"TeamLease Services Limited Q2 FY-21 Earnings Conference Call"

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MODERATORS: **MR. SUDDHEER GUNTUPALLI – ICICI SECURITIES LTD.**

Moderator: Ladies and gentlemen, good day and welcome to TeamLease Services Limited Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal and 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. Suddheer Guntupalli. Thank you and over to you, sir.

Suddheer Guntupalli: Good evening, ladies and gentlemen. Thanks for joining us today, on behalf of ICICI Securities. I would like to thank the management of TeamLease Services for giving us the opportunity to host this earnings call. On the call we have with us Mr. Ashok Reddy – MD & CEO; Mr. Rituparna Chakraborty – Executive Vice President, General Staffing; Mr. Sunil Chemmankotil – Senior Vice President Specialized Staffing and Ms. Ramani Dathi – Finance Controller. We will start with brief opening remarks from the management and then open the floor for Q&A. Thanks and over to you, Ashok.

Ashok Reddy: Thank you Suddheer. So just as introduction obviously we entered the year with the uncertainty of the pandemic on us. And we had an impact on the headcount, the whole aspect of industry lock downs, the country locked down and everything else did put elements of pressure on the headcount and open positions demand from customers, which kind of reflected in our Q1 with the overall headcount reductions. And from Q2 onwards, we have started seeing the opening up of the economy and some elements of industrial activity starting to kick off. The most impacted in terms of the manufacturing auto and others have started to show earlier recovery on demand and open positions, which is reflected for us in our NetApp headcount growing or recovering from what they had lost by nearly 7000.

On the staffing front, some of the sectors still had an element of layoffs continuing into July and August. But from September, we've seen an uptick on the demand and open positions and client onboarding, which effectively has resulted in about 500 growth in the associate count for the staffing business. The specialized staffing, business marginal loss in numbers, but in-line with what we had earlier indicated, of wanting to lose certain mandates at a lower margin, and playing to a higher margin aspect on that front. So, overall we are lower on revenues, in-line with the loss than headcount by about 10%. But the associate employee count has gone up by 4% and overall, the PBT and margin improvement has played out in-line with the overall restructuring that we had gone in for. Obviously, in-line with the expected drop in business and the uncertainty, we decided to take calls on our own internal employee count, our own internal costs, and also on whether we continue to exist in certain P&Ls. And one of that was the decision to close the firm business, in impact of which we have seen in quarter one and quarter two in terms of additional expenses that kind of has impacted EBITDA. But, largely most of those expenses are now accounted for with some trail impact into Q3, but post that the firm business would be comprehensively sorted out.

The institutional government training business with that we intended to have a sunset clause on and not take any incremental business is also on track towards that and we have not been able to kick start the training programs even in Q2, with the government's insistence of it having to be physical rather than virtual instructor led online programs. So, the overall aspect of our restructuring has played out with internal headcount, rationalization, cost rationalization, and also the profit per core employee, improving by about 30% overall. Focus as we go forward will be to look at growing the customers growing the number of customers, we believe Q3, and Q4 should be positive. Obviously, the festival demand is not going to be as large as in regular periods of as in prior years. But we do believe that we should see positive demand and growth coming in Q3 and Q4.

We would continue to focus internally on the team for productivity and performance, and overall, at a TeamLease perspective, we would continue to focus on growth, margin improvement and capital efficiency. So, that's largely what we would be driven on as we go forward. I'll have my colleague Ritu, give a introduction or input on the staffing side, Sunil will give input on the specialist staffing side, Ravi, our CFO will give a financial update, and then we can open up for questions. Ritu?

Rituparna Chakraborty: Thank you, Ashok. Taking forward from what Ashok has already spoken about, the quarter remained by and large flat for us. However, there are some positive signs from some of our key metrics we have been closely monitoring, for sure the productivity gains are visible, our FTE improvement has been decent, we are at about 300 as against 283. So there are distinct productivity gains. Also, we are seeing, while July and August, we've continued to see losses or exits that have been happening across customers. However, from September onwards, we've been noticing distinct improvement in customer behavior and appetite to grow and higher. However, it is still sectorial and industry specific in nature. Just to give you a little bit of color on that, we've seen about 43% of our overall customers de-growing during the second quarter, however, about 30% have been showing signs of some amount of growth. And the balance pretty much have remained as is status.

