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November 14, 2022

To	To
Listing Department BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai - 400 001	Listing Department National Stock Exchange of India Limited, Exchange Plaza, 5th Floor, Plot no. C/1, G Block, Bandra Kurla Complex, Bandra(E), Mumbai - 400 051
Scrip Code: 539658	Scrip Code: TEAMLEASE

Dear Sir/Madam,

Sub: Transcript of Q2FY23 Earnings Call of TeamLease Services Limited (TeamLease/Company)

Ref: Regulation 30 of the SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015

With reference to the captioned subject and pursuant to Regulation 30 of the SEBI LODR Regulations, 2015, please find enclosed the Transcript of Q2FY23 Earnings Call hosted on Thursday, November 10, 2022 at 11:00 A.M. IST. The same is also available on the website of the Company at https://group.teamlease.com/investor/earning-call-transcript/.

Kindly take the above said information on record as per the requirement of SEBI LODR Regulations, 2015.

Thanking You.
Yours faithfully,
For **TeamLease Services Limited**

ALAKA CHANDA
Digitally signed by ALAKA CHANDA
Date: 2022.11.14 16:10:13 +05'30'

Alaka Chanda
Company Secretary and Compliance Officer
Encl: As above

"TeamLease Services Limited
Q2 FY '23 Earnings Conference Call"
November 10, 2022

MANAGEMENT:	**MR. ASHOK REDDY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – TEAMLEASE SERVICES LIMITED** **MS. RITUPARNA CHAKRABORTY – CO-FOUNDER-TEAMLEASE AND CHIEF EXECUTIVE OFFICER – DEGREE APPRENTICESHIP – TEAMLEASE SERVICES LIMITED** **MR. SUNIL – CHIEF EXECUTIVE OFFICER – SPECIALIZED STAFFING – TEAMLEASE SERVICES LIMITED** **MS. RAMANI DATHI – CHIEF FINANCIAL OFFICER – TEAMLEASE SERVICES LIMITED**
MODERATOR:	**MS. ADITI PATIL – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the TeamLease Services Limited Q2 FY '23 Earnings Conference Call hosted by ICICI 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 star then zero on your touchtone phone. Please note that this conference is being recorded. Please note that this conference is being recorded. I now hand the call over to Ms. Aditi Patil from ICICI Securities. Thank you, and over to you, Aditi.

Aditi Patil: Thank you, Yashashree. Good morning, everyone, and thank you for joining the call. Thank you, TeamLease management for giving us the opportunity to host the Q2 FY '23 Earnings Call. We have with us today Mr. Ashok Reddy, Managing Director and CEO, Ms. Rituparna Chakraborty, Co-Founder of TeamLease and CEO Degree Apprenticeship, Mr. Sunil, CEO Specialized Staffing, and Ms. Ramani Dathi, CFO. We will start off with the remarks from the management, after which we will open the floor for Q&A session. I now hand the conference over to Mr. Ashok Reddy. Thank you, and over to you, sir.

Ashok Reddy: Thank you, Aditi, and good morning to all. I think as we close quarter 2, we continue to see growth traction happening in staffing across some of our industry verticals, but clearly are seeing headwinds in specialized staffing and the Degree Apprenticeship program, details of which Sunil and Ritu will cover a little later. We did enter the year very optimistic of continued tailwind, but there has been a softening in the external environment, which is driving us to focus on productivity and cost. While there will be growth, I think some of the costs that we invested in, given the external environment, we are relooking at, at this point in time.

Overall, we did grow our headcount by about 6,500 for the quarter, and the overall revenue growth has been 29% year-on-year and 4% quarter-on-quarter. We did have an absolute EBIT and PBT growth and improved margins quarter-on-quarter. I think that's something that we had called out that we would focus on, and we incrementally be driving that.

We maintained the PAPM and marginally improved the FTE for the quarter. Focus on hiring has continued to play out with higher conversion and a higher absolute number of hires that we have been doing for our customers. Our core headcount has largely been flat. And in line with my earlier statement, we probably would reduce our core headcount as we go forward by not replacing attrition in line with the market demand, market conditions.

