"Quess Corp Limited Q3 FY21Earning Conference Call"

January 28, 2021

MANAGEMENT:	**MR. AJIT ISAAC – CHAIRMAN & MANAGING DIRECTOR, QUESS CORP LIMITED** **MR. SURAJ MORAJE – EXECUTIVE DIRECTOR & GROUP CEO, QUESS CORP LIMITED** **MR. S. RAMAKRISHNAN –CFO, QUESS CORP LIMITED** **MR. S. GURUPRASAD – COO (INDIA OPERATIONS), QUESS CORP LIMITED** **MR. LOHIT BHATIA – PRESIDENT (WORKFORCE MANAGEMENT), QUESS CORP LIMITED** **MR. PINAKI KAR – PRESIDENT (GLOBAL TECHNOLOGY SOLUTIONS), QUESS CORP LIMITED**
MODERATOR:	**MR. ABHIJIT AKELLA – IIFL SECURITIES**

Moderator: Ladies and Gentlemen, Good day and welcome to the Quess Corp Limited Q3 FY21 Earning Conference Call hosted by IIFL Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhijit Akella from IIFL Securities. Thank you and over to you, sir.

Abhijit Akella: Thank you Janis. Ladies and gentlemen, Good morning and thank you for joining us for the third quarter FY21 post result conference call of Quess Corp. It is my pleasure to introduce the senior management team of Quess who are here with us to discuss the results.

We have with us Mr. Ajit Isaac – Chairman & Managing Director, Mr. Suraj Moraje – Executive Director & Group CEO, Mr. S. Ramakrishnan – CFO, Mr. S. Guruprasad – COO (India operations), Mr. Lohit Bhatia –President, Workforce Management and Mr. Pinaki Kar – President, Global Technology Solutions.

We will begin the call with opening remarks by the management team and thereafter we will open up the call for a Q&A session.

I would now like to hand the call over to Mr. S. Ramakrishnan to take proceedings forward. Thank you and over to you, Ramki.

S. Ramakrishnan: Thank you Abhijit. Good morning everyone and thank you for joining our Earnings Call today. Please note that the results and the presentation 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 & Managing Director – Mr. Ajit Isaac. Over to you Ajit.

Ajit Isaac: Thank you, Ramki. Good morning and a warm welcome to all of you. We are delighted to share the analysis of our Third Quarter Results, a quarter in which we have turned to become a net cash company from being a net debt company, a quarter in which the company is back to quarter-on-quarter growth, a quarter in which we have been identified as the first company from India to be featured as the top 50 Global Staffing Company.

As the headline says it is a "Return to growth with rapid debt reduction" and the next quarter is the one in which you will see as reiterating our commitment to becoming a 20% ROE enterprise.

As we get ready to absorb the predicated 11% growth in India for the next fiscal, Quess is preparing to use all our digital assets to leverage these opportunities along with our physical presence.

To talk more about the quarter that went by, we have Suraj Moraje – our Group CEO as we are refreshing to hear about the last three months and more importantly about what lies ahead. Over to you, Suraj.

Suraj Moraje: Thanks Ajit. Good morning everyone. Thanks for making time to be on this call, we are still in time to wish you a Happy New Year, so Happy New Year to all of you; I hope 2021 has kicked off well for you and you are looking forward to a prosperous and eventful year, hopefully a little bit less eventful than 2020, but eventful, nonetheless.

After two COVID depressed quarters we are growing again which is nice. Q3 was a good quarter on several fronts; for one, we achieved a net cash position of Rs. 26 crores, but Q3 also saw our business revenues grow 7%, EBITDA grow 8%. Our revenues have climbed half the way back to our Q4 high and if you correct for the Rs. 29-crore impact of lockdown on our training, skill development, and food businesses, our EBITDA is actually flat on a year-on-year basis which is an accomplishment made possible by our efficiency improvements in the year.

The quarter also saw a healthy rebound in the headcount in the general staffing business, up 5% quarter-on-quarter. Our total headcount is back to where we were at the end of Q1’21 and the GS headcount is actually higher than the end of Q1’21. Our eyes are now firmly set on building back to our Q4’20 level.

Being in the people business, we take our own people leadership very seriously and I am thrilled to say our employee participated in a survey towards the end of 2020 and reaffirmed that we are a Great Place To Work. In fact, our Canada business is amongst the 50 greatest places to work in Canada at this point.

This is a testament to our vibrant focus-led culture and our employees’ continued drive in building an organization that has deep impact on our economy and our society across our platforms.

Looking forward, the mood in the company has significantly turned and our sights are set even more resolutely on the stretch aspiration of achieving 20% ROE by FY23, while delivering 20% year-on-year OCF growth.

I would like to focus my commentary today on our progress and path towards achieving the stated aspirations. There are three elements in our journey to 20% ROE and you would have seen some of this in our Investor Presentation that came out last night. The three elements are:

- Growing EBITDA organically
- Improving our EBITDA to PBT conversion

- And ensuring judicious capital allocation

I will talk about each of these three things specifically.

First growing our EBITDA through rapid and organic top line growth:

Let me walk you through our main businesses – First, the **WFM platform** which has three components – general staffing in India and Sri Lanka, IT staffing in India and APAC and training and skill development. I will talk about, within workforce management, general staffing first.