We've also in the month of September, we've added about 29 odd customers during the quarter, during the month of September, we also managed to gain one large ticket customer. So, we've been able to win back a large chunk of business from Samsung from some of our peers in the space and leading staffing organizations. Taking our share to a considerable number within Samsung's scheme of things. We've also seen hiring improving over the previous quarter. We've seen the overall contribution from hiring go up almost double, of course it's not so material the growth given that previous quarter was quite low, but at least there are some green shoots in terms of hiring. So three key profiles that we have seen, hiring, picking up is delivery, agent, tele callers and fields executive and some of the factors which are showing some signs of hiring into consumer goods, e-commerce, telecom, manufacturing, and a little bit in financial services as well. So also, from a margin perspective as against our expectation of this general staffing closing at about 1.8%. We've been able to close that 2%.

Also, yes, one of the interesting aspects if I missed covering in hiring is that a non-recruiter channels have contributed to almost 77% of the overall volume.

I'll also take a bit of the opportunity to share with you a little bit on the labor codes. I know there have been talked about quite a bit in recent times. And given the time that we've spent in this particular agenda, I thought I'll try and give you a compressed view. It's very compressed because we're talking about 450 pages document across the full code. The objective ahead of doing this reform process have been largely to take care of the challenges associated with having multiple laws, having multiple enforcement authorities, having multiple licenses, registrations, returns and multiple definitions. The core objectives was how can we reduce the burden of compliances that current employers struggle with and improved ease of doing business.

So the first code is a wage code that obviously got passed in the parliament about a year back but it's a subsumed code of the old act. I will just touch upon some of the key highlights that each of these codes, bring in front of us. Essentially, the entire ambit of minimum wages, while it was earlier restricted to those who will be in the organized sector, in the formal sector now there is an attempt to kind of cover all kind of workers. Most of the transactions have been, the government is pushing for complete digitalization of the payment process, payment to salaries and wages. Contract labor is expected to be treated at par with any regular employees and complete **(Inaudible) 11.20** of gender discrimination.

On the Social Security, much talked about, it subsumes nine acts but the interesting one is gig workers have been included and defined. And there is an attempt to include all of workers organized under Social Security. OSH, subsumed about 13 acts, it's of importance for the staffing industry per se, because the Contract Labor Regulation Abolished Act first wide one has been subsumed under this, and one of the agenda that we'll be pursuing since 2011, of having national licensing doing away with the fragmented approach towards licensing currently in practice, and which also leads to a lot of retail corruption can be done away with and also it helped eradicate a lot of mom and pop shops who are around as contract laborers.

There is clear definition responsibilities, principal employers, contractors as well as workers. And, of course industrial relations, it subsumes three of the important ones, besides provisions of changes around trade unions and how they operate the fact that sixth term employment has been legitimize in all possible ways and the large, the only difference honestly, between permanent employees and fixed term employees, is the fact that fixed term employees have an end date, otherwise everything else has to be at par. There is also a the retrenchment process currently, where one needed to take approval from the government for anything about 100, now that limit has been stretched to 300. Also there is an introduction of the reskilling fund, which is essentially to ease the process of retrenchment and domination.

This 29 acts of the 44 essential acts have been reduced. However, the balance which is almost 438 remains the state labor laws, which of course will be the next focus or should be of the reform agenda. But however, based on the ones that have been rationalized, we see significant gains for employers in terms of reduction of compliances across registration returns and registers. So while it's a beginning of the reform process, it's important to call out that one should not assume that this should immediately translate into business transforming overnight, the rules are yet to be notified. And it is just the beginning of the agenda and in terms of the benefits of that. It should be into the long term that's what we anticipate, but we don't think there will be some immediate changes besides the reduction of cost of compliance for much of the existing employers.

I'll try and touch a little bit on the outlook for staffing. We feel that Q3 definitely have showing signs of there being an update momentum in consumption. However, it is nothing still compared to the pre COVID level. So same quarter previous year would have been behaving differently. It's also very specific to certain organizations, so while we will see positive gains. But it's also important to not compare it with the previous quarter because I don't think we will be hitting that level of growth and volume or quantum of hiring rather to be more precise.

PAPM definitely we expect, the average realization will come under pressure, because pricing and cost are ascent relation across all our customers. And however, it's important that's why for us to continue our focus on improving our operating cost and the way we manage this business and improve productivity so that we are able to type through the current situation. So that's about it from my side. Thank you.

