

"TeamLease Services Q2 FY2019 Results Conference Call"

October 31, 2018







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Moderator:

Ladies and gentlemen, good day and welcome to the TeamLease Services Limited Q2 FY2019 Earnings Conference Call hosted by IDFC Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Dokania from IDFC Securities. Thank you and over to you Sir!

Rohit Dokania:

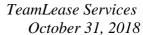
Thank you Stanford. Good morning everyone and welcome to the Q2 FY2019 results conference call of TeamLease Services Limited. I would like to thank the management for giving IDFC Securities the opportunity to host this call. The management team is represented by Mr. Ashok Reddy, MD & Co-Founder, Mr. Ravi Vishwanath, CFO and Ms. Ramani Dathi, Financial Controller and other senior management personnel. We will start the call with the commentary from the management and then move into the Q&A session. Thank you everyone and over to you Sirs!

Ashok Reddy:

Thank you Rohit. Just I think we have had another quarter of consistent performance across the various segments of the business and I think staffing business has grown in associate head count, the revenues and margin improvement and that kind have been more broad based across industry's existing client and new clients that have come onboard and I think we continue to have a healthy pipeline of open positions and plan conversions to sustain the element of growth as to reflect as has happened in the past. I think even in the specialized staffing and IT staffing segment has performed and consistent on the margins front.

The Telecom business continues to be 33% lower the margin than originally anticipated. I think two elements to that as we had mentioned in the last quarter, we had been brining in new leadership team and cost 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 adjusted itself within the Q2, I think we will some element of continued cost and experimentation in that business over the next two quarters, but I think we continue to have demand and growth opportunities in that segment also.

Our HR services business as expected and as commented last quarter, the continued performance on revenue scale and on margin scale have been happening and I think it augurs well from a pipeline of business that we have well for the future also on that front. The School Guru work and ramp up in University connect and student numbers has been on uptake, their negatives are coming down. We should soon hopefully have them in the process before the end of the year. Freshersworld performance continues from a revenue perspective and also in integration to the backend element of the candidate sourcing and the open positions updation and everything else. So I think we will see an increased element of activity from TeamLease on Freshersworld and integration of the Freshersworld and still database for our use. So I think over we have had a quarter that is consistent to the expected performances on growth margin improvement, our core employee head count has stayed consistent which effectively has played through the element of





the staffing business productivity and I do not think we have any surprise per se in the quarter on the numbers front. Happy to answer any specific questions but I think there are larger elements of the trajectory status.

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin the Vetri Raju from Equity Analyst question and answer session. The first question is from the line of. Please go ahead.

Vetri Raju:

Congratulations again for a good set of numbers. Sometimes back maybe about a few months back, there was a video from your official YouTube handle showing software as a service cloud product for HR ERP kind of thing, can you just elaborate whether what is the context and how does it fix into this business and where it has some impact on the revenues?

Ashok Reddy:

We besides the general staffing and employability cluster that we have, we also have compliance and payroll outsourcing business relatively small that our belief has been that it is a scalable business to the future and while both of those businesses by historical track record of our experience have largely been driven as do it for me service, which is saying that corporate outsource these activities and we execute their activity at the backend in Bangalore, one of ask that has been clearly coming in from customers is to have SAP platform for do it for myself kind of offering on compliance and payroll 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 SAP platform that we are able to offer to them. So our investment at we mentioned last quarter that we are looking at in Aventures Technology is largely driven around aspects of SAP platform that they have for excess and we will marry our outsourcing capability on regulatory compliance with the online platform that Aventures has so that comprehensive offering of myself and do it for me can be given to customers and to their choice. Similarly while we have do it for me in payroll we are looking at technology built or buy that will create SAP.

Vetri Raju:

So essentially you are saying it is another venue for revenues in the future? Is I my understanding right?

Ashok Reddy:

Yes.

Vetri Raju:

Okay nothing has happened in this quarter?

Ashok Reddy:

Nothing yet.

Vetri Raju:

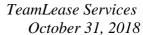
Okay.

Ashok Reddy:

This is not going to happen in a quarter to two, this will take time.

Vetri Raju:

Okay and my next question Ashok will be on your EBIT margin while understandably your general staffing EBIT margin kind of steady and keeps inching up and out. The other two verticals HR services and specializing staffing is quite volatile, it is like from minus to some plus





10 and it is like plus 14 to minus 11, like plus 14 to plus 7, plus 6 kind of thing. Is it something which is cyclical some quarterly lumpiness processes and this is how we expect it going forward?

