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February 03, 2025

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Security Code- 539978

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"Exchange Plaza", Bandra-Kurla Complex,
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NSE Symbol- QUESS

Dear Sir / Madam,

Sub: Analyst Call - Transcript

Pursuant to Regulation 46(2)(oa) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform that the Transcript of the analyst call, conducted through digital means, has been uploaded on the website of the Company under the following link: https://www.quesscorp.com/investors/

Kindly take the same on record.

Yours sincerely,
For Quess Corp Limited

Kundan Kumar Lal
Digitally signed by Kundan Kumar Lal
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Kundan K Lal
Company Secretary & Compliance Officer

Encl: a/a

Quess Corp Limited

Q3 and 9M FY 2025 Earnings Conference Call

January 30, 2025

ANALYST: **MR. BALAJI SUBRAMANIAN – IIFL SECURITIES LIMITED**

MANAGEMENT: **MR. GURUPRASAD SRINIVASAN – EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE OFFICER – QUESS CORP LIMITED**
MR. KAMAL PAL HODA – GROUP CHIEF FINANCIAL OFFICER – QUESS CORP LIMITED
MR. LOHIT BHATIA – PRESIDENT, WORKFORCE MANAGEMENT – QUESS CORP LIMITED
MR. GURMEET CHAHAL – CHIEF EXECUTIVE OFFICER – QUESS GTS
MR. ANAND SUNDAR RAJ – PRESIDENT – OAM
MR. V. SURESH – CHIEF EXECUTIVE OFFICER - FOUNDIT
MR. KUSHAL MAHESHWARI – HEAD, INVESTOR RELATIONS AND STRATEGIC FINANCE – QUESS CORP LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Quess Corp Limited Q3 and 9M FY2025 Earnings Conference Call hosted by IIFL Capital Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Balaji Subramanian from IIFL Capital Services Limited. Thank you. And over to you, sir.

Balaji Subramanian: Thank you. Ladies and gentlemen, good morning and thank you for joining us on the post Q3 and 9M FY2025 results conference call for Quess Corp Limited. It's my pleasure to introduce the senior management team of Quess Corp, who are here with us today to discuss the results. We have Mr. Guruprasad Srinivasan, ED and Group CEO; Mr. Kamal Pal Hoda, Group CFO; Mr. Kushal Maheshwari, Head, Investor Relations and Strategic Finance; Mr. Lohit Bhatia, President, Workforce Management; Mr. Gurmeet Chahal, CEO, GTS; Mr. Anand Sundar Raj, President, OAM; Mr. V. Suresh, CEO, foundit.

We will begin the call with opening remarks by the management team, and thereafter, we will open the call for a Q&A session. I would like to now hand over the call to Mr. Kushal Maheshwari to take proceedings forward. Thank you. And over to you, Kushal.

Kushal Maheshwari: Thank you, Balaji. Good morning, everyone, and thank you for joining Quess Corp's Q3 and 9M FY2025 earnings call. The information, data and output shared by the management during the call is forward-looking and subject to prevailing business conditions and government policies. All forward-looking statements are subject to economic growth or other risk factors faced by the company. The result and the presentation have been uploaded on our website. Please refer to Slide number 2 of investor presentation for the safe harbour clause.

With that safe harbour clause in place, I will now hand over the call to our Group CEO, Mr. Guruprasad Srinivasan, for his opening remarks. Over to you, Guru.

Guruprasad Srinivasan: Thanks, Kushal. Very good morning to everyone, and thank you for joining us today. Wish you all a very Happy New Year. Before discussing our financial and operational performance, let me summarize the current operating environment. Moderation in private consumption and investments, coupled with a high inflationary and elevated interest rate environment has negatively impacted consumer and business spending, effects of which are visible in sectors where our businesses operate. Nevertheless, we remain confident in an imminent rebound in economic growth, expecting a revival in industrial activity and continued strength in the sectors we operate in..

Despite a challenging environment and demerger investments, we are on track for non-linear profitability. In the past 9 months, revenue and EBITDA grew in low double digits, while PAT and EPS increased by over 50%.

In Q3 FY25, we reported revenue of ₹5,519 crore, with EBITDA at ₹197 crore. EBITDA margins contracted to 3.6% due to investments in sales and leadership and festive season bonus passthrough to associates. PAT decreased by 13% sequentially due to demerger-related costs. During the period, we added approximately 7,000 associates.

Key financial highlights for 9 months are as follows. We added 50,000 associates, and the current total head count is 617,000, a 9% growth from March '24 levels. During the same period last year, we added 46,000 associates. We recorded consolidated revenue of INR15,702 crores, a growth of 11% year-on-year. We delivered EBITDA of INR581 crores, a growth of 13% year-on-year. YTD PAT was at INR290 crores, registering a 59% growth year-on-year. The Board has approved an interim dividend of INR4 per share.

With this, now let me specifically talk about platform updates, starting with workforce management platform. The platform now has over 500,000 associates, up by 5,000 this quarter, including 40,000 associates who are serving notice period. Revenue grew 18% year-on-year, 8% quarter-on-quarter, boosted by bonuses that are recorded as part of the revenue, but essentially, they belong to the seasonal payouts of Q3. Consequently, EBITDA margin dipped to 2.3% and grew 3% year-on-year and remained flat for quarter-on-quarter. The platform secured 124 new contracts with ACV exceeding INR150 crores.

Now coming specifically to businesses under workforce, to start with the general staffing business. The business added about 5,100 associates in headcount during the quarter, led by consumer, retail and telecom. The pace of headcount addition was slower after a strong start in October as we saw de-hire after the Diwali season, particularly in logistics and e-com sector. BFSI headcount growth remained flattish due to slowdown in unsecured lending, followed by RBI tightening the regulations. The BFSI sector remains a key watch area as we enter in Q4, and the slowdown is expected to continue in near term as well. As of Q3 end, we have a modest open mandate of about 14,000, primarily from manufacturing and consumer segment. General Staffing, added 87 new contracts during the period with annual contract value of INR136 crores. During the 9-month period, the business brought almost about 240-plus new customers. Our investment in targeted vertical structure will enhance operations, boost efficiency and improve our outcomes. We are confident that this will create a substantial long-term advantage over competitors through our tailored solution specific to the sourcing segment, strengthening our sourcing platform and customer retention strategies and fulfilment.