EdTech has been deferral in billings, but I think the feedback from universities and the student billing are that we would likely cover up in the coming quarters on that deferral revenue. HRTech is continuing to see momentum in growth of revenues and also the market opportunity, and we are investing there to leverage the opportunity into the future. Overall, we believe the long-term opportunity in our markets continue to play out because some of them will have headwinds, some will have tailwinds. But in the long term, we believe they all have growth opportunity, and we will continue to focus on growth, margin improvement and capital investment choices as we go forward.

Ritu will give an update on the DA front, Sunil on specialized staffing and Ramani, a little bit on the finances.

Rituparna Chakraborty: Thanks Ashok. We made progress from our Q1 performance and have registered a net growth in Apprentices to the tune of 4,000. Among the four businesses, with degree Apprenticeship, retail, e-commerce, auto, industrial were major contributors. Demand in tech telecom, BFSI and consumer has been sluggish. We maintained steady momentum in new logo acquisition, having added 28 new logos taking our half year count to almost 60.

High contribution to gross contribution improved marginally by about 2% and the non-recruited channel contribution to overall hiring additions have been around 70%, which is better than last quarter, 46%. As overall conversion has also improved to about 30 as against last quarter 25. However, this is definitely not where I would like it to be.

However, the overall volume of open positions have been showing a declining trend month-on-month and is much below our expectations. Our FTE productivity ratio improved significantly for the business with an improvement of 4% over the previous quarter. To update you on some recent developments, volatility in the market notwithstanding the regulatory environment with frequent ill-conceived and archaic and frequent changes and announcements in this space is expected to have significant impact on our overall growth in the apprenticeship space.

And the overall appetite of apprentices in general amongst prospects and customers. However, we are engaging very closely with the regulatory authorities to iron out the issues and over a period of time hope to ease out some of the current challenges. In the next two quarters, so far, we do not expect a significant growth in volumes the way it stands today. So thank you. Sunil, over to you.

Sunil Chemmankotil: Thanks, Ritu. I would like to give little bit about specialized staffing. We witnessed an unexpected headwind in the IT sector, leading to sudden slowdown in the hiring. Amidst this turmoil, we maintained steady revenues and grew by 5 percentage year-on-year and de-grew marginally on a sequential basis. The decrease in revenue this quarter is primarily driven by strategically opting out one big client due to payment issues. It is for the same reason that we see associate headcount drop of 9% on a sequential basis.

However, from a year-on-year perspective, the associate headcount has increased marginally by 2%. Many of our clients have slowed down on hiring and most of our customers are focused on improving the utilization factor through effective use of resources rather than adding headcount. The open demands have dropped by approximately 40% in this quarter. However, we focused on improving on productivity and fulfillment ratio, which helped us to further strengthen our position as a partner of choice.

The macroeconomic indicators point to very soft client quarters as we go forward with uncertain outlook for growth. We have witnessed some tech hiring in non-tech companies post pandemic as most of them have embarked on digitization programs. We shall focus on balancing the current dip in the IT sector hiring through tech and non-tech hiring to some extent. We have added 14 logos in this quarter, and we will continue to focus on client acquisition in rest of the fiscal year. These new logos represent a balanced mix of IT and non-IT companies. The outlook for the next quarter is uncertain based on the current market conditions. We expect the revenue growth to be broadly flat or might even see a marginal decrease. During H1, we invested for tailwind, which has turned to headwind. And in H2, we will focus on cost optimization, client addition and productivity improvement. We have a very strong leadership team with potent industry experience and shall try to maximize the current market opportunity. Thank you.

Ramani Dathi: Thank you, Sunil. Good morning all. As we have indicated in the last quarter, our costs have remained flat. All investments have already being fully absorbed, and we are not expecting any increase in our core headcounts or costs for the next few quarters. Because of tighter control on costs, we have managed to grow our EBITDA by 25% and PBT by 16%, even though revenue growth is only 4%.

So overall, at unallocated level, the EBITDA is INR 9 crores. However, this quarter, as advised by the auditors, the government training business, which is on a sunset mode, has been moved from HR services to unallocated. So that has added to almost INR 4 crores impact on unallocated EBITDA. Barring that, as we have indicated last quarter, we are and we will be maintaining a run rate of INR 9 crores per quarter.