I am glad to share with you, as Ajit just said, we are India's first staffing business to be ranked in the top 50 staffing firms by Staffing Industry Analysts. Kudos to our entire team led by Guruprasad and Lohit for making this happen. We are the youngest 13-year startup that is out there, and we are proud of the accomplishment we have had. We are now the market leader in India by a long distance and we continue to see massive tailwinds in the GS business. We think the new labor laws will improve ease of doing business, provide more impetus to flexible staffing and drive formalization.

The Flexi Staffing Penetration in India is still less than 50% of that of peer country and we think this will correct over coming years. We continue to strengthen our capabilities in GS through deeper verticalization and digital 'Hire to Retire' processes. The vigor is continuing to pay off. We acquired 20 new customers in GS in the last quarter with revenues growing 9%. Today, 7 existing customers have more than 5,000 headcount each.

We also believe that our customer's increasing desire for flexibility is here to stay. This is something that the COVID pandemic has only accelerated – while there would always be a place for perm and temp labor in the workforce, task-based work has arrived on the map and in this regard, we have been running several task-based staffing pilots at several customers which are showing encouraging results, both on a quality of delivery and flexibility for customer perspective and from a gross margin perspective. Demand from this industry is strong and we see a huge opportunity to scale this up in a sense as Ajit said this segment could well be today where the general staffing business was 20 years ago, and we want to make sure that we are playing in the segment and participating fully. As we scale this up, we have, therefore, increasingly felt the need for a good platform to run the business on and we are delighted to have completed a strategic investment in Taskmo which is a digital major startup that has been doing some great work in the last three years in task-based staffing. There is a great platform with a revenue run rate this year that should be in the ballpark of Rs. 2 crores and they delivered some great work, the customer testament and the staff testaments are glowing. So we really look forward to working with Prashant and Navin, the co-founder of this business, and the team, to accelerate our combined presence in this space. That is on the general staffing business.

Moving on from there to our IT staffing business, which is the second component of our workforce management platform, present in both India, where we are number one, and Asia Pacific, where we are number one in Singapore by our subsidiary, Comtel.

I will talk first about the Indian business:

In the last financial year, we decided to refocus our Indian staffing business on higher margin digital mandates rather than low-end volume resources which tend to be not just low margin, but also very high attrition. Our timing could not have been better. The domestic IT staffing business have seen absolute EBITDA and EBITDA margin grow handsomely, with about a third of our headcount is now engaged in higher margin areas.

We are confident that with growing demands for technology skills especially on 5G, AI, ML and so on and so forth, both from domestic companies and GICs, there will be continued tailwind in this business, we are very positive about the trajectory of the IT staffing business in India. We have also consolidated our businesses in Singapore and APAC under a single management team which is allowing much better customer and operational synergies. These businesses remain on our plan-to-date and we think that they will continue to grow in the coming years where we are doubling down in some of our investments there.

The third part of our workforce management platform is our Training and Skill Development business also called Excelus. Last year, about 95% of this business's revenues came from B2G / government activities. The cash flow of this business has been poor, and we have decided not to pursue any new government business, although it will take us 18 to 24 months to run off the current projects. However, we continue to believe that skilling is a huge opportunity for India and a huge gap exists currently, especially given that there is a million unskilled youth coming to our labor market each month and we think we have significant assets in this space including digital content, physical training spaces, and qualified teachers. We are, therefore, pivoting this business towards B2B opportunities; some of our B2B revenues are now ramping up and we think B2B will be the mainstream of this business going forward.

In Q3, specifically TSD, as you have seen, was deeply impacted by lockdown, however, of our 112 centers, 104 are now up and running with no COVID incidents to date. So, the business will improve in Q4'21 hopefully. Although, with new SOPs and distancing norms, it is unlikely to operate at full pre-COVID capacity. So that was the workforce management platform.

Let me now move on to our **global technology solutions** platforms:

Our GTS platform has grown over a short period of time and in the last quarter was our largest generator of EBITDA. The business comprises two BPO assets and then the third Insurtech platform and the fourth North American IT consulting business.

Let me first talk about our BPO assets:

The first two of these assets have Conneqt which is a business we acquired from the Tata Group in November 2017. Conneqt is a market leader in the domestic BPO space. About 70% of the revenue comes from CLM, 20% from collections and 10% from F&A and back office transaction processing. The business has made great progress since the acquisition, delivering a 16%

revenue CAGR, expanding EBITDA margins, the NPS has gone up 3.2x and top 10 client concentration has come down from 75% to 54%. More recently, the business has had a very smart recovery with Q3 EBITDA growing over 13%. We are excited to continue to develop this business, continue to drive up non-voice revenues and digitizing our CLM operations. Incidentally, the Tata Group which still owns 30% of Conneqt for which they have a put option that they have recently exercised. We expect to conclude this transaction honoring the put option within Q4'21. That is the first BPO business.