Moving on to IT staffing business. In the IT staffing business, we continue to see encouraging GCC contributions, while IT/ITeS segment demand remained modest. Our investment in niche skill, specifically in GCC and verticalization and quality of mandate yielded a better margin profile, which is reflected in our improved realization per associate. To leverage the growth preferences of global corporations to set up GCCs in India, we are augmenting our play with GCC-as-a-service, wherein we tie up with partners, augmenting our capability to provide workspace and workforce solution to our customers. We expect significant traction going forward from this. ITeS is expected to recover in Q4, and the pipeline is encouraging. We currently have about 1,600 open mandates, which is 15% higher sequentially.

In overseas staffing, performance varies across region. Singapore has not resumed growth due to visa restrictions, but strong fundamentals and leadership in Middle East and APAC has driven sales overall growth and overseas sales remained flat in this quarter.

Moving on to the next platform, which is Operating Asset Maintenance. OAM platform achieved revenue of 15% year-on-year and 4% sequentially. EBITDA margins were marginally lower on account of revenue mix change in food and beverage business. During the quarter, we acquired the food and catering and IFM business of Archer Industrial Services. This is a small bolt-on acquisition, helps us to broaden our F&B offerings with foray into industrial sector and enable cross-sell opportunities with our existing industrial O&M and security business. We expect this integration to be completed by Q4 of this year.

I would like to give you some highlights on OAM business. OAM platform added about 52 logos with ACV of INR170 crores during the quarter. IFMS continues its steady growth with 17% year-on-year with new contract wins from BFSI, Industrial and IT/ITES sector. Food and Beverage post integration with Archer will be a INR300 crores exit run rate business. Telecom Infra business continued its solid run with a 30-plus percent year-on-year growth and is on track to achieve annual run rate of INR300 crores by exit of FY25. Apart from project-related contracts, Vedang, which is our telecom infra business, focus is to increase contribution from annuity O&M services. Security services post rationalization of low-margin contracts has resumed on its headcount-led growth trajectory.

Moving on to product-led business platform, which now largely represents foundit business. foundit registered a weak one-off quarter primarily on account of seasonal weak hiring season, headwinds in IT/ITeS sector and leadership transition. We are confident that foundit will resume its revenue trajectory of 20-plus percent year-on-year in near term. In this regard, EBITDA was also down sequentially, a negative INR9 crores for the quarter. However, cash burn for a period of 9 months has significantly improved from INR63 crores in prior year to INR25 crores till date. CSAT score has been healthy at 93%. On candidate front, 6 months active users have improved by 8% quarter-on-quarter to 27 million, while the recruiter search has also seen an uptick by 15% quarter-on-quarter to 4.5 million.

Moving on to the next large platform, which is Global Technology Solutions. GTS registered a revenue of 3% on a sequential basis, led by Tech and Digital, which grew 5% sequentially. Tech and Digital includes platform and IT infra service lines. Platform business reporting an 11% growth sequentially was a key growth driver. EBITDA was largely flattish sequentially with margin at 17.1%, 36 basis points lower on quarter-on-quarter basis. We have made significant investment in sales, leadership, product and delivery capabilities to accelerate our future growth post demerger.

The highlights of GTS platform specific to business line are as follows. BPM business registered a revenue of 3% sequentially. Customer life cycle management business grew 4% on a quarter-on-quarter basis, led by higher contributions from international business and robust domestic business. Alldigi's CXM vertical registered a solid growth of 8% quarter-on-quarter and crossed INR100 crores quarterly revenue for the first time. International business contribution also increased to 75% in Q3. Sales focus continues to bring in clients which are large in deal size and having a long-term horizon to ensure stable cash flows. Non-voice BPM business, while marginally declined on a yearly basis, saw a 2% sequential increase. Collection business has been weak over the last few months amid of RBI regulations. However, we expect it to rebound in Q4. Tech and Digital business led the growth in GTS with a 5% sequential growth. The platform-based services witnessed a broad-based growth in managed payroll and InsurTech business with 11% sequential growth. The payroll business processed 4.4 million pay slips during the period, which is a 6% growth on quarter-on-quarter basis. Our sales bookings have been encouraging with 61 new logos coming in during the quarter, with ACV up 26% sequentially to close the quarter at INR147 crores. BFSI and media were key sectors where the growth is coming in from. As a run-up to demerger, with a new entity, Digitide, we are examining our existing service lines and rationalizing low-margin low-efficiency contracts, which would give a sustainable upside to our long-term operating margins.

As part of the corporate update, our demerger plans are progressing on track, followed our first NCLT approval. We successfully secured approval from shareholders and creditors in December. In recent months, we have diligently worked on building a strong foundation for each entity. As we await the final approval from the NCLT, our commitment to drive sustainable long-term growth across all the demerged entities remains steadfast. This transition marks an important step in unlocking shareholder value and positioning each entity for its future success.

I will now hand over to Kamal specifically to give you financial updates for the quarter. Over to you, Kamal.

Kamal Pal Hoda: Thank you, Guru. I will first take you through headline financial numbers before delving into segmental performance and other corporate updates. We delivered a revenue of INR5,519 crores with a growth of 14% year-on-year and 7% quarter-on-quarter. EBITDA stands at INR197 crores, up 6% year-on-year basis and marginally higher on a sequential basis. The operating margin is 3.6%, lower by 20 basis points sequentially and 27 basis points on a year-on-year basis as platform margins have contracted owing to investments in sales, leadership and capabilities in the run-up to demerger. Moreover, the quarter characterized by bonus payments to associates, which is recognized in revenue, also impacted margins.