Under HR Services, EdTech the profitability is skewed to H2 of the year, and we are expecting overall 8% net margin for the year. On income tax front, we got a clean order for assessment year 2021 with full relevance on 80JJAA. The refund is expected in the next couple of weeks. And our current cash balances stand upwards of INR 250 crores, we'll be utilizing them for any organic and inorganic opportunities at this point in time. Thank you.

Ashok Reddy: We are now open for questions.

Moderator: We have a first question from the line of Aditi Patil from ICICI Securities.

Aditi Patil: My first question is regarding general staffing. So revenue growth in this segment was 4.7% quarter-on-quarter, whereas headcount growth, if we consider general staffing plus NETAP headcount, it grew only 2.6% quarter-on-quarter. So does this mean that realization per associate has increased for us?

Ashok Reddy: So effectively, I mean, like we had called out earlier, we are seeing higher inflation in wages. I think our PAPMs in absolute terms are flat. But as a percentage aspect, it is marginally down.

Aditi Patil: So, but so even though like the realization is higher because of wage inflation, but that is not flowing into the margin, correct?

Ashok Reddy: Yes.

Ramani Dathi: So Aditi, 75% of our markups are on fixed model, fixed markup model, only 25% is on variable. So we get benefit only on the 25%. The balance, 75% as a percentage markup gets diluted as and when the salary, target salaries goes up.

Aditi Patil: And so in specialized staffing also, we have seen a similar trend like headcount decline was higher at 9.6%, whereas revenue decline was just 2.5%. So over here also it was because of associate salary inflation?

Ashok Reddy: So here, it is not that, like Sunil had called out, we let go of one mandate, which was a low-margin mandate in the telecom vertical. And that led to the -- and that was let go of towards the end of Q2. And the replacements have largely been in the IT skill sets, which are higher wages. So that's really why you see a bigger dip in headcount in the specialized staffing side, but not that bigger impact from a revenue billing perspective.

Aditi Patil: And sir, in terms of hiring, like Q3 is generally like seasonally strong. So can you comment on the demand trends in each of the verticals in general staffing?

Ashok Reddy: So like I said, general staffing, we still are seeing demand, and we believe that some of the verticals in BFSI, consumer and retail are looking at opportunities for growth. We have open positions, we are delivering to them. Some of the -- like the emerging fintech, EdTech and all of these have been on a slowdown and a backtrack headwind aspect. So I think overall from a general staffing perspective, we do continue to see open positions and an opportunity for growth playing out in Q3, Q4.

But like it was called out specialized staffing, is facing headwinds, absorption of associates and headcount freeze. So there is an element of probably a flattishness there. And DA has some external challenges around the aspect of the government regulations of onboarding apprentices and stuff, which is delaying and deferring the element of open positions and client onboarding. So I think overall, we should see a positive trend largely driven by general staffing and some element of a flattishness from the other two.

Moderator: We have our next question from the line of Bharat Shah from ASK Investment Managers.

Bharat Shah: I have a business model-related question. Our margins have always been sort of say, wafer thin. And even on those wafer thin margins, we hardly seem to register any improvement. In fact, we seem to surrender them and seemingly post some small improvements on and off basis. Net-net our ambition to improve our margins on a long term that we maintained several times, but has never materialized.

So overall size of profits will we see it begets a question whether this business model is designed to get a predictable long-term sustainable growth despite a large formalization opportunity? Or it is we just leave existence from quarter-to-quarter and we would have reasons to explain sometimes good, sometimes not so good a performance. Because, and time-to-time, we seem to be getting into some activity, which we then regret and we want to withdraw. When we put into the skills business or whatever we call it, and we want to close it down.

HR services, we think is a good business where it never seems to make any money, the adequate money. So in general, I'm a bit perplexed as to what exactly is the business model? Really in sync with the formalization opportunity, is there any meaningful long-term predictable value-creating growth possible in the business? And whether to get a respective enough margin, which justifies so much of activity and so much of work to be done. Otherwise, it just sounds meandering from one period to another without any very clear purpose.

Ashok Reddy: Bharat, I mean I appreciate the question, but I think the purpose of the opportunities that we have in employment, employability and education does exist. If not, and we have been calling this out from the beginning, a high-margin business. It is a volume business, and hence, will require us to do a lot of things operationally and at scale on a continuous basis, it's a choice of industry that we have taken. Two elements as we scale, while the largest element of continued play over the many years has been on volume and scale, we are looking to see how it can also be on value and that is really where the portfolio got built up.