Ashok Reddy: This variable on the labor code aspect is that, we have always said that if any crisis is also an opportunity, and the government acting in these times, to bring about legislative changes around ease of doing business and driving formalization in the long run, may to the benefit of the industry overall. With that, Sunil will give an update on the specialized staffing front.

Sunil Chemmankotil: Thank you Ashok and Ritu. Good evening, I trust you and your loved ones are doing well. We had a great quarter overall. Particularly from the sales trend, we had a bag around 24 new logos and together with this 24, we have bagged around 40 new customers in H1, these customers definitely have come at a much higher margin than what we earlier had, this is going to completely change the product mix in our system. And this is going to propel the growth in the coming quarters. The Shared Services project which we kick started in Q4 last year, actually played well and we are seeing significant improvement in the productivity and cost savings. While overall the hiring activity remains subdued in Q2 across the IT and telecom sectors. Our clients were majorly focused on aggressively bagging new digital transformation deals, which kind of translated into new kinds of requirements which we received, which were at a higher margin than the regular margins. So overall, if you see the kind of hiring we did in Q2 is at a much higher margin. The change in the skill set of our consultants which we deployed, actually helped us to give a better performance. If you look at our overall PBT achievement in Q2, we moved from 7.7 last quarter to 8.2 this quarter with a margin expansion of close to 60 basis points. So that's a good jump what we achieved and our revenue remained flat. Particularly, we had to a product change mix. So some of our low margin mandates which we let go were replaced by high margin mandates. So, overall I would sum it up saying that we had a better quarter compared to the last quarter in terms of the results. Thank you.

Ravi Vishwanath: Good evening, everybody. Just a quick update on the financial matters, we began the year not knowing how the year would actually pan out to be but what we did focus on was management of balance sheet management because, we will try and recover as much of our due as possible. We'll try and control our costs and we try and improve profitability. We've done reasonably well on all the fronts, especially our cash flow conversions are actually improved during the first half of the year. And we believe we would probably be able to continue the same trend going forward as well. Our DSO has actually come down from about 22 days overall for a company as a whole in Q1 to about 20 days. We also did get a tax refund for TeamLease and for a subsidiary Evolve, during the quarter, during Q2 and this pertain to financial year 16-17, there are some more taxes that are due for the current year, which we will talk about later. We also did focus quite a bit on trying to see if we could get some of the litigated matters out like we are a onetime settlement of an arbitration case we can close that out to where it doesn't niggle us going forward. We spent a fair amount of time on optimizing cost. As Ashok alluded to earlier, there was a lot of cost acquisition done on the headcount, we did get away from the permanent recruitment business, which led to a significant drop in headcount. In addition to that, a lot of resizing of teams that actually took place, consequent to work from home, etc. All these things have led to lower headcount and headcount related costs, large part of the benefits will probably start kicking in from Q3 onwards, we've also given up a fair amount of real estate space across the length and breadth, wherever we had offices. And those benefits also will start coming into play from kind of Q3 onwards. So by and large, overall we have done reasonably well, on the cost front although revenues were completely not under our control. All those which were under our control is something that we focused on. And, it has given us the desired results, we still have a long way to go. We are still working on quite a few of them and we hope to deliver some of these, between Q3 and Q4 and beyond that as well. Thank you.

Ashok Reddy: As Ravi stated, focus on cash flow, operating cash flow, tax free funds, we've been continuously getting those we expect to receive some more in Q3 on the tax free refund side. They're focused on cost optimization and keeping the costs aligned to business volume and focusing on productivity and technology implementation are key variable. We are focused on, obviously, with the assumption that the worst of the pandemic is behind us. A key focus from all businesses is on sales, is on acquiring more customers and growing the existing customers, hiring for the open positions that are coming on board and looking for growth in an aggressive manner, which is what we shall be focused on. So with that Suddheer, we can open it to questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Suddheer Guntupalli from ICICI Securities. Please go ahead.

Suddheer Guntupalli: My first question is to Ashok, our general head count in September 20 remained almost flattish on a sequential basis, and we are still almost 5% lower versus pre COVID on headcount. Now that we have clarity and visibility on some more moving parts than earlier, what is the timeframe you're looking to reach pre COVID kind of headcount, keeping in mind the seasonal factors any the supply side bottlenecks due to the non-availability of resources, so on and so forth?