PAT for the quarter is at INR85 crores. Demerger-related expenses of INR22 crores were recognized during the quarter, which resulted in a PAT decline of 9% on a sequential basis. However, PAT was up 34% on a year-on-year basis, primarily on account of lower finance costs from diligent and consistent debt reduction and higher other income. EPS for the quarter is at INR5.4 per share, a 26% increase on a year-on-year basis and down 12% on a quarter-on-quarter basis. Continuing our capital structure optimization journey, we have repaid close to INR150 crores of debt in the first 9 months of the year and gross debt now stands at INR224 crores. The Board declared an interim dividend of INR4 per share, translating to a cash outflow of approximately INR60 crores. In summary, on a year-to-date basis, we are on track in delivering on our non-linear profitability trajectory with 11% revenue and 13% EBITDA growth with PAT growth of 58% while managing cash prudently.

Moving on to platform-wise updates, starting with workforce management. We delivered a top line of INR4,047 crores, which is up 18% year-on-year and 8% quarter-on-quarter. EBITDA for the quarter is INR92 crores, a growth of 3% on a year-on-year basis and flat sequentially. EBITDA margin contracted by 34 basis points on a year-on-year basis and 17 basis points sequentially to 2.3%, primarily due to visa restrictions in the Singapore region and seasonal festive bonus pass-through to associates in the current quarter. IT staffing witnessed a steady growth of 9% sequentially with contributions from GCC as IT/ITES demand remained modest.

Moving on to Global Technology Solutions platform. The platform clocked a revenue of INR646 crores, an increase of 10% year-on-year and 3% quarter-on-quarter basis. Tech and Digital grew by 5% sequentially, which was driven by growth in our platform business. EBITDA margin was lower by 40 basis points at 17.1% due to investments being made in sales, leadership, products and delivery capabilities to accelerate future growth. Going forward, the focus remains on high-value offerings in digital and long-term large deals in GTS.

Coming to our Operating Asset Management platform. It delivered a revenue of INR800 crores, a growth of 15% year-on-year and 4% quarter-on-quarter. Growth was led by telecom and industrial vertical, which grew 30% plus on a year-on-year basis. EBITDA was at INR38 crores, witnessing a growth of 4% year-on-year basis and 2% on a quarter-on-quarter basis. Operating margin saw a slight dip to 4.7% on account of revenue mix change in F&B vertical.

In the product-led business, adjusted for our divestment in Qdigi, revenue for the quarter was INR26 crores, a decline of 29% on a year-on-year basis. This decline was primarily due to seasonally weak hiring in this quarter alongside IT/ITES industry headwinds. As top line growth was below normal, EBITDA burn increased sequentially to a negative INR9 crores. However, on a year-to-date basis, cash burn is at significantly lower levels than last year.

Moving on to corporate updates. I'll start off with tax-related matters. We have received tax refunds aggregating to INR147 crores, of which INR125 crores towards FY23-24 and INR22 crores for FY19-20. Moving on to demerger update, we are progressing on track towards the proposed 3-way demerger of Quess Corp. Post our first round of NCLT approval, we received shareholders and creditors approval during the meeting convened on 9th December. Internally, we are focused on establishing robust internal controls, streamlining operational processes and building strong leadership teams for each of the demerged entities. Our aim is to create independent entities that are agile, strategically focused and well positioned to unlock value for all stakeholders in the long term.

With this, I conclude our financial results and pass back to the moderator to answer your questions. Thank you.

Moderator: Thank you very much. The first question is from the line of Balaji Subramanian from IIFL Capital. Please go ahead.

Balaji Subramanian: Congrats on a decent quarter. So my first question is on the margins. If I look at the EBITDA margins in 3 of the 4 platforms, they are down on a YoY basis. So I understand that one reason is the investments that you are making in some of these platforms because the demerger is completed. Two is because of the festive season-related bonus payouts that you did. And the third is probably because of the demand weakness. So, for instance, one of your peers that reported yesterday was talking about PAPM pressures and the PAPM increase not keeping up with the associate wage payouts. So can you give us some sense on what would be the impact from each of these factors?

Guruprasad Srinivasan: Sure. Let me take this, and then I'll get Lohit to come in. So, Balaji, first and foremost, I mean, as you rightly said, Q3 is a season around, we'll be coming out of the season post July to October. So this time, Diwali was somewhere on 2nd of November, and we actually saw immediately de-hiring as well, massive de-hiring after Diwali season. And of course, the specific segments such as retail and a few segments which are sales-led with the incentives and other commissions and bonuses that gets paid in the subsequent month, which is November and December, which typically is a kind of pass-through, and that's roughly about INR160 crores, which is a pass-through on which there won't be any revenue for us. So that's one of the reasons why the margin is slightly low. Second, macroeconomic, specifically in Singapore, our ramp-up is not happening currently and we are almost sustaining the headcount or rather, where we are, to a very small extent, also de-growing by headcount there because we are not adding fresh onboards there. So that is another impact that has got in. To that point, our target is to first from current 2.3%, inch back to about 2.4% and see how we can stabilize by year-end for this particular platform around 2.5%. So that's what pretty much we are working on. And a few sectors which are open for Q4, specifically, again, CRT, telecom and M&I, we are seeing hiring happening. But however, BFSI, there is a slowdown. And we anticipate either to some extent there is a de-growth specifically in BFSI or it could be almost flat. So, from that standpoint, specifically for workforce, this would be the outlook to inch from 2.3% to 2.4% and then probably aim towards getting into 2.5% range.

The other 2 platforms for OAM, specifically, it's a product mix change that is bringing our margin down. Food sector commands a higher margin. And the revenue mix change there on food business has slightly impacted along with food inflation cost, we have seen some abnormal inflation cost which has probably hit us in Q3, which should settle down. We are renegotiating the contracts and of course, with Archer integration now in Q4 we should recover back. And specifically for GTS, it's about demerger and leadership, and we are strengthening the platform and more digital acceleration, where the cost and investment is going on.