Now as we build the portfolio, there are trials and errors that we have to do because most of what we are doing is not a tried and tested market. And from that perspective, I think from a long-term outlook, we will make mistakes. We will take small bets in things that if they play out, we increase our play on if they don't play out, we pull back on and so on. And that has been the reality over the last many years, if we look at it. And I think that is something that we will continue to do also into the future.

In relation to HRTech, I don't think it's been a business that has been continuously losing money. It has made money and a margin last year. There is a cyclicality involved in that. In the training specific business of HR the, on that side, we did get into government training, but we realized that dealing with the government was not our cup of tea, we have decided to pull back from that. So I think there are many variables in there that there is no right answer to, and there is an element of an experiment to be done.

And as we realize something plays for us, we scale up, something doesn't play we pull back. But it's your point that margin improvement is really something that -- while after your profits, we have been able to drive up the margins have not driven up. And I think that at a portfolio level coming to play is really what we are looking at, and as I called out, we will be focusing on. Pure scale is playing out, but we want to address it to scale and value.

Ramani Dathi: So just want to add on that point, Bharat, on absolute profits, we are improving on a steady-state basis. However, since COVID, we are seeing a very sharp increase in average salaries, which is diluting our overall margins. We don't have any direct control on 75% of the business, which is our fixed markup model. So it is impacting our margins. There is some sort of unpredictability on that front, so we also agree.

So that's why we are trying to balance the portfolio with higher-margin businesses like HR services and specialized staffing. So specialized staffing did very well. And this quarter is where we have started to see the headwinds. And HR services we turned profitable last year. And as I mentioned earlier, even this year also, we'll maintain an 8% net profit run rate in that business on a full year basis. And since there is a very tighter control on costs, there will be a steady margin improvement quarter-on-quarter starting this quarter, and we are confident of demonstrating that.

Ashok Reddy: And just also just to add, Bharat, the only leading inorganic investment out, we are debt free, cash flow positive and cash-generating company. The only area outside of inorganic that we can invest in, and it translates if it's a fees to high return on equity is choices around certain verticals or business opportunities. And I think it is a judicious call for us to explore those opportunities as they come up.

Moderator: We have our next question from the line of Nitin Padmanabhan from Investec India. Mr. Padmanabhan, your volume is very low.

Nitin Padmanabhan: So a couple of questions. So the first is, you mentioned the general staffing business should do quite okay over the next two quarters. It's more of the DA and the IT, the specialized staffing, which will be under pressure. That said, in the general staffing business, is there any slowness that you're witnessing? Or it is the current momentum continues, right? So that's the first question.

The second was a clarification. I think, Ritu, you had mentioned about lower open positions. Were you referring to the DA business? Or was it for general staffing overall? So I think both are a combined thing. And lastly, if you could give some color on what are those regulatory challenges that we are facing, if you could give some specific color there as well. Thank you.

Ashok Reddy: So in general staffing, the momentum of growth continues to play out, Nitin. But obviously, some sectors have started to -- I mean have had a headwind. I mean, we did have an entire vertical focused on the emerging sectors of EdTech and fintech and all of that, the funding fees has put a complete halt on hiring, actually translating into the reversal of letting layoffs happening in that sector. I think even telecom has been a slowdown from an open positions perspective.

So I would say the balance play out, some sectors have seen a slowdown in open positions, some sectors are seeing an uptick in open positions. At a gross level, we are still positive from a perspective of open positions, onboarding and growth. But it is not in line with if all verticals had been firing the way they seem to be going at the start of the year. So to that extent, I would say there is some element of a softening for general staffing in the quantum of open positions that we thought there would be for the year as we were in Q4.

But I mean net of that, we are still positive on that front. I think the slowdown in some open positions that Ritu was mentioning was specific to DA. And I will also let her cover the specifics of some of the regulatory hurdles that are leading up to the element of that slowdown on that.