Ashok Reddy: So, as we've stated last time, and as we continue to work we look to end the year with a higher number than we exited last year. So, what we have lost, we would like to recoup and be larger than at the Q4 of last year. And as we do stated, we are seeing opportunities towards that from the demand and the industry's opening up on open positions. We're not betting too much on the seasonal aspect of the hiring and demand because that is more for a shorter period of time, typically between 45 to 60 days. But, what we are looking at is the demand that will be more sustained for the longer haul that will carry the headcounts through as we go forward. So, we would like to say that we are internal aggression on sales is that we will end the year clearly with larger numbers than we entered the year.

Suddheer Guntupalli: Sure Ashok, that's helpful. My second question is to Ritu, thanks for those insightful comments on the labor codes. Does the new labor law paradigm treat the concept of part time temp staffing any differently than the old as in does that bring in further legitimacy to the concept of part time temp staffing, what would be TeamLease approach going forward on this area?

Rituparna Chakraborty: So based on the erstwhile legislation part time temp staffing was definitely possible even before, simply because minimum wages have been determined and classified across the four buckets of skill on an hourly basis. It's just that, it's also a matter of appetite for youth to kind of opt for that. And as an industry, that's an option that has been exercised and bits and pieces, however, haven't seen dramatic success at scale. Having said that, the pandemic has also kind of opened up options and have also made it clear to job seekers and livelihood seekers, that short term work, part time work, gig work is something that is sustainable, and that can be an option for livelihoods. So, given that gig work also have been effectively legitimize in a big way, you will see emergence of alternative firms of employment and livelihood beyond just, the traditional concept of permanent employees and having direct contract or contract employees. So there are different layers which are being legitimized and recognized by the government. And hence, hopefully in the days to come would be added options for employers as well as job seekers.

Ashok Reddy: Also, just to add to that Suddheer, the legitimate to staffing existed, the regulatory complexity overall from a compliance perspective was quite large and has been from overall compliance perspective. And the whole labor code, labor act consolidations, simplification of compliances, and all of that will benefit from the aspect of our cost to delivery and compliance activity and secondly, it would also drive from a formalization at the corporate end, where if things are simpler, are rationalized are digitized the need for formal employment and not playing below the radar becomes imperative as we go forward.

Suddheer Guntupalli: Sure Ashok. So if I understand your comments and Ritu's comments correctly, you're essentially stating that this part time temp staffing, the particular piece I was talking about can actually become a big opportunity going forward. So in that case, I would like to just know your thought process on how TeamLease will be aggressively venturing into this area of part time temp staffing or not?

Ashok Reddy: We cater to all customer demands and active requirements. So as we go forward, through the tech platform that we have through our channel partner and hiring network, the ability to deliver to customer requirements is something that we are building up on, as demand comes in on that front, we will work to deliver to that.

Rituparna Chakraborty: So, Suddheer essentially just a while back Ashok mentioned and alluded to the fact that we are not getting carried away with the up deepness that is now being talked about on festival hiring or festival led. The reason is, already we are noticing that a large number of employees supplementation have moved towards engaging part time workers, part time by way of hours, part time by way of the days in the week, part time by way of being hired just for a season. So that's already a play, whether it's hiring due to Onam, hiring due to Dussehra, hiring due to the Diwali, we are noticing that trend already since from our perspective, we look at it as an opportunity to have some big gains on the revenue front however on headcount because of fact non-permanency or the fact that they are for limited duration. We're really not banking on that from that perspective.

Suddheer Guntupalli: Sure, that's very helpful. Last one from my side to Ravi, how should one think about margins going forward. Some aspects of the aggressive cost rationalization that you had undertaken me and unwind going forward like for instance, the salary cuts you had taken in the June quarter so on and so far real estate saving, so on and so forth in that context it will be helpful if you can give us some puts and takes on where you see the steady state EBITDA margins?

Ravi Vishwanath: What we had, if you recollect Suddheer even way back in the month of April, May when we had spoken to all of you, we had said that our focus for the current year, given that our performance for the year ending March 20, was not up to the expectations we had said that, our primary objective would be to take the margins back to the FY19 levels, which were say about 2%, 2.1% by Q4, and that's what we would be focusing on in the immediate short term. And our long term objective of taking margin to 3.5%, 4% continues to be on our radar. And that's what we are currently working towards.

Ashok Reddy: And also just to add to that, the pay cuts that were impacted and the furloughs that were done have all been reversed, effective Q2. So we don't carry that element of a cost benefit anymore. So there were profit and the performance is inclusive of the fact that is all been reversed and we are back to normal on that. The Office costs and office spaces that have been given been given up we will not be requiring. And we can continue with that cost reduction on a permanent basis.