So let me get Lohit to add specific anything on workforce. Lohit?

Lohit Bhatia: Guru, you more or less mentioned it well. But I'd just like to add some specifics. In the Q3 period, because of the seasonality of bonuses and incentives, approximately INR160 crores of pass-through has happened, which does not have any kind of an earning potential. That's the first point. The second point is that while we have seasonal factors, we have to, as an organization, look at the medium to the long term as well. We are in the midst of a demerger process for which we have to strengthen across the platform, leadership as well as the control functions for technology and others. That's also kind of partially baked into this. The third is that in the last 18 months, like you rightly mentioned, Singapore, primarily because of regulatory headwinds on visa regulations is impacting overall increase in the IT business. It has not impacted our business downslide, but what it has done is that we've been able to offset with all the great work that our IT team in India has done by almost doubling their business in the last 2 years. It's now reached a point where any further growth in IT in India will start to reflect directly into the numbers. Guru rightly said that the first goal for us is to stabilize at 2.4% plus and then long-term inch back towards 2.6%-2.7%, which will happen by a combination of factors of mix that we have. Today, general staffing in India contributes disproportionately at about 60% plus to EBITDA, whereas international and IT contributes at about 40%. That mix is the other factor that we are working towards making the change. With all of this, the last point is, in the last 3 quarters, we've said that we've also looked at the overall macro situation both in India as well as globally and gone into both technology-spend as well as verticalization-spend. Most of that spend at a business level is now complete. And as that starts to fuel new growth, it will definitely give us more uptick in both margins as well as core EBITDA.

Kushal Maheshwari: Balaji, does it answer your question?

Balaji Subramanian: Yes. This is quite comprehensive. I had 2 smaller questions. So, one is on the the demerger timeline of 1Q FY26, is it still intact? And the last question would be on this INR147 crores IT refunds. Was this all in 9 months FY25? Because if that is the case, probably the entire debt reduction has come from that. So is my understanding right?

Kushal Maheshwari: I'll ask Kamal to answer your question.

Kamal Pal Hoda: Yes. So on the demerger time lines, yes, we are pretty much on track. As mentioned in our commentary, we've got the shareholders and the creditors' approval. And we are at the second motion application of NCLT, and we expect that process to get over during the current running quarter, which is Q4. So we are hopeful that we should be able to see all 3 companies demerged and listed by Q1 of next financial year.

In terms of the income tax refunds, the INR120 crores of refund, if you look at our release, the refund came in January this year. So the debt reduction is a mix of the refunds that were received over the 9 months and the operation cash flows, which have been very robust. Given that we have received and announced another refund in January month, we expect this trajectory of debt reduction to continue in quarter 4 as well.

Moderator: The next question is from the line of Amit Chandra from HDFC Securities.

Amit Chandra: Sir, my first question is on the workforce management. Obviously, we are seeing some slowdown in terms of certain sectors within the workforce, which is slowing down, particularly BFSI. So you mentioned that it will continue. But the other pillars of growth was manufacturing, where we were very positive. So how the traction has been there in terms of, are we seeing the pickup slowing down? Or is it in line with what we are estimating? And also, you mentioned about that there are investments that are required in terms of post demerger in terms of technology and the key management people. So are we like through in terms of all these investments or still these can have some impact on the margins? And on the workforce management, please, how the overseas staffing is panning out? Is there still like margin pressures that we see there? And also, you mentioned about focusing on verticalization as a strategy in your workforce management. So any update on that? How it will drive growth for you post demerger?

Kushal Maheshwari: For the question on BFSI and manufacturing and general staffing, I would ask Lohit to give you the inputs. And at the same time, for investments regarding the demerger and the margins, I'll ask Guru to give this guidance. Lohit, if you can take up the question on the weakness in BFSI and manufacturing segment, please?

Lohit Bhatia: So yes, sure. Amit, there are broadly 2 things which are happening in the market. One is that there is an overall slight consumer sentiment reduction, which is visible in the economy itself. From the GDP data that we've been seeing from the larger broader economy that we've been seeing, I think there is a bit of a stress which is getting built somewhere on the middle class. And that's captured across results from different companies. Now, whenever we supply manpower to consumer companies, irrespective of whether they come under telecom or retail or BFSI or the others, that could be one degree of impact. And that is what is visible. We feel that this should be temporary in nature. And obviously, all of us are hopeful for the long-term impact of the Indian economy. Maybe Q4 continues to be a little subdued with all of these results. But as we see maybe some positive action on the interest front, with inflation taming down and everything, we'll probably spring back extremely aggressively. You might remember if you go back 4 years ago, when COVID hit us, from 242,000 we crashed to almost 190,000. So in a period of 5 months, we lost almost 50,000 to 60,000 people. That was the worst. And from that period of 200,000 base today, we are at 500,000. 300,000 added across a 4-year period. So, I think temporary blips in the economy and 1 or 2 quarters can be there, but I don't think so we'll see an overall slowdown of the Indian economy that we should be worried of what we saw 4 years ago. So that's on the first front.

The second thing you spoke about verticalization. I'll add that and then you'll get a context. So verticalization has been done for a couple of reasons. One is that we need to get depth in the service offerings that we give to customers. We are a large organization with 500,000 associates. We work in 65 different locations. We have over 500 recruiters in non-IT and 500 recruiters almost in IT. That gives us a massive firepower that we are able to work very, very close to the customers and work with them exactly as per the output that they require. Some solutions have to be built over a period of time, which can be differentiated from a general staffing solution to solutions which marry exclusively to what the requirement of those industries are. And hence, a combination of leaders who come from both staffing as well as from the industry practices, and they can work closer to the customers and increase that engagement and depth. And lastly, the marrying of the technology that we do is, again, subdivided for the different sectors and verticals that we deal with. While there's a common denominator of technology for onboarding, for recruitment services, for compliances, for governance, payroll and the others, but when we have to deliver to a retail company, the technology used is slightly differentiated than a technology which is used for banking versus used for manufacturing. So overall, if that gives you a context.

