"Quess Corp Limited Q2 Financial Year 2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Quess Corp Limited Q2 FY 2020 Earnings Conference Call hosted by ICICI Securities Limited. 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, 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. Kuldeep Koul from ICICI Securities Limited. Thank you, and over to you, Sir!

Kuldeep Koul: Thanks everyone, for joining us on the call. Thanks to Quess Corp, for giving us the opportunity to host this call. We have with us the senior leadership of Quess Corp. Mr. Ajit Isaac, Chairman and Managing Director; Mr. Subrata Nag, Group CEO and Executive Director; Mr. Subramanian Ramakrishnan, Chief Financial Officer; and Mr. Vijay Rajagopal, Director Corporate Development and Investor Relations.

I will hand over the call to Vijay, who will run us through the mandatory regulatory disclosures, and he will then hand over the call to Ajit, who will walk us through the highlights of the quarter, which will then be followed by Q&A. Over to you, Vijay!

Vijay Rajagopal: Thank you, Kuldeep. Good afternoon everyone and thank you for joining our earnings call today. Please note that these results and the press release have already been uploaded on our website. Anything we say, which refers to our outlook for the future is a forward-looking statement, and that must be read in conjunction with the risk that the company faces. These uncertainties and risks are included, but not limited to what we have already mentioned in the prospectus filed with SEBI. With that said, I will now turn over the call to our Chairman and Managing Director, Mr. Ajit Isaac. Over to you, Ajit!

Ajit Abraham Isaac: Good afternoon, and a very warm welcome to all of you. Thank you for joining us on today's call, and I am sure that you would have reviewed our latest quarterly earnings presentation financials. This was a quarter which saw us deliver successfully on multiple fronts, where we showed robust revenue growth despite the economic slowdown demonstrating our all-weather business model.

Let us begin by giving you a brief overview of our financial performance, followed by key corporate and platform-wise updates, post which, we would be happy to take your questions. We crossed revenues of Rs.2,750 Crores, a growth of 27% year-on-year with our EBITDA reaching Rs.161 Crores, an increase of 44%. We achieved a net profit of Rs.65 Crores, which was a growth of 5%. Without the Ind AS accounting adjustment, net profit was Rs.70 Crores, which was a 13% year-on-year increase.

Cash flow from operations stood at Rs.117 Crores for the first half of the financial year 2020 as against Rs.72 Crores in the previous year, which was an increase of 62%, much driven by our continued focus on collections.

EBITDA-to-OCF conversion reached a new milestone of 49%, up from 36% in the previous quarter last year, thereby placing us in a comfortable position to achieve integrated target of 30% for this full year. Significant debt reduction of Rs.375 Crores was achieved during the quarter. Our gross debt at the end of this quarter stood at Rs.920 Crores, while net debt stood at Rs.272 Crores.

Moving on to some other key corporate updates, in the Ahmedabad smart city project, we have pending dues of Rs.179 Crores, which has been stuck since our JV partner, Trimax IT went into bankruptcy. I am happy to inform that we have now completely resolved this issue by acquiring Trimax IT's 49% stake in the JV, which we now own 100%. All current deals and future payments will flow exclusively to us. Rs.21 Crores has already been received as on October 30, while another Rs.81 Crores is expected to be received by March 2020.

Demerger of Thomas Cook India is expected to be completed by December 2019. Post this, Quess will be directly held by Fairfax Holdings, who will hold about 33%, and public shareholding will go up to about 45%, up from about 28% currently.

Our strategy is to simplify the overall group structure and reduce number of entities from 45 to 30. In line with this strategy, four subsidiaries are being merged into the parent. Additionally, a few other Indian and overseas entities are either being merged or converted to branches.

We initiated an exercise to rationalize intercompany loans and advances, which stood at Rs.560 Crores in the previous quarter, with Rs.117 Crores that has already been reduced and multiple efforts underway, these balances are expected to come down to Rs.95 Crores by December of 2019.

We also issued 7.54 lakhs shares to Amazon at a price of Rs.676 per share amounting to an investment of Rs.51 Crores by way of preferential allotment. These investments are now being utilized towards the business expansion of DigiCare.

In Allsec Technologies and Terrier, our statutory auditors have been changed to Deloitte Haskins & Sells. This is in line with the growing operations of these companies, while also complying with the SEBI guideline of covering 80% of consolidated revenues by our statutory auditor.

I would now like to move on to some key platform-wise updates. Workforce Management: Quess became the undisputed leader in the staffing space some time ago and continues to gain market share and surge ahead of its competition.

Revenues increased by 38% year-on-year, driven by strong headcount growth. We added a record 66,000 associates over the last four quarters. General staffing headcount crossed a new milestone of 240,000, with Collect and Pay contract improving to 72% from 60% on a year-on-year basis. Core to Associate ratio improved to an industry-leading efficiency of 1:333, up from 1:290 the same quarter last year.

