“TeamLease Services Q3 FY2018 Earnings Conference Call”

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Moderator: Good morning ladies and gentlemen, welcome to the Q3 FY2018 earnings conference call of TeamLease Services Limited 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 the 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!

Rohit Dokania: Thank you. Good afternoon everyone and welcome to the Q3 FY2018 results conference call of TeamLease Services Limited. I would like to thank the management for giving us the opportunity to host this call. The management team is represented by Mr. Ashok Reddy, MD & Co-Founder, Mr. Ravi Vishwanath, CFO and other senior management personnel. We will start the call with the commentary from the management and then move into the Q&A. Thank you every one and over to you Sir!

Ashok Reddy: Thank you Rohit. To just an update, I think we have stayed on track to the element of associate trainee growth supporting the revenue growth and overall margin improvement trajectory. I think we have had the element of uptick on the average realization, which has effectively gone from Rs.735 to Rs.755 and also the associate growth has been about Rs.3000 compared to the previous quarter and we have had a trainee growth of about nearly 8000 over the last quarter. So I think overall it has also helped the element of the productivity enhancement has gone from 210 to 219, another 10 associates to core employee growth on that front.

I think all of that is supporting our margin improvement both from an organic staffing perspective and the IT staffing business has also been on track in terms of adding associates and building the pipeline, so we have added another 120 odd associates in the last quarter in the IT staffing front. The Evolve Telecom staffing business is also kind of the acquisition has been completed. We now have about 4100 associates on the Evolve front that attempts to various clients. We are in the process of integration of various teams and processes and thereafter we will effectively look to building that business in terms of numbers and revenues.

The Schoolguru acquisition of 40% has also been completed and we are in the process of integrating the services and the platforms that they have to complement the element of the requirement that Teamlease has. So I think effectively we have been able to move the EBITDA margins from 1.1% last year to a 1.6% and for the quarter 1.9% and we would continue to focus on the aspect of growth coupled with the aspect of productivity and margin improvement.

I think in this quarter, we will focus on getting the aspect of the integration of Evolve and Schoolguru done from an operational and partnership perspective. We continue to explore additional opportunities for M&A for the purpose of adding verticals or scale and complementing our existing platforms. So that element of a search and exploration continues and we believe we will look to businesses that complement us either from a product or from our technology from a people's perspective to kind of taking it further.

I think overall while the topline growth has been about 19%, the EBITDA margin and the PBT margin improvement is in line with what we had always been saying that the scale the productivity play will come in and the verticals will start contributing even the HR Services businesses have turned positive and are contributing to the bottomline and we expect that Q4 will also stay on trajectory on that front. That is from my side. I am happy to take any questions and address.

Moderator: Thank you very much Sir. We will now begin the question and answer session. We have our first question from the line of Sudheer Guntupalli from Ambit Capital. Please go ahead.

Sudheer Guntupalli: Thanks for taking my question. Actually I had a couple of questions. First one being if you look at most of the forward-looking employment related service they are actually showing an uptick from the bottom level in terms of the job outlook especially in the manufacturing sector or especially within the small and medium enterprises segment. Same trend is also corroborated even if you look at manufacturing PMI data, which has come out recently, same trend is being corroborated over there also. So are you seeing any green shoots of such an uptick in your conversations with clients? And my second question is with General Election coming in and government giving multiple exemptions and relaxations on GST trend, do you see this as kind of going against the thought process of GST driven compliance and the organized staffing players benefiting out of it? Thanks.

Ashok Reddy: To address the first part, yes we are seeing an element of demand coming in, obviously not necessarily in manufacturing, it is spread across the industries. If you remember, last time we had indicated that we were looking at a relatively soft quarter from a growth and open positions and numbers perspective, but I think open positions have come in, we have been able to deliver and we have shown a growth on associates and trainees front at a good number level. So even if you look at it currently and with the various discussions going on with the customers, we do have a healthy pipeline of open positions and demand that is coming in. So I think again I repeat it is not exuberant but I think there is a healthy pipeline of open positions that can support an element of growth. So we will look to that sustaining itself and growing as we go forward.