I'll come to your overseas staffing pressure. I think the pressure is only in one market, which is Singapore. All the other markets are fairly doing decently for us. But that market alone has shaved off close to INR20 crores of EBITDA year-on-year basis. In spite of that fact, we have continued to stay above a certain threshold line. That substantiation actually has come from the growth of our GCC in our Indian IT business.

I'll just take one second to give you one data point. Niche profiles to GCCs today contribute 1,000 of our 6,000 headcount. This was less than 220, 4 years ago. So it's a 4x growth. The higher margin profiles are good, at 38%, which was just 13%, 4 years ago. So again, that is what has aided and helped us in staying above board. We feel another 1, 2 quarters, it will start to reflect clearly into the numbers in terms of the growth that we have.

Over to you, Kushal.

Kushal Maheshwari: Guru, if you can give some guidance or some discussion points about the demerger-related investments and margins?

Guruprasad Srinivasan: Sure. So I mean while Lohit did cover most of it, a few specific data points, Amit. See, last full year, specifically, if I take the general staffing, they added about 59,000 headcount. And for the same period, for a period of 9 months, we have done about 46,000 headcount, and we are about 88% achievement to last year. And generally -- historically, if you look at it, Q3, de-hiring is a common phenomenon, but I think we have seen a little more de-hiring than the regular, plus the open mandate. And specifically Lohit did allude to BFSI segment not being that active in terms of hiring. We have seen a little slowdown on open mandate also. We have roughly about 14,000 open mandates currently. A few specific indicators to look at is -- our core-to-associate ratio continues to be healthy. We are about 1:371 and we've slightly inched up on that. Having said that, we will continue to invest and stay ahead is our sourcing capability. Specifically in my previous call, I've spoken about job spots investment that we are doing for hiring specifically for the manufacturing segment. We have already opened about 5 job spots, about 6 job spots now. By end of this year, we will have at least another 4 of them coming up in various other manufacturing clusters. 80% of our contracts still continues to be in collect and pay. So the cash flows and the DSO days that this platform maintains are pretty healthy there. If you still look at what encourages us is the fact that still 34% of employment who are coming into the workforce are still, first time coming into workforce. That gives us more confidence that formalization is taking place, which will continue more open mandates as we move forward.

So, from that standpoint, I think the indicators are right. However, verticalization can only bring in more focus. So, for example, the large platform vertical for us is BFSI, followed by consumer retail, telecom, manufacturing and industries, plus a special focus on value-added services, how we can bring in more digital intrusion into the staffing is what we are doing. Each of this vertical will have its own structure of delivery, and it will have its own structure to the market and go to market. While there will be a common back-end in terms of the payroll process, onboarding, and all the technology that Lohit spoke about, there will be much more deeper focus coming into each of these vertical. And the way we set the target, the way we start off reviewing this vertical will also be very exclusive. While overall business will carry a growth target of double digit, each of the vertical may have much sharper target the way the market is reacting to that particular vertical and the opportunities existing for them.

So, from that standpoint, we'll be much more closer to monitoring these verticals at a very micro level. And we strongly believe that consolidated effort on this will help us to continue to be at double-digit growth.

Amit Chandra: So lastly, just a follow-up on the workforce management piece. So there has been a sharp rise in terms of the transfers versus the sourcing. So is it by design? Or is it for this quarter for a particular client?

Kushal Maheshwari: Your line is a little incoherent. Can you repeat your question?

Amit Chandra: Yes sir, I was saying that just a follow-up that the transfer in terms of joinees is now 77% versus 66%. So there is a sharp increase there. So is it related to a particular client or -- because the higher transfers also result in lower margins, if my understanding is correct.

And secondly, like moving on to the foundit platform, so, obviously, there was weakness in this quarter and it's in a transformation phase. So, if you can throw some more light in terms of how the recent management changes will, in terms of the long-term strategy of us achieving, say, around 20% of the market and like breaking even in FY26, so where we are in that journey?

Guruprasad Srinivasan: Sure. So let me take the first part, and then I'll get Suresh to talk about the foundit piece. With regard to transfer question specifically that you had, that's more to do within the quarter, as we had a transition that happened. Otherwise, this number can fluctuate between 60% to 70% quarter-on-quarter. I mean this is normal in this business. So with regard to foundit specifically, yes, it's a weak season. We have declined about 28%, I mean, because most of our exposure, almost 65% of our platform usage is from IT/ITeS companies, and they are not that active there. Our 2.0 launch has been a very successful launch. The recruiter outreach program that we are building to enhance and encourage the usage. And our order renewal rate has been 83%. So there are a few good indicators. So I'll get Suresh to talk about this in detail.

V Suresh: I think you covered most of it. I mean, in my view, traditionally Q3 has been a big quarter for improvement. Plus, the dependency on IT/ITeS services is one of the areas. And we see IT slowly picking up. And as Guru rightly said, foundit 2.0 initiatives have been well received. If I were to give you some data points, I could see significant improvement of profile updates. It's 30% up quarter-on-quarter. And I also see the segment's active users up 8% quarter-on-quarter and 22% up year-on-year. So we have certain recruits and we hope the market also picks up. I hope that answers your question.

Moderator: The next question is from the line of Chintan Sheth from Girik Capital.

Chintan Sheth: I think last part of the question has been answered on the EBITDA part. But if you think from the perspective that the investments currently which you have made, you made a comment that as they start yielding incremental revenue, we can see leverage playing out and the margins to improve further from base, right? The next process is to recover back 2.4%-2.5% levels. And then FY26 if you look at, once they start generating revenue, we can still -- our guidepost of 3% is intact. Is that understanding correct?