Moderator: Thank you. The next question is from the line of Rahul Ramswami from Perfect Research Fund. Please go ahead.

Rahul Ramswami: I have a few questions, I will list them together sir. Mature markets, like the USA, the staffing industry is extremely fragmented. So then leaders here in India are consolidate and gain market share. Next what threats in India we seeing from automation, reducing our long term demand of workforce, as our global peers are not able to grow revenues fighting an automation issue. Finally, as per our channel check, even large corporates are tying up regional players, what advantage do we have against these regional players as they offer cheaper services than us, that's all sir.

Ashok Reddy: So staffing industry has always, if I look at it from a global aspect, there are about 8 to 10 large players, there's a huge missing middle, and then it's a highly fragmented market. And the same reality has played out in the Indian context also. So there are a few large players missing middle and highly fragmented market, primarily given that the entry barriers are low. And it is easy to build an income generating business out of this, but as and when you want to scale, investments are required, and that's where people tend to back off or get integrated into the larger players. Also, globally, staffing companies have played to a market that is 100% formal. So there's no informality, there's no structural challenge on formalized workforce, and a certain percentage of the workforce tends to get outsourced. And your opportunity to grow there on is effectively a reflection of the economic growth that the country has and employment generation there are. I think, in the Indian context, we are far from being formal, we have a huge element of informal workforce, a huge element of informal outsourcing that happens. And hence the opportunity for growth for us is not just from the aspect of economic growth and GDP growth, but also an element of the formalization that needs to happen. So even if you look at the historical trend, for the growth of the staffing industry, has always been higher than the GDP growth as a reflection of the overall employment generation that was happening combined with apart transition and a gradual transition from informal to formal. While automation, and robotics and artificial intelligence and all of that will always play out with development of technology. And otherwise, employment opportunities will also continue to parallelly evolve in different form and modes. And from that perspective, opportunity for growth for staffing is not going to die away. And from that perspective, we still believe that the headroom for growth is quite substantial. The headroom for formalization is quite substantial. And the opportunity for any staffing company will be high. We still believe the structure of the industry will play out as it is being globally and that is really were as a point in time, the consolidation can also be inorganic, for growth for the larger player. I hope I have answered your questions Rahul.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.

Susmit Patodia: I have two questions, firstly on the new labor code Ritu for you, any new clients that have come on board which may not have discussed with you earlier, but now is a reality because of the new labor code?

Ashok Reddy: To early Susmit, the labor code has been notified, the rules have not even come into play. So like we said earlier, I don't think the labor code rollout and the rule, issuance is going to lead to an immediate translation of market opportunity, but it's in the right direction. And that is really what we are looking forward to.

Susmit Patodia: Got it. The second is the other HR services, right and you mentioned that maybe Q3 we have a little bit more left, is there a way that you can encircle the quantum that is still left to be recognized in the P&L?

Ashok Reddy: Should not be more than a crore in that sense.

Susmit Patodia: So, the 4.6 crore this time, would go down to 1 crore is that understanding right?

Ashok Reddy: Yes.

Susmit Patodia: Okay. And the third is on pricing pressure, which Ritu alluded to. So, I'm just wondering if the way you are pricing the contract is now changing as you're realizing higher FTE productivity. So are you now be able to price the contract lower because you have higher productivity, and hence the same margin and does that open up better or bigger client universe?

Ashok Reddy: So we do have the leeway because of productivity and cost rationalization at our end. But having said that, we have across the two quarters maintained our average realization per associates per month, and we have not fallen on that. But what Ritu was coming in that is the fact that a number of customers coming in with the uncertainty of how the business is going to be and the aspect of support from a pricing perspective to see them through. While in quarter one, we gave certain discounts, most of those discounts have been reversed, quarter two have very marginal discounts, leftover as a carry forward. But if certain mandates are there for the picking at a slightly lower realization, then our current PSAM, we would be fine to take them now given that a lot of the cost rationalization and productivity factors will offset that.

Susmit Patodia: Correct, so you are open to that and that.

Ashok Reddy: Yes.

Susmit Patodia: And one more question, one request or one question is that, is there been reduction in competitive intensity that you have seen?

Ashok Reddy: Can you just repeat that question Susmit didn't hear you.

Susmit Patodia: Any reduction in competitive intensity, because there was a mushrooming of a large number of small players, backed by a lot of the b money has there been any reduction in that?