From a GST perspective, I think the initial element of the compliance and all of that is smoothening itself out, the government is making changes in the various rates, applicability's and stuff of that sort. Like we said it will take some more time before all of this falls into place, but we truly believe that this will benefit the formalization of industries and companies and it will also benefit the formulization of employment over a period of time. The data from the economic survey that was put out has actually added about 3.5 million enterprises now post GST. I am sure these are not new enterprises, these would have existed in the past but now given the GST implementation have come into the formal fold, so that is a 50% increase in the number of formal enterprises. All of this over a period of time will have a cascading effect on formal employment. Again we do not believe it will be clicking on off the light kind of an event. It will be a gentle sunrise event and I think we are well positioned to take a benefit of that element of formalization that will happen.

Sudheer Guntupalli: Thanks and all the best for the future.

Moderator: Thank you. We have our next question from the line of Vetri Raju from Equity Analyst Private Limited. Thank you.

Vetri Raju: Congratulations on a good set of numbers. Going through the presentation, now we could see from really encouraging projections like Rs.10000 Crores of revenue is the goal for FY2021 or 2021 calendar year as well as flexi staffing industry moving from 2 million to close to like 5 million people in the next two years is a very encouraging trend. How realistic Ashok is this and where will be Teamlease from 1.7 lakh people now by as per your 2019 projection where will be Teamlease in terms of headcount in 2019?

Ashok Reddy: If you really look at it I think when we started our journey on this front in 2002, we set of saying we will be putting India to work. It is not a vision that we will probably complete in our lifetime, but we can die trying and I think in the process we have given jobs to over 1.8 million people who have come and found a footing in the job market and have moved onto other jobs and so on we do have about 1.7 lakhs people currently employed as associates or trainees deployed to various organizations. I think the market opportunity in India is tremendously high and we do see the aspect of an opportunity to grow, so I think what we are saying is in the long-term there is a opportunity to grow. It is a consistently warm market. There are variables that are dependent around policy and regulation that can impact a rapid growth, but we do not depend on that. So I think where we are looking at is in saying that playing consistently to the market as we have done over the last seven years, so we have had about a 15% growth in associates, we have had about 20% plus in revenue growth, we have worked on the economies of scale to get the element of a margin improvement. These are trajectories that we will continue to focus on and drive up.

Vetri Raju: Right. My next question, Ashok it is not related to any of your financials, it is related to the stocks volume and volatility in the market, essentially there is a huge impact cost on the stock like somebody wants to buy 1000 shares the impact cost can be as high as like 5%, 6%, 7% I am sure you people will know on days when people sold 1000, 2000 shares if you look at the transaction, the stock has come down by 5%, 4% and so on. Is there any thought to make it a little more liquid, so that people who want to buy can confidently buy without much of the impact cost?

Ashok Reddy: I think as a company and as the management, we are focusing on the E-part of the exercise, which is the earnings and the element of margin improvement and stuff. I think we have got a sufficient float out in the market in terms of shareholding but obviously it is concentrated to some investors and so on, so I do not think we have a control on the trading volumes per se, but if you notice that over the last one year or the last nine months the trading volumes have been going up on an incremental regular basis. So our belief is that time is the only solution to that as long as the company stays on track to a consistent performance.

Vetri Raju: Thank you. I will come on line if I have further questions. Thanks and all the best Ashok.

Moderator: Thank you. We have a next question from the line of Anuj Gupta from Perfect Research. Please go ahead.

Anuj Gupta: Good evening Sir. Sir my question is how do you deal with regional players who may not be compliant with regulations in the spirit of law or even written of law and under the place?

Ashok Reddy: So that is the playing field we have dealt with and we really have no control. So if you look at it the reality is that globally about 5% to 15% of country work force tends to get outsourced and 100% of that is in the formal space. In the Indian contact while a larger percentage nearing 30% is outsourced, only 1.5% of that in the formal space that players like us are in where all compliances are comprehensively driven. So there is a large element of outsourcing that happens through informal small players across the country. I think clearly where we are coming at it is in saying that with the various government policies of labour laws becoming simpler the element of enforcement becoming better coming online and so on, will drive the element of formulization. So even if you look at the growth of the last few years for us, it does not reflect the element of the economy growth rate or the element or job creation at those rates, it is a combination of new industry coming in, existing companies increasing the share of outsourcing that aspect of some element of formalization happening with the outsourcing that various companies have. So I think again it is going to be a phased approach and the trigger to formularization will happen with simpler labour laws and better enforced labour laws and that is an external variable to us but our belief is that it will happen in a phased manner and that will lead to formulation and the informal players either becoming formal or the numbers migrating to a larger players like us.