Kushal Maheshwari: This question is regarding WFM. But on the EBITDA margins, I'll ask Kamal to give some flavour on the margins.

Kamal Pal Hoda: Yes. So Chintan, you're absolutely right, these investments are for incremental revenue, and some of them we've already started seeing in, like Lohit explained, the GCC hiring space and the niche hiring and the premiums that we are receiving on the IT space is compensating for the slowness that we are seeing in the Singapore IT staffing. In terms of margin guidance, 3% for WFM is a North Star. And the uptick can only happen when both the IT staffing in India as well as the international IT staffing jointly fire all cylinders. So that's a North Star for the platform and the entire investment has been done keeping in line those margins in mind.

Guruprasad Srinivasan: Just to add Chintan here. I mean as we've all said, we are doing the capacity building in each of the platforms considering the demerger situation, plus getting deeper into taking on future revenue streams, how do we strengthen the existing platforms and strengthen our existing delivery capability, plus also invest in future revenue streams such as VAS or GCC-as-a-service, then plus specifically, the verticalization will bring in sharper focus. And verticalization in itself means more of a leadership strengthening, 5 verticals, bringing those domain experts to be part of each of the verticals so that we can create more solutions deeper into respective verticals, just continuing what we are doing. So of course, we'll continue to do better what we are doing. But how do we get future revenue streams is something that we are parallelly working on. So, all these investments are towards capacity building and supporting that delivery and strengthening our position.

Chintan Sheth: Okay. And second question is on the average PAPM. If we look at WFM business, we have seen YoY growth here. You mentioned that some of it is related to the seasonal bonuses which we have paid and are largely pass-through. Then can we see this average PAPM to moderate in 4Q and then transition based on the mix, how IT recovers or GCC recovers? We'll see some improvement there. Because if you look at the average PAPM for last few quarters, it has been on the declining trend because general staffing share is increasing consistent over the last few quarters, right?

Kamal Pal Hoda: So Chintan, on general staffing as well as for workforce management, we've been giving guidance that we should look at the overall EBITDA increase rather than percentage EBITDA. Some of the reasons which we mentioned on the call, and you picked up, right, that the bonus payouts during Q3 affects margin percentage because and Lohit also mentioned that number is close to around INR160-odd crores, goes directly without adding any to the bottom line. So, I think general staffing and in general for workforce management, the absolute EBITDA increase is something which would be a good indicator for you, because we work internally as to how much gross margin to net EBITDA conversion we can do. And that's an internal metric that we follow.

Guruprasad Srinivasan: So just to add as Kamal said, there could be one odd payout that would happen. Plus, when there is a wage increase typically on a flat fee, the wage increase will not impact EBITDA. And so, if you look at the revenue growth, through sales its about 30% contribution and the balance 70% comes through all the other wage increase or onetime bonuses that can also impact. So typically, the right metrics or right way to measure this business is what is my gross margin to EBITDA conversion. And that is something that we seriously review internally. We have been hovering about 67% on this, which is quite healthy, and continue to keep our collect and pay ratio and upfront ratio on track. So these are 2 areas for us too. But otherwise, these margins would fluctuate.

Chintan Sheth: And lastly, on the budget -- sorry.

Kushal Maheshwari: Yes, continue, continue. Yes, Chintan.

Chintan Sheth: Lastly, on the budget announcement which happened post-election, about the subsidy scheme and all, any thoughts on what are the challenges and how it has benefited us or going to benefit us? Any input? Because last time we checked, you mentioned that there are some discussions happening on how actually, on ground, to execute the scheme. But any development on that front would be helpful.

Kushal Maheshwari: Lohit, if you can share some inputs on the budget announcement from ELI schemes.

Lohit Bhatia: Yes, sure. You are talking about the budget which came in summer of '24. And primarily for formalization and for job and employment growth, at the base of the pyramid, the government has given us the ELI schemes. The ELI schemes, primarily rule drafting has been completed. Lots of stakeholder consultations have happened in the last couple of months. And to our best understanding, and I would use the word understanding at this stage because, obviously, the final announcement has to come from respective ministries and the government, they are the custodians, is that they have readied the technical platform and the technology which will be able to measure what each company has contributed in terms of new job growth. And job growth is defined both as people who get added to EPFO versus people who get added to EPFO for the very first time with the UAN number. Now just to give you a data point, Quess continues to be at the forefront of this formalization in India and this rural to urban transition in India. Just in YTD 2025, you will be interested to know 1,13,000 people have come to our workforce management platform for the very first time and got a UAN number. We are also just 2 days away from the government coming back with another budget. We are very hopeful that the long-term trajectory and the government's intention also of formalization and employment growth remains in this budget as well. And maybe we will hear a little more firm announcement of the implementation date of ELI itself.

Chintan Sheth: Got it, got it. And last bit on the exceptional which you mentioned related to demerger, should we expect it to continue in 4Q? Any spill over expected in 4Q?

Kushal Maheshwari: Kamal, if you can take this question.

Kamal Pal Hoda: Yes. Chintan, so as we are almost on the verge of getting the demerger completion, as explained in our call, in the current quarter, which is Q4, there would be some costs which we are yet to incur which are purely identified and one-off costs related to demerger. The magnitude may not be as high as what we have incurred in Q3, but there will be some costs definitely which will come in Q4 as well.

Moderator: The next question is from the line of Vikas Ahuja from Antique Stock Broking.

Vikas Ahuja: Sorry, I missed some part of the call. So in case I'm repeating anything, you can please ignore that question. But my first question is, sorry to harp on this question again on this slowdown, which is more like consumption-led. Even yesterday, Teamlease has talked about in FMCG, manufacturing there has been a slowdown.

So from what I could make out is, obviously, now you are also saying it's an industry-wide phenomenon. So do we also expect Q4 to be muted and we will see some decline in headcount? And how should we look at Q1 and Q2? Because this slowdown, I mean, it can go on for 2, 3 quarters as well, right? So just want some clarity on how it's going to play out as per our understanding maybe in next 2, 3 quarters?