The second BPO business in GTS is Allsec which is a publicly listed company in which we own approximately 74%. Over half of Allsec's EBITDA comes from its HRO business which processes payroll for large enterprise customers in India and beyond. Allsec is a leader in this space in India. It is a high gross margin BPaaS business where they pay per payslip processed. The business has experienced an 8% year-on-year growth in Q3 with 21 new customers added in the current financial year on top of its existing set of about 500 customers. We are investing heavily into modernizing the HRO platforms both to help us accelerate transition time, drive more automation, strengthen the mobile interface and build an SME focused SaaS platform. There is a lot of investments going there to really increase the products centricity of the business to drive up margins and we expect here to be able to drive some non-linear growth and benefit from operating leverage overtime.

The rest of Allsec's EBITDA comes from a BPM solutions which is largely for North American customers delivered out of India and Manila. This business has not grown as fast as we would like. We are focusing on doing more to fix this, for example, by leveraging Quess's North American salesforce, exploiting the BPaasS service models synergies in Insurtech platform and exploring options to invest the company's Rs. 200 crores of cash into capturing growth. Incidentally, both of our BPO businesses are more or less back to pre-COVID levels in terms of operations. So remarkably quick bounce back which I think reflects the strength of the versatile platform that we have built. That was the two BPO businesses.

I will move on to the Insurtech business in North America, which has historically been called MFX, where it goes to market now under the Quess GTS brand. They own a platform for policy management, underwriting, claims processing and data management for P&C companies with about 800 million of premium processed in the last quarter and 2.2 billion premiums processed year to date. So there is a lot of action on the platform. The platform is especially geared towards P&C insurance carriers who want to get there digital off the ground fast and some of the investments there have been rewarded this quarter with two significant new customers wins which sets up very well for the next financial year. Incidentally, this business clocked a 20% QoQ EBITDA growth in the last quarter gone by.

Our IT consulting business in Canada, which is the fourth business under GTS, has launched an end user computing business during the pandemic that crossed a million Canadian dollars of revenue run rate at very healthy margins. It grew 53% quarter-on-quarter in the last quarter with two new OEM introductions. This new business line supplements the existing government sector IT consulting business which compromises about 61% of our business in Canada. Overall, the

Canada business itself experienced a 17% quarter-on-quarter EBITDA growth last quarter. As you can probably hear from my voice, I am very excited about our continued growth in GTS with its superior margin profiles its expertise in delivering managed services which we think as a group we are all learning a bit from and the opportunity provides the drive real productivity improvements for our clients. It is really something we think is front and center of what we want to do and invest in going forward.

We have, adjacent to our GTS business, two emerging businesses that I would like to touch upon - Monster and Digicare. Monster is India's second largest job portal with presence also in South East Asia and Middle East. When we acquired the business two years ago, it was in decline after years of neglect. We have since made good progress in the turnaround, improving the business fundamentals and significantly reducing losses. In the last quarter, we have seen our customer retention rates consistently improving over the past quarters on the back of an improved customer experience. Monster as a brand is getting recognized better in the market which has led to ~1,700 new customer acquisitions in Q3'21, by the way, higher than any time in the past two years.

Our core operating metrics including job posting, page views, job views, organic traffic and active user base has shown a significant improvement in the last two quarter. There really is no silver bullet in this business, but we are very encouraged by the results to date, we are committed to continuing to invest in this growth and we are very driven by the upside it provides and the team I think has really done a massive job in the last couple of quarters and we are keen to see what else is in store.

Digicare is one of India's top three consumer electronic installation and after sales service companies. It has traditionally been an OEM-led B2B business rooted in a physical retail network and depending on our OEM partners to drive business, so they sign us up with as a partner and typically when their customers call them for service issue they direct their customers to us. We are making several changes with a business' operating models that we expect it will unlock non-linear growth.

First, we are shifting to infield service delivery. Already I think in the last quarter close to about 50% of our activity and this will significantly enhance the customer experience, but also variabilize our cost base, cutting us free from having to continuously build out physical centers. Second, we are working on better monetizing Digicare's 2 million customer interactions per year to build a B2B franchise. Third, we are developing new product such as an extended warranty and total warranties to better monetize our existing networks and transaction base.

I am glad to inform you that the resulting business trajectory has been strong. Q2 and Q3 have delivered these businesses' best ever results.

In addition to the above two emerging businesses, we are incubating a suite of world class digital assets that you would have heard us talking about and you have seen some details in the notes.

These are primarily focused on helping us improve our own efficiencies and customers delivery to date, but we do envision monetizing these assets with third parties also progressively.

The most developed of these is QJobs which we launched in November last year. Currently were about 300+ third-party customers using the auto hiring platform with 120,000+ jobs around 300,000 downloads which is 2x what we have a quarter ago. All this have been accomplished without a single dollar of marketing spend to date in the true spirit of low-cost innovation.

WorQ is another one of our assets, it is today's India's largest workforce management tools with around 220,000 MAU and growing about 10% every quarter in the last few quarters. It is a one stop comprehensive platform helping employees manage their daily activities through self-service modules, improving their productivity for example through workflow management and tooling. This application has been tested for scale and complexity and we can see us monetizing it externally in a short period of time.

Our third asset MarQet is a curated one stop employee benefit platform with handpicked offers exclusive for Quess employees of 100s of top brands. These includes financial wellbeing products, accommodation solutions, daily needs and lifestyle products, spanning over 16+ categories for almost every need of our employee. The property is seeing an encouraging traction with about 330,000 visits in December alone. Although I think we are still trying to figure out how to monetize this better but watch the space.