Anuj Gupta: I am sorry Sir, I did not get the debtors that you just told, 30% of this industries outsourcing in India, right?

Ashok Reddy: 30% of the employment with various industries is outsourced.

Anuj Gupta: Yes and from that 1.5% is into the formal.

Ashok Reddy: Yes.

Anuj Gupta: Sir second question is what percent of working population is currently being addressed by staffing companies and what is the potential and what is the growth rate of the sector and what is the informal sector percentage?

Ashok Reddy: I mean working population is about 480 million people and if we look at all of us in the organized staffing space accounts for above 12 to 15 lakhs. So we are like a river on the overall opportunity at this point in time.

Anuj Gupta: Okay and Sir any growth rate for the sector?

Ashok Reddy: Like I said it is not going to be an overnight transition from informal to formal but sustaining the element of the growth that we have had in the past is something that we would focus on and if we were to do that for the next five years we could be a 10000 Crores company.

Anuj Gupta: Sir like we have given a hint of the informal sectors in the earlier question, but if you going to see a percentage of this sector as organized and unorganized?

Ashok Reddy: I mean 1.5% of the outsourcing is in the formal space and 98.5% is in the informal space.

Anuj Gupta: Sir the last question regarding what is the switching cost for client in changing the staffing vendor and how difficult is it for them?

Ashok Reddy: Not too difficult. As we have always said that entry barriers into the staffing space are not very high and switching costs are not very high, but the three variables that most customers look for in terms of salary payments on time, the back end HR support to the associates and to the customers and comprehensive statutory compliances are variables that customers look to ensure continue on a recurring basis.

Anuj Gupta: Thanks a lot Sir.

Moderator: Thank you. We have a next question from the line of Sagar Lele from Motilal Oswal. Please go ahead.

Sagar Lele: Thanks for the opportunity. Just a couple of questions from my end; one is the top line bucket at least the top five sort of YOY decline in this quarter, which is quite a deceleration from the 40% growth seen over the last couple of quarters, is there something to read into that or is it just high base created in the third quarter of the previous year?

Ashok Reddy: Some of it will be seasonality aspect and some of it is just a random variable in that sense of some clients in sourcing, some clients exploring alternate options, so multiple drivers, so what we look at is one the element of a consistent growth, not necessarily across all clients but on a aggregate basis, which is where we are spread up across multiple clients and industries and trying to effectively grow or replace the loss in clients that we had.

Sagar Lele: Sure, but nothing to worry about even from a near term perspective from a client's specific weakness?

Ashok Reddy: I mean it is a continuous recurring cycle that we have to take care of Sagar. I mean some clients have moved on account of lower pricing, some clients move for other reasons, we have gained a large client in the last quarter, we have added three new large accounts in the last quarter, so it is nothing worrying, but something that we should continuously work on.

Sagar Lele: That was helpful. Secondly in terms of the 80JJ benefits, are you seeing any amount of movement say clients either in sourcing because they probably are going to avail the benefits themselves if employee expenses are a high percentage of their overall cost structure or secondly in terms of them asking for a certain pricing cut because you guys will sort of benefiting on the bottomline, any instances that you have seen over the last couple quarters in this direction?

Ashok Reddy: Not yet. I think the element of outsourcing as a variable is viewed differently and wherever people are willing to look at on board headcount and the cost structures aligned to that are very different, so I think the 80JJ benefit has not seen any impact directly on the demand or clients willingness to outsource at this point in time.

Sagar Lele: It is very helpful Ashok. Thanks.

Moderator: Thank you. We have a next question from the line of Soumil Zaveri from DMZ Partners. Please go ahead.

