit R. Akella, IIFL Research - VP [48]

Okay. And then just on the housekeeping question, if it's possible to give us -- you've doing a breakdown for Evolve the last couple of quarters since you've acquired it. Is it possible to give us the closing headcount, the revenue and the margin -- sorry, the EBITDA for the quarter?

Ramani Dathi, [49]

First, the closing headcount is 4,104, 4-1-0-4. And the revenues of the quarter is INR 44.3 crores, and EBITDA is INR 1.5 crores.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [50]

3.3% margin.

Ramani Dathi, [51]

Translating to a margin of 3.3%.

Abhijit R. Akella, IIFL Research - VP [52]

Got it. Then second, just on the training headcount, it seems like the pace of quarter-on-quarter growth in your net app apprentices, that seems to have slowed down a little bit this quarter. So is that a conscious decision and is that temporary?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [53]

Not a conscious decision, but I think the last 4 months, we have seen an increase in attrition of the training and that has kind of effectively lead to effective lower net growth per day. But no intention to reduce pace of growth. The continued focus on getting new customers, increasing associate trainee engagement, driving up the element of volume growth will continue to be a focus area on that.

Abhijit R. Akella, IIFL Research - VP [54]

Okay. Any particular reasons for increase in attrition or it's just story?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [55]

Nothing. Nothing specific I would read in. It's just gone up. It's not client attrition, it's associate trainee attrition.

Abhijit R. Akella, IIFL Research - VP [56]

I understood. Your value-added services enrollment, is it possible to give us an update on that, where it stands so far?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [57]

So we've got about a 40,000 associates who are on the various apps and services on that front. Actually, in quite a few places, we are offering it as a add-on to customers because it also eases our service delivery to the customer because a lot of the information flow that has to happen, effectively goes online, and we don't have to do multiple manual follow-ups and so on. So I think some of the productivity play that we are seeing also comes from the adoption of the digital solutions that we've created at the back-end.

Abhijit R. Akella, IIFL Research - VP [58]

Okay. And just to clarify this 40,000 number, it was 16,000 at the end of last year, is that correct?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [59]

Yes.

Abhijit R. Akella, IIFL Research - VP [60]

Okay, so you've more than doubled it this year, so far? And also the markup on the...

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [61]

Yes. Also, part of that, I believe, it is also being driven by the fact that some of the new large mandates that we brought was sold upfront as a compulsory rate.

Abhijit R. Akella, IIFL Research - VP [62]

I understand. And markup on these value added...

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [63]

Like I said, most of these are being bundled into the overall pricing, primarily from a perspective that it benefits us from operational console and productivity.

Abhijit R. Akella, IIFL Research - VP [64]

Okay. So there were 150 or so kind of mark up that you are targeting that not necessarily come through.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [65]

No, not necessarily.

Abhijit R. Akella, IIFL Research - VP [66]

Okay. I understand. Last couple of questions, and I get back in the queue the associate to core ratio you kindly provided for general staffing. Is it possible to give that for IT staffing as well?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [67]

I mean we don't really track it but if you look at it in IT staffing we have 1,900, 1,960 headcount and 170 core employees, so it's roughly about 12.

Abhijit R. Akella, IIFL Research - VP [68]

Got it. And finally, just on the new acquisitions that we've talked about, so [cashier] is now becoming a subsidiary and -- excuse me, your investment in Avantis going forward. Is it possible to give us some guidance about what it contributed this quarter? Number one. Cash Avantis revenue EBITDA and then what we should expect going forward.

Ramani Dathi, [69]

It's Ramani. So cashier this quarter, the revenue contribution is about INR 2.2 crore and the EBITDA contribution is [52 paise].

Abhijit R. Akella, IIFL Research - VP [70]

And this is a 2-month impact is it, Ramani?

Ramani Dathi, [71]

Yes, that's right.

Abhijit R. Akella, IIFL Research - VP [72]

And we can assume a similar kind of run rate going forward for this?

Ramani Dathi, [73]

That's right.