Rituparna Chakraborty: The thing is, yes, there is, the open positions sluggishness that I'm anticipating here are is on the DA side. Given that this, we are talking about deploying apprentices, organizations invest in apprentices keeping the future in mind. And given the little bit of uncertainty that some sectors are faced in, I think it's something that some organizations are choosing to put on the back burner in terms of their prioritization and on the regulatory front, actually, there have been frequent extremely archaic changes that have been made in recent times.

I mean one of them is like for every registration of an apprentice in the portal, there needs to be an immediate OTP verification, and mobile verification and e-mail verification. Given the profile of some of these youth, I mean, this is something which is hugely impacting their onboardings and essentially becomes a dampener.

Some of the claims -- I mean there is a direct benefit that the government had few months back initiated directly into the account of the trainees. There has been a huge lag in that essentially with something which was supposed to have been done in 72 hours is now taking two, three months.

And that itself is becoming again a dampener for both candidates as well as employers who are very keen to deploy apprentices. But I do, I'm confident that the constant dialogues that I'm having with the government, with NSDC, we should be able to turn around some of these and be able to showcase some improvement, but it's not going to happen overnight. And that's the reason I'm kind of anticipating some amount of slowdown and flattishness in the coming two quarters.

Ashok Reddy: I mean just to add to that, Nitin, I think some of the well-intentioned objectives of the government translating onto the ground from an operational execution perspective, are kind of putting more challenges given the profile of the apprentices for corporates and the candidates. And that's kind of pushing them back. We are in dialogue with the government to kind of try and address these changes and processes, but with the government it does take time.

Nitin Padmanabhan: Sir, this is very helpful. Just one clarification is the emerging sectors, what proportion of the headcount would they have been earlier?

Ashok Reddy: About 12% was in emerging.

Moderator: We have our next question from the line of Deep Shah from Batlivala & Karani Securities India Private Limited.

Deep Shah: Sir, given that it's right, this will be a volume gain for quite a few years. Are there any large sectors that we wish to enter afresh or where we are not present and then we can tap into those sectors, is there any such opportunity you have in your mind?

Ashok Reddy: So that's really where our portfolio has built up, Deep. If you look at it a few years back, we didn't have specialized staffing. And specialized staffing came in as a higher margin play to the table. Our entire HR services, if I were to split up between EdTech, REGTech and HRTech, EdTech and REGTech have been in the portfolio for a while. Both of them have turned positive, will turn positive by end of this year also, and our higher margin businesses. HRTech is one area that we have chosen to invest in. And that is in a new vertical scale play that we are looking at, which will be a higher margin business. And hence, it will complement the overall offering that we take to the customer.

So from that perspective, as I had mentioned earlier to Bharat's question, I think consciously looking at what verticals or P&L could complement our overall product portfolio and offering to customers. We don't want to get into businesses that are unrelated, but related complementing, offering that play not necessarily to volume. Volume will come from general staffing, but other businesses could effectively drive the element of higher margins over a period of time. So yes, we will continue to look for opportunities on that front to build on the portfolio. Not, we will not get into unrelated areas, but complementary areas. And one of the key areas that we are making investments currently is in the HRTech space. Key will be to focus on profit and profitability with margins.

Deep Shah: Right, sir. This is very helpful. Sir, as a follow-up, if you could give us some color, may not exact numbers, but some color as to, as we speak today, how many of our large clients are we also offering these extra services? I mean any assessment around that? And what is the potential to penetrate the current clients? Any such color would be very helpful.

Ashok Reddy: So today, each business in a sense, operates on its own, Deep, which is to say that we have a little over 3,000-plus customers across the different businesses. About 15% of them use more than two products from TeamLease. So one of the key focus that every P&L has now is also to work up a cross-sell, upsell opportunity with the customers that we are working with.

So I think that is a focus area that we are driving on either through dedicated cross-sell teams in some of the P&L or the existing account managers being upskilled to be able to sell the other products to the customer. So the initial play for us was to build independent P&Ls and independent clients, now that there is an element of maturity in the products and services, we do and are focusing on cross-selling and upselling to the overall customer base on the product portfolio.

Moderator: We have our next question from the line of Vidit from IIFL Securities.

Vidit Shah: My first question was on these cost saving initiatives that you are talking about to combat the lack of volume growth. Could you just shed some light on what are those sort of initiatives that you may take other than the reduction call employees? And if possible, is it, can you quantify the amount that you think we can save from these levels?