Soumil Zaveri: Thanks for taking the question. Just a quick one to better appreciate the kind of long-term growth runway you spoken about in past calls, what you see as kind of the constraints to being able to manage the work force of 2X or 3X the size in terms of technology or if you look at whether global counterparts are, how do you kind of think of sizing and the constraints to a larger scale?

Ashok Reddy: I think it is a continuous learning from our perspective to factor on technology, process and people to be able to handle scale and the growth that we foresee. So if you look at it from our own perspective the platforms that we had that held good when we had 5000 in hold good when you have 100000, will not hold good when we are 200000, so what we continuously do is have a roadmap on the technology platform for a 12-month period that has a quarterly, bimonthly and monthly release that kind of automating, factoring for new technologies for new variables that kick in and so on, so that it prepares us to handle the volume perspective, we also continuously relook at Ops structure and internal matrix to see how we can be more effective and output driven and from that perspective whether it is a process change or whether it is an aspect of training people or getting new blood into the system is something that again is viewed on a continuous basis. So if we look at it over the last one-year, the continuous improvement on the productivity ratio is a function of us doing multiple things on technology, on process and on people. So these are the three things that we continuously view as being very important for us to be able to scale and address the larger volumes that we are talking about and hence that is an area that we have making large investments.

Soumil Zaveri: Sir if I can add a quick one, when you think of the 2500 odd client base and we talked about the concentration among top 10 being at around 19% to 20%, do you kind of quantify what the kind of wallet share of the long tail that might be there, what kind of wallet share is to gain from there, any colour on that?

Ashok Reddy: The growth for us comes twofold. One is new account acquisition and what we called hunting, and the second one is what we called farming, which is effectively trying to get a larger share of wallets with existing customers. The largest share of wallet with existing customers could come by virtue of growth in the customers per se or it could be that they are working with multiple vendors and we try and get a share of what is with the other vendors. The third that we are not able to map is where the existing clients would have informal outsourcing and that only can come when the formalization happens. So yes all accounts are tagged and monitored to saying where is the potential, do they have other vendors present, are they in the informal space also from an outsourcing angle to they have a growth projection at their end and hence how can we support them on that so all these three area tagged for the accounts to monitor the growth potential.

Soumil Zaveri: Thank you very much.

Moderator: Thank you. We have a next question from the line of Abhijeet Akela from India Infoline. Please go ahead.

Abhijeet Akela: Good evening and thanks a lot for taking my question. Just a couple quick clarifications, in the segment financials we see that the unallocated expense line has seen a big increase, I think it is about 6 odd Crores for the quarter, is there any runoff expense embedded therein if you could just comment on that thing?

Ravi Vishwanath: What you are seeing is unallocated EBITDA and the unallocated charges where we moved 3 Crores of write back from that into the staffing EBITDA.

Abhijeet Akela: Write back, so essentially what you are saying is that?

Ravi Vishwanath: The unallocated income that has moved into the staffing vertical.

Abhijeet Akela: Okay. So what you are saying is that this unallocated segment should have been lower by an expense to the amount of 3 Crores, but consummately the general staffing EBITDA should also have been lower?

Ravi Vishwanath: Correct.

Abhijeet Akela: Then so I just trying to understand the margin movement, how much would be Evolve contribution for the quarter have been, if you could just help us understand that, how much was the inorganic component this quarter in revenue and EBITDA term?

Ashok Reddy: Evolve contributed about 29.3 Crores of revenue and about 2.1 Crores of EBITDA for the quarter and it is only for two months actually.

Abhijeet Akela: Right. Just to understand any one-off items that all impacting the margin this quarter, because I would probably have expected slightly more margin improvement given the kind of revenue pickup we have seen?

Ashok Reddy: Revenue pickup, again like we said the revenue pickup we saw mostly in the last month of the quarter and not through the first two months. The associate increase also happened in the month of December so the revenue pickup of that could probably get kicked in during the current quarter.

Abhijeet Akela: Okay and so adjusted for that one off gain that you talked about within the general staffing segment the margins would have been stable sequentially?

Ashok Reddy: That is right. Yes.

Abhijeet Akela: I understood. Fine. One last question your last quarter of course we have had some in sourcing of associates from clients, you have bounce back this quarter, how does the outlook look like going into 4Q and then FY2019, are you sort seeing that you can return to the historical levels of 15%-20% associates had account addition for FY2019?