Ashok Reddy:

HR services businesses were in their feeding in the previous years and there were actually loss making and getting to break even. Our belief was that while these can be 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. So you would not see too much of volatility going forward, but when do our year-on-year comparison, there will be huge volatility.

Vetri Raju:

On specialized staffing Ashok?

Ashok Reddy:

In specialized staffing there are two elements, IT staffing and Telecom which are two verticals that we have. IT staffing is kind of been consistent. We have effectively said that our margins there will be at around 12% to 13% and that probably where we are at on a consistent basis. This telecom we had acquired at 5% margin and that is what we expected it to stay at but given the investment sales that we are in right now or it will be in 2% to 3% range for this year and in the next year will again get back to the previous levels.

Vetri Raju:

Okay just one last question on the macro front, how do you see the job demand for employees in the coming maybe few quarters?

Ashok Reddy:

I think as things stand and this is the statement I am making across the 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 uptake and demand flow will continue to be there so we do not... unless there is major surprise in 2019 elections out there and something comes up, given any external variable that we do not know as of today. I think the demand will be good.

Vetri Raju:

Okay thanks very much Ashok. Congratulations. All the best.

Moderator:

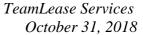
Thank you. The next question is from the line of Sagar Lele from Motilal Oswal. Please go ahead.

Sagar Lele:

This time you have seen very strong head count growth in the associates bit of business. Any particular changes in the demand environment or your approach to as the market that led to this sudden uptick and also could you highlight what you expect for the second half given the fact that it is seasonally strong for your guys?

Ashok Reddy:

Like we said we have been focusing on existing customers, focusing on new sales and client acquisitions. So the growth in associates has been broad based. It is not from 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 clients, open positions and demand that kind of on the table so I think just continued focus on customers and new client acquisition, the market demand for employees playing out is what is kind of supporting the growth, different segment I mean in the some the segment actually the salary





levels have been much lower than our average salary levels in the past, but we are taker on salary levels and salary CTC, but our belief is that the demand seems consistent and strong and we will continue to deliver to that.

Sagar Lele:

Sure and the second thing was on realization you have not given the numbers at this time, but if I sort of back calculate it using the revenue and the head count, it appears to have inched up compared to the last quarter. Whereas in the last quarter I think you had alluded to some contracts being taken up with lower realization temporarily and that was expected to impact the realization in the near-term. So could you just help me reconcile these two things?

Ashok Reddy:

Sagar it is actually kind of stayed flat from the previous quarter. The element of...the mandate inflow like as I mentioned last quarter we have had some large mandates that have migrated some competition play and we were the price takers on that front to what was earlier there. That kind of broad down the average mark up, but the Q2 has seen a more or less consistent level around 735, 738 on that front as a per associate per month realization.

Sagar Lele:

Sure and this would remain this level in the H2 or you done absorbing those low pricing contracts?

Ashok Reddy:

This one is what the markets bring to me. So effectively like I said on CTC we are taker of CTC, we do not dictate that so. While technically the per associate per month realization has come down as a percentage it kind of stayed flat to the previous year. So to that extent I think some times price on the PAPM gets dictated at the salary levels that these associates are coming in. So our existing mandate growth will be at the mark up that we have. The new mark ups and the new client that we are getting onboard we will have to wait and see that I do not think we will have a huge reduction on this front.

Sagar Lele:

Sure Sir that was helpful. Thanks so much.

Moderator:

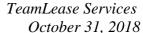
Thank you. The next question is from the line of Dipan Mehta from Elixir. Please go ahead.

Dipan Mehta:

Sir as compared to some of the other staffing services companies, which are also benefiting from 80JJA, they are providing for deferred tax and have a tax deferred anywhere from 10-15% but in our case I was observing was that we are virtually providing for Q2, the PBT to PAT is in fact higher than the PAT higher than the PBT so why are we not providing for deferred tax in our book?

Ramani Dathi:

Under 80JJAA in order to deferred tax that for future year we have to establish the fact that for the future years also that there will be uptick in the head count that there is positive head count growth. So going by a conservative approach we are not taking deferred tax asset on 80JJ benefit because that has not been advised even by our tax consultant because it subject to future event which are not certain.