Ashok Reddy: So effectively, like I had called out earlier, the only investment that we can make for organic growth is in teens. And I think we had made choices last year towards the end of the year, given how the market was looking and the tailwinds existed to increase the teens in sales, account management, in recruiters and everything else.

Obviously, now with an element of a slowdown in certain areas where there is lesser demand or decrease in demand, we have people not having sufficient work or not being productive enough. And that's really where the aspect of headcount rationalization opportunity in the core employees comes in. We'd say flat on the headcount in Q2 other than in HRTech where I called out that we are making an investment.

And I think in Q3, Q4, that headcount would probably reduce. For us, we don't have much other high fixed costs. I mean our office spaces are at optimal, some of them being business centers and operating on increase or decrease depending on the headcount aspect. And I think the second element is driving forward the digitization agenda that will improve the productivity. Even this quarter, we did have a slight improvement in the FTE ratio that we measure, which plays on saying that technology digitization at the back end is kind of sizing an element of productivity at the front end. And we have a road map further that, that will play out.

At this point, Vidit, it's difficult to quantify the specific numbers because we are playing it out on an incremental basis depending on, we don't want to do a knee-jerk reaction. We still believe that the market opportunity is positive to the long haul. Is that long haul one quarter away, two quarters away or three quarters away seems uncertain at this point in time. So we're not going to do a knee-jerk reaction, but it will be a gentle kind of action as we go forward.

Vidit Shah: Secondly, just some color on the IT staffing margins, the specialized staffing margins, sorry. I mean, despite a reduction in headcount and a loss of customer, we've actually seen EBITDA increase very marginally, but nonetheless increase quarter-on-quarter, and we are probably seeing the best margins over the last six quarters. So are these sort of margins sustainable given the headwinds that the business is likely to face in the coming few quarters? Or would you expect some sort of margin corrections to happen out there in just to be competitive enough in the market?

Ashok Reddy: I think some of the underlying for that in margins being flat and staying there is largely driven by the fact that we have been able to let go of some of our low-margins business. It was actually hurting on the DSO front and the element of the profit front overall. And I think we've used this window to kind of let go those mandates and kind of hold on to the mandate that actually play to the aspects of the bottom line coming in.

I think also, as Sunil had called out while IT is clearly facing headwinds and there's a slowdown, professional staffing in that is to say, IT and non-IT is something that they have been driving for the last two quarters, three quarters, and numbers there have started going up. It's not large in volume, but it compensates for the volume that we lose in low margin playing out to higher margin on this front.

So I think as we look at it going forward, sustaining the margins is something that should be possible. Growth is really where the challenge is at this point given the market. But I think the fact that our realizations are what they are. Our hiring capabilities are strong. We have been closing more open positions though they are just kind of replacing the attrition that is happening at the client end all of those metrics are better from our perspective. So I think for the coming two quarters, also, we see that margins should be sustainable. Growth is what we are calling out could be a challenge.

Moderator: We have our next question from the line of Alok Deshpande from Edelweiss Securities.

Alok Deshpande: A couple of questions. First, just a -- on the general staffing business, just to take a step back. I think somewhere around the middle of last year, we saw a headcount addition gaining momentum maybe because of the teams that you had beefed up on the sales side. And also, I think the numbers in north of 10,000 associates added there for a couple of quarters. Now I just want to understand, was that a case of more of a pent-up demand because of FY '21 being depressed or before that because of COVID and other scenario being depressed? Or now this quarter, we have seen only about 4,000 getting added. Now going forward, are we going to see any momentum going up on those numbers? Or given that the festive season is behind us, are we looking at those numbers shrinking as well? I mean without getting into specifics, I think just want to see the general trajectory.

Ashok Reddy: So Alok, yes, for the last year and the year before, we did see post-COVID, which kind of did bring in a lot of demand and a lot of onboarding and growth in numbers. I think this year, that element has been more subdued. So there is no reversal of a pent-up demand. However, we did enter the year expecting a continued high demand situation.

But I think external variables or whether it was the war or the impending recession talk or higher interest rates, funding fees for certain sectors. All of them have had their play out in some way or the other in muting demand in certain sectors. Some sectors continue to grow and have demand.