Ashok Reddy: All player really backed by b money, the number of competitors in place, still the same but in certain areas. Not so much in general staffing, but in specialized staffing the smaller players are challenged for working capital, because the times are tough, the need to follow up and maintain your relationship and ability to get bank loans and stuff of that stuff are limited. So, the benefit for us is we are still debt free, we are cash flow positive, TDs refunds, have put money in the bank. So all of those are good situations to be in. But, per se I don't think the competitive intensity has reduced. Some of the smaller players clearly are under working capital, pressure and stuff of that sort, but that's the ups and downs that we get to see.

Susmit Patodia: And lastly, one request, now that the tax refunds have started coming in the cash in the bank, from our experience if you can put out capital allocation policy, that will be really forward-looking and helpful for us and this community.

Ashok Reddy: So, at this point in time our outlook for utilizing the capital, the money that we are getting is primarily towards in organic and acquisitive growth. There are certain opportunities that we are evaluating that complements our existing portfolio, we don't intend to get into any new lines of business. Strategically what we've chosen to operate in will hold out for the coming period. But clearly, given that there is stress in some of the smaller players, there are opportunities that we could roll off from either specific team, clients or complimentary service offering that we could do. So, at this point in time, we are looking at the capital as acquisition capital that we would like to use in the coming period.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: I had three quick one. One is with the new labor codes; do you foresee any specific areas of the workforce seeing an upward reset in salary due to the labor codes at time soon?

Rituparna Chakraborty: On paper given that minimum wage is now encompasses even those in the unorganized sector. So definitely on paper, there is a possibility, but however there is still questions on execution implementation. But otherwise, there is no other indication by which one can assume that because of the labor courts wages could get affected or improved upon, of course but even for fixed term contracts, whatever is the current norm for permanent employees, employers have been consistent so that could possibly be a scenario and a improved scenario. However, we will have to watch this to see how much difference it makes to wages. One way of looking at it is that in the long run, if there is more formalization of workforce, how it impacts the per capita income in general, but it's really a long shot from now.

Nitin Padmanabhan: Sure. So you're not really seeing the labor department's come out and sort of try and enforce specific salary levels and things like this at this point, is what you're saying?

Rituparna Chakraborty: At this point of time, No however, the Central Government has given itself powers to come out with four indicators, zona minimum wages, so if that comes into play, whenever it does, essentially across state governments its binding on them to have minimum wages at par with that or above. So at that point of time, we could see movement on wages, however it will have its own set of consequences as well.

Ashok Reddy: And also Nitin, at this point in time whatever are the minimum wage requirements and so on are adhere to buyers, we just hope the government would enforce it on everybody else, from a perspective of the informal law that would then get formalized, but at this point in time all the requirements from wages and an enforcement perspective are taken care of buyers.

Nitin Padmanabhan: Sure. The second one was have you done any assessment in terms of how much the compliance costs could decline or come down by for your existing client set, and does this mean that the productivity per core employee could be much higher than what we had seen earlier?

Rituparna Chakraborty: So, have done a little bit of an assessment not just for our customers, but in general for employers. So for example, on account of the rationalization that the wage code will have made possible, we anticipate that the cost of compliance for return should go down by almost 57% because the activity is getting reduced to that extent. And similarly for register around the same benefits. On social security code, we see that on account of reduction of the number of registration, there will be 75% gain, on returns almost a 97% gain because as against 36, they need to now have file only one return and an account or registers also as against 20, they might have to do one or two, which is almost a 90% gain. The largest gains come from the OSH Occupational Safety and Health and working condition one where across licenses, that again is 75% registration, 90% returns, 95% registered almost 95%. So, the maximum load at this point of time has been reduced by the OSH and industrial relations in any case doesn't have applicability of licenses, registrations and the returns will just become one. So, just to give you a little bit of a quantitative analysis of the gains that employers can anticipate.

Ashok Reddy: And also, just from our own core perspective, we have about 100 people in the team who take care of all the various statutory compliances. For the activity that we do across the country and across customers, we clearly can improve productivity, if thing from a compliance perspective are reduced and are digitized.

Moderator: Thank you. The next question is from the line of Nishad Karkare from Bay Capital Partners. Please go ahead.

Nishad Karkare: I had a couple of questions. Firstly, I just wanted to understand the income tax assets a little bit better. So in March 20, we had about 245, 250 crores of income tax assets on the balance sheet. Could you just give us rough numbers on how much of that has come back, refunded in the past couple of quarters and how much has gotten added to that base?