Logistics business Dependo touched a new peak of 1.5 lakh deliveries per day against a previous high of 1 lakh. Overall training targets in our Skill Development business for the year, for H1 of 2020, were 52,000, which is 67% higher than the previous year.

In our Operating Asset Management Platform, overall revenues remained flat to around Rs.432 Crores, while EBITDA saw a marginal decline from the previous year, mainly on account of onetime provisions and a loss that we booked on the sale of assets in our industrials business.

The platform was essentially driven by the operations of the Facility Management business, where revenues increased to Rs.335 Crores, up 8% year-on-year. EBITDA in this business grew 30% year-on-year to Rs.34 Crores. Associate headcount also increased 78,000, while total square feet under management improved to 254 million square feet, both increasing by about 6% year-on-year.

The proportion of higher-margin SLA business versus headcount went up to 26:74 as against 22:78 in the same quarter last year.

In Tech Services, revenues increased 23% year-on-year, with a 20% increase of revenues in Conneqt and 27% growth in the number of payroll slips processed at Allsec. EBITDA increased 125% year-on-year to Rs.69 Crores, while EBITDA margins increased from 9% to 15% on the back of the Allsec acquisition.

Among our emerging businesses, we have identified three, which are in the investment mode and have excellent growth potential, Monster, DigiCare and Dependo, on each of them, I will call out some key operational metrics.

Monster. Sequentially, we have been able to reduce our EBITDA losses by about Rs.3 Crores. We expect it to operationally breakeven in the next quarter that is Q4 of 2020. Job views and site visits are up 53% and 54%, respectively, on a year-on-year basis.

Our new mobile application is on par with industry leaders, whereas rating has improved to 4.4/5 from 3.8 in previous quarter.

In DigiCare, the service footprint has increased from 350 to about 600 towns across India. Quarterly EBITDA doubled on a year-on-year basis to about Rs.1.9 Crores, whilst store count saw a 130% year-on-year increase to 230 stores.

At Dependo, our footprint grew from over 51 cities to 70 cities this quarter. Peak delivery capacity increased to 1.5 lakhs packages in a day from a previous high of 1 lakh.

We have also had some senior leadership changes. We have appointed Mr. Suraj Moraje, as our Executive Director and Group Chief Executive Designate effective today, the November 4, 2019, he will take over from Subarata Nag, as the Group CEO and Subarata retires in 2020. Suraj was a senior partner at McKinsey and a leader in the Asia TMT Practice. He has over 20 years of consulting experience across multiple sectors and his previous roles at McKinsey have included the establishing the African TMT Practice and transforming the Philippines office as the managing partner of the country.

He also served at McKinsey's global new partner election committee and he holds a BE in Technology and a PGDM from IIM Ahmedabad.

We also, during the quarter, appointed Ashish Johri as the CEO for Allsec Technologies. Ashish has an MBA from Purdue University in the United States and an undergraduate degree in Architecture. An outstanding entrepreneurial leader with 24 years of diverse experience in the BPO space across banking, analytics and other sectors, he has experience in companies like TCS and Capital One.

All of the above summarizes the slew of positive outcomes that we have achieved during the quarter. This has been a significant quarter for us in terms of many corporate actions, and in terms of achieving some of the milestones that we set for ourselves during the concall we had at the end of the last quarter. Now we would like to open the floor to questions. I am joined by my colleagues from our corporate office and finance functions to address the same. Thank you very much for joining the call, and I look forward to your questions.

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

Kuldeep Koul: Thanks. I just want to understand the economic rationale for moving loans and advances to equity for your subsidiaries, because to me, it generally has two negative connotations. One, equity in general, is an expensive form of capital related to debt for your subsidiaries and second, and more importantly, it has a negative signaling in the sense that you are invariably telling us that it is unlikely for the subsidiaries to generate material internal accruals in the foreseeable future to repay principal payments that you have given to these particular entities. So, if you can help us understand what is the key reason of moving loans to equity?

S. Ramakrishnan: Kuldeep, this is Ramki here. Let me just give you a rationale, most of the entities with whom we have the intercompany loans were entities that have been acquired recently and are relatively new and would probably have a credit line of their own. Under those circumstances, obviously, the model to be adopted is to give an intercompany loan from the corporate or give a corporate guarantee, that is the model we had adopted. Having said that, we thought internally and discussed this with the market also and concluded that it is a good idea to have this in the form of intercompany loans. We later concluded that most of these advances would probably be more in the nature of equity. Under those circumstances, it was decided that we will move from an intercompany loan structure to another product structure and the options we had was to move to a

CCD or CCPs or an equity. In the event of a CCPs or an equity, it would be a case where the money would permanently be stuck at the subsidiary level or at the other entity level and if we have to pull back the money later on, when they had the financials of their own, then it should be either in the form of dividend or in the form of share buyback, some of which will have a tax implication. Hence, it was decided to go with the CCD products. The CCD product would also continue to mean that the group can classify this entire structure, not as a loan, but as an equity from a consolidated perspective, and still achieve this objective of having the money come back to us as and when the financials of the respective entity are able to pay back the money and all the CCD continue to be at an interest rate, just to kind of allay the fears between loan versus risk, it continues to be at the interest rate which is exactly the same as was in the case of loan. So that is the reason we went for this.