Dipan Mehta:

Okay and I just want to understand the risks around the 80JJ because I believe none of your companies have been assessed by the income tax as far as your returns are concerned because recent section so have you engaged with the income tax department from an advance ruling or otherwise because not these can have major impact on the earnings per share if there was some regulatory issue or disallowance from the part of the income tax department or maybe even in budget if they go and change or amend this particular section whereby the export staffing companies it can have major impact on the earnings per share of the company and therefore the valuation. So I just want to understand your thoughts on how do you see this section panning out for you and perhaps explain us the risk involved and what kind of spadework you have done before you went ahead an applied the section 80JJAA?

Ashok Reddy:

The section is not a new section, the section has been in the tax books for the last 20 years, it was applicable only to manufacturing company until a couple of years ago when the section was amended to provide this benefit to the service companies as well. So it is not a new section, manufacturing company has actually claimed the benefit in the past and so it has just been extended to service company so from that perspective I think we have a very well covered, there are even some tribunal judgments on 80JJAA, which have gone in favor of the tax payers, which we have kept as part of our documentation. So we have been advised by not just one, but by many consultants and my experts on this particular aspect and some of the approaches have been taken for recognizing the benefit itself is conservative that is probably what is the right thing to do and so we do not expect any problem as far as this is concerned.

Ravi Vishwanath:

And also extension to that discern is that obviously is the law changes to exclude staffing companies or any industry service segment then then obviously we will not be able to take that but that something that we will have to approach at the time that the government modifies the law for that but I think reason for extension of the benefit to service companies are largely from the perspective of creating formal employment and directly contributing to the government around the various statutory compliance payment. So as an individual company if you just were to look at TeamLeast for last year while our tax benefit was about Rs.20 Crores, the statutory payments that we made to the government on account of various deductions and payments were in excess of Rs.1000 Crores so I think the upticks that the government has through formalization and through the various elements of the compliance payment is a much larger benefit than what is kind of been given to an individual company.

Dipan Mehta:

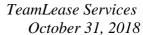
Right Sir but you know they made like this when government see zero tax companies generally tends to create raised eyebrows and has other ramifications and we have seen as long-term capital gain tax and earlier export profits and then SEZs and so on and so forth?

Ashok Reddy:

As a point that is what we keep saying, is there a sunset clause right now to 80JJA benefit no, can the government create a sunset clause yes, but when will that happen we do not have an idea.

Dipan Mehta:

Okay Sir we keep up fingers crossed all the best and thank you.





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

ahead.

Alok Deshpande: Sir my question was on the head count relation again so just wanted to understand any specific

vertical that you are seeing this growth from in H1 specifically and also just to give us flavor of the three or four large verticals that we are exposed to and – how things are may be BFSI and if

two, three others, what do you see the environment as?

Ashok Reddy: 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 five sectors being our larger sizes sectors continues 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 stayed consistent, our top five revenue contributors being at about 13% has continued to

play out, so I do not think we will have a huge change in the aspect 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

it will play out that we will be distributed player.

Alok Deshpande: Sure and one question on pricing now we are aware that generally it is an industry where pricing

is very competitive, but if I can ask what is the pricing intensity currently or environment

currently, let us compared to a couple of years back or we status quo or has the intensity gone up specially among the top five or seven players?

Ashok Reddy: It kind of has been the same Alok, not much of a change, I think this segment has always been a

price sensitive and price competitive play and as stated earlier it is an industry that is highly fragmented and a very low entry barrier industry, so for somebody new to come in is relatively easy and kind of dress the bride up becomes easy by lowering the price, but I think to stay

consistent to the long run some element of being able to sell at a price is important and I think that is something that we have been working on, for the standalone vanilla offering coupled with

the asset of the value ads that we can drive on the services front.

Alok Deshpande: Sure and what would be your sort of three to five year target or a mission as far as your other HR

services vertical segment is concerned, I mean what should we sort of look at that segment?

Ashok Reddy: On a revenue growth or on the margins?

Alok Deshpande: Well revenue growth also, currently it is very small, but how should we look at it three years out

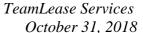
or five years out, how are you?

Ashok Reddy: I think like we have said margin play there can be between 10% and 15% and I think that is

really what we would like to drive the businesses too. We are also in that segment like I mentioned earlier looking at creating a SaaS platform around two of the P&Ls of compliance and payrolls, again lower cost, but high investment upfront and longer trajectory for high margin play

out, so I think given it is a low revenue base, but there can be consistent growth on that front and

the margin improvement is something that we are clearly seeing into this year and we will





hopefully continue to sustain that as we go forward while we make the investment into the new areas in that business.

Alok Deshpande: Sure. Thank you so much for this.