So that was our GTS and emerging business platform.

Let me now move to our **OAM platform** which consists of facilities management, security services and the industrial segment.

So, first let me talk about facilities management:

With a top three player in Indian facilities management offering a wide range of hard and soft, food, pest control and landscaping services. We believe this is a very exciting space with its growing formalization, greater focus on sanitation in the post-COVID world and the potential to drive greater productivity especially via performance contracting and technology driven solutions. We are investing heavily in new sales capacity and upgrading our delivery practices to ensure growth in this business.

We are encouraged by the strengthening customer pipeline – we have added about 77 new logos in the 9 month of this year which maybe we are not seeing because the performance has been flat, but it is also because of the depression in education and IT verticals where we are hoping to now progressively see our customers come back online and the food business which we have spoken about earlier.

Our security services business which is the second part of our OAM platform goes to market under the Terrier brand. The security services industry is facing strong tailwind similar to the facilities space and we have very high growth aspirations for Terrier. We are very encouraged after three tough quarters, our aggressive sales mobilization over the past month starting to bear fruit with some very noteworthy client's mobilization in the last quarter including by the way 7 of the 21 new facilities management deals in the last quarter being bundled with security services. This is part of the cross-selling theme that you have heard us speak about which is continuing to build steam.

The third part of OAM business is industrial business. We are hopeful that the introduction of Atmanirbhar Bharat and the business's renewed delivery capabilities have set up this business for growth. I am glad to inform you that we added 6 logos in the current quarter. Although industrials is a relatively small part of our revenues and EBITDA, we see the business as an important wedge in driving conversations with senior management at manufacturing customers which is a segment we do want to grow in across the groups. So, we do think this is a strategically important business for us. We are starting to see growth in revenues and headcount in Q3. We should see more of this in Q4.

So that was the brief overview of our portfolio which hopefully gives you a sense of where and how we will drive our EBITDA growth over the coming couple of years. We will strengthen the individual business effort through continued cross sell initiatives. You would be interested to note that so far this year we have cross-sold services to 40 existing clients with a potential annual contract value of about 200 crores.

Let me now turn to the second element of our plan to hit 20% ROE which is improving our EBITDA to PBT conversion. You will note that our PBT to EBITDA ratio in Q3 FY20 last year was 45%. In Q3 FY21, this has already improved to 53%; you will note that this has resulted in our PBT staying flat year-on-year at 80 crores despite a reduction in EBITDA. We are targeting further improvements in the coming quarters including continued debt and interest cost reductions, business simplifications and CAPEX and rental management even while we strengthen our cash management practices across the Group.

The third element of our journey to a 20% ROE is judicious capital monitoring and allocation. Our focus on cash generation has seen Q3 deliver an OCF-to-EBITDA conversion of 80% versus 51% a year ago. Our primary use of cash at this point is to pay down debt which we have done at a war footing on the past three quarters with gross debt going down from Rs. 1,147 crores in March 2020 to Rs. 521 crores in December 2020.

As stated before, our focus is primarily on organic growth at this point. If we were to make an acquisition for example, if Allsec were to choose to deploy its standard overseas cash into growth, we assure you it would be fully aligned with our current portfolios strategy and fully integrated into our path to a 20% ROE.

As shared already, we have made significant portfolio adjustments this year including discontinuing government business development in TSD and infrastructure. We will continue to make adjustment if needed going forward. Although at this point each of our businesses does have a glide path to 20% ROE and we do want to give them time.

One thing to add on to capital allocation, we would like to pay some dividends once COVID is firmly behind us. When we will do this and how much we would pay, it is a decision that will be taken by the Board at the appropriate time, but this is on our radar.

I will close my opening comments now. Thank you again for being here today. Your individual and collective support and encouragement over the last few quarters has really been key to us. We are excited to be once again in growth mode, we are firmly focused on our 20% ROE aspiration. Our normalized ROE last year in FY20 was about 11%. Our stretch aspiration is to get 20% ROE by FY23. With some luck and a lot of hard work, we hope to travel about half this distance there in FY22.

We are now happy to take any questions. Thank you again.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sudheer Guntupalli from ICICI Securities. Please go ahead.

Sudheer Guntupalli: My first question is in terms of our capital allocation - for some time we have been maintaining a stance that we will focus more on consolidating the earlier acquired entities rather than looking at the prospects of new acquisition, however based on your prepared remarks about potential use of cash and overseas cash and Allsec, is it fair to assume that we are now becoming more open to acquisitions versus let us say where our thought process was might be 12 months ago?

Suraj Moraje: I think we continue our original stance. Look, we as a company, have done a lot of acquisitions to build the platform that we have built and I think the platform is now pretty much complete in a sense and it is starting to bear fruits. We are still by and large going to stick to organic; there is no change in strategy at all. You have seen we have done the Taskmo acquisition I am happy to talk about that, but that is something which fits very firmly into our strategy. I think what is very important is our north star here is a 20% ROE. So if we do something because of some reason or the other, I do not think it should be interpreted as changing our strategy to become acquisitive. We are clearly focused on growing organically and that is 80%, 90% of our efforts at this point.