Abhijit R. Akella, IIFL Research - VP [74]

And how about Avantis, how should we think about that?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [75]

Avantis is in the early stage of revenues and actually in a sense lossmaking, so it will be in investment phase for at least a year before it gets to profitability.

Narayanaswamy Ravi Vishwanath, TeamLease Services Limited - CFO [76]

And the...

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [77]

It doesn't move the needle much.

Narayanaswamy Ravi Vishwanath, TeamLease Services Limited - CFO [78]

(inaudible) Consolidated data.

Operator [79]

The next question is from the line of Amit Chandra from HDFC Securities.

Amit Chandra, HDFC Securities Limited, Research Division - IT Analyst [80]

Sir, we have seen you'll reduce the funding portfolio from 23% to 16%, so I think that this is a very -- like positive move in terms of maintaining our working capital and improving margins also. So you get the concept that's similar, are we seeing this kind of transfer from existing clients or it's from addition of new clients?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [81]

So some of the existing customers, we've been able to renegotiate for nonfunding aspect. And some of the new customers that we were getting -- I mean, as it is, any new customer dialogue for us start with a nonfunding option. And funding option on the extent is the customer is not able to come on board because of their internal processes or past working structure and back to where we effectively charge them a lot higher amount as compared to a nonfunding pricing model. So I think when we start with a nonfunding model as a standard offering, it's not something we like to offer as a first cut. I think consciously, we would like to bring this down. And also the fact that some of the new mandates for us came in at the lower pricing, we were very clear that we would not fund those customers. So I think it's a conscious strategy but will it come down much more? I don't think.

Amit Chandra, HDFC Securities Limited, Research Division - IT Analyst [82]

So in the top 10 clients, how many would be funding-based?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [83]

Can we come back to you on that? Okay, we'll certainly get back to you on that.

Amit Chandra, HDFC Securities Limited, Research Division - IT Analyst [84]

And further, we have seen a very steep price in the core, like the core price to the associates rise kind of in the last 4, 5 quarters and that has been a very important margin lever. So the scope to increase it further or we are never in that?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [85]

Our belief on that is that there may be, or an upside limit on that front, and we would like to continue to innovate through technology and process to keep improving the productivity ratio. And the road map that we have between our operations team and the technology team are -- continues to show productivity enhancement as we go forward. So I think there's no upside limit as such, as we view it. And we will continue to innovate through technology and process to make that happen. And just for your earlier question, 3 of the top 10 customers are funding clients.

Operator [86]

(Operator Instructions) The next question is from the line of from (inaudible).

Unidentified Analyst, [87]

Two questions from my side. Firstly, how do you see the growth in the general staffing associates going forward, given that this quarter has seen the growth of 13%? Do you think it's fair to say you're back on track for 13% to 15% kind of growth? And secondly, going back to your earlier questions on competition and funding and you have shown great progress in lowering it to 16%, but trend was in the market that the competition was increasing funding-based solution or is this coming down for the entire market? Also what is the ROE difference that you see between funding and nonfunding clients?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [88]

So effectively, the element of associate growth, I think we are back on track, given the last 6 months and the pipeline of demand and client growth that we are kind of seeing. I think it's safe to say that we should be able to sustain the element of associate growth to that 13% to 15%. Aspect of funding, I think when -- as a general rule, nobody likes to so-called fund, given we are a low-margin business not just TeamLease but the entire industry. And it is largely driven by specific client mandates and demand. And I would hope that no competition would go-to-market with a standard offering on funding, and we aren't seeing that irrationality in the market. So I think as we stand, we don't have any player who is going to market with a standard offer of a funding variable. Typically, the difference in funding aspects to nonfunding pricing is anywhere between INR 100 to INR 150.

Narayanaswamy Ravi Vishwanath, TeamLease Services Limited - CFO [89]

(inaudible)

Unidentified Analyst, [90]

Okay, okay. And then, sir, just one number-based question, can you let us know the proportion of variable price context at the end of next quarter?