Ashok Reddy: I think we are seeing a good pipeline of open positions coming in and much more positive outlook from companies in terms of the overall hiring pattern. So the continued focus should driver to that. So if you look at it between our trainees and associates we have been at that 15% addition, it is just that it has been more of trainees this year than associates.

Abhijeet Akela: Okay. Thank you so much and wish you all the best.

Moderator: Thank you. We have a next question from the line of Vaikam Kumar from JM Financial. Please go ahead.

Vaikam Kumar: Congratulations on a good set of numbers. My first question is regarding the general staffing associate growth. So compared to previous quarters, it has been slightly weak at about 6% YOY. Are there any particular reasons for this weak growth?

Ashok Reddy: On the associate front?

Vaikam Kumar: Yes.

Ashok Reddy: Like we had mentioned last time there was some elements of in sourcing, the uncertainties around GST, the element of Q3 if you look at last year was the best quarter we have ever had given the demonetization that happened at that point. So we have not had any specific trigger in this quarter per se and also I think we have kind of overcome the element of the reduction in numbers that we had in Q2 to kind of grow the numbers and if you look at it we have had a much more positive transition or growth on the Netapp trainee front, so we have had effectively over 17000 trainee growth in the current year.

Vaikam Kumar: Okay and are we seeing any particularly strong demand from any particular sector?

Ashok Reddy: No, it is kind of widespread still. So there is no one-sector kind of driving it at this point. It is a widespread demand at this time.

Vaikam Kumar: Right and coming to the IT staffing margins, there has been a slight decline from about 15% last year to about 9% this year?

Ashok Reddy: To about 12.7% this year, so we had indicated that last time I mean at the start of the year itself that we are expecting the margins in the IT staffing to be between 12% and 13%. So I think we are kind of roughly on track with that.

Vaikam Kumar: For a full year?

Ashok Reddy: Yes.

Vaikam Kumar: Okay and with regards to tax credit that has been while we talked about, do you think there will be any impact on the benefits that we availed from section 80JJAA?

Ashok Reddy: I mean unless sunset clause is brought on the element of the schemes, as now nothing. So it is with the Finance Ministry to take a call on that front.

Vaikam Kumar: That is from my side. Thank you Sir.

Moderator: Thank you. We have a next question from the line of Deepak Kapoor as an Individual Investor. Please go ahead.

Deepak Kapoor: Good evening Sir. Just wanted some data point, what was the markup for the Netapp apprentice for this quarter?

Ashok Reddy: 568 is the average markup realization against 557 the previous quarter.

Deepak Kapoor: Okay. Your employee headcount is about 1632, what will be IT core staffing employee in that?

Ashok Reddy: It is about 1750.

Deepak Kapoor: Last quarter do you have the number of core staffing employee is 764 and HR?

Ashok Reddy: Okay you want the covering head account from Teamlease is 780.

Deepak Kapoor: 781 yes. What about the HR services employee?

Ashok Reddy: The balance really from the 1300, so the 600-odd.

Deepak Kapoor: So one of the previous callers has asked a question on the unallocated EBIT and you explained that 3 Crores unallocated income was moved into general staffing, could you explain the nature of their income that has moved?

Ashok Reddy: Typically what happens from the accounting side, and this is a debate we have been having with auditors all through is that when we make provision for bad debts or other provisions that happen, happens from specific P&L, but when they have to be reversed thereafter, they used to put it in the unallocated side. So I think after much debate one of those write backs we were able to convince them is that it is specific to the staffing business and should go back in there.

Deepak Kapoor: Okay. This is the write back of a previous provision.

Ashok Reddy: Yes. So it is a one-time large amount that comes in to the staffing side, but there will be a recurring write back on that front but it would not be as large as that is happening in this quarter.

Deepak Kapoor: Can I have the headcount for Evolve associates and sales staff?

Ashok Reddy: It is 4100 associates and core team is about 105.

Deepak Kapoor: 105, which is about 110 last quarter?

Ashok Reddy: It was actually 130 last, I mean Evolve has just come into the element of the net, so actually they had a small term hiring business of about 30 odd people whom we have now shifted into the keenly term business. So the staffing aspect is about 105 people.