Sudheer Guntupalli: Just an extension on that question when you say use of overseas cash, do you have any potential areas in mind and the connected question is regarding the minority put option in Conneqt, is this going to be an entirely a secondary transaction where we buy out the non-controlling interest of Tata Sons or there are any further plans of primary inclusion from Quess parent as well like the way it happened during Allsec acquisition?

Suraj Moraje: Let me explain the situation regarding the overseas cash use in Allsec. It is about Rs. 140 to Rs. 150 crores of cash in Allsec which is outside the country and it cannot be bought back to India without significant leakages. So Allsec has to decide what it wants to do with that money. Again, I want to emphasize it is not like we are actively seeking or doing active due diligences of certain entities. It is just that we got to figure out how to allocate that capital and that the call for the Allsec board to make. It is a separately listed entities so I do not want to commit on their behalf, but it is just something we got to figure out and all options are on the table there could be buyback, but there is lot of leakages that has come through a buyback given that he has got to first win the cash back, so we are working through all options there. On the Conneqt put option question specifically there is no plan for a primary infusion; this is purely secondart to honor an obligation that we have.

Sudheer Guntupalli: Margins in workforce management segment remain pretty down beat of course we understand there are issues like Excelus where we cannot do much given the situation outside which might be dragging down margins at an overall segment level, but any further color on how different sub-segment are doing out in terms of margins what is the outlook on each of these?

Suraj Moraje: So , the way to look at it if we take the WFM EBITDA and you just add back the Excelus loss and we have put those numbers out every quarter just add back to EBITDA differential from Excelus in each of the quarters I think you find the EBITDA per associate has actually gone up quarter-on-quarter. Now, the overall story I would say is that I think in general staffing margins are flattish in that. Yes, there is more pricing pressure, but we are also capturing more efficiency wherever we can. IT staffing margins are going up and Excelus, we will have to see what happens as it recovers.

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

Nitin Padmanabhan: My question was on the Conneqt business. I think when we acquired it, a significant proportion of revenues was from the Tata group and as you alluded in the opening remarks; it has come down to around 54%. Once we acquire the remaining stake, how do we see that business on a continuing basis and is there any sort of revenue guarantee or commitment that is there that is outstanding there, any comfort that you have on that particular revenue portion would be helpful?

Suraj Moraje: The Tata's have not guaranteed us revenue from day one of this deal in the sense this has been playing out a little bit where we have very aggressively going after third party customers and managing the Tata Group company at a kind of arm's length level. I think you will probably understand the Tata Group companies are quite independent and autonomous in how they work. So the short answer is we do not expect any kind of step difference because of this. Tata has no influence to either give us more business or give us less business coming out of the Conneqt transaction even from 2017 and there was no business guarantee as part of the shareholder agreement in that particular transaction.

Nitin Padmanabhan: Just one more question which was on Taskmo - how is the business model different from the pure general staffing business for this and how do the margins relatively compare and how do you see the headroom for growth there?

Suraj Moraje: So let me take a thought at this. If you think about it from a SKU perspective, the standard staffing SKU is per person month and that is typically how that business has been geared to think about things. A company like Taskmo has two additional SKUs per person day and per person task. So you can price very differently and the way they price and the way they operate it is a very different metabolic rate from the standard general staffing because if you are pricing per person day then you have got to be able to digitally source the person or you can source at low cost and still make money because I only work for three days or four days or five days, but because of the lower SKU signs it is not unlike in telecom where when you move from postpaid to prepaid the margins went up because the breakage cost and the risk went up and ,therefore, traditionally, in this business you see a 30% gross margins on the salary cost that you deploy. So I think that may be helps you categorize the business model. Now what we do here is a lot of our existing customers through COVID has been coming to us and saying can Quess do something like this for us, can you price differently, and these have some very successful experiments I would say. So for one of our customers, we go and pick up documents on their behalf on a per document basis where we get paid per document. For another customer we go and acquire a merchant partners on their behalf and we get paid per merchant partner acquired. So we have been doing this; we have been seeing good success and we have been seeing a lot of customer enthusiasm for this model. I think they will always be a space for a per month SKUs there will always be a space for perm with the fact is there will also be peak like I want extra people on Saturday or I want people to do something for me in the evening or I got specific merchandizing project or auditing projects that are 6 weeks long I need people for that and you know actually I do not want to manage these too tightly that is what creates the demand for task-based. So the idea of coming together with Taskmo is they have built a platform; these are two inspiring entrepreneurs who have taken three years to find the right product market fit amongst the leader in their space. We have access to customers who have a lot of demand and they get access to a delivery mechanism and a platform where we can cost effectively fulfill. So we think that there is a good space to accelerate this and a part of this by the way if you look at what we have paid from a valuation perspective we spare about a 4x multiple of their current revenue rate. If you look at comparable companies with the market and go back to recent deals, they are paying more in the range of 6x to 8x. So, we think we have got a reasonable deal for a series A company. We see a very clear path to 20% ROE on this in the short-term and so we feel very good about this and we could have made this ourselves, but I think if you just look at the time involved, the cost involved and frankly the risk of getting it right. These guys Navin and Prashant just have a product mindset which is refreshing to us we just felt that buying was a right option.