Sunil Chemmankotil: What we've actually got about 37 crores including interest during Q2 and we just only refund that we have got in the current year, and the balance amount is what has been added during the current year.

Nishad Karkare: So you got 37 and maybe about 25 odd would have gotten added by because I see just a 10 crore difference in that line item?

Sunil Chemmankotil: That's right, Yes.

Nishad Karkare: Okay. Understood. The second question is on, sorry could you repeat that, I missed it sorry.

Ashok Reddy: We should be getting another 30 odd crores in Q3.

Nishad Karkare: Understood, okay that's helpful. The second question is on the hiring bit, Ritu made a comment that about 77% of the volume came from the non-recruiter channel, could you elaborate, I couldn't understand what that means?

Rituparna Chakraborty: So essentially, our rather historically a lot of our ability to close the open mandate or hiring mandate were dependent on recruiter headcount. So we have been consciously over the last few quarters attempting to move away from that model, which is besides the choke on productivity, it's the non-scalable model. We wanted to explore online channels, we wanted to explore vendor networks, we wanted to explore other sources like Metros and so on and so forth. We have been able to consistently make an improvement and as of now 77% of the numbers that volumes that we are closing and adding are coming through non recruiter lead channel.

Nishad Karkare: Okay, understood. So, recruiter channel is essentially where the employer himself or herself, recruits and then on boards it onto your goals. Is that understanding correct?

Rituparna Chakraborty: No, essentially what we are saying is that if I am using my recruiter headcount, like our TeamLease own core employees, so earlier most of the hiring's were happening through individuals right. So now we have been consciously making an investment to leveraging let say TeamLease.com which is the key source of hiring for us through referral networks, through vendor networks, through a lot of associations with the government and other partners. So our dependency on having recruiters to enable us to close positions is actually diminishing day-by-day and we are seeing greater leverage for non-recruiter which actually improves the productivity as well as help us deliver here.

Ashok Reddy: Just to add and clarify, recruiter hiring is effectively end-to-end activity done by an individual on finding a resource for an open position. Whereas the vendor channel and alternate options that we have, contribute to the hiring, coordinated by the recruiter but not done end-to-end. So what it does is effectively likely Ritu just mentioned increases productivity, reduces our cost of higher variablizes our cost to some extent, and effectively gives us the larger reach for being able to deliver to positions without necessarily creating a fixed cost structure around it.

Moderator: Thank you. The next question is from the line of Nilay Pratik from Samar Capital. Please go ahead.

Nilay Pratik: My question is about the IT staffing business, maybe for Sunil. So first of all, it's a fantastic job that the team seems to have done on IT staffing piece, where despite the decline in revenues in H1, there is a substantial improvement in EBITDA. So, Sunil you alluded to a change in mix in terms of getting better quality business, and that leading to the improvement in margins. So if you can elaborate a little bit more on that, that's what I wanted to understand.

Sunil Chemmankotil: So, what we have witnessed is that in the Q2, the kind of requirements what we picked up new age requirements which our digital engineering, cyber security, cloud adoption, et cetera, which were giving us a better return in terms of our marketing, and our bill rate. So these got replaced with the low end business what we used to pick up earlier, so that's the change in the product mix.

Nilay Pratik: Okay, but some of this essentially is, it's a completely different kind of skill sets that is required to deliver, business in these areas. And even in terms of the nature of the projects, they might be a bit more on the let's say scope of work ODC kind of side, rather than QRP staffing. So how does that get taken care off?

Sunil Chemmankotil: With the with the acquisition of IMSI which we did last quarter, we had a capacity or inbuilt capability to deliver to hire, a skill set which is kind of, as you rightly said I would require different kind of capability that was built within our overall portfolio. So that's how we were able to deliver.

Nilay Pratik: Okay, and just as a closing thing on this one, was it like is the improvement in EBITDA almost completely attributed to this change in mix, or were they like substantial cost reductions here as well?

Sunil Chemmankotil: It is a combination of product mix change, as well as, as I explained the Shared Services project, which we kick started in Q4, kind of started giving us benefits in this quarter. It gave some benefits in Q1 in terms of headcount optimization, but in Q2, we were able to witness the productivity improvement and the Shared Services is catering to all the business units within specialized staffing. So that's kind of helping us to give better productivity. So it's a combination of both.

Ashok Reddy: Just to give context to that we have reduced headcount as a year-on-year by nearly 150 resources at a core employee level.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.