And also the realization on the net add trainee business.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [91]

So it's about 75% or 74% on fixed markup and 26% of variable markup and the average realization for the trainee is ...

Narayanaswamy Ravi Vishwanath, TeamLease Services Limited - CFO [92]

597.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [93]

597, nearly 600, yes.

Operator [94]

The next question is from the line of Chockalingam Narayanan from BNP Mutual Fund.

Chockalingam Narayanan, [95]

Ashok and Ravi, just on the balance sheet, there is an other financial, in the current law, assets and relevant other financial asset. That leads to INR 171 crore to about INR 140 crores (inaudible) which is unbilled revenue.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [96]

But right -- it is unbilled revenue, so...

Chockalingam Narayanan, [97]

I hope you understand this.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [98]

Yes, so what's really happening is, as 31st March, so we -- let me explain a little more for the benefit of everybody. All our customers get billed during the period of about the 23rd of the month and the 11th or 12th of the succeeding months. So all the invoices made to the 31st going to my regular billing and then what's done from the first of the subsequent month still 11th or 12th when we book the loss of supply gets billed -- and gets accounted as unbilled revenue. So typically during the year ending March, there is a lot of pressure on us to close the billing for a lot of our customers before the 31st March itself, dated 31st of March, which is what we do, which is why the number is a little lower compared to 30th of September. But this INR 140 crore of billing that you've seen at the 31st of March -- I mean 30th of September are all nothing but (inaudible) for the billing the period 1st of October until the 11th of October, the volume subsequently raise. Yes.

Chockalingam Narayanan, [99]

Okay, and then similarly another on other financial liabilities, so how does that kind of -- how should we understand that?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [100]

So from a standard payable amount, for these unbilled revenue cases, they go into other liabilities action, so you'll see a similar increase in other liabilities also.

Chockalingam Narayanan, [101]

Okay, okay. And the other financial liabilities?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [102]

That's right. That's right, yes. I mean it will stay -- at the end when we look at the year-end, it will come back to a comparable level. Midyear is not really a comparable on that front.

Chockalingam Narayanan, [103]

Okay. And sorry, just to different -- the same done on noncurrent liabilities other financial liabilities of INR 4.99 crore, that's a borrowing or that's actually a...

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [104]

That gets record as cashier technologies.

Chockalingam Narayanan, [105]

No, no, other financial liabilities.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [106]

That's a liability for the [3-year period] for the 4-year percentage.

Operator [107]

The next question is from the line of Garima Mishra from Kotak Securities.

Garima Mishra, Kotak Securities Limited, Research Division - Research Analyst [108]

Particularly on the IT staffing side, what we hear from other IT services companies at least is that theirs hiring trends are generally picking up and possibly FY '18 was some kind of a bottom. Are you also getting similar feelings from your interactions with IT companies?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [109]

So yes, there is demand and I think we are clearly seeing demand continuing to exist on the IT staffing front. Obviously, the need to stay consistent on delivery to the various field techs that the customers are asking for will be a key focus area for us. But clearly the demand exists, and we have open position pipeline on that vertical trend. The team has been delivering and we are seeing consistent growth on that.

Garima Mishra, Kotak Securities Limited, Research Division - Research Analyst [110]

Well, in terms of associates, what kind of growth do you think is possible in the light of this? Can you be materially better off in term of -- and I'm speaking of in volume terms, better off than what you were in say in FY '18?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [111]

Yes, volume terms, we will definitely be higher and then if you look at it, in the last 2 quarters, we've added about 200 associates on a base of 1,700. So the aspect of growth I think will continue to play out on this front. But again, as stated earlier, the vertical businesses are not large-volume businesses. They're value businesses.

Garima Mishra, Kotak Securities Limited, Research Division - Research Analyst [112]

Sure. I understand. And just a question on your staffing business, now do you guys cater to food delivery companies who may be your customers there?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [113]

I mean we do.