Ajit Isaac: A couple of things want to add to what Suraj said is that the new emerging labor code with India recognize gig workers as an emerging significant component of the workforce in India. So as a leading workforce management company for us to be able to provide this option to our customers is necessary. Second is given the pandemic and its consequent effect on work on work the way you work, work from home and migration and related issues, the need to have flexibility in workforce systems special way to outcome is key and for us to have a solution in that alongside staffing is necessary. The third is that many of our customers are asking for this alongside staffing to be tasking and our option was really to make or to buy and if we have to make it is a question of time, it is a question of whether we will get it right and whether we have the right technology backbone to enable us to succeed. So all of these things contributed to taking a decision to invest here, it is a small investment that we have made, but we think that it will give us a length very early on in the market that promises to be a significant part of the employment canvass in India.

Moderator: Thank you. The next question is from the line of Nihar Shah from NewMark Capital. Please go ahead.

Nihar Shah: I had a question on the balance sheet, just wanted to get a little bit of an understanding you had a substantial reduction in your other current assets now I believe that should largely pertain to some of the income tax withholding that were there, just wanted to understand a little bit as to how sustainable this is and you know if you all have done any other sort of effort to sort of bring this down or as the business starts growing this will kind of reverse because the reduction there from March is about Rs. 270 crores and even on a Q-on-Q basis it is quite substantial at 70 crores despite the fact that the business has started growing?

S. Ramakrishnan: You are absolutely right; the reduction in other non-current assets is primarily driven by the income tax refund which is to the tune of about Rs. 297 crores which has come in last 9 months. Having said that, I think what we have done with that is that we have wiped out some of the deficit or the old dues on account of income tax refund, so what will be left is only the latest ones which will go through the assessments and then we will start getting the refunds. So, all the historical refunds which were pending have been brought to the current status. To answer your question what left is on current, you do not have any of those old stuff and whatever buildup would be having would not be substantial because it is a current. We have a mechanism now in place to make sure that we do very clean follow up with the Income Tax department to get the refunds and hence this current would keep moving on.

Nihar Shah: So if you can just give me may be on a basis of days of sales on the income tax asset how much has that reduced and do you expect that to sort of go up again or sort of remain at this level going ahead?

S. Ramakrishnan: Let me give you a feel of the numbers. If you go back to the balance sheet of 2019, we had about Rs. 312 crores in the balance sheet on income tax asset and now we have got about Rs. 297 crores all put together and so what is left is only Rs. 15 crore balance, so that is the kind of number we are talking about. And 2020 is very recent, returns have just been filed.

Nihar Shah: So then I can expect this to be the number to sort of sustained going ahead right?

S. Ramakrishnan: That is true.

Moderator: Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Suraj I have two questions one is in terms of near term outlook – we have seen an impact of COVID hitting us in Q1, Q2 and little bit in Q3 as well, just want to understand from you what kind of a trajectory do we see in Q4 and Q1 subsequently across our workforce management and IFM platforms; that is question number one. Question number two you talked about a near term or a medium term OCF growth of about 20%, is it fair to assume that this will be broad based across segments and we expect a 20% sort of an EBITDA growth from each of these segments as well?

Suraj Moraje: As Yoda said – "difficult to see the future is"; but let me try and answer your first question. I think we are positive about the outlook in the company, our internal conversations are more bullish. Are we seeing what some people refer to as animal spirits and gung-ho in the markets? - No, but I think that there was a level of softness in the optimism let us say in November, December which we see evaporating. The optimism is becoming harder. What we are expecting is let us say at this point our best hope and do not take this as a forward-looking statement, Aditya, it is more sort of a one man's perspective or a management committee perspective. I think our best hope is by March, April 2021, as people start to see sustained economic activity, they will start really pressing the buttons for hiring in a bigger way. In the general staffing area, traditionally as you know, Q3 has been a quarter of festival hiring where people ramp up in the beginning of Q3 and ramp down by the end of it. We have seen very little of that in this quarter so the 5% we have added speaking on Lohit's behalf. It feels secular, it feels like people are ramping up capacity, people met their Diwali, Christmas load with existing stock of employees. I think they are actually ramping up for better time and we hope that trend will continue. That is in general staffing. In global technology solutions, I think again it is a secular return and we are optimistic about the future. Operating asset management, I think, is going to be difficult for us to time. We are pushing our sales very hard, pushing transitions very hard to see how we grow despite the fact that 30% of our business has shrunk quite dramatically of our erstwhile pre COVID business. Now at what pace does this business start to return it is your best guess and my best guess and frankly every time I speak to an IT services' CEO, I hear a slightly different answer. I think they are also vacillating us to what is the right thing to do. On the one end, educational institutions are starting to come back and we are seeing a little bit of recovery in the food business in some of the facilities there. IT services we are starting to get some orders for ramping up, but there are still I would say take it little bit like the general staffing orders felt in September, October last year – it is not bold sort of tentative starting to feel the way back. So that is on your first question. Which business will grow at 20%, I hope they will each grow at 20% and that is an expectation we have set internally. Again, I do not want to set a market expectation, but that is our aspiration. We think the potential is there, we think the market is there, we think the business fundamentals are there we just have to do it.

Aditya Bagul: So the point that I was trying to ask is whether we are going to see a product mix change within the segment which will enable to de-lever and improve our operating cash flows from where we are today essentially because workforce typically has a better cash conversion albeit at a lower margin?

