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Putting India to Work

January 31, 2025

To	To
Listing Department	Listing Department
BSE Limited,	National Stock Exchange of India Limited,
Phiroze Jeejeebhoy Towers,	Exchange Plaza, 5th Floor,
Dalal Street, Fort,	Plot no. C/1, G Block,
Mumbai - 400 001	Bandra Kurla Complex, Bandra(E),
	Mumbai - 400 051
Scrip Code: 539658	Scrip Code: TEAMLEASE

Dear Sir/Ma'am,

Sub: TeamLease Services Limited (TeamLease/Company) - Transcript of Q3'FY25 Earnings Call

Ref: Regulation 30 of Securities and Exchange Board of India (SEBI) Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015

With reference to the above-mentioned subject and pursuant to Regulation 30 of the SEBI LODR Regulations, 2015, please find enclosed the Transcript of Q3'FY25 Earnings Call hosted on Wednesday, January 29, 2025 at 04:00 P.M. IST. The same is available on the website of the Company at https://group.teamlease.com/investor/earning-call-transcript/.

Kindly take the above said information on record as per the requirement of SEBI LODR Regulations, 2015.

Thanking You.
Yours faithfully,

For **TeamLease Services Limited**

Alaka Chanda
Digitally signed by Alaka Chanda
Date: 2025.01.31 16:29:10 +05'30'

Alaka Chanda
Company Secretary and Compliance Officer
Encl: As above

"TeamLease Services Limited

Q3 FY25 Earnings Conference Call"

January 29, 2025

MANAGEMENT: **MR. ASHOK REDDY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – TEAMLEASE SERVICES LIMITED**
MR. KARTIK NARAYAN – CHIEF EXECUTIVE OFFICER – STAFFING – TEAMLEASE SERVICES LIMITED
MRS. RAMANI DATHI – CHIEF FINANCIAL OFFICER – TEAMLEASE SERVICES LIMITED
MS. NEETI SHARMA – CHIEF EXECUTIVE OFFICER – SPECIALISED STAFFING – TEAMLEASE SERVICES LIMITED

MODERATOR: **MR. AMIT CHANDRA –HDFC SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to TeamLease Services Limited Q3 FY '25 Earnings Conference Call hosted by HDFC 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Chandra from HDFC Securities. Thank you and over to you, Mr. Chandra.

Amit Chandra: Thank you and good evening, everyone. On behalf of HDFC Securities, we welcome you all to the TeamLease Quarter 3 FY '25 Earnings Call. Today, we have with us the management team of TeamLease represented by Mr. Ashok Reddy, MD and CEO. Mr. Kartik Narayan, CEO - Staffing and Mrs. Ramani Dathi, CFO. I will now hand over the call to Ashok for the opening remarks, post which we can open the floor for the question-and-answer session. Thank you, and over to you, Ashok.

Ashok Reddy: Thank you, Amit. Good evening and thank you all for joining the call. We continue our growth journey. We added about 3,000 plus headcount. Revenue is up about 4% quarter-on-quarter and 19% year-on-year. EBITDA grew by 4%, largely driven by efficiencies in the employment clusters.

As called out, the growth in staffing was muted this quarter given the seasonality element and the BFSI industry call out that we had made last year and which Kartik will further refer to in his details. Specialized staffing after many quarters has come to a net headcount growth. So hopefully, we've seen the bottom on the numbers on that front and would be able to kind of deliver to the open position that are coming in and continue to drive the net head count growth there.

The DA business continues its growth and focus on selling the bundle learning solutions and we have a continuous growth in the percentage of trainees and apprentices being covered under the learning solutions. Growth in HR services has also been good on the top line. However, the profitability has been impacted due to further delays in the admission cycles and the downstream payment delays.

However, the business is quite confident of a catch-up on both these fronts in Q4. HR Tech which was been a primary focus for us as area to kind of upsell the element of services and solutions to customers, while we continue our trajectory of organic growth and platform build. We've also made two investments on this front.

One is TSR Darashaw and the second is Wallet HR. These two complement the business from a perspective of product, clients and the potential for furthering their sales. Wallet HR is primarily HR Tech platform solutions, SaaS solution with a little bit of HR solutioning driven primarily -- I mean, located and driven primarily for business in Tamil Nadu.

TSR Darashaw is a payroll outsourcing play. And between the two of them, they have about 4 lakh employee records that are managed between platform and service. We look to build on that as we go forward. Another investment that we are doing is in Ikigai, which is effectively a partnership for the specialized staffing business.

This gives us a legal entity presence in Singapore and in the Middle East, small business at this point in time, breakeven business, but we believe that the partnership could effectively focus on building larger volumes as we go forward. And that is something that would complement the specialized staffing business from geographic domain and additional client base to kind of deliver to.

We would have more details on all of these coming in from Kartik and Neeti and Ramani, further to which we can then move into the questions, Kartik.

Kartik Narayan: Thank you, Ashok. Good evening, everyone. Q3 is traditionally a festive quarter, bringing a temporary surge in revenue due to onetime festive billings. By December, enterprises often start recalibrating their workforce to align with the current demand trends. This quarter, we achieved a net addition of 1,300 plus associates taking our year-to-date net incremental associate growth to a little more than 32,600 and an overall net associate growth of 12% on our opening base.