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

go ahead.

Madhu Babu: Sir I missed the 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

requirement engine on the general staffing some views on that? Thanks.

Ashok Reddy: I think effectively the element of headcount on the IT staffing front we have actually been seeing

a continues growth, so 1700 odd went to 1800 odd, went to 1900 odd. We have had a seasonal element of associate count of about 400 that came in, in the telecom business and that has gone

off in Q2, so otherwise there has been a consistent growth that we have 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 is

kind of gone off in Q2 and I think the elements of the IT staffing business staying consistent on

margins will continue to play out. I had mentioned in my opening comments that on 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 two quarters also and I think that is

something that we will stay consistent on. On the hiring front, I think as against Q1 our volume

of hiring in absolute numbers and as a percentage to client requirements has gone up nearly

doubled and the continued focus from a perspective of trying to hire more and at a lower cost will

be the focus area for us on the hiring side and I think we are doing multiple projects, which again one of them I had 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 next quarter who will drive certain other projects and

initiatives that could play out into the next year.

Madhu Babu: Okay Sir. Thanks.

Moderator: Thank you. The next question is from the line of Abhijit Akela from India Infoline. Please go

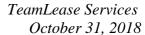
ahead.

Abhijit Akela: Good morning. Thank you so much for taking my questions and congratulations on a good

quarter. I just had a few number related questions, but before that just to clarify what you just mentioned in response to the previous question, the hiring volume you said that doubled in Q2

versus Q1 is it, what is the absolute number there in terms of headcount?

Ashok Reddy: About 3500.





Abhijit Akela: Okay. Thank you. Just on the house keeping questions, you have been giving us a breakdown for

Evolve the last couple of quarters since you acquired it, if it is possible to give us the closing

headcount, the revenue and the EBITDA for the quarter?

Ramani Dathi: Yes Abhijit for Evolve the closing head count is 4104 and the revenue for the quarter is 44.3

Crores and EBITDA is 1.5 Crores.

Ashok Reddy: 3.3% margins.

Ramani Dathi: Translating to a margin of 3.3%.

Abhijit Akela: Got it. Great then second just on the trainee headcount it seems like the pace of quarter-on-

quarter growth in your net Netapp apprentice that seems to have slowdown little bit this quarter,

so is that a conscious decision and is that temporary?

Ashok Reddy: Not a conscious decision, but I think in the last four months, we have seen an increase in attrition

of the trainees and that has kind of effectively led to effective lower net growth per se, but no intention to reduce pace of growth. The continued focus on getting new customers increasing associating, trainee engagement, driving up the element of volume growth will continue to be a

focus area on that side.

Abhijit Akela: Any particular reasons for the increase in attrition?

Ashok Reddy: Nothing specific as a reason. It has just gone up. It is not client attrition. It is a trainee client

attrition.

Abhijit Akela: Sure understand. Your value added services enrolment is it possible to give us an update on that,

where is stands right now?

Ashok Reddy: So we have got about a 40000 associates who are on the various apps and services on that front.

Actually in quite a few places we are offering it as add-on to customers because it also eases our service delivery to the customers because a lot of information flow that has to happen effectively goes online and we do not have to 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 digital solutions that we

have created at the back.

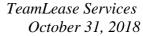
Abhijit Akela: Okay and just to clarify this 40,000 number was 16,000 at the end of last year is that correct?

Ashok Reddy: Yes.

Abhijit Akela: Oh wow, so you have – more than doubled it this year so far.

Ashok Reddy: Yes and also part of that Abhijit also has been driven by the fact that some of the new large

mandates that we have got were sold upfront as a compulsory take.





Abhijit Akela: Understand and average mark up on these value added?

Ashok Reddy: That I said most of these have been bundled in to the overall pricing primarily from a perspective

that it benefits us from operational control and productivity.

Abhijit Akela: Okay, so the 150 odd so kind of mark up that we were targeting that may not necessarily come

through?

Ashok Reddy: No, not necessarily.

Abhijit Akela: Okay, understand, last couple of quick things and I will get back in the queue. The associate to

core employee ratio you kindly provided it for general staffing is it possible to give that for IT

staffing as well?

Ashok Reddy: We do not really track it, but if you look at it in IT staffing we have a 1960 head count and 170

core employees, so it is roughly above 12.