Suraj Moraje: When we say OCF growth, I don't mean the OCF-to-EBITDA growth. I mean OCF rupees crores growth year-on-year.

Aditya Bagul: I was just trying to understand whether there will be a mix change which will propel the OCF growth as well?

Suraj Moraje: I will give you my view on that there could be a mix change, but I also think it is unfair to expect Lohit to keep growing at 29% year-on-year. Although I have no doubt that he will try, but at this point we are setting a minimum bar for the businesses, if some of them do better, they do better. We are not planning for a big change, if I could say it that way.

Moderator: Thank you. The next question is from the line of Mayur Patel from IIFL AMC. Please go ahead.

Mayur Patel: Just couple of things excluding the tax refund I am sorry if you have already answered this what would be our OCF conversion which is like reported basis looking like 80%, but if we just exclude the refund how this would look like?

S. Ramakrishnan: Basically, it is about Rs. 127 crore minus about Rs. 74 crore that is the tax refund for the quarter.

Mayur Patel: No so what I am trying to say is this 80% is a recurring number or it has some distortion because of these refunds and all?

Suraj Moraje: Internally, we think we should be targeting north of 70% if that is your question.

Mayur Patel: But for this quarter how much it was excluding any one off or refund OCF-to-EBITDA conversion?

S. Ramakrishnan: Just to add to what Suraj said, the OCF would be more in the range of about 40 odd percent, but what happened is that one of the customers scheduled to pay us by the end of the month paid us in the first of the following month and generally we do not take that into a collections. That is what resulted in business related or working capital related OCF going downward, but I think that should normalize going forward, but Suraj is absolutely right. On a sustainable basis we would definitely be in the range of about 70% plus.

Mayur Patel: So in your opening comments you mentioned that 140 crores is lying overseas in Allsec and it is difficult to bring it back and so is it fair to assume if at all there would be any acquisition it would be the ticket size would be restricted to 140 crores, 150 crores?

Suraj Moraje: Mayur that is for the Allsec's Board to decide, but it is fair to say that we are not looking out to make a big acquisition there.

Mayur Patel: And just lastly, like you mentioned the optimism is yet to pick up in IT services, just trying to connect this with we are seeing across the board very bullish commentary by all the IT services players including the large cap players and even the smaller ones really strong commentary, but why it is not circulating to a strong traction for us?

S. Guruprasad: I mean what trend we are seeing is there is definitely a good mandate on our plate. So across there is about 4% to 5% increase in terms of when it is compared between quarters. These are coming from biotechs and auto engineering side so very niche segment. So currently recruiters are extremely busy in terms of handling this mandate. So there is definitely pressure coming on hiring from IT side and things were quite good there.

Ajit Isaac: And two more points note here one is that usually there is a lag time between sentiment and hiring and that is about two to three months' time. So it takes that much time to get people on-board and the second is there is a reset in terms of the amount of headcount you want to carry today versus what you want to do in the past especially because there is work from home ability, there is a change in the business composition, there is more digital coming in, and as a result of all this there is a workforce composition change that is also increasingly taking place. So all of this will also need to be factored in when we find the impact of a more positive sentiment in the IT business on our workforce.

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

Amar Maurya: Sir my first question is on the cost saving I mean like Suraj you alluded if I see the revenue on a year-on-year basis is down by Rs. 142 crores whereas if I add back Rs. 29 crores, our EBITDA is broadly flat on year-on-year basis and margin is also 6.1%, so how much of the cost saving we had bought into the system and out of that what quantum would be sustainable in the normal revenue run rate scenario?

Suraj Moraje: Our SG&A cost pre COVID was about Rs. 69 - 70 crores a month whereas now this quarter, it is running anywhere between Rs. 52 - 53 crores a month. So that is the quantum of reduction and this has been the reduction. Whether, it will go up, I think clearly next year, travel cost will come back a little bit probably bonus cost will go up and so on and so forth. I would add may be sort of three to five crores a month on to this run rate to think about what the sustainable level is going forward.

Amar Maurya: So basically, you are saying that Rs. 10 crore kind of a quarterly cost savings could be seen in the next year as well?

Suraj Moraje: I think my Board will be very unhappy if we do not deliver that.

Ajit Isaac: Yes, unless little bit of it comes back as we get it back to mainstream operations. So maybe we should think could come back we do not have visibility to it, but you would be right in assuming that which they would be able to save for 10 crores as well.

Suraj Moraje: But the other thing Amar I want to put out there we also are thinking about where we want to reinvest and we will BE taking up investments in some spaces like technology and so on and so forth, but that is not going to be significant, but let us say Rs. 8 - 10 crores is probably the right number. I think historically we have said around Rs. 100 crores a year is what we like to settle down at versus FY2020 exit.

Amar Maurya: So I mean that is my question I mean it is around about 40 crores and I believe we were targeting something around 60 crores kind of a cost saving, so can we see more going forward or you are saying this is the peak for the cost savings in terms of the next year?

Suraj Moraje: Without saying much I think we are continuously trying to drive our efficiencies and drive technology and so on and so forth. Let us not overset the expectation. I mean when it comes it comes and we will talk about when it comes.