Kuldeep Koul: Thanks Ramki. That is very helpful.

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

Nitin Padmanabhan: First, I would like to thank you for the additional disclosures this time around and so just two specific questions. One is the people and services business continues to be doing exceedingly well despite the macro we are seeing around. I just wanted your thoughts around, one, what has driven the strength this time around? And going forward, how do you see things panning out based on what you see on the ground? Do you anticipate any weakness going forward? Or do you think that there should be some strength continuing in the markets? And if so, what is driving the strength when everything else is materially weakening?

Subrata Kumar Nag: This is Subrata here. I think the traction we are getting is coming from many fronts. One is definitely post the GST; the movement from unorganized to organized sector has increased. Being the largest in the segment, we are getting most of the benefits of this transition. Secondly, if you see our segment wise breakup, we are in the BFSI, IT, IT retail, telecom, logistic, e-commerce, so we are spread across India, from the north to south and east to west and our recruitment capability is helping us to get more market share and traction in the market and the strategy we adopted in the last quarter- to penetrate more in the Tier 2 and Tier 3, Tier 4 cities is also helping us pick up more clients, and you will see that the number of clients we have been finding has increased every quarter. So, all of this is helping us to keep the momentum and I do not foresee any immediate slowdown in the next two quarters. Maybe not 40% growth, but we can expect 20%, 25% plus growth from the general staffing business and overall from Quess also.

Nitin Padmanabhan: Sure. So there is nothing that, at this point that is actually visible that can impact the existing book of business wherein people are looking to sort of cut or anything?

Subrata Kumar Nag: No, people may not add in the way they were adding and the number of hiring's may be coming down, but it is not that they are cutting down the current workforce. We are also incrementally adding, however, the question is at what degree of propensity are we adding, and that may have come down a little bit but we are still adding. In the last quarter, we added 17,000 people in general staffing itself. The growth momentum is still there.

Nitin Padmanabhan: Sure. The second one before I get back in the queue is on the Facilities Management business. The growth is down to 8-odd percent after the early quarter being around holidays and things for the hostels and so on and so forth. I was just wondering, what's driving the relative softness here? And do you think this softness is here to stay?

Subrata Kumar Nag: The growth is little when compared to general staffing, overall, I think, year-on-year growth is around 8%. However, I am confident that in the coming quarters, some of the contracts which came into the latter part in this year will take some time to mature. I think when we exit the year in FY2020, March2020, overall, the annual growth will be more than 15%. I think we will exit the year around Rs.1,400 Crores+ revenue. Last year, we ended the year around Rs.1,200 Crores. Going forward, we are now going for IFM i.e., Integrated Facility Management and large contracts. Some of smaller contracts, just for the revenue we may not be picking up. I think as far as EBITDA is concerned, our growth will be 20% plus in this year also. Rather than being revenue focused, we are more focused on the EBITDA and cash flows as far as the SLAs is concerned nowadays.

Nitin Padmanabhan: Thank you. All the best.

Moderator: Thank you very much. The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

Amar Maurya: Thanks a lot for the opportunity. Sir, number one, if you can help us with your depreciation run rate going forward, it has seen a significant uptick in this particular quarter. Going forward, how should we read the depreciation?

Subrata Kumar Nag: If you look at depreciation during the quarter, it has primarily got a big Ind AS impact on it. It is about Rs.28 Crores. The overall increase just in terms of the depreciation line item alone is Rs.35 Crores, of which Rs.28 Crores is the Ind AS impact. There is also an inorganic growth from Allsec, about Rs.8 Crores. Other than that, if you look at it from a capital additions perspective, last year, we had close to Rs.92 Crores or Rs.93 Crores of capital additions as per the annual cash flow statement. This year, we expect the capital additions to be more in the range of only about Rs.35 Crores - Rs.40 Crores. We do not expect any big dip in depreciation, you should look at it on a steady state from now on. It is the Ind AS impact which is creating the year-on-year blip.

Amar Maurya: Okay. So basically, the current run rate, including the Ind AS impact of Rs.66 Crores in this quarter, is the steady-state run rate we should consider from here on?

Subrata Kumar Nag: Yes, you can consider that because it includes the full quarter.

Amar Maurya: Okay. And secondly, Sir, for your interest cost, I am assuming that the debt is going to reduce at the end of the year. But then, how should we see the interest costs moderating? Because this quarter, including the Ind AS impact, it was round about Rs. 41 Crores and if I include the Ind AS impact of that call option, it is round about Rs. 4 Crores. So Rs. 45 Crores versus Rs. 40 Crores in Q1. Instead of reducing, it has increased slightly. How should we see the run rate going forward for this?