So I think from that perspective, yes, I mean, there was a knee-jerk reaction when COVID happened, there was a knee-jerk reaction on the river when it went away. This year has been more of a continued play in a so-called stable environment with macroeconomic headwinds from different areas. So to that extent, I think a sustained play out to growth is what we are looking at in general staffing. I don't think there is a quantum jump that is going to happen.

Alok Deshpande: And also, on the cash, or the use of cash, Ramani briefly mentioned that we're looking at some inorganic opportunities as well. So will you be looking at the higher margin specialized staffing business, which looking at the scenario, some businesses might be available at bargains in the coming quarters? What's the thought process there?

Ashok Reddy: So clearly, I think the inorganic opportunities are being explored in areas of profit, profitability and margin play that complement our portfolio at this point. So yes, we have been looking at opportunities in specialized staffing, we have been looking at opportunities in HRTech. We have been looking at opportunities in REGTech. So areas that effectively will complement us and will enable us to grow, which also bring in some element of a platform or a team or a client base.

In EdTech, also, we've been looking at opportunities where obviously, given the market, there is no profitability, but we are looking at a platform that has been built come in at a cost and stuff. So different opportunities, but largely, yes, looking at M&A or inorganic complementing profitability over a period of time.

Ramani Dathi: And also, Alok, our ticket prices will not be at a very high value, it will be more or less in the range of what we have done in the past. And as Ashok mentioned, we'll only focus on businesses which are profit accretive to us and in the higher margin businesses because in general staffing we are adding headcount, maybe this quarter, the momentum has slightly come down. But otherwise, we'll focus only on higher-margin investments going forward.

Moderator: We have our next question from the line of Amit Chandra from HDFC Securities.

Amit Chandra: Sir, my question is on the...

Ashok Reddy: Sorry, Amit, we lost you.

Moderator: We have lost his connection. We'll take our next question from the line of Chirag Kachhadiya from Ashika Institutional Equities.

Chirag Kachhadiya: I have a few broader questions with respect to several sector like IT and ITeS. I would like to know your view on the recent global firing in certain top clients of world like Meta and all? And will it impact on, any impact on our Indian hiring fees in IT sector? Second, how you see the demand environment from IT and ITeS sector for the next years and, or a couple of quarters going forward?

Because companies in the listed space and even in non-listed are continuously hiring in pass-through quarters, but now from here onwards, what's your discussion or negotiation ongoing with these respective sectors? And also, do you see any reduction in the CTC and the variable pay in this sectors due to a slowdown which has started a quarter back for IT and ITeS specifically?

Sunil Chemmankotil: From the global point of view, the layouts, what layouts, what are happening will definitely have an impact on Indian scenario also because a lot of our business is dependent on the US markets, in the IT, ITeS so that will cascade down, and we are already seeing a tightening of hiring across our customers as I gave the input in my call. So we already have a 40% drop in the requirements, which has actually led to the current situation.

And we foresee that this might continue till the time we see a better outlook from the ITeS customers. Regarding the salary levels, there was a sudden spike in last year because of the talent scarcity where everybody were hiring and paying double the wages. That has already evened out, and now we don't see further reduction in the salaries or variable pays. It will remain the same. The requirement is what we currently have a slowdown.

Rituparna Chakraborty: So while the salaries may not come down drastically, the hikes which we have seen in last two years are upwards of 20%, so the hikes may get corrected and also non-salary payments like joining bonus and other incentives, there definitely there will be a dip.

Chirag Kachhadiya: Sorry, ma'am, your voice was not clear. Can you repeat what you said?

Rituparna Chakraborty: Yes, while the salaries may not come down drastically, the hike percentage will come down because last two years, we have seen a consistent increments of 20% on IT salaries. So those percentages will definitely come down. And also non-salary payments like joining bonus and other incentives is where we can see a substantial dip.

Moderator: We have our next question from the line of Amit Chandra from HDFC Securities.

Amit Chandra: So my question is on the on the markup. So the markup, if you see, it has been almost constant over the last eight quarters. And if I see the general staffing margins, then it has been structurally coming down, right? So, on the levers of margin expansion was obviously increasing markups, which we have not seen, and other was like, as we mentioned, the cost cutting initiatives that you are taking. So how do you see the markups panning out? Are we seeing some improvement there? And in terms of the margin improvement for the general staffing only like cost-cutting initiatives is sufficient to increase margins, sir?