Deepak Kapoor: And what will be the non-staffing employee strength?

Ashok Reddy: Come again?

Deepak Kapoor: In Evolve, the non-staffing employee cost, so 105 will be core-staffing employee Evolve?

Ashok Reddy: There is only a staffing business there now.

Deepak Kapoor: Okay. So that is what Evolve does?

Ashok Reddy: Yes.

Deepak Kapoor: That is it. Thank you so much.

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

Vetri Raju: Thanks for taking a follow through question and my question is on the Evolve. A couple of quarters back, I remember Ashok, you were explaining that telecom is actually not in the pink of health and it is not doing very well and then last quarter we actually acquired Evolve, I am sure there is a strong reason for that. What is your view in terms of the technology moving to 5G and so on, will that lead to a robust demand of the telecom employees in Evolve?

Ashok Reddy: When we made the statement from a general staffing perspective that telecom was soft and the whole price war was impacting the element of open positions and stuff that is from the general staffing side, which is largely around sales kind of profile. Evolve handles some of most technical and infrastructure management related kind of profiles and that element of the segment is actually seeing an uptick with especially as 5G happens what happens is typically when you move to a 5G at a location you moved the 4G infrastructure to a next CAD relocation and you moved that tower to the next location and so on. So I think what we are seeing from the profile sets as that Evolve caters to and which is also in away why they are at a higher margin relative to the general staffing is that the profile requirements are different, the demand on that side still continues to be there and if you look at projections in dialogue with the various companies that they have been working with the projected demand seems to be very high in the coming two years. So our belief is that the potential is still quite large on that front.

Vetri Raju: Okay and will Evolve be a beneficiary in terms of fiberization of the powers, now we keep reading that just 2/10 towers are fiberised and then for a long way to go is that kind of help Evolve also?

Ashok Reddy: Yes. So any element of a technology change or a technology uptick around the network aspect is beneficial to Evolve.

Vetri Raju: Thanks Ashok. All the best.

Moderator: Thank you. We have a next question from the line of Soumil Zaveri from DMZ Partners. Please go ahead.

Soumil Zaveri: Thanks for the followup. When you think of per employee markups of where we are in general staffing of about 755 to what extent is the thought process target based type approach of taking of mix and things like that and to what extent are we largely price takers if I say that way?

Ashok Reddy: I think largely we are price takers given that 98.5% of our market is informal and is kind of as hidden revenues with which they can play to the client mandates, but having said that if we look at what we said in the past and are continuing to stay on track for our average realization has improved about 5%-6% year-on-year. Combination of some renegotiation, some of this is being on variable pricing models and hence when CTC goes up, you get a little uptick on realization, some of them being new contracts, so combination of multiple things that has been driving that 5% to 6% and I think we will continue to at least make our plans at this point in saying that can we continue to drive that 5% to 6% realization growth and then play to volumes and productivity to improving the margins. In the foreseeable future, I do not think as we are price giver in the market, but having said that I think what we are taking to do is kind of layer on multiple things as value added services, once Schoolguru is completely integrated, offer some element of online training, the netapp program, onsite training, all of these variables that we would like to layer on over a period of time and either operate as value added services at the same price or starts pricing it differentially for customers, so that our average realization start going up.

Soumil Zaveri: That is very helpful. Thank you so much.

Moderator: Thank you. We have a next question from the line of Hiten Jain from Invesco. Please go ahead.

Hiten Jain: Sir your revenue growth in staffing and allied services business has obviously slowed down from 25% FY2016 to 20% odd and this quarter it was 7%, so obviously you have highlighted few GST related challenges in the previous quarter and when you said if I heard you correct that it has again picked up in the month of December, so where are we if we have to compare the run rate in December, is it like back to 18%-20% year-on-year?

Ashok Reddy: No, I think look again like I said that we have had a mix between the trainees and the element of the associates. The trainee count has actually gone up on a 23000 opening balance by about 18000 and the associates count has gone up by about 3000 to 4000. I think a combination of these is really beneficial to us from a margin improvement and a productivity play perspective. So we are kind of a neutral whether the growth comes to us from the trainee side or the associate side but obviously the element of the associate growth is what will give us the topline growth and we do continue to stay focused on that. So I think the double-digit growth I am hopefully being on track to what we have done in the past is something that we were continued to strive for.