Gross revenue witnessed a 20% year-on-year increase and a 4% sequential growth, underscoring continued momentum in our business and market activity. Feedback from different industry segments has varied. As we had called out last quarter, the BFSI sector remains stable due to tighter norms around lending in micro finance, credit cards, personal loans and similar areas, resulting in a flat headcount by quarter end.

Of course, on an ongoing basis, including for Q4, enforcement of some of the RBI guidelines around KYC will continue to impact us not just in Q3 but including in Q4 as well. Growth in the consumer, retail and e-commerce sectors generally peaks in Q2 and the first month of Q3, driven by technical factors. This quarter, that surge was moderated by an earlier-than-usual scale back.

We typically see a boost in activity leading up to Diwali, and depending on market conditions, businesses tend to adjust their headcount, often reducing it by late December or early January, especially in years with the later Diwali. This year, of course, with Diwali occurring about 10 days earlier than last year, we observed a sharper than usual manpower attrition influenced by known challenges around inflation and subdued customer sentiment in FMCG and some of the FMCG businesses.

Manufacturing and Telecom saw low single-digit growth, which while positive had limited impact on overall numbers. India's mobile manufacturing sector is currently experiencing a degree of slowdown due to weak demand for smartphones, particularly featured phones and entry-level devices in 4G, as highlighted in some of the media reports as well.

On a positive note, our sales effort brought in 34 new logo sign-ups, primarily in the consumer, retail and manufacturing segments, out of which 80% of the variable mark up. Some of you might recall that this number was 60% for Q4 last year. Recruitment efforts led to the onboarding of roughly about 18,000 associates in Q3, this figure is 30% lower on a quarter-on-quarter basis and 6% lower year-on-year and is reflective of the lack of demand across enterprises in Q3.

Operational excellence initiatives continue to drive meaningful outcomes, continued productivity improvements in FTE by 1% has moved the needle from to 386 from 382. This enhanced efficiency, of course, even strengthens our ability to do client servicing without adding additional headcount and amplifies operational leverage.

As we move forward, a threefold approach continues to inform our BAU strategy, new logo acquisitions through a combination of tech and touch, deeper engagements to refence our larger customers, digitization of hiring processes to extract better efficiencies and candidate search and match.

In summary, Q3 was marked by ongoing operational leverage and revenue expansion. We remain committed to delivering exceptional client service, optimizing our operations and advancing recruitment processes to create value for our enterprise customers. Thank you. And with this, I'll hand it over to Neeti Sharma to take you through the specialized starting results.

Neeti Sharma: Thanks, Kartik. Good evening, everyone. The IT sector continues to witness cautious and selective hiring. However, we are seeing a gradual uptick in hiring requirements from these companies. Meanwhile, GCCs remain a strong growth driver for us, particularly for sectors such as BFSI, Life Sciences, healthcare, manufacturing and engineering.

Currently, about one-third of our associate headcount is deployed with these GCCs, contributing to about 55% to 60% of our net revenue as of the last quarter. Beyond GCCs, we've also increased our focus on hiring for tech and specialized roles in the non-tech industry. While both GCCs and the non-tech sectors are expanding, their growth has not been sufficient to offset the decline in the IT services industries that we have seen in the last few quarters.

Q3 is typically a weaker quarter for the IT hiring industry further impacted this year by fewer billable days and follows. Despite these headwinds, we achieved a small but positive net headcount growth for the first time in several quarters, along with increase in quarter-on-quarter revenue and a marginal improvement in year-on-year profitability, largely driven by expansion of wallet share within existing customers, cost-saving initiatives and onetime sourcing and absorption benefits.

On the sales front, we signed 8 key clients in the last quarter, including 3 very large strategic accounts. Our sales pipeline remains strong, and we're optimistic about sustaining this momentum. We continue to prioritize higher margin clients while refining our approach to lower-margin engagements to enhance both profitability and efficiency. Operationally, our efforts to build a stronger and more resilient hiring teams are yielding results with recruiter productivity improving from 2.5 to almost about 3.3 higher per month as of the end of quarter 3.

Looking ahead, while we expect hiring to remain cautious in the IT services industry in the near term, early signs of improvement are emerging. Our key priorities remain product expansion within our existing client, sales growth, cost optimization and digitization. In the next few quarters, we aim to maintain the growth in EBITDA margin by strengthening client acquisitions, improving account management, streamlining hiring and leveraging technology.

The Ikigai partnership will support our IT staffing expansion in newer geographies, such as Singapore and Middle East and we hope to continue supporting their delivery from India. Thank you so much. And with this, I hand it over to Ramani.

Ramani Dathi: Thank you, Neeti. Good evening, everyone. We have delivered double-digit sequential growth in PBT at group level, mainly led by productivity enhancement in employment cluster businesses. Profit after tax grew by 14% between Q3 and Q2 this year. Our staffing EBITDA has grown 5% Q-o-Q, even though headcount addition got impacted by BFSI this quarter.

On a 9-month basis, we have added 34,500 associates versus 27,000 for the corresponding period last year. Specialized Staffing has turned positive on headcount growth and has been consistent with revenue and profit run rate. Our new IT staffing acquisition, Ikigai Enablers currently have an annual revenue of INR20-odd crores and breakeven at bottom line.