Ashok Reddy: So ideally, Amit, from our perspective, improving margins and controlling costs would be the right way to drive the margin improvement in the general staffing business. But as you called out, we have had a flat realization in general staffing. The last two years have also been tough negotiations with customers to hold even to that, just given the element of the COVID I mean payout and the discounts that customers were expecting and all of that.

So I think, yes, whatever we have been able to upsell or cross-sell to customers has been absorbed by discounts or the negotiations that have played out. It's not a happy situation to be in, but it is something like I called out earlier, we would like to address by being able to upsell and cross-sell as we go forward. So I think really from our perspective trying to drive that INR 700 up is on the agenda having been successful primarily given the competitive play in the market.

As against that, I think trying to improve margins is largely through productivity, which is to say that the technology initiatives or other things that we are doing at the back end continue to play into FTE improvement and contribution improvement at the bottom line. And that, we believe, still has headroom to play out and is something that we are focusing on as we go forward.

Amit Chandra: And on the specialized staffing, you mentioned that the volume decline is primarily due to scaling down in one telecom client. So ex-of that, how much decline we have seen in the IT staffing this quarter, or you also mentioned that there has been a 40% decline in the open positions, so that is primarily related to IT or this is overall for the all specialized? And also, if you can also explain how the margins will pan out for specialized staffing especially if we are seeing some kind of salary cuts or salary decline there? And also in terms in terms of markups, how it is in specialized staffing in terms of fixed and variable?

Ashok Reddy: So we've actually, I mean, net of the telecom mandate that we lost, we actually added 2% growth in associate count, if I were to negate that. So like I called out earlier, it's kind of been flattish from a growth perspective on headcount with most of the net, gross additions that we are doing being complemented by attrition or absorption at the client end. In specialized staffing, we are primarily on a rate card model.

It's not so much a PAPM model, where effectively we work on a rate card net of the CTC of the employee is our realization. And there, we are at a double-digit net realization at a margin level. And since we have to do 100% of the hiring and have a large support mechanism from a client perspective, we come down to that 8.5% as net margin aspect thereon. Our belief at this point, Amit, is that like I again, I repeat it that we do have growth headwind. At this point, we are not seeing any margin headwinds. So I think if we hold our employee base, if we are able to deliver at the costs that we have, we should be able to sustain our margins in specialized staffing.

Moderator: We'll take our last question from the line of Aejas Lakhani from Unifi Capital.

Aejas Lakhani: Just want to understand that, that INR 700 markup that you charge, could you speak about has there been any inflation adjusted growth in that number over the last few years? Or has that been fixed? And your propensity to even take inflation adjusted increases in that markup.

Ashok Reddy: Yes. So as per the agreement, we do have it with customers that there will be an annual hike on the realization that the reality comes down that when we have to get the hike or when the contract is being renewed, it is by mutual consent and customers do throwback to holding it at the pain point or in the last two years, we've actually had a throwback to give further discounts given the challenges that corporates were facing.

So to that extent, over the last four quarters to five quarters, we've kind of been planned on that absolute value playing out as an average across a large client base. We have not been able to factor in the aspect of inflation hike on a continuous basis from the customers. So we do have a challenge on that. Like I was mentioning in the earlier question, our lever to an element of profit increase has largely been FTE and productivity.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Ashok Reddy: Thank you, Aditi. So like we called out, I think we still stay extremely positive on the long-term opportunity of the market that we play to. The portfolio that we have built will enable us to drive the volume and value growth over a period of time. We have chosen to be in a volume business with high transaction activity on a continuous basis. It's a conscious choice, and we will kind of drive on that. But the product portfolio that we have been building should complement that as we go forward. I think some of our businesses where we were in an investment mode have got into profitability, a new area of HRTech that we are looking to invest in.

But having said that, none of these will be large-scale cost structures that overnight flipped our margins of what we have, we should be able to incrementally work on improving the margins as we address the element of scale growth from general staffing at this point with some headwind in DA and specialized staffing, but the teams exist to kind of play to the opportunity as it opens up. So I think we will stay conscious of growth, profit, profitability, margins and capital investment as a continued focus. Thank you very much.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.