Garima Mishra, Kotak Securities Limited, Research Division - Research Analyst [114]

Right. I Understand. And in the opening remarks involving one of the answers, you did mention that overall salary there is on a blended basis, seems to have gone down a little bit. So what do you think would have contributed to this? Is there any particular geography or incremental sort of pool of employees have joined in or what is the reason behind it?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [115]

An [in-fall] and I think in finance and retail fragments, we have seen a lower CPC and some of the dialogue that we've had with the customers, seem to indicate control on CPC and a play on variables for performance. So I mean it's not been an across-the-board aspect but if I review the data of our growth, the lower CPCs are largely coming from the finance and retail segments.

Garima Mishra, Kotak Securities Limited, Research Division - Research Analyst [116]

The lower CPCs like you mentioned salaries...

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [117]

Lower CPC, when I say lower than our average.

Garima Mishra, Kotak Securities Limited, Research Division - Research Analyst [118]

Sure, sure. I understand that. Now, when you think about your margins and for contracts which may be on say, a variable models, do you get really impacted or positively or negative when the variable paid to employees changes?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [119]

So most client contracts we have -- there is the percentage markup, we have a linkage to the variable pay also, which gets paid out, so from that perspective, we are covered. In the fixed markup cases, the variable pay is part of the salary cycle, then we don't get paid anything incremental.

Operator [120]

The next question is from the line of Abhishek (inaudible) from [Aquarius] Securities.

Unidentified Analyst, [121]

This first -- just a clarification, so is there a change in disclosure for markup for associate? Are we going -- now going to give that data going ahead or is it just for this quarter?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [122]

Markup for associates, yes.

Ramani Dathi, [123]

We've been disclosing those, Abhishek. The markup (inaudible) is about INR 730 for associate format.

Unidentified Analyst, [124]

I mean more from a -- in the presentation document.

Ramani Dathi, [125]

Okay, in the presentation, okay, okay. We didn't include it

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [126]

We didn't include it. It's not a decision not to share or anything like that.

Unidentified Analyst, [127]

Understood. And second question is more from the demand side, so our growth number -- this question may have been asked earlier, but now, we are doing almost 13.5% of Y-o-Y staffing associate numbers from 4.5% 4 quarters ago. And I believe the seasonality this year is a little different than what we had seen in the past on a quarterly basis. So in the next 2 quarters, can we sustain this 15% growth over the next 4 to 6 quarters?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [128]

Our belief is that given our current trajectory of open-position plan client feedback, we should be able to sustain it.

Unidentified Analyst, [129]

Okay, that's helpful. And the other data point is regarding the breakup of unallocated expenses because that moves the margin needle across segments. So what exactly is part of the unallocated expense?

Ramani Dathi, [130]

Abhishek, the unallocated expenses are largely the corporate costs and the corporate costs include the salary cost of managing directors, Chairman, CFO, that segment. And any other income in terms of interest [on TDS accounts] were kind of nonrecurring items. The last quarter, so we have received about INR 1.5 crore of income on income tax refund. So that has caused a spike in other income and overall, bringing down the unallocated funds for Q1.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [131]

But otherwise, we won't have a huge number on that front, not huge volatility on that side.

Ramani Dathi, [132]

But on average, it will be in the range of INR 3 crores per quarter.

Unidentified Analyst, [133]

Understood. And the last from my side is, given that we have added substantial headcount in H1, this headcount would complete to 40 days through the year and the eligibility on the 80JJAA for this year would be higher. So should we assume that our tax rates or -- would you think that the tax rates would be lower than what we have anticipated at the start of the year?

Ramani Dathi, [134]

No.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [135]

We are expecting it to be done already, so I don't think there is element of that getting better than that.

Ramani Dathi, [136]

Yes. And also even if you have your eligibility data associates at a much higher number, you have to restrict this to the top that you've got for the year, so you can't have a negative tax benefit unmitigated on this.

Operator [137]

The next question is from the line of Vaikam Kumar from JM Financial.