We are not projecting any EBITDA contribution from Ikigai in Q4 FY '25. However, FY '26 and thereon will have a meaningful contribution from this entity. These are a short of our profit estimates in EdTech business due to delays in university billing and collection lag. EdTech revenue has improved 19% Q-on-Q, mainly led by a large mandate in the CSR implementation business which has 90% pass through billing and 10% gross margin.

On a full year basis, EdTech can maintain 6% to 7% EBITDA this year. Last quarter, we announced the acquisition of 90% stake in TSR Darashaw HR services and 30% stake in Crystal HR. These two entities are currently at an annual run rate of INR22 crores in revenue and INR7.2 crores in profits.

Inorganic contribution by these two entities would be about INR1.1 crores in Q4 FY '25 EBITDA of the TeamLease. All balance sheet metrics are stable and steady. Free cash stands at INR310 crores as of December 31, 2024.

We can now move to specific questions from the participants. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question comes from the line of Deep Shah with B&K Securities. Please go ahead.

Deep Shah: The first question is around your general staffing business. So we expected some headcount pressure which is of the NBFC thing. So one, you did allude that it will continue into 4Q. So how -- I mean, given that fresh hiring already stopped, would there be further declines in hiring on NBFC front or if you could just give some more color as to how we should think about hiring in 4Q on the general staffing level?

The second question would be on general staffing margin itself. So what we've seen over the last two, three quarters. And if we were to spread it slightly broader 2 years, 3 years, is that margins have rather been flat for the entire years and then we have a tariff hike in the first -- sorry, we have a wage hike in first quarter of the next year and then that these two margin deterioration and the trend has continued.

So how should we think about some form of Tamil Indian business, say in '26? And third question is specifically on the EdTech piece, so if I heard directly, the statement was that this business has still maintained 6%, 7% margins for the full year. In the first 9 months, it has done about INR4 crores of loss which would then mean that fourth quarter would be like INR10 crores, INR12 crores profits. Is that understanding correct or I've missed any remarks. Thank you, these are my questions?

Kartik Narayan: Yes, Deep. This is Kartik. I think on the BFSI call out, which was made in Q2 and even now, I think there are two aspects to it, which is separate. One aspect of it is around some of the earlier called out RBI strictures around KYC and in-sourcing. So I think that part in separate is a onetime incident which is playing out in Q3 and going into Q4. So that is one.

I think the second aspect of it is around hiring, which you called out. As you would have noticed, even in recent times, some of the large listed credit card companies have called out a significant slowdown that they have experienced. I think that playing into aspects around personal loans, even some microfinance companies facing slightly higher than usual NPAs has resulted in flattish to even lack of backfill that is taking place both in Q3 as well in Q4. So I think these are the two aspects which have really, really hit this particular vertical.

Ashok Reddy: And just to add to that, Deep, I think while we did expect net negative kind of an outlook for Q3 from staffing perspective on the headcount side, we've actually added about 1,300 resources in Q3. And this is kind of a balance between BFSI and other sectors despite of the seasonality that kind of comes in. However, I think in Q4, we do see some marginal decline in headcount, primarily driven as Kartik just called of the BFSI sector, overwhelming the other sectoral additions that could probably come in.

But I think on a broader level for the business, the productivity play and holding on the PAPM and staff would continue to be a focus area. And just from the margins perspective, while there's always some element of a salary hike, not necessarily in April, but happening over different cycles for different customers and different profiles.

While we have been working on holding at the PAPM level, obviously, when salary, the CTC levels go up, the margins at a net level do come down, which is really where I think the other call out that Kartik had in the value selling that we can do to customers around other service areas becomes essential. So while some element of selling the HCM solutions, learning solutions, and all of that has kicked off. It will be a larger focus for the coming year as a way forward.

Ramani Dathi: Also, internally, we are focusing more on absolute profit improvement quarter-on-quarter because for the reasons which Ashok and Kartik explained, the salary revisions of associates are impacting our net margin. So absolute profits, we have improved both at EBITDA level and PBT level. Even in terms of margin, PBT, we have marginally improved it by 5 basis points between Q2 to Q3, and PAT has improved by about 8 basis points.

And we are expecting a much better improvement in the last quarter, mainly led by EdTech contribution because most of the university billings, which are scheduled in Q3 got postponed to Q4. So there will be a lumpiness coming from EdTech in Q4. However, we are revisiting the revenue recognition policy since the service delivery is already completed. We'll also see if there is any kind of policy change that is needed.

Ashok Reddy: I mean we do believe there will be some lumpiness in Q4 given the delay and the seasonality push in the business. The specific -- clearly, lumpiness -- quantum of lumpiness, we should know in the next 1 month as the billing cycle confirmation kicks in from the universities side.

Deep Shah: Thank you. I will get back in the queue for further questions.

Moderator: Thank you. Next question comes from the line of Amit Chandra with HDFC Securities. Please go ahead.

Amit Chandra: Sir first on the general staffing, just a follow-up on what you said. So obviously this is the first quarter where the addition in general staffing has been actually lower than – am I audible?

Management: Yes, Amit.

Amit Chandra: So continuing on the additions that we had in terms of the general staffing. So this is the first quarter where we had the addition which is lower than what we had in DA segment. And obviously, you called out that there has been certain pockets where we are seeing slowdown. But the impact of this slowdown has been much higher than what we like -- around what we were anticipating or is it in line with what we thought?