Abhijit Akela: Got it and finally just on the new acquisitions we have talked about, so Cassius now becoming a

subsidiary and your investment in Avantis going forward, if it is possible to give us some guidance about what it contributed this quarter number one cashiers in terms of revenue EBITDA

and what we should expect going forward? Thank you

Ramani Dathi: So Cassius this quarter the revenue contribution is about 2.2 Crores and the EBITDA

contribution is 50 to that.

Abhijit Akela: This is a two month impact is it Ramani?

Ramani Dathi: Yes that is right.

Abhijit Akela: Right, okay and we can assume a similar kind of run rate going forward for this?

Ramani Dathi: That is right.

Abhijit Akela: Okay and how about Avantis, how should we think about that?

Ashok Reddy: Avantis is at a very early stage of revenues and actually in a sense loss making, so it will be in a

investment phase for at least a year before it gets to profitability. Nothing moves the needles

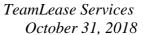
much.

Ravi Vishwanath: Final deal is not closed yet for us to have consolidated it Abhijit.

Abhijit Akela: Right, understand, got it. Thank you so much and wish you all the best.

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

ahead.





Amit Chandra:

Sir, thanks for the opportunity. Sir we have seen that we have reduced the funding exposure from 23% to 16%, so I think that this is a very positive move in terms of maintaining our working capital and improving margins also, so is it a conscious decision or are we seeing this kind of transfer from existing clients or it is from addition of new clients?

Ashok Reddy:

Some of the existing customers we have been to renegotiate for non-funding aspect and some of the new customers that we were getting, as it is any new customer dialogues for us start with a non-funding option and funding option only kicks if the customer is not able to come on-board because of their internal processes or past working structures and that too where we effectively charge them a higher amount as compared to non-funding pricing model, so I think while we start with a non-funding model as a standard offering is not something that we would like to offer as a first cut, I think consciously we would like to bring it down and also the fact that some of the new mandates for us came in at a lower pricing, we were very clear that we would not fund those customers, so I think it is a conscious strategy, but will it come down much more I do not think so.

Amit Chandra:

Sir in the top10 clients how many would be funding based?

Ashok Reddy:

Can we come back to you on that? We will come back to you on that specific.

Amit Chandra:

And Sir we have seen a very steep price in the cores like a core employees to the associates rise in the last four, five quarters and that has been a very important margin lever, so is there scope to increase it further or we are somewhere at the peak in that?

Ashok Reddy:

Our belief Amit is that there is no peak or 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 roadmap that we have between our operations team and the technology team continues to show our productivity enhancement as we go forward, so I think there is no upside limit as such as we view it and we would continue to innovate to technology and process to make that happens. And just against your earlier question three of the top 10 customers are funding clients.

Amit Chandra:

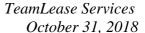
Okay Sir. Thank you.

Moderator:

Thank you. The next question is from the line of Karan Parmanandka from Auroville. Please go ahead.

Karan Parmanandka:

Thank you for the opportunity. 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 good growth of 13%, will it be fair to say that you are back on track for 13% to 15% kind of growth and secondly going back to your earlier questions and competitions and funding you have shown great progress in lowering it to 16%, but trend wise in the market do you see competition increasing funding base solution or is this coming down for the entire market, also what is the ROE difference that you see between funding and non-funding plans? Thank you.





Ashok Reddy:

Effectively the element of associate growth I think we are back on track, given the last six moths and the pipeline of demand and client growth that we are kind of seeing, I think it is safe to say that we should be able to sustain the element of the associate growth to that 13%, 15%. The aspect of funding, I think it is very, 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 demands and I would hope that no competition would go to market with a standard offering on funding and we have not seen that irrationality in the market, so I think as we stand, we do not have any players who is going to market with a standard offer of a funding variable. Typically the difference in funding aspect to non-funding pricing is anywhere between Rs.100 and Rs.150.

Karan Parmanandka:

Okay this is helpful. Just one number this question, can you let us know the proportion of variable price contracts at the end of the quarter and also the realization on that Netapp trainee business?

Ashok Reddy:

So it is about 74% on fixed markup and 26% on variable markup and the average realization for the trainees, Rs.600 roughly.

Karan Parmanandka:

Okay. Thank you so much.

Moderator:

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

Fund. Please go ahead.

Chockalingam N:

Hi Ashok and Ravi, just on the balance sheet, in the current asset side there is an other financial assets that seems to have gone up from Rs.71 Crores to about Rs.140 Crores, I am assuming this is unbilled revenue?

Ravi Vishwanath:

That is right it is unbilled revenue.