Subrata Kumar Nag: I think we had called on our interest cost in the June quarter call also. Our overall credit update went up because of 2 factors. We had to pay close to Rs. 400-odd Crores for the Allsec acquisition. We also had to convert our intercompany loan, which we had given to Quess Singapore for the purpose of Comtel acquisition which was close to Rs. 107 Crores, Rs. 108 Crores from intercompany loan to a third-party loan. So obviously, our credit has gone up, which has pushed up our overall gross debt number from Rs. 784 Crores, which in March 2019 was about Rs. 1,294 Crores, a good Rs. 510 Crores increase was there as of June 2019. However, that number has reduced by about Rs. 375 Crores as of September 2019. Our opening number, as of October 2019, is coming down in terms of our debt utilization, which will mean that the interest cost outflow moving forward will come down. Having said that, for the quarter, the interest utilization of the credit is much higher, which is why our interest cost was higher. You rightly pointed out that, there is an Ind AS impact of Rs. 8 Crores Other than that, there is an additional Rs. 8 Crores or so, which is for the increased utilization. You will also appreciate the fact that Allsec had an interest contribution of about Rs. 1 Crores. There is an incremental interest component - the interest rate per se had gone up by about 20 BPS which contributed about Rs. 1 Crores, Rs.1.5 Crores. Moving forward, just to give a very high-level number, we will move back to more like a Q1 kind of number in terms of our interest outflow, if that may give you some indication.

Amar Maurya: One last question from my side, Sir. The tax rate in this quarter was basically negative. I mean the overall tax. I believe we got the 80JJAA benefit, so how should we see the tax rate going forward for the next two quarters?

S. Ramakrishnan: The 80JJAA benefit is a projection for the full year in terms of what we have already added and what we think we will add. We assume a probability of achieving it. We do expect the same kind of tax arbitrage to continue on the 80JJAA. Some of it is based on the preceding quarter, carry forward coming to this quarter. Hence, you see about a minus 4.5% kind of tax rate. Moving forward it could be more in the range of about minus 2% is what we feel.

Amar Maurya: Thank you.

Moderator: Thank you very much. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella: Good afternoon. Thanks for taking my question. Thank you for the improved disclosures in the presentation. One question on the P&S segment – the growth has been strong, but there has been a bit of moderation sequentially in terms of the margins this quarter, could you comment on that? And specifically on the IT staffing business, as the presentation mentions, there was a significant reduction in margins. What's the outlook over there?

Subrata Kumar Nag: Yes, Abhijit, the general staffing margin is better than what we used to have previously. I think our net realization per person has also gone up The core to associate ratio has increased. So that has a positive impact on the general staffing. However, when I am looking at the overall P&S, I think, 2 or 3 factors work there. First of all, Magna's margin is due to IT staffing still being under pressure. I think that margins came down a little bit further, so that has an impact. And, you have to understand one thing that Coachieve, which is a part of the P&S business, moved to technology and around Rs.60,00,000 of, quarterly impact can be seen There was a slight EBITDA loss in Dependo. All these things subdued the overall people and services margin. But I think that for Q3 and Q4, particularly, the training mandate of 51,000 what we have secured at the end of Q1,, mostly the entire benefit of Excelus will be coming in the Q3 and Q4. While Excelus has a 20% plus margin business, when the benefit from the mandate will kick in, in full force, I think that our margin, which dropped slightly, will reverse. I think we will cross the 6% margin, what we have in the Q3 and Q4.

Abhijit Akella: Okay, great. That is helpful. Secondly, on the Industrial segment, just to clarify, there are one-off charges worth about Rs.7 Crores this quarter. Is that correct?

Subrata Kumar Nag: Yes, Rs.7 Crores.

Abhijit Akella: So this is non-recurring going forward?

Subrata Kumar Nag: This is nonrecurring going forward.

Abhijit Akella: If you could also just talk a little bit about the cash conversion. So, it improved significantly this quarter. What is the full year target? And do you believe that the DSOs are sustainable at the current level of 34 days?

Subrata Kumar Nag: I think the company has been focusing very heavily on our collections. We put in a very strong collection unit within the company. This is one of the main discussion points in the company almost on a daily basis, and that is kind of showing up in the numbers, which has helped us reduce our DSO numbers. It has helped us improve our OCF conversions. The first half of this year is more like 47% as against 36% last year first half. And with the current kind of focus, we will continue to maintain our focus on DSO, and we are very confident of attaining our OCF target of 50%, which is what we had promised.

Abhijit Akella: Thank you.

Moderator: Thank you. The next question is from the line of Sandeep Baid from Quest Investment Advisors. Please go ahead.

Sandeep Baid: You just talked about OCF-to-EBITDA ratio of about 50% towards the end of this year. And you also mentioned earlier in the call that your capex would be about Rs.30 Crores to Rs. 40 Crores. Would your free cash flow to EBITDA ratio be similar to OCF-to-EBITDA?