And also, in terms of the pockets where we're seeing the weakness, this is just a temporary kind of weakness or you see this continuing for one or two quarters more? And also the kind of uptick that we were expecting on the manufacturing side, what is the update on that? And generally, what -- really was that the margins or the PAPMs on the BFSI side is lower versus what we have on the manufacturing or the other segments.

So once you are like pivoting or shifting from the BFSI to non-BFSI segments, can this change in mix can also increase the PAPMs? So this is the first question on the general staffing?

Ashok Reddy: So I think while we've had a lesser growth and probably the lowest growth in a few quarters in net headcount growth in staffing, it is a little better than what we had expected it to be for the quarter because in my narrative for the quarter last quarter, I said we probably would be negative. And some of those elements of BFSI conversions have partly happened and partly will happen in Q4.

But I think post Q4 we do see normalization coming back and there are dialogues and feedbacks from companies about looking to add headcount thereafter and so on. So I think at this point, while we've seen it subdued for Q3 and Q4, I think Q1 onwards, it is the initial outlook from the sector and companies is quite positive.

The flip of the sectoral play has not yet happened. And I think manufacturing, coming to the table with larger volume requirements and stuff is not yet on the table. While there are dialogues with the manufacturing sector, there are -- they also come with a lot of demands around service guarantees and indemnities thereon, which we are not necessarily comfortable giving -- given what they're paying for the same.

So the transition of composition and associate base hasn't happened that much. As Kartik also called out while incremental contracts or clients are being onboarded, a larger percentage of them are on a percentage model. They're still not the ones driving the volume or the composition. So I think that element of a composition play will take a much longer period to play out.

Kartik Narayan: Yes. Just to add to that, Amit, a couple of things to put it in context. So Q3, traditionally, even if you look at it historically, I'm just trying to recall broad numbers. Last year, Q3 was roughly about 6,000 in general staffing and the year before was 2,500 or roughly around that. And especially last year, when you look at it, it came in because of one particular sector, which is largely telecom with their 5G expansion and all that.

And that's why Q3 last year did specifically well against the 1,300 that we've added this year. So I think that's one aspect. The other aspect, if you would have heard in my opening comments I mentioned as well that from a hiring perspective, Q3 has been down. And largely, in our model, 70% of the hiring is done by the clients and 30% is done by us. So from an overall demand perspective, given there has been softening across different segments.

Even the transitions that we typically end up getting from customers have also kind of come down. So I think that's where the outlook lies. I think in Q3, we are seeing some different segments kind of signalling, like, for example, quick commerce signalling positiveness to us. So I'm hoping some of those will kind of pick up going into Q4.

Amit Chandra: And secondly, on the specialized staffing, obviously, we are seeing some green shoots there in terms of better hiring. And the one-third of the segment, which is like GCC continues to be strong. But in terms of strategy, we are trying to go international with expansion into Singapore and Middle East, but we have seen that these markets have been traditionally very tough for the peers and it's really very difficult to penetrate there and grow there.

So what's your strategy in terms of -- because there's ample opportunity in domestic is what we always believed. So what is the thought process behind going international?

Ashok Reddy: So we are not taking our eyes off the domestic market. I think the element of our outlook to saying India is large, India will be consistent, India will be consistently focused play, I think, continues to be there. I think the intent to get in here at a low-cost kind of variable was also a function of some of our customers asking for delivery in these geographies and a partner who already had a presence with the customer base and a delivery model, which was here to there, which we can accentuate with the larger team that we have.

So I think this element of an opportunity is more complementary in nature to the existing business and team. It does not take our focus away from the larger play of India. It is really leveraging our existing capabilities and resources and probably working with the existing customers of Ikigai and also delivering to our customers who are asking for delivery there.

Amit Chandra: Okay. And lastly, on the strategy to invest and focus more on the HR platform side. Obviously, we have done 2 acquisitions and those will get integrated. So how do we again prioritize in terms of focus on the platform side because that is a segment, which is having higher margins. But again, the strategy, the focus there is totally different. So how we plan to balance that?

Ashok Reddy: I didn't understand that question, Amit?

Amit Chandra: So in terms of the HR platforms, we have done some acquisitions there, right?

Ashok Reddy: Yes.

Amit Chandra: In terms of expanding into the HR platform space. So is it...

Ashok Reddy: This, again, is complementary in nature to what we already do. So today, we have TeamLease platforms, I mean, from the HR tech side and have a services solution to customers. I think what this does is gives us another platform, which we can take to market in a larger way has a larger base that they are servicing, which we can again leverage from a sales perspective. So it's not creating a new opening in the strategy of TeamLease.

I think our focus to staying through to the three employment cluster businesses of staffing, specialized staffing, DA and our HR service businesses of RegTech EdTech and HR Tech stay consistent. The acquisition investments that we have made complement the existing business and are not a diversion.

Amit Chandra: Okay. And in terms of margin profile, how is the margin profile of the acquired entity because in line with what we have the existing businesses? Or is it higher than the company average?

Ramani Dathi: Between the two acquisitions that we did in HCM. So the annual revenue is about INR22 crores with a profit of INR7-odd crores, and since our holding in Crystal HR is only 30%, what we consolidate would be about INR4.5 crores at profit level.