Kushal Maheshwari: I'll ask Lohit to give a sense of the business environment right now. Lohit, if you can.

Lohit Bhatia: Yes, Kushal. So broadly, Vikas, you're right. I mean sentiment-wise, I think everybody has been saying the same thing from post Diwali. And it could be a combination of factors. Guru in his opening speech itself said that the high inflation which was primarily due to the food basket and the CPI inflation index is the one which has kept the interest rates fairly high. There's a lot of money which has been taken out of the system. And in the last 3 quarters, RBI has further also tightened unsecured lending. Now both these actions give less disposable income or less disposable money in the hands of individuals, especially the millennials, who consume most of the goods and services that majority of Indian enterprise creates. Having said that, I think the recognition of the fact that something needs to be done is coming fast. And I'm hopeful that in the next 48 hours as we hear the next budget, there would be things which would be towards driving consumption. Having said that, let me just tell you, I mean, nobody said this is going to be easy. When you build India's largest staffing company and largest employer, it's never going to be an easy ride. And our goal post has changed to making the world's largest now. We constantly look at macro and micro environment, but then we quickly look within that the business and the vertical and the segment environment. And then through that, the customer environment, and through that, the delivery and the productivity that we can do.

So there are lots of moving parts. We have over 3,000 customers. We can add another 7,000 customers. And still there are more enterprises to acquire in this country. So I don't think so I want to just talk about consumption and say that's the only one impediment and the factor. But yes, when you are 10% of the market share of the market, what happens to the market for that quarter will have a reflection on your results and the momentum trajectory as well. But like I said, while we are watchful of the macro, micro economic factors, we are more watchful of our own segments, our own businesses where we need to sharpen and deepen our results. I'll just take 1 or 2 data points. 2020, when we came out of Covid, we had 9,000 people in our IT staffing in India. Our revenue PAPM was 48,000, but our gross margin PAPM from those 9,000 people was just about 7,000. Today, the headcount is 7,000. However, with a concerted effort of going towards niche, super niche and the GCC segment, the revenue PAPM is now nearing 80,000 and our gross margin PAPM in that business is nearing the 20,000-plus trajectory. Last 8 months, our new gross margin addition is at 40,000 gross margin trajectory. So the point I'm trying to make is this is a medium to long play. We are not here in this business for 1 or 2 quarters. And neither are we going to use the quarterly results either as a euphoria or as an excuse.

Vikas Ahuja: Okay, okay. So just one thing in that. I mean, for Q4, are we expecting a decline in headcount? And my second question is, on this GCC-as-a-service, which Guru sir talked about in the opening remarks, are we largely trying to cater the new GCCs we are setting up or we are going with this offering to existing GCCs also? And what could be the potential? I mean, if any 1 or 2 examples you can share how we are approaching those GCCs?

Lohit Bhatia: India has close to 1,900 operational GCCs. The first decade of GCCs did not even bring in 500 into the country. Whereas today, it's anticipated that every 2 to 3 years more than 500 GCCs get added. These GCCs could be a combination of both existing GCCs expanding or opening new centres or these could be new GCCs. Second, from the time, say, 25, 30 years ago when transition of IT work started happening to India, it was more transactional work which was happening. So you punch a lot of data, you get people at 1/10th the cost in India, punching becomes cheaper, and hence, you bring business to India. Subsequently in the last 10 years, we are seeing a significant shift. From transactions, it has moved to transformation. So, today the questions being asked is, if we do this in Europe, U.S. or any other part of the world and we are taking 7 steps to do it, can it be done in 2 or 3 steps? Can 1 or 2 steps be generative AI using along with human intervention? So that has started to happen. And the third phase, which we are very microscopically seeing, but it will play out in a big way for the coming years for India is where product development itself starts to happen. So, look at it as a thematic scheme across multiple years and decades. We were only in transactions. We moved to transformation. And from transformation, we'll finally go into product development, which is where it's the highest of the element.

To your question, Quess has always had a plethora of services. Thanks to our OAM platform, our GTS platform, our WFM platform, today, we can from the gate of an organization right up to inside, we can give multiple services. We do give multiple services. We'll have multiple MSAs. So GCCs have always been wanting to look at a service provider which can do this end-to-end right from real estate support services right up to the talent acquisition and then even monitoring and measuring the work which is being done. We've started this only a few months back. Our first of such setups has already gone live and the customer has already acquired it, acquired the premises, and it's scaling up now gradually. We feel that in the coming quarters we'll be able to strengthen GCC-as-a-service rather than just providing services to GCCs. It will become significant for our overall business in India itself, while we'll continue to service all other GCCs as a talent acquisition provider as well. I hope that kind of gives you the sense.

Moderator: The next question is from the line of Riya Mehta from Aequitas Investments. Riya Mehta, your line has been unmuted. Please go ahead with your question. We'll move on to the next question. It's from the line of Aniket Kulkarni from BMSPL Capital. Please go ahead.

Aniket Kulkarni: So firstly, there have been some rumours that a new labour code will be introduced in the budget. So wanted to understand the financial implications on revenue, EBITDA margins and as well as the absolute EBITDA number if, let's say, the minimum wage drastically goes up. So, what is the flow-through and how will your financials be affected by it?

Kushal Maheshwari: Lohit, if you can give some sense on the labour code which Aniket talking about.

Lohit Bhatia: Sure. The parliament approved the labour code a few years ago, as we are aware, and since then, labour being in a Concurrent List in India, the states have been doing ratification of what we call rules. There are 4 codes. Some states have done ratification of all 4 codes. Some have done for 2 of them. Some have done for 3. And it's a process which is happening simultaneously. But our understanding with the ministry or our learning on this subject is that we are almost at 90%, 95% mark as far as that aspect is concerned. The second aspect is not only do you have to do rule ratification, you also have to create the new systems, the processes and everything for the labour code implementation to really happen. That's also going on. And there is dialogue and consultation with all stakeholders. Stakeholders in this case are not just enterprises and large companies which are employers. They are also employee associations. There are employee unions and many other stakeholders which get impacted by a massive change like this. See, some of our labour laws are dated back 1924, 1947, 1974. So many of them are from decades when none of us even were born, and most of the gig economy, the technology work, the IT/ITeS, nothing existed. So, it's a rewriting of or rewiring of a country's last 70 to 100 years.