Subrata Kumar Nag: It is marginally lower, but it is pretty strong.

Sandeep Baid: Okay. It will be around Rs. 40 Crores?

Subrata Kumar Nag: We can probably get back to you on the exact number on free cash flow side.

Sandeep Baid: Okay. Can you give some color on how the revenue for Monster has moved since you acquired this company?

Subrata Kumar Nag: I think the revenue of Monster remains more or less static. It has not increased substantially. The improvement in the EBITDA, the loss what you are seeing is basically coming from cost rationalization and we think that the revenue pickup will start when the product will be absolutely ready. For the time being, the revenues are more or less stable; it is not increasing as such.

Sandeep Baid: When do you think the product will be fully ready as you said?

Subrata Kumar Nag: I think, by end of Q3 or beginning of Q4, most of the product will be ready. In the product there is stage 1, stage 2, there are a couple of stages, but the search engine and other things will be ready January onwards, but entirely unique products will be coming in sometime in March, when we get into the New Year.

Sandeep Baid: Thank you. Bye-bye.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: Yes. Sir, my question is on the industrial segment. In the presentation, you have mentioned that the business has achieved about Rs. 97 Crores of revenues and things have almost bottomed out and you are expecting this particular business to deliver better performance in the coming quarters. Can you throw some highlight on the same, what is your perspective or view on the same?

Subrata Kumar Nag: If we analyze the industrial result this quarter itself, we had a Rs.5 Crores loss after taking a one-off cost of around Rs.7 Crores. If you take out the Rs.7 Crores loss, a onetime expense actually, we are Rs.2 Crores positive. That is the #1 on a going basis. Second thing, we have been restructuring the industrial. First of all, the passive infrastructure in the telecom segment was a loss-making venture. So we stopped it. We scaled down the smart city project and are at the last finishing part of the Ahmedabad project. In the Hofincons business, there are a few contracts which are loss-making or just breaking even, we came out from those. So overall, all these things are helping us to regain our ground there. I think going forward we will be seeing positive results once this one-off will go away. Some other measures have been taken and the full impact of those levels will be coming into Q3 and Q4.

Kaustubh Pawaskar: Right, Sir. Thanks for the understanding. Sir, On the EBITDA front and the consolidated level, considering this one-off in the industrial as well, your operating margins were at about 30, 40 BPS lower on a comparable basis. Should we expect the consolidated operating margins to be better in the second half?

Subrata Kumar Nag: Yes, Q3 and Q4, if you see historically, are the best quarters, end of Q3, and ultimately, the Q4. I see no reason why this will not happen this year also. In staffing business or facility management business and currently the annuity kind of business – whatever new clients you add as a business, the benefit will slowly show as you go by the quarter. And particularly understand one business, as I told you just now that Excelus business, which gives a substantial profit in the P&S business. Most of the Excelus profit will come in the Q3 and Q4. In case of our BPM segment, Conneqt and Allsec, particularly in the Allsec in HRO space, Q4 is the best way of business because of the IT return there. So instead of 3 months, we will get a 4-month benefit and as far as in Conneqt, Q4 the last 2, 3 months because of our collection business, we get a jump in the profit. So overall, if you see the last 2 years, if you analyze, I think Q3 and Q4 will be much better than Q1 and Q2.

Kaustubh Pawaskar: Because the understanding was acquisition of Allsec, the overall operating margins were expected to be better. And considering most of the business segments are doing well, and they have better margins than the base business. The ideal scenario would be that FY2021, at the consolidated level, operating margins would be much better than what it was in past 2 years. Is it the right understanding?

Subrata Kumar Nag: It is absolutely right. See couple of things will happen. First of all, if you understand the business of our BPM segment that is Allsec and Conneqt are doing very well and technology business, I think, today, are at almost 11% margin, and their revenues have been growing. So that will have a positive overall impact for Quess. Secondly, the loss of Monster, in the last year, we have almost Rs. 20 Crores, Rs. 30 Crores, Rs. 25 Crores loss, and this year, I think in Q4, we will be breakeven, then that will also impact positively in the next year. Industrial, last year, we had a loss, and this year also, we have loss, so that will also go up with what I just explained to you about the industrial. All things together, I think in the FY2021 or 2022, you should expect a much higher margin. I am not saying that we'll reach the aspirational 8% margin, but definitely, we are slowly going towards that target. It will take a few quarters, and the trend is towards that.

Kaustubh Pawaskar: Right, Sir. And Sir, one last one, what is your target of debt reduction for the overall year? Because this quarter, we have seen a reduction in debt, gross debt. For the second half, is there any target set for reduction of debt?

Subrata Kumar Nag: Yes, I think the way we are progressing on our cash conversions and collection focus and with the overall strategy of making sure that we probably will not go for any further acquisitions, we expect our debt numbers to be more in line with our March 2019 number versus in the range of about Rs.784 Crores.