Vaikam Kumar S, JM Financial Institutional Securities Limited, Research Division - Research Analyst [138]

Sir, just wanted to check on the demand side while at this quarter we've seen some entry growth on the associate count. Another concern, what happens if there is a slight slowdown in the economy. So while we understand that we have a consistent track record of maintaining our associate count, are we taking the further measures to stay ahead of the curve given that our industry is very fragmented.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [139]

So as I said, macro headwinds are something that we cannot effectively dictate or control. But I think what we continuously do is because we have a wide spread of clients across different industry, there's a continuous element of a dialogue that happens to check on their outlook, their demand, their play out to the future and stuff of that thought. There is a healthy pipeline of new sales and new accounts coming on board and there is a clear possibility from customers of a transition of their informal to formal. So I think all of these 3 combined is really what kind of gives us the confidence that there's no major headwind coming at us in the foreseeable future.

Vaikam Kumar S, JM Financial Institutional Securities Limited, Research Division - Research Analyst [140]

Okay, okay. And do you have a number for client stickiness compared with last year?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [141]

I think that 96% to 97% of the clients staying with us continues to play out. So we don't have any major surprise on that.

Operator [142]

the next question is from the line of from (inaudible).

Unidentified Analyst, [143]

I would like your thoughts on how do you think on acquisitions? If a lucrative and large opportunity comes by, would you be open to using leverage for acquisitions? And secondly, your thought process internally is more do acquisitions on the domestic front or would you also be open to doing international acquisitions?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [144]

I think, we are an Indian company that likes to stay Indian because the opportunity as we view it in India is still quite large. And we would like to play to that competency and strength that we have. So as of now, we have no intentions of going global, organic or inorganic. Our belief is that the opportunity provides leader for scale and margin improvement that we would like to play to. As of now, we are a zero-debt company. We still have money in the bank, and we are cash flow positive. So the aspect of M&A as we evaluate will first be funded with the cash that we have. Obviously, if more money is required than what we have, we are happy to look at debt as an option. So that's something that we would clearly look at as the need arise.

Unidentified Analyst, [145]

Okay. And second question is on the gross margins or pricing flexibility, where do you enjoy more flexibility? Is it the IT staffing vertical or is it the telecom vertical? In terms of fixed versus variable contracts.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [146]

I think all the staffing -- the specialized staffing verticals with IT and telecom are -- work on the rate card model, not a percentage or a peak size model. One-off mandate go on alternate pricing model. But largely there on a rate card model, which is to say that it's a per-employee amount that is decided and how much is CPC and markup there is controlled and managed by us. So firstly if you look at it in the IT staffing space, you clearly have a higher gross margin at this point in time, as compared to the telecom side. But both of these have a higher gross margin than the general staffing is.

Unidentified Analyst, [147]

What would be the gross margin in the IT staffing vertical versus telecom vertical?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [148]

It's 25% in the IT staffing. It will be about 10% to 11% in the telecom.

Unidentified Analyst, [149]

And is there scope to improve this gross margin in the telecom vertical?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [150]

Not too much. I think where we have [integers] that the gross margins will be where they are, but the productivity and the element of service delivery at our end will sustain both sides of them kinds of margins. So I think what we would like to do is grow these businesses while we sustain the margin.

Operator [151]

(Operator Instructions) The next question is from the line of Ashish Chopra from Motilal Oswal Securities.

Ashish Chopra, Motilal Oswal Securities Limited, Research Division - Research Analyst [152]

Ashok, just one question for my side. You mentioned about the doubling of volumes of IT hiring and your -- sorry, overall staffing hiring and your focus to continue on that front. Just wanted to understand earlier, how could the financial economics change in terms of the markup as this number grows to a substantial figures? And also the associated cost and hence the operating margin, does it change for you materially? Or if you could you share any movements...

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [153]

What's happened actually, because in most cases on hiring, the customers don't pay us very high element of -- they don't pay us a higher markup. They pay us some element of a cost for hiring, which at this point, is lower than the cost of hire. So if you are able to increase the volume at a lower cost of hire, then we'll be able to effectively work on improving our headcount additions, which will earn us the higher fees. So I don't think the hiring aspect, per se, will contribute to margins.