Chockalingam N:

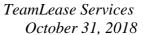
I do not think we understand this?

Ravi Vishwanath:

What really happens is as March 31, 2018 so let me explain this a little more in detail for the kind of benefit of everybody, all our customers get billed during the period from about the 23rd of the month till the 11th or 12th of the succeeding month, so all the invoices raised till 31st going to my regular billing and the invoicing that is done from the 1st of the subsequent month till 11th or 12th when the lots are applied get accounted as unbilled avenue, typically when during the year ending March there is a lot of pressure on us to close the billing for a lot of customers before March 31st itself dated March 31, which is what we do, which is why the number is a little lower compared to September 30, but this Rs.140 Crores of billing that you see as a September 30 are all nothing but invoices raised during the period October 1 till that October 11 they have all been subsequently raised yes.

Chockalingam N:

And the similar number on other financial liabilities how should we understand that?





Ravi Vishwanath: So the salary payable amount for these unbilled revenue cases would go into my other liabilities

actually, so you will see a similar increase in my other liabilities also.

Chockalingam N: Okay, the other financial liabilities.

Ravi Vishwanath: That is correct.

Chockalingam N: Fair enough. Thanks a lot.

Ashok Reddy: Again when we look at the year-end it will come back to comparable level, mid year is not really

a comparison on that front.

Chockalingam N: The same term on non-current liabilities, other financial liabilities of 4.99 Crores that is a

borrowing?

Ravi Vishwanath: That is an investment in Cassius Technologies.

Chockalingam N: No, other financial liabilities?

Ravi Vishwanath: It is just a liability that we have created for the 49% actually yes.

Chockalingam N: Okay understood.

Moderator: Thank you. The next question is from the line of Garima Mishra from Kotak Securities. Please go

ahead.

Garima Mishra: Thank you so much for the opportunity. Particularly on the IT staffing side what we hear from

other IT services companies at least is that their hiring trends are generally picking up and possibly FY2018 was some kind of a bottom, are you also getting similar feelers from your

interactions with IT companies?

Ashok Reddy: Yes Garima. I think we have clearly seeing demand continuing to exist on the IT staffing front,

obviously the need to stay consistent on delivery to the various skill sets 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 the vertical front. The team has been delivering and we are seeing consistent

growth on that.

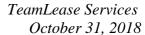
Garima Mishra: In terms of associates what kind of growth you think is possible in the light of this, can you be

materially better off, I am speaking only in volume terms, better off then what you were in say

FY2018?

Ashok Reddy: In pure volume terms we will definitely be higher and if you look at it in the last two quarters we

have added about 200 associates on a base of 1700, 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 are value business.

Garima Mishra: Sure, understand and just a general question on your staffing business now do you guys cater to

food delivery companies who may be your customers there?

Ashok Reddy: We do.

Garima Mishra: I think in the opening remarks was in one of the answers you did mention that overall salary

levels on a blended basis seem to have gone down a little bit, so what do you think would have contributed to this, is there any particular geography or where incremental or sort of pool of

employees has joined in or what is the reason behind it? Thank you.

Ashok Reddy: I think in finance and retail segments we have seen a lower CTC and some of the dialogues that

we have had with the customers seem to indicate a control on CTC and a play on variable for performance, so it has not been an across the board aspect, but I review the data of our gross

growth the lower CTCs have largely come in from the finance and retail segments.

Garima Mishra: The lower CTC like you mentioned salaries?

Ashok Reddy: Lower CTC when I say it is lower than our average.

Garima Mishra: Sure, I understand that. When you think about your margins and for contracts, which may be on

variable model, do you get really impacted or positively or negatively when the variable pay to

employees changes?

Ashok Reddy: On most client contracts, so where it is a percentage mark up we have linkage to the variable pay

also, which gets paid out, so from that perspective we have covered. In the fixed mark up cases,

if the variable pay is part of the salary cycles then we do not get paid anything incremental.

Garima Mishra: That makes sense. Thank you so much.

Moderator: Thank you. The next question is from the line of Abhishek S from Equirus Securities. Please g

ahead.

Abhishek S: Thanks for the opportunity Sir. The first just had clarification, so is there a change in disclosure

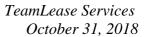
for mark up associate? Are we not going to give the data going ahead or it is just for this quarter?

Ashok Reddy: Mark ups are associate we have been disclosing.

Ramani Dathi: We have been disclosing, Abhishek, so the mark up for this quarter is about Rs.730 per associate

per month.