Ashok Reddy: And Ikigai is a breakeven business with an element of a 13-member team by the legal presence in these countries and other than 1 promoter who is driving the sales and the customer relationships in that location, everybody else is based in India.

Amit Chandra: Thank you and all the best, sir.

Moderator: Thank you. Next question comes from the line of Vikas with Antique. Please go ahead.

Vikas: Sir, my first question is, sir, you talked about consumer retail e-commerce sectors have already peaked in Q2, Q3 and also FMCG being subdued. And even on telecom and manufacturing vertical, we talked about some weakness and BFSI side obviously, going into Q4 could be weak.

So is it -- I mean, is it -- is it the right understanding that Q4, we may see some decline in the headcount in general staffing or you see some particular vertical kind of compensating for the weakness?

Ashok Reddy: I think there will be a net decline of a small number that we do foresee for Q4. And I called that out in my narrative. While we will have BFSI contributing to a larger element of the decline. Some of the other sectors will compensate that decline, but it will be a net marginal decline.

Vikas: Okay, sure. And the second question is, obviously, this quarter, good to see some improvement in specialized staffing. If I look at from the peak, the headcount is roughly down around 35% for specialized staffing from the peak. So if we assume, let's say, next 12 to 18 months as things normalize, is it right to assume that we will have that kind of a headcount coming back. And secondly, if I compare between GCCs and these IT service providers, I assume the margin mix would be better with GCCs?

Ashok Reddy: So I think unless services comes back in a big way with open positions, recovering the element of the headcount to earlier peak is really difficult in the immediate term, while we still stay optimistic to the long haul. The GCC clearly is what has compensated for some of the headcount losses and some of the margin portfolio.

But there also in the last 18 months, we have let go of two large mandates with larger numbers out of clear choice to -- from a pricing perspective. So I think our continued focus will be to drive the net headcount up at margins, and effectively also leverage the productivity angles from the team side.

Vikas: Okay. Now the earlier question, what I was alluding to was a few of the service companies have started talking about a normalized year and FY '27 and '26 is going to be a year of recovery. So I was just trying to understand if things will come back. We will also see a similar kind of -- we may go back to what...

Ashok Reddy: Yes, that's what we are confident of. I mean...

Kartik Narayan: There's no permanent loss to the account this is what I was trying to answer.

Ramani Dathi: As the services companies have also started calling out about single-digit growth even in headcount from last year to this year and their projections of hiring freshers as well, our growth will also start seeing improvement, which is what we are calling out today. And as we see growth in the services industry in parallel GCC and the non-tech companies will also continue to hire. So yes, we will obviously have a good growth from this year to next year, probably will not get to the peak in the 12 to 18 months...

Ashok Reddy: But if the industry turns around rapidly, yes we could aspire for that.

Vikas: Thank you.

Moderator: Thank you. Next question comes from the line of Kaustav Bubna from BMSPL Capital. Please go ahead.

Kaustav Bubna: So there are talks of change in the labour code in the budget or introduction of a new labour code in the budget. So I just wanted to understand when you -- let's say, there's a big increase in minimum wages. How does that financially impact our company? Does it benefit us or is it bad for us?

Ashok Reddy: From a margins perspective it's bad for us Kaustav. But from a topline revenue perspective is good because we pass on any of the statutory payment liabilities on to the customer. So it will be -- if the INR1,000 minimum wage went to INR2,000, our billing to the customer will become INR2,000. But given that our PAPMs are on a fixed price model, as a percentage, our realizations will seem to be dropping.

Kaustav Bubna: No. So on an absolute EBITDA basis, could you speak?

Ashok Reddy: EBITDA would not have an impact.

Kaustav Bubna: No, that's the margin, right? Today, if you...

Ashok Reddy: Margin, the percentage will have an impact, not absolute EBITDA.

Kaustav Bubna: Yes. Okay.

Ashok Reddy: Which is where Ramani earlier called out saying that we are focusing on growing absolute profits on a consistent basis.

Kaustav Bubna: And is there any update on this employment? I feel like the government announced this in the budgetary employment linked incentive and nothing has come out, no further details have come out till today?

Ashok Reddy: Yes.

Kaustav Bubna: So, any views?

Ashok Reddy: There's a lot of talk, but the element of timing around when it will get done is still out in the -- from a perspective of predictability. It's a lot of talk, but we don't have firm views on that.

Kaustav Bubna: But what is this talk since you obviously at the helm of things? What is this talk? I mean, what are you hearing? What -- how can it...

Ashok Reddy: So the intent is there. I mean, frankly, I think the intent coupled with the ability is there, it's just something that hasn't gotten done. So outside of the aspect that in the consign of the four walls, they're very clear that they'd like to do it, it's the right thing to do and all of that and will be supporting the element of formalization and so on. It's just not got the traction that it deserves.

Kaustav Bubna: Okay. Thank you.

Moderator: Thank you. Next question comes from the line of Riya Mehta with Aequitas Investments. Please go ahead.

Riya Mehta: My first question is regard with -- we've been saying that we will be seeing a little slowdown in BFSI. So what sectors do you see -- would see growth coming from? I understand quick commerce being one, but other than that?