Amar Maurya: And sir second question is like you know at an overall level we are aspiring to grow by 20% and I believe because of this there will the good quantum of first time hiring which will be happening, in this light how should we see the tax rate for financial year 22?

S. Ramakrishnan: So on things going from net addition on headcount perspective, I think we should look at tax rate with respect to 80JJAA continuing and the government not sun-setting the same, I think we should set our erstwhile tax rate more in the range of about 10% moving forward.

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

Abhijit Akella: Just a couple of quick ones from my side. First, on the global technology solution segment, you know we have seen a strong performance by that segment in terms of revenues as well as margin expansion and you know almost touching 14% margins in that segment, so could you talk a little bit about what is driving this trends and whether you see this sustaining and what the outlook looks like?

Pinaki Kar: Just to give a broader perspective on that – on the GTS segment, if you see the revenue composition, almost two-third that is 66% comes from BPO and 34% from Insurtech and IT services. So let me touch upon the North American Insurtech and IT services first and then come back to BPO. On the Insurtech, actually we run a platform which provides a digital operating system for an insurance company like where we provide a subscription based, outcome based rental models for them to process the transactions right from policy underwriting to claims instead of opting for a monolithic solution. So, what has happened is that when the shift of the business of the mix changes more towards the platform, we get that nonlinear expansion in margin. That is what happened in last quarter as Suraj has told in the opening remarks. We actually onboarded couple of clients, but the revenue realization has still not started, one is on the insurance side another on the specialty insurance side where we would be providing these services for the next couple of years at least. So that is one driver.

On the Canada the IT consulting, we missed that which was impacted due to COVID in the first quarter because 60%- 61% of the business comes from the government sector and it was a hard lockdown and we do security cleared sensitive work. So work from home for that sector was not allowed. So what we did in that opportunity on the private sector we started a work from home digital services end user competing business. We sort of actually have grown significant 53% quarter-on-quarter in this quarter and where there is a trajectory going forward because corporate IT has expanded beyond the premises to work from home due to the nature of the pandemic and we should be structural shift. So what has happened in North America that is why this nonlinear expansion actually has resulted into 17% quarter-on-quarter growth EBITDA in these businesses.

If I come to the BPO business, starting with Allsec, on the HRO business within the platform nature of that and the operating nature of that leading to the margin expansion. For example we had around 6% quarter-on-quarter revenue growth whereas the operating margin expansion is still has been around 490 basis points and we are going through a complete transforming to make a mobile related mobile native table platform that would be program that we have embarked on and which hopefully we will capture more benefits out of automation and orchestration leading to nonlinear revenue going forward. Between Allsec and MFX there is at the intersection of insurance and the BPO there is a BPaaS offering we are taking to the market it would be differentiated offering. So hopefully if we can capture the market there that also should auger them for the future. Conneqt, the biggest business in our segment, GTS segment had a good back to growth kind of a thing in Q3 mainly on account of capturing the demand from the ecommerce/retail clienteles and also the collection business which constitutes 20% of the business which is under the moratorium in the month of August that has been coming back, and collection is a big margin driver higher margin profile than the life centric business. So together we had around 12% revenue growth which translated into some 13.2% EBITDA growth. So as per the spectrum that is why we had EBITDA growth quarter-on-quarter ranging from 13%, 17%, 20% and 30% respectively. That is the broad lay of the lenders as far as GTS is concerned.

Abhijit Akella: And my second question was just on the other two segments WFM and OAM. Obviously, each of them has one significant component that has been underperforming for the last year right so in WFM we have Excelus and in OAM we have the food business. Now as these start to reopen any sort of ballpark range in terms of how much margin expansion, we could expect in these respective segments because of that?

Suraj Moraje: Do not want to give any guidance at this stage, Abhijit and I will tell you why I think on the Excelus business, for example, as we restart we still do not know how many people we can fit into a center because there is new standard operating processes around social distancing. That is something that will evolve and obviously profitability is linked to occupancy and on food is simply what is the pace at which it comes back because even if people do come back at this point how many are going to eat from a cafeteria versus how many will bring food from home there is lot of unknown in both these businesses. I would rather not comment. I think what we should just do is sort of keep pushing to grow them as fast as we can.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Ajit Isaac for closing comments.

Ajit Isaac: Thank you. So as most of you would have seen by now our focus remains on three or four issues at Quess. Cash generation leading to higher earnings, balance sheet strengthening by reduction of debt, eliminating EBITDA draining businesses, sales growth and getting more market share in each of the segment that we are present in, continuing investments in our digital assets to get ready for the future and to invest in HR in the organization processes to enable Quess to carve out as much market share of the growth that is going to come in India when people are predicting about 11%. Thank you all for your participation, your interest in our company and to the many investors at Quess. We look forward to staying in touch and to our next analyst call. Thank you very much.

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

(This document has been edited for readability purpose)

Investor / Analyst contact:

Subramanian Ramakrishnan

Chief Financial Officer

ramki@quesscorp.com

+91 80 61056208

Corporate Office:

Quess Corp Limited

Quess House,

3/3/2 Bellandur Gate, Sarjapur Road, Bengaluru 560103,

Karnataka, India

Tel: +91 80 6105 6001

connect@quesscorp.com

CIN No.L74140KA2007PLC043909

https://www.quesscorp.com/