Abhishek S: No, I meant more in the presentation document?>





Ramani Dathi: In the presentation okay fine, we can include.

Ashok Reddy: We will include it, not a decision, not to share or anything of that sort.

Abhishek S: Thanks for that Sir and second question is more from a demand side, so our growth number you

know this question may have been asked earlier, but now we are doing almost 13.5% of Y-o-Y staffing associate number from four-and-a-half, four quarters ago and I believe the seasonality this year is a little different than what we had seen in the past on a quarter basis, so in the next

two quarters, can we sustain this 15% growth over the next four to six quarters?

Ashok Reddy: Our belief is that given our current trajectory of open positions and client feedback we should be

able to sustain.

Abhishek S: That is helpful and the other data point is regarding the breakup of unallocated expenses, because

that moves the margin needle across segment, so what exactly part of that unallocated expense?

Ramani Dathi: The unallocated expenses are largely the corporate cost and the corporate cost includes the salary

cost of Managing Directors, Chairman, CFO that segment and any other income in terms of interest on TDS refunds, those kind of nonrecurring other income. The last quarter we have received about Rs.1.5 Crores of income on income tax refund. So that has cost a spike in other

income and overall bringing down the unallocated for Q1.

Ashok Reddy: But otherwise we do not have huge number on that front nor huge volatility on that side.

Ramani Dathi: So on average it would be in the range of Rs.3 Crores for quarter.

Abhishek S: 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

rate would be lower than what you had anticipated at the start of the year?

Ashok Reddy: We had expected it to be zero only so I do not think there is element of that getting better than

that.

Ramani Dathi: And also even if you have your eligible 80JJAA Associates at a much higher number, you have

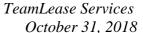
to restrict it to the profit that you clock for the year, so you cannot have a negative tax benefit on

80JJAA.

Abhishek S: Understood that is very helpful. Thank you for taking my questions.

Moderator: Thank you. The next question is from the line of Vaikam Kumar from JM Financial. Please go

ahead.





Vaikam Kumar:

Thank you for your opportunity. I just wanted to check on the demand side while this quarter we have seen some healthy growth under Associate count, one of the concerns is what happens if there is slight slowdown in the economy, so while we understand that we have consistent track record of maintaining our associate count, are we taking further measures to stay ahead of the curve given that our industry is very fragmented?

Ashok Reddy:

Like 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 widespread of clients across different industries there is 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 sort. 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. I think all of these three combined is really what kind of gives us a confidence that there is no major headwind coming in the foreseeable future.

Vaikam Kumar:

Okay and do we have a number for client stickiness compared to last year?

Ashok Reddy:

I think that 96% to 97% of the client staying with us continues to play out, so we do not have any major surprise on that.

Vaikam Kumar:

Okay, got it. Thank you Ashok.

Moderator:

Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities & Finance. Please go ahead.

Binoy Jariwala:

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

Ashok Reddy:

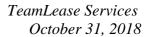
We are in Indian company that like to stay Indian because the opportunity as we view it in India is still quite large and we would like to play to that competency and strength that we have, so as of now we have no intentions of going global organic or inorganic. Our belief is that the opportunity provides lever for scale and margin improvement that we would like to play to. As of now, we are zero debt company. We still have money in the bank and we are cash flow positive, so the aspects of M&A as we evaluate, will be firstly 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 is something that we would clearly look at as the need arises.

Binoy Jariwala:

Thank you so much for that 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 Reddy:

The specialized staffing verticals both IT and telecom, work on a rate card model not a percentage or fixed price model. One of mandates go on alternate pricing model, but largely they





are on a rate card model which is to say that it is per employee amount that is decided and how much is CTC and mark up there is controlled and managed by us. So per se if we look at it in the IT staffing space, we 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 margins than the general staffing business.

Binoy Jariwala: What would be the gross margin in the IT staffing vertical vis-à-vis the telecom vertical?

Ashok Reddy: It is 25% in the IT staffing, it will be about 10% to 11% in the telecom.

Binoy Jariwala: Is there scope to improve this gross margin in the telecom vertical?

Ashok Reddy: Not too much, I think where we have viewed is that that gross margins will be where they are,

but the productivity and the element of service delivery at our end will sustain those 5% kind of margin, so I think what we would like to do is grow these businesses while we sustain the

margin.

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

Please go ahead.