Kartik Narayan: Yes. So Riya quick commerce is 1 pockets within the consumer businesses also see cyclicals. So Q3, there has been an uptick and then subsequent shedding of manpower like I kind of called out. Going into, I think, Q4, largely some aspects of retail in the run-up to Q1 summer season FMCG, I think those will be the areas which will see growth.

Riya Mehta: Sorry, you said retail?

Kartik Narayan: Yes, retail as well as FMCG because typically, companies start hiring sales folks, service folks, etcetera and all that, for the upcoming summer season, which typically starts around April onwards.

Riya Mehta: So this will be from Q1 around?

Ashok Reddy: No...

Kartik Narayan: Yes.

Ashok Reddy: That's into Q4...

Kartik Narayan: Yes, end of Q4, Riya.

Riya Mehta: End of Q4. And on specialized staffing since we are hearing that IT is not seeing great numbers. So in GCC, however, the pickup is great, so when do we see a double-digit kind of a growth there, upper double digit?

Neeti Sharma: At GCCs or IT companies Riya?

Riya Mehta: GCC. GCC is 60% of specialized staffing?

Neeti Sharma: That's right. Our net revenue is 60% and headcount of one-third actually. So about 30% of headcount is at GCCs Currently. So that growth continues because of newer GCCs coming in. And for us to be able to deliver and across various models at GCCs. So that growth actually is currently even double digit. Even from last year to this year, we've actually grown substantially with GCCs.

Riya Mehta: Got it. So however, the slowdown in IT is overcompensating for the growth in GCC is my understanding?

Neeti Sharma: Absolutely, yes, and like Ashok also called out, we had to let go of two large mandates because of the lower margins. So we haven't been able to come back to those numbers, but whatever growth is happening in GCC is in a way, enabling us to stay flattish from last year to this year.

Riya Mehta: Got it. And in general staffing, you were saying that the new orders you're performing with the percentage basis. Could you elaborate more on that?

Kartik Narayan: Yes. So Riya, as we are signing up new logos and obviously, these new logos come with largely specific smaller associate headcounts. Almost all of them are pretty much coming in what we called a percentage mark up to the salary that we pay to the associates.

Ashok Reddy: So what that does is effectively it protects us to some extent on the wage inflation towards our realization.

Riya Mehta: Got it. Also in the new -- on newer acquisition, could you elaborate more on what HR services and how -- what typically would be the business model there?

Ramani Dathi: So we have announced two acquisitions in HR Tech Vertical, Riya. So one is TSR Darashaw, which is mainly into payroll services. It's a managed payroll business. So there we operate about 1.6 lakh of payroll records monthly with an annual revenue of INR9 crores and profits of about INR3 crores, INR3.5 crores.

The second acquisition, Crystal HR is a SaaS platform for HRMS. And this business is currently handling about 3, 3.5 lakh of payroll records and with a revenue of INR13 crores and profitability of INR3.5 crores. We are integrating these 2 businesses into our existing HCM business in terms of sales, marketing strategy as well as the technology platform.

So over the next 12 months, we will be focusing a lot on this integration and driving synergies for these two entities as well as for our internal HCM business. With this contribution, we should be able to get to an EBITDA margins of 6% to 7% after a 12-month period in this vertical.

Riya Mehta: Got it, 6% to 7%?

Ramani Dathi: Yes.

Riya Mehta: Okay. And in terms of introduction of AI, because we are seeing that people have been using a lot of AI. So how is this impacting our demand on a straight wave on the number of employees people are wanting to hire? Are we seeing a decline structurally because of AI?

Ashok Reddy: Not much of a direct impact at this point in time in the kind of profiles we do, Riya, because a lot of our volume comes from feet on street, comes from sales and so on. That demand or that profile of workers at this point in time are still not impacted.

Riya Mehta: Got it. And do we integrate AI in our processes or when we are giving services?

Ashok Reddy: Yes. So from the technology end at our end, some of the levers to productivity come from the element of the platforms and process reengineering that we do. And towards that AI, LLM, all of those are variables that get factored.

Riya Mehta: Got it. Also for all the consumption and the FMCG players specifically, we have been seeing a 20% growth in the sales and marketing budgets. So does this lead to higher advertisement? Does it lead to more manpower for sales?

Ashok Reddy: Combination, but I think -- I mean, we will not be able to distinguish between the 2 in terms of where it is going for them. But it will be a combination and -- which is really, again, the seasonality element that Kartik alluded to where summer coming and so on, there will be an element of hiring. There's also been a focus in FMCG kind of companies around formalization. So consolidation from smaller vendors, from their distributors and so on. So I suppose the budget would go into multiple pockets.

Kartik Narayan: Yes, if you've noticed, I think, in the last 12 months or so, typically, all the larger FMCG companies which have reported results. I think one particular aspect has been flattish volume growth. So I think some of the advertising et cetera all going on, obviously, is to spur the market, sachet packets are becoming smaller and so on and so forth, depending on the business.

So as we speak, I think unless and until customer -- enterprises perceive significant volume uptick, I don't think so there's going to be an expansion. I think some of the growth which has been happening for us has been happening largely on the formalization part where some of these businesses have come back to us in order to kind of bring in better compliance, better retention of their extended workflows.

Riya Mehta: Got it. And how much would be FMCG for us. FMCG and retail around 10%?