Kaustubh Pawaskar: Thanks for the answers.

Moderator: Thank you very much. The next question is from the line of Prashant Tiwari from SBICAP Securities. Please go ahead.

Prashant Tiwari: I think in the reported statements, the operating cash flow was reported at Rs.174 Crores. While in press release, you were stating that it is Rs.117 Crores. What is the difference, please?

S Ramakrishnan: One with the Ind AS impact, and the other one is without the Ind AS impact.

Prashant Tiwari: That is the only difference?

Subrata Kumar Nag: Yes.

Prashant Tiwari: Okay. And second one is, in integrated facility management, has the growth tapered regarding not adding enough clients, like in the first half, we have not seen growth more than 12%, 13% overall? What is happening there?

Ajit Abraham Isaac: I think in facilities management, there are two points that you have to keep in mind. One is that as a business, we would like to take more SLA-related business than the manpower-related business. So, as we move to that structure, and we are seeing a better ratio of SLA-related business also in the pipeline, we have got 26:74 versus 22:78 previously. Second is, our EBITDA has also increased significantly. We are also in the process of culling out certain accounts, which we would not like to continue. I think this process of cleanup will yield us on a long-term basis, with better client base yielding a better return on capital. The growth in this sector, as Subrata mentioned, will pick up in the next couple of quarters.

Prashant Tiwari: Okay. And with the higher proportion of SLA, can we expect EBITDA margins also to improve?

Ajit Abraham Isaac: It has already improved this quarter, and we expect it to continue a better kind of progression over the next couple of quarters.

Prashant Tiwari: Yes, because it is already 10% plus in integrated facility management, how high can the margins in this business go?

Subrata Kumar Nag: See, for the time being, I think we will be around 10%, 11% margin. I don't think it will be immediately because let us say, today, it is almost Rs. 1,400 Crores business, okay? It will take some time to really see that margin. For the time being, it will be around 10%, 11% margin. Overall, the growth, as Ajit says, will be around 15% to 16% of the revenue growth this year and around 20% plus in the EBITDA growth in the IFM segment.

Prashant Tiwari: Thank you.

Moderator: Thank you very much. The next question is from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

Saurabh Ginodia: Thank you Sir for the opportunity. Sir, my question is pertaining to Allsec. How do you see growth panning out in Allsec in the next couple of years? And in the short term, are there any low-hanging benefits which Allsec can derive for the HRO segment from Quess?

Subrata Kumar Nag: The first thing after we took over Allsec was that we moved our compliance business to Allsec. I think that is a good strategic move for Allsec. Their HRO business, along with the compliance business, makes them well-positioned to take on the market and is also seeing more traction there. That is the number 1. Number 2, wherever Quess has a presence, like, Southeast Asia and Middle East and Philippines we are trying to take their nature of business. We already have some business in Philippines, but we're trying to take it to Malaysia and Middle East. That will also help in the HRO business. In the CLM space, our whole effort is to get dollar-based revenue. Ashish has just joined and we think our whole focus in Allsec is to acquire clients in the CLM space where we earn more dollars as revenue; we already have some clients in Malaysia, in Philippines and U.S. so that is the focus area. We have revamped the sales team in the U.S. very recently, and we will see some traction there.

Saurabh Ginodia: Okay. Is there any thought process to merge Allsec with Conneqt?

Subrata Kumar Nag: Nithing is there on the table as of now.

Saurabh Ginodia: Okay. Are there any possibilities for EBITDA margin in Allsec to improve from the current levels?

Subrata Kumar Nag: Currently they are atleast 20% plus margin, but it depends on how well we play our international business. If we can increase our international business substantially, then margin can go up. But we have to give it a quarter or two quarters to get our act together and do some business there.

Saurabh Ginodia: That is all from my side. Thank you.

Moderator: Thank you very much. The next question is from the line of Ravi Menon from Motilal Oswal. Please go ahead.

Ravi Menon: Thank you for the opportunity. General staffing, the working capital seems to have come down and the realization per associate has gone up. What has led to this? Do you think this is sustainable?

Subrata Kumar Nag: If you see the general staffing, our collect and pay model has been growing and we are at 72 today and I think it will improve further. Our core to associate ratio has been improving, and realization per person is also increasing. I think the margin will improve, but it will take some time because it is a large business. So to see that improvement, it will take some time, but on each front and parameters, we have been growing every quarter, so I think that definitely will be increasing in the couple of quarters down the line as well.

Ravi Menon: Is there any mix change or something that's led to this improvement?

Subrata Kumar Nag: Primarily, in our staffing business where we are different from others is that we always give more importance to hiring and getting managed services. We do not just do the payroll, we try to , in each product and our other products, to focus on what we bring to the customers and help in their hiring, their training process. So those are the things that help us to get more revenue per person in the staffing business.

Ravi Menon: Thank you. Best of luck.

Moderator: Thank you very much. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.