Ashish Chopra: Thanks for the opportunity. Ashok, just one question from my side, you mentioned about the

doubling of volumes of IT hiring and overall staffing hiring and you are focused to continue on that front, just wanted to understand how could the financial economics change in terms of the markup as this number grows to a substantial figure and also the associated cost and hence the

operating margin does it change for you materially or if you could share any movement?

Ashok Reddy: No, it does not actually because in most cases on hiring, the customers do not pay us a hire

markup, they pay some element of a cost for hiring which at this point is lower than the cost of hire, so if we are able to increase the volume at a lower cost of hire then we will be able to

effectively work on improving our headcount addition, which will earn us the annuity, but I do

not think the hiring aspect per se will contribute to margin.

Ashish Chopra: Would it be fair to assume that your efforts to hire more will be in proportion to the extent by

which you are able to have been the cost of hiring down?

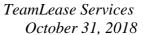
Ashok Reddy: Clearly which is why, even if you look at our hiring increase between Q1 and Q2 has not been by

increasing our costs. Our costs have been relatively the same, like as we mentioned, we have 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 initiative so clearly the intend is to hire more at the absolute cost which

will effectively bring down our cost of hires.

Ashish Chopra: Got it that is helpful. Thanks and all the best.





Moderator: Thank you. The next question is from the line of Ananda Padmanabhan from Renaissance

Investments. Please go ahead.

Ananda P: Thank you Sir for taking my question. Just wanted to get more colour on your indirect expenses,

if I look at your indirect expenses they have gone up sharply in the last couple of quarters in absolute terms as well as in percentage of sales, so could you just add more colour as to what

exactly is having up and how should we look at this particular cost element?

Ramani Dathi: The indirect expenses are largely the training expenses, so they have gone in proportion with

increase in training revenue, the other Netapp services revenue.

Ananda P: Okay.

Ashok Reddy: It is a low have fixed cost, high variable cost structure, so as the revenue goes up, the cost on that

front kind of commensurate.

Ananda P: Okay and if I look at in spite of having markup being on the lower side, because what it cost in

the couple of quarters back, gross margins have improved, so it is largely because of lower CTC

for the new addition that is the way to look at it?

Ashok Reddy: Yes.

Ananda P: And in terms of your own hiring versus hiring that client hiring data what could be the large

breakup, what percentage of your own hire?

Ashok Reddy: About 20% to 25%.

Ananda P: Thank you Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Deepti Dayal from ICICI Direct. Please go

ahead.

Devang Bhatt: Just wanted to ask one question like article saying that there was wage hike in Delhi and

Karnataka so would there be an impact on you and secondly there might be some I mean they said that there is some downsizing in the telecom segment, so is that panning out and if it is then

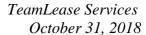
what would be the impact on us?

Ravi Vishwanath: The first question, there would be no impact on us as far as the wage hikes in Delhi and

Karnataka is concerned. We have clarified it even at that point of time, because the business model we follow and the general staffing is the cost to company model, where all costs as and when they keep increasing are actually passed on to our clients, so there would be no impact as

far as we are concerned. On the second question...

Devang Bhatt: On the telecom downsizing?





Ravi Vishwanath: On the telecom downturn, I do not think it would impact because the area that we operate in

these are the backend and the towers part of it, network and those areas and we have not seen any kind of let up or slowdown in hiring as far as the backend is concerned. The front may be getting consolidated, may be getting a little affected, but the backend we have not seen any such

movement actually.

Devang Bhatt: Thank you very much.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants I would

now like to hand the conference over to Mr. Rohit Dokania from IDFC Securities.

Ravi Vishwanath: I would like to clarify one part of it in fact before you close actually. There have been lot of

questions around the publishing of the annual report and the holding of the AGM. It has been delayed slightly due to the fact that we are in the process of shifting our registered office from Mumbai to Karnataka. The final orders from the registrar from the Regional Director came in last week and we propose to have the AGM conducted in Bengaluru this time, by about third week of December, we should be able to send out the annual reports in about 15 to 20 days' time, because

we are in the final leg of the conversion process itself.

Rohit Dokania: Great Ravi. Ashok would you want to make any closing comments?

Ashok Reddy: No, I think we have come back to consistency in the aspect of growth and all our verticals are

kind of hiring on the margins and the growth and I think with the current trajectory we believe

we will stay on track to the future two quarters also.

Rohit Dokania: Thank you. Stanford you can close the call.

Moderator: Thank you Sir. Ladies and gentlemen on behalf of IDFC Securities that concludes this

conference. Thank you for joining us. You may now disconnect your lines.