Ramani Dathi: It's about 20% contribution from retail and consumer verticals put together.

Riya Mehta: Okay. entire consumer verticals would be there. Also, we are witnessing slowdown in manufacturing. So the labor -- which we were applying or with the growth trigger for us has been on a declining trend there. So how are you seeing actual on the ground?

Ashok Reddy: Riya, if you could repeat that question, didn't get it?

Riya Mehta: So how are the things going out in the manufacturing hiring?

Ashok Reddy: I mean, it's a smaller portion for us. And as we've called out the element of -- I mean, manufacturing is a high capital upfront kind of a sector which then leads to employment growth. We have not seen a huge jump in the hiring at our end for manufacturing. Our continued focus and trend continues to play out.

Riya Mehta: Got it. And in terms of BFSI, we would see an uptick from Q1 onwards?

Ashok Reddy: I mean as of now, the indications from companies seem to be hinting at that.

Riya Mehta: Got it. And in terms of improvement of margins in the general staffing business, what measures are we taking, because are we going to any cost reduction exercise? Or are we planning to increase our PAPM?

Ashok Reddy: Cost reduction and productivity, these are things that are a continuous focus. And if you would notice that our FTE ratio has been improving and all of that. We're trying to hold on the PAPMs, obviously exploring ways in which we can get higher realization by selling more and stuff of that sort. But I think as a -- and this is really where Ramani was alluding to saying the key focus being how do we increase the absolute profits getting driven by the staffing business.

Moderator: Next question comes from the line of Nitin Chaudhary with Nuvama. Please go ahead.

Nitin Chaudhary: My first question, I just want some clarity on the comment that this quarter was better than our expectations. Even in Q2 it was highlighted that Q3 will be weaker, but sequentially, we have delivered decent growth in general staffing. So is it because the other segment grew faster than our expectation or some of the headwind in BFSI actually shifted for Q3 to Q4?

Ashok Reddy: Some of the headwinds shifted on this front, Nitin. This is what I called out saying some of it is continuing into Q4 rather than having all happened in Q3.

Nitin Chaudhary: Got it. Understood. Second, I just want to understand to get some clarity on specialized staffing. The comment regarding that we let go 2 of the large contract, so is -- the thinking is that we want to manage or maintain the current margins even if it comes at the cost of lower revenue growth?

Ashok Reddy: Yes. And also, these mandates just economically were not working out after a point in time due to change in service expectations from the customer end. So continuing with them would be a huge drag on the element of the margins. We also, at point, explore the possibility if it's becoming lower margin, whether the same mandate should be handled by this general staffing business.

So there have been instances where we have shifted one or two customers in the past from specialized staffing to general staffing, depending on the margin profile. But, however, these 2 specific mandates had turned negative from a margin perspective and which is why we decided to drop them all together.

Nitin Chaudhary: Sure. Just last one from my side on margin. You have clearly mentioned that you will be looking to grow EBITDA on an absolute basis. But as a percentage of revenue, EBITDA has been declining, right? Now you're able to hold it to 1.1%? Is it fair to understand that -- or assume that going forward, EBITDA as a percentage of revenue should decline further?

Ramani Dathi: It may not decline further, Nitin, because we are focusing on higher contribution coming from businesses like HR Tech, EdTech and since these businesses are at 7%, 8% EBITDA margins, eventually at group level, there will be an improvement in EBITDA and PBT. Specific to staffing, the margins are a lot dependent on the average salaries of the associates depending on which profiles, which locations we are hiring these associates that impacts our margin levels in general staffing business.

However, in terms of absolute EBITDA number, we are focusing that there should be -- I mean, double-digit growth sequentially at group level.

Nitin Chaudhary: Sure. Very clear. Thanks a lot.

Moderator: Thank you. Next question comes from the line of as Harsh Chaurasia with Vallum Capital. Please go ahead.

Harsh Chaurasia: I have couple of questions. I wanted to know what is the contribution of BFSI from a headcount perspective and the revenue perspective in the general staffing business, and if you can give -- throw some light on how much does the MFI and the affordable housing combined convert contribute to the BFSI. And since the slowdown has started to happen in BFSI, what was the peak -- this number was contributing? So this is my first question.

And the second question is on the specialized staffing business. So in the Q3 results, majority of the IT company has started to put the commentary back. Historically, the model there was a connect between headcount growth and the revenue growth. But in the future, because of AI there would be some disconnect. So how this would impact our specialized service business where we are expecting that there will be uptick in IT services business.

And my third question is on the -- I just need someone clarification from earlier participant's question on the labor code. So how this will be benefited on the margin side, if you can explain that? These are my questions?

Ramani Dathi: Yes. BFSI in terms of revenue and headcount contribution is at about 22%. And I didn't get the second part of your question regarding BFSI. But I'll come back to that later. Within specialized staffing, regarding your point on AI impact and IT companies talking about -- I mean, maintaining higher profit with lower headcount. We are also moving up the value chain.

Like 2 years back, our average salaries in specialized staffing business were at 40,000. And now with more contribution from GCCs and we catering to a higher experience profile. Average salaries are currently at INR70,000, INR75,000 per month. We believe at this segment, the impact of AI may not be as much as it is at the entry level.