Ashish Chopra, Motilal Oswal Securities Limited, Research Division - Research Analyst [154]

So would it be fair to assume that your efforts to hire more will be in proportion to the extent that which you are able to bring the cost of hiring down and also the...

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [155]

Yes, clearly, so which is why -- even if you look at our hiring increase between Q1 and Q2 hasn't been by increasing our costs. Our costs have been relatively the same. It's been -- like I've been mentioned, we've been trying multiple projects and initiatives on this front. Some of them work. some of them are starting to scale. We are getting a new leadership on this side to try something altogether different on this front. So multiple initiatives, so clearly the intent is to hire more absolute costs, which will effectively bring down our cost of hires.

Operator [156]

The next question is from the line of (inaudible) from Renaissance Investments.

Unidentified Analyst, [157]

Just wanted to get more color on your indirect expenditures. If I look at your indirect expenditures they have gone up sharply in the last couple of quarters, and that's in the context of an overall percentage of sales, so could you just add more color as to what exactly is driving up and how should we look at this particular cost element?

Ramani Dathi, [158]

The indirect expenses are largely the training expenses, so they have gone in proportion with the increase in training revenue, the other is our performances revenue.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [159]

It's a low higher fixed cost, high variable cost (inaudible). So as the revenues go up, the cost on that front kind of commensurate.

Unidentified Analyst, [160]

Okay, okay. And if I look at your -- in spite of having -- or the market being on the lower side, if I remember what is was that got reported but your gross margins have improved, so it's largely because of global CPC for the new addition, that's the way to look at it?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [161]

Yes, yes.

Unidentified Analyst, [162]

Okay. And in terms of your own hiring, your self hiring ramped up, client hiring data and other things (inaudible) what would be the margin percentage of your hires would be online?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [163]

About 20% to 25%.

Operator [164]

The next question is from the line of Deepti (inaudible) from ICICI Direct.

Unidentified Analyst, [165]

Just wanted to ask one question, like there was this article saying that there was a rate hike in the Indian Karnataka, so would there be an impact on you? And secondly, they said there is some downside in the telecom segment. So is that panning out? And is there -- if it is then what would be the impact on this?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [166]

The first question, will be no impact on us as far as the Indian trend belying in Karnataka is concerned. We've clarified immune at that point of time because the business model we follow on the general staffing will not cost the company money. They're all costs, either when they keep on [feeding], or actually passed onto offline. So there will be no impact as far as we are concerned. On the second question -- your second question, I mean...

Unidentified Analyst, [167]

Yes, yes, on the telecom downside.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [168]

On the telecom downturn, I don't think it will impact us because we -- the area that we operate in, this is at the back-end and the tower is part of it. The network and (inaudible) and we have seen -- and we have not seen any kind of let up or slow down in hiring as far as the back-end is concerned. The front end may be getting consolidated, may be getting a little affected but the back-end, we haven't seen any such movements actually.

Operator [169]

Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to Mr. Nedurumalli to provide...

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [170]

I would like to clarify one part of it, and so before we close actually, there's been a lot of questions around the publishing of the annual report and the voting of the medium. It has been delayed slightly. But given the fact that we are in the process of shifting our existing office from Mumbai to Karnataka, the final audit from the restaffing leading director came in last week, and we are supposed to have an audit conducted in Bangalore by about the third week of December. We should be able to turn out the annual report in about 15 to 20 days time because we are in the final leg of the conversion process itself.

Operator [171]

Thank you.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [172]

Ashok, do you want to make any closing comments?

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [173]

No, I think we've stayed consistent to -- we've come back to consistently in the aspect of growth and all our verticals are kind of firing on margins and the growth. And I think with the current trajectory, we believe we will stay on track to the future 2 quarters also.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [174]

Great. Thank you. Stanford, you can close the call.

Operator [175]

Sure, thank you, sir.

Ashok Kumar Reddy Nedurumalli, TeamLease Services Limited - Co-Founder, MD, CEO & Executive Director [176]

Thank you.

Operator [177]

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