Hiten Jain: My second question is if I understood correctly, you said you are to take 3 Crores of write back, so let me just list it what I have understood so in the previous quarter you would have booked topline and EBITDA and then maybe say after a couple of quarters, you booked it as provisions for doubtful debt so it would come in unallocated and in this quarter we got reversal, so you took straightaway 3 Crores benefit in staffing and allied services, but if I look at the unallocated that has also gone up from 3 Crores to 6 Crores this quarter, so is it that this quarter you have taken exceptionally higher provisions for doubtful debts that is why your unallocated is up by 3 Crores QoQ and year-on-year?

Management: Actually this is a 3 Crores which we have initially taken as a expand in the staffing P&L when we had a provision so now that the provision is reversed, earlier it would have gone into the unallocated income, but now that this write back is relating to the staffing P&L the auditors also convinced that it should go into staffing EBITDA. So 6 Crores that you are referring to is -6, so the unallocated EBITDA is a negative 6 Crores, last quarter it was negative 2, so it got increased because of this 3 Crores movement to staffing.

Hiten Jain: I understood.

Moderator: Thank you. We have a next question from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: Thank you for the opportunity. Could you please help me the numbers for Evolve that for FY2017?

Ashok Reddy: FY2017, last year?

Binoy Jariwala: Yes.

Ashok Reddy: I think it is about 90 Crores with about 7 Crores or 6 Crores of profit.

Binoy Jariwala: Sorry, how much profit?

Ashok Reddy: 6 Crores.

Binoy Jariwala: You mean PAT right?

Ashok Reddy: PBT.

Binoy Jariwala: Okay and so EBITDA would almost be similar to PBT, right?

Ashok Reddy: No EBITDA will be a little higher because they have funding cost and stuffs, so EBITDA would be about 8 Crores.

Binoy Jariwala: Okay. Now on your comment that IT staffing EBITDA margin would be of 12% to 13%, was this comment in line because the EBITDA margin for Evolve is lower than your other IT staffing companies because when I adjust – when I heard 3Q number for Evolve revenue and EBITDA, the IT staffing EBITDA works out to roughly about 19%-20% for this quarter?

Ravi Vishwanath: See Evolve is only for two months in this quarter that we have considered the numbers of Evolve.

Binoy Jariwala: Yes. That is right so you gave me a number of about 29 Crores revenue and 2.1 Crores EBITDA, right?

Ravi Vishwanath: Yes correct.

Binoy Jariwala: Okay. So if adjust that then the IT staffing EBITDA margin works out to roughly about 9%?

Ashok Reddy: Staffing revenue was 29 and 3.7 was the EBITDA.

Binoy Jariwala: 3, no Sir?

Ashok Reddy: IT that is right.

Binoy Jariwala: Yes that is right.

Ashok Reddy: So 29.4 was the IT staffing revenue for the last quarter and 3.74 was the EBITDA giving a 12.7% margins.

Binoy Jariwala: Okay Sir. Second was on the general staffing business. Could you help me with the mix between the fixed prices versus the variable price contracts?

Ravi Vishwanath: 72% of our associates are on a fixed markup model and 28% of our associates are on a variable markup model.

Binoy Jariwala: So this mix per se has not moved substantially over the past two to three years?

Ravi Vishwanath: It has.

Binoy Jariwala: It has. Is that any conscious effect to move towards the variable model?

Ashok Reddy: Yes there is but it is difficult to get customers to necessarily agree on that because the older customers do not necessarily move to that, we try getting the new customers on the variable model, it is a negotiation on a continuous basis.

Binoy Jariwala: Okay but it is not that the new customers surely pitched only on a variable model?

Ashok Reddy: Actually all new proposals that we put out as go out as a starting on variables. On negotiation it converts to a fixed way required.

Ravi Vishwanath: The default offering by us is a variable cost, markup model but sometime it just does not go down well with customers and we have to convert it to a fixed markup model if you have to win with the deal.