The last point on labour costs, we need to understand, I mean, the final points on what are the impact areas in the short term. However, in the long run, the main impact is that it will drive more formalization eventually leading to improvement in gross margins in staffing. Can you please repeat your question?

Kartik Narayan: The question was around MFI contribution and NBFC. So to 22% was called out by Ramani, Harsh on the BFSI contribution MFI for us is smaller at 5%, but NBFC and all put together is roughly about 25-odd percent of that 22%.

Harsh Chaurasia: Okay. So on the labour code margin side you mentioned that the margin would be going down. So we expect the absolute EBITDA would be stable or net positive?

Ashok Reddy: Harsh, I didn't say it will go down. The question was, will it lead to minimum wages going up and being higher and what would happen if that were to happen. I said that it will be a pass-through liability for us. But obviously, if wage levels keep going up the margin is impacted. That has nothing to do with the labour code specifics.

Harsh Chaurasia: Okay, understood. Thanks.

Moderator: Thank you. Next question comes from the line of Bhargav with Ambit Asset Management. Please go ahead.

Bhargav: Just wanted to know what is the share of manufacturing and general staffing? And how has it moved in the last 4 years? And related to that, what is the PAPM in manufacturing that we earn?

Ashok Reddy: So manufacturing has been at around 10% to 12% and broadly being at that level over the period. And I think if we look at the PAPM specific to manufacturing would be around INR800.

Bhargav: Okay. Within the degree apprenticeship segment, we also do learning and connectivity, I think close to about 13-odd thousand people are within this segment. Do you think the share within DA of apprenticeship should sort of consistently increase and given that PAPM year is higher it will actually be favourable for us?

Ashok Reddy: So I think the key focus for us in the DA business has been to ensure education linkage to the apprentices and trainees. And from the start of the year when we were at about 12% of the associates and trainees being on learning alongside the apprenticeship. We've now moved it to about 30% being there.

We will continue to focus on it being continued sale and increasing the percentage of apprentices under learning coverage. We believe that adds value, and it also is a better realization from element of the business.

Bhargav: And how higher are the margins here versus the normal margins?

Ashok Reddy: So typically, if the realization is about INR300 for a pure apprenticeship, the element of integrated learning apprentice is anywhere between 700 to 800.

Bhargav: Okay. Double of it?

Ashok Reddy: Yes.

Bhargav: And lastly, sir, in HR Services, we've obviously reported a loss of about INR7 crores in 9 months, is it fair to say that we'll end up negative in FY '25 because earlier, I think the guidance was to come back to profitability in the full year?

Ashok Reddy: No. HR Services, I think with the seasonality element of EdTech getting pushed is really why the loss is there. With the catch-up, we should turn positive back in Q4.

Bhargav: No. So for the full year, it will be positive or in...

Ashok Reddy: For the full year we should turn positive.

Bhargav: Okay. So we'll expect more than INR7 crores EBIT in 4Q is fair to assume?

Ashok Reddy: Yes.

Bhargav: Okay, thanks and all the very best.

Moderator: Thank you. Next question comes from the line of Aniket Kulkarni with BMSPL Capital. Please go ahead.

Aniket Kulkarni: So coming back to that wage increase situation. So you said if the minimum wage increases, you pass on the hike to customer, right? So does it direct pass through, can you explain how does it -- how is it detrimental to our margins? Because if it is a direct pass-through then it shouldn't affect our margins?

Ramani Dathi: No, there won't be any impact on absolute profits. We are talking about margin as a percentage. So for example, if the salary is INR10,000 on that we are earning INR700 PAPM. And if the minimum wages goes up, if the average salary goes up from 10,000 to 15,000, 75% of our clients are on fixed mark up model, we'll earn the same INR700, even on a INR15,000 salary. So that would directly dilute margin as a percentage, but not absolute profits.

Aniket Kulkarni: Okay. So -- but -- and now if such a situation comes in, are you in a position to let's say, for newer contracts, get into floating kind of commissions for you because after a certain point, it would not be ideal for you to continue that contracts?

Ashok Reddy: No. I mean the -- like Kartik mentioned, 60%, 70% of our new sign-ups this year have been on the percentage contract, but they are not the volume drivers. Most of the volume driving clients take up PAPM pricing.

Ramani Dathi: Also, Aniket, our average salaries are currently at INR26,000 per month. So...

Ashok Reddy: It's already above the minimum wage.

Ramani Dathi: It's much higher than the minimum wage levels, even considering a hike in the near future.

Aniket Kulkarni: Okay, got it. Thank you so much and best of luck.

Moderator: Ladies and gentlemen, as there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to Mr. Ashok Reddy for closing comments.

Ashok Reddy: Thank you. In closing, we continue to focus on growth in our existing businesses and also we'll be focusing on working the synergies with the three entities that we have invested into. The investment into these entities is not a diversion in strategy of focus, it continues to create opportunities in complementary nature in our employment cluster and our HR services business.

We believe that these could augment the pace of sales growth and contribute to the bottom line in a meaningful way as we go forward. We also look to the HR services turning positive this quarter as a year statement with the element of the seasonality, billing and collection, loops in the EdTech business closing out this element of a commitment from the universities on that front and we believe that, that should play out.

From our perspective, the focus to growth, productivity as levers to profit growth will continue and we will drive on those fronts. Thank you very much for the support.

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