To your specific question, what does it do to our business? We've been consulting through our industry federation with the government for over 6 to 7 years. And hence, in many ways, this labour code was born. It's looked at positively for the staffing industry for a couple of reasons, and I'll spell them out. One is formalization gets aided in a massive way. Second, just take an example of CLRA. Today, if we have hundreds and thousands of customers and each customer has 10, 15 or 50 different premises where we have to deploy labour, we have to technically take a Form 5 and an individual labour license for each location under each district labour commissioner and then file the returns. There is a nationalized license up to 5 years, which is a massive provision. And hence, a company like Quess can actually look out into the future, ask for a bigger labour license. Implementation of new people coming on board gets faster. Your ease of doing business becomes better. And hence, more job creation and faster onboarding can happen. To your question on minimum wage, yes, there is something called a floor or a national living wage concept which is being spoken about. Today, some states are above INR20,000 minimum wage, some states are still as low as INR10,000. Average would be between INR13,000 to INR15,000. If the floor of the living wage were to come out, there will still be other elements to it depending on whether you're in a metro or whether you are in a rural or a semi-rural or an urban segment. We feel wages eventually will go up because at the bottom of the pyramid, wages have to also go up as well. It will impact by 2 ways. Immediately, it will increase our revenues. On a margin percentage basis, it may show some stress. But on the actual earning of the rupee value, it doesn't because our contracts are hedged in such a way that any minimum rate change, and that's the same for the last 18 years, is automatically passed on to the consumer, and the consumer gives a new purchase order to us and we are able to pass it back to them. So it is not negative from that aspect. But the positive benefits far, far outweigh the fact that percentage margin may look a little subdued if that were to happen.

Aniket Kulkarni: Understood. So just some clarification on that. So, let's say, if the minimum wage is suppose INR10,000 and it goes to INR12,000. So, based on the amount that you earn on your contracts, is there an absolute value change? Or are the contracts based on a percentage of the wage that you give to the employees? Or is it a fixed value which you earn on it? So, for example, let's say, on a INR10,000 minimum wage, you get INR500. So, if that goes to, let's say, INR15,000, will you be getting INR750? Or will you still be getting only those INR500 until the contracts are renegotiated?

Lohit Bhatia: Sure. So this is only in the case of general staffing. This is not in the case of IT and international. Because in the case of IT and international, predominantly, we'll be working either on what is called a bill rate model or a percentage model. But coming back specific to general staffing, 70-odd percent of our book is flat fee, between 65% to 70%. So there, our earning potentially can remain the same, whereas the overall bill value or the revenue of the company would increase. So the top line would increase, but the gross margin and EBITDA margin may not change in absolute terms or rupee terms. Some of our contracts, about 30% to 35%, are percentage based. And the ones which are percentage based, obviously, the earning also goes up proportionately.

Aniket Kulkarni: So for this fixed fee contracts, are you in a position to renegotiate them once the minimum wage goes up? Because -- I mean, if it continues to be a fixed rate contract, wouldn't it be detrimental to you over the long run because if, I mean...

Lohit Bhatia: Negotiation is always a prerogative in business. And I'm sure we will not lose an opportunity to negotiate. But we also have to see what does the market give. We will not trade off growth for negotiating higher margins from existing customers.

Aniket Kulkarni: Understood. Can I squeeze in one last question? I just wanted to know about the foundit operating performance. So you said that we would be EBITDA breakeven by Q4. I mean, I don't think that will happen. So if you just could give a few lines about what went different along the way and what is your outlook for the foundit business in FY26? that will be my last question.

Kushal Maheshwari: Suresh, if you can take the call about the discussion on the operational performance of foundit.

V Suresh: Yes. I think it's a strategy that we embarked on, on foundit 2.0. And from a foundit 2.0 point of view, the data points on the acquisition of our profiles, profile updates, recruiter search, all these metrics we have seen definitely positive momentum. If you really look at it, the last 9 months have been not so good for the IT/ITeS, BFSI sector, which is where foundit has been significantly strong, which is 65% to 70% of all our revenues come from the segment. So coupled with the kind of macro environment that we have seen, the kind of headwinds that we saw in IT/ITeS kind of pushed us back. Having said that, there are some green shoots and there is a new management which has taken over effective on December. And we foresee the overall macroeconomic environment on IT/ITeS to kind of pick up. And we will come back to you probably with more updates in the next quarter.

Guruprasad Srinivasan: Just to add on that, Aniket. Currently, we clock a revenue of INR26 crores per quarter. And just to put the perspective, at around INR45 we will be breakeven. So that's the cost that we are incurring. And we have in the past done INR37 crores per quarter. I think we are slated to first get there as step 1 and then drive towards -- marching towards INR50 crores per quarter.

With market opening up a bit and our renewal rate being almost 83%, plus product 2.0 which has been launched, the recruiter outreach program that we are working on gives us the confidence to get, maybe in the next 3 quarters we'll be nearly to the breakeven.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, this was the last question for today's conference call. I now hand the conference over to the management for their closing comments.

Guruprasad Srinivasan: So again, I take this opportunity to thank each one of you, and thanks for joining this Q3 earnings call. Your question and feedback has always been really valuable. I would like to once again highlight that we remain steadfast to grow the business across all operational and financial metrics. I sincerely look forward along with my team to catch up with each one of you for interaction during our next visit. Thank you.

Kushal Maheshwari: Thank you very much.

Moderator: On behalf of IIFL Capital Services Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

(The document has been slightly edited to improve readability)