Susmit Patodia: Wanted to check on the other income, is there any right back of provisions, or it's just all Treasury?

Rituparna Chakraborty: So we have brought down our office space by almost 30%, so on account of that varies the reversal of certain amortizations that we did on the rentals. So that is to the tune of about 3.7 crore. So that's the main component in other income.

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

Alok Deshpande: Couple of questions, firstly on the core employee. So as you can see from your presentation, the staffing core employee number has gone down from 830 to about 630. My question is, as we see a reversal in the headcount, going back to a pre COVID level in a couple of quarters or probably three quarters. Will we need to redeploy more core employees or you think that this is the core employee number we'll be able to manage it?

Ashok Reddy: So, we would from a service delivery perspective and a sales perspective, we would not need to add headcount much. There'll be a marginal addition on that front also, this is on the back of a number of technology, developments and rollouts that have happened over the last nine months. So, productivity from service delivery perspective will stay on track. Some element as more open positions and demand comes in, we might hire on the hiring side. But other than that, we don't look to getting back to an 830 level, even by the end of the year by any far chance.

Moderator: Thank you. The next question is from the line of Kushal Shah and Individual Investor. Please go ahead.

Kushal Shah: So, I had a couple of questions. Firstly, on the general staffing side, I want to understand that the associates which are employed by TeamLease, what percentage of those the sourcing recruitment effort as well as cost is incurred by TeamLease, because my understanding from certain retail outlets in Mumbai is that these retail companies actually find and recruit employees and TeamLease is largely brought on for payroll processing. So would this be an exception or can you broadly quantify what percentage of cases where TeamLease would have such an understanding. Also, can you quantify broadly, I understand you can't give exact numbers, but what percentage of the associates receive some form of training before they send to the client location. This is on the general staffing side. Secondly on the specialized staffing segment if I look at the standalone financials of TeamLease Digital, the PBT losses are expanded for the third consecutive year. So can you explain what is happening here, because this is a subsidiary where we have the two of the earliest acquisition which is ASAP Info Systems and Keystone, which were actually acquired in mid-2016. So can you explain directionally as an acquisition level what is going on, on the margin front. Thank you.

Ashok Reddy: So on the staffing side, we have a combination, we don't do 100% of hiring for customers in general staffing, in specialized staffing we do 100% of hiring as a function of the fact that customers are willing to pay for it. So the pricing model that we have is effectively a combination of recurring service fee for administrative aspects of keeping the employee transaction element for Lifecycle Management and there is a onetime cost for hiring. So customers have a choice around that and rough estimate, and it will be, it will not be across the board, but about 30% to 40% of our customers require us to source others effectively say that I have the bandwidth to identify and track the resources, I will identify them and then pass them on to you to onboard and take it on from there. So, that's really how we look at so upfront ideally we'd like to source for all but it's the customer's choice that comes on to the table. On training front also, in the NetApp side, which is our apprenticeship program 100% of the apprentices get trained, we have a 200 hour program that's rolled out to them. Over and above that we have additional training programs that are effectively choice for customers to take, which is similar in the staffing side. So we do what we call onboarding and induction training for all but specific functional industry training is a choice for customers and it is costed as an additional payable from there. So that's really how we drive it. On the specialized staffing front.

Rituparna Chakraborty: So the difference in TeamLease Digital is on account of the goodwill amortization. So as TeamLease group level, at the consolidated level while we don't amortize the goodwill and test it only for impairment at the end of every year in-line with the IndAS accounting, so TeamLease Digital as an entity is created by way of High Court demerger process with ASAP and Nichepro both put together. So as per the guidelines under that we are amortizing the goodwill over a 10-year period. So that's the main difference that you can see below line item, below EBITDA other expenses in the TeamLease Digital.

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

Ashok Reddy: Thank you. So, broadly we've been able to stem losses that we had in Q1 on the headcount front and start to show a positive trend on the deployed base. We face the aspects of demand and customer feedback, do look to continue the trend of associate addition and effectively end the year better than we entered the years. And the continued focus on productivity, cost rationalization and our core employee development is something that we will drive on while we look at the aspect of growth of cash flow management and capital deployment towards acquisitions as we go forward. We do believe that, the margin loss that we had last year we will be able to recoup into this year as we go forward. So, we are positive obviously there are too many uncertainties around the pandemic and the COVID out there. But overall, we should look at a more positive aspect of growth as we go forward. Thank you.

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