Binoy Jariwala: I understand and last question was on the section 80JJAA benefit, I believe IT staffing company since there, the revenue per associates will be much higher, they would not be eligible for this benefit, right?

Ashok Reddy: So the salary has to be within 25000. So most of them might not be.

Ravi Vishwanath: Most of them might not be but there could be certain sections of the population where it could be entitled to this.

Binoy Jariwala: Okay. On by and large should we consider that your IT staffing business does not get I mean meaningful benefit from this?

Ashok Reddy: Yes. That is right.

Binoy Jariwala: So sorry you said something about the sunset clause, I could not get clearly, so if you could just help me with that?

Ashok Reddy: Just now the scheme is open ended, so there is no expiry date for availing the 80JJAA benefit. The only variable if the government were to create an element of notification and gazette to saying it ends at a certain point in time as when it will close out, otherwise the scheme and the benefit exists on an open ended basis.

Binoy Jariwala: Okay and your tax rate in that case would continue to be negligible?

Ashok Reddy: Yes. That is right with a MAT provision.

Binoy Jariwala: Okay. Thank you so much.

Moderator: Thank you. We have a next question from the line of Deepak Kapoor as an Individual Investor. Please go ahead.

Deepak Kapoor: Just a clarification in the notes to be accounts results released you mentioned about 5.1 Crores as a tax asset write off, I was trying to be sure this 5.1 Crores is reflecting under the other expenses in the P&L for this quarter?

Ravi Vishwanath: So this is on account of the merger of ASAP and NichePro into TeamLease Staffing Services, consequent to the merger the deferred tax asset that has got created, the deferred tax asset – the companies are not entirely for the deferred tax benefits, so that is the reason why this has been written back, it has been reversed rather. So the deferred tax asset that was created has been reversed in a current quarter.

Deepak Kapoor: Right, so it has been expensed right, you no longer had the assets and you expensed it out right?

Ashok Reddy: That is right. Yes.

Deepak Kapoor: So I am just clarifying that your other expense for the quarter for the Q3 consolidated other expense figure is 24 times?

Management: It is not adjusted against other expenses. It is adjusted with the tax expense.

Deepak Kapoor: Okay. It is not under other expenses. All right. Thanks. That is all I want to clarify. Thank you.

Moderator: Thank you. We have a next question from line of Sudheer Guntupalli from Ambit Capital. Please go ahead.

Sudheer Guntupalli: Thanks for taking my followup question. I am just trying to understand this organic EBITDA number, so you said 2.1 Crores of EBITDA contribution from Evolve Technologies and you also said the EBITDA would have been lower by 3 Crores had that write back not being there, so adjusting these two impacts EBITDA on a YOY basis?

Ashok Reddy: It is against 10.6 in Q3 FY2018, we would have been 14.6 in Q3 FY2018, in staffing.

Sudheer Guntupalli: No Sir I am asking about the overall EBITDA also, it would have been around 12.9 Crores right adjusting for these two, so which is almost same as what you have reported in the previous year in Q3.

Management: Sudheer, where did you get this 12.9 Crores number, sorry I did not get you?

Sudheer Guntupalli: So 17.9 Crores is the EBITDA, consolidated EBITDA for this quarter and I am also setting up the impact of Evolve Technologies, and I am also removing the impact of the write back when you said in the consolidated numbers I am also removing as in so because that is the prior period item and that does not really reflect this current periods financials?

Management: Okay, I have to clarify the 3 Crores write back is only under the segment reporting. It is not in the consolidated EBITDA. The consolidated EBITDA is the complete organic EBITDA except for the contribution from telecom .

Sudheer Guntupalli: 2.1 Crores?

Management: Yes.

Sudheer Guntupalli: Okay. Thanks for the clarification.

Moderator: Thank you. As there are no further questions, I now hand the floor back to Mr. Rohit Dokania.

Rohit Dokania: Would you want to make any additional comment Sir?

Ashok Reddy: No, we are good, Rohit. I think we have addressed, maybe what we will do is have a note sent out on the unallocated EBITDA because I think many people had a question on that, so we will prepare a note and sent that out.

Rohit Dokania: Yes. That will be very helpful. Thank you everyone for joining this call.

Ashok Reddy: Thank you.

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