Dipan Mehta: My question is more macro in nature, Sir. I have been there for a few concalls and I have read your investor releases and every time the management is always painting a very positive picture of the business and a very optimistic scenario for the year gone by or quarter gone by or the year ahead. But actually, Sir, if you look at the last eight quarters, the PBT level, the company's profits are lower, like, just in, September 2017 was Rs. 65 Crores PBT and two years hence it is Rs.62 Crores the same level. In the meantime, revenue has gone up almost double. At the same time, debt is at all-time high. Return ratios are at all-time low, profit, PBT to net sales are at all-time low. So what exactly is going wrong, Sir? I mean, I know that you are trying to present an optimistic picture, but something is amiss now when we look to the numbers on a historical basis for the last three years?

Ajit Abraham Isaac: Let me kick this off and then I will have my colleagues also join in. The first thing is that our revenue CAGR across the last three years is about 35%. So clearly, business is growing. And the issue is not with either our market share growth or the fact that the opportunities that represent the market is sufficient to keep this growth long. I think there are two or three points that have impacted us. One is the size of the debt, which we had, the interest levels that we had associated with it, which have impacted the PAT of the company because interest outflows have been substantial. Second is in our industrial business, we have had an impact of one or two projects which have not gone the way that we would have liked it to, especially our project with Sterlite in Tuticorin, where we bought equipment worth about Rs. 30-odd Crores for the project, and then we had to shut it down because the plants shutdown. So it was kind of act of God and we had little or no choices about having to sell some of the equipment and book a loss on it. There are one or two one-off incidents that have impacted this. The third is, some of our acquisitions will take a little longer than we had anticipated in terms of turnaround, one of them being Monster, and second one is Vedang. In the case of Vedang, when we bought it, it was a business that could sustain about 10% EBITDA margin. However, over time, what happened is post the meltdown with telecom industry, margins in this industry have completely come down, and that also impacted that business. But what remains to be seen is at the core of our company, which is basically 3 businesses, that is the staffing business, our facilities management business and our BPO business are all in good shape. All of them which deliver more than Rs. 100 Crores of EBITDA each. They are growing in double digits and they have healthy return metrics. We have areas or red flags on 2, 3 businesses, one of which was Trimax, which we have now turned around after the acquisition of the balance equity there. Monster, the losses have come down. We expect a breakeven in the next quarter. And in Industrials, we have gotten past the breakup. I think the heavy lifting in the company is done. And right now, we are prepared to see some better quality return metrics as we move forward.

Dipan Mehta: And you are shunning all acquisitions, at least for the near future, considering that we have had so many challenges assimilating all these acquisitions and the effects that are on the balance sheet?

Ajit Abraham Isaac: I have two parts to your answer. One is that, one of the reasons why we have got the all-weather business model is actually because of our acquisitions. Some of them have taken a longer-than-anticipated time to turn around. But because the acquisitions and the multiple lines that we have got, we are still able to grow 20% when the market growth is 5% to 6% and when competition grows even less. When all of them do turn around and deliver to plan, I think, we would realize the full benefits of these acquisitions. Having said that, we do not anticipate any acquisitions in the immediate future. Our phase of activity in the company clearly centers around consolidation. I think you are beginning to see some of the results of that, especially represented in the cash that we are collecting quarter-on-quarter, which is increasing substantially over the previous year.

Dipan Mehta: Just one quick question, Sir. This 80JJAA benefit, have you completed any income tax assessments and the income tax assessing officer has accepted our 80JJAA calculation and tax computation, any assessment is over?

S Ramakrishnan: Yes. The 80JJAA is the benefit which we have been claiming for the last about 1.5 years or more and our assessments are still underway but having said that, the 80JJAA goes through multiple audits, both with the external auditors and also with the tax auditors. And it is part of our tax return. It is a very open and auditable process. We do not expect any issues around this.

Dipan Mehta: But so far, no assessment is completed where income tax department has accepted your 80JJAA calculation and your tax liability calculation.

S Ramakrishnan: Assessments are in progress.

Ajit Abraham Isaac: Yes, I just want to add one point, Dipan, to the answer is that I think you should also look at our returns ratios after factoring in the goodwill because goodwill is a substantial part of our balance sheet. If you exclude goodwill, you will find that the return ratios are substantially different and we can maybe have an offline conversation too, about how these numbers stack up when you consider that a significant part of our balance sheet is actually goodwill.

Dipan Mehta: Right Sir. It is just that we are having turnover, but no profit before tax and the stock price is down 40% from its peak. And really, the story has not played out as, we, investors thought it would, at least, about a couple of years ago. So that's all my humble submission is, Sir.

Ajit Abraham Isaac: Yes. There are two parts to the story. One is the risk in the business, and second is the volatility in the market price. Market price volatility, we do not have any control of but the risk in the business is what the management manages here. And that I can tell you, where we have things within our sides, and we know that some of the steps that we are taking in terms of turnaround, in terms of the corporate taxes etc., leading to the results that will add significant value to our shareholders.

Dipan Mehta: Thank you very much Sir. All the very best.

Moderator: Thank you. The next question is from the line of Mihir Manohar from CapGrow Capital. Please go ahead.

Mihir Manohar: Thanks for taking my question. Just wanted to know one thing, what is e-commerce as a percentage of our overall workforce management revenue?

Subrata Kumar Nag: Out of a total of about 220,000 people, we have about 13,000 to 14,000 people who are involved in e-commerce. So basically, that is the ratio. It will be less than, about 5%.

Mihir Manohar: Correct. And are we engaging to food delivery as well?

Subrata Kumar Nag: We do not do food delivery right now.

Mihir Manohar: Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, in the staffing space, what would be outlook on growth and margin? And also, any changes in the business landscape there, either in terms of pricing or competition or market dynamics, if you could share your comments?

Subrata Kumar Nag: In the staffing space, we do not see any major changes in the immediate future. I think we are well diversified segment-wise and geography-wise, and are getting good traction; we are signing more and more contracts every quarter. Our current customers are also adding more numbers. The collect and pay percentage is going up with the increase in the efficiency factor, and the realization per person is going up in every quarter, so that will help us increase the margin going forward.

Pritesh Chheda: And what would be your headcount growth rate?

Subrata Kumar Nag: See, this year, we already added almost 60,000 in first two quarters, I think, 59,000 or 60,000. I think last quarter we added 17,000. So definitely Q3 and Q4 will have a healthy addition too.

Pritesh Chheda: Any changes you are seeing in the Industrial landscape in terms of pricing or competition or the nature of business?

Subrata Kumar Nag: No, I do not think there is any major pressure on the pricing as such. Our idea is to go more in percentage basis than fixed fee base. We have been trying to do that. It is a difficult thing, but that is our focus area, and we have been working towards it. Our sales guys are always reaching for the percentage method. We would like to grow the business into that direction. Otherwise, in the market , I think we are winning the contracts at much faster rate and much larger space than our competition. There is competition, but I think Quess is much ahead of competition in general staffing.

Pritesh Chheda: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sandesh Shetty from PhillipCapital. Please go ahead.

Sandesh Shetty: Good afternoon Sir. Thank you for the opportunity. Sir, I just wanted to ask regarding our investment in East Bengal FC. Is there any update on that? We were planning to exit the business.

Subrata Kumar Nag: Yes, we have already intimated, and they also accepted so mutual exit by May 2020, when the current season ends. Our current exposure with East Bengal is up to that time but at the same time, we are trying to exit, if possible, before that timeline also, but latest 2020, May 31 is our last day with the East Bengal Club.

Sandesh Shetty: Sir, if you can please share the topline and bottomline for the football club for the current quarter?

Subrata Kumar Nag: There is no topline. When the season starts, some sponsorship revenue kicked in, but most of the things will come when the season starts and the ticket sales etc. Our overall loss, I think, this quarter, which is just not much. I think it is in the range, Rs.3 Crores to Rs.4 Crores.

Moderator: Thank you. The next question is from the line of Ritvik Seth from One-Off Financial. Please go ahead.

Ritvik Seth: Thanks for the opportunity. A couple of questions on the general staffing business, Sir, you have mentioned that out of workforce management, around 78% of the total revenue comes from general staffing. Could you guide us with the EBITDA margin for this segment, for the quarter? And how was it quarter-on-quarter?

Subrata Kumar Nag: Overall and general staffing and for people services, it is 5.6%. But general staffing, normally, if you want, we can turn off-line and give it to you.

Ritvik Seth: Sure. Okay. What would be the receivable days for the general staffing business? And what was it year-on-year?

S Ramakrishnan: It varies; it is around 12 days.

Ritvik Seth: It has been flattish?

Subrata Kumar Nag: It is coming down because nowadays it is more a collect and pay model, currently, I think it is 12 days.

Ritvik Seth: Thank you Sir. All the best.

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

Ajit Abraham Isaac: I think it has been a strong quarter for us in terms of sales and continued results, especially in our staffing business. Our staffing business, led by Guru, has continued to deliver, and they have a strong market-leading position. Overall, our business model also shows the competitiveness of each of the business and the fact that we have been able to continue revenue growth at 20% in spite of market headwinds. One-off corporate actions in terms of reorganizing our business entities and in terms of reducing group debt, etc., is helping strengthen the balance sheet, the overall governance and the operating structure for the long term. We have strengthened the leadership through the hiring of Suraj and Ashish at Allsec. Our digital transformation is also gathering steam, and our cash conversion, particularly, is going up. It is at 49% price now is on track to achieve year-end numbers of about 50%. We think that some of the changes that we initiated in the company post the last conference call in July has helped us significantly. We will continue along this path of consolidation, and we believe that we are well positioned to deliver on better results as we move along. Thank you, again, for joining this call and we look forward to meeting you